AEGON NV
Form 20-F
March 30, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from______to______

Commission file number 1-10882

AEGON N.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

AEGONplein 50, PO Box 85, 2501 CB The Hague, The Netherlands

(Address of principal executive offices)

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

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

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 1,622,927,058 common shares

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

x Yes No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

¨ Yes No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

x Yes No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

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

¨ Item 17 x Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.):

¨ Yes No x

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PRESENTATION OF CERTAIN INFORMATION

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

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

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FORWARD LOOKING STATEMENTS

The statements contained in this Annual Report that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: *believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, should, would, is confident, will, and similar expressions* as they relate to our company. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We undertake no obligation to publicly update or revise any *forward-looking statements*. Readers are cautioned not to place undue reliance on these *forward-looking statement*s, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in *forward-looking statements* due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

- Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom;
- Changes in the performance of financial markets, including emerging markets, such as with regard to:
  - The frequency and severity of defaults by issuers in our fixed income investment portfolios; and
  - The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in the value of equity and debt securities we hold;
- The frequency and severity of insured loss events;
- Changes affecting mortality, morbidity and other factors that may impact the profitability of our insurance products;
- Changes affecting interest rate levels and continuing low or rapidly changing interest rate levels;
- Changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates;
- Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;
- Changes in laws and regulations, particularly those affecting our operations, the products we sell, and the attractiveness of certain products to our consumers;
- Regulatory changes relating to the insurance industry in the jurisdictions in which we operate;
- Acts of God, acts of terrorism, acts of war and pandemics;
- Changes in the policies of central banks and/or governments;

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

Customer responsiveness to both new products and distribution channels;

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

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

The impact our adoption of the International Financial Reporting Standards may have on our reported financial results and financial condition.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable

ITEM 2. OFFER STATISTICS AN D EXPECTED TIMETABLE

Not applicable

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ITE M 3. KEY INFORMATION

3A Selected financial data

A summary of historical financial data is found in the table below. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), which differ in certain significant respects from accounting principles generally accepted in the United States (US GAAP). A description of the important differences between IFRS and US GAAP along with a reconciliation of shareholders equity and net income based on IFRS to US GAAP is found in Note 18.55 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

It is important to read this summary in conjunction with the consolidated financial statements and related notes in Item 18.

All per share amounts have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends through December 31, 2006.

Consolidated income statement information

In million EUR (except per share amount)	Years ended December 31, 2006	2005	2004
Amounts based upon IFRS [1]			
Premium income	24,570	18,882	18,329
Investment income	10,376	9,937	9,337
Total revenues [2]	36,615	30,336	29,300
Income before tax	3,390	3,615	2,795
Net income	2,789	2,732	2,256
Net income per common share [3]			
Basic	1.63	1.63	1.38
Diluted	1.62	1.63	1.38

	2006	2005	2004	2003	2002
Amounts based upon US GAAP [1]					
Premium income	12,292	10,330	10,120	10,141	10,191
Investment income [4]	14,035	19,455	13,120	6,448	8,640
Total revenues [2]	28,025	31,478	25,012	20,123	19,247
Income (loss) from continuing operations before tax	2,340	2,744	2,360	2,286	(841)
Net income (loss)	2,046	2,084	1,430	1,531	(2,328)
Net income per common share [3]					
Basic	1.25	1.29	0.89	0.97	(1.62)
Diluted	1.24	1.29	0.89	0.97	(1.62)

For Notes 1 4 see page 6.

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Consolidated balance sheet information

In million EUR (except per share amount)	as at December 31, 2006	2005	2004		
Amounts based upon IFRS [1]					
Total assets	314,813	311,215	268,692		
Insurance and investment contracts	261,337	263,536	223,492		
Trust pass-through securities and (subordinated) borrowings [5]	4,395	5,014	5,295		
Shareholders equity	19,137	19,276	14,875		
	2006	**2005**	**2004**	**2003**	**2002**
Amounts based upon US GAAP [1]					
Total assets	321,014	317,957	263,751	267,540	268,316
Insurance and investment contracts	267,569	263,832	216,810	212,395	217,022
Perpetuals and (subordinated) borrowings [5]	8,171	8,381	7,742	7,144	7,220
Trust pass-through securities (TRUPS)				408	491
Shareholders equity	20,994	22,913	18,316	17,836	17,554

1 Our consolidated financial statements are prepared in accordance with IFRS, which differs in certain significant respects from US GAAP. See Note 18.55 to our consolidated financial statements in Item 18 of this Annual Report for information concerning the differences between IFRS and US GAAP.

2 Excluded from the income statements prepared in accordance with IFRS are receipts related to investment-type annuity products and investment contracts. In addition, universal life-type deposits are excluded from premium revenue in the income statements prepared in accordance with US GAAP.

3 Per share data has been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends and stock splits through December 31, 2006. Diluted per share data gives effect to all dilutive securities.

4 In accordance with Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long-Duration Contracts and for Separate Accounts , as from January 1, 2004 investment income includes investment income for account of policyholders when the investments are not legally separated.

5 Excludes bank overdrafts.

In thousand	2006	2005	2004	2003	2002
Number of common shares					
Balance at January 1	1,598,977	1,552,685	1,514,378	1,444,579	1,422,253
Stock dividends	23,950	46,292	38,307	69,799	22,326
Balance at end of period	1,622,927	1,598,977	1,552,685	1,514,378	1,444,579

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Dividends

AEGON has declared interim and final dividends for the years 2002 through 2006 in the amounts set forth in the table below. Dividends in US dollars are calculated based on the foreign exchange reference Rate (the rate based on the daily concertation procedure between central banks as published each working day at 14:15 hours by the European Central Bank) on the business day following the announcement of the interim dividend or on the business day following the shareholder meeting approving the relevant final dividend.

	EUR per common share [1, 4]			USD per common share [1, 4]		
Year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
2002	0.36	0.35[2]	0.71[2]	0.35	0.32[2]	0.67[2]
2003	0.20	0.20	0.40	0.22	0.24	0.46
2004	0.21	0.21	0.42	0.26	0.27	0.53
2005	0.22	0.23	0.45	0.27	0.29	0.56
2006	0.24	0.31[3]	0.55[3]	0.31	NA	NA

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

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

[3] Proposed.

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

On August 10, 2006, AEGON declared an interim dividend for 2006 of EUR 0.24 per common share. AEGON repurchased 11.6 million shares to neutralize the dilutive effect of the interim dividend. AEGON has proposed to its annual General Meeting of Shareholders, scheduled to occur on April 25, 2007, that the full year 2006 dividend be set at EUR 0.55 per common share, resulting in a final dividend for 2006 of EUR 0.31 per common share. AEGON will purchase an equivalent amount of shares on the open market to neutralize the effect of stock dividend.

Annual dividends on AEGON s preferred shares are calculated as a percentage of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75% (as determined on the first Euronext Amsterdam working day of the financial year to which the dividend relates) resulting in a rate of 4.0% for 2006. Applying this rate to the weighted average paid-in capital of our preferred shares during 2006, the annual dividend on our preferred shares payable for 2006 is EUR 85 million. The rate for annual dividends on preferred shares in 2007, as determined on January 2, 2007, is 5.25% and the annual dividend on preferred shares for 2007, based on the paid-in capital on the preferred shares on January 2, 2007, will be EUR 112 million.

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Exchange rates

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

As of March 1, 2007 the USD exchange rate [1] was EUR 1 = USD 1.3173.

The high and low exchange rates [1] for the US dollar per euro for each of the last six months through February 2007 are set forth below:

	Sept. 2006	Oct. 2006	Nov. 2006	Dec. 2006	Jan. 2007	Feb. 2007
High (USD per EUR)	1.2833	1.2773	1.3261	1.3327	1.3286	1.3246
Low (USD per EUR)	1.2648	1.2502	1.2705	1.3073	1.2904	1.2933

The average exchange rates[1] for the US dollar per euro for the five years ended December 31, 2006, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate
2002	0.9495
2003	1.1411
2004	1.2478
2005	1.2400
2006	1.2661

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

3B Capitalization and indebtedness

Not applicable

3C Reasons for the offer and use of proceeds

Not applicable

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3D Risk factors

i Risks relating to our business

Interest rate risk

Interest rate volatility or sustained low interest rate levels may adversely affect our profitability and shareholders equity.

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

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

If interest rates rise, there may be unrealized losses on some of our assets that will be recorded as negative income under IFRS. This is inconsistent with the IFRS accounting on much of the company s liabilities, where corresponding unrealized gains when interest rates rise do not affect income in the shorter term. Over time, the short-term reduction in income due to rising interest rates would be offset by higher income in later years, all else being equal. Therefore, rising interest rates are not considered a long-term risk to the company.

The profitability of spread-based business depends in large part upon the ability to manage interest rate spreads, credit risk and other risks inherent in the investment portfolio. We may not be able to successfully manage interest rate spreads or the potential negative impact of those risks. Investment income from general account fixed income investments for the years 2004, 2005 and 2006 was EUR 5.9 billion, EUR 6.6 billion and EUR 7.0 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2004, 2005 and 2006 was EUR 120 billion, EUR 136 billion and EUR 126 billion, respectively.

See Item 11, Quantitative and Qualitative Disclosure about Market Risk , of this Annual Report for detailed sensitivity analyses.

Credit risk

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

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, we typically bear the risk for investment performance (return of principal and interest). We are exposed to credit risk on our general account fixed income portfolio (bonds, mortgages and private placements), derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in our major markets resulted in significant investment impairments on our investment assets due to defaults and overall declines in the securities markets. Although credit default rates were benign in 2006, a reversion to excessive defaults, or other reductions in the value of these securities and loans, may have a material adverse effect on our business, results of operations and financial condition.

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Equity market risk

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

Fluctuations in equity markets have adversely affected our profitability, capital position and sales of equity related products in the past and may do so again in the future. Exposure to equity markets exists in both assets and liabilities. Asset exposure stems from direct equity investment where we bear all or most of the volatility in returns and investment performance risk. General economic conditions, as well as significant events like terrorist actions, have led to and may again result in significant decreases in the value of our equity investments. In 2004, 2005 and 2006, declines in the value of equity securities held in the general account resulted in the recognition of impairment losses of EUR 30 million, EUR 20 million and EUR 36 million, respectively.

Some products sold by AEGON contain minimum return or accumulation guarantees. We are at risk if equity market returns do not meet or exceed these guarantee levels and may need to set up additional reserves to fund these future guaranteed benefits. If equity markets decline, fee income will fall on these products as a result of reduced fund balances. We are also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs. It is possible under certain circumstances that we would need to accelerate amortization of DPAC and to establish additional provisions for minimum guaranteed benefits, which would reduce net income and shareholders equity. Volatility or poor market conditions may also significantly reduce the popularity of some of our savings and investment products, which could lead to lower sales and net income.

Underwriting risk

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

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

Currency exchange rate risk

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

As an international group, we are subject to currency risk. Currency risk also exists for any policy denominated in currencies other than the policy s local currency. In the Netherlands, AEGON invests the majority of its equity holdings in an internationally diversified portfolio, rather than solely in Dutch equities. Equity held in subsidiaries is kept in local currencies to the extent shareholders equity is required to satisfy regulatory and self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of shareholders equity as a result of translation into euros. AEGON holds the remainder of its capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of its country units. This balancing mitigates currency translation impacts to equity and leverage ratios.

Currency risk in the investment portfolios is managed using asset liability matching principles. AEGON does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As we have significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between US dollar and euro and between UK pound and euro. We may experience significant changes in net income and shareholders equity because of these fluctuations.

For the Americas segment, which primarily conducts its business in US dollars, total revenues and net income in 2006 amounted to EUR 16.4 billion and EUR 1,553 million, respectively. For the United Kingdom segment, which primarily conducts its business in UK pounds, total revenues and net income in 2006 amounted to EUR 11.9 billion and EUR 232 million, respectively. On a consolidated basis, these two segments represented 77% of the total revenues and 64% of the net income for the year 2006. Additionally, we borrow in various currencies to hedge the currency exposure arising from our operations. On December 31, 2006 we have borrowed amounts in proportion to the currency mix of capital in units, which was denominated approximately 57% in US dollars, 25% in Euro, 14% in UK pounds and 4% in Canadian dollars.

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Liquidity risk

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

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

Illiquid assets amounted to EUR 35 billion or 25% of general account investments at the end of 2006 (EUR 39 billion, or 26% in 2005; EUR 34 billion, or 27% in 2004).

Risk related to general economic conditions

General economic conditions may affect our results of operations and financial conditions.

Our result of operations and financial condition may be materially affected from time to time by general economic conditions, such as levels of employment, consumer lending or inflation in the countries in which we operate.

Other risks

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

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

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

The current S&P, Moody s and Fitch insurance financial strength ratings and ratings outlook of our primary life insurance companies in our major country units are as follows:

	AEGON USA	AEGON NL	AEGON Scottish Equitable
S&P rating	AA	AA	AA
S&P outlook	Stable	Stable	Stable
Moody s rating	Aa3	Not rated	A1
Moody s outlook	Stable	Not rated	Stable
Fitch rating	AA+	Not rated	Not rated
Fitch outlook	Stable	Not rated	Not rated

Negative changes in credit ratings may also increase our cost of funding. During 2006, Standard and Poor s maintained the credit ratings of AEGON N.V. at A+ with a stable outlook. Moody s Investor Service maintained the senior debt rating of AEGON N.V. at A2, with a stable outlook. On January 30, 2006, Fitch Ratings assigned AA- (double A minus) ratings to AEGON NV s senior debt and A+ ratings to subordinated debt and perpetual securities.

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

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

The US Sarbanes Oxley Act of 2002 (the SOX Act) and rules subsequently implemented by the SEC and the New York Stock Exchange, require changes to some of our reporting and corporate governance practices, including the requirement that we issue a report on our internal controls over financial reporting, beginning for the year ending December 31, 2006 onwards. If we are unable to maintain or achieve compliance with the SOX Act, it may have a material adverse impact on our business.

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

AEGON faces significant risks of litigation and regulatory investigations and actions in connection with activities as an insurer, securities issuer, employer, investment advisor, investor and taxpayer. In recent years, the insurance industry has increasingly been the subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities concerning common industry practices such as the disclosure of contingent commissions and the accounting treatment of finite reinsurance or other non-traditional insurance products. We cannot predict at this time the effect this current trend towards litigation and investigation will have on the insurance industry or our business. Lawsuits, including class actions and regulatory actions, may be difficult to assess or quantify, may seek recovery of very large and/or indeterminate amounts, including punitive and treble damages, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action could have a material adverse effect on our business, results of operations and financial condition.

AEGON may be unable to manage its risks successfully through derivatives.

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

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

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

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

Since 2005, our financial statements have been prepared and presented in accordance with IFRS as adopted by the European Union. Any future change in these accounting principles may have a significant impact on our reported results, financial condition and shareholders equity. This includes the level and volatility of reported results and shareholders equity.

Tax law changes may adversely affect the sale and ownership of AEGON s products.

Insurance products enjoy certain tax advantages, particularly in the United States and the Netherlands, which permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products under certain conditions and within limits. Taxes, if any, are payable on accumulated tax-deferred earnings when earnings are actually paid. The US Congress has, from time to time, considered possible legislation that would eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the United States Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed; this could have an impact on insurance products and sales in the United States. Changes to tax laws in the Netherlands at the end of 2005 have reduced the attractiveness of early retirement plans, but tax advantages have been granted from January 1, 2006 for savings products known as Levensloop. Any changes in United States or Dutch tax law affecting similar products could have a material adverse effect on AEGON s business, results of operations and financial condition.

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Competitive factors may adversely affect our market share.

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

AEGON USA ranked ninth in individual term life sales, fourth in individual universal life sales (source: Internal Research for the nine months ended September 30, 2006) and ninth in variable life sales (source: Tillinghast-Towers Perrin Variable Life survey for nine months ended September 30, 2006). AEGON USA ranked fifth in sales of fixed annuities sold through banks, fifteenth in variable annuities sold through banks and ninth overall in annuity sales through banks (source: Kenneth Kehrer report for the nine months ended September 30, 2006) and first in Synthetic Guaranteed Investment Contracts (source: reports from LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2006 Third Quarter Sales, Landmark Strategies 2005 Stable Value Wrap Issuance Survey, IMD Market Research). Our major insurance competitors in the United States include American International Group (AIG), Hartford, ING, Manulife, Metropolitan Life, Nationwide, New York Life and Prudential.

In Canada, AEGON ranks fourth in overall individual life insurance sales (new business premiums), fourth in the universal life market, (source: LIMRA study Fourth Quarter 2006, issued February 2007) and fifth in the segregated funding insurance market based on net assets (source: Investor Economics Insight December 2006). AEGON s primary competitors in Canada are: Manulife, Sun Life, Industrial-Alliance, London Life, RBC Life, Canada Life, American International Group (AIG), Empire Life, Standard Life and Desjardins Finance.

In the Netherlands, AEGON is the third largest life insurer, second largest pension insurer and fifth largest individual life insurer based on gross life premium income (source: Regulatory Returns 2005). AEGON also owns the largest insurance broker in the Netherlands (source: Press release 2006). AEGON s major competitors in the Netherlands include Delta Lloyd, Eureko, Fortis, and ING. In the United Kingdom, AEGON faces strong competition in all its markets from three key sources: life and pension companies, investment management houses and independent financial adviser firms. AEGON s key competitors in the United Kingdom life and pension market include Aviva, AXA, Friends Provident, Legal and General, Prudential UK and Standard Life. AEGON s main competitors in the UK retail investment market are typically the investment management houses (e.g., Fidelity, Henderson, Merrill Lynch etc). The independent financial adviser market is fragmented, with a large number of relatively small firms. In Hungary, AEGON s major competitors include Allianz, Generali-Providencia, ING and OTP-Garancia. AEGON Spain s main competitors are Santander Seguros, Mapfre, Vidacaixa, Ibercaja, Adeslas, Sanitas and Asisa. In Taiwan, AEGON agency channel s major competitors are AIG, ING and Prudential UK. In the bank and broker channels, the major competitors are Allianz, Cardiff, Hon Tai Life and Fubon Life.

The default of a major market participant could disrupt the markets.

The failure of a major market participant could disrupt securities markets or clearance and settlement systems in our markets, which could cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect us. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the insurance industry.

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

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

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Judgments of US courts are not enforceable against AEGON in Dutch courts.

The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Judgments of US courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Dutch courts. Therefore, AEGON s shareholders that obtain a judgment against us in the United States may not be able to require us to pay the amount of the judgment unless a competent court in the Netherlands gives binding effect to the judgment. It may, however, be possible for a US investor to bring an original action in a Dutch court to enforce liabilities against AEGON, its affiliates, directors, officers or any expert named therein who reside outside the United States, based upon the US federal securities laws.

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

AEGON s insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on the characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, AEGON s insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. See Item 18, Financial Statements Schedule to Financial Statements Reinsurance of this Annual Report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2004, 2005 and 2006. See also Item 18, Financial Statements , Note 18.11 of this Annual Report for the amount of reinsurance assets at each balance sheet date for reinsurance ceded.

In accordance with industry practices, AEGON reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 33% of AEGON s total direct and assumed (for which AEGON acts as a reinsurer for others) life insurance in force is ceded to other insurers. In the United States, Transamerica Reinsurance retrocedes a significant portion of the risk it assumes. The major reinsurers of AEGON USA are Munich American Reassurance Company, American Long Term Care Reinsurance Group, ING Group, RGA Reinsurance Company, and US Branch Sunlife Assurance Company of Canada. AEGON Canada s major reinsurers are Munich Re and Swiss Re. The major reinsurers of AEGON UK include GE Frankona, Munich Re, RGA, Swiss Re and XL Re. The major reinsurers for life insurance for AEGON The Netherlands is Swiss Re and for non-life insurance are Munich Re, Partners Re and Swiss Re. The major reinsurers of AEGON Hungary for non-life are Swiss Re, Munich Re and Hannover Re and for life insurance are Munich Re and RGA. AEGON Spain s major reinsurers are General Re, Revios, Munich Re, Nacional, Nouvelle, RGA and Swiss Re. AEGON Taiwan s major reinsurers are Swiss Re, Hannover Re, General Re and the local Central Reinsurance Corporation. AEGON China s major reinsurers are General Re, Munich Re and Swiss Re.

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

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

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

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt AEGON s business activities.

Our operating results and financial position can be adversely affected by volatile natural and man-made disasters such as hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. We generally seek to reduce our exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, such events could lead to considerable financial loss to our business. Furthermore, natural disasters, terrorism and fires could disrupt our operations and result in significant loss of property, key personnel and information about our clients and us. If our business continuity plans have not included effective contingencies for such events, they could adversely affect our business, results of operations, corporate reputation and financial condition for a substantial period of time.

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

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

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

While systems and processes are designed to support complex transactions and to avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure could lead to a material adverse effect on our results of operation and corporate reputation. In addition, we must commit significant resources to maintain and enhance our existing systems in order to keep pace with industry standards and customer preferences. If we fail to keep up-to-date information systems, we may not be able to rely on accurate information for product pricing, risk management and underwriting decisions.

Inadequate or failed processes or systems, human factors or external events could adversely affect our profitability, reputation or operational effectiveness.

Operational risk is inherent in our business and can manifest itself in many ways including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, human errors, employee misconduct, and/or internal and external fraud. These events can potentially result in financial loss, harm to our reputation and hinder our operational effectiveness. Management attempts to control these risks and keep operational risk at appropriate levels by maintaining a well-controlled environment and sound policies. Notwithstanding these control measures, however, operational risk is part of the business environment in which we operate and a function of our size as well as our geographic diversity and the scope of the businesses we operate, and we may incur losses from time to time due to these types of risks.

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ii Risks relating to AEGON s common shares

Our share price could be volatile and could drop unexpectedly making it difficult for investors to resell our common shares at or above the price paid.

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

Investor perception of AEGON as a company;

Actual or anticipated fluctuations in AEGON s revenues or operating results;

Announcement of intended acquisitions, disposals or financings, speculation about such acquisitions, disposals or financings;

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

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

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

Potential litigation involving AEGON or the insurance industry in general;

Changes in financial estimates and recommendations by securities research analysts;

Fluctuations in capital markets including foreign exchange rates, interest rates and equity markets;

The performance of other companies in the insurance sector;

Regulatory developments in the Netherlands, the United States, Canada, the United Kingdom and Other Countries;

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

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

General insurance market conditions.

The high and low prices of AEGON s common shares on Euronext Amsterdam were EUR 14.25 and EUR 9.63 respectively in 2005 and EUR 15.56 and EUR 12.17 respectively in 2006. The high and low sales prices of our common shares on the NYSE were USD 16.78 and USD 12.19 respectively in 2005 and USD 18.97 and USD 15.24 respectively in 2006. All share prices are closing prices.

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

It is possible that AEGON may decide to offer additional common shares in the future, for example, to effect an acquisition. In connection with Vereniging AEGON s refinancing in September 2002, it entered into an equity repurchase facility (Repo Facility) and a back-up credit facility (Back-up Facility) (both facilities were updated in April 2005). As is customary in these repurchase agreements, if sufficient collateral is not maintained by Vereniging AEGON (which in this case is based on the number of common shares and the prevailing share price) and amounts are not available under the Back-up Facility, the lenders under the Repo Facility may dispose of our common shares held by them under the Repo Facility in order to satisfy amounts outstanding. An additional offering of common shares by us, sales of common shares by significant shareholders or by lenders to Vereniging AEGON, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of our common shares. As of December 31, 2006, the total authorized share capital of AEGON consisted of 3,000,000,000 common shares, par value euro 0.12 per share, and 1,000,000,000 preferred shares A and B, par value euro 0.25 per share. All our outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares at any time.

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

Prior to September 2002, Vereniging AEGON, beneficially owned approximately 52% of the voting shares and thus held voting control over AEGON. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by AEGON). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, in case of an issuance of shares by AEGON, Vereniging AEGON may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below its actual percentage of the voting shares. The option granted to Vereniging AEGON permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in AEGON s authorized capital if necessary to prevent or correct such dilution. The class B preferred shares would then be issued at par value (euro 0.25), unless a higher price is agreed. In the years 2003 through 2005 23,850,000 class B preferred shares were issued under these option rights. In 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances during the year.

In addition, we have implemented certain changes to our corporate governance structure and the relationship with Vereniging AEGON pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Consequently, under normal circumstances Vereniging AEGON s voting power, based on the current numbers of outstanding and voting shares, is reduced to approximately 22.61% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances at the sole discretion of Vereniging AEGON (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON s voting rights for a limited period of 6 months, will increase to a percentage that currently amounts to 32.29%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

Adopting amendments to the Articles of Incorporation;

Adopting the annual accounts;

Approving a consolidation or liquidation;

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

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

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

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

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

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

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

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

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

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ITEM 4. INF ORMATION ON THE COMPANY

4A History and development of the AEGON Group

i General

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

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

AEGON N.V., through its member companies that are collectively referred to as AEGON or the AEGON Group, is one of the world s largest listed life insurance and pension companies as ranked by market capitalization and assets on December 31, 2006 (source: Bloomberg). AEGON is headquartered in the Netherlands and employs, through its subsidiaries, about 29,000 people worldwide. AEGON s common shares are listed on stock exchanges in Amsterdam (Euronext), New York (NYSE), London and Tokyo. The secondary listing of AEGON N.V. common shares on the Frankfurt Stock Exchange and on the SWX Swiss Exchange in Zurich, Switzerland has been discontinued. The last day of trading for AEGON N.V. common shares on both exchanges was Monday, March 12, 2007 and the delisting was effective immediately after that date.

AEGON s businesses focus on life insurance, pensions, savings, and investment products. The AEGON Group is also active in accident, supplemental health, general insurance, and some limited banking activities. AEGON N.V. is a holding company. The operations described above are conducted through operating subsidiaries.

AEGON s established markets are the United States, the Netherlands and the United Kingdom. In addition, AEGON is present in over 20 other markets in the Americas, Europe and Asia.

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

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

For information on our business segments, see Note 18.5 Segment Information , to our financial statements in Item 18 of this Annual Report. The business activities of our principal subsidiaries are more fully described within the country sections that follow.

Our headquarters are located at:

AEGONplein 50

P.O. Box 85

2501 CB The Hague

The Netherlands

Telephone number: +31.70.344.3210

Internet site: www.aegon.com

ii Strategic framework

Commitment to core business

AEGON is focused on the long-term financial protection and asset accumulation needs of its clients, with a primary focus on delivering life insurance, pension, savings and investment products.

Serving local needs with global capabilities

Supported by its global resources and broad expertise, AEGON relies on the knowledge of local management to identify and serve the evolving needs of its customers. AEGON further seeks to deliver innovative products and services through multi-channel distribution networks best suited to local markets.

Emphasis on profitability

AEGON pursues a strategy of long-term profitability and sustainable growth. AEGON aims to achieve a long-term average net income growth rate of 10% per annum. In the medium term, AEGON aims to double its value of new business during the period 2005-2010. AEGON sets its return objectives relative to the risks of its markets and well in excess of the cost of capital. Disciplined expense management, together with the divestiture of non-core and structurally underperforming activities, are key to achieving these objectives.

Market position

AEGON strives for a leading position in its chosen markets in order to realize benefits of scale, while attracting and retaining quality management as well as strong local partners.

International expansion

AEGON pursues growth in countries that offer long-term profitable growth for the products and services it provides. AEGON seeks to expand its presence in its chosen markets through organic growth and through select acquisitions and partnerships.

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iii Recent developments and capital expenditures and divestments

On September 21, 2006, AEGON-CNOOC Life Insurance Company Ltd., AEGON N.V. s 50/50 joint venture with the Chinese National Offshore Oil Corporation (CNOOC), opened its Shandong branch in Jinan. The AEGON-CNOOC Shandong branch will provide an extensive range of life insurance products and services to local customers living in this highly developed coastal province. The opening of the branch in Shandong s capital, Jinan, follows the 2005 launch of AEGON-CNOOC s Beijing and Jiangsu branch offices.

In September 2006 AEGON acquired the remaining 55% of the Unirobe shares. The distribution activities of the Dutch operations are placed under the Unirobe Meeùs Group. The cost of acquiring the remaining 55% of the shares was EUR 59 million, which was paid in cash. In total an amount of EUR 96 million was paid to acquire the 100% interest. The acquisition resulted in the recognition of EUR 49 million of goodwill, of which EUR 18 million had previously been included in the measurement of the interest held in Unirobe as an associate.

On October 18, 2006, AEGON announced that it completed its acquisition of a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company specializing in the sale of life insurance to individuals through their employers (worksite marketing). Ranked by market share for individual life insurance, Seguros Argos is Mexico s eighth largest insurance company as of December 31, 2006 (source: AMIS - The Mexican Association of Insurance Institutions). AEGON and Seguros Argos also formed Afore Argos, a start-up pension fund management joint venture. AEGON owns 49% of Afore Argos, which received final approval from CONSAR, the Mexican regulatory body that oversees the pension industry.

On November 9, 2006, AEGON announced that it entered into an agreement with Ergo Hestia to purchase 100% of the shares of the pension fund management company PTE Ergo Hestia S.A. The acquisition is subject to approval by the Polish Financial Supervision Commission and anti-trust authorities. The acquisition is expected to be completed in 2007. As of October 31, 2006, PTE Ergo Hestia S.A. managed PLN 2.5 billion (EUR 658 million) in assets and had 372,796 members. Following the acquisition, the company will be renamed PTE AEGON Poland. AEGON and Ergo Hestia also entered into a cooperation agreement by which AEGON will use its tied agency network to distribute the non-life products of STU Ergo Hestia S.A. and Ergo Hestia will sell mandatory pensions on behalf of PTE AEGON Poland.

On November 23, 2006, Transamerica Corporation, a US subsidiary of AEGON N.V., announced the successful completion of the cash tender offer for outstanding legacy debt securities issued by two affiliated trusts, Transamerica Capital II and Transamerica Capital III. Debt securities with a total liquidation amount of USD 281 million were purchased in the tender offer. The aggregate payment for the purchased securities of USD 345 million, will be refinanced through funds provided by AEGON N.V., Transamerica Corporation s parent company. The transaction enabled AEGON N.V. to take advantage of the current favorable interest rate environment to refinance the debt at a lower rate and reduce future annual interest expenses.

On December 28, 2006, AEGON and Ranbaxy Promoter Group signed definitive agreements jointly to enter the life insurance and asset management business in India. The ventures will be implemented by AEGON and Religare, the financial services division of Ranbaxy Promoter Group. Ranbaxy Promoter Group will hold a 44 percent stake in the life venture, AEGON a 26 percent stake and Bennett Coleman, a private investor, will hold the balance. The asset management venture has been structured on an equal ownership basis between Ranbaxy Promoter Group and AEGON.

On January 19, 2007 AEGON announced the signing of a memorandum of understanding with Banca Transilvania to jointly develop and operate a mandatory pension company in Romania. The 50/50 joint venture company will be established in the summer of 2007 in anticipation of introduction of a mandatory pension system in Romania, expected by early 2008. In addition AEGON will establish a life insurance company in Romania that will enter into a distribution agreement with Banca Transilvania to sell co-branded products through the bank s branch network.

On January 25, 2007 AEGON N.V. and Sony Life Insurance Co., Ltd. announced their intention to establish a life insurance company in Japan. The 50/50 joint venture will develop annuity products, initially focusing on variable annuity products that will be distributed though Sony Life s Lifeplanner® channel as well as through banks an other financial institutions. The partnership between AEGON and Sony Life is expected to be operational in early 2008, subject to final agreement and regulatory licensing and approval.

On November 1, 2006, AEGON entered into an agreement to acquire 100% of the outstanding common shares of Clark Inc. (Clark), a public company specializing in the sale of corporate-owned life insurance, bank-owned life Insurance and other benefit programs. On March 13, 2007, AEGON announced the completion of the tender offer process and finalization of the acquisition of Clark. The estimated aggregate purchase price is approximately EUR 263 million, consisting of EUR 208 million cash consideration, EUR 34 million of Clark debt assumed by AEGON, the EUR 21 million cost basis of Clark common stock already owned by AEGON and transaction costs. As part of the transaction, a Clark management group has acquired from AEGON some of Clark s other business segments, not considered core to AEGON for EUR 41 million.

On March 15, 2007 AEGON announced an agreement to acquire OPTAS N.V., a Dutch life insurance company specializing in employee benefit products and services within the Dutch group pension market. The net consideration for AEGON of this transaction is approximately EUR 100 million. OPTAS N.V., the successor of Stichting Pensioenfonds voor de Vervoer- en Havenbedrijven (a pension fund for companies active in the transport and port industries) was converted into a public company in 1997. At the end of 2005, OPTAS had 60,000 policyholders and reported total gross written premiums of EUR 92 million, with total assets of EUR 4.3 billion. AEGON will acquire OPTAS N.V. for a gross amount of approximately EUR 1.3 billion. Taking

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into account the excess capital of OPTAS, the net consideration is estimated to be approximately EUR 100 million. A portion of the shareholders equity of OPTAS is subject to restrictions as set out in the articles of association of the company. These restrictions assure continued fulfillment of existing policy obligations and will remain in force after the acquisition. The combination of OPTAS and AEGON s existing pension activities will lead to a more efficient platform to serve the group pension market. The transaction will have a slightly positive effect on AEGON N.V. s earnings per share. This acquisition agreement is subject to the consultation of the Works Councils of both OPTAS and AEGON The Netherlands, in addition to the approvals of the relevant regulatory authorities.

4B Business overview

i Product line overview

Please refer to Note 18.4 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for descriptions of our major products.

ii Supervision

Individual companies in the AEGON Group are each subject to solvency supervision in their respective home countries. Based on European Commission legislation (Directive 98/79/EC) adopted in 1998, the supervisory authority in the Netherlands (De Nederlandsche Bank, or DNB) is required, as a lead supervisor, to carry out supplementary supervision . The supplementary supervision of insurance companies in an insurance group enables the lead supervisors to make a detailed assessment of the financial position of the insurance companies that are part of that group. The Directive requires DNB to take into account the relevant financial affiliations between the insurance companies and other entities in the group. In this respect, AEGON is required to submit reports to DNB twice a year setting out all the significant transactions and positions between insurance and non-insurance companies in the AEGON Group.

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

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The Americas

i General history

AEGON s operations in the Americas comprise AEGON USA Inc., AEGON Canada Inc., and Mexican activities, which are collectively referred to as AEGON Americas. The companies operating in the United States are collectively referred to as AEGON USA. Reference to AEGON USA in this report refers individually or collectively to the corresponding operating companies. The companies operating in Canada are collectively referred to as AEGON Canada.

Mexican activities include the 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company specializing in the sale of life insurance to individuals through their employers (worksite marketing), and the 49% of Afore Argos, a start-up pension fund management joint venture. Ranked by market share for individual life insurance, Seguros Argos is Mexico s eighth largest insurance company as of December 31, 2006 (source: AMIS - The Mexican Association of Insurance Institutions).

Total employment of AEGON USA on December 31, 2006 was 13,544, which includes 2,483 agents. Total employment of AEGON Canada on December 31, 2006 was 692.

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

AEGON Canada s principal office is located in Toronto, Canada.

AEGON USA

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

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

- Life Investors Insurance Company of America
- Monumental Life Insurance Company
- Peoples Benefit Life Insurance Company
- Stonebridge Casualty Insurance Company
- Stonebridge Life Insurance Company
- Transamerica Financial Life Insurance Company
- Transamerica Life Insurance Company

Transamerica Occidental Life Insurance Company

Veterans Life Insurance Company

Western Reserve Life Assurance Co. of Ohio

The operations in the United States (carried out by the collective group of operating companies in the United States) primarily sell life insurance products. AEGON s operations in the United States also sell accident and health insurance, but made the strategic decision to move away from primary health coverage a number of years ago to concentrate health operations in the supplemental coverage sector. Traditional life is AEGON USA s largest business segment.

AEGON s subsidiary companies in the United States contain five operating groups acting through one or more of the AEGON USA life insurance companies: Agency, Direct Marketing Services, Financial Markets, Institutional Products and Services, and Pension. The group structure enables AEGON USA to manage the organization efficiently, to identify business synergies, to pursue cross-selling opportunities, and to improve operating efficiencies. Coordinated support services complement operations by providing expertise in systems technology, investment management, regulatory compliance, and various corporate functions. Products are offered and distributed through one or more of the AEGON USA licensed insurance or brokerage subsidiary companies. The divisions referenced below are part of those subsidiary companies.

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AEGON Canada

AEGON Canada operates multiple insurance, financial services, investment portfolio management, and fund management businesses; it also provides wealth management solutions through its subsidiary companies.

AEGON Canada s operations are divided into six business segments:

- Life insurance
- Segregated funds
- Retail mutual funds
- Mutual fund dealership services
- Retail financial planning services
- Investment portfolio management and counseling services

The primary operating companies of AEGON Canada are:

- Transamerica Life Canada
- Money Concepts (Canada) Limited
- AEGON Dealer Services Inc.
- AEGON Capital Management Inc.
- AEGON Fund Management Inc.

ii Products and distribution

AEGON USA

Agency Group

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

- InterSecurities, Inc.
- Life Investors Agency Group/Independent Marketing Organizations
- Long-term Care Division
- Monumental Division
- Transamerica Insurance & Investment Group
- Transamerica Worksite Marketing
- World Financial Group

InterSecurities, Inc. (ISI) is a fully licensed, independent broker-dealer and registered investment advisor. ISI s registered representatives are focused on helping clients meet their investment objectives through an array of financial products that includes mutual funds, fixed and variable life insurance, annuities, and securities. ISI is positioning itself for growth with the active recruitment of experienced financial professionals who appreciate the value of insurance products in an overall financial plan.

The Life Investors Agency Group/Independent Marketing Organizations target the middle to upper-income markets, selling primarily interest-sensitive and ordinary life insurance. Life Investors offers support to agencies and provides agents with quality products, technology tools, and a high-level of home office training and support. During the past few years, the Independent Marketing Organizations group (IMO) has seen growth in both recruiting and sales. This unit focuses on developing relationships with independent marketing organizations and managing general agents throughout the United States.

The Long-term Care Division (LTC) administers an existing block of insurance products designed to meet clients long-term healthcare needs during retirement. LTC insurance products provide coverage primarily for care services provided at home, in an assisted living facility, or in a nursing home. Sales of long-term care insurance in this Division were temporarily discontinued in 2005. The LTC Division is currently re-evaluating the LTC marketplace and intends to begin selling new LTC products in 2007.

Monumental Division targets the lower and middle-income markets, selling individual traditional life and supplemental health insurance through three distinct distribution systems: Career Agency, IMO, and Pre-Need. In the Career Agency channel, 2,483 agents in 22 states provide face-to-face sales and services to policyholders, and reflect the diversity found in the communities they serve. In the IMO channel, approximately 500 general agents market to military families on or near military installations in the United States and abroad. The typical agent is a former military officer. In 2006, the division expanded its IMO focus to provide final expense coverage for middle-income customers in the rapidly growing senior market, with simplified products and face values up to USD 25,000. The Pre-Need unit sells life insurance products to pre-fund funerals through funeral directors and their agents.

Transamerica Insurance & Investment Group (TIIG), the marketing unit for Transamerica Occidental Life Insurance Company (TOLIC) and its affiliates, distributes term, fixed, and variable universal life insurance and fixed annuity products. In the United States, TIIG focuses on the upper-middle and affluent markets, in addition to a number of niche markets that include small to mid-sized businesses and various ethnic groups. In May 2006, TOLIC announced the establishment of a Bermuda company, Transamerica Life (Bermuda) Limited, a subsidiary of TOLIC with branch offices in Hong Kong and Singapore.

TIIG s primary distribution channel is a network of independent general agencies and agents. Sales of TIIG s variable products are supported by its broker-dealer affiliate, Transamerica Financial Advisors, Inc. TIIG also has a National Accounts channel through which it provides life insurance products to customers via the broker-dealer community. In 2006, TIIG celebrated the 100th anniversary of the founding of the original Transamerica life company, Occidental Life Insurance Company.

Transamerica Worksite Marketing (TWM) offers a wide range of voluntary payroll deduction life and supplemental health insurance products for groups ranging in size from as few as five employees to more than 100,000 employees. Products marketed to employees at their workplace are designed to supplement benefit plans that they may already have, both through their employers and on their own.

World Financial Group (WFG) targets the middle-income market, selling variable universal life insurance, variable annuities, mutual funds, equity indexed universal life insurance, universal life insurance, and term life insurance. WFG offers its associates the opportunity to build financial services and insurance businesses on their own terms. Associates can offer securities-related products and services by becoming registered representatives of WFG s affiliated broker-dealer, World Group Securities, Inc.

AEGON Direct Marketing Services Group

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

Additionally, ADMS has applied its direct marketing expertise internationally and is now doing business in Europe, Asia, Australia, and Latin America. ADMS has developed strategic relationships with major business partners in these regions and uses their endorsement to market products via telemarketing and direct mail.

Financial Markets Group

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

Transamerica Capital Inc. (TCI) works in partnership with many of the largest banks, national and regional broker-dealers, and financial planners in the United States to market fixed and variable annuities, mutual funds, 401(k) plans, and life insurance products. The bank distribution channel is particularly important to FMG. Working closely with its partners, FMG develops products and provides support to help banks expand their relationship with their customers. TCI s broker distribution channel focuses on less-highly customized products, in an administrative and service environment designed to assist the representative. The financial planner channel is a growing area for TCI. TCI strives to assist financial professionals to build client portfolios with a diverse range of products and the convenience of working with one organization.

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

Institutional Products and Services Group

The Institutional Products and Services Group includes AEGON Institutional Markets and Transamerica Reinsurance Group.

AEGON Institutional Markets Division (IMD) is well positioned and long established in the competitive and relatively mature institutional market. IMD entered the market with a distinctive floating-rate guaranteed investment contract (GIC) in 1982. Since then, it has significantly expanded its platform to include traditional fixed-rate GICs, funding agreements, notes and fee-based products such as synthetic GICs in which IMD holds a leading market position (source: reports from LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2006 Third Quarter Sales, Landmark Strategies 2005 Stable Value Wrap Issuance Survey, IMD Market Research). IMD has been able to enhance its leadership position through product customization, strong service capabilities, and profitable underwriting. IMD s skills in product development, distribution, investment, and risk management have resulted in a diversified customer and market base and multi-channel distribution. Building on these skills, IMD is also responsible for AEGON Structured Products that is generally involved in various capital market transactions such as writing credit default swaps, undertaking synthetic collateralized debt obligations, and providing guarantees of affordable housing tax credits and hedge fund principal protection. IMD also administers AEGON USA s block of structured settlement annuity business. New sales for this product were discontinued in 2003.

For more than 30 years, Transamerica Reinsurance has worked closely with life insurance and financial services companies to provide mortality risk and capital management solutions for individual life insurance and annuity products. These direct relationships result in a more complete understanding of the risks being assumed and provide valuable insights into the needs of clients and trends within the marketplace.

In the United States, Transamerica Reinsurance provides traditional life reinsurance solutions for Term, Universal Life, Variable Universal Life and Whole Life Products. Reinsurance products include coinsurance, yearly renewable term (YRT) and modified coinsurance agreements. In recent years, most clients seeking reinsurance of term life insurance contracts are opting for coinsurance reinsurance agreements to achieve both mortality risk transfer and reserve financing. Additionally, clients looking for ways to stay competitive in the individual life insurance market can work jointly with Transamerica Reinsurance experts to develop, underwrite, and administer these products. Transamerica Reinsurance offers a continuum of back office services for life insurance: from product development to private label creation.

In the annuity reinsurance market, Transamerica Reinsurance offers traditional coinsurance and modified coinsurance programs as well as reinsurance of general account guarantees on variable annuity products.

Transamerica Reinsurance has an established presence in the Asian and Latin American life reinsurance markets with offices in Taiwan, South Korea, Hong Kong, Japan, Mexico, Chile, and Brazil. Transamerica Reinsurance brings value internationally through customized solutions including coinsurance financing, product development and related quota share programs, as well as traditional life reinsurance.

Transamerica Reinsurance writes business through various AEGON companies in the United States, as well as through offshore affiliates in Bermuda and Ireland: Transamerica International Re Bermuda Limited and Transamerica International Reinsurance Ireland Limited.

Pension Group

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

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

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Transamerica Retirement Services (TRS) serves the markets of defined contribution retirement plans and group fixed annuity contracts to qualified retirement plan sponsors terminating their defined benefit pension plans. In the defined contribution retirement plan market, TRS provides customized retirement plan solutions for more than 14,500 small and mid-sized businesses, including multiple employer plans. TRS offers a full line of 401(k), profit sharing, age-weighted, and new comparability retirement plans. TRS distributes these products and services through intermediaries, including life agents, brokers, registered representatives, and financial planners, as well as through a series of strategic alliance relationships, including wirehouses, regional broker-dealers, and banks. TRS distinguishes itself from its competitors by focusing on innovative plan design and Employee Retirement Income Security Act (ERISA) expertise and by offering a broad range of investment choices and employee educational services.

TRS is also a leading provider in the market for terminal funding, a single premium non-participating group annuity product for terminating defined benefit plans. This market is primarily driven by certain market forces such as merger and acquisitions, business closures, and the need for plan-related cost savings. The financial strength and stability of AEGON USA s insurance subsidiaries are key competitive factors as this market requires the effective management of long-term pension liabilities. The terminal-funding product is distributed primarily through large benefit consulting firms or selected specialty brokers.

Transamerica Retirement Management (TRM) was created in 2006 and is expected to be fully operational in the second quarter of 2007. This new division provides the baby-boomer generation with access to simple yet comprehensive life planning products, services and retirement solutions. Through its Transition and Retirement Advice Call Center, licensed transition experts are on call to help clients assess, define and reach their goals in retirement. The TRM website also has comprehensive assessment tools, education resources, and timely information geared toward a full and satisfying client experience.

Among TRM s offerings is a proprietary Retirement Management Account, which is a comprehensive lineup of competitive financial and insurance products in a single location, allowing easy management of clients income needs and asset growth opportunities. Clients can also address retirement health insurance needs, such as medigap and long term care.

Transamerica Investment Management (TIM) is a registered investment advisor that provides investment management services to mutual funds, institutional accounts, pension funds, variable annuity, variable life insurance company separate accounts, high net-worth individuals, and retail accounts.

AEGON Canada

Transamerica Life Canada (TLC) offers term and tax-sheltered universal life insurance, segregated funds, guaranteed interest accounts, and annuities. Money Concepts (Canada) Limited (MCC) is an independent Canadian financial planning company with an association of franchised planning centers that offers a diverse spectrum of planning products and services to investors. With 53 franchises across Canada, MCC is the only franchised financial planning company in Canada. MCC franchises and representatives benefit from AEGON Dealer Services Inc. (ADSCI), which provides advisors and distributors with mutual fund and segregated fund dealership capability. These services are also provided to TLC s and AEGON Fund Management Inc. (AFM) s advisors across Canada. AEGON Capital Management Inc. (ACM) was created in November 2001 from the spin-off of the investment management division of TLC. ACM s mandate is to develop products and services for the institutional, high net-worth individual, pension, and retail markets. AFM is the mutual fund subsidiary of AEGON Canada, which offers the imaxx brand of mutual funds as well as core fund portfolios featuring select investment managers from around the world to Canadian investors seeking customized portfolio solutions.

Investment products

AEGON Canada s current investment product offerings comprise the following: segregated funds, mutual funds, segregated funds offered through strategic alliances with investment management companies, guaranteed investment accounts, single premium annuities, and leverage-lending programs through strategic alliances with bank and trust companies. The imaxx range of mutual funds is offered by AFM. TLC offers all of AEGON Canada s other investment products.

Life insurance products

TLC s Life Products business unit provides life insurance products for individuals and companies across Canada. The portfolio includes universal life and traditional life insurance, predominantly term life and permanent life insurance, as well as accidental death and out-of-the-country medical insurance.

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AEGON Canada s principal means of distribution include various networks that are almost exclusively supported by independent advisors. The key channels of distribution are:

Independently managed general agencies

TLC-owned and operated Profit Center Agencies

Bank-owned national broker-dealers

World Financial Group

Other national, regional and local niche broker-dealers

iii Asset liability management

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

The key investment strategy for traditional insurance-linked portfolios is asset/liability management, whereby predominately high-quality investment assets are matched in an optimal way to the corresponding insurance liability. This strategy takes into account currency, yield and maturity characteristics as well as asset diversification and quality considerations on the one hand and the policyholders guaranteed or reasonably expected excess interest sharing on the other hand. Investment-grade fixed income securities are the main vehicle for asset/liability management, and AEGON USA s investment personnel are highly skilled and experienced in these investments.

The AEGON USA companies manage their asset/liability matching through the work of several committees. These committees review strategies, define risk measures, define and review asset/liability management studies, examine risk-hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under stochastically projected interest rate scenarios and commonly used stress-test interest rate scenarios. Based on the results of these computer simulations, the investment portfolio is structured to maintain a desired investment spread between the yield on the portfolio assets and the rate credited on the policy liabilities. Interest rate scenario testing is a continual process and the analysis of the expected values and variability for three critical risk measures (cash flows, present value of profits, and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix, and exploring hedging opportunities. On the liability side, AEGON USA has some offsetting risks; some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset can vary depending on the absolute level of interest rates and the magnitude and timing of interest rate changes, but it generally provides some level of diversification. On the asset side, hedging instruments are continuously studied to determine whether their cost is commensurate to the risk reduction they offer.

iv Reinsurance ceded

AEGON USA reinsures portions of its life insurance exposure with unaffiliated insurance companies under traditional indemnity, quota share reinsurance contracts, and, in some instances, excess loss reinsurance. Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. AEGON USA enters into these arrangements to assist in diversifying its risks and to limit the maximum loss on risks that exceed policy retention limits. The maximum retention limit on any one life varies by product and risk classification, and is generally between USD 300,000 and USD 3,000,000. AEGON USA remains contingently liable with respect to the amounts ceded if the reinsurer fails to meet the obligations it assumed. To minimize its exposure to reinsurer insolvencies, AEGON USA annually monitors the creditworthiness of its primary reinsurers. It has experienced no material reinsurance recoverability problems in recent years. Where deemed appropriate, additional protection is arranged through letters of credit or trust arrangements, and, for certain arrangements, funds are withheld for investment by the ceding company. AEGON USA s insurance subsidiaries also enter into reinsurance contracts with affiliated domestic and offshore companies. These have been eliminated in the consolidated statements, except for certain arrangements that involve producer profit-sharing arrangements.

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

Reinsurance ceded does not discharge AEGON Canada s liability as the primary insurer. Failure of reinsurers to honor their obligations could result in losses to AEGON Canada. Consequently, AEGON Canada evaluates the financial condition of its reinsurers and monitors their credit risk to minimize its exposure to losses from reinsurer insolvency. AEGON Canada only contracts business with reinsurers who are registered with the Office of the Superintendent of Financial Institutions Canada.

v Competition

AEGON USA faces significant competition in all of its businesses. Its competitors include other large and highly rated insurance carriers, as well as certain banks, securities brokerage firms, investment advisors, and other financial intermediaries marketing insurance products, annuities, and mutual funds. Some of these competitors have greater financial strength and resources and have penetrated more markets. Many of AEGON USA s competitors in the mutual fund industry are larger, have been established for a longer period of time, offer less expensive products, have deeper penetration in key distribution channels, and have more resources than AEGON USA.

The United States sales and marketing units of traditional life products focus on a variety of markets, including the middle, upper-middle and affluent markets. All the units face significant competition. Genworth, Pacific Life, Lincoln National, John Hancock, Sun Life, Metropolitan, Prudential, AIG, and ING are among the main competitors. The result is a highly competitive marketplace and increasing commoditization in some product categories. In this kind of environment, AEGON USA believes the best and most enduring competitive advantages are relationships and service. In the middle income and young family markets, AEGON USA has seen significant growth in demand for traditional life products, leading to an increase in the number of agents in this market. AEGON USA attempts to balance return and sales growth requirements when offering traditional life products to senior and more affluent markets. This is due to significant price competition for sales to these markets and for sales through brokerage distribution.

TOLIC s Bermuda company, Transamerica Life (Bermuda) Ltd. (TLB), has branches in Hong Kong and Singapore, where the focus is on high-net-worth individuals. The recent influx of new entrants in the market has increased TLB s competition in this segment. However, TLB believes there is significant opportunity in this region, and is well positioned for growth.

AEGON USA markets variable universal life, mutual funds, and variable annuities to middle-income clients with equity investment objectives. Sales are often driven by the competitiveness of the living benefits offered by our competitors, with most product development focusing on guaranteed lifetime withdrawal benefits, which guarantee lifetime withdrawals of a certain amount under certain conditions.

AEGON USA s primary competitors in the variable universal life market are IDS, Hartford, John Hancock, Pacific Life, Met Life, Nationwide, Lincoln National, and AXA/Equitable.

The top five competitors in the mutual fund market are generally larger equity-based mutual fund families: American Funds, Franklin Templeton; Oppenheimer; Goldman Sachs; and Columbia Management Group.

The current low interest rate environment coupled with a flattening of the yield curve makes it difficult for a fixed annuity to compete with a certificate of deposit (CD), since yields on short-term CDs are often higher than the yields AEGON USA can offer in its annuity products. AEGON USA has built long-term relationships with many institutions, and these relationships have enabled AEGON USA to offer other product lines such as variable annuities, life insurance, mutual funds, and 401(k) products through these institutions. Most fixed annuity sales occur at banks. AEGON USA s primary competitors for fixed annuity sales are AIG, Allstate, New York Life, Genworth, Glenbrook, Jackson National, and Nationwide.

Variable annuity sales have declined due to the removal of the guaranteed minimum income benefit (GMIB) early in 2003. From late 2004 through May 2006, the introduction of new guaranteed lifetime withdrawal products, which utilize certain asset allocation portfolios to help manage risk, constituted the most recent effort to replace sales lost due to the discontinuance of the GMIB. While sales have not been quite as successful as they were in the GMIB product, this product design has been successful and is now the most common living benefit design. AEGON USA expects growth in this product line with the anticipated launch of new products in May 2007. Such products include a Guaranteed Minimum Withdrawal Benefit rider and a variable annuity with lower mortality, expense and administrative charges. AEGON USA s primary competitors in the variable annuity market are Hartford, AXA/Equitable, Met Life, John Hancock, Prudential/American Skandia, Lincoln National and Pacific Life.

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In the institutional product market, AEGON USA s competitors include insurance companies, domestic and foreign banks, and investment advisors. Customers include investment managers, GIC managers, 401(k) and 457 plans, pension plans, 529 college savings plans, money market funds, municipalities, U.S and international banks, and other capital market sectors.

AEGON USA believes it is a leading issuer of synthetic GICs (source: reports from LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2006 Third Quarter Sales, Landmark Strategies 2005 Stable Value Wrap Issuance Survey, IMD Market Research). IMD pioneered the use of synthetic GICs in 1991 and competes against banks such as Bank of America, IXIS Financial Products Inc (IXIS), JP Morgan, Rabobank, State Street Bank, and Union Bank of Switzerland as well as insurance companies such as AIG and ING. IMD is also among the top ten traditional GIC providers. Other insurers in the traditional GIC segment include Hartford Financial, Metropolitan Life, Principal Financial, Prudential Financial, and New York Life (source: reports from LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2006 Third Quarter Sales, IMD Market Research).

Funding agreement backed, medium-term notes are marketed by AEGON in the United States and abroad. Monumental Life Insurance Company, the insurance company that issues these funding agreements, is among the top ten issuers in this fast-growing segment (source: Standard & Poor s Funding Agreement Backed-Note Issuance totals USD 23.7 billion for the first three quarters of 2006 , publication date October 19, 2006). AIG, Allstate, New York Life, John Hancock, Metropolitan Life, Principal Financial, and Pacific Life also have leading positions.

AEGON USA holds a leadership position among issuers of floating rate funding agreements sold directly to money market funds (source: reports from LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2006 Third Quarter Sales, company SEC filings, iMoneynet, IMD Market Research). Other leading competitors in this market are Genworth Financial, ING, Metropolitan Life, and New York Life.

IMD manages a book of USD 5.5 billion to USD 6.0 billion (book value) in funding agreements/investment contracts issued to municipalities. The leading competitors in the municipal GIC market are AIG, Bayerische Landesbank, FSA, General Electric, and MBIA.

AEGON USA s major life reinsurance competitors vary based upon solutions and geographical markets. The main competitors are Reinsurance Group of America, Swiss Re, Munich Re, and Scottish Re. In 2005, Transamerica Reinsurance was among the top global life reinsurers (S&P) and top life reinsurers in the United States (Munich American Re/SOA).

Within the United States, conditions continue to favor large, financially strong reinsurers such as Transamerica Reinsurance that can gain access to capital markets for reserve credit collateral and provide full-service solutions. Recent new entrants have had limited influence on the market.

The pension market continues to evolve rapidly and is facing growing regulatory compliance pressures, continuing demand for technological innovation, pricing pressures, and provider consolidation. AEGON USA s ability to achieve greater economies of scale in operations will be assisted if growth in key market segments continues, technology improves, and if process management increases efficiency.

In the defined contribution market, AEGON USA s main competitors are Fidelity, T. Rowe Price, Vanguard, Principal, Mass Mutual, New York Life, and AIG VALIC. AEGON USA s main competitors in the defined benefit segment are, Mass Mutual, New York Life, Principal Financial, and Prudential. In the small business retirement plan segment and the multiple employer plan segment, AEGON USA s main competitors are Principal Financial, John Hancock, American Funds, Fidelity, and ING.

Canadian life insurance marketplace

The top ten companies in Canada account for 89% of the life insurance sales (source: LIMRA study Fourth Quarter 2006, issued February 2007). AEGON s primary competitors in Canada are; Manulife, Sun Life, Industrial-Alliance, London Life, RBC Life, Canada Life, American International Group (AIG), Empire Life, Standard Life, and Desjardins Finance.

AEGON Canada ranks fourth in overall individual life insurance sales (new business premiums) with a market share of 9.4% as of December 31, 2006, up from 9.0% a year earlier. AEGON Canada ranks fourth in universal life sales representing 12.7% of the market and fourth in term life sales representing 9.3% of the market (source: LIMRA study Fourth Quarter 2006, issued February 2007).

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vi Regulation

AEGON USA

AEGON USA s insurance subsidiaries are subject to regulation and supervision in the states in which they transact business. Supervisory agencies in each of those states have broad powers to do any of the following: grant or revoke licenses to transact business, regulate trade and marketing practices, license agents, approve policy forms and certain premium rates, set reserve and capital requirements, determine the form and content of required financial reports, examine the insurance companies, prescribe the type and amount of investments permitted, levy fines and seek restitution for failure to comply with applicable regulations. The international businesses of AEGON USA are governed by the laws and regulations of the countries in which they transact business.

Insurance companies are subject to a mandatory audit every three to five years by their domestic regulatory authorities and every year by their independent auditors. In addition, examinations by non-domestic state insurance departments are conducted, both on a targeted and random or cyclical basis. Some State Attorneys General have also commenced investigations into certain insurers business practices. Within the insurance industry, substantial liability has been incurred by insurance companies based on their past sales and marketing practices. AEGON USA has focused and continues to focus on these compliance issues, and costs continue to increase as a result of these activities.

States have adopted risk-based capital (RBC) standards for life insurance companies, established by the National Association of Insurance Commissioners (NAIC), also known as the Model Act . The Model Act provides for various actions should an insurer s adjusted capital, based on statutory accounting principles, fall below certain prescribed levels (defined in terms of its risk-based capital). The adjusted capital levels of AEGON USA s insurance subsidiaries currently exceed all of the regulatory action levels as defined by the Model Act. Any modifications of these adjusted capital levels by the regulators or rating agency capital models may impact AEGON USA.

US federal and state privacy laws and regulations impose restrictions on financial institutions use and disclosure of customer information. Legislation has been introduced in the US Congress, and in the states from time to time that would either impose additional restrictions on the use and disclosure of customer information or would require financial institutions to enhance the security of personal information and impose new obligations in the event of data security breaches. Also pending before the Congress is legislation that would restrict the ability of insurers to underwrite based on specified risks, such as travel to certain countries. These laws, regulations and legislation, if enacted, could impact AEGON s ability to market or underwrite its products or otherwise limit the nature or scope of AEGON s insurance and financial services operations in the United States.

Both, the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) previously revised their telemarketing rules, according to the Telemarketing and Consumer Fraud and Abuse Prevention Act and the Telephone Consumer Protection Act. The FTC and FCC rules prohibit telephone solicitations to customers who have placed their telephone numbers on the National Do-not-call Registry. Some AEGON subsidiaries have seen a reduction in their telemarketing efforts because of the revised FTC and FCC rules.

Legislation has been introduced in the US Congress that would amend the McCarran-Ferguson Act to make the federal anti-trust laws applicable to the business of insurance. Applicability of the proposal is limited to the extent that insurance is not regulated by State law. If this legislation is enacted, the Federal Trade Commission and the US Department of Justice will have authority to enforce federal anti-trust laws against insurers. The insurance industry considers the involvement of the Federal Trade Commission and the Department of Justice in the business of insurance as burdensome and likely to be duplicative of state insurance regulation.

Insurance holding company statutes and the regulations of each insurer s domiciliary state in the United States impose various limitations on investments in affiliates and require prior approval of the payment of dividends above certain threshold levels by the registered insurer to AEGON or certain of its affiliates.

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

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Some of AEGON USA s subsidiaries are registered as broker-dealers under the Securities Exchange Act of 1934, referred to as the Securities Exchange Act and with the National Association of Securities Dealers, Inc. or NASD . A number of AEGON USA s subsidiaries are also registered as investment advisors under the Investment Advisers Act of 1940. AEGON USA s insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions.

The financial services industry, which includes businesses engaged in issuing, administering, and selling variable insurance products, mutual funds, and other securities, as well as broker-dealers, has come under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, selling practices, revenue sharing, market timing , late trading , and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. AEGON USA subsidiaries, like other businesses in the financial services industry, have received inquiries, examinations, and requests for information from regulators and others relating to certain AEGON USA subsidiaries historical and current practices with respect to these and other matters. Some of those inquiries have led to formal investigations, which remain open or have resulted in fines, corrective actions or restitution. AEGON USA subsidiaries continue to cooperate with these regulatory agencies. Since 2004, there has been an increase in litigation in the industry, legislation, new regulations, and regulatory initiatives aimed at curbing alleged abuse of annuity sales to seniors. As the first of the estimated 77 million baby boomers reached the age of sixty last year, the industry will likely see an increase in senior issues presented in various legal arenas. In addition, certain industry practices in respect of market conduct have been the subject of recent investigations by various state regulators.

In certain instances, AEGON subsidiaries modified business practices in response to inquiries or the findings thereof. Certain AEGON subsidiaries have paid or been informed that the regulators may seek restitution, fines or other monetary penalties or changes in the way we conduct our business. The impact of fines or other monetary penalties is not expected to have a material impact on AEGON s financial position, net income or cash flow.

Some of AEGON USA s subsidiaries offer products and services to pension and welfare benefit plans that are subject to ERISA. ERISA is administered by the Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction over these AEGON USA businesses.

AEGON s reinsurance activities are subject to laws and regulations including those related to credit for reinsurance. Most states have implemented a Life and Health Reinsurance Agreement regulation, which specifies the time-frames for completion of contracts and defines which risks must pass from cedant to reinsurer to constitute reinsurance. Transamerica International Re (Bermuda) Ltd. is subject to the laws and regulations governing the reinsurance business in Bermuda, as overseen by the Bermuda Monetary Authority.

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

Although the insurance business is regulated on the state level, the US federal tax preferences of life insurance products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax preferences, both in and of themselves and relative to other investment vehicles, are often debated in the US Congress. This risk is heightened this year as Congress has reinstituted the old pay as you go, or PAYGO, system, which requires any increases in program spending to be offset with increases in taxes or cuts in other programs.

Moreover, legislative proposals which impose restrictions on employment-based savings plans, such as pending legislative proposals imposing new restrictions on nonqualified deferred compensation, adversely impacts the sale of life insurance products used in funding those plans and their attractiveness relative to other investment products.

Pension reform legislation enacted in 2006 both increases funding obligations of defined benefit plans and creates opportunities for increased savings through defined contribution plans and other savings vehicles. The legislation makes permanent the EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001) provisions (previously set to expire in 2008) which increase the contribution limits to 401(k) and other qualified employment-based retirement savings plans and IRAs, as well as the EGTRRA provisions which make permanent the exemption from income tax for distributions from 529 college savings plans. It also provides flexibility needed to encourage the development of combination insurance products, such as annuities and long-term care products. Finally, the pension reform legislation imposes new restrictions on the tax-deferred treatment of earnings on corporate-owned life insurance (COLI), while preserving the use of this product by companies.

AEGON companies administer and provide both asset management services and products used to fund defined contribution plans, 529 plans and other savings vehicles impacted by the pension reform legislation. AEGON companies also provide plans used to administer benefits distributed upon termination of defined benefit plans. However, the exact extent of either the decline of defined benefit pension plans or the increased savings that results from the pension reform legislation and the competition for business opportunities resulting from such legislation is still unknown.

Pending regulations under the pension reform legislation will, among other matters, specify appropriate default investments for contributions to qualified employment-based plans under the legislation s new automatic enrollment provisions. These provisions provide plan sponsors certain liability protection for investment of new contributions automatically made to the plan if a plan participant has not otherwise designated the plan funds in which such contributions are to be invested. Failure to include certain life insurance products as acceptable default investments will adversely impact the sale of those products to employment-based plans.

In addition, the US Congress is reviewing the fees charged to both sponsors of and participants in employment-based savings plans for plan services and investments, and will likely consider legislative proposals to increase the disclosure and transparency of such fees. Any proposals that seek to restrict such fees and services to employment-based plans, however, will adversely impact AEGON companies that provide administration and investment services and products to such plans.

Many other federal tax laws affect the business in a variety of ways. Legislative proposals to repeal, substantially reform or permanently repeal the estate tax are being considered, but are not likely to be enacted in 2007. Under existing law, the federal estate, gift, and generation skipping taxes are temporarily repealed in 2011. AEGON believes a permanent repeal of the federal estate tax would have an adverse impact on sales and surrenders of life insurance in connection with estate planning; however, failure to permanently reform the estate tax to avoid its total repeal in 2011 and return to pre-2001 rates creates a lack of certainty that adversely impacts efficient estate planning.

AEGON Canada

Transamerica Life Canada (TLC) is incorporated under the Canadian Business Corporation Act and is regulated under the Insurance Companies Act of Canada. In addition, TLC is subject to the laws, regulations and insurance commissions of each of Canada s ten provinces. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers that include the following: granting and revoking licenses to transact business, regulating trade practices, licensing agents, establishing reserve requirements, determining permitted investments and establishing minimum levels of capital. TLC s ability to continue to conduct its insurance business depends upon the maintenance of its licenses at both the federal and provincial levels. The primary regulator for TLC is the Office of the Superintendent of Financial Institutions. TLC is required under the Insurance Companies Act of Canada to have at least seven directors, 50% of whom must be residents of Canada and no more than two-thirds of whom can be affiliated with TLC.

The life insurance and securities operations of AEGON Canada are also governed by policy statements and guidelines established by industry associations such as the Canadian Life & Health Insurance Associations, Mutual Fund Dealers Association, and Investment Funds Institute of Canada.

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The Netherlands

i General history

AEGON s operations in the Netherlands are collectively referred to as AEGON The Netherlands. AEGON The Netherlands is active in both the life and non-life insurance businesses, provides banking, financial, and asset management services, and is involved in distribution (intermediary) activities and pension administration.

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

Total employment of AEGON The Netherlands on December 31, 2006 was 6,404, including 1,356 agents.

AEGON The Netherlands primary operational subsidiaries are:

- AEGON Levensverzekering N.V.
- AEGON Schadeverzekering N.V.
- AEGON NabestaandenZorg N.V.
- AEGON Spaarkas N.V.
- AEGON Bank N.V.
- Spaarbeleg Kas N.V.
- AXENT/AEGON Sparen N.V.
- Unirobe Meeùs Groep B.V.
- TKP Pensioen B.V.
- Nedasco B.V.

The business organization of AEGON The Netherlands is based on five service centers (SC s) and three sales organizations (SO s).

The SC s, which are responsible for all back office activities, are the following:

- SC Pensions;

- SC Life insurance;
- SC Non-life insurance;
- SC Banking;
- SC Asset management.

The three SO s that have been structured to serve different sales channels are the following:

- Corporate & Institutional Clients (C&IC) focuses on large companies and institutional clients such as company pension funds and industry pension funds;
- AEGON Intermediary focuses on independent agents;
- AEGON Spaarbeleg works with tied agents as well as making direct sales.

Various activities have been clustered as support units and are coordinated centrally, for example marketing, IT, and facilities services. The distribution activities of the Unirobe Meeùs Groep and Nedasco form a separate cluster of activities, as do the pension administration activities of TKP Pensioen. The Unirobe Meeùs Groep was formed in 2006 subsequent to the purchase of the remaining 55% of the shares of Unirobe in September 2006.

ii Products and distribution

AEGON The Netherlands offers five product lines:

- Pensions
- Life insurance (including mortgages)
- Non-life insurance
- Banking
- Asset management

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Pension products

Pension products are mainly sold through the sales organizations C&IC and AEGON Intermediary.

The main pension products are:

- Products for company/industry pensions funds
- Products for large companies
- Products for small and medium-sized enterprises
- Products for individuals

For the majority of the company/industry pensions funds and some large companies, AEGON The Netherlands provides full service pension solutions and via TKP Pensioen, also administration-only services. The full service pension products for account of policyholders are separate account group contracts with or without guarantees. Profit sharing is based on the return of a pool of investments. The assets are owned by AEGON The Netherlands but earmarked to form the basis for profit sharing for these contracts. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premium tariffs are fixed over this period. Separate account guaranteed group contracts provide a guarantee on the benefits paid. The longevity risk therefore lies with AEGON The Netherlands. Non-guaranteed separate account group contracts do provide little guarantee on the benefits. AEGON The Netherlands has the option not to renew a contract at the end of the contract period.

For most large companies and some small and medium-sized enterprises, AEGON The Netherlands provides defined benefit products for which profit sharing is based upon a pre-defined benchmark. Benefits are guaranteed. Premium tariffs are fixed over the contract period and the longevity risk lies with AEGON The Netherlands. Minimum interest guarantees are given for nominal benefits, based on 3% actuarial interest (4% on policies sold before the end of 1999).

For small and medium-sized enterprises, AEGON The Netherlands provides pensions that are defined contribution products with single and recurring premiums. Profit sharing is based on investment returns on specified funds. Premium tariffs are not fixed over the contract period. Minimum interest guarantees are given for nominal benefits, based on 0% or 3% actuarial interest (4% on policies sold before the end of 1999).

Life insurance and mortgage savings products

Life insurance products are sold mainly by the sales organizations AEGON Intermediary and AEGON Spaarbeleg. The products are predominantly standardized financial products. The most important products are detailed below.

Universal life products

Universal life products are mainly endowment and savings type products, both single premium and recurring premiums with profit sharing based on a selected fund performance. A customer may choose from a variety of AEGON funds. AEGON The Netherlands has issued a guarantee of 3% for investments in the Mix Fund and the Fixed Income Fund (4% on policies sold before the end of 1999) at the maturity date providing the policyholder has invested in these funds for a consecutive period of at least ten years or on the demise of the insured. AEGON The Netherlands also provides immediate annuities for own and third party money.

Mortgage savings products

AEGON The Netherlands provides mortgage loans to customers for a period of twenty or thirty years. The loan is repaid in full or in part at the redemption date with the proceeds from a savings policy. AEGON The Netherlands provides a wide range of possible ways to invest and also offers an interest-only version. If the insured dies within the policy contract period, the benefit payment from the pledged life insurance policy is used to repay the mortgage loan. The interest paid on the loan is usually tax deductible, and the customer retains the full income tax benefit over the contract period.

Term life and funeral insurance products.

AEGON The Netherlands provides a broad selection of separate life insurance policies and has a significant position in funeral insurance.

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Non-life products

Non-life insurance products are mainly sold by the sales organization AEGON Intermediary. Non-life products consist primarily of accident and health (subject insurance) and property and casualty (object insurance). Over the past few years, the Dutch government has gradually withdrawn from the sick leave and workers disability market. In 2006, AEGON The Netherlands developed new disability products for the group employee benefits market to address changing needs as a result of the new disability system in the Netherlands as outlined in the WIA law (Law on Work and Income by work capacity). The distribution of subject products is not limited to the AEGON Intermediary channel but also includes the Corporate & Institutional Clients sales organization. In the property and casualty segment, AEGON The Netherlands provides products for the corporate and retail market.

Banking

Banking products are sold under the Spaarbeleg and AEGON Bank labels through all three sales organizations. Most of these products are savings accounts and investment plans with straightforward conditions accessible predominantly via Internet banking. In 2006, AEGON The Netherlands introduced an offering in the new Levensloop (life cycle) market. This savings product is a tax-friendly means for individuals to save for paid leave or early retirement.

Asset management

Asset management products are sold mainly via the sales organization C&IC. Both AEGON Asset Management (AEAM) and TKP Investments (TKPI, a 100% subsidiary of TKP Pensioen) provide asset management products with AEAM having strengths in in-house managed fixed income and Asian equities and TKPI providing fiduciairy management using multi-manager investment pools. AEAM is also the main asset manager for AEGON The Netherlands insurance activities. Both AEAM and TKPI are able to tailor products to customers needs, including hedging of liability risks.

Other activities

AEGON The Netherlands other activities consist primarily of the distribution units of the Unirobe Meeùs Groep, which is an AEGON Intermediary company specializing in insurance and real estate, and Nedasco. The Unirobe Meeùs Groep was created in 2006 to cluster the activities of the Meeùs Group with those of the Unirobe Group following the purchase of the remaining 55% of the shares of Unirobe in September 2006. Within the financial advice segment, the Unirobe Meeùs Groep has developed a broad range of activities such as insurance, pensions, mortgages, financing, savings, and investments. In the real estate business, Meeùs acts as a broker of both residential and corporate property. Meeùs is also active in the real estate management business.

iii Asset liability management

The investment strategy of AEGON The Netherlands is determined and monitored by the AEGON NL Risk and Capital Committee (AEGON NL RCC). The AEGON NL RCC meets at least on a quarterly basis. The focus of these meetings is, amongst other things, to ensure an optimal strategic asset allocation, to decide on interest rate hedging strategies to reduce interest rate risks, and to decide on the need for securitizations of residential mortgage portfolios to free funds for further business development.

Most (insurance) liabilities of AEGON The Netherlands are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived. Scenarios and optimization analyses are conducted with respect to the asset classes fixed income, equities and real estate, but also for various sub-classes, for example commodities, hedge funds and private equity. The result is an optimal asset allocation representing different investment risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk also determine alternative strategic asset allocations. Most of AEGON The Netherlands investments are managed in-house by AEGON Asset Management. For certain specialized investments, such as hedge funds and private equity, AEGON The Netherlands hires external managers. Portfolio managers are allowed to deviate from the benchmark based on their short-term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio allocations compared to their strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

AEGON The Netherlands and pension fund PGGM have a joint venture Amvest Vastgoed B.V. for their joined real estate investments. Furthermore, Amvest Vastgoed B.V. manages a separate real estate portfolio of AEGON The Netherlands.

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iv Reinsurance ceded

AEGON The Netherlands reinsures portions of its insurance exposure with unaffiliated insurance companies under traditional indemnity, quota share reinsurance contracts, and, in some instances, excess of loss reinsurance. Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. AEGON The Netherlands enters into these arrangements to assist in diversifying its risks and to limit the maximum loss on risks that exceed policy retention limits.

AEGON The Netherlands remains contingently liable with respect to the amounts ceded if the reinsurer fails to meet the obligations it assumed. To minimize its exposure to reinsurer insolvencies, AEGON The Netherlands annually monitors the creditworthiness of its primary reinsurers. It has experienced no material reinsurance recoverability problems in recent years. Where deemed appropriate, additional protection is arranged through letters of credit or trust arrangements, and, for certain arrangements, funds are withheld for investment by the ceding company.

Life

Reinsurance takes place through a profit-sharing contract between AEGON Levensverzekering N.V. and Swiss Re. The contract is set up so that AEGON NL retains a maximum exposure of EUR 900,000 per insured person with respect to death risk and EUR 25,000 annually for disability risk. Risks in excess of these retentions are transferred to the reinsurer.

Non-life

In the fire insurance business, an excess of loss reinsurance strategy is in place with retention of EUR 5.0 million (2007: EUR 3.0 million) per risk and EUR 21.0 million (2007: EUR 20.0 million) per event. The motor liability business is also reinsured on an excess-of-loss basis with retention of EUR 2.5 million per event.

v Competition

AEGON The Netherlands faces strong competition in all of its markets from insurers, banks, and investment management companies. These competitors are nearly all part of international financial conglomerates, such as ING Group, Achmea (Eureko), Fortis and Aviva (Delta Lloyd).

AEGON The Netherlands has been a key player in the total life market for a long time. The life insurance market in the Netherlands, comprising both pensions and life insurance, is very concentrated. The top 6 companies account for approximately 77% of premium income in The Netherlands (source: DNB Regulatory Returns 2005). In the pensions market AEGON The Netherlands ranks second behind ING, whereas in the individual life insurance market AEGON The Netherlands takes fourth place behind ING, Achmea and Fortis (based on premium income, source: DNB Regulatory Returns 2005).

AEGON The Netherlands is one of the smaller players on the non-life market. Achmea, Fortis, Delta Lloyd and ING have a market share of approximately 46% whereas the rest of the market is very fragmented. The market share of AEGON The Netherlands is around 3% (source: DNB Regulatory Returns 2005).

In recent years, several changes in regulations have limited opportunities in the Dutch life insurance market, especially in the Life insurance market (e.g. company savings plans and premiums of certain products are no longer tax deductible). Furthermore, the low economic growth and volatility of financial markets have created uncertainty among customers and a reluctance to commit to long-term contracts. These changed legal and market conditions have augmented competition. The result is competitive pricing, focus on service levels, client retention, and product innovation.

The pensions business has been affected by an increase in the number of new government regulations (e.g. the Surviving Relative Pension Act, the Non-Discriminatory Pensions Act and the new Pension Law, to be implemented in 2007). Timely compliance, flexibility in implementation and execution of these regulations may give AEGON The Netherlands a competitive advantage and distinguish the company in this highly competitive market. IT activities are essential in realizing these goals.

In the non-life segment, opportunities are expected to grow as the Dutch government gradually withdraws from the subject market.

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vi Regulation

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

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

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

The allocation of responsibilities between the AFM and DNB is formalized in a covenant. The AFM is responsible for supervising corporate governance and business conduct of organizations on the financial markets savings, investments, insurance, and credit activities. DNB oversees the strength of the financial system and its institutions. Regulations pertaining to the supervision of financial institutions referred to as Wet Financieel Toezicht (Act on Supervision of the Financial System) were passed in 2005 and will take effect in January 2007. This law will incorporate eight Acts in which the supervisory tasks of DNB were previously detailed.

Insurance companies

The European Union Insurance Directives issued in 1992 have been incorporated into Dutch law. The Directives are based on the home country control principle. This means that an insurance company that has a license issued by the regulatory authorities in its home country is allowed to conduct business, either directly or through a branch, in any country of the European Union. Separate licenses are required for each of the insurance company s branches in which it conducts business. The regulatory body that issued the license is responsible for monitoring the solvency of the insurer. However, the local regulatory body is responsible for monitoring market conduct and enforcing consumer protection laws.

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

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

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

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

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON NabestaandenZorg N.V.

AEGON Spaarkas N.V.

Spaarbeleg Kas N.V.

AXENT/AEGON Sparen N.V.

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

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

Banking institutions

AEGON Bank N.V. falls under the supervision of the DNB, pursuant to the Act on the Supervision of the Credit System 1992 mandate, and must file monthly regulatory reports and an annual report. The annual report and one of the monthly reports must be audited.

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United Kingdom

i General history

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

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

Total employment on December 31, 2006, was 4,639, which includes 150 agent-employees.

The primary operating subsidiaries of AEGON UK are:

- Scottish Equitable plc
- AEGON Asset Management UK plc
- Origen Financial Services Ltd
- Positive Solutions (Financial Services) Ltd
- HS Administrative Services Ltd
- Guardian Assurance plc

AEGON UK is operationally structured into four distinct businesses:

AEGON Individual all operations relating to the individual investment, protection, and pension markets in the United Kingdom. This business operates under the AEGON Scottish Equitable brand name.

AEGON Corporate all manufacturing and scheme administration operations relating to the corporate pension and employee benefits markets in the United Kingdom.

AEGON Asset Management investment management operations.

AEGON UK Distribution intermediary distribution and advice businesses.

The principal offices of AEGON UK are Edinburgh (Scotland), London (England), Lytham (England), and Dublin (Ireland).

ii Products and distribution

AEGON UK is a major financial services organization specializing in the long-term savings and protection markets. AEGON UK sells a range of products through financial advisor channels in the United Kingdom. The business is centered on two core markets: individual and corporate customers. This segmentation is driven by a desire to place the customer at the heart of the strategy.

Pensions

Changes to many aspects of UK pension legislation and taxation continue to impact the industry. The most significant change relates to the introduction of a simpler and unified tax regime, which now applies to all types of pension arrangements. This was implemented in April 2006 and has impacted all UK pension providers. AEGON UK has supported its distribution channels by seeking to ensure they have an appropriate product range and by helping them to focus on the opportunities presented by these changes.

Sales of more specialized pensions remain strong, particularly phased retirement products. These allow individuals to access part of their pension income without having to fully purchase an annuity until a later date.

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Self invested pensions have increased in popularity, fueled partly by the changes to pension legislation in the UK in April 2006 and partly by increasing desire among individuals to retain control over their own investment.

AEGON believes that its high standards of service are a key market differentiator for AEGON UK, with technology increasingly being used to improve efficiency for providers and advisors. AEGON UK is building on its success with SmartScheme, AEGON UK s technology solution to pension administration. The company is involving financial advisors and clients in developing technology solutions to ensure that all parties derive benefit.

Individual Pensions

AEGON Individual Pensions offers a comprehensive range of pension products, including stakeholder pensions, personal pensions, pensions for executives, transfers from other plans, phased retirement, unsecured pensions (USP), alternatively secured pensions (ASP) and self invested personal pensions (SIPP).

For the high-net-worth market AEGON Individual Pensions offers a SIPP that allows the policyholder to invest in a wide range of investments, including insured funds, a fund supermarket and property. This SIPP includes facilities for investing for retirement and the full range of post-retirement facilities (USP, ASP, phased retirement). It is also supported by a good range of technological support, including a risk profiling tool and on-line viewing facilities.

Group Pensions

Group pensions is a key business area for AEGON Corporate. These are pension arrangements for the employees of corporate customers that cover a range of benefit options and which are predominantly defined contribution. At retirement, cash up to the maximum allowed can be taken, with the remainder of the pension fund used to purchase an annuity or to invest in a drawdown policy until the age of 75. AEGON Corporate also sells and administers defined benefit pension schemes. The market for new defined benefit plans has decreased in recent years, but opportunities remain to take over the administration and investment of existing plans. A group SIPP contract has also been launched to provide all the benefits of the individual SIPP contract to group pension plans.

Individual Annuities

The pension legislation changes of April 2006 have resulted in new opportunities for annuity contracts. In the UK, pension plans have to be converted into income when they come to retirement. One option for retirees is an annuity contract to provide their retirement income. AEGON UK has seen an increase in new business this year because of the change in rules on tax-free lump sums, with more people wanting to combine several pensions together into one higher annuity and is currently developing a capital protection option for launch during 2007.

AEGON UK is continuing to invest in improving our systems and servicing processes, to improve our ability to gain market share from our main competitors. This will provide us with the platform to develop into a top player in this market and develop additional products to complement our Compulsory Purchase Annuity and Immediate Vesting Personal Pension Annuity.

Investment Products

Designed for customers in the United Kingdom, the investment products proposition is made up of the investment bond offered by AEGON Scottish Equitable (the onshore bond) and the products offered by AEGON Scottish Equitable International (the offshore contracts).

The onshore bond is a life contract which offers a wide range of investment choices including funds managed by some of the world s leading managers. It is a mass-market product aimed at pre-retirement and retirement customers looking for growth and /or income.

The offshore contracts are, historically, aimed at the high net worth market giving valuable tax advantages and a wide investment choice. Offshore investment contracts are increasingly forming part of the holistic retirement planning process. This is because there is less restriction on how and when benefits can be taken. The growing trend of the British retiring abroad again favors offshore contracts.

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An offshore contract 5 for Life was launched in 2006. Based on the United States variable annuity product and using the hedging expertise of AEGON USA, this was the first personal investment contract available to the UK market that offered a guaranteed income for life.

The number of estates falling within the UK Inheritance Tax market continues to drive demand for trust-based solutions to mitigate potential tax liabilities. AEGON Scottish Equitable International offers a range of trusts to support inheritance tax planning.

Individual protection

AEGON Scottish Equitable is now established as a top 5 provider, as measured by market share (Source: Association of British Insurers, 2006). Products are distributed through intermediated advice channels AEGON Scottish Equitable offers a menu product, which can meet the personal and business protection needs of individual and corporate customers, and will launch a basic product in 2007 to take advantage of new distribution opportunities.

Group Risk

AEGON Corporate offers a range of group risk products exclusively through financial advisors. These products are provided to employers who use them as part of their wider employee benefits and remuneration strategy. Products in general are sold on a standard employer paid basis, however there is increasing interest in placing these products as part of the flexible benefit offering, allowing an element of employee choice over product selection as well as benefit levels.

Distribution is heavily concentrated with the top 12 intermediaries accounting for 80% of total market revenue (Source: Association of British Insurers, 2006). The main intermediaries involved in this market are specialist Employee Benefit Consultancies.

Benefit solutions

AEGON Corporate provides employee benefit communication software via a limited number of independent distributors in the corporate market. The software provides solutions for flexible benefits; total reward statements; holiday and absence management; pension aggregation and forecasting; self-service HR; discounted voluntary benefits; generic financial education in the workplace and full self-service administrative functionality of the employee benefit package. The platform is modular so clients can pick and choose the services they require.

Mutual funds

AEGON Asset Management UK (AAM UK) is a major provider of asset management services both within the AEGON UK group and to institutional customers and individuals. As of December 31, 2006, AAM UK managed and administered approximately GBP 49 billion of funds, providing both mutual and segregated funds for clients.

Financial Advice

AEGON UK s principal means of distribution is through the intermediated financial advice channel in the United Kingdom. These advisors provide their customers with access to varying numbers and types of products depending on their regulatory status.

There are an estimated 60,000 active registered financial advisors in the United Kingdom, many of whom are grouped into networks of advisors that act as large national distributors. This estimate of financial advisors operating in the multi-tied, single-tied, whole of market, and Independent channels, reflects different levels of restriction on the number of providers products that can be sold or advised on. AEGON UK has strong relationships with financial advisors across the market.

AEGON UK, through Origen Financial Services Ltd and Positive Solutions (Financial Services) Ltd, delivers advice relating to the financial needs of both individual and corporate customers. Origen uses a range of distribution methods, primarily face-to-face contact but also media and worksite marketing, and distribution agreements with closed-book life offices. Positive Solutions provides management services to self-employed Individual Financial Advisors via sophisticated technology platforms, to support the advice and transaction processes.

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iii Asset liability management

Asset liability management (ALM) is overseen by the AEGON UK ALM Committee, which meets monthly to monitor capital requirements and ensure appropriate matching of assets and liabilities.

For its with-profit business, AEGON UK s general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses typically prevents perfect matching, and the role of the committee is then to monitor the capital implications of any mismatching. On an annual basis, detailed reports are produced for the relevant subsidiary Boards covering the impact of a range of investment scenarios on the solvency of each of the fund. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the AEGON UK Board. During 2006, the investment strategies of the funds were reviewed using economic capital measures and some refinements were made as a result.

For unit-linked business, the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. An investment committee, which reports to the relevant subsidiary Boards, meets monthly to monitor performance of the investment managers against fund benchmarks and, as appropriate, sets benchmarks/risk profiles for funds. Additionally, the investment committee of the AEGON UK Board reviews the policies and processes of its internal manager on a quarterly basis.

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

iv Reinsurance ceded

In general the approach adopted within AEGON UK is to limit morbidity and mortality risk through widespread use of reinsurance. For mortality and morbidity new business the policy is to substantially reinsure risk. Currently this results in reinsurance of around 85% of the benefit at risk for long-term business and 30% for short-term business. Variations from this level will occur from time to time to reflect the terms available in the market, the type of business (life, critical illness, permanent health insurance) and the length of risk involved.

For longevity risk prior to 2002, AEGON UK perceived reinsurance terms to be attractive for the risk of improving mortality under immediate annuities relative to the typical prices for these products. Since then, however, this has not been the case and therefore we have not reinsured longevity risk.

Reinsurer quality is sought by targeting a credit rating of AA. Any decision to use a reinsurer with a lower credit rating requires approval of the local Risk and Capital Committee and discussion with Group Risk where both the credit quality of the reinsurer and the type of risk being covered will be considered. As a reflection of the insurance industry in general there has been a reduction in the credit rating of reinsurers and this has resulted in a greater need to refer decisions to the reinsurance committee. However the policy remains to seek reinsurers with AA rating where this can be achieved on economic terms.

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v Competition

AEGON UK faces competition in all its markets from three key sources: life and pension companies, investment management companies, and financial advice firms.

The life and pension market has been concentrated over the past few years among the largest companies and those perceived to be financially strong.

The retail investment market is very fragmented although there is a trend toward consolidation. The way in which mutual funds are accessed continues to evolve due to the increasing role of platform services within the market.

The institutional market has sustained its appetite for specialist fixed-income mandates, moving away from equities. Large global bond managers continued to gain prominence in the UK marketplace, while domestic providers have worked to develop their own capabilities.

The financial advisor market in the United Kingdom is fragmented, with a large number of relatively small firms. The removal of polarization rules in the advice market in 2005 led to advisors choosing to operate on a multi-tied, single-tied, whole of market, or independent basis. There has been significant consolidation activity with further consolidation expected as a result of financial pressures in the market, but fragmentation remains high. There are few firms with a nationwide presence or a well-known brand outside local areas.

vi Regulation

The relevant AEGON UK companies are regulated by the Financial Services Authority under the Financial Services and Markets Act 2000. Regulation was extended to mortgage advisors from November 1, 2004 and general insurance brokers from January 15, 2005.

The Financial Services Authority acts as both a prudential and conduct of business supervisor. As such, it sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of regulated companies. New rules relating to capital requirements for life insurers were implemented in December, 2004.

All directors and some senior managers of AEGON UK undertaking particular roles (e.g.: finance/actuarial, fund managers, dealers, and salesmen) enter into direct contracts with the Financial Services Authority as Approved Persons. As such, they are subject to rigorous pre-appointment checks on their integrity and competence, and they are subject to ongoing supervision throughout their mandate as Approved Persons and for a limited period afterwards.

The Scottish Equitable International business includes the Dublin-based life insurance company, Scottish Equitable International (Dublin) plc (authorized by the Irish Financial Services Regulatory Authority and regulated by the United Kingdom s FSA for conduct of UK business), as well as a Dublin-based service company, Scottish Equitable International Services plc.

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Central Eastern European Region

i General history

AEGON s Central Eastern European Region (AEGON CEE) was created in 2006. The member countries are AEGON Hungary, AEGON Poland, AEGON Slovakia and AEGON Czech Republic.

AEGON CEE is involved in both the life and non-life insurance businesses and provides a range of financial, pension fund and asset management services. On December 31, 2006, AEGON CEE employed a total of 1,195 employees.

AEGON CEE s primary operational units are as follows:

- AEGON Hungary Composite Insurance Company,
- AEGON Hungary Investment Fund Management Company Limited by Shares,
- AEGON Hungary Pension Fund Management Company Limited by Shares,
- AEGON Credit Finance Company Limited by Shares (Hungary),
- AEGON Hungary Real Estate Limited Company ,
- AEGON Life Insurance Company (Poland),
- AEGON Life Insurance (Slovakia),
- AEGON Pension Fund Management Company (Slovakia),
- AEGON Life Insurance (Czech Republic).

In Hungary, AEGON Credit Finance Company was officially registered on July 13, 2006, and started operations in November 2006. Its principal business is to provide mortgage financing to the retail market in Hungary.

On July 1, 2006, AEGON converted the branch office of its Slovakian life insurance operations into a separate stand-alone legal entity.

On November 9, 2006, AEGON announced that it had agreed with Ergo Hestia to buy 100% of the pension fund management company PTE Ergo Hestia S.A. in Poland. The acquisition is subject to approval by the Polish Financial Supervision Commission and anti-trust authorities, but is expected to be completed in 2007.

ii Products and distribution

AEGON CEE offers life insurance and pension products, in case of AEGON Hungary, non-life insurance products as well. The region s core business products are life, pension, mortgage, and household insurance. The life insurance product portfolio consists of traditional general account products and unit-linked products, although in recent years unit-linked sales have been significantly higher than general account product sales. Margins for household insurance in Hungary are attractive, and they present considerable opportunities for cross-selling life insurance products. Property and car insurance are also represented in the portfolio, but are not considered core products.

Pension products

Pension insurance is a core business product of AEGON Hungary and AEGON Slovakia. Pension fund administration services are also offered. The mandatory pension funds in Hungary and Slovakia, and the voluntary pension fund of AEGON Hungary, are among the largest in their countries in terms of the number of members and the assets they had under management (Source: www.pszaf.hu; Association of Pension Fund Management Companies, Slovakia). AEGON is aiming to grow its pension fund business by adding new members to its existing funds and by taking over other pension funds or starting greenfield activities in new countries.

Traditional general account products

Traditional products are marginal in all countries apart from for Hungary. These products include individual life policies that were issued before AEGON Hungary was privatized and became part of AEGON. Traditional general account products also include indexed life products that are not unit-linked but have guaranteed interest. AEGON Hungary no longer offers these products. In addition, traditional general account products include group life products and the preferred life product. Group life products are yearly renewable term products with optional accident and health coverage. Savings products for employee benefit programs are mainly traditional products with interest guarantee. In 2005, AEGON Hungary was the first to launch a preferred life product in the CEE region. This product is a term insurance with different competitive premium rates for four pre-determined risk categories.

Unit-linked products

Unit-linked products are AEGON CEE s most important products and make up the largest part of AEGON CEE s new sales. The unit-linked products cover all types of life insurance, including pensions, endowment and savings. AEGON Poland is the leading provider in the life insurance single premium market segment with its open-architecture, unit-linked products, which offer more than 80 investment funds managed by different fund managers (Source www.knf.gov.pl).

Mortgage loans

In Hungary, the newly-established company, AEGON Credit Finance Company (AEGON Credit), provides Swiss franc-denominated mortgage loans to the retail market. AEGON Credit also sells various endowment life, term life and household insurance product-riders to these loans.

Asset management

AEGON CEE provides asset management services through AEGON Hungary Investment Fund Management Co. It offers mutual funds to the public and manages the assets of the general account portfolio of AEGON Hungary Composite Insurance Co., as well as the unit-linked portfolios, the guaranteed fund of AEGON Poland and AEGON Hungary pension funds. It also supplies asset management services to third parties and AEGON Slovakia. AEGON Hungary Investment Fund Management Co. supervises all the investment activities in the Central and Eastern European region.

Distribution channels

AEGON CEE s main distribution channels are tied network, brokers and, especially in Poland, banks. Through the tied network, brokers and call centers, AEGON CEE sells life, pension and non-life products. Through banks, it sells life products and, through the loan centers, mortgages.

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iii Asset liability management

Asset liability management is overseen by the Risk and Capital Committee and Investment Committee that meets on a quarterly basis. AEGON CEE s asset liability management focuses on asset liability duration calculations. During these meetings the performance of portfolios is being evaluated.

iv Reinsurance ceded

AEGON CEE has reinsurance ceded for both its life and non-life businesses. AEGON CEE s reinsurance partners are large reinsurers active in the European market with a minimum Standard & Poor s rating of A . The three most important reinsurance programs currently in operation are the Property Catastrophe Excess of Loss Treaty, the Motor Third Party Liability Excess of Loss Treaty, and the Property per Risk Excess of Loss Treaty. The majority of AEGON CEE s programs are non-proportional Excess of Loss programs. Additionally, AEGON CEE has smaller proportional treaties for individual and group life business. The retention level is EUR 5.9 million in the case of the Catastrophe Excess of Loss Treaty, EUR 0.4 million in the case of the Motor Third Party Liability Excess of Loss Treaty, and EUR 1.2 million in the case of the Property per Risk Excess of Loss Treaty.

v Competition

AEGON CEE is among the biggest players on the insurance markets in both Poland and Hungary. Based on 2005 premium income, it is the fourth largest in Poland and the fifth largest in Hungary (source: KNUiFE and Annual Report of Hungarian Insurance Association 2006). As AEGON Slovakia was incorporated in 2003 and AEGON Czech in 2004 only, AEGON is a less significant player in these countries.

On the Hungarian mandatory pension fund market, AEGON was ranked second in terms of the number of members it has and third in terms of its managed assets at the 2005 year-end. On Hungary s voluntary pension fund market, AEGON was ranked third in terms of the number of members and fifth in terms of its managed assets in 2005. (Source: www.pszaf.hu). Slovakia started a reform of its pensions system in January 2005. By the end of June 2006, the first wave of reforms was complete. The official ranking related to number of clients was made public on September 26, 2006 by Slovakia s Social Security System. Based on this, AEGON was ranked as the fourth largest company with a market share of 13%. In terms of managed assets AEGON was ranked fifth on the Slovakian market at the end of 2006 (Source: Association of Pension Fund Management Companies).

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vi Regulation

The following laws regulate the foundation, operation, and reporting obligations of insurance companies in this region:

- the Insurance Act (LX. 2003.) in Hungary;
- the Insurance Act (95/2002) in Slovakia;
- the Insurance Act (363/1999), as amended by Act No. 39/2004 in the Czech Republic;
- the Insurance Activity Act of May 22, 2003, in Poland.

All of the above acts comply with EU regulations. Companies can be licensed only for separate businesses; that is, a single company can conduct either life insurance or non-life insurance but not both together. However, in Hungary, insurance companies established before 1995, including AEGON Hungary, are exempt from this rule.

State supervision and oversight is conducted by the following bodies and institutions:

- the Hungarian Financial Supervisory Authority (HFSA), which has a department dealing exclusively with the insurance sector;
- the National Bank of Slovakia (before its transformation to a fully-fledged, standalone company on June 30, 2006, AEGON Slovakia was a local branch office of AEGON Levensverzekering N.V. which fell under the supervision of the DNB, the Dutch regulator;
- the Czech Ministry of Finance oversaw the Czech insurance industry until April 2006 when the Czech National Bank took on this role;
- the Financial Supervisory Commission, or INF, in Poland.

The above-mentioned authorities promote consumer protection and have the right to investigate prudential activities and conduct, financial position and solvency, and compliance with all relevant laws.

In addition to legal regulation, insurance companies are subject to a number of self-regulatory bodies in their respective countries. These self-regulatory bodies are the main forums for discussion among insurance companies. Their specialized departments (e.g., actuarial, financial, and legal departments) meet periodically. They also engage in lobbying activities.

As one of the largest institutional investors in Hungary, the investment operations of AEGON Hungary are also regulated by the country s Capital Markets Act (CXX. 2001). This Act regulates the activity of brokerage houses, investment funds, fund managers, custodians, stock exchanges, settlement houses and the HFSA. Its main goal is to ensure the transparent operation of capital markets, to develop the regulation of market participants, and to enhance investment security. The Act conforms to relevant EU regulations. AEGON Credit Finance Company also falls under the supervision of the Hungarian Financial Supervisory Authority (HFSA). Effective from 8 May, 2006 AEGON Hungary Investment Fund Management Company was licensed for managing European investment funds and thus from this date it can manage UCITS funds. This activity is also regulated by the Capital Markets Act.

In Hungary, the foundation and operations of mandatory and voluntary pension funds are regulated by the country s Act on Private Pension and Private Pension Funds (LXXXII. 1997.) and its Act on Voluntary Mutual Pension Funds (XCVI. 1993.) respectively. Although, for AEGON, these activities are outsourced to AEGON Hungary Pension Fund Management Company, its operations must still comply with this legislation.

This activity is also supervised by the HFSA.

In addition, Hungary s Act on Credit Institutions and Financial Enterprises (CXII. 1996.) regulates the foundation, operation and reporting obligations of all the country s financial institutions (including AEGON Credit). In addition, AEGON Credit Finance Company falls under the supervision of the Hungarian Financial Supervisory Authority (HFSA).

As a joint stock institutional investor in Poland, the overall investment operations of AEGON Poland are regulated by the country s Commercial Code. The Commercial Code applies to all commercial activities in Poland.

In addition, Poland s Act on Credit Institutions and Financial Enterprises (CXII. 1996.) regulates the foundation, operation and reporting obligations of the country s financial institutions.

Slovakia s pensions market is regulated by Act 43/2004 on pension asset management companies and respective notices.

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Spain

i General history

In 2006, AEGON operated in Spain through two insurance companies: AEGON Seguros Salud and AEGON Seguros de Vida, subsidiaries of a holding company, AEGON España S.A. Administrative and operational services to all companies in Spain, including joint ventures with third parties, are provided by a separate legal entity: AEGON Administración y Servicios A.I.E.

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

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

In July 2005, AEGON Spain entered into a strategic partnership agreement with Caja de Badajoz (CB) aimed at setting up a new insurance company to sell AEGON Spain s life insurance, accident and pension products through the CB network. AEGON Spain will provide back office services for this joint venture company. In May 2006, the new company, Caja Badajoz Vida y Pensiones, started operations, having obtained regulatory approval.

In November 2005, AEGON Spain signed a strategic partnership agreement with the Spanish savings bank Caja de Ahorros de Navarra (CN), under which AEGON acquired a 50% stake in CN s life insurance and pensions subsidiary, Seguros Navarra S.A. The acquisition of 50% of Seguros Navarra S.A. took place in two tranches. In the fourth quarter of 2005, 15% was acquired, followed by another 35% in the first quarter of 2006.

On December 31 2006, AEGON Spain employed a staff of 221 employees.

AEGON Spain will continue to expand its life insurance business by strengthening its own agent distribution capabilities, by enhancing its existing bancassurance partnerships with CAM, CB and CN as well as pursuing new distribution opportunities.

ii Products and distribution

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

AEGON Spain focuses on the individual consumer segment. AEGON Spain s principal lines of business are traditional life and unit-linked insurance products. These products are distributed on the one hand through the agency channel, using a network of agents and brokers and on the other hand, in the case of joint ventures with the above-mentioned saving banks, through their networks.

Individual life products are sold by specialized agents and brokers in urban centers and by the saving banks branch networks both in urban centers and rural areas. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

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iii Asset liability management

AEGON Spain s approach to asset liability management is to make projections of asset and liability cash flows, to calculate their present values using a market yield curve, and to compute the main parameters affecting these cash flows (e.g. duration and convexity, etc.). The goal is to lock in the spread by matching the duration of assets to the duration of liabilities.

iv Reinsurance ceded

AEGON Spain has proportional reinsurance protection for individual risk policies and non-proportional protection for group risk policies.

Such reinsurance arrangements are in accordance with standard reinsurance practices within the industry. AEGON Spain enters into these arrangements to assist in diversifying its risks and to limit the maximum loss on risks that exceed policy retention limits. The maximum retention limit on any one life varies by product and risk classification, and is generally between EUR 45,000 and EUR 60,000. AEGON Spain remains contingently liable with respect to the amounts ceded if the reinsurer fails to meet the obligations it assumed.

AEGON Spain s reinsurers generally have a minimum A rating from Standard & Poor s. To minimize its exposure to reinsurer insolvencies, AEGON Spain annually monitors the creditworthiness of its primary reinsurers. It has experienced no material reinsurance recoverability problems in recent years. Where deemed appropriate, additional protection is arranged through funds that are withheld for investment by the ceding company.

v Competition

There is considerable competition in the Spanish market, major competitors are the bank-owned insurance companies for life and pension products, and foreign and local companies for health insurance products.

vi Regulation

The Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to the DGS on a quarterly basis. Spanish regulations incorporate all the requirements of the relevant EU Directives. In terms of solvency margin, local regulations are based on a percentage of the reserves for the life insurance business and on a percentage of premiums for the health insurance business.

AEGON Spain s investment portfolio is regulated by Spanish law, which is based on the Third EU Directive (92/96/EEC). The regulation requires the appropriate matching of investments and technical provisions, and it also establishes the main characteristics of the assets that can be applied to asset liability management. There are limitations on the amounts that can be invested in unsecured loans, unquoted stocks, single investments in real estate, and a single loan or debtor.

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Taiwan

i General history

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

Total employment of AEGON Taiwan on December 31, 2006 was 1,109 employees, including 706 employee-agents.

ii Products and distribution

AEGON Taiwan offers a broad range of insurance products that meet a variety of consumer needs. These include whole life, endowment life, term life, accident and supplemental health, variable universal life, annuities, group life and health, and a range of policy riders. AEGON Taiwan s variable universal life product was enhanced in 2005, and is now the company s top selling product line. The product includes a wide range of investment options, including AEGON s unique stable value fund.

AEGON Taiwan distributes through a variety of channels, which has been a key to the company s rapid growth in recent years. These channels include a force of over 700 full time professional career agents, independent brokers, banks, group and worksite marketing, as well as direct marketing. Each channel sells a mix of products tailored to their distribution system and the consumer segments they serve. In the past year, the company s agency, brokerage, and bank channels have all increased their sales of variable life insurance, driven by the demands of the market, as well as AEGON Taiwan s focus on growing that business line. The worksite marketing channel, which was started in 2005, has also grown steadily, offering a range of tailored retirement planning and insurance solutions to employees of corporate clients.

iii Asset liability management

Asset liability management is an integral part of AEGON Taiwan s ongoing risk management process. AEGON Taiwan s asset liability management policy aims to achieve a reasonable match between the durations of assets and liabilities and to reduce total risk while achieving a reasonable investment yield. To achieve these objectives, specific risk limits are established for the investment portfolio. These take into account the general account liabilities as defined in AEGON Taiwan s investment policy statement.

iv Reinsurance ceded

AEGON Taiwan has its mortality and morbidity risks reinsured by local and international reinsurers. All reinsurers that have significant business arrangements with AEGON Taiwan have a rating of AA- and above except for the Central Reinsurance Company (CRC), which used to be a government company but has gone through a privatization. CRC s credit rating was upgraded from its previous BBB+ to A- in October 2006. The reinsurance covers both excess surplus risks and catastrophic concentration risks.

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v Competition

Taiwan s life insurance market ranks number 9 in the world and number 3 in Asia in terms of total premiums in 2005 (Source: SwissRe Sigma Report No 5/2006). Between 1999 and 2005, life insurance premium income in Taiwan grew at an average 17.5% a year according to statistics released by the Life Insurance Association of the Republic of China. At the end of 2005, there were 29 life insurance companies in Taiwan, 14 of which were domestic companies and 15 of which were foreign company subsidiaries or branches of foreign companies. In 2005, insurance premiums totaled NTD 1,458 billion (approximately EUR 37 billion), with the top five companies accounting for around 64%.

The Taiwanese bancassurance channel has continued to develop very rapidly with the introduction of new regulations facilitating the formation of financial holding companies, which allow banks to broaden their activities to include insurance. Taiwan s low interest rate environment has propelled an increase in sales of variable, participating, and interest-sensitive life and annuity products, which now dominate the market. The retirement market is blooming due to the aging population and implementation of the Taiwan Pension Act in 2005.

Among all the foreign companies, AEGON ranked sixth in terms of new business premium income for the full year of 2005 (Source: Life Insurance Association of the Republic Of China).

vi Regulation

AEGON Taiwan is subject to regulation and supervision by the Financial Supervisory Commission in Taiwan. Regulation covers the licensing of agents, the approval of insurance policies, the regulation of premium rates, the establishment of reserve requirements, the regulation of the type and amount of investments permitted, and the prescription of minimum levels of capital.

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China

i General history

AEGON-CNOOC Life Insurance Co., Ltd. (AEGON-CNOOC) is a 50/50 joint venture established in Shanghai, People s Republic of China, by China National Offshore Oil Corporation and AEGON. AEGON-CNOOC started operations in Shanghai in May 2003. AEGON-CNOOC is licensed to sell both life insurance products as well as accident and health products in mainland China.

The total employment of AEGON-CNOOC on December 31, 2006 was 1,497 including 909 agents.

In April 2005, AEGON-CNOOC s Beijing branch completed its business registration and started full operations. Subsequently, in September 2005, the Jiangsu branch celebrated its opening ceremony in Nanjing and became one of the first joint venture life insurance companies to enter into Jiangsu Province. The Shandong branch became operational following formal approval from the China Insurance Regulatory Commission (CIRC) in September 2006.

ii Products and distribution

Since its inception in 2003, AEGON-CNOOC has successfully established multiple distribution channels, including agency, banks, direct marketing, telemarketing and group channels.

The agency channel portfolio consists primarily of universal life and traditional life products, including level whole life, coupon whole life, endowment life, term life as well as short-term accident and long-term health products. The most important product for the bancassurance channel is a single premium whole-life universal life product. Regular premium products, such as Juvenile Endowment, also became a major source of business through the bancassurance channel. The major product for the telemarketing channel is a yearly-renewable personal accident product. The primary products sold through the brokerage channel are universal life and traditional life products as well as short-term accident and long-term health products.

iii Asset liability management

A monthly asset liability management meeting is held do discuss duration- and liquidity management. The duration of liabilities and assets are calculated separately by block and the duration-gap is analyzed. Every quarter, a Risk and Capital Committee meeting is held to manage the asset and liability matching based on the result of stress-test scenarios based on Economic Capital Model, liquidity test and duration mismatch tests. Considering that most insurance liability is derived from 5-year and whole life single-premium products, AEGON-CNOOC purchased corporate bond, government bond, and statutory deposits to match this liability while operating funds are invested in the short-term bond, money-market fund and bond repurchase markets in order to achieve higher investment returns.

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iv Reinsurance ceded

According to the CIRC regulations, AEGON-CNOOC cedes a quota share of accident and health business to the China Reinsurance Company. The quota share for the business written in 2003, 2004 and 2005 was 15%, 10% and 5% respectively and decreased to 0% for the business written in 2006. This compulsory reinsurance requirement ends thereafter.

In addition, AEGON-CNOOC entered into several commercial reinsurance arrangements to achieve a diversification of risk and to limit the maximum loss on risks that exceeded policy retention limits. AEGON-CNOOC entered into reinsurance programs with Munich Re, Swiss Re, and General Re. The retention limit on any one individual life is generally CNY 200,000.

v Competition

China s life insurance sector registered double-digit revenue growth for several consecutive years prior to 2004. After the slow-down in 2004 (as the main life insurance companies gradually shifted their emphasis from business scale toward profitability), premium income started to recover in 2005. Premium income experienced high growth in 2006 with the popularity of universal life products mainly in the bancassurance channel. After lifting restrictions on foreign insurance companies, an increasing number of foreign insurance companies are entering the Chinese market. At the end of 2006, there were 25 foreign and 20 domestic life insurance companies operating in China. Almost all leading domestic insurers have now set up branches in all major cities in China. As a result, the competition among life insurance companies has been intensifying. This is especially true in cities that were open to foreign life insurers in earlier years.

vi Regulation

In 2006, CIRC regulation focused on improving corporate governance and further protecting of consumers interests. As far as corporate governance was concerned, the CIRC not only extended the registration requirements for senior management of insurance companies, but it also specify clearer the responsibilities of senior management in order to ensure the solid and steady operation of insurance companies. As for protecting the interests of consumers the CIRC promulgated regulations to prohibit personal agents from misleading, to encourage insurance companies to make the terms of their products more user-friendly and to ensure the classification of health insurance products is clearer.

Regarding investment channels for insurance companies, qualified insurance companies are now allowed to invest in infrastructure projects indirectly through trusts or industrial funds. Currently only leading companies are able and permitted to operate in this field. The recent developments are QDII (qualified domestic institutional investors) and investment in commercial bank shares were also open to insurance companies (whose total assets are above RMB 100 billion) in April and October 2006 respectively.

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4C Organizational structure

AEGON N.V. is a holding company that operates through its subsidiaries. For a list of names and locations of the most important group companies, see Note 18.52 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The main operating units of the AEGON Group are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by two intermediate holding companies incorporated under Dutch law: AEGON Nederland N.V., the parent company of the Dutch operations, and AEGON International N.V., which holds the Group companies of all countries except the Netherlands.

4D Description of property

In the United States, AEGON owns many of the buildings that the company uses in the normal course of its business, primarily as offices. AEGON owns 19 offices located throughout the United States with a total square footage of 2.4 million. AEGON also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1.7 million. AEGON s principal offices are located in Baltimore, Maryland; Cedar Rapids, Iowa; Louisville, Kentucky; Los Angeles, California; Frazer, Pennsylvania; St Petersburg, Florida; Plano, Texas; Kansas City, Missouri; Purchase, New York; and Charlotte, North Carolina.

Other principal offices owned by AEGON are located in Budapest, Hungary and Madrid, Spain. AEGON leases its headquarters and principal offices in the Netherlands, the United Kingdom and Canada under long-term leases. AEGON believes that its properties are adequate to meet its current needs.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.1 Introduction

AEGON is committed to providing information on key factors that drive its business and affect its financial condition, results and value. Our disclosure practices have been developed over many years with due consideration of the needs and requirements of our stakeholders, including regulators, investors and research analysts. We have substantive supplemental information in our annual and quarterly accounts to provide transparency of our financial results. We have provided insight into our critical accounting policies and the methodologies we apply to manage our risks. For a discussion of critical accounting policies see Application of Critical Accounting Policies IFRS Accounting Policies and Application of Critical Accounting Policies US GAAP . For a discussion of our risk management methodologies see Item 11, Quantitative and Qualitative Disclosure About Market Risk .

5.2 Application of Critical Accounting Policies IFRS Accounting Policies

The Operating and Financial Review and Prospects are based upon AEGON s consolidated financial statements, which have been prepared in accordance with IFRS. Application of the accounting policies in the preparation of the financial statements requires management to employ their judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from these estimates. Senior management reviews these judgments frequently and an understanding of these judgments may enhance the reader s understanding of AEGON s financial statements in Item 18 of this Annual Report. We have summarized in the following sections the IFRS accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment.

i Valuation of assets and liabilities arising from life insurance contracts

General

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management s current estimates of future cash flows. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognized in the income statement. In the event that the failure relates to unrealized gains and losses on available for sale investments, the additional liability is recognized in the revaluation reserve in equity.

Some insurance contracts without a guaranteed or fixed account term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets respectively and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may even require write-offs due to unrecoverability.

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Actuarial assumptions

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are either prescribed by the local regulator or based on management s future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States, Canada and some of the smaller country units, is the annual long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions as to the long-term growth rate are made after considering the effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Credible own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

Reserve for guaranteed minimum benefits

In the United States, a guaranteed minimum withdrawal benefit is offered directly on some variable annuity products AEGON issues and is also assumed from a ceding company. This benefit guarantees a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable insurance contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature provides for minimum payments if the contractholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value. These benefits subject the company to equity market risk, since poor market performance will cause the guaranteed benefits to exceed the policyholder account value and thus become in the money.

In Canada, variable products sold are known as Segregated Funds . Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits). The initial guarantee period is ten years. The ten-year period may be reset at the contractholder s option for certain products to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased at management s discretion.

Separate account group contracts of AEGON The Netherlands are large group contracts that have an individually determined asset investment underlying the pension contract. The guarantee given is that the profit sharing is the minimum of 0% or the realized return (on an amortized cost basis), both adjusted for the technical interest of either 3% or 4%. If there is a negative profit sharing, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed.

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For AEGON The Netherlands, within individual unit-linked policies, the sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (of 3% or 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

The following table provides information on the liabilities for guarantees for minimum benefits:

	2006				2005			
In million EUR	United States[1]	Canada[1]	The Netherlands [2]	Total	United States[1]	Canada[1]	The Netherlands [2]	Total
At January 1	(14)	586	378	950	(3)	441	229	667
Incurred guarantee benefits	(17)	(37)	(103)	(157)	(10)	53	149	192
Paid guarantee benefits								
Net exchange differences	3	(57)		(54)	(1)	92		91
At December 31	(28)	492	275	739	(14)	586	378	950

	2006				2005			
	United States[1]	Canada[1]	The Netherlands[2]	Total	United States[1]	Canada[1]	The Netherlands[2]	Total
Account value	2,393	3,446	6,171	12,010	1,465	3,651	5,510	10,626
Net amount at risk	1	602	45	648	1	831	18	850

1 Guaranteed minimum accumulation and withdrawal benefits

2 Fund plan and unit-linked guarantees

In addition AEGON reinsures the elective guaranteed minimum withdrawal benefit rider issued with a ceding company s variable annuity contracts. The rider is essentially a return of premium guarantee, which is payable over a period of at least fourteen years from the date that the policyholder elects to start withdrawals. At contract inception, the guaranteed remaining balance is equal to the premium payment. The periodic withdrawal is paid by the ceding company until the account value is insufficient to cover additional withdrawals. Once the account value is exhausted, AEGON pays the periodic withdrawals until the guaranteed remaining balance is exhausted. At December 31, 2006, the reinsured account value was EUR 8.4 billion (2005: EUR 9.9 billion) and the guaranteed remaining balance was EUR 5.5 billion (2005: EUR 7.3 billion).

The reinsurance contract is accounted for as a derivative and is carried in AEGON s balance sheet at fair value. At December 31, 2006, the contract had a value of EUR 15 million (2005: EUR 14 million). AEGON entered into a derivative program to mitigate the overall exposure to equity market and interest rate risks associated with the reinsurance contract. This program involves selling S&P 500 futures contracts to mitigate the effect of equity market movement on the reinsurance contract and the purchase of over-the-counter interest rate swaps to mitigate the effect of movements in interest rates on the reinsurance contracts.

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The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts:

In million EUR	2006 GMDB[1]	2006 GMIB[2]	2006 GMAB[3]	2006 Total	2005 GMDB[1]	2005 GMIB[2]	2005 GMAB[3]	2005 Total
At January 1	126	121	109	356	100	59	96	255
Incurred guarantee benefits	34	23	(57)		36	50	13	99
Paid guarantee benefits	(30)	(7)		(37)	(26)			(26)
Net exchange differences	(13)	(14)		(27)	16	12		28
At December 31	117	123	52	292	126	121	109	356

	2006 GMDB[1]	2006 GMIB[2]	2006 GMAB[3]	2006 Total[4]	2005 GMDB[1]	2005 GMIB[2]	2005 GMAB[3]	2005 Total[4]
Account value	23,814	8,562	7,489	39,865	24,991	9,122	6,164	40,277
Net amount at risk	1,614	296	40	1,950	2,357	380	84	2,821
Average attained age of contractholders	65	64			64	63		

1 Guaranteed minimum death benefit in the United States.

2 Guaranteed minimum income benefit in the United States.

3 Guaranteed minimum accumulation benefit in the Netherlands.

4 Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.

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

At December 31, 2006, the reversion to the mean assumptions for variable products, primarily variable annuities, were as follows in the United States: gross long-term equity growth rate of 9% (2005: 9%); gross short-term growth rate of 4.75% (2005: 6 %); gross short- and long-term fixed security growth rate of 6% (2005: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2005: 3.5%). For Canada these assumptions, at December 31, 2006, were as follows: gross long-term equity growth rate of 9% (2005: 9%); and gross short-term growth rate of 9% (2005: 9.75%). For both countries the reversion period for the short-term rate is five years. For Hungary and the eastern European countries, the assumption for the gross long-term growth rate on external investment funds was 5.27% (2005: 5.27%).

The movements in DPAC over 2006 compared to 2005 can be summarized and compared as follows:

In million EUR	2006	2005
At January 1	10,789	8,499
Costs deferred/rebates granted during the year	1,891	1,919
Amortization through income statement	(1,243)	(936)
Shadow accounting adjustments	157	413
Disposals		(44)
Net exchange differences	(697)	930
Other	41	8
At December 31	10,938	10,789

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The movement in VOBA over 2006 can be summarized and compared to 2005 as follows:

In million EUR	2006	2005
At January 1	4,396	3,951
Additions	11	4
Acquisitions through business combinations	114	88
Disposals	(29)	
Amortization / depreciation through income statement	(246)	(308)
Shadow accounting adjustments	20	187
Impairment losses		(1)
Net exchange differences	(307)	487
Other		(11)
At December 31	3,959	4,396

VOBA, DPAC per line of business

DPAC per line of business

In million EUR	2006	2005
Traditional life	3,703	3,699
Life for account of policyholders	4,488	4,257
Fixed annuities	400	443
Variable annuities	852	970
Reinsurance	767	685
Accident and health insurance	726	734
General insurance	2	1
At December 31	10,938	10,789

VOBA per line of business

In million EUR	2006	2005
Traditional life	1,659	1,961
Life for account of policyholders	1,101	1,121
Fixed annuities	91	140
Variable annuities	96	115
Institutional guaranteed products	8	23
Fee off balance sheet products	122	4
Reinsurance	710	814
Accident and health insurance	172	218
At December 31	3,959	4,396

ii Fair value of investment contracts

Investment contracts issued by AEGON are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments.

iii Fair value of investments and derivatives determined using valuation techniques

Financial instruments

In the absence of an active market, the fair value of non-quoted investments in financial assets is estimated by using present value or other valuation techniques. For example, the fair value of non-quoted fixed interest debt instruments is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics. For mortgage and other loans originated by the Group interest rates currently being offered for similar loans to borrowers with similar credit ratings are applied. The fair value of floating interest rate debt instruments and assets maturing within a year is assumed to be approximated by their carrying amount.

Financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. The values for OTC derivatives are verified using observed market information, other trades in the market and dealer prices, along with management judgment.

Derivatives embedded in insurance and investment contracts

Certain bifurcated embedded derivatives in insurance and investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) forward curve or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data or observed market performance. Correlations of market returns across underlying indices are based on actual observed market returns and relationships over a number of years preceding the valuation date. The current risk-free spot rate is used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

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iv Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group s assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Group or changes in other facts and circumstances will lead the Group to change its investment decision. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment charge recorded.

Debt instruments

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Factors considered include industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, nationally recognized credit rating declines and a breach of contract.

The amortized cost and fair value of bonds, money market investments and other are as follows as of December 31, 2006 included in our available-for-sale (AFS) and held to maturity portfolios:

In million EUR	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
United States government	3,192	86	(37)	3,241	1,415	1,826
Dutch government	2,301	52	(27)	2,326	1,100	1,226
Other government	11,736	601	(67)	12,270	8,298	3,972
Mortgage backed	10,519	79	(73)	10,525	6,127	4,398
Asset backed	9,993	57	(72)	9,978	5,863	4,115
Corporate	53,852	1,644	(644)	54,852	30,143	24,709
Money market investments	4,387	0	0	4,387	4,387	0
Other	844	88	(24)	908	660	248
Total	96,824	2,607	(944)	98,487	57,993	40,494
Of which held by AEGON USA and NL	86,429	1,963	(837)	87,555	51,437	36,118

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Unrealized Bond Losses by Sector

The composition by industry categories of bonds and money market investments that are included in our available-for-sale and held to maturity portfolios in an unrealized loss position held by AEGON at December 31, 2006 is presented in the table below.

Unrealized losses bonds and money market investments

In million EUR	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005
Asset Backed Securities (ABSs) Aircraft	63	(7)	113	(25)
ABSs CBOs	103	(3)	242	(23)
ABSs Housing related	1,499	(29)	1,658	(32)
ABSs Credit cards	705	(7)	1,229	(19)
ABSs Other	1,758	(27)	1,545	(31)
Collateralized mortgage backed securities	4,407	(73)	5,914	(105)
Financial	9,485	(186)	7,463	(159)
Industrial	12,259	(371)	11,211	(354)
Utility	2,948	(87)	2,495	(57)
Sovereign exposure	7,019	(130)	3,021	(52)
Total	40,246	(920)	34,891	(857)
Of which held by AEGON USA and NL	35,873	(813)	32,749	(821)

AEGON regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) nationally recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. Under IFRS, a security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled.

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The composition by industry categories of bonds and money market investments unrealized loss position held by AEGON USA and AEGON The Netherlands at December 31, 2006 is presented in the table below. The following unrealized loss consists of 1,680 issuers.

Unrealized losses bonds and money market investments (in EUR)

In million EUR	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005
Asset Backed Securities (ABSs) Aircraft	63	(7)	113	(25)
ABSs CBOs	103	(3)	240	(23)
ABSs Housing related	1,493	(29)	1,644	(32)
ABSs Credit cards	670	(7)	1,205	(19)
ABSs Other	1,691	(25)	1,535	(31)
Collateralized mortgage backed securities	4,363	(72)	5,850	(103)
Financial	7,226	(134)	6,651	(145)
Industrial	11,258	(335)	10,711	(341)
Utility	2,615	(80)	2,384	(55)
Sovereign exposure	6,391	(121)	2,416	(47)
Total	35,873	(813)	32,749	(821)

The information presented above is subject to rapidly changing conditions. As such, AEGON expects that the level of securities with overall unrealized losses will fluctuate. The recent volatility of financial market conditions has resulted in increased recognition of both investment gains and losses, as portfolio risks are adjusted through sales and purchases.

As of December 31, 2006, there are EUR 1,875 billion of gross unrealized gains and EUR 813 million of gross unrealized losses in the AFS Bonds portfolio of AEGON USA and AEGON The Netherlands. No one issuer represents more than 4% of the total unrealized position.

When AEGON has made the decision to sell a security in a loss position as of the balance sheet date, an impairment loss has been recognized to write the book value of the security down to fair value. AEGON generally has the intent and ability to hold all other securities in unrealized loss positions to full recovery or maturity. If a particular asset does not fit the company s long-term investment strategy and is in an unrealized loss position due solely to interest rate changes, the security has been impaired to fair value under US GAAP only. Because the company has not made a decision to sell the security, there are no fundamental credit issues, and AEGON has not suffered any economic loss, these securities are not impaired under IFRS.

Asset Backed Securities

ABS Housing and ABS - Other

ABS-housing includes debt issued by securitization trusts collateralized by pools of loans to borrowers who are generally considered sub-prime and are secured by first and second mortgage loans on 1-4 family homes and manufactured housing. ABS-other includes debt issued by securitization trusts collateralized by various other assets including auto loans, student loans, and other asset categories. The aggregate unrealized loss is less than 2% of the market value of these two sectors. 82% of unrealized losses relate to AAA rated securities and 88% of unrealized losses relate to securities rated A or higher. The unrealized losses are more a reflection of interest rate movements than credit related concerns. Where credit events may be impacting the unrealized losses, cash flows are modeled using assumptions for defaults and recoveries as well as including actual experience to date. When models do not indicate full recovery of principal and interest, the securities are impaired to fair value. When these models indicate full recovery of principal and interest, no impairment is taken. AEGON does not consider securities in an unrealized loss as of December 31, 2006, to be impaired.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Collateralized Mortgage-Backed Securities

The unrealized loss on collateralized mortgage-backed securities is EUR 74 million, of which EUR 52 million relates to commercial mortgage-backed securities (CMBS). The fundamentals of the CMBS market are, on average, strong. Aggressive underwriting at the loan level and an unprecedented amount of capital chasing commercial real estate continue to be the themes. Capitalization rates have compressed to historically low levels following the decline in interest rates as well as a compression in risk spread. A spike in interest-only loans coupled with a decrease in the amount of reserves collected highlight the current aggressive state of loan underwriting. The introduction of the 20% and 30% subordinated super senior AAA classes provides an offset to these negative fundamentals. Of the CMBS unrealized loss, 22% is attributed to the Lehman Brothers and UBS origination platform (LBUBS) deal shelf which is collateralized by diversified mortgages. We believe that these deals are well underwritten and have performed relatively better than other comparable CMBS deals. The unrealized loss overall (and specific to LBUBS) is not credit driven but rather a reflection of the move in interest rates relative to where these deals were originally priced. For those securities in an unrealized loss position, the market to book ratio is 98%. As the unrealized losses on AEGON s collateralized mortgage-backed securities are attributable to interest rate increases and not fundamental credit problems with the issuer or collateral, the unrealized losses are not considered by AEGON to be impaired as of December 31, 2006.

There are no other individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Financial

Banking

The fundamentals of the banking sector continue to be solid. It is a high credit quality sector and represents a large portion of the corporate debt market. As a result, the absolute exposure to the banking sector in AEGON s portfolio is also large and of high quality. Because of the sector s size, the absolute dollar amount of unrealized losses is large, but the overall market value as a percent of book value on public and private securities in an unrealized loss position is high at 98%. Unrealized losses in the banking sector are not a result of fundamental problems with individual issuers. Banking accounts for the majority of losses in the financial sector. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

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Insurance

The fundamentals of the insurance sector continue to be solid. It is a high credit quality sector and represents a modest portion of the corporate debt market. The overall market to book ratio on all securities in an unrealized loss position is 98%. Unrealized losses in this sector are not a result of fundamental problems with individual issuers; rather it is more a reflection of interest rate movements, general market volatility and duration. AEGON has evaluated the near-term prospects of issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Industrial

Basic Industries and Capital Goods

The basic and capital goods industries encompass various sub-sectors ranging from aerospace/ defense to packaging. The most significant of these are addressed individually. Packaging accounts for 6% of the basic and capital goods industries. The packaging sector s performance is dependent on the underlying credits, raw material structure and pricing power. Due to the fact that resin prices fluctuate with the price of oil, plastic packaging credits that have resins as their major raw material have struggled. Significant increases in aluminum have caused metal packaging credits that use aluminum to make cans to struggle. As the cost of the raw materials has dramatically risen, the companies have been trying to offset these costs with price increases and variable contracts. In the short term, this lag between increasing raw material costs and increased pricing has hurt margins and profitability, however new variable pricing contracts have shortened the lag. Additionally, high input costs such as oil, energy, and transportation have also hurt the results. With a market to book ratio on securities in an unrealized loss position of 98%, AEGON is well positioned in the packaging sector.

The environmental sector, which accounts for 4% of the sector, has been hurt by high energy and transportation costs. The sector is very sensitive to energy costs, as the majority of the business centers around the collection of waste by fleets of trucks. Price initiatives have been instituted and pricing is catching up to the higher energy costs.

Building products make up 16% of the basic and capital goods industries. The building products sector is highly correlated to the housing market. Fundamentals have dramatically weakened in the homebuilding sector and the building product sector has come under technical pressure as order activity has slowed and cancellation rates have increased. The construction machinery industry, which is 6% of the total, has experienced improving demand due mainly to continued economic expansion. Higher input costs have generally been more than offset by improved pricing and productivity initiatives. Companies within the diversified manufacturing industry have exposure to a wide variety of end-markets. Profitability in this industry tends to track overall industrial production trends which continued to show growth throughout 2006. The unrealized losses in the aerospace/defense sub-sector are primarily interest rate related and there are limited fundamental credit issues in the sector. The aerospace/defense sub-sector accounts for 11% of the total sector.

While the performance of some of the individual credits and sub sectors was somewhat below expectations, overall, valuations remain largely stable. The overall market to book ratio on securities in an unrealized loss position is 97%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Consumer Cyclical

The consumer cyclical sector covers a range of sub-sectors including autos, home construction, lodging, media, and retailers. These sectors include some of the largest credit issuers in the market. As a result, AEGON s absolute exposure is large, but the overall market to book ratio is 97% on all securities in an unrealized loss position.

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The automotive sub sector accounts for approximately 20% of the unrealized loss position. The underlying fundamentals driving sales and earnings performance continue to be pressured as a result of declining Big 3 market share. The lost market share and high raw material costs have negatively impacted suppliers. The Big 3 have made progress with their respective restructuring plans to modestly improve credit profiles, but the pressure to further improve costs and stabilize market share remains. As of December 31, 2006, AEGON USA held EUR 26 million B-rated shares of General Motors, which carried unrealized losses of EUR 1 million. AEGON USA held EUR 36 million B-rated and EUR 15 million CCC+-rated shares of Ford Motor Company, which carried no unrealized losses. For autos, the overall market to book ratio is 97% on all securities in an unrealized loss position.

With respect to the other groups, fundamentals have held up relatively well, but a slowing economy and moderating consumer sentiment is likely to weaken results in the upcoming year. Homebuilders, retailers, and gaming companies have showed signs of stress as higher interest rates, oil/gas prices, and utility costs are taking their toll on discretionary spending. Lodging continues to perform well as results are tied more closely to business spending than consumer tourism spending. Many of the consumer sectors have been the target of leveraged buyouts and merger and acquisition activity, which could lead to credit deterioration. Higher interest rates than a few years ago have clearly been one of the primary drivers of those securities with unrealized losses in this sector the homebuilding sector likely the most affected. Fundamentals in the homebuilding sector have weakened due to higher interest rates and oversupply which have led to a decrease in order activity and high cancellation rates. The key question will be when the supply imbalance moderates. In the home building sector as of December 31, 2006, AEGON held EUR 15 million of debt rated less than BBB- and EUR 222 million of debt rated investment grade, which carried unrealized losses of EUR 1 million and EUR 2 million, respectively. In the retail sector, investors have been negatively impacted by increased mergers and acquisitions and leveraged buyout activity.

The overall market to book ratio is 97% on all securities in an unrealized loss position. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit-related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Consumer Non-Cyclical

The consumer non-cyclical companies continue to maintain fairly stable credit profiles. Consumer products, food and beverage fundamentals have modestly weakened due to higher input costs and somewhat stagnant pricing. Additionally, shareholder friendly actions and related restructuring have been done at the expense of bondholders. For private placements (which represent 49% of the gross unrealized loss position), the vast majority contain covenants that protect the bondholder from these shareholder friendly actions. Supermarkets have improved same store sales, but operating margins continue to be pressured by a very competitive food retail environment. Pharmaceuticals have had some modest sales and operating margin deterioration due to a number of branded products coming off of patent. In addition, many of the consumer sectors have been the target of leveraged buyouts and merger and acquisition activity, which could lead to significant credit deterioration.

Overall, the sector represents a large portion of the corporate debt market. As a result, AEGON s absolute exposure is large and the absolute dollar amount of unrealized losses is also large, but the overall market to book ratio is 98% on all public securities in an unrealized loss position, and 96% on all private securities in an unrealized loss position. The vast majority of the unrealized losses in the consumer non-cyclical sector are not the result of fundamental problems with individual issuers, but is primarily due to increases in interest rates; therefore, AEGON does not consider those unrealized losses to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Transportation

The transportation segment has seen weakness due to rising fuel costs. The airlines are a material portion of the sector, and their results, although positive, have a negative correlation with fuel costs. Fuel costs have receded from their peak levels which is a positive for the airlines. In the short-term, the airlines have historically had a difficult time increasing fares to compensate for higher fuel costs. In the longer-term, however, the companies should be able to increase their pricing in order to reflect the cost environment given the consumer demand. Over 67% of the unrealized losses are from the railway sector. However, these unrealized losses as well as the other unrealized losses in this sector are not a result of fundamental problems with individual issuers; rather it is more a reflection of interest rate movements, general market volatility and duration. The overall market to book ratio on all securities in an unrealized loss position is 97%. AEGON has evaluated the near-term prospects of issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Communications

Continuing on the trend started in 2005, many companies in the communications sector continue to focus on increasing shareholder returns. This has escalated event risk within the sector and caused many companies to increase financial leverage. Consolidation within the telecom industry has continued into 2006, with the most notable being AT&T Inc. s acquisition of BellSouth. Fundamentals also remain challenging, with wire line telecom companies experiencing accelerating line losses due to competition from wireless providers, as well as cable and other voice over internet protocol (VOIP) providers. Media companies are suffering from a tepid advertising environment, with advertising dollars shifting to new forms of media. This has led to lower returns on equity, historically low equity multiples, and poor stock performance. In some cases activist shareholders and private equity firms have forced management to respond by increasing financial leverage, consolidation, or asset divestitures. The net effect is a weaker credit profile for many companies.

The overall market to book ratio on all securities in an unrealized loss position is 97%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit related concerns. Based on the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss, AEGON does not consider the remaining book values to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Utility

Electric and Energy

In the aftermath of 2002 s melt-down, the theme for electric utilities, and energy companies as a whole turned to a focus on the basics of good business. Companies focused on optimizing their regulated operations and minimizing the volatility in other areas of their businesses. The industry also focused on strengthening their balance sheets through debt-reduction and maximizing cash flows. During 2006 fundamentals continued to improve, and are generally expected to remain stable through 2007. Looking forward, the most concerning issues on the horizon appear to be continued merger and acquisition activity, growing capital expenditures programs, and an increasingly uncertain regulatory environment driven by rising energy prices. The overall market to book on all securities in an unrealized loss position is 97%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

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Natural Gas

Pipeline companies have strengthened their credit fundamentals via asset sales, strong cash flows, and renewed strength in select non-regulated business segments. Specifically, those companies with natural gas production units and/or gas processing have enjoyed very strong margins. At the same time, those companies with legacy energy trading books continue to be burdened by these now largely discontinued operations. With respect to capital deployment, pipeline companies are increasingly emphasizing organic growth projects over acquisitions. This has been driven by the higher cost of doing acquisitions in this consolidating sector, as well as the need to develop infrastructure as natural resources are extracted from new regions and basins. The maintenance and replacement of existing energy infrastructure has also been an area of increased investment by pipeline and distribution companies. Acquisition activity that is taking place is focused more on asset sales/purchases, as some industry participants are sharpening their business focus by moving away from the energy/utility conglomerate business model, or focusing their activities on regulated or non-regulated activities, respectively. One area of ongoing and increasing concern is the prospect for leveraged buy-outs within the sector. The overall market to book ratio on all securities in an unrealized loss position is 97%. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2006.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Sovereigns

Sovereigns include government issued securities including Dutch government bonds, US Treasury, agency and state bonds; substantially all of the unrealized losses relate to A or higher rated securities. Only one issuer in this sector has unrealized losses greater than EUR 15 million. AEGON owns EUR 1.8 billion of US Treasuries, of which all are AAA rated securities with unrealized losses of EUR 21 million. Over EUR 12 million of the unrealized losses in this sector relate to Small Business Administration (SBA) debt. When SBA holdings in the sovereign sector are combined with SBA holdings in the ABS - other sector, AEGON holds EUR 0.9 billion AAA rated shares of the issuer s securities with unrealized losses of EUR 15 million. The overall market to book ratio is 98% on all SBA debt in an unrealized loss position. As the unrealized losses on AEGON s sovereign holdings are attributable to interest rate increases, the unrealized losses are not considered by AEGON to be impaired at December 31, 2006.

There are no other individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Unrealized Loss by Maturity

The table below shows the composition by maturity of all Bonds in an unrealized loss position held by AEGON USA and AEGON The Netherlands at December 31, 2006.

Maturity Level

In million EUR	Carrying value of securities with gross unrealized losses	Gross unrealized losses
One year or less	2,059	(15)
Over 1 thru 5 years	11,269	(172)
Over 5 thru 10 years	11,927	(308)
Over 10 years	10,618	(318)
Total	35,873	(813)

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Unrealized Loss by Credit Quality

The table below shows the composition by credit quality of Bonds in an unrealized loss position held by AEGON USA and AEGON The Netherlands at December 31, 2006.

In million EUR	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Treasury Agency	6,057	(111)
AAA	7,630	(124)
AA	2,571	(50)
A	8,957	(213)
BBB	9,005	(239)
BB	878	(34)
B	619	(30)
Below B	156	(12)
Total	35,873	(813)

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

In million EUR	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 -12 months	17,805	821	(251)	(29)
> 12 months	16,414	833	(486)	(47)
Total	34,219	1,654	(737)	(76)

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Realized gains and losses on Bonds of AEGON USA and AEGON The Netherlands for the twelve months ended December 31, 2006:

In million EUR	Gross Realized Gains	Gross Realized Losses
Bonds	493	(518)

Gross realized gains include EUR 103 million of bond recoveries and gross realized losses include EUR 80 million of bond impairments.

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired at December 31, 2006.

In million EUR

Time period	0-12 months	>12 months	Total
Bonds	(356)	(82)	(438)

There are no securities which represented more than 5% of the EUR (438) million of realized losses on sales of fixed maturity securities, except for EUR 81 million losses on US Government Securities.

Impairment losses and recoveries

The composition of AEGON s bond impairments losses and recoveries by issuer, according to IFRS, for the twelve months ended December 31, 2006 is presented in the table below. Those issuers above EUR 12 million are specifically noted.

In million EUR	(Impairment)/Recovery
Issuer Name	
Impairments:	
Lease Investments Flight Trust	(23)
Other Impairments (28 unique issuers)	(57)
Sub-total	(80)
Recoveries:	
Class Action Law Suit	21
United Air Lines	13
Other Recoveries (44 unique issuers)	69
Sub-total	103
Net (Impairments) and Recoveries	23

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In 2006, AEGON recognized EUR 103 million in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

In 2006, a EUR 23 million loss was realized on Lease Investments Flight Trust. The debt represents a beneficial interest in a portfolio of pooled aircraft leases. Larger than expected aircraft maintenance expenses have reduced revenue generation for the Trust. AEGON runs models based on best estimates of future cash flows. Due to an intent to sell this security, AEGON realized an impairment loss in the second quarter of 2006. The security was not sold in 2006 and additional write-downs have been taken to carry it at fair value.

In the fourth quarter of 2006, AEGON received EUR 21 million from a litigation settlement related to a previous debt holding. The settlement was recorded as an impairment recovery.

In 2006, AEGON also recorded a EUR 13 million recovery on United Airlines based on distributions collected and expected future distributions.

Equity instruments classified as available for sale

Objective evidence of impairment of an investment in an equity instrument classified as available for sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

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

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

These factors typically require significant management judgment. For equity securities considered to have an other-than-temporary impairment during 2006, a realized loss was recognized. The impairment review process has resulted in EUR 36 million (2005: EUR 20 million; 2004: EUR 30 million) of impairment charges for AEGON year ended December 31, 2006.

As of December 31, 2006, there are EUR 973 million of gross unrealized gains and EUR 27 million of gross unrealized losses in the equity portfolio of AEGON. There are no securities held by AEGON The Netherlands and AEGON USA with an unrealized loss of more than EUR 5 million. The table below represents the unrealized gain and loss on share positions held by AEGON The Netherlands and AEGON USA.

In million EUR	Cost basis	Carrying value	Net unrealized gains/ (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Shares	3,934	4,873	939	4,449	966	424	(27)

The composition of shares by industry sector in an unrealized loss position held by AEGON The Netherlands and AEGON USA at December 31, 2006 is presented in the table below.

Unrealized losses shares

In million EUR	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005
Communication	9	(1)	2	(1)
Consumer cyclical	9	(1)	40	(3)
Consumer non-cyclical	25	(2)	31	(5)
Financials	218	(9)	76	(4)
Funds	14	(1)	26	(1)
Industries	36	(3)	35	(5)
Resources	7	(1)	1	(1)
Services cyclical	19	(1)	19	(2)
Services non-cyclical	10	(1)	36	(2)
Technology	42	(4)	32	(4)
Transport	5			
Other	30	(3)	91	(7)
	424	(27)	389	(35)

The table below provides the unrealized loss on shares at December 31, 2006 broken down by the period of time they have been below cost.

Time Period

In million EUR	0 - 12 months	> 12 months	Total
Shares	(22)	(5)	(27)

Impairment losses on Shares

The table below provides the length of time the shares held by AEGON The Netherlands and AEGON USA were below cost prior to the impairment in 2006.

Time Period

In million EUR	0 - 12 months	> 12 months	Total
Shares	(21)	(13)	(34)

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v Valuation of defined benefit plans

The liabilities or assets recognized in the balance sheet in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, the expected return on plan assets, estimated future salary increases and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

Refer to Note 18.25 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for more details on assumptions.

vi Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carryforwards of unused tax losses and carryforwards of unused tax credits when in the judgment of management it is more likely than not that AEGON will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews AEGON s deferred tax positions periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the tax income and expense items, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

vii Valuation of share appreciation rights and share options

Because of the inability to measure the fair value of employee services directly, fair value is measured by reference to the fair value of the rights and options granted. This value is estimated using the binomial option pricing model, taking into account the respective vesting and exercise periods of the share appreciation rights and share options.

The volatility is derived from quotations from external market sources and the expected dividend yield reflects AEGON s current dividend yield. Future blackout periods are taken into account in the model in conformity with current blackout periods. The expected term is explicitly incorporated in the model by assuming that early exercise occurs when the share price is greater than or equal to a certain multiple of the exercise price. This multiple has been set at two based on empirical evidence. The risk free rate is the interest rate for Dutch government bonds.

viii Recognition of provisions

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

ix Non-consolidated group companies

All Group Companies are consolidated.

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5.3 Application of Critical Accounting Policies US GAAP

Reserve for Guaranteed Minimum Benefits and Amortization of Deferred Policy Acquisition Cost, including Value of Business Acquired

The application of these accounting policies is discussed in Application of Critical Accounting Policies International Financial Reporting Standards . The primary difference in applying these accounting principles for US GAAP accounting purposes is that for the flexible premium insurance products and investment contracts in The Netherlands and the United Kingdom, an annual unlocking as described for the Americas is performed and the reserves in the United Kingdom are adjusted to equal the contract holder balance.

Impairment of debt securities

The same monitoring practices and evaluation process as described in AEGON The Netherlands Application of Critical Accounting Principles - IFRS is followed. The practices described are those followed by AEGON USA, 89% of the unrealized loss exposure is in the U.S. and NL portfolio.

If it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary-impairment (OTTI) shall be considered to have occurred. If the decline in fair value is judged to be OTTI, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). Fair value is first based on quoted market prices in an active or less active market. If this approach is not applicable, the fair value is modeled by evaluating such factors as liquidity, capital structure issues, cash flow generating capability and conservative expectations as to future results. The fair value also incorporates independent third party valuation analysis.

Write offs on impaired debt instruments can be partially or fully reversed under IFRS if the value of the impaired assets increases. Such reversals are not allowed under US GAAP.

Pension expense

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

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), which requires an employer to recognize the funded status of a benefit plan as an asset or liability in its statement of financial position, measured as the difference between plan assets at fair value and the benefit obligation, and to recognize as a component of accumulated other comprehensive income, net of tax, actuarial gains or losses and prior service costs or credits that arise during the period, but which are not recognized as components of net periodic benefit cost pursuant to SFAS 87, or SFAS 106, Employers Accounting for Postretirement Benefits Other Than Pensions. The standard also requires that plan assets and benefit obligations be measured as of the annual balance sheet date. SFAS 158 was effective for fiscal years ending after December 15, 2006, with certain exceptions not applicable to AEGON; therefore, the provisions of SFAS 158 were adopted effective December 31, 2006. The adoption of SFAS 158 did not affect AEGON s results of operations or liquidity as SFAS 158 does not affect the determination of net periodic pension costs. The effect on shareholders equity of adopting SFAS amounted to EUR 855 million and has been presented on a separate line in the reconciliation.

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Goodwill

Pursuant to SFAS 142, Goodwill and Other Intangible Assets (SFAS 142), goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. Impairment testing requires the determination of the fair value for each of our identified reporting units. The reporting units identified for AEGON based upon the SFAS 142 rules include: AEGON USA, AEGON Canada, AEGON The Netherlands, AEGON UK insurance companies and AEGON UK distribution companies, other countries and Transamerica Finance Corporation.

The fair value of the insurance operations is determined using valuation techniques consistent with market appraisals for insurance companies, a discounted cash flow model requiring assumptions as to a discount rate, the value of existing business and expectations with respect to future growth rates and term. For our non-insurance operations, fair value was determined using a discounted cash flow analysis. 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.

The fair value of the insurance operations in the Americas was determined using discounted cash flow valuations 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 and 15 years of projected annual new business production increases of 2%. A sensitivity analysis was performed using increases in the discount rate of 1% and 2%. There was no goodwill impairment with 1% increase in the discount rate, and approximately USD 375 million of impairment write-off when the risk discount rate was increased by 2%.

Certain effects of US GAAP

Net income of EUR 2,046 million was reported in 2006 based on US GAAP, compared to a net income of EUR 2,084 million and EUR 1,430 million respectively over the same period in 2005 and 2004. The US GAAP net income reflects the same financial statement impacts that are described in Item 5.4 and Item 5.5.

See Note 18.55 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for a discussion of the main differences for net income and shareholders equity under IFRS and US GAAP.

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5.4 Results of Operations 2006 compared to 2005

	2006 in million EUR	2005 in million EUR	%
By product segment			
Traditional life	790	823	(4)
Life for account of policyholders	614	243	153
Fixed annuities	433	425	2
Variable annuities	261	130	101
Institutional guaranteed products	275	280	(2)
Fee - off balance sheet products	75	33	127
Reinsurance	163	105	55
Accident and health insurance	369	324	14
General insurance	55	55	0
Banking activities	35	15	133
Other	0	(6)	
Interest charges and other	(242)	(280)	(14)
Operating earnings before tax	**2,828**	**2,147**	**32**
Gains/(losses) on investments[1]	469	1,157	(59)
Impairment charges[1]	(25)	14	
Other non-operating income/(charges)[1]	86	277	(69)
Share in profit/(loss) of associates	32	20	60
Income before tax	**3,390**	**3,615**	**(6)**
Income tax	(601)	(885)	(32)
Income after tax	**2,789**	**2,730**	**2**
Minority interest	0	2	
Net income [2]	**2,789**	**2,732**	**2**
Income before tax geographically			
Americas	2,140	2,181	(2)
The Netherlands	1,042	1,286	(19)
United Kingdom	331	272	22
Other countries	81	248	(67)
Holding and other activities	(196)	(352)	(44)
Eliminations	(8)	(20)	60
Income before tax	**3,390**	**3,615**	**(6)**

1 Together non-operating earnings before tax

2 Net income means net income attributable to equity holders of AEGON N.V.

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Revenues geographically 2006

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Holdings, other activities and eliminations	Total
Total life insurance gross premiums	7,709	3,028	9,214	1,817	0	21,768
Accident and health insurance premiums	1,981	191	0	69	0	2,241
General insurance premiums	0	434	0	127	0	561
Total gross premiums	9,690	3,653	9,214	2,013	0	24,570
Investment income	5,718	2,006	2,413	192	47	10,376
Fees and commission income	971	375	278	41	0	1,665
Other revenues	0	0	0	1	3	4
Total revenues	**16,379**	**6,034**	**11,905**	**2,247**	**50**	**36,615**
Number of employees, including agent-employees	14,236	6,404	4,639	3,274	173	28,726

This report includes a non-GAAP financial measure: operating earnings before tax. The reconciliation of this measure to the most comparable GAAP measure is shown below in accordance with Regulation G. AEGON believes the non-GAAP measure shown herein, together with the GAAP information, provides a meaningful measure for the investing public to evaluate AEGON s business relative to the businesses of our peers.

In million EUR	2006	2005
Operating earnings before tax	**2,828**	**2,147**
Gains on investments	964	1,269
Other income	12	176
Losses on investments	(495)	(112)
Impairment charges	(25)	14
Other charges	(1)	(3)
Policyholder tax	75	104
Share in profit/(loss) of associates	32	20
Income before tax	**3,390**	**3,615**

This review of operations should be read in conjunction with the financial statements and related notes included in Item 18.

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Overview

During the past year, we made significant progress in line with AEGON s strategy to increase profitability, enhance distribution and expand geographically into regions that offer long term growth potential for our core products and services.

The 32% increase in operating earnings reflects growth across most lines of business especially in the Americas and the UK. The 2% increase in AEGON s net income for the year reflects higher operating earnings, as well as lower gains on our investment portfolio and lower book gains

In 2006, new life sales[1] increased 20% for the full year, reflecting record sales in AEGON UK which increased 54%, as well as a rebound in retail life sales in AEGON US and improved life sales in AEGON The Netherlands. AEGON Spain s new life sales more than doubled to EUR 52 million as a result of our recent partnerships with major savings banks. AEGON Central and Eastern Europe s new life sales were particularly strong in Poland during the year, with record sales in the fourth quarter of 2006. Our Taiwanese business made the transition to a more balanced product portfolio during 2006. Nearly half of the new business came from higher margin unit-linked products.

The opportunity for pensions growth globally continues to be an area of primary focus for AEGON. During the year, sales of pension-related products were the main driver behind the strong sales growth in AEGON UK. Membership in AEGON s pension funds in Hungary and Slovakia grew considerably during 2006, and in AEGON The Netherlands sales of individual and group pension products showed an increase. In the US, our pension business continues to experience good growth with over USD 9.3 billion in total sales during the year, a 3% increase from 2005. Both Diversified Investment Advisors and Transamerica Retirement Services received numerous industry awards in recognition of their customer service platform. Our agreement to acquire a top-ten pension fund management company in Poland and our newly-formed pension fund management joint venture in Mexico will add additional momentum to AEGON s leading pension position internationally.

We further broadened AEGON s distribution capability through our acquisition of a leading provider of bank-owned and corporate-owned life insurance in the United States and with our acquisition of the remaining 55% of Unirobe, a company of independent financial advisors in The Netherlands. Our two new joint ventures with Spanish savings banks began writing business mid-year, expanding AEGON s position in the bank channel in Spain.

During 2006, and early this year, we have fulfilled our intention to enter a number of key growth markets. In Mexico, we acquired 49% of Seguros Argos, a life insurance company specializing in worksite marketing. In India, we established a partnership with the financial services company Religare, a subsidiary of the Ranbaxy Promoter Group, to provide life insurance and asset management products across the country. AEGON s rollout in China continued with new operations in the Shandong province. At the beginning of this year, we announced our plans to form a mandatory pension company with Banca Transilvania in Romania where pension reforms are expected to be implemented next year. We have also established a new partnership with Sony Life to form a life insurance company that will initially provide variable annuity products through its extensive Lifeplanner® agent channel and through other financial institutions throughout Japan.

Results

Operating earnings before tax in 2006 increased 32% to EUR 2,828 million (and increased 33% at constant currency exchange rates), with increases in AEGON Americas, AEGON The Netherlands and AEGON UK. Operating earnings before tax in AEGON Americas were USD 2,732 million for 2006, an increase of USD 367 million or 16% compared to 2005. The return on hedge funds, limited partnership and convertible bond assets contributed significantly to the earnings growth. In addition, the earnings improvement in AEGON Americas is due to growth in most lines of business and improved mortality experience. The increase in operating earnings in AEGON The Netherlands reflects primarily the net positive impact of changes in interest rates on guarantee provisions and related hedges. In AEGON UK, the increase in operating earnings before tax mainly reflects the positive effect of higher equity and bond markets and growth of the businesses, partly offset by the impact of higher surrenders due to Pension A-day. The decrease of operating earnings before tax in Other countries primarily reflects investments to grow AEGON s businesses in Slovakia and China. This decrease was partly offset by higher earnings in Hungary and Spain.

1 New life sales refers to standardized new premium production and is defined as new recurring premium + 1/10 of single premium.

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Net gains on investments (before tax) and impairment charges together amounted to EUR 444 million compared to a gain of EUR 1,171 million in 2005. The decline, partly offset by net gains on the sale of shares in The Netherlands, primarily reflects a negative fair value change in derivatives used for asset and liability management in The Netherlands and normal trading activity in the US in a higher interest rate environment.

Other non-operating income/(charges) and the share in the profit/(loss) of associates together amounted to EUR 118 million. The comparable figure in 2005 contained the book gain before tax on the sale of the general insurance activities in Spain of EUR 176 million.

Net income increased 2% to EUR 2,789 million (3% at constant currency exchange rates) in 2006. Higher operating earnings were offset by lower net gains on investments and lower other non-operating income. The effective tax rate decreased to 18% from 24% in 2005, mainly due to higher tax-exempt gains in The Netherlands and the impact of the reduction in 2007 of the corporate tax rate in The Netherlands from 29.6% to 25.5% ratified by the Dutch parliament in the fourth quarter of 2006 and resulting in a release of deferred tax liabilities. Net income per share of EUR 1.63 was equal to net income per share in 2005.

Commissions and expenses increased 10% to EUR 6,085 million (11% at constant currency exchange rates) reflecting a change in business mix, growth in the businesses and higher DPAC amortization.

Total revenue generating investments amounted to EUR 363 billion at December 31, 2006, compared to EUR 358 billion at December 31, 2005.

Production

In 2006, new life sales increased 20% to EUR 3,051 million, primarily due to record sales in the United Kingdom. In the UK, new life sales increased 54% for the period as a result of strong pension sales, partly attributable to Pension A-Day, and growth in the sales of bonds, annuities and individual protection products. New life sales in the Americas increased 7% in 2006. Higher bank-owned and corporate-owned life insurance (BOLI/COLI) sales, reinsurance sales, as well as growth in the middle market were partly offset by lower retail sales within the Transamerica agency channel earlier in the year. New life sales in the Netherlands increased 7% to EUR 248 million, driven by growth of individual life sales through the intermediary channel and increased activity in the group pensions business. New life sales in Other countries in 2006 decreased 30% due to lower sales in Taiwan, but were partly offset by higher sales in Spain and Poland. The increase in new life sales in Spain mainly reflects the joint ventures with Caja Badajoz and Caja Navarra that became operational mid-year 2006.

Sales of annuity and institutional guaranteed products in the Americas increased 11% to USD 21.3 billion, compared to 2005. Variable annuity deposits of USD 6.6 billion increased 6% compared to 2005. The retail segment increased 15% over last year due to increased demand for variable annuity products and increased wholesaler distribution. Fixed annuity deposits declined 2% while deposits in the pension channel increased 48%. Retail fixed annuity deposits declined 19% as sales continue to be challenged by the inverted yield curve and competition from other bank-sold products. Deposits in institutional guaranteed products increased 17%, primarily due to higher medium-term note issuance.

Off balance sheet production for the Group increased 14%, reflecting strong sales of synthetic Guaranteed Investment Contracts (GICs), strong sales in retail mutual funds in the US and the UK, and continued growth of AEGON s pension fund business in Central and Eastern Europe. The increase was partly offset by lower sales of managed assets.

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AMERICAS

Americas (includes AEGON USA and AEGON Canada)

	2006 in million USD	2005 in million USD	%	2006 in million EUR	2005 in million EUR	%
Income by product segment						
Traditional life	716	674	6	570	541	5
Life for account of policyholders	109	108	1	87	87	0
Fixed annuities	545	529	3	434	425	2
Variable annuities	327	162	102	260	130	100
Institutional guaranteed products	346	349	(1)	275	280	(2)
Fee - off balance sheet products	68	67	1	54	54	0
Reinsurance	205	131	56	163	105	55
Accident and health insurance	416	345	21	331	277	19
Operating earnings before tax	**2,732**	**2,365**	**16**	**2,174**	**1,899**	**14**
Gains/(losses) on investments	(28)	299		(22)	240	
Impairment charges	(15)	53		(12)	42	
Income before tax	**2,689**	**2,717**	**(1)**	**2,140**	**2,181**	**(2)**
Income tax	(738)	(705)	5	(587)	(566)	4
Minority interest	0	2		0	2	
Net income	**1,951**	**2,014**	**(3)**	**1,553**	**1,617**	**(4)**
Revenues						
Life general account single premiums	990	922	7	788	740	6
Life general account recurring premiums	5,833	5,568	5	4,642	4,470	4
Life policyholders account single premiums	1,698	611	178	1,351	491	175
Life policyholders account recurring premiums	1,166	1,156	1	928	928	0
Total life insurance gross premiums	9,687	8,257	17	7,709	6,629	16
Accident and health insurance	2,490	2,456	1	1,981	1,972	0
Total gross premiums	12,177	10,713	14	9,690	8,601	13
Investment income	7,185	6,705	7	5,718	5,383	6
Fee and commission income	1,220	1,085	12	971	871	11
Total revenues	**20,582**	**18,503**	**11**	**16,379**	**14,855**	**10**
Commissions and expenses	4,614	4,063	14	3,672	3,262	13
Standardized new premium production insurance						
Life single premiums	2,202	1,298	70	1,752	1,042	68
Life recurring premiums annualized	1,029	1,036	(1)	819	832	(2)
Life total recurring plus 1/10 single	**1,249**	**1,166**	**7**	**994**	**936**	**6**
Gross deposits						
Fixed annuities	2,169	2,221	(2)	1,726	1,783	(3)
Institutional guaranteed products	12,501	10,712	17	9,948	8,600	16
Variable annuities	6,612	6,260	6	5,262	5,026	5

Total production on balance sheet	**21,282**	**19,193**	**11**	**16,936**	**15,409**	**10**
Off balance sheet production						
Synthetic GICs	12,628	8,239	53	10,049	6,614	52
Mutual funds/ Collective Trusts and other managed assets	9,701	10,114	(4)	7,720	8,120	(5)
Total production off balance sheet	**22,329**	**18,353**	**22**	**17,769**	**14,734**	**21**

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Exchange rates

	Weighted average		Year-end	
Per 1 EUR	**2006**	**2005**	**2006**	**2005**
USD	1.2566	1.2456	1.3170	1.1797
CAD	1.4236	1.5094	1.5281	1.3725

Operating earnings before tax

Operating earnings before tax were USD 2,732 million for 2006, an increase of USD 367 million or 16% compared to 2005. The return on hedge funds, limited partnership and convertible bond assets contributed significantly to the earnings growth. The returns on these portfolios outperformed long term expectations in both 2006 and 2005, and strong returns were particularly noticeable in the fourth quarter of 2006. In addition, the year over year earnings improvement is due to growth in most lines of business and improved mortality experience.

Traditional life

Operating earnings before tax for traditional life increased USD 42 million, or 6%, to USD 716 million in 2006. The growth over last year is primarily attributable to improved mortality experience, continued favorable performance in the hedge fund and limited partnership portfolios, and continued growth of the inforce. The earnings from the fair value assets held at fair value through profit and loss (hedge funds and limited partnerships) contributed USD 79 million in 2006 compared to USD 58 million in 2005.

Life for account of policyholders

Operating earnings before tax from life for account of policyholders of USD 109 million increased USD 1 million compared to 2005.

Fixed annuities

Fixed annuity operating earnings before tax increased 3% to USD 545 million compared to 2005. This reflects an increase in earnings from the impact of fair value movements of certain financial assets, as well as otherwise stable spreads on lower balances. Assets carried at fair value contributed USD 148 million compared to USD 92 million in 2005. The earnings impact from the valuation of total return annuities declined to USD 14 million compared to USD 42 million in the prior year.

Product spreads on the largest segment of the fixed annuity book were 247 basis points in 2006 on a pre-tax operating basis compared to 230 basis points in 2005. Product spreads in 2006 include 40 basis points from the impact of valuation of certain financial assets carried at fair value compared to 21 basis points in 2005. On a normalized basis, the expected contribution to product spreads from the valuation of these assets is approximately 17 basis points.

Variable annuities

Variable annuity operating earnings before tax amounted to USD 327 million in 2006, an increase of USD 165 million compared to 2005. The valuation of Canadian segregated funds contributed earnings of USD 54 million in 2006 compared to USD 12 million in 2005. The remainder of the increase reflects favorable equity markets and growth in assets under management in addition to favorable deferred policy acquisition costs (DPAC) amortization compared to 2005.

Institutional guaranteed products

Operating earnings before tax of institutional guaranteed products decreased 1% to USD 346 million compared to 2005. Higher earnings on certain assets carried at fair value, which amounted to USD 164 million compared to USD 85 million in 2005, and growth due to strong sales were offset by reduced product spreads due to the continued rise of short-term interest rates early in 2006.

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Fee off balance sheet products

Operating earnings before tax from fee off balance sheet products were USD 68 million in 2006, an increase of USD 1 million over 2005. The 2005 results include a one-time release of USD 20 million from a long-term deferred compensation plan. This was more than offset by higher fees from the growth in assets under management due to strong production and favorable equity markets.

Reinsurance

Reinsurance operating earnings before tax of USD 205 million increased 56% compared to 2005. The increase in earnings primarily reflects continued growth in the inforce business due to strong sales and favorable mortality compared to 2005. In addition, earnings from the total return annuity product amounted to USD 24 million in 2006 compared to a loss of USD 7 million in 2005.

Accident and health insurance

Accident and health operating earnings before tax increased 21% to USD 416 million in 2006. The increase in earnings is primarily due to favorable claims experience compared to 2005 and continued growth of the business.

Long term return expectations for fair-valued assets in operating earnings

AEGON provides long term return expectations for certain financial assets that are managed on a total return basis with no offsetting changes to the fair value of liabilities. Long term annual earnings on these assets, as described in more detail below, are based on long-term expected returns in financial markets, but should not be used as an explicit forecast for the year as actual results can and will deviate from these expectations.

These assets include certain hedge funds, real estate limited partnerships and convertible bonds, with assets totaling approximately USD 3.8 billion as of December 31, 2006. Operating earnings for 2006 include USD 499 million (USD 598 million before DPAC offsets) related to these asset classes, including fair valuation of assets of USD 452 million and cash income of USD 47 million. Based on current holdings and asset class returns consistent with long-term historical experience, the long-term expected return on an annual basis is 8-10%, including fair valuation and cash income, before tax and DPAC offsets. The impact of the fair valuation of assets is most notable in the traditional life, fixed annuity and institutional guaranteed products lines of business.

Net income

Net income, which includes net gains/losses on investments and impairment charges, decreased 3% to USD 1,951 million. Net gains/losses on investments amounted to a loss of USD 28 million in 2006 compared to a gain of USD 299 million in 2005. The loss in 2006 is primarily due to normal trading activity in the bond portfolio during the second quarter of 2006 in a rising interest rate environment.

Net impairment charges of USD 15 million in 2006 were well below long-term expectations, but less favorable than the net impairment recoveries of USD 53 million recorded during 2005.

The effective tax rate of 27% for 2006 is slightly higher than the effective rate of 26% in 2005.

Revenues

Revenues of USD 20.6 billion increased 11% in 2006 compared to those in 2005.

Life insurance gross premiums of USD 9.7 billion increased 17%. Life general account premiums increased by 5% compared to 2005, reflecting a 7% increase in single premiums and a 5% increase in recurring premiums, primarily in the reinsurance business. Life for account of policyholders premiums increased by 62% compared to 2005, a result of a large single premium BOLI/COLI case in 2006. The 2006 figure includes USD 95 million of premiums from the acquisition of a block of credit life insurance.

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Accident and health premiums of USD 2.5 billion remained stable compared to 2005.

Investment income increased 7% in 2006 compared to 2005, primarily due to rising short-term rates, higher volume and increased book yield from reinvestment of the portfolio.

Commissions and expenses

Commissions and expenses of USD 4,614 million increased 14% compared to 2005. Operating expenses of USD 1,957 million in 2006 were up 11% compared to 2005. This increase includes the impact of a one-time release of USD 20 million during 2005 from a long-term deferred compensation plan included in the fee off balance sheet line of business.

Operating expenses increased primarily due to growth initiatives in variable annuities and off balance sheet asset management, as well as increased regulatory and compliance costs. On January 11, 2007 Transamerica announced that it will consolidate its Kansas City-based life insurance administrative operations in Cedar Rapids, Iowa by year-end 2007. Once consolidation is complete annual savings are expected to be USD 15 million to USD 20 million.

Production

New life sales for retail and BOLI/COLI products increased 3% to USD 934 million, including USD 50 million from the assumption of a significant block of credit life insurance through a reinsurance transaction. Retail sales declined 9% over 2005 due to the discontinuance of sales of investor-owned life insurance offset partially by a rebound in the fourth quarter of 2006. Standardized sales of BOLI/COLI increased USD 95 million to USD 202 million in 2006. Reinsurance new life sales of USD 315 million increased USD 56 million or 22% over 2005 due to growth in both domestic and international sales.

Fixed annuity new deposits declined by USD 52 million, or 2%, to USD 2,169 million in 2006. Retail fixed annuity new deposits declined 19% as fixed annuity sales continued to be difficult due to the inverted yield curve and competition from other bank-sold products. However, new deposits in the pension channel increased 48% to USD 799 million. The increase in pension sales is primarily related to fourth quarter 2006 terminal funding sales of USD 228 million. Fixed annuity account balances of USD 48.0 billion were USD 4.9 billion lower than year-end 2005 as policyholder withdrawals continued to exceed new deposits. The total decrement rate on the retail annuity segment increased to 23% in 2006, up from 14% in 2005.

Variable annuity new deposits of USD 6.6 billion increased 6% compared to 2005. The retail segment increased 15% over last year due to an increase in demand for variable annuity products and increased wholesaler distribution. Sales in the pension segment declined 3% from last year, primarily due to strong takeover deposits in the third quarter of 2005. Variable annuity balances of USD 52.7 billion increased 10% compared to year-end 2005.

Sales of institutional guaranteed products amounted to USD 12.5 billion, an increase of 17% during 2006. The increased sales were primarily due to higher medium term note issuance. The balance of institutional guaranteed products increased to USD 34.3 billion compared to USD 32.9 billion at year-end 2005.

Off balance sheet sales for 2006 of USD 22.3 billion increased 22% over 2005. Retail mutual fund deposits of USD 3.1 billion increased 51% in 2006 due to increased sales in the wirehouse and fee planner channels. Sales of pension mutual funds increased 2% over a strong 2005 to USD 5.3 billion. Synthetic GIC sales of USD 12.6 billion in 2006 increased 53% with the increase largely attributable to fourth quarter 2006 sales of USD 7.1 billion. Institutional asset management sales decreased from USD 2.9 billion in 2005 to USD 1.4 billion in 2006, primarily due to a strong first quarter 2005 prior to a change in investment personnel. Off balance sheet assets of USD 94.6 billion at December 31, 2006 increased 17% compared to year-end 2005 due to continued strong mutual fund and synthetic GIC sales and favorable equity market returns.

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THE NETHERLANDS

AEGON The Netherlands

	2006 in million EUR	2005 in million EUR	%
Income by product segment			
Traditional life	189	270	(30)
Life for account of policyholders	315	(53)	
Fee - off balance sheet products	35	15	133
Accident and health insurance	34	45	(24)
General insurance	26	30	(13)
Banking activities	35	15	133
Operating earnings before tax	**634**	**322**	**97**
Gains/(losses) on investments	413	985	(58)
Impairment charges	(12)	(25)	52
Share in profit/(loss) of associates	7	4	75
Income before tax	**1,042**	**1,286**	**(19)**
Income tax	(2)	(272)	(99)
Net income	**1,040**	**1,014**	**3**
Revenues			
Life general account single premiums	657	419	57
Life general account recurring premiums	449	474	(5)
Life policyholders account single premiums	604	634	(5)
Life policyholders account recurring premiums	1,318	1,494	(12)
Total life insurance gross premiums	3,028	3,021	0
Accident and health insurance	191	191	0
General insurance	434	443	(2)
Total gross premiums	3,653	3,655	(0)
Investment income	2,006	2,184	(8)
Fee and commission income	375	325	15
Total revenues	**6,034**	**6,164**	**(2)**
Commissions and expenses	1,087	1,091	(0)
Standardized new premium production insurance			
Life single premiums	1,248	1,079	16
Life recurring premiums annualized	123	123	0
Life total recurring plus 1/10 single	**248**	**231**	**7**
Non-life premiums	**79**	**48**	**65**
Gross deposits			
Saving deposits	2,401	3,478	(31)
Total production on balance sheet	**2,401**	**3,478**	**(31)**
Off balance sheet production			
Mutual funds and other managed assets	408	864	(53)

Total production off balance sheet	**408**	**864**	**(53)**

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Operating earnings before tax

Operating earnings before tax amounted to EUR 634 million in 2006, compared to EUR 322 million in 2005. Provisions for guarantees and fair value movements of related hedge instruments significantly influenced operating earnings. The net impact of guarantee provisions and related hedging results on operating earnings in 2006 was a positive EUR 167 million, whereas EUR 165 million was added to guarantee provisions in 2005.

Certain insurance products include minimum interest rate guarantees that are not offset by matching investments. In the second half of 2006, AEGON The Netherlands implemented a hedging program to extend and enhance its active risk management strategy. In addition to the established derivatives program of 2004 to lengthen the asset duration, AEGON The Netherlands has implemented a hedging strategy using derivative instruments to mitigate most of the interest rate risks related to guarantees embedded in traditional life, unit-linked and certain group pension products.

Fair value movements of the derivatives hedging the unit-linked guarantees are part of operating earnings, while fair value movements of derivatives related to guarantees in traditional life and certain group pension contracts are part of net gains/losses on investments.

Certain financial assets that are carried at fair value with no offsetting changes in the fair value of liabilities contributed EUR 43 million to operating earnings before tax, compared to a positive EUR 67 million in 2005. Operating earnings in 2005 included EUR 42 million in provisions for improvements of Spaarkas products, which were offset by provision releases for employee benefits and profits sharing in 2005. Earnings of 2006 contain an accelerated depreciation of deferred acquisition expenses of EUR 17 million related to group pension business, as a result of the new pension law which no longer allows surrender charges.

Traditional life

Operating earnings before tax for traditional life amounted to EUR 189 million in 2006, compared to EUR 270 million in 2005. The decrease mainly reflects lower investment income, including a smaller contribution from assets carried at fair value, provision releases in 2005, and normalized technical results compared to favorable results in 2005.

Life for account of policyholders

Operating earnings before tax from life for account of policyholders amounted to EUR 315 million, compared to a loss of EUR 53 million in 2005. This mainly reflects the net positive effect of changes in interest rates on provisions for guarantees and related hedges, and the absence of additions to provisions for Spaarkas products.

Fee - off balance sheet products

Operating earnings before tax from fee - off balance sheet products amounted to EUR 35 million in 2006, compared to EUR 15 million in the previous year. The asset management business continued the positive trend in profitability, Meeùs improved its performance. For Unirobe, a wholly-owned independent distribution business of AEGON The Netherlands, as of the fourth quarter of 2006, 100% of the results were included compared to 45% before.

Accident and health

Accident and health operating earnings before tax were EUR 34 million compared to EUR 45 million in 2005. Technical results were lower compared to the favorable results in 2005, mainly as a result of more normalized claim experience and lapses in the sickness benefit market.

General insurance

General insurance operating earnings before tax amounted to EUR 26 million in 2006 compared to EUR 30 million in 2005. Better technical results were offset by lower investment income and pricing pressure due to increased competition in some markets.

Banking activities

Operating earnings before tax from banking activities amounted to EUR 35 million, compared to EUR 15 million in 2005. The increase primarily reflects the absence of additions to provisions for equity lease products and higher interest spreads.

Long term return expectations for fair-valued assets in operating earnings

AEGON provides long term return expectations for certain financial assets that are managed on a total return basis with no offsetting changes to the fair value of liabilities. Long term annual earnings on these assets, as described in more detail below, are based on long-term expected returns in financial markets, but should not be used as an explicit forecast for the year as actual results can and will deviate from these expectations.

These assets include an investment in a private equity fund and totaled EUR 243 million as of December 31, 2006. Operating earnings in 2006 include a gain of EUR 43 million related to these asset classes. Based on current holdings and asset class returns consistent with long-term historical experience, the long-term expected return on an annual basis is 8% before tax. The impact of the fair valuation of assets is notable in the traditional life and life for account of policyholders lines of business.

Net income

Net income, which includes net gains/losses on investments, impairment charges and the share in profit of associates, increased 3% to EUR 1,040 million. Net gains on investments (before tax) amounted to EUR 413 million compared to EUR 985 million in 2005. The gains and losses on investments (before tax) include a negative EUR 352 million from the decrease in market value of derivatives used for asset and liability management purposes, compared to a positive contribution of EUR 306 million in 2005.

The effective tax rate was 0% compared to 21% in the prior year. The decrease mainly reflects higher tax-exempt gains from the sale of shares and the impact of the reduction of the corporate tax rate in The Netherlands from 29.6% to 25.5%, ratified by the Dutch parliament in the fourth quarter of 2006, resulting in a release of deferred tax liabilities.

Revenues

Revenues of EUR 6,034 million decreased by 2% in 2006 compared to 2005. Life insurance gross premiums of EUR 3,028 million and accident and health insurance premiums of EUR 191 million remained stable, general insurance premiums of EUR 434 million decreased 2%, investment income of EUR 2,006 million decreased by 8% and fees and commissions of EUR 375 million increased by 15%.

Life general account premiums increased by 24% compared to 2005, due to a 57% increase in single premiums, both in immediate annuities and pension contracts. Recurring premiums were 5% lower.

Life policyholders account premiums decreased by 10% compared to 2005. Single premiums in 2006 are 5% lower than in 2005 when a particularly large single premium contract was closed. Recurring premiums are 12% lower than in 2005 when a catch-up effect for a large co-insurance pension contract in the recurring segment was recognized.

Non-life premiums are 1% lower than in 2005. Accident and health insurance premiums are at the same level as in 2005 as decreased premium levels following legislative changes effective in 2006 have been fully compensated for by successful new income products (WIA). General insurance premiums decreased by 2% compared to 2005 as price pressure begins to be felt, particularly in the motor market.

Investment income, which includes direct investment income of both general account and account of policyholder investments, decreased 8% compared to 2005 primarily due to lower coupons. Other factors include lower deferred purchase price recognition in 2006, lower dividends as a consequence of the sale of shares and lower interest returns on loans offset by income generated on reinvestments and increased interest on mortgages.

Fees and commission income were 15% higher than in 2005. The consolidation of Unirobe in the fourth quarter of 2006, securities lending activities, performance fees earned by TKP Pension and growth in the investment portfolios contributed to the higher fee income in 2006.

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Commissions and expenses

Commissions and expenses amounted to EUR 1,087 million in 2006, equal to 2005. Operating expenses amounted to EUR 708 million, 6% lower than in 2005. This is primarily due to the absence of additional provisions for Spaarkas and equity lease products. This decrease was partly offset by the consolidation of Unirobe in the fourth quarter of 2006.

Production

New life sales in The Netherlands increased 7% to EUR 248 million, driven by the growth of individual life sales through the intermediary channel and increased activity in the group pensions business. Immediate annuities were an important driver for individual life sales. A larger number of smaller contracts were sold in the group pension business in 2006 as opposed to a relatively small number of large cases in 2005.

Non-life sales increased 65% to EUR 79 million, due to successful sales of new disability products. Accident and health premiums amounted to EUR 191 million, equal to 2005, as premiums from new products offset the decline in income, resulting from lapses in the sickness benefits market following new legislation. Sales of the new WIA disability product developed favorably and represented 49% of all new non-life production in 2006. General insurance premiums decreased 2% to EUR 434 million.

During the first half of the year, employees of Dutch companies had the opportunity to establish a Levensloop (Life Cycle) account. New Levensloop (Life Cycle) deposits, largely recurring, amounted to EUR 107 million in 2006.

Off balance sheet product sales amounted to EUR 408 million compared to EUR 864 million in 2005. The comparable period in 2005 included a number of large asset management contracts.

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UNITED KINGDOM

AEGON United Kingdom

	2006 in million GBP	2005 in million GBP	%	2006 in million EUR	2005 in EUR	million %
Income by product segment						
Traditional life	14	(1)		21	(1)	
Life for account of policyholders	139	139	0	204	203	0
Fee - off balance sheet products	0	(27)		0	(40)	
Operating earnings before tax	**153**	**111**	**38**	**225**	**162**	**39**
Gains/(losses) on investments	11	6	83	16	9	78
Impairment charges	(1)	(2)	50	(1)	(3)	67
Other non-operating income/(charges) [1]	61	71	(14)	90	104	(13)
Share in profit/(loss) of associates	1	0		1	0	
Income before tax	**225**	**186**	**21**	**331**	**272**	**22**
Income tax attributable to policyholder return	(51)	(71)	(28)	(75)	(104)	(28)
Income before income tax on shareholders return	**174**	**115**	**51**	**256**	**168**	**52**
Income tax on shareholders return	(16)	(17)	(6)	(24)	(24)	0
Net income	**158**	**98**	**61**	**232**	**144**	**61**
Revenues						
Life general account single premiums	859	388	121	1,261	567	122
Life general account recurring premiums	226	172	31	332	252	32
Life policyholders account single premiums	3,897	1,756	122	5,724	2,569	123
Life policyholders account recurring premiums	1,292	1,206	7	1,897	1,764	8
Total gross premiums	6,274	3,522	78	9,214	5,152	79
Investment income	1,643	1,480	11	2,413	2,165	11
Fee and commission income	189	153	24	278	223	25
Total revenues	**8,106**	**5,155**	**57**	**11,905**	**7,540**	**58**
Commissions and expenses	607	518	17	892	757	18
Standardized new premium production insurance [2]						
Life single premiums	5,656	3,185	78	8,307	4,658	78
Life recurring premiums annualized	490	368	33	720	538	34
Life total recurring plus 1/10 single	**1,056**	**687**	**54**	**1,551**	**1,004**	**54**
Off balance sheet production						
Mutual funds and other managed assets	808	1,032	(22)	1,186	1,509	(21)
Total production off balance sheet	**808**	**1,032**	**(22)**	**1,186**	**1,509**	**(21)**

1 Included in other non-operating income/(charges) are charges made to policyholders with respect to income tax. There is an equal and opposite tax charge which is reported in the line Income tax attributable to policyholder return.

2

Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.

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Exchange rates

	Weighted average		Year-end	
Per 1 EUR	**2006**	**2005**	**2006**	**2005**
GBP	0.6809	0.6837	0.6715	0.6853

Operating earnings before tax

Operating earnings before tax amounted to GBP 153 million, compared to GBP 111 million in 2005. The increase mainly reflects the positive effect of higher equity and bond markets and growth of the businesses, partly offset by a charge related to higher surrenders due to Pension A-day. Earnings in 2006 were impacted by a GBP 14 million charge for an incentive plan related to the accelerated acquisition of the remaining 40% of Positive Solutions. In 2005 earnings included a GBP 33 million charge related to this item. Excluding the effect of these charges, operating earnings before tax increased 15%.

Traditional life

Operating earnings before tax for traditional life amounted to GBP 14 million, compared to a loss of GBP 1 million in 2005. Earnings increased due to higher annuity earnings, positive experience in the protection businesses and higher underlying assets.

Life for account of policyholders

Operating earnings before tax from life for account of policyholders were GBP 139 million, equal to 2005 earnings. This mainly reflects business growth and the impact of the higher equity and bond markets on fund-related charges offset by higher surrenders due to Pension A-day.

Fee - off balance sheet products

In AEGON s owned-distribution businesses in the UK, Positive Solutions income increased in 2006, driven by higher adviser productivity.

Operating earnings before tax from the fee off balance sheet products amounted to nil, compared to a negative contribution of GBP 27 million in 2005. Excluding the charges of GBP 14 million for the incentive plan related to Positive Solutions in 2006 and GBP 34 million in 2005, earnings of the fee businesses increased from GBP 7 million in 2005 to GBP 14 million in 2006.

Net income

Net income, which includes net gains/losses on investments and impairment charges, increased to GBP 158 million from GBP 98 million in 2005. Other non-operating income includes a gain of GBP 11 million in the first quarter of 2006 related to the sale of the Luxembourg-based subsidiary Scottish Equitable International to La Mondiale Participations. In the consolidated earnings for the Group, 35% of this gain has been eliminated to reflect AEGON s 35% share in La Mondiale Participations.

The effective tax rate in 2006 decreased from 15% to 9%. This primarily reflects the tax-exempt disposal of the Luxembourg subsidiary and the mix of earnings.

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Revenues

Revenues of GBP 8,106 million were up 57% from 2005. In comparison to 2005, life general account premiums increased by 94% to GBP 1,085 million reflecting continued strong growth in immediate annuity production and the maturing of the individual protection business.

Life policyholder account premiums increased by 75% reflecting higher pension production primarily reflecting Pension A-Day activity.

Investment income increased by 11% compared to 2005 reflecting the increase in investments from the growth in business.

Fees and commission income in 2006 increased by GBP 36 million due to strong growth in Positive Solutions and commission income on onshore and offshore bonds.

Commissions and operating expenses

Commissions and expenses increased 17% to GBP 607 million, reflecting growth in the protection and distribution businesses, and the impact of higher surrenders related to Pension A-day. Operating expenses increased by 8% to GBP 375 million, due to investments, growth of the businesses and strong new business in 2006.

Production

New life sales in 2006 increased 54%, following record sales in the fourth quarter of 2006. The increase was due to increased activity in almost all business lines and the pension business in particular. A portion of the higher pension sales can be attributed to exceptional activity due to Pension A-Day with single premium pension sales more than doubling. Compared to 2005, non-pension sales grew 25% to GBP 263 million in annualized premium equivalent.

In asset management, the retail business continued its strong performance. With the majority of sales coming from bond funds, this further emphasizes AEGON s fixed income capability. Institutional sales were lower as three large institutional mandates were won in 2005, compared to two major contracts in 2006. Total off balance sheet production amounted to GBP 808 million in 2006, compared to GBP 1,032 million in 2005.

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OTHER COUNTRIES

Other countries

	2006 in million EUR	2005 in million EUR	%
Income by product segment			
Traditional life	10	13	(23)
Life for account of policyholders	8	6	33
Fixed annuities	(1)	0	
Variable annuities	1	0	
Fee - off balance sheet products	(14)	4	
Accident and health insurance	4	2	100
General insurance	29	25	16
Other	0	(6)	
Operating earnings before tax	**37**	**44**	**(16)**
Gains/(losses) on investments	20	12	67
Other non-operating income/(charges)	0	176	
Share in profit/(loss) of associates	24	16	50
Income before tax	**81**	**248**	**(67)**
Income tax	(45)	(37)	22
Net income	**36**	**211**	**(83)**
Revenues			
Life general account single premiums	76	25	
Life general account recurring premiums	1,014	1,009	0
Life policyholders account single premiums	490	101	
Life policyholders account recurring premiums	237	142	67
Total life insurance gross premiums	1,817	1,277	42
Accident and health insurance	69	67	3
General insurance	127	130	(2)
Total gross premiums	2,013	1,474	37
Investment income	192	157	22
Fee and commission income	41	25	64
Other revenues	1	0	0
Total revenues	**2,247**	**1,656**	**36**
Commissions and expenses	342	288	19
Standardized new premium production insurance [1]			
Life single premiums	628	128	
Life recurring premiums annualized	195	355	(45)
Life total recurring plus 1/10 single	**258**	**368**	**(30)**
Gross deposits			
Variable annuities	6	5	20
Total production on balance sheet	**6**	**5**	**20**

Off balance sheet production			
Mutual funds and other managed assets	459	318	44
Total production off balance sheet	**459**	**318**	**44**

[1] Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.

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Weighted average exchange rates for the currencies of the countries included in the Other countries segment, and which do not report in euro, are summarized in the table below.

Exchange rates

Per 1 EUR	2006	2005
Czech Republic Krona (CZK)	28.259	29.590
Hungarian Forint (HUF)	264.268	248.020
New Taiwan Dollar (NTD)	41.250	39.760
Polish Zloty (PLN)	3.896	3.860
Rin Min Bi Yuan (CNY)	10.008	10.100
Slovakian Koruna (SKK)	37.005	38.640

Please note that the Other countries segment is accounted for in the financial statements in euro, but the operating results for the individual country units within Other countries are accounted for, and discussed, in terms of the local currencies of those country units.

Operating earnings before tax

Operating earnings before tax in Other countries amounted to EUR 37 million, compared to EUR 44 million in 2005. Higher earnings in Hungary and Spain were more than offset by investments in growth in Slovakia and China. The increase in Spain is mainly driven by non-recurring expenses in 2005, related to the sale of the non-life business, and by the proportional inclusion of the joint ventures with Caja Badajoz and Caja Navarra since the second quarter of 2006. In Taiwan, higher life for account of policyholders earnings compensated lower traditional life earnings.

Traditional life

Total traditional life insurance operating earnings before tax from Other countries amounted to EUR 10 million, compared to EUR 13 million in 2005. This reflects lower results in Taiwan, due to the decline in sales, and sales growth in China, where acquisition costs are not yet deferred.

Life for account of policyholders

Operating earnings from life for account of policyholders increased from EUR 6 million in 2005 to EUR 8 million in 2006, primarily due to higher earnings in Taiwan.

Fee - off balance sheet products

Total fee - off balance sheet operating earnings before tax from Other countries amounted to a negative EUR 14 million, against a positive EUR 4 million in 2005, reflecting acquisition costs of EUR 27 million in 2006 to grow the Slovakian pension business which are immediately expensed. The decline was partly offset by higher earnings in Hungary.

Accident and health insurance

Accident and health insurance operating earnings before tax in Other countries amounted to EUR 4 million in 2006 compared to EUR 2 million in 2005. General insurance operating earnings before tax increased to EUR 29 million from EUR 25 million in 2005 as a result of favorable claim experience in the Hungarian household insurance business.

AEGON s share in the profit of associates amounted to EUR 24 million, compared to EUR 16 million in 2005. This line represents the income from the partnership with CAM (49.99% interest) as well as the income from the 35% stake in La Mondiale Participations.

Net income

Net income amounted to EUR 36 million, compared to EUR 211 million in 2005. The 2005 figure included a book gain on the sale of the Spanish general insurance activities of EUR 176 million before tax. AEGON s share in the profit (and loss) of associates (after tax) amounted to EUR 24 million, compared to EUR 16 million in 2005. The effective tax rate in 2006 was 56% as a result of a reduction in the deferred tax asset in Taiwan in 2006.

Revenues

Total revenues increased by 36% to EUR 2.2 billion and primarily reflects the full year of revenues from AEGON Poland, the inclusion of the joint ventures with Caja de Badajoz and Caja Navarra and growth in the other markets.

AEGON Poland s revenues increased from EUR 88 million in 2005 (only fourth quarter) to EUR 485 million in 2006.

Commissions and expenses

Commissions and expenses increased 19% to EUR 342 million mainly due to lower deferral of commissions in Taiwan, following a change in business mix, and strong pension sales in Slovakia. Operating expenses increased 4% to EUR 148 million due to higher expenses in China, Hungary and new operations in Poland, offset by lower expenses in Spain.

Production

New life sales in Taiwan in 2006 decreased 61% to NTD 4.8 billion (EUR 117 million), reflecting the high levels of sales through the broker and bank channel in the first six months of 2005. Unit-linked sales accounted for 47% of total new life sales in 2006. The decline in traditional life sales is due to re-pricing of the products following the revised reserving requirements introduced in 2005. Total gross premiums increased 12% to NTD 39.8 billion (EUR 965 million) in 2006, mainly due to growth in premiums of the life for account of policyholders business.

New life sales in Central and Eastern Europe amounted to EUR 82 million. In Hungary, new life sales increased 5% to HUF 4.6 billion (EUR 17 million), due to the introduction of a new tax regulation, higher sales in the agency channel and the development of the broker channel. In Poland, new life sales amounted to PLN 232 million (EUR 60 million) in 2006, after record sales in the fourth quarter of 2006. Sales of single premium life insurance through the bank channel showed very strong momentum, due to a recovery in equity markets in the fourth quarter in 2006. In addition, recurring premium sales accelerated in the fourth quarter of 2006 as a result of the successful development of the broker channel and the tied agent network.

In Spain, new life sales increased 112% to EUR 52 million, reflecting the proportional inclusion of bancassurance sales through AEGON s joint ventures Caja de Badajoz and Caja Navarra. In addition, a large group life policy sold in the fourth quarter of 2006, after the approval of tax changes, contributed to the sales growth. Group sales have been adversely affected by uncertainty about changes in tax law in 2006. Also, the changes have removed tax advantages on certain individual life insurance products. AEGON Spain has developed several new products in anticipation of the new tax rules and will launch these in 2007.

The partnership with CAM experienced a decrease of 24% in new life sales to EUR 168 million (on a 100% basis). The return on the new business improved as the product mix continues to shift from single premium savings products to recurring premium risk and protection products. Premium income for the partnership with CAM amounted to EUR 492 million (on a 100% basis). The partnership with CAM is not consolidated in AEGON s accounts. AEGON includes its share in the results of the partnership in the line share in profit / (loss) of associates.

In Hungary, non-life premium income increased by 1% to HUF 34 billion (EUR 127 million) mainly as a result of solid sales growth and a high retention rate of household insurance. Non-life premiums in Spain, which only include health business, increased 2% to EUR 67 million.

In Hungary, pension fund and mutual fund sales amounted to HUF 93 billion (EUR 353 million). Sales in the pension fund business continued to grow, with the number of new members added in 2006 increasing by 32% to more than 60,000. Total pension fund membership amounted to more than 628,000 members at the end of 2006 compared to 583,000 at the year-end of 2005. Off balance sheet investments grew by 32% to HUF 373 billion (EUR 1.5 billion) compared to the year-end 2005 level.

In Slovakia, the pension fund business was very successful in attracting new pension fund members in 2006. Approximately 154,000 new members were registered in the mandatory pension fund, bringing the total to over 200,000.

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5.5 Results of Operations 2005 compared to 2004

	2005 in million EUR	2004 in million EUR	%
By product segment			
Traditional life	823	566	45
Life for account of policyholders	243	304	(20)
Fixed annuities	425	284	50
Variable annuities	130	177	(27)
Institutional guaranteed products	280	367	(24)
Fee - off balance sheet products	33	36	(8)
Reinsurance	105	(88)	
Accident and health insurance	324	325	0
General insurance	55	104	(47)
Banking activities	15	24	(38)
Other	(6)	0	0
Interest charges and other	(280)	(327)	(14)
Operating earnings before tax	**2,147**	**1,772**	**21**
Gains/(losses) on investments	1,157	1,203[2]	(4)
Impairment charges	14	(183)[2]	108
Other non-operating income/(charges)	277	(22)[2]	
Share in profit/(loss) of associates	20	25	(20)
Income before tax	**3,615**	**2,795**	**29**
Income tax	(885)	(537)	65
Income after tax	**3,730**	**2,258**	**48**
Minority interest	2	(2)	
Net income [1]	**2,732**	**2,256**	**21**
Income before tax geographically			
Americas	2,181	1,698	28
The Netherlands	1,286	1,097	17
United Kingdom	272	220	24
Other countries	248	135	84
Holding and other activities	(352)	(356)	(1)
Eliminations	(20)	1	
Income before tax	**3,615**	**2,795**	**29**

[1] Net income means net income attributable to equity holders of AEGON N.V.

[2] Together non-operating earnings before tax

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Revenues geographically 2005

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Holdings, other activities and eliminations	Total
Total life insurance gross premiums	6,629	3,021	5,152	1,277		16,079
Accident and health insurance premiums	1,972	191		67		2,230
General insurance premiums		443		130		573
Total gross premiums	8,601	3,655	5,152	1,474		18,882
Investment income	5,383	2,184	2,165	157	48	9,937
Fees and commission income	871	325	223	25		1,444
Other revenues					73	73
Total revenues	**14,855**	**6,164**	**7,540**	**1,656**	**121**	**30,336**
Number of employees, including agent-employees	14,015	5,698	4,539	2,721	186	27,159

This report includes a non-GAAP financial measure: operating earnings before tax. The reconciliation of this measure to the most comparable GAAP measure is shown below in accordance with Regulation G. AEGON believes the non-GAAP measure shown herein, together with the GAAP information, provides a meaningful measure for the investing public to evaluate AEGON s business relative to the businesses of our peers.

In million EUR	2005	2004
Operating earnings before tax	**2,147**	**1,772**
Gains on investments	1,269	1,290
Other income	176	138
Losses on investments	(112)	(87)
Impairment charges	14	(183)
Other charges	(3)	(218)
Policyholder tax	104	58
Share in profit/(loss) of associates	20	25
Income before tax	**3,615**	**2,795**

This review of operations should be read in conjunction with the financial statements and related notes included in Item 18.

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Overview

During 2005, we strengthened AEGON s position in our three major markets the US, the UK and the Netherlands. In addition, we continued to invest in Central and Eastern Europe, Spain and Asia, where we see good growth prospects over time. We have taken a number of steps to improve the operations of our businesses as well as to enhance AEGON s strategic position in the life insurance and pension sectors overall. We are pleased to report increased earnings from all major country units for the year, enhanced distribution and a stronger balance sheet. We believe that AEGON is well-positioned to deliver the products and services that will lead to the continued growth of our business.

In the Americas, we achieved a 7% increase in new standardized life production over 2004, as well as a 17% increase in operating earnings for 2005. Production through our reinsurance division was particularly strong.

Our variable annuity business in the Americas showed 19% production growth for the year, led by a 41% increase through the wirehouse channel and a 24% increase in our pension business. Although fourth quarter retail sales were lower than previous quarters of the year, we anticipate sales growth going forward driven by new product development as we continue to build our wholesaling capability. Despite the challenging interest rate environment in the United States, and against the backdrop of declining industry sales, we have seen consecutive quarterly growth in our fixed annuity sales in 2005, due largely to new bank distribution agreements as well as our pension operations.

In the Netherlands, the improved organization reported a 64% increase in operating earnings for the year. Leveraging its leading position in the group pension market, AEGON the Netherlands was successful in capturing several large contracts. The Dutch organization focused on maximizing opportunities. For instance, to date, we signed 775 Levensloop contracts with employers and 2,250 group disability contracts. Looking ahead, we expect continued momentum of sales in our group business, as well as improved sales to individuals driven by new product initiatives in the intermediary channel.

AEGON UK had a good year with a 32% increase in operating earnings before costs associated with the accelerated acquisition of Positive Solutions, AEGON UK s Independent Financial Advisor network, in 2005. AEGON UK has successfully introduced a broader range of non-pension products in the UK market, which resulted in over 30% of new business coming from annuities, bonds and protection products in 2005. Moreover, AEGON UK is in a good position to both drive and benefit from developments in the distribution market. The number of registered individuals affiliated with Positive Solutions has more than doubled since the initial investment in the company in late 2002. We regard this as key to ensuring AEGON s position in the UK market as further reforms are implemented and the distribution environment becomes more competitive.

Elsewhere in Europe, we divested our general insurance business in Spain and focused our efforts on establishing life insurance partnerships with savings banks. Our partnership with Caja de Ahorros del Mediterráneo achieved a 27% increase in recurring premiums during the year. We also established two new bancassurance joint ventures in 2005 with Caja de Badajoz and Caja Navarra. AEGON Spain s life products will soon be sold in over 1,500 branches across the country. We will be looking at opportunities to expand this network given the dominant role of banks in the Spanish life and pensions market.

Central and Eastern Europe are countries where AEGON is now active, with a total population of over 65 million, offer strong growth potential for life and pension products. AEGON Hungary achieved a notable increase of 26% in net income for the year. AEGON Poland, which we acquired in October, had record sales in the fourth quarter - its first as a member of the AEGON Group. Membership in AEGON s pension fund in Slovakia continues to grow with over 70,000 currently enrolled, of which 57,000 are officially registered, and life sales have begun in the Czech Republic where we launched operations in April.

We continue to see pensions as a key growth driver for our business. Leveraging AEGON s pension expertise, we formally launched the AEGON Pension Network, which has been developed with our French partners at La Mondiale to provide multinational corporate clients cross-border solutions. The recent addition of HDI Pensions management, a leading provider of group pensions in Germany, has added further momentum to this initiative, which now covers ten European countries as well as the United States.

Finally, our operations in Asia also grew during 2005. In Taiwan, new life sales increased 58% following especially strong sales in the first half of the year. Although recurring traditional life business continued to be the main driver of growth, increased efforts to sell unit-linked products led to encouraging results in the fourth quarter.

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In China, we have expanded from our base in Shanghai, having received licenses to begin operations in Beijing, Nanjing and most recently, the Shandong province, where we are among the first foreign insurers to gain access to the region. During the fourth quarter, AEGON-CNOOC s multi-channel distribution advantage was strengthened with the addition of brokers. We have made clear our long-term commitment to China and we will continue to identify additional opportunities to expand AEGON s geographic presence.

AEGON continues to benefit from strong capitalization in all our country units. The year 2005 was especially good in terms of capital formation and cash flows. Shareholders equity at December 31, 2005 was EUR 19.3 billion, an increase of 30% compared to year-end 2004. In 2005, AEGON further strengthened the quality of its capital base by replacing senior debt and perpetual subordinated bonds with perpetual capital securities. Group equity, which includes shareholders equity and other equity instruments, represented 89% of the total capital base at the end of December. Due to our strengthened capital position and good cash flows, we have raised the final dividend by 10% to EUR 0.23 per common share, bringing the total 2005 dividend to EUR 0.45 per common share, a 7% increase over 2004.

In summary, 2005 was a good year and we are confident about our prospects for capturing further growth in AEGON s core lines of business. The increased sales and earnings for the year, combined with enhanced distribution and improved operational efficiency, indicate that we have made good progress within AEGON s three major markets while investing in new markets that offer long-term growth.

Results

Operating earnings before tax in 2005 increased 21% to EUR 2,147 million. The three major country units, the Americas, the Netherlands and the United Kingdom, each reported increases in operating earnings before tax for the year. The increase in the Americas primarily reflects business growth, favorable mortality experience and the impact of volatile items, partly offset by decreased spreads and lower investment yields. The increase in operating earnings before tax in the Netherlands is largely due to improved interest results and released provisions for profit-sharing and employee benefits, increased technical life and non-life results, partially offset by additional provisions for guarantees and improvements to Spaarkas life products in 2005. In the United Kingdom, the increase mainly reflects the positive impact from higher equity and bond markets. The increase is largely offset by a charge for an incentive payout to registered individuals and relates to the accelerated acquisition of the remaining 40 percent of Positive Solutions. The divestiture of the general insurance activities in Spain at the beginning of this year is the primary reason for the decline in operating earnings in Other Countries.

Non-operating earnings, which includes gains/(losses) on investments, impairment charges and other non-operating income/(charges), increased from EUR 998 million in 2004 to EUR 1,448 million in 2005. Net gains on investments were slightly lower in 2005 compared to 2004. Included in other non- operating income/(charges) in 2005 is the gain on the sale of the general insurance business in Spain for a pre-tax amount of EUR 176 million. Included in 2004 in other non-operating income/(charges) is the gain on the sale of Transamerica Finance Corporation (TFC) businesses for an amount of EUR 154 million. Impairment losses in 2005 were more than offset by impairment recoveries. Interest rate swaps in AEGON The Netherlands contributed EUR 307 million in 2005 (2004: EUR 347 million) to Gains/(losses) on investments. Included in 2004 other non-operating income/(charges) is EUR 218 million relating to the settlement with Dexia. Included in other non-operating income/(charges) are also charges to AEGON UK policyholders related to taxes payable for the account of policyholders. There is an equal and opposite tax charge in the corporate tax line. Both amounts increased in 2005 due to higher bond values in 2005 resulting from a significant fall in bond yields.

Net income increased 21% to EUR 2,732 million in 2005 reflecting higher operating earnings, increased net gains on investments and impairment charges, and higher non-operating income. The effective tax rate increased to 24% from 19% in 2004, reflecting higher taxable earnings, higher policyholder taxes in the United Kingdom and one time tax benefits in 2004.

Total commissions and operating expenses amounted to EUR 5,522 million over 2005 compared to EUR 5,784 million in 2004, a decrease of EUR 262 million or 5%. The sale of most of Transamerica Finance Corporation s businesses in 2004, the sale of the general insurance business in Spain, as well as expense savings in the Americas and AEGON UK, all contributed to lower operating expenses.

Revenue generating investments amounted to EUR 358 billion on December 31, 2005. This represents an increase of 17% compared to year-end 2004.

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AMERICAS

Americas (includes AEGON USA and AEGON Canada)

	2005 in million USD	2004 in million USD	%	2005 in million EUR	2004 in million EUR	%
By product segment						
Traditional life	674	639	5	541	514	5
Life for account of policyholders	108	107	1	87	86	1
Fixed annuities	529	353	50	425	284	50
Variable annuities	162	220	(26)	130	177	(27)
Institutional guaranteed products	349	456	(23)	280	367	(24)
Fee - off balance sheet products	67	(1)		54	(1)	
Reinsurance	131	(109)		105	(88)	
Accident and health insurance	345	361	(4)	277	290	(4)
Operating earnings before tax	2,365	2,026	17	1,899	1,629	17
Gains/(losses) on investments	299	280	7	240	225	7
Impairment charges	53	(197)		42	(159)	
Share in profit/(loss) of associates	0	3		0	3	
Income before tax	2,717	2,112	29	2,181	1,698	28
Income tax	(705)	(439)	61	(566)	(353)	60
Income after tax	**2,012**	**1,673**	**20**	**1,615**	**1,345**	**20**
Minority interest	2	(3)		2	(2)	
Net income	**2,014**	**1,670**	**21**	**1,617**	**1,343**	**20**

Exchange rates

	Weighted average		Year-end	
Per 1 EUR	**2005**	**2004**	**2005**	**2004**
USD	1.2456	1.2436	1.1797	1.3621
CAD	1.5094	1.6166	1.3725	1.6416

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Operating earnings before tax

AEGON America s operating earnings before tax for 2005 of USD 2,365 million increased USD 339 million or 17% compared to the results for 2004. Operating earnings include certain volatile items under IFRS. In 2005, these items contributed USD 316 million to operating earnings compared to USD 255 million in 2004. These volatile items include a discontinued total return pass-through annuity product, Canadian Segregated Funds and financial assets carried at fair value, such as hedge funds, convertible bonds and certain limited partnerships, for which there is no offset in liabilities. A significant portion of the earnings from these volatile items is due to returns on hedge funds and limited partnership investments, which have exceeded long-term pricing expectations in both 2004 and 2005. Excluding these volatile items in both 2005 and 2004, operating earnings increased USD 278 million or 16%. See table on page 89 for the impact of volatile items in AEGON America s operating earnings before tax.

Traditional life

Traditional life operating earnings before tax of USD 674 million increased by USD 35 million or 5% compared to 2004. Continued growth of the in-force business contributed to the earnings increase during 2005 in addition to the increase in earnings from volatile items. The valuation of certain financial assets carried at fair value contributed USD 58 million to traditional life operating earnings before tax in 2005 compared to USD 38 million in 2004. Excluding this volatile item, operating earnings before tax increased USD 15 million or 2%. Significant positive items include: USD 15 million increase in Canada traditional life earnings upon an update to the valuation software and refinement of reinsurance reserve credits in the third quarter of 2005 and USD 15 million favorable adjustment of premium tax rates in addition to growth in both the United States and Canada. These were partially offset by USD 10 million of non-recurring expenses incurred in Canada in the second quarter of 2005 as well as slightly higher mortality costs.

Life for account of policyholders

Life for account of policyholders operating earnings before tax of USD 108 million remained at approximately the same level as the results for 2004. Earnings increased due to growth of the in force business and a positive DPAC adjustment in the Bank-Owned Life Insurance and Company-Owned Life Insurance (BOLI/COLI) business in the first quarter of 2005. This was largely offset by lower expense deferrals due to an updated expense study.

Fixed annuities

Fixed annuity operating earnings before tax of USD 529 million increased USD 176 million or 50% compared to the results for 2004. The total return annuity existing block of business and the fair value movements of certain financial assets carried at fair value contributed to an increase of USD 105 million to operating earnings in 2005. Excluding these volatile items, operating earnings before tax increased USD 71 million, or 22%. Earnings in 2004 were negatively impacted by a charge of USD 54 million related to reserve strengthening on a block of payout annuities. The remaining increase of USD 17 million is due to lower DPAC amortization resulting from the retail annuity products, favorable mortality on payout annuities and continued favorable persistency, with a partial offset due to slightly lower product spreads and lower account balances.

Product spreads on the largest segment of the fixed annuity book were 230 basis points for 2005. Excluding the volatile income related to certain financial assets carried at fair value, pre-tax operating spreads were 209 basis points for 2005.

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Variable annuities

Variable annuity operating earnings before tax of USD 162 million decreased USD 58 million or 26% in 2005 compared to 2004, primarily as a result of a decline in the earnings before tax of Canadian segregated funds of USD 48 million. Excluding the Canadian segregated funds pre-tax operating income decreased USD 10 million or 6%. A negative DPAC adjustment of USD 25 million occurred in the second quarter of 2005 related to updating a trail commission modeling assumption, while 2004 results included a positive USD 17 million DPAC adjustment. The remaining increase was primarily due to higher fees from growth in assets under management due to continued favorable persistency and strong equity market growth.

During the second and third quarters of 2005, changes were made to the valuation of the maturity guarantees in the Canadian segregated funds. During the third quarter, best estimate assumptions for the risk free rate used in the calculation of the fair value of the guarantee reserve were updated to better coincide with the liability pattern for this guarantee. However, separate from the change discussed above, interest rates rose during the third and fourth quarters, reducing the liability. During the year, AEGON Canada updated its best estimates for lapse assumptions and equity market volatility, which had a negative impact of USD 74 million.

Institutional guaranteed products

Institutional guaranteed products operating earnings before tax of USD 349 million decreased USD 107 million or 23% compared to the results for 2004. The valuation of certain financial assets carried at fair value contributed USD 85 million to operating earnings before tax in 2005 compared to USD 94 million in 2004. Excluding this item, operating earnings decreased USD 98 million or 27%. The decrease includes USD 16 million from the one-time positive effect in 2004 related to the performance of a portfolio of loans. The remaining decrease is due primarily to lower investment spreads due to rising short-term interest rates.

Fee off balance sheet products

Fee off balance sheet products operating earnings before tax of USD 67 million increased USD 68 million compared to the results for 2004. Included in the 2005 results is a USD 20 million one-time accrual release from a long-term deferred compensation plan as conditions for payment from the plan were not fulfilled during 2005. The remaining increase reflects higher fees from growth in assets under management from the recent strong equity market performance and lower expenses.

Reinsurance

Reinsurance operating earnings before tax of USD 131 million increased USD 240 million compared to a loss of USD 109 million in 2004. The 2004 results were negatively impacted by loss recognition of USD 118 million related to value of business acquired (VOBA) recoverability. Reserve increases and other changes of USD 80 million were also recorded in 2004 to the reinsurance business. This included an increase of USD 54 million for a change in estimate of incurred but not reported claims resulting from a refinement of the calculation model and USD 26 million of reserve refinements and accrual changes related to the conversion to new reserve and administrative systems at Transamerica Reinsurance (TARe). The 2005 operating earnings include a USD 12 million positive adjustment to reflect the extension of a recapture provision in a fixed annuity reinsurance treaty and assumption refinement in retro-ceded life business, USD 11 million of additional earnings related to retrocession recoveries and USD (4) million of other one-time items. The remaining increase is primarily due to improved mortality in 2005 relative to poor mortality occurring primarily in the second quarter of 2004 and growth of the existing business.

Accident and health insurance

Accident and health operating earnings before tax of USD 345 million decreased USD 16 million or 4% compared to 2004. The long-term care business earnings increased USD 14 million in 2005 due to favorable lapse and claim experience compared to a reserve strengthening in 2004 and higher investment income. Favorable premium tax rate adjustments in 2005 increased earnings by USD 18 million and other one-time expense items reduced earnings. The 2005 earnings were also reduced by USD 30 million due to reserve strengthening and increased claims mostly related to closed blocks of business. The 2004 results included a one-time benefit of USD 15 million due to reserve refinements upon conversion to a new reserve valuation system.

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Impact of volatile items in the Americas

AEGON believes that the summary of volatile items in the table below, together with the GAAP information, provides a meaningful measure to the investing public to evaluate AEGON s business relative to the business of peers. The breakdown of this measure per line of business is shown below.

In millions	USD 2005	USD 2004	EUR 2005	EUR 2004
Asset valuation				
Traditional life	58	38	47	30
Life for account of policyholders	3	5	2	4
Fixed annuities	92	75	74	61
Variable annuities	9	8	7	6
Institutional guaranteed products	85	94	68	76
Fee - off balance sheet products	1	2	1	2
Reinsurance	10	9	8	7
Accident and health	11	10	9	8
Total asset valuation	**269**	**241**	**216**	**194**
Total return annuity				
Fixed annuities	42	(46)	34	(37)
Reinsurance	(7)	0	(6)	0
Total return annuity	**35**	**(46)**	**28**	**(37)**
Segregated funds				
Variable annuities	12	60	10	48
Segregated funds	**12**	**60**	**10**	**48**
Total volatile items	**316**	**255**	**254**	**205**

For the Americas, operating earnings before tax on an IFRS basis are generally expected to be more volatile than income before realized gains and losses on shares and real estate reported on the previous Dutch accounting principles (DAP) basis. In particular, there are three items that are expected to create significant volatility due to the fair value nature of the underlying valuation. In aggregate, these items contributed pre-tax operating earnings of USD 316 million during 2005 compared to USD 255 million in 2004. These items are as follows:

Asset valuation

Certain financial assets that are managed on a total return basis, such as hedge funds, convertible bonds and certain limited partnerships, are carried at fair value with no offsetting change in the fair value of liabilities. As of December 31, 2005, these assets totaled USD 3.2 billion. The valuation of these assets contributed USD 269 million to operating earnings before tax in 2005 compared to USD 241 million in 2004. The impact of this is notable in the traditional life, fixed annuity and institutional guaranteed products lines of business.

Total return annuity

This annuity product provides customers with a pass-through of the total return on an underlying portfolio of investment securities (typically a mix of corporate and convertible bonds) subject to a cumulative minimum guarantee. Both the assets and liabilities are carried at fair value, however, due to the minimum guarantee not all of the asset market value changes will be offset in the liability valuation. This product exists in both the fixed annuity and reinsurance lines of business and in both cases represents closed blocks. Product balances as of December 31, 2005 were USD 2.2 billion in fixed annuities and USD 0.6 billion in reinsurance. This item generated a loss of USD 46 million in 2004 operating earnings before tax, compared to earnings of USD 35 million in 2005.

Segregated funds maturity guarantees

Segregated funds sold in Canada and reported in the variable annuity line of business contain ten-year maturity guarantees that are carried at fair value using market-based risk neutral scenario techniques. The operating earnings impact from these guarantees is generally positive for higher equity market returns and higher interest rates, and conversely negative for lower equity market returns and lower interest rates. As of December 31, 2005, segregated fund balances with maturity guarantees totaled USD 4.3 billion. This product contributed positive USD 12 million to operating earnings before tax in 2005 compared to positive USD 60 million in 2004. The decline during 2005 was primarily due to changes in best estimate modeling assumptions for volatility, lapse rates and the Canadian risk free interest rate.

Net income

Net income, which includes net realized net gains and losses on investments and impairment charges, increased 21% to USD 2,014 million compared to USD 1,670 million in 2004. In 2005, realized gains on investments and impairment recoveries were USD 352 million (net of USD 92 million DPAC adjustment) compared to USD 82 million (net of USD 112 million DPAC adjustment) in 2004.

Asset recoveries of USD 176 million exceeded impairments of USD 125 million in 2005, which resulted in a net recovery of USD 51 million (USD 53 million after DPAC adjustment). This compares to 2004 asset losses of USD 311 million exceeding recoveries of USD 97 million, which resulted in a net loss of USD 214 million (USD 198 million after DPAC adjustment). Recoveries are recognized on debt securities where market values increased significantly and objective evidence can be obtained as to the reason for the increase.

The effective tax rate for 2005 was 26% compared to 21% for 2004. The primary reasons for the increase are higher pre-tax earnings in 2005 (taxed at the 35% US marginal tax rate) and a one-time benefit in 2004 from favorable treatment of dividend repatriations from foreign subsidiaries pursuant to a provision of the American Jobs Creation Act of 2004 and a decrease in 2005 benefits from non-taxable distributions from pre-1984 tax accounts of certain US life insurance company members of the Group. These increases in tax were offset in part by increases in 2005 in tax credits and certain tax preferred investment income.

Revenues

Revenues of USD 18,503 million increased 4% in 2005 compared to those in 2004. Life insurance gross premiums of USD 8,257 million increased 1%, accident and health insurance premiums of USD 2,456 million increased 1%, investment income of USD 6,705 million increased 7%, and fees and commissions of USD 1,085 million increased 7%.

Life general account single premiums of USD 922 million decreased 24% in 2005 due to higher BOLI/COLI premiums in 2004, while life general account recurring premiums of USD 5,568 million increased 9%, driven by strong reinsurance recurring premium production.

Life for account of policyholders single premiums of USD 611 million decreased 6% in 2005 due to a large case that closed in the fourth quarter of 2004. Life for account of policyholders recurring premiums of USD 1,156 million decreased 2%.

Accident and health premiums of USD 2,456 million were slightly higher than those in 2004 due to increased sales through sponsored programs along with rate increases on certain health products, partially offset by discontinuance of new sales of long-term care policies.

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

Investment income was 7% higher in 2005 compared to that of 2004. This increase was primarily due to rising short-term rates on floating rate investments, increased investing in mortgage loans and improved results from other long-term investments.

The increase in fees and commission revenues is primarily attributable to increased investment management fees earned as a result of higher asset balances. Fees were lower on certain membership products as direct marketing sales declined throughout 2004 and in 2005 due to FCC and FTC regulations including the national Do not call list.

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Commissions and operating expenses

Commissions and operating expenses of USD 4,063 million decreased 6% in 2005 compared to those in 2004. Commissions paid increased USD 174 million or 6% in 2005 compared to those in 2004, primarily due to higher recurring life premiums. Net DPAC capitalized increased USD 435 million due to higher first year life premiums. Operating expenses for the Americas decreased by USD 2 million to USD 1,768 million compared to 2004. The decrease is due to the effect of expense savings and the release of an accrual for performance bonuses, partly offset by higher expenses for share-based payments and USD 14 million of one-time expenses in 2005 in Canada.

Production

Standardized new premium production of USD 1,166 million was 7% higher than in 2004. Retail standardized production of USD 801 million was USD 20 million or 3% higher than last year s as continued strong traditional and universal life sales in the Agency channel were partially offset by lower single premium via the bank channel sales. BOLI/COLI standardized production of USD 107 million was USD 22 million or 17% lower than last year s due to a large BOLI case that closed in the fourth quarter of 2004. Reinsurance standardized production of USD 261 million was USD 84 million or 47% higher than last year s due to continued strong international and domestic sales.

Fixed annuity deposits of USD 2,221 million decreased 26% in 2005 compared to 2004 due to the current low interest rate environment, flat yield curve and AEGON s commitment to write profitable business with acceptable risk profiles. In response to the low interest rate environment, during 2003 and 2004 new products were introduced with a lower guaranteed annual interest rate. Withdrawals from existing contracts in 2005 exceeded 2004 and increased throughout the year. Fixed annuity account balances of USD 52.9 billion decreased by 4% from year-end 2004 as withdrawals exceeded deposits during the year.

Variable annuity deposits of USD 6,260 million increased 19% compared to 2004. The strong year over year growth is notable in both the retail and pension markets. The growth in the retail segment in 2005 was 13%, much of which is attributable to the 5 for Life product that was introduced in the fourth quarter of 2004. Production in the pension segment grew at 24%, largely due to strong production in the third and fourth quarters. The balances of variable annuities increased 8% to USD 48 billion in 2005.

Institutional guaranteed product production was USD 10,712 million in 2005, an increase of 13% compared to 2004. Higher sales were primarily in traditional and municipal GIC products and in medium term notes in conjunction with the launch of a new sales platform in Ireland. The tight credit spreads continue to negatively impact sales in 2005 as disciplined pricing is followed to achieve returns. The balance of GIC and funding agreements at December 31, 2005 consisted of USD 31.1 billion general account and USD 1.9 billion separate account business. The combined balances decreased 6% over 2005.

Off balance sheet products include managed assets such as mutual funds, collective investment trusts and synthetic GICs. Off balance sheet production of USD 18.4 billion slightly decreased compared to that of 2004. Mutual fund sales of USD 10.1 billion decreased 9% in 2005 compared to 2004. Synthetic GIC sales of USD 8.2 billion in 2005 were 13% above those of 2004. Off balance sheet assets have increased 6% over 2005 and now total USD 80.8 billion.

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THE NETHERLANDS

AEGON The Netherlands

	2005 in million EUR	2004 in million EUR	%
Income by product segment			
Traditional life	270	40	
Life for account of policyholders	(53)	45	
Fee - off balance sheet products	15	26	(42)
Accident and health insurance	45	27	67
General insurance	30	34	(12)
Banking activities	15	24	(38)
Operating earnings before tax	**322**	**196**	**64**
Gains/(losses) on investments	985	907	9
Impairment charges	(25)	(19)	(32)
Share in profit/(loss) of associates	4	13	(69)
Income before tax	**1,286**	**1,097**	**17**
Income tax	(272)	(177)	54
Net income	**1,014**	**920**	**10**

Operating earnings before tax

AEGON The Netherlands operating earnings before tax for 2005 of EUR 322 million increased by EUR 126 million or 64% compared to 2004. The increase in the Netherlands is largely due to improved interest results, a release of provisions for profit-sharing and employee benefits, as well as increased technical life and non life results, partially offset by additions to provisions for products with certain guarantees and for improvements to certain spaarkas products, affecting life for account of policyholders. The release of the provision for employee benefits was mainly due to legislative changes. Operating earnings include certain volatile items under IFRS. In 2005, these items contributed EUR 62 million to operating earnings compared to EUR 12 million in 2004. These volatile items include financial assets carried at fair value, such as investments in private equity funds and derivatives used in portfolio allocation, for which there is no offset in liabilities. Excluding these volatile items in both 2005 and 2004, operating earnings increased EUR 76 million or 41%.

In May 2005 AEGON The Netherlands announced that it would improve the terms of spaarkas products. In 2005, the improvements involved an amount of approximately EUR 100 million. Part of these costs are offset by a release of a previously established provision. The effect of the improvements on future earnings will also amount to approximately EUR 100 million and will be spread over many years.

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Traditional life operating earnings before tax of EUR 270 million increased EUR 230 million because of higher investment income stemming primarily from the release of profit-sharing provisions of EUR 57 million (compared to an addition of EUR 50 million in 2004), the positive effect of volatile items of EUR 50 million, the returns on swaps used to extend duration of EUR 31 million, dividend receipts of EUR 20 million and EUR 33 million related to the deferred purchase price receivable of the mortgage securitization programs.

Life for the account of policyholders operating earnings before tax amounted to an EUR 53 million loss in 2005 compared to a profit of EUR 45 million in 2004. The decrease was mainly caused by additional provisioning related to Spaarkas products (EUR 42 million) and the additions to the guarantee provisions (EUR 163 million in 2005 compared to EUR 37 million in 2004). Lower amortization of DPAC mitigated the above mentioned losses.

Operating earnings before tax from fee business of EUR 15 million in 2005, decreased by EUR 11 million or 42% compared to 2004. Meeùs operational results decreased as significant investments were made in improving quality and generating growth. An expense management program commenced in the fourth quarter of 2005. TKP Pensioen and AEGON Asset Management have both performed better.

Accident and health insurance operating earnings before tax of EUR 45 million increased by EUR 18 million or 67% compared to the results over 2004. The accident and health business benefited from the positive claim experience on disability and sick leave coverage products.

General insurance operating earnings before tax of EUR 30 million decreased by EUR 4 million in comparison to 2004 mainly due to additional provisioning for personal liability insurance. Fire and transport have performed well.

Banking operating earnings before tax of EUR 15 million decreased by EUR 9 million mainly reflecting additional settlements of client disputes regarding Sprintplan and Vliegwiel, a decline in the lease portfolio due to expiration, a decline in savings accounts balances following the release of company savings accounts and lower interest spreads.

Impact of volatile items in the Netherlands

In millions	**EUR 2005**	**EUR 2004**
Asset valuation		
Traditional life	55	24
Life for account of policyholders	12	4
Total asset valuation	**67**	**28**
Derivatives		
Traditional life	(5)	(12)
Life for account of policyholders	0	(2)
Accident and health insurance	0	(1)
General insurance	0	(1)
Total derivatives	**(5)**	**(16)**
Total volatile items	**62**	**12**

For AEGON the Netherlands, operating earnings before tax on an IFRS basis are generally expected to be more volatile than income before realized gains and losses on shares and real estate as reported on the previous DAP basis. In particular, there are two items that are expected to create significant short-term volatility due to the fair value nature of the underlying valuation. In aggregate, these items contributed EUR 62 million to operating earnings in 2005, compared to EUR 12 million in 2004. These items are as follows:

Asset valuation certain financial assets, such as an investment in a private equity fund, are carried at fair value with no offsetting changes in the fair value of liabilities. As of December 31, 2005, these assets totaled EUR 225 million. This item contributed EUR 28 million to operating earnings before tax in 2004, compared to EUR 67 million in 2005.

Derivatives used in portfolio allocation - AEGON The Netherlands uses derivatives to manage the asset allocation of its investment portfolio. These derivatives are carried at fair value with no offsetting changes in the fair value of liabilities. The valuation of these derivatives contributed a negative EUR 16 million to operating earnings before tax in 2004 compared to a negative EUR 5 million in 2005.

Net income

Net income, which includes net realized gains and losses on investments and impairment charges, increased by EUR 94 million or 10% to EUR 1,014 million in 2005. The increase in the non-operating component of earnings is driven by improving equities markets and a declining yield curve. The decision to lengthen the duration of the pension portfolio in the second quarter of 2004 had a significant impact on the results in both 2004 and 2005. Derivatives used to extend the duration contributed EUR 307 million to the non-operating result in 2005. The sale of shares in 2005 resulted in the realization of gains amounting to EUR 348 million, the sale of bonds EUR 154 million and mortgages EUR 32 million. Changes in the market value of real estate contributed a further EUR 144 million to non-operating income.

Impairment charges in 2005 amounted to a total of EUR 25 million compared to EUR 19 million in 2004, comprised of EUR 25 million in respect of AEGON Germany which was sold in April 2005, impairments on loans of EUR 3 million, impairments of shares of EUR 14 million and offset by the release of provisions on lease products (EUR 17 million) due to increases in the value of investments coupled with the lease products.

Revenues

Revenues of EUR 6,164 million increased by 4% in 2005 compared to 2004. Life insurance gross premiums of EUR 3,021 million increased by 1%, accident and health insurance premiums of EUR 191 million increased by 2%, general insurance premiums of EUR 443 million remained stable, investment income of EUR 2,184 million increased by 8% and fees and commissions of EUR 325 million increased by 9%.

Life general account premiums of EUR 893 million decreased by 23% compared to 2004, mainly due to the decrease in single premiums. Recurring premiums have remained stable compared to 2004.

Life for account of policyholders premiums of EUR 2,128 million increased by 17% compared to 2004 as a result of several large new contracts in the single premium-segment that closed in 2005. In addition, a catch-up effect for a large co-insurance pension contract in the recurring segment was booked in the first quarter of 2005.

Accident and health insurance premiums increased by 2% in 2005 compared to 2004 as a consequence of the privatization of disability for self employed (WAZ). General insurance revenues remained flat compared to last year.

Investment income amounted to EUR 2,184 million and increased 8% as a consequence of higher volumes of both investments and derivative instruments in 2005, partly offset by lower investment income from banking activities due to a shrinking block of business (runoff of Sprintplan-product and withdrawal of company savings plans).

Fee and commission income of EUR 325 million was 9% higher than in 2004 due to strong growth (55%) in the service centers, 17% growth for TKP Pensioen and a 22% increase for AEGON Asset Management.

Commissions and operating expenses

Total commissions and operating expenses increased by 7% to EUR 1,091 million in comparison to 2004.

Operating expenses increased by EUR 162 million or 27% to EUR 752 million. Operating expenses in 2005 included the addition to the provision for spaarkas products (EUR 42 million) partially offset by releases of the provisions for lease products (EUR 8 million). In 2004 operating expenses included the release of the provision related to the sale of real estate in 2000 (EUR 56 million) and the receipt of fraud compensation (EUR 16 million). When one-time items are excluded, operating expenses increased by EUR 25 million or 4% mainly due to additional employee expenses reflecting the focus on improving the quality of the organization and higher compliance and regulatory costs.

Deferred expenses were slightly lower in 2005 compared to 2004 as a significant portion of commissions relates to the sale of single premium products, which are not deferred. DPAC amortization declined in comparison to 2004 as a consequence of accelerated DPAC amortization charges in 2004.

Production

Standardized new life production of EUR 231 million was 2% higher than that of 2004.

Single premium production increased by 4% compared to 2004. This increase was mainly due to the conclusion of a number of institutional pension contracts in the life for account of policyholder business line. These contracts are very significant but tend to be incidental and therefore production is less predictable. The recurring premium production has remained stable compared to 2004. Whereas 2004 benefited from the effect of changes in pension legislation causing strong production in the second quarter of 2004 of Streefregelingen, 2005 included several large new contracts. Moneymaxx Germany production in 2005 amounted to EUR 3 million (2004: EUR 15 million) reflecting the sale of this business in the first quarter of 2005. Excluding Moneymaxx Germany, the total standardized new premium production life increased by 8%.

Non-life production decreased by 25% in comparison to 2004. Accident and health production declined in 2005 as a consequence of announced changes to legislation, with no production in the fourth quarter of 2005. The strong production in 2004 came from the new sick leave product (EUR 8 million) and from the disability product for self-employed. In 2005, AEGON The Netherlands developed new disability products for the group employee benefits market to address the changing needs as a result of the new disability system in the Netherlands as outlined in the WIA law. To date, AEGON has signed WIA contracts with 2,250 employers. General insurance production amounted to EUR 40 million and showed a stable pattern throughout 2005 and 2004.

Off balance sheet production increased by 10% to EUR 864 million, reflecting growth in asset-only group pension contracts and good performance at TKP Pensioen.

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UNITED KINGDOM

AEGON United Kingdom

	2005 in million GBP	2004 in million GBP	%	2005 in million EUR	2004 in million EUR	%
Income by product segment						
Traditional life	(1)	(8)	88	(1)	(12)	92
Life for account of policyholders	139	114	22	203	168	21
Fee - off balance sheet products[1]	(27)	3		(40)	5	
Operating earnings before tax	**111**	**109**	**2**	**162**	**161**	**1**
Gains/(losses) on investments	6	3	100	9	4	125
Impairment charges	(2)	(2)		(3)	(3)	
Other non operating income/(charges)[2]	71	40	78	104	58	79
Share in profit/(loss) of associates	0	0		0	0	
Income before tax	**186**	**150**	**24**	**272**	**220**	**24**
Income tax attributable to policyholder return	(71)	(40)	78	(104)	(58)	79
Income before income tax on shareholders return	**115**	**110**	**5**	**168**	**162**	**4**
Income tax on shareholders return	(17)	(28)	(39)	(24)	(41)	(41)
Net income	**98**	**82**	**20**	**144**	**121**	**19**

1 Includes GBP 33 million in 2005 for incentive pay related to Positive Solutions.

2 Other non-operating income/(charges) is currently used to report charges made to policyholders in respect of income tax. There is an equal and opposite tax charge which is reported in the line Income tax attributable to policyholder return.

Exchange rates

Per 1 EUR	Weighted average 2005	Weighted average 2004	Year-end 2005	Year-end 2004
GBP	0.6837	0.6790	0.6853	0.7051

Operating earnings before tax

Operating earnings before tax of GBP 111 million in 2005 increased by 2% compared to 2004. The increase primarily reflects the positive effect of the higher equity and bond markets on policy fee income offset by a GBP 33 million charge for the incentive plan for registered individuals and staff related to the acquisition of the remaining 40% of Positive Solutions (GBP 23 million in the third quarter of 2005 and GBP 10 million in the fourth quarter of 2005). A further charge of GBP 7 million is expected in the first quarter of 2006. AEGON UK has accelerated the incentive plan for Positive Solutions registered individuals and staff on the back of the acquisition of the remaining 40% of Positive Solutions. The FTSE level was on average 15% higher in 2005 than in 2004 and results in 2004 included a GBP 10 million restructuring charge.

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Operating earnings before tax in the traditional life product segment were a loss of GBP 1 million in 2005 compared to a loss of GBP 8 million in 2004. The increase reflects a restructuring charge of GBP 10 million in 2004.

Operating earnings before tax in the life for account of policyholder line of business was GBP 139 million for 2005, an increase of 22% compared to 2004. The increase mainly reflects the impact of the higher equity and bond market on policyholder fee income.

Fee business reported a loss of GBP 27 million in 2005 compared to a profit of GBP 3 million in 2004. The lower result is due to the GBP 33 million charge for the incentive plan related to Positive Solutions, while equity markets and higher distribution business profits had a positive effect on operating earnings.

Net income

Other non-operating earnings before tax is used to report charges made to policyholders in respect of corporation tax. These non-operating earnings are offset by an equal and opposite amount included in the line income tax attributable to policyholder return.

Net income for 2005 of GBP 98 million increased by 20% compared to 2004. The effective tax rate decreased from 25% in 2004 to 14% in 2005, largely due to non-recurring tax charges in 2004, the increased volume of protection business in 2005 giving additional expense relief and an increase in profits in AEGON UK s life business lines (these are taxed at a lower rate than pensions business).

Revenues

Revenues of GBP 5,155 million were up 5% from 2004. This reflects growth in annuity production over 2005.

The increase in fee and commission revenues of 28% to GBP 153 million is due to growth in income from our distribution companies. In particular there was strong growth in Positive Solutions income during the year.

Commissions and operating expenses

Commission and operating expenses increased 20% to GBP 518 million and included the GBP 33 million incentive cost related to Positive Solutions, and the growth in the distribution businesses leading to an increase of GBP 38 million in paid-out commissions. Operating expenses increased GBP 2 million to GBP 346 million.

Production

Standardized new life production increased 4% compared to 2004. Changes in pricing and commission structures in the core pensions markets had a negative effect on production, especially impacting sales in the first quarter, while subsequent quarters showed a recovery in sales levels. AEGON UK continued to record solid growth in onshore bonds, protection business and annuities, illustrating the successful diversification into non-pension business. Higher margin non-pension products, such as annuities, bonds and protection products accounted for nearly one third of production in 2005.

In asset management, AEGON UK had a strong performance in retail and institutional sales, attributable to the continued stock market improvement encouraged investors back into the market as well as to the continued strong performance of AEGON UK Asset Management s fixed income team. Total off balance sheet product sales amounted to GBP 1,032 million compared to GBP 143 million in 2004.

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OTHER COUNTRIES

Other countries

	2005 in million EUR	2004 in million EUR	%
Income by product segment			
Traditional life	13	24	(46)
Life for account of policyholders	6	5	20
Fee - off balance sheet products	4	6	(33)
Accident and health insurance	2	8	(75)
General insurance	25	70	(64)
Other	(6)	0	
Operating earnings before tax	**44**	**113**	**(61)**
Gains/(losses) on investments	12	15	(20)
Impairment charges	176	(2)	
Share in profit/(loss) of associates	16	9	78
Income before tax	**248**	**135**	**84**
Income tax	(37)	(34)	9
Net income	**211**	**101**	**109**

Weighted average exchange rates for the currencies of the countries included in the Other countries segment, and which do not report in euro, are summarized in the table below.

Exchange rates

Per 1 EUR	2005	2004
Czech Republik Krona (CZK)	29.590	30.464
Hungarian Forint (HUF)	248.020	251.830
New Taiwan Dollar (NTD)	39.760	41.690
Polish Zloty (PLN)	3.860	
Rin Min Bi Yuan (CNY)	10.100	11.273
Slovakian Koruna (SKK)	38.640	38.745

Please note that the Other countries segment is accounted for in the financial statements in euro, but the operating results for the individual country units within Other countries are accounted for, and discussed, in terms of the local currencies of those country units.

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AEGON Hungary

Operating earnings before tax

Operating earnings before tax increased by HUF 2.7 billion to HUF 17.9 billion in 2005 mainly due to better technical results, a strict control of expenses and an increase in profit from fee-off balance sheet products.

Life operating earnings before tax increased by HUF 1.2 billion compared to 2004. Traditional life results decreased by HUF 1.1 billion as the portfolio runs off. The increase in life for account of policyholders by HUF 1.5 billion is mainly coming from emphasizing high-profitable elements in life insurance products and lower commissions and expenses ratios. Increased operating results in the fee - off balance sheet line of business of HUF 0.8 billion is due to growing pension fund deposits and managed assets.

Non life operating earnings increased by HUF 1.6 billion, mainly due to lower claims ratio in household and motor and improving expense results.

Net income

Net income increased from HUF 13.2 billion in 2004 to HUF 16.6 billion in 2005. Contributing to the increase are, in addition to higher operating earnings, higher non-operating earnings and a lower effective tax rate.

Revenues

Life premiums amounted to HUF 39.3 billion and increased by HUF 1.7 billion compared to 2004 due to higher universal life recurring sales while traditional life premiums decreased due to mature portfolios. Higher deposits resulted in a HUF 0.8 billion higher fee and commission income despite falling fee rates due to increasing competition in the market. Non life premiums increased by 12% in 2005 compared to 2004. Higher deposits resulted in a HUF 0.8 billion higher fee and commission income despite falling fee rates due to increasing competition in the market.

Commissions and operating expenses

Commission and operating expenses increased by HUF 0.7 billion. Expenses increased by 5% in 2005 compared to 2004 as a result of strict cost control and despite increasing efforts needed to protect and retain pension plan portfolios due to growing competition.

Production

Standardized new life production decreased by 6% in 2005 compared to 2004. To reverse a declining trend in production over the past few years, an intensive marketing campaign was launched in 2005. New life products were launched and the sales network has been restructured. New production started recovering slightly in the last quarter of 2005. Sales of household insurance increased by 6% mainly based on improving client service and price discounts. Strong competition in the motor insurance market caused a small reduction in market share since AEGON Hungary chose to maintain its pricing in order to maintain profitability.

Off balance sheet production increased by HUF 25 billion or 49% to HUF 76 billion, reflecting increased pension fund deposits. Although competition in the pension fund management business intensified, pension fund membership increased by a net 32,500 to 456,000 members. Off balance sheet investments grew by 44% to HUF 282 billion compared to the 2004 year end level.

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AEGON Slovakia

Operating earnings before tax amounted to a loss of SKK 463 million in 2005 compared to a loss of SKK 325 million in 2004.

Premium income increased from SKK 76 million to SKK 105 million. Standardized new premium production decreased from SKK 100 million to SKK 77 million, reflecting the focus on the sale of pension plans, but increased in the second half of 2005 due to new agreements with brokers.

AEGON exceeded the threshold of 50,000 members required by regulatory authorities for a pension fund to be deemed viable, ahead of the June 2006 deadline. AEGON Slovakia has sold over 70,000 policies so far, of which 57,000 are officially registered, reflecting the good investment performance and an attractive fee structure of AEGON s offering.

AEGON Czech Republic

AEGON started selling insurance products in the Czech Republic in the second quarter of 2005. Standardized new premium production was CZK 44 million and operating earnings before tax amounted to a loss of CZK 212 million.

AEGON Poland

On October 4, 2005 the acquisition of AEGON Poland was completed. Standardized new premium production was PLN 41 million in the fourth quarter and operating earnings before tax amounted to a loss of PLN 4 million.

AEGON Spain

Operating earnings before tax

AEGON Spain s operating earnings before tax was a loss of EUR 2 million for 2005, compared to a profit of EUR 63 million for 2004. The decrease mainly related to the sale of the general insurance activities as of January 1, 2005, which contributed EUR 56 million to operating earnings before tax in 2004 and to EUR 9 million of non-recurring costs associated with the sale of the general insurance business.

The result of life was break-even compared to a profit of EUR 4 million in 2004. Accident and health showed a profit of EUR 4 million in 2005 compared to a profit of EUR 8 million in 2004. Following the sale of the general insurance activities, accident and health in Spain only include health insurance. Both businesses were negatively impacted by a loss of economies of scale due to the sale of the non-life business.

Net income

Net income for 2005 amounted to EUR 161 million and included the gain on the sale of the general insurance business of EUR 150 million (pre-tax EUR 176 million) and EUR 11 million related to AEGON s share in the net result of the partnership with Caja de Ahorros del Mediterráneo (CAM) (49.99% interest), which became operational in June 2004 (EUR 4 million in 2004).

The effective tax rate for 2005 was 14% compared to 35% for 2004, mainly due to the low tax rate on the gain on the sale of the general insurance business.

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Revenues

Gross premiums of EUR 192 million for 2005 decreased by 59% compared to the same period of 2004, due to the sale of the general insurance business.

Life premiums increased by 3%, partly due to premiums from the acquired Reale Vida portfolio. Life recurring premiums decreased by 3% but single premiums increased by 32%. The cancellation of a distribution agreement with a large agent had a negative effect on life premium growth. Accident & health premiums increased 6% compared to 2004.

Commissions and operating expenses

Operating expenses increased by EUR 11 million due mainly to non-recurring expenses related to the sale of the general insurance business.

Production

Standardized new premium production was 32% lower than in 2004. This reflects the cancellation of a distribution agreement with a large agent and the slow down in sales in the first half of 2005 from general agents as a consequence of the sale of the non-life activities.

Joint ventures

In July 2005, AEGON Spain signed an agreement to set up a 50/50 partnership with Caja Badajoz. This transaction has not received the approval from the Insurance authorities before December 31, 2005 and therefore no activity has been reported in 2005.

A 50/50 partnership agreement was signed in November 2005 with Caja Navarra. The acquisition of 50% of Seguros Navarra S.A. took place in two tranches. In the fourth quarter of 2005 15% was acquired and in the first quarter of 2006 another 35% stake has been acquired. No results have been recognized in the 2005 financial statements as the acquisition is subject to approval by the Insurance authorities and approval was not received by year-end.

Associates

The partnership with CAM continued its strong growth path, generating premium income of EUR 560 million and new life production of EUR 219 million, compared to EUR 177 million in 2004. The partnership has been successful in expanding sales of recurring premium products, which increased by 27% in 2005. The partnership with CAM is not consolidated by AEGON. AEGON includes its share in the results in the partnership in the line share in profit/(loss) of associates.

AEGON Taiwan

Operating earnings before tax

AEGON Taiwan reported operating earnings before tax of NTD 21 million whereas in 2004 an amount of NTD 149 million was reported. The variances are due mainly to NTD 379 million of cost to hedge the exposure on the USD denominated bonds portfolio in 2005, which was NTD 347 million higher than in 2004. The increase is as a result of a widening of the interest differential between the NTD and USD.

Operating earnings before tax of traditional life was NTD (141) million for the year 2005. The decrease compared to the NTD 57 million profit reported for the year 2004 is mainly due to higher hedging cost.

Net income

Net income decreased from NTD 249 million in 2004 to NTD 176 million in 2005. Net gains on investments were NTD 155 million for the year 2005, lower than the NTD 193 million reported for 2004 mainly attributable to lower realized capital gains on US fixed income instruments in 2005. In 2005 there was no impairment charge versus default losses on convertible bonds of NTD 94 million in 2004.

Revenues

Gross premiums increased by 42% to NTD 35.4 billion mainly coming from growth in recurring premiums in the traditional life business.

Investment income rose from NTD 935 million in 2004 to NTD 1,964 million in 2005, mainly due to an increase in the asset base. Investment assets increased from NTD 41 billion as of December 31, 2004 to NTD 70 billion as of December 31, 2005.

Commissions and operating expenses

Commissions and operating expenses were NTD 4,495 million for the year 2005 compared to NTD 3,462 million reported for the same period last year, mainly due to higher first year commissions as a result of higher new business production.

Production

Standardized new premium production increased from NTD 7.8 billion over 2004 to NTD 12.3 billion over 2005. The production in the second half year of 2005 was negatively affected by a decision to cut commissions and stop selling certain products through the brokerage and bank channels as these products required higher reserves as mandated by the Insurance Bureau.

AEGON China

AEGON s share in operating earnings before tax amounted to a loss of CNY 68 million in 2005 compared to a loss of CNY 41 million in 2004. Gross premiums (AEGON s 50% share) increased from CNY 27 million to CNY 134 million and standardized new premium production increased from CNY 10 million to CNY 23 million in 2005, reflecting the extension of sales channels and the opening of new branches in Beijing and Nanjing in 2005.

Associates

AEGON increased its share in La Mondiale Participations from 20% to 35% on December 31, 2004. AEGON s share in the net result of La Mondiale Participations increased from EUR 5 million in 2004 to EUR 6 million in 2005.

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5.6 Liquidity and capital resources

General

AEGON conducts its capital management processes at various levels in the organization. The main goal of AEGON s capital management is to manage the capital adequacy of its operating companies to high standards within leverage tolerances consistent with strong capitalization.

Capital adequacy

AEGON manages capital adequacy at the level of its country units and their operating companies. AEGON seeks to support its internal capital adequacy levels at the higher of local regulatory requirements, 165% of the relevant local Standard & Poor s capital adequacy models or internally imposed requirements. During 2006, the capital adequacy of AEGON s operating units continued to be strong. All of AEGON s units were capitalized within these tolerances. In the United States, at December 31, 2006, AEGON held approximately 365% of the minimum capital required by the National Association of Insurance Commissioners.

Capital base

AEGON applies leverage tolerances to its capital base. The capital base reflects the capital employed in core activities and consists of shareholders equity, capital securities, and dated subordinated and senior debt. AEGON targets its capital base (excluding revaluation reserve) to comprise at least 70% shareholders equity (excluding revaluation reserve), 25% capital securities and a maximum of 5% dated subordinated and senior debt. At December 31, 2006, AEGON s capital base was within these prescribed tolerances: shareholders equity capital represented 77% of its total capital base, while perpetual capital securities comprised 16% of its total capital base. Senior and dated subordinated debt accounted for the remaining 7%. The ratio of shareholders equity to total capital (excluding revaluation reserve) improved, and capital leverage decreased, mainly due to a strong operating cash flow. In June 2006, AEGON N.V. successfully issued USD 500 million of junior perpetual securities, which was subsequently increased by USD 50 million in July 2006. Additionally, In July 2006, AEGON N.V. issued EUR 200 million of junior perpetual capital securities. This further improved the quality of the capital base and reduced refinancing risk.

Shareholders equity

Shareholders equity was EUR 19,137 million at December 31, 2006, compared to EUR 19,276 million at December 31, 2005. Net income of EUR 2,789 million was offset mainly by a decrease in the foreign currency translation reserve of EUR 1,325 million (largely due to a lower US Dollar), a decrease in the revaluation reserve of EUR 645 million, dividend payments, and coupon payments on perpetual capital securities.

Debt funding and liquidity

AEGON s funding strategy continues to be based on assuring excellent access to international capital markets at low costs. As part of this strategy, AEGON aims to offer institutionally targeted debt securities and to maintain excellent access to retail investors, as witnessed by the successful issuance of junior perpetual capital securities during recent years. AEGON s focus on the fixed income investor base continues to be supported by an active investor relations program to keep investors well informed on AEGON s strategy and results. Most of AEGON s external debt is issued by the parent company, AEGON N.V., as well as a limited number of other AEGON companies whose securities are guaranteed by AEGON N.V. AEGON N.V. has employed its regular access to the capital markets through transactions issued under its USD 6 billion Euro Medium Term Notes Program. AEGON N.V. also has access to US markets through a separate US shelf registration. AEGON N.V. s and AEGON Funding Corp. s (guaranteed by AEGON N.V.) combined USD 4.5 billion Euro and US Commercial Paper Program facilitates access to domestic and international money markets, when required. AEGON maintains back-up credit facilities to support outstanding amounts under its Commercial Paper Programs. The principal arrangement is a USD 5 billion syndicated facility maturing in 2011 and extendable until 2013, of which USD 3 billion acts as a back-up facility. At December 31, 2006, AEGON N.V. had EUR 2.0 billion outstanding under its Medium Term Notes Program and no amounts under its Commercial Paper Programs. In order to further optimize AEGON N.V. s capital structure, Transamerica Corporation successfully called and repurchased USD 381 million outstanding Trust pass through securities in November and December 2006.

Operating leverage is not part of the capital base. At December 31, 2006, operating leverage was EUR 1.6 billion (2005: EUR 1.6 billion). Operating debt activities primarily relate to mortgage warehousing and the funding of US regulation XXX and Guideline AXXX redundant reserves. Internal sources of liquidity include distributions from operating subsidiaries on the basis of excess capital or cash and cash equivalents.

During 2006, internal distributions from units were sufficient to cover interest expense, other holding company expenses, and dividend payments. Internal distributions may be subject to (local) regulatory requirements. Each business unit further controls its liquidity by closely managing the liquidity of its investment portfolio. The duration profile of AEGON s capital leverage is managed in line with the duration of surplus assets related to investments in its subsidiaries, subject to liquidity needs, capital, and other requirements. Of AEGON s total capital leverage at December 31, 2006, approximately EUR 0.6 billion matures within three years and EUR 5.0 billion is perpetual or matures after five years. AEGON considers its working capital, backed by the external funding programs and facilities, to be amply sufficient for the group s present requirements.

5.7 Research and development, patents and licences

Not applicable

5.8 Off-balance sheet Arrangements

As part of the AEGON Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. At December 31, 2006 a total of six publicly placed and one privately placed securitization contracts were outstanding with a total value of EUR 5.8 billion. In 2006, AEGON Levensverzekering N.V. has terminated one of the two privately placed securitization transactions reported in prior years. Also, it completed one public ally placed securitization transaction in 2006, whereby the economic ownership of EUR 2.1 billion of aggregate mortgage receivables was conveyed to a special purpose company. The special purpose company funded this purchase with the issuance of mortgage-backed securities. The transfer of ownership title will take place upon notification of the borrowers by the special purpose company. The special purpose company has the right to notify the borrowers upon the occurrence of certain pre-defined notification events . At the same time AEGON entered into a fixed-to-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). After a period of seven years, the interest of the notes issued by the special purpose company in respect of this transaction will step-up, together with a similar step-up in the fixed-to-floating swap agreement. At that same time, the special purpose company has the right to call the notes. A deferred purchase arrangement forming part of the contract to sell the mortgage loans to the special purpose company entitles AEGON Levensverzekering N.V. to any residual positive value of the special purpose entity at maturity. The value of this arrangement is included in the valuation of the interest rate swap as it is viewed as a correction on the assumptions underlying the cash flow forecasts. In 2005, AEGON Levensverzekering N.V. completed one mortgage-related publicly placed securitization contract for EUR 1.2 billion that was structured similarly to the 2006 securitization described above. A portion of securitized mortgage loans amounting to EUR 24 million (2005: EUR 28 million) continues to be recognized as a financial asset on the balance sheet, representing the interest rate risk retained by AEGON in respect of the fourth publicly placed securitization contract.

For the year ending December 31, 2006, AEGON USA sold approximately EUR 105 million (2005: EUR 21 million) of AAA-wrapped municipal debt securities to qualifying special purpose entities (QSPEs). Due to AEGON s continuing involvement with the assets in these QSPEs, it consolidates these entities. The fair value of all such debt securities reflected in investments and also measured at fair value through profit or loss is EUR 678 million as of December 31, 2006 (2005: EUR 866 million). The acquisition of these securities was financed by the QSPEs through issuance of floating rate notes at par value to third parties and issuance of a de minimus residual investment to AEGON. Upon early termination of a QSPE, up to 10% of the excess of the fair value of the securities over the notes value may be shared with the noteholders, with residual flowing to AEGON. In the event that the fair value of the securities is less than the notes value at early termination and the securities have maintained their investment grade rating, AEGON will reimburse the QSPE liquidity provider for this shortfall. AEGON must pledge collateral to support these shortfall agreements. At December 31, 2006, 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 resulting from AEGON s involvement is the December 31, 2006 unpaid principal and accrued interest on the notes of EUR 649 million (2005: EUR 840 million) reflected in financial liabilities-investment contracts. Management does not anticipate any future funding requirements with respect to these guarantees that would have a material effect on reported financial results.

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5.9 Contractual Obligations and Commitments

i Contractual obligations as per December 31, 2006

In million EUR (payments due by period)	Less than 1 year	1 3 years	4 5 years	More than 5 years	Total
Insurance contracts[1]	7,698	12,042	9,859	127,080	156,679
Insurance contracts for account of policyholders[1]	5,169	10,479	11,025	94,314	120,987
Investment contracts[2]	12,528	10,267	5,944	15,658	44,397
Investment contracts for account of policyholders[2]	4,214	9,542	9,748	105,038	128,542
TRUPS, subordinated borrowings and borrowings[3]	935	1,337	94	2,782	5,148
Scheduled interest payments on TRUPS, subordinated borrowings and borrowings	214	253	329	1,222	2,108
Operating leases[4]	89	179	142	363	773

1 The projected cash benefit payments are based on managements best estimates of the expected gross benefits and expenses partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with AEGON s historical experience, modified for recent observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance. The liability amount in our consolidated financial statement reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 18.19, 18.20 and 18.22. More details on the products, terms and conditions are included in note 18.4.1 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

2 The cash flows included in the table are consistent with those included in the fair value measurement of the liabilities. More details on the products, and terms and conditions are included in notes 18.4.1 and 18.22 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

3 Long-term debt represents principal repayment obligations relating to Trust pass-through securities (TRUPS), subordinated borrowings and borrowings; they are described further in Notes 18.17, 18.18 and 18.23 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

4 Operating leases are primarily related to agency and administration offices.

ii Investments contracted

In the normal course of business, the Group has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2007. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the consolidated balance sheet.

	2006		2005	
	Purchase	Sale	Purchase	Sale
Real estate	2	(1)	2	(5)
Mortgage loans	826		559	
Bonds	1	(2)	11	(12)
Private loans	679		441	
Other	1,346	(2)	1,420	

Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. Other commitments include future purchases of interests in investment funds and limited partnerships.

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iii Other commitments and contingencies

	2006	2005
Guarantees	166	146
Standby letters of credit	105	34
Share of contingent liabilities incurred in relation to interests in joint ventures	615	676
Other collateral and guarantees	70	12
Other commitments and contingent liabilities	57	81

Guarantees include those given on account of asset management commitments and guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States.

Standby letters of credit amounts reflected above are the liquidity commitment notional amounts.

In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

AEGON N.V. has entered into a net worth maintenance agreement with its indirect subsidiary AEGON Financial Assurance Ireland Limited (AFA), pursuant to which AEGON N.V. will cause AFA to have a tangible net worth of at least 3% of its total liabilities under financial guaranty policies which it issues up to a maximum of EUR 3 billion.

On November 1, 2006, AEGON entered into an agreement to acquire 100% of the outstanding common shares of Clark Inc. (Clark), a public company specializing in the sale of corporate-owned life insurance, bank-owned life insurance and other benefit programs. On March 13, 2007, AEGON announced the completion of the tender offer process and finalized the acquisition of Clark. The estimated aggregate purchase price is approximately EUR 263 million, consisting of EUR 208 million cash consideration, EUR 34 million of Clark debt assumed by AEGON, the EUR 21 million cost basis of Clark common stock already owned by AEGON and transaction costs. As part of the transaction, a Clark management group has acquired from AEGON some of Clark s other business segments, not considered core to AEGON for EUR 41 million.

In December 2006, AEGON and Ranbaxy Promoter Group agreed to jointly establish a life insurance and an asset management undertaking in India. The ventures will be incorporated by AEGON and Religare, the financial services division of Ranbaxy Promoter Group. The transactions are expected to be completed in the second half of 2007.

AEGON N.V. has guaranteed and is severally liable for the following:

- Due and punctual payment of payables due under letter of credit agreements applied for by AEGON N.V. as co-applicant with its subsidiary companies AEGON USA, Inc., Commonwealth General Corporation and Transamerica Corporation (EUR 2,528 million). At December 31, 2006, there were no amounts due and payable.

- Due and punctual payment of payables by the consolidated group companies AEGON Funding Corp., Commonwealth General Corporation, Transamerica Corporation and Transamerica Finance Corp. with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 1,025 million), as well as payables with respect to a derivative transaction of Transamerica Corporation (nominal amount EUR 744 million).

- Due and punctual payment of any amounts owed to third parties by the consolidated group company AEGON Derivatives N.V. in connection with derivative transactions. AEGON Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore minimal as at December 31, 2006.

AEGON is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. In particular, certain current and former customers, and groups representing customers, have initiated litigation and certain groups are encouraging others to bring lawsuits in respect of certain products in the Netherlands. The products involved include securities leasing products and unit linked products (so called beleggingsverzekeringen including the KoersPlan product). AEGON has established adequate litigation policies to deal with the claims defending when the claim is without merit and seeking to settle in certain circumstances. This and any other litigation AEGON has been involved in over the last twelve months have not had any significant effects on the financial position or profitability of AEGON N.V. or the Group. However, there can be no assurances that AEGON will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

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In addition, in recent years, the insurance industry has increasingly been the subject of litigation, investigations and regulatory activity by various governmental and enforcement authorities concerning certain practices. AEGON subsidiaries have received inquiries from local authorities in various jurisdictions including the United States, the United Kingdom and the Netherlands. In certain instances, AEGON subsidiaries modified business practices in response to such inquiries or the findings thereof. Certain AEGON subsidiaries have been informed that the regulators may seek fines or other monetary penalties or changes in the way AEGON conducts its business.

iv Collateral

AEGON pledges investment securities that are on its balance sheet related to certain other transactions that it enters into that create liabilities, such as reverse repurchase agreements and other transactions involving funding agreements. The amount of collateral pledged may vary as the fair value of the securities changes since these agreements require certain minimum maintenance levels.

AEGON receives collateral related to securities lending transactions. The collateral received is typically in the form of cash and is invested in pre-designated high quality investment strategies. The collateral is typically greater than the market value of the related securities loaned and is recorded on the balance sheet as an asset and an offsetting liability is established for the same amount. AEGON is obligated to return the collateral upon termination of the lending arrangement.

AEGON can receive or pledge collateral relative to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by AEGON or its counterparty. In addition, in order to trade derivatives on the various exchanges, AEGON posts margin as collateral. The amount of collateral will vary with the market value changes of the derivative contracts. Cash is normally received as collateral and a portion of this cash collateral has been rehypothecated to other parties to serve as collateral. Securities that may be received, other than cash that has been rehypothecated, are reported on the consolidated balance sheet at fair value. Cash that is pledged to counterparties is removed from the balance sheet. AEGON is obligated to return the collateral to the original counterparty upon termination of the derivative contract.

AEGON has entered into asset lending transactions for which the collateral is held by a third party and will only be released to AEGON on default by the counterparty. This collateral is not recognized in the balance sheet.

Assets pledged as collateral

The following table summarizes the carrying amounts on the balance sheet of financial assets pledged as collateral. Collateral paid as part of share borrowing or reverse repurchase transactions are included in this information.

	2006	**2005**
Financial assets pledged for liabilities	4,547	3,395
Other financial assets pledged as collateral	121	103

When AEGON pays cash collateral as part of security borrowing or reverse repurchase transactions, an asset is recorded to receive back the cash pledged. The balance of these receivables, as also reflected in Note 18.13 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F, are as follows:

	2006	**2005**
Cash collateral paid as part of security borrowing	34	
Cash collateral pledged on reverse repurchase agreements	4	23

AEGON does not account for the receipt of the securities, as the Group does not have economic ownership. When collateral takes the form of non-cash, AEGON does not account for the delivery of instruments as collateral, or for the securities received, as there is no change in economic ownership.

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Assets accepted as collateral

Details of collateral accepted that the Group is permitted to sell or repledge in the absence of default by the owner of the collateral are as follows:

	2006	2005
Fair value of financial assets accepted as collateral	9,960	4,616
Repurchase agreements	806	

As part of security lending and repurchase agreements, AEGON received EUR 23 billion (2005: EUR 22 billion) of cash and non cash collateral. For cash collateral received, AEGON recognized a liability to repay the cash, which is included in other liabilities in note 18.28 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F., for the following amounts:

	2006	2005
Cash collateral repayable on security lending and repurchase agreements	9,315	3,917

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5.10 Subsequent Events

On January 19, 2007 AEGON announced the signing of a memorandum of understanding with Banca Transilvania to jointly develop and operate a mandatory pension company in Romania. The 50/50 joint venture company will be established in the summer of 2007 in anticipation of introduction of a mandatory pension system in Romania, expected by early 2008. In addition AEGON will establish a life insurance company in Romania that will enter into a distribution agreement with Banca Transilvania to sell co-branded products through the bank s branch network.

On January 25, 2007 AEGON N.V. and Sony Life Insurance Co., Ltd. announced their intention to establish a life insurance company in Japan. The 50/50 joint venture will develop annuity products, initially focusing on variable annuity products that will be distributed though Sony Life s Lifeplanner® channel as well as through banks an other financial institutions. The partnership between AEGON and Sony Life is expected to be operational in early 2008, subject to final agreement and regulatory licensing and approval.

On January 29, 2007 AEGON announced that it successfully completed a transaction involving a private Value of in-force (ViF) securitization by AEGON UK, enabling AEGON UK to monetize a portion of future profits associated with an existing book of unit-linked business. The securitization will add around EUR 134 million (GBP 90 million) to the total core capital of AEGON. The capital created by the transaction will be used by AEGON UK to return capital to the Group. These transactions provide the company with flexible solutions that help manage reserves and capital in a cost efficient manner. AEGON will continue to explore further opportunities for securitizations and structured financing as part of its ongoing commitment to efficiently manage capital and reserve needs.

On November 1, 2006, AEGON entered into an agreement to acquire 100% of the outstanding common shares of Clark Inc. (Clark), a public company specializing in the sale of corporate-owned life insurance, bank-owned life Insurance and other benefit programs. On March 7, 2007, AEGON announced the expiration of its tender offer to purchase all the outstanding shares of Clark common stock at USD 17.21 per share. Based on preliminary information, the shares tendered, together with the shares already owned by AEGON, represent approximately 94% of the outstanding shares of Clark. On March 13, 2007, AEGON completed the tender offer process and finalized the acquisition of Clark. The sale of Clark s other business groups has also been completed.

On March 15, 2007 AEGON announced an agreement to acquire OPTAS N.V., a Dutch life insurance company specializing in employee benefit products and services within the Dutch group pension market. The net consideration for AEGON of this transaction is approximately EUR 100 million. OPTAS N.V., the successor of Stichting Pensioenfonds voor de Vervoer- en Havenbedrijven (a pension fund for companies active in the transport and port industries) was converted into a public company in 1997. At the end of 2005, OPTAS had 60,000 policyholders and reported total gross written premiums of EUR 92 million, with total assets of EUR 4.3 billion. AEGON will acquire OPTAS N.V. for a gross amount of approximately EUR 1.3 billion. Taking into account the excess capital of OPTAS, the net consideration is estimated to be approximately EUR 100 million. A portion of the shareholders equity of OPTAS is subject to restrictions as set out in the articles of association of the company. These restrictions assure continued fulfillment of existing policy obligations and will remain in force after the acquisition. The combination of OPTAS and AEGON s existing pension activities will lead to a more efficient platform to serve the group pension market. The transaction will have a slightly positive effect on AEGON N.V. s earnings per share. This acquisition agreement is subject to the consultation of the Works Councils of both OPTAS and AEGON The Netherlands, in addition to the approvals of the relevant regulatory authorities.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.1 Introduction

AEGON N.V. is a public company under Dutch law and it is governed by three corporate bodies: the General Meeting of Shareholders, the Executive Board and the Supervisory Board.

6.2 General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year to discuss and resolve on subjects, which include the adoption of the annual accounts, the approval of dividends and any appointments to the Executive Board and the Supervisory Board. Meetings are convened by public notice.

Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Executive Board whenever deemed necessary. In accordance with the Articles of Incorporation, requests to add subjects to the agenda of a General Meeting of Shareholders made by shareholders representing at least 0.1% of the issued common shares will generally be honored.

Every shareholder is entitled to attend the General Meeting of Shareholders and to speak and vote in the meeting, either in person or by proxy granted in writing (including electronically embedded proxies). The participating shareholder must comply with the applicable statutory provisions pertaining to the provision of evidence of shareholders status and notification of intention to attend the meeting. When convening General Meeting of Shareholders, the Executive Board can set a record date for determining the entitlement of shareholders to attend and vote at the General Meeting of Shareholders.

As a participant of Stichting Communicatiekanaal Aandeelhouders (a Dutch foundation dedicated to enhancing the communication with and participation of shareholders at General Meetings of Shareholders) AEGON welcomes the possibility of voting by proxy. Moreover, proxies are solicited from the New York Registry shareholders in accordance with US practice.

At the General Meeting of Shareholders each share is entitled to one vote. However, the holder of preferred shares, Vereniging AEGON, is entitled to cast 25/12 votes per preferred share in the event that Vereniging AEGON, in its sole discretion, has determined that a special cause (as defined in the Preferred Shares Voting Rights Agreement which is published on our website) has occurred. Each special cause is then limited to a period of six months. In this respect reference is made to the section on Vereniging AEGON in Note 18.15 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

At the General Meeting of Shareholders all resolutions are adopted with an absolute majority of the valid votes, unless a greater majority is required by law or by the Articles of Incorporation.

6.3 Executive Board

The Executive Board, as a body, is charged with the management of the Company. Each Board member has an allocation of duties relating to his or her specific areas of interest. The number of the Executive Board members and their terms of employment are determined by the Supervisory Board. The members of the Executive Board are appointed by the General Meeting of Shareholders upon nomination of the Supervisory Board.

Pension arrangements of the Members of the Executive Board are based on a retirement age of 62 with optional retirement at reaching the age of 60. The Articles of Incorporation require the Executive Board to obtain the prior approval of the Supervisory Board for a number of defined resolutions. Additionally, the Supervisory Board may subject other resolutions of the Executive Board to its prior approval.

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6.4 Supervisory Board

The supervision of the management of the Executive Board and of the Company s business and general course of affairs is entrusted to the Supervisory Board, acting as a body with collective responsibility and accountability. The Supervisory Board also assists the Executive Board by giving advice. In performing their duties the Supervisory Board members shall act in accordance with the interests of the Company and its business.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders upon nomination of the Supervisory Board. The Supervisory Board currently consists of nine non-executive members, one of whom is a former member of the Executive Board. Specific issues are prepared and dealt with in committees of the Supervisory Board members. In view of a balanced composition of the Supervisory Board a profile has been drawn up, outlining the required qualifications of its members. Upon reaching the age of 70, a member of the Supervisory Board is no longer eligible for reappointment, except with the approval of the Supervisory Board. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders.

6.5 Specific Information with regard to Exercise of Control

As a publicly listed company, AEGON N.V. is required to explicitly provide the following detailed information regarding structures and measures that could hinder the acquisition and exercise of control over the company by an offeror. To the extent necessary, an explanation is given with each item below:

(a) The authorized capital of the company amounts to EUR 610,000,000, divided into 3,000,000,000 common shares with par value of EUR 0.12 each and 1,000,000,000 class A and class B preferred shares with par value of EUR 0.25 each. At December 31, 2006, 1,622,927,058 common shares and 240,970,000 preferred shares were issued. Common shares and preferred shares represent 76.4% respectively 23.6% of the total issued and fully paid up capital. The capital contribution made on the preferred shares class A is reflective of the market value of AEGON s common shares at the time the capital contribution was made. Preferred shares are entitled to receive a preferred dividend on the paid in amount. No other dividend is paid on the preferred shares. Upon liquidation of the company the paid in amount on the preferred shares is reimbursed before any payment will be made on the common shares. Each share confers the right to cast one vote. However, the holder of preferred shares is entitled to cast 25/12 (= approximately 2.08) votes per preferred share in line with the higher par value of the preferred shares.

(b) There are no restrictions on the transfer of common shares. As regards the transferability of the preferred shares reference is made to the arrangements of clause 10.5 of the Amendment of the 1983 Merger Agreement, as published on our website.

(c) Vereniging AEGON holds 171,974,055 common shares and all 240,970,000 issued preferred shares, together representing 32.3% of the voting capital; however, in the absence of a special cause , this holding represents 22.6% of the voting capital. The 1983 Merger Agreement (as amended) provides that additional preferred shares class B are to be issued by AEGON to Vereniging AEGON at the option of Vereniging AEGON in order to prevent Vereniging AEGON s voting power from being diluted as a result of issuances of common shares.

(d) AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a special cause has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a period of six months. Based on its current aggregate holdings of common and preferred shares, Vereniging AEGON would in that case command 32.3% of the votes at a General Meeting of Shareholders. As a result of the foregoing and certain qualified majorities specified in AEGON s Articles of Incorporation, in the event of a special cause and for a period of six months, Vereniging AEGON may effectively be in a position to temporarily block unfriendly actions by a hostile bidder or others.

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(e) Senior executives of AEGON companies as well as other AEGON employees have been offered both share appreciation rights and share options. In this regard reference is made to Note 18.40 of the notes to our consolidated financial statements in Item 18 of this Annual report on Form 20-F. Under the outstanding option plans it is up to the executive/employee to exercise its option rights under the conditions of the plan. The company cannot influence the exercise of granted option rights.

(f) There are no restrictions on the exercise of voting rights, neither in number of votes nor in terms of time limitations (apart from the limitation in time mentioned under (d) above as to the exercise of full voting rights on preferred shares). Depositary receipts for shares are not issued with the company s cooperation.

(g) The company has no knowledge of any agreement between shareholders with regard to the restriction of share transfers or of voting rights pertaining to shares.

(h) The General Meeting of Shareholders may, with an absolute majority of votes, pass a resolution to amend the Articles of Incorporation or to dissolve the company upon a proposal of the Executive Board as approved by the Supervisory Board.

The members of the Executive and Supervisory Boards are appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board. This nomination will be binding if at least two candidates are nominated. However, the General Meeting of Shareholders may cancel the binding character of such nominations with a majority of two-thirds of the votes cast representing at least one-half of the issued capital. A resolution of the General Meeting of Shareholders to appoint a person other than in accordance with a nomination by the Supervisory Board requires a majority of two-thirds of the votes cast representing at least one-half of the issued capital. In addition, members of the Executive and Supervisory Board can only be dismissed by the General Meeting of Shareholders with the same qualified majority, except if proposed by the Supervisory Board.

The provisions on appointing board members were included at the time of the overall review of AEGON s corporate governance and were adopted at the extraordinary General Meeting of Shareholders on May 9, 2003. The qualified majority requirement was included in order to give AEGON a temporary protection against unfriendly actions by a hostile bidder, for example. Effectively, Vereniging AEGON may for a period of six months block unfriendly attempts to replace the Supervisory Board and the Executive Board.

(i) New shares may be issued pursuant to a resolution of the General Meeting of Shareholders up to the maximum of the authorized capital. Shares may also be issued following a resolution of the Executive Board, if and to the extent that the Board is authorized to do so by the General Meeting of Shareholders. An authorization to that end is usually proposed to the Annual General Meeting of Shareholders.

The company is entitled to acquire its own fully paid-up shares for consideration within the limits set by the applicable legal requirements. The Annual General Meeting of Shareholders usually authorizes the Executive Board to acquire shares of the company on conditions set by the General Meeting.

(j) The company is not a party to significant agreements, which take effect, alter or terminate conditional upon a change of control of the company following a public offer on the outstanding shares of the company, other than customary in the market (e.g. financial arrangements, loan agreements, joint venture agreements),

(k) The employment agreements of the company with the members of the Executive Board, as published on AEGON s website, contain provisions which entitle the members to severance payments in case of termination of employment in connection with a merger or take-over.

6.6 Dutch Corporate Governance Code

i General

In December 2003, the Dutch Corporate Governance Code was adopted. The code came into effect on January 1, 2004. AEGON endorses the code and the principles of good corporate governance included therein. AEGON has welcomed the guidance given by the Monitoring Committee Corporate Governance. This chapter is intended to outline AEGON s compliance with the code as of the end of 2006. The circumstances in which AEGON does not fully comply with the code are explained. The information set forth below closely follows the structure of the Dutch Corporate Governance Code. Where appropriate, the headings of the Code s chapters and paragraphs have been included for easy reference.

ii Implementing the corporate governance code

The Executive Board and the Supervisory Board accept full responsibility of AEGON s corporate governance structure. Whenever a substantial change in the company s corporate governance structure is proposed, AEGON will submit the proposal for debate as a separate agenda item at the General Meeting of Shareholders.

iii Executive Board

The Supervisory Board has agreed with the Executive Board and its individual members on a reappointment and retirement schedule for Executive Board members, which is available on the company s website www.aegon.com.

In accordance with this schedule, the 2006 annual General Meeting of Shareholders reappointed Mr. J.G. van der Werf as a member of the Executive Board for a term of four years. Although he was reappointed by shareholders during the 2006 AGM, Mr. Van der Werf submitted his resignation as an Executive Board member, effective December 31, 2006, because he was appointed to the Management Board of AEGON N.V. on January 1, 2007. The Supervisory Board intends to propose to the annual General Meeting of Shareholders in 2007 that Mr. A.R. Wynaendts be reappointed as a member of the Executive Board for a four year term. The principle of appointments to the Executive Board for a four year term with possible reappointment is duly reflected in the Articles of Incorporation.

In accordance with AEGON past practice, the Executive Board will submit the company s operational and financial objectives along with the strategy to achieve stated goals to the Supervisory Board for its consideration and approval. The outlined objectives and strategy include detailed parameters to be applied in relation to the strategy, such as the company s financial ratios and capital adequacy levels. A summary of these plans will continue to form part of AEGON s annual reports.

AEGON closely pays attention to risk management and risk factors in each of its country and group units.

AEGON s annual report includes information about the most important external factors and variables influencing the company s performance. These analyses include AEGON s long term market projections and company sensitivity to interest rate fluctuations and to changes in equity, real estate, and currency markets. The Executive and Supervisory Boards will consider the publication of additional analyses if or when appropriate.

AEGON has adopted a Code of Conduct at group level. The Code of Conduct is implemented and monitored by a taskforce that reports directly to the Executive Board. This is in addition to the Codes of Conduct adopted earlier by the majority of AEGON s country units. The Code of Conduct includes whistleblower provisions that give employees the ability to report on suspected irregularities without jeopardizing their employment. Within the framework of the Financial Controls Complaints Procedure more detailed rules and regulations have been implemented regarding the reporting of finance-related complaints. Serious violations of the Code of Conduct, as well as any alleged irregularities concerning the functioning of Executive Board members, are reported directly to the chairman of the Supervisory Board. The Code of Conduct and the Financial Controls Complaints Procedure of AEGON N.V. are available on AEGON s website.

None of the members of AEGON s Executive Board is a member of the Supervisory Board of more than two listed companies nor is a chairman of the Supervisory Board of a listed company. The Executive Board Rules, as posted on AEGON s website, provide that any prospective appointment of an AEGON Executive Board member to a supervisory or non-executive director

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role in another Dutch-listed company is subject to prior approval from AEGON s Supervisory Board. Moreover, the Executive Board Rules state that Executive Board members intending to accept any other significant professional position will notify the Supervisory Board prior to accepting such position.

iv Remuneration

AEGON s Remuneration Policy was adopted by the General Meeting of Shareholders on April 22, 2004 for a period of three years (2004-2006). The annual General Meeting of Shareholders of April 25, 2006, resolved to extend the duration of this Remuneration Policy until the annual General Meeting of Shareholders of April 25, 2007. At that meeting a new Remuneration Policy will be proposed. Please refer to AEGON s website for the new Remuneration Policy.

AEGON places a high importance on attracting and retaining qualified directors and personnel, while at the same time safeguarding and promoting the company s medium and long term interests. The Remuneration Policy currently in force for members of the Executive Board is reflective of these objectives. It was designed to support AEGON s strategy of value creation and shareholder alignment, in addition to establishing standards for evaluating performance and business results. The Remuneration Policy also offers an incentive for Board members with performance-linked pay, reflecting both individual member and collective Executive Board performance. Moreover, the Remuneration Policy takes into consideration corporate governance guidelines and compensation levels in relevant reference markets.

The Remuneration Policy 2004-2006 for Executive Board members includes fixed and variable components. With respect to the variable components, the Supervisory Board has set clear and measurable criteria including measures relating to the value of new business and total shareholders return. For more details on the compensation of the Executive Board members, please refer to the chapter on remuneration in Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The current Remuneration Policy also sets out a plan for Executive Board members to be remunerated partly in share options (performance options) and performance shares. If Executive Board members are entitled to share options, the strike price of these options corresponds to the AEGON share price on Euronext Amsterdam at the close of trading on the date the options are granted. The terms under which share options and performance shares are issued shall not be altered during the reference period, except for technical alterations in accordance with market practice in events such as share splits, mergers and acquisitions, share issuances, and (super) dividends. Any performance shares granted must be retained for a period of at least five years from the date of the grant or at least until the end of employment, if the latter period is shorter.

The Supervisory Board has decided that it will amend the Remuneration Policy with regard to severance payments owed to new members of the Executive Board. Changes will include setting a maximum severance payment in the event of termination, limited to the fixed component of the particular member s salary for one year, or two years in cases where a maximum of one year s salary would be manifestly unreasonable for a Executive Board member who is dismissed in his or her first term of office. The Supervisory Board has agreed with the current members of the Executive Board not to amend the existing severance payment arrangements that apply to them in order to respect the existing employment agreements and in consideration of varying employment conditions in the United States and the Netherlands. The employment agreements of the members of the Executive Board can be found on AEGON s website.

As consistently disclosed in AEGON s annual reports, members of the Executive Board of AEGON are entitled to mortgage loans provided by AEGON in the normal course of its business and under the terms applicable to employees in the Netherlands. Such loans to Executive Board members are subject to the prior approval of the Supervisory Board.

AEGON has detailed regulations applicable to members of the Executive Board concerning the ownership of and transactions in securities, other than AEGON shares. These regulations are in line with the regulations prescribed by the Dutch regulators and have been further refined in light of the more detailed best practice provisions of the Dutch Corporate Governance Code. Compliance with these regulations is supervised by the Group Compliance Officer, who acts alongside compliance officers appointed by country units and the business units. The regulations applicable to members of the Executive Board are posted on AEGON s website.

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v Determination and disclosure of remuneration

The Remuneration Report of the Supervisory Board, as included in Item 6.10 of this annual report and available on the company s website, explains the manner in which the Remuneration Policy pertaining to the members of the Executive Board has been applied in the year under review. The principal points of the Remuneration Report are also dealt with in the Report of the Supervisory Board. In addition, the annual report presents an overview of the current Remuneration Policy, as adopted previously by the annual General Meeting of Shareholders and in force until the annual General Meeting of Shareholders of April 25, 2007. At that meeting a new Remuneration Policy will be proposed.

The remuneration of the individual members of the Executive Board is determined by the Supervisory Board within the scope of the prevailing Remuneration Policy. Upon conclusion of a contract with a new member of the Executive Board, the main elements of the member s employment contract shall be made public forthwith. Any particular payment to a (former) member of the Executive Board is recorded and explained in the Remuneration Report.

In AEGON s annual accounts, the value of options and share appreciation rights, granted to the Executive Board and personnel is recognized with an indication as to how the value is determined.

vi Conflicts of interest

The Code of Conduct addresses conflicts of interest that may occur between AEGON and its employees, including the members of the Executive Board. More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Executive Board Rules. Both documents are available on AEGON s website. Any transactions in which there are conflicts of interest shall be agreed on terms customary in the industry and are published in the annual report.

Under the provisions of the Dutch Corporate Governance Code, the membership of Messrs. Shepard and Streppel on the Executive Committee of Vereniging AEGON may give rise to deemed conflicts of interest. The Articles of Association of Vereniging AEGON provide that Messrs. Shepard and Streppel are excluded from voting on certain issues relating directly to AEGON (including the adoption of annual accounts, discharge of members of the Executive Board and appointments to the Executive Board and Supervisory Board of AEGON).

The Supervisory and Executive Boards have drawn up a protocol that provides that the members of the Executive Board who also serve on the Executive committee of Vereniging AEGON shall continue to participate in discussions and decision-making relating to possible transactions with Vereniging AEGON. The Supervisory Board is confident that by adhering to this protocol the deemed conflict of interests with Vereniging AEGON are adequately dealt with and that the best practice provisions of the Code have been complied with in all material respects. The protocol is posted on AEGON s website.

vii Supervisory Board

Role and procedure

The supervision of the management of the Executive Board and of the company s business and general course of affairs is entrusted to the Supervisory Board, acting as a body with collective responsibility and accountability. The Supervisory Board also assists the Executive Board by giving advice. In performing their duties, the members of the Supervisory Board are required to act in accordance with the interests of the company and its business. The Supervisory Board is responsible for decisions relating to the resolution of conflicts of interest between members of the Executive Board, members of the Supervisory Board, major shareholders, and the independent auditor on the one hand, and AEGON on the other.

Annually the Supervisory Board evaluates its own performance and that of its individual members, as well as the performance of the Executive Board and that of the individual Executive Board members. Such meetings take place without Executive Board participation. Moreover, the Supervisory Board Rules provide that a member of the Supervisory Board shall resign if the Supervisory Board has determined that this member is no longer fit to function due to inadequate performance, fundamental differences of opinion, or other impeding circumstances.

Pursuant to AEGON s Articles of Incorporation and the Supervisory Board Rules, the Supervisory Board members are empowered to obtain all information they deem necessary for the performance of their duties, including the right to acquire information from company officers and external experts. The Supervisory Board Rules contain provisions regarding the division of duties within the Supervisory Board, its internal procedures and its interactions with the Executive Board and with the General Meeting of Shareholders. These regulations are posted on AEGON s website www.aegon.com. The Supervisory Board consistently provides a detailed report of its activities during the financial year in each annual report. The activity report includes the information prescribed in the Dutch Corporate Governance Code and addresses the topics discussed within the Supervisory Board meetings during the year.

Independence

The current composition of the Supervisory Board is in compliance with the best practice provisions of the Dutch Corporate Governance Code that relate to the independence of supervisory board members. The sole member that does not qualify as independent within the meaning of these provisions is Mr. Storm who served as chairman of the Executive Board immediately prior to his appointment as a member of the Supervisory Board in 2002.

Expertise and composition

The members of the Supervisory Board are appointed by the General Meeting of Shareholders. For the purpose of making nominations to the Supervisory Board, including any nominations for reappointment, the Supervisory Board has drawn up a profile that specifies requirements for individual members as well as the desired composition and competences of the Supervisory Board as a whole. This profile also reflects the detailed composition requirements of the Dutch Corporate Governance Code.

Under the Code s composition profile, each member of the Supervisory Board is expected to be capable of assessing the broad outline of the overall policy, in addition to having the specific expertise required to fulfil his or her designated role. The profile also takes into account the nature of AEGON s business, the activities of the Supervisory Board, and the background of the Supervisory Board members. It is designed to ensure that the Supervisory Board as a whole is capable of the proper performance of its duties. The composition profile is available on AEGON s website, as is the prescribed information about each member of the Supervisory Board and the applicable retirement schedule.

AEGON offers its newly appointed members of the Supervisory Board an orientation program that provides general information about AEGON s financial affairs and facts regarding the insurance industry, AEGON s business within the industry, and general legal affairs of the Group. The Supervisory Board regularly discusses whether there are any areas in which its members require further training.

Several members of the Supervisory Board also serve as members of Supervisory Boards of other Dutch-listed companies. The Supervisory Board has concluded that none of these memberships unduly or negatively impacts the respective individual s performance of his or her duties as a member of AEGON s Supervisory Board.

In accordance with the Dutch Corporate Governance Code, the Supervisory Board Rules state that no member can serve on AEGON s Supervisory Board for more than three four-year terms. However, in 2005 in the interest of continuity, the Supervisory Board requested Mr. Olcay to complete his current term in office ending in 2008, despite the fact that he had served the maximum term allowed by the Code in 2005.

Role of the chairman of the Supervisory Board and the company secretary

According to the Supervisory Board Rules, the chairman is responsible for overseeing the day-to-day functions of the Supervisory Board and its committees, for keeping close track of the flow of information to the Supervisory Board, and for overseeing the consultation and decision-making processes within the Supervisory Board. The chairman is also responsible for initiating the performance evaluation of the individual members of the Supervisory and Executive Boards and for maintaining appropriate contact with the Executive Board and the Dutch Central Works Council.

The duties of the company secretary include assisting the Supervisory Board. In particular, the company secretary is responsible for the correct application of the statutory obligations under the Articles of Incorporation and the Supervisory Board Rules. The appointment of the company secretary is subject to the approval of the Supervisory Board.

Composition and role of the key committees of the Supervisory Board

In compliance with the applicable provisions of the United States Sarbanes-Oxley Act 2002 and the Dutch Corporate Governance Code, the Supervisory Board maintains four standing committees that are comprised of its members. These committees are: the Audit Committee, the Compensation Committee, the Nominating Committee, and the Strategy Committee.

Each Committee reports its findings to the Supervisory Board and these findings are discussed in the plenary meetings of the Supervisory Board. Each of the Committees of the Supervisory Board has a charter in which the composition, duties, and internal procedures are defined. The Committee Charters are available on AEGON s website.

The Supervisory Board s yearly report, which is included in this annual report in Form 20-F, provides information on the activities of each its Committees. This report also lists the members of each Committee.

Audit committee

The Audit Committee is appointed by the Supervisory Board to assist the Supervisory Board in monitoring (1) the integrity of AEGON s financial statements, (2) the independent auditor s qualifications and independence, (3) the performance of AEGON s internal audit performance and that of the independent auditor, (4) AEGON s compliance with legal and regulatory requirements, and (5) AEGON s finances and the company s finance related strategies. The Audit Committee is chaired by Mr. Levy. The Audit Committee has determined that its group, which includes one financial expert, satisfies the criteria of independence specified by the New York Stock Exchange, the provisions of the Dutch Corporate Governance Code, and the United States Sarbanes-Oxley Act. The Executive Board members, the director of Group Finance, the Internal Auditor and the independent auditor periodically attend the meetings of the Audit Committee. In addition, at least once a year, or more often if necessary, the Audit Committee meets with the independent auditor without the presence of the Executive Board members.

Compensation Committee

The purpose of the Compensation Committee is to design, develop, implement, and review the Executive Board members compensation and terms of employment and the Supervisory Board members compensation to be adopted by the General Meeting of Shareholders. The Compensation Committee makes its recommendations to the Supervisory Board. The Compensation Committee is chaired by Mr. Dahan.

Nominating Committee

The purpose of the Nominating Committee is to advise the Supervisory Board on first-appointment candidates to fill Supervisory Board vacancies and member reappointments after each four-year term. The advice of the Nominating Committee shall be based on the profile for the Supervisory Board. In addition, the Nominating Committee advises on and proposes to the Supervisory Board candidates to be nominated for appointments as members or as chairman of the Executive Board. The Nominating Committee on a regular basis reviews the individual performance of Executive Board and Supervisory Board members, as well as the selection criteria for senior management within the AEGON Group. The Nominating Committee is chaired by Mr. Eustace.

Strategy Committee

The Strategy Committee is responsible for reviewing the major features of the strategy proposed by the Executive Board and preparing the presentation of the strategy for the Supervisory Board. The Strategy Committee also considers strategy options and alternatives in addition to considering the material aspects related to the implementation of the agreed strategy. Finally, the Strategy Committee acts as a consultative body for the Executive Board with its strategy development. The Strategy Committee is chaired by Mr. Eustace.

Conflicts of Interest

Rules regarding conflicts of interest applicable to members of the Supervisory Board are included in the Supervisory Board Rules. These Rules are compliant with the relevant provisions of the Dutch Corporate Governance Code and have been posted on AEGON s website.

Remuneration of the members of the Supervisory Board

The remuneration of Supervisory Board members is determined by the General Meeting of Shareholders and is not dependent on AEGON s profit. The members of the Supervisory Board do not receive any shares or rights to shares by way of remuneration.

Members of the Supervisory Board are not eligible to receive any personal loans, guarantees, or similar benefits.

AEGON has detailed regulations applicable to members of the Supervisory Board concerning the ownership of and transactions in securities, other than AEGON shares. These regulations are in compliance with the regulations prescribed by the Dutch regulators and have been further refined in light of the more detailed best practice provisions of the Dutch Corporate Governance Code. Compliance with these regulations is supervised by the Group Compliance Officer, who acts alongside compliance officers appointed by country units and the business units. The regulations applicable to members of the Supervisory Board are posted on AEGON s website.

viii The shareholders and General Meeting of Shareholders

Powers

AEGON places a high level of importance on dialogue with its shareholders. For this purpose, AEGON has an active department on Group level: Group Corporate Affairs & Investor Relations. One of the key opportunities for dialogue with its shareholders is the General Meeting of Shareholders. AEGON has traditionally made an effort to maximize shareholder participation by allowing proxy voting, both in the United States (where AEGON has a significant shareholder base) and in the Netherlands through Stichting Communicatiekanaal Aandeelhouders. The Supervisory Board and the Executive Board welcome increased shareholder participation. According to the Articles of Incorporation resolutions of the Executive Board entailing significant changes to the identity or character of AEGON or its business are subject to approval of the General Meeting of Shareholders.

AEGON has preferred shares class A and preferred shares class B, all of which are held by Vereniging AEGON. The capital contribution made on the outstanding 211,680,000 preferred shares class A is reflective of the market value of AEGON s common shares at the time the capital contribution was made.

Currently, Vereniging AEGON holds 29,290,000 preferred shares class B, representing approximately 1.6% of voting shares under normal circumstances. The 1983 Merger Agreement (as amended) provides that additional preferred shares class B are to be issued by AEGON to Vereniging AEGON at the option of Vereniging AEGON in order to prevent Vereniging AEGON s voting power from being diluted as a result of issuances of common shares. In addition, AEGON and Vereniging AEGON have entered into a preferred shares voting rights agreement. Pursuant to this agreement, voting power attached to the preferred shares classes A and B is, under normal circumstances, limited to one vote per share. The preferred shares voting rights agreement allows Vereniging AEGON to exercise the full voting power on its preferred shares (25/12 votes per preferred share) in the event of a special cause (as defined in the preferred shares voting rights agreement) for up to six months. As a result of the foregoing and certain qualified majorities specified in AEGON s Articles of Incorporation, in the event of a special cause (as referred to above), for a period of six months Vereniging AEGON may effectively be in a position to temporarily block unfriendly actions by a hostile bidder or others. The Supervisory and Executive Board take the view that this arrangement is appropriate in the context of the 1983 Merger Agreement.

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AEGON s Articles of Incorporation provide that the General Meeting of Shareholders may cancel the binding character of nominations for the appointment of new members to the Supervisory Board and the Executive Board with a majority of two-thirds of the votes cast representing at least one-half of the issued capital. In addition, members of the Executive Board and members of the Supervisory Board can only be dismissed by the General Meeting of Shareholders with the same qualified majority, except if proposed by the Supervisory Board. These provisions were included at the time of the overall review of AEGON s corporate governance and were adopted at the extraordinary General Meeting of Shareholders on May 9, 2003. The qualified majority requirement was included in order to give AEGON a temporary protection against unfriendly actions by a hostile bidder, for example. Effectively, Vereniging AEGON may for a period of six months block unfriendly attempts to replace the Supervisory Board and the Executive Board.

The Supervisory Board and the Executive Board have evaluated the provisions in AEGON s Articles of Incorporation containing the qualified majority requirements in light of the provisions of the Dutch Corporate Governance Code. Given the absence of anti-takeover protection, they concluded that the qualified majority requirements (in light of the voting rights of Vereniging AEGON) are an integral part of AEGON s protection against unfriendly actions. Taken together, the qualified majority requirements and the voting rights of Vereniging AEGON constitute the only protection AEGON currently has in place. The protection thus accorded is in line with accepted market practice.

For the purpose of further mitigating the possible negative effects of the qualified majority requirements in the ordinary course of business, the Supervisory Board has decided that, absent unfriendly actions, it shall make nominations to the Executive Board and the Supervisory Board only on a non-binding basis. This will provide the shareholders the opportunity to decide on the nomination with a simple majority. Thus, for all practical purposes, AEGON complies with the relevant principle and the relevant best practice provision. The preferred shares voting rights agreement entered into between AEGON and Vereniging AEGON, as further described before and published on AEGON s website, clearly sets out those circumstances in which the protection may be invoked and a special cause may be declared.

In the event of a serious private bid for a business unit or a participating interest in excess of the threshold as referred to in article 2:107a.1 under c of the Netherlands Civil Code the Executive Board will make public its position on the bid and its reasons for its position.

Changes to AEGON s policy on profit appropriation (additions to reserves and on dividends) shall be discussed and accounted for as a separate item on the agenda of the annual General Meeting of Shareholders. Also, a resolution to pay a final dividend shall be dealt with as a separate item.

Release from liability of the members of the Executive Board for their management and of the members of the Supervisory Board for their supervision is separately voted upon in the annual General Meeting of Shareholders.

AEGON intends to continue its practice of providing for the determination of a registration date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders.

Provision of information to and logistics of the general meeting of shareholders

AEGON attaches high importance to fair disclosure of information to its stakeholders and the financial markets in all relevant jurisdictions. The company applies the rules and regulations dealing with disclosure set by the various regulators and the stock exchanges on which AEGON is listed. Meetings with analysts, presentations to analysts, presentations to investors and press conferences shall be announced in advance on the company s website and by means of press releases. All presentations made on these occasions are posted on AEGON s website. In accordance with market practice, the company uses various press information services to distribute its press releases.

All communications and filings are supervised by the Disclosure Committee instituted by AEGON in compliance with the United States Sarbanes-Oxley legislation. These communications and filings are made available on AEGON s website.

AEGON refrains from any actions that may jeopardize the independence of analysts in relation to the company. Other than factually, analysts reports and valuations (including earnings estimates) are not assessed, commented upon or corrected by AEGON in advance of their publication and AEGON pays no remuneration of any kind to analysts in the context of preparing such reports or their publication.

The Executive Board and the Supervisory Board will provide the General Meeting of Shareholders with all requested information, unless overriding interests of AEGON are better served by not providing the requested information. If such overriding interests are invoked, those reasons will be substantiated.

AEGON uses shareholders circulars to inform the shareholders about the facts and circumstances relevant to upcoming proposals. Shareholders circulars may take the form of an appropriate written explanation in the agenda of the General Meeting of Shareholders. Shareholders circulars are published in those instances where shareholders approval is prescribed (including delegations or authorizations requested from the General Meeting of Shareholders).

As a general rule, the report of the General Meeting of Shareholders shall be made available, upon request, to the shareholders no later than three months after the meeting. Shareholders are given three months to react to the report prior to its adoption in accordance with the Articles of Incorporation. Such reaction is channeled through the chairman of the General Meeting of Shareholders and the secretary appointed by the chairman for that purpose. The report is posted on AEGON s website.

Responsibility of institutional investors

In addition to AEGON s responsibility to its shareholders and other stakeholders, the company also is an institutional investor. As such, in deciding whether to exercise its rights as a shareholder of other listed companies, AEGON acts primarily in the interest of its policyholders and other ultimate beneficiaries of its products while also honoring the responsibility to the ultimate beneficiaries and investors in the companies in which it has invested. In compliance with local Codes of Conduct applicable to institutional investors, AEGON s country units in the United States and the United Kingdom have detailed policies in place in relation to their exercise of the voting rights attaching to the shares held by them. AEGON Nederland N.V. has published on its Dutch website, www.aegon.nl, its existing policies regarding the exercise of the voting rights attaching to the shares held by AEGON Nederland N.V. in Dutch-listed companies. In addition, a report on how this policy was implemented in 2006 is published on the website of AEGON Nederland N.V. A record of whether, and if so, how AEGON Nederland N.V. has voted as shareholder in General Meetings of Shareholders of Dutch listed companies is also published on its website. At a minimum, this record is updated on a quarterly basis.

ix Audit of the financial reporting and the position of the internal auditor function and the independent auditor

Financial reporting

AEGON, on a ongoing basis, reviews its internal procedures relating to the composition, preparation, and publication of its financial reporting. The Executive Board has instituted procedures aimed at ensuring that major financial information is delivered to the Executive Board in an orderly and timely fashion. The Executive Board receives the financial information from the country units directly. The Supervisory Board, acting primarily through the Audit Committee, supervises the compliance with these internal procedures and the external information. Specific regulations dealing with the internal control function have been documented in the Audit Committee Charter and accompanying attachments.

Role, appointment, remuneration and assessment of the functioning of the independent auditor

Based on its Charter, the Audit Committee of the Supervisory Board has determined the extent of the involvement of the independent auditor in the preparation and publication of financial reports (other than the annual accounts) in addition to setting up a Pre-approval Policy for any additional (non-audit) services that may be rendered by the independent auditor to the company.

The independent auditor is appointed annually by the shareholders at the annual General Meeting of Shareholders. The shareholders will be given the opportunity to question the independent auditor at the General Meeting of Shareholders in relation to his or her statement on the fairness of the annual accounts. The Executive Board and the Audit Committee report annually to the Supervisory Board on their dealings with the independent auditor, particularly with regard to assessing its independence.

At least every four years the Audit Committee and the Supervisory Board conduct a thorough assessment of the functioning of the independent auditor. The findings of this assessment will be shared with the General Meeting of Shareholders for the purposes of its deliberations on the annual appointment of the independent auditor.

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Internal auditor function

AEGON has an internal auditor on Group level who reports directly to the Executive Board. This is in addition to the internal auditors that have been appointed on the level of AEGON s country units. The work schedule for the Group Internal Auditor was determined with the involvement of the Audit Committee and the independent auditor. The findings of the internal auditor are made available to the Executive Board, the Audit Committee as well as the independent auditor.

Relationship and communication of the external auditor with the Supervisory Board and the Executive Board

The Supervisory Board meets with the independent auditor at least once a year on the occasion of the discussion of the annual accounts that are to be submitted for adoption to the General Meeting of Shareholders. As part of standing procedures, the independent auditor receives the information underlying the annual accounts and the quarterly figures and is given ample opportunity to respond to all information. Reports by the independent auditor of his findings in relation to the audit of the annual accounts are made to the Supervisory Board and the Executive Board simultaneously.

The independent auditor may request the chairman of the Audit Committee to call a meeting of the Audit Committee. The independent auditor customarily attends the meetings of the Audit Committee. In accordance with applicable laws, the independent auditor reports on his activities to the Executive Board and the Supervisory Board, raising issues in relation to his audit that require the attention of management. Pursuant to the Audit Committee Charter such issues include significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the quality of earnings, significant deviations between planned and actual performance, the selection or application of accounting principles (including any significant changes with respect thereto), any major issues as to the adequacy of its internal controls, and any special steps adopted in light of material control deficiencies.

x Conclusions

From the foregoing it follows that AEGON complies with the principles of the Dutch Corporate Governance Code. Moreover, AEGON generally also applies the best practice provisions of the Code. Where AEGON does not apply the best practice provisions, the reasons have been stated at the appropriate places. In those limited cases where AEGON does not apply the best practice provisions, AEGON follows the spirit of the Dutch Corporate Governance Code as much as possible.

In summary:

II.2.7: this best practice provision provides that the maximum remuneration in the event of dismissal is one-year s salary. AEGON will apply this best practice provision to any future appointments to the Executive Board. The existing employment agreements with the current members of the Executive Board, and more in particular the severance arrangements to which current members of the Executive Board are entitled, are not in line with this best practice provision.

II.3.3: this best practice provision provides that a member of the Executive Board may not take part in discussions and decision-making that involves a subject or transaction in relation to which he or she has a conflict of interest. Given the position of AEGON s CEO and CFO on the Executive Committee of AEGON s largest shareholder, Vereniging AEGON, this could technically give rise to a deemed conflict of interest. The Supervisory Board has determined that, also given the historic relationship with Vereniging AEGON, it is not in the best interests of AEGON to preclude the CEO and CFO from participating in discussions and decision-making relating to Vereniging AEGON. For this reason a protocol was drafted authorizing the CEO and CFO to continue the existing practice in dealing with Vereniging AEGON.

III.3.5: this best practice provision provides that a person may be appointed to the Supervisory Board for a maximum of three four-year terms. The Supervisory Board has asked Mr. Olcay to complete his current term, thus exceeding the maximum stated in the code.

IV.1.1: this best practice provision provides that the General Meeting of Shareholders may pass a resolution canceling the binding nature of a nomination for appointment of a member of the Executive Board or the Supervisory Board by an absolute majority and a limited quorum. AEGON s current Articles of Incorporation provide for a larger majority and a higher quorum than prescribed by the Code. As indicated before, the Supervisory Board takes the view that in light of the absence of any anti-takeover measures, the current text of the Articles of Incorporation is appropriate in the context of the 1983 Merger Agreement. For the purpose of further mitigating the possible negative effects of these provisions, the Supervisory Board has decided that, absent unfriendly actions, it shall make nominations to the Executive Board and the Supervisory Board only on a non-binding basis.

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6.7 Executive Board

i Members

DONALD J. SHEPARD - CEO (1946, American nationality) began his career with Life Investors, Inc., an insurance holding company, in 1970. Serving in various management and executive functions with Life Investors, he became Executive Vice-President and Chief Operating Officer in 1985, a position he held until AEGON consolidated its other United States operations with Life Investors to form AEGON USA in 1989, whereupon Mr. Shepard became President and CEO. In 1992, Mr. Shepard became a member of the Executive Board of AEGON N.V. and in April 2002 he was appointed Chairman. He currently serves as a member of the Board of Directors of the Mercantile Bankshares Corporation and the CSX Corporation.

JOSEPH B.M. STREPPEL - CFO (1949, Dutch nationality) began his career in 1973 at one of AEGON s predecessors occupying several treasury and investment positions. In 1986, he became CFO of FGH BANK, and in 1987 he joined the Executive Board of FGH BANK. In 1991, he became Chairman and CEO of Labouchère and, in 1995, also Chairman of FGH BANK. In 1998 he became CFO of AEGON N.V. In May 2000 he was appointed a member of the Executive Board of AEGON N.V. Mr. Streppel is also a member of the Supervisory Boards of Royal KPN N.V. and Van Lanschot Bankiers N.V.

ALEXANDER R. WYNAENDTS (1960, Dutch nationality) began his career with ABN AMRO in 1984 and had several assignments in asset management (Amsterdam) and corporate finance (London). In 1997, he joined AEGON s Group Business Development department and was promoted to Executive Vice-President and head of Group Business Development in May 1998. In 2003 he was appointed a member of the Executive Board of AEGON N.V.

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ii Ownership of AEGON N.V. shares

At December 31, 2006, members of the Executive Board held an aggregate number of 493,614 AEGON common shares and 440,000 options and share appreciation rights on AEGON common shares. Refer to Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

Share options, including share appreciation rights, and interests in AEGON held by active members of the Executive Board are provided in the following table:

	Grant date	Number of options per January 1, 2006	Number of options granted in 2006	Number of options exercised in 2006	Number of options expired/ forfeited in 2006	Number of options per Dec. 31, 2006	Number of exercisable options	Exercise price EUR	Shares held in AEGON at Dec. 31, 2006
D.J. Shepard	12-Mar-01	100,000			100,000				
	10-Mar-02	50,000[1]				50,000[1]	50,000	26.70	
	16-Mar-04	50,000[1]				50,000[1]		10.56	330,180
J.B.M. Streppel	12-Mar-01	100,000			100,000				
	10-Mar-02	50,000[1]				50,000[1]	50,000	26.70	
	16-Mar-04	50,000[1]				50,000[1]		10.56	13,595
J.G. van der Werf	12-Mar-01	50,000			50,000				
	10-Mar-02	50,000[1]				50,000[1]	50,000	26.70	
	16-Mar-04	50,000[1]				50,000[1]		10.56	140,293
A.R. Wynaendts	12-Mar-01	20,000[1,2]			20,000				
	12-Mar-01	15,000[2]			15,000				
	10-Mar-02	40,000[1,2]				40,000[1]	40,000	26.70	
	10-Mar-03	50,000[1,2]				50,000[1]	50,000	6.30	
	16-Mar-04	50,000[1]				50,000[1]		10.56	9,546

[1] Share appreciation rights.
[2] The share appreciation rights were granted before becoming a member of the Executive Board.

The above rights have been granted under the LTI plan in force until December 31, 2003. Details of the exercise period is provided in note 18.40 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

For each of the members of the Executive Board, the shares held in AEGON as shown in the above table do not exceed 1% of total outstanding share capital at the balance sheet date. The shares held by Executive Board members do not have different voting rights than the other shares outstanding in the same class.

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6.8 Supervisory Board

i Members

Dudley G. Eustace chairman (1936, dual citizenship British and Canadian) is a retired chairman of Smith & Nephew PLC (London, UK) and a retired vice-chairman of Royal Philips Electronics N.V. He was appointed to AEGON s Supervisory Board in 1997 and his current term will end in 2009. He is also a member of the Supervisory Board of Royal KPN N.V., the Supervisory Board of Hagemeyer N.V., the European Advisory Council for Rothschilds, the Council of the University of Surrey and chairman of the Supervisory Board of VNU N.V. He is currently chairman of the Supervisory Board Nominating and Strategy Committees.

Irving W. Bailey, II (1941, American nationality) is a senior advisor to Chrysalis Ventures. He is a retired chairman and CEO of Providian Corp., a former managing director of Chrysalis Ventures, and a former chairman of the Board of Directors of AEGON USA Inc. He was appointed to AEGON s Supervisory Board in 2004 and his current term will end in 2008. He is also a member of the Board of Directors of Computer Sciences Corp. and Hospira, Inc. He is currently a member of the Supervisory Board Audit and Strategy Committees.

Shemaya Levy (1947, French nationality) is a retired executive vice-president and CFO of the Renault Group. He was appointed to AEGON s Supervisory Board in 2005 and his current term will end in 2009. He is also a non-executive director of Nissan Motor Cy, Renault Spain and the Safran Group, and a member of the Supervisory Boards of the Segula Technologies Group and TNT N.V. He is currently chairman of the Supervisory Board Audit Committee.

Willem F.C. Stevens (1938, Dutch nationality) is a retired partner of Baker & McKenzie and was a senator in the Dutch Parliament until June 2003. He was appointed to AEGON s Supervisory Board in 1997 and his current term will end in 2009. He is also a member of the Supervisory Boards of N.V. Luchthaven Schiphol, TBI Holdings B.V., AZL N.V., Goedland N.V., and Ermenegildo Zegna International N.V. He is currently a member of the Supervisory Board Audit and Compensation Committees.

O. John Olcay (1936, American nationality) is vice-chairman and managing director of Fischer, Francis, Trees and Watts, Inc. (New York, USA). He was appointed to AEGON s Supervisory Board in 1993 and his current term will end in 2008. He is also chairman of FFTW Funds Inc. in New York (USA), FFTW Funds Selection in Luxembourg and FFTW Funds in Dublin (Ireland). He is currently a member of the Supervisory Board Nominating and Strategy Committees.

René Dahan (1941, Dutch nationality) is a retired executive vice-president and director of Exxon Corporation. He was appointed to AEGON s Supervisory Board in 2004 and his current term will end in 2008. He is also chairman of the Supervisory Board of Royal Ahold N.V., a member of the Supervisory Board of TNT N.V. and a member of the International Advisory Board of the Guggenheim Group. He is currently chairman of the Supervisory Board Compensation Committee and a member of the Nominating Committee.

Toni Rembe (1936, American nationality) is a retired partner/senior advisor of Pillsbury Winthrop LLP (San Francisco, USA). She was appointed to AEGON s Supervisory Board in 2000 and her current term will end in 2008. She is also a member of the Board of Directors of AT&T, Inc. (USA). She is currently a member of the Supervisory Board Audit Committee.

Kees J. Storm (1942, Dutch nationality) is a former chairman of the Executive Board of AEGON N.V. He was appointed to AEGON s Supervisory Board in 2002 and his current term will end in 2010. He is also chairman of the Supervisory Board of KLM Royal Dutch Airlines N.V., a non-executive director of Unilever N.V. of Rotterdam and Unilever PLC of London, a member of the Supervisory Board of Pon Holdings B.V., and a member of the Board of Directors of InBev S.A. (Leuven, Belgium) and Baxter International Inc. (USA). He is currently a member of the Supervisory Board Strategy Committee.

Leo M. van Wijk (1946, Dutch nationality) is president and CEO of KLM Royal Dutch Airlines N.V. and vice-chairman of Air France-KLM S.A. He was appointed to AEGON s Supervisory Board in 2003 and his current term will end in 2007. He is also a member of the Supervisory Boards of Randstad Holding N.V. and Martinair, and a member of the Board of Directors of Northwest Airlines. He is currently a member of the Supervisory Board Compensation Committee.

ii Ownership of AEGON N.V. shares

Stock options, including stock appreciation rights, of active members of the Supervisory Board

	Grant date	Number of options per January 1, 2006	Number of options granted in 2006	Number of options vested in 2006	Number of options expired/ forfeited in 2006	Number of options per December 31, 2006	Number of exercisable options	Expiration date	Exercise price EUR
K.J. Storm	12-Mar-01	100,000			100,000			12-Mar-06	

The options have been granted by reason of membership of the Executive Board in the related years.

Common shares held by Supervisory Board members

Shares held in AEGON at December 31

	2006	2005	2004
I.W. Bailey, II	29,759	29,759	29,759
R. Dahan	25,000	25,000	25,000
T. Rembe	6,658	6,658	6,658
K.J. Storm	276,479	276,479	276,479
Total	337,896	337,896	337,896

The shares held by Supervisory Board members have the same voting rights as the other shares outstanding in the same class.

6.9 Supervisory Board Committees

The Supervisory Board relies on its four committees, each made up of members selected from the Supervisory Board, to prepare specific issues for decision-making by the Board. In accordance with its Charter, each Committee reports its findings to the Supervisory Board during a subsequent Supervisory Board meeting.

i Audit Committee

The Audit Committee held seven regular meetings during 2006, which also were attended by the CFO and, if required appropriate, other members of the Executive Board, the director Group Finance & Information and representatives of Ernst & Young, AEGON s independent auditor. The Group Internal Auditor, the Chief Risk Officer and the Group Actuarial Officer also periodically attended Audit Committee meetings. Discussions regarding the following dominated the meetings permanent agenda: the quarterly results; the annual accounts and the auditing of those by Ernst & Young; actuarial analyses; accounting principles according to IFRS and US-GAAP; financial reports as filed with the SEC; AEGON s Capital Plan; reports on currency exposure; internal control systems; as well as risk management and Ernst & Young s engagement letter for 2006 and its report on independence, the firm s fee structure and the integrated Audit Plan for 2006. The Audit Committee advised the Supervisory Board to recommend to shareholders that Ernst & Young be reappointed as the independent auditor for the financial year 2006.

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The Committee also discussed the consequences of SOX and the Dutch Corporate Governance Code, as well as the role of the independent auditors. The Committee confirmed that Mr. Levy qualifies as financial expert within the meaning of the relevant provisions of SOX and the Dutch Corporate Governance Code. In accordance with legal requirements, the Audit Committee approved and recommended to the Supervisory Board the adoption of the Pre-approval Policy for 2006. Two meetings, in March and September, were devoted to AEGON s filings with the SEC, the annual report 2005 (Form 20-F), and the results for the first six months 2006 (Form 6-K).

The Audit Committee was updated each quarter on the activities of the Group Internal Auditor and on AEGON s worldwide compliance with SOX 404, as well as on fraud and general compliance issues. During these meetings, the Audit Committee held separate sessions with the internal auditor as well as with the external auditors, in order to discuss their findings outside the presence of the Executive Board. During its meeting in December, the Audit Committee engaged in a discussion on AEGON s Risk Management Report as presented by the Chief Risk Officer. It also conducted a review and discussion of the budget for 2007, the budgeted Capital Plan for 2007 and the Value of New Business targets for later years until 2010 and advised the Supervisory Board accordingly. The Committee also advised the Supervisory Board to authorize the Executive Board to fill AEGON s funding needs as budgeted for 2007.

As required by the Audit Committee Charter, the proceedings of the meetings of the Audit Committee were reported to the Supervisory Board, and these minutes were a regular item on the agenda of the Supervisory Board meetings.

ii Strategy Committee

The Strategy Committee held two meetings in 2006, which were also attended by the Executive Board members. The purpose of the Strategy Committee is to review the major features of AEGON s business strategy, in addition to considering alternative strategies and material aspects relating to the implementation of the strategy. The Strategy Committee discussed AEGON s business strategy and prepared a framework for the agenda for the Supervisory Board meeting held in Budapest in May 2006. As required by the Strategy Committee Charter, the proceedings of the meetings of the Strategy Committee were reported to the Supervisory Board, and these minutes were a regular item on the agenda of the Supervisory Board meetings.

iii Nominating Committee

The Nominating Committee held two meetings in 2006. The Executive Board s chairman attended these meetings. The Nominating Committee discussed the composition of the Supervisory Board and its committees as well as existing and forthcoming vacancies and it advised the Supervisory Board on nominations for two appointments and one reappointment in 2007. In addition, the Nominating Committee evaluated the composition of the Executive Board and the institution of a Management Board and subsequently advised the Supervisory Board on the nomination for reappointment of Mr. Wynaendts to the Executive Board in 2007. The proceedings of the Nominating Committee meetings were reported during subsequent Supervisory Board meetings.

iv Compensation Committee

The Compensation Committee held four meetings in 2006, which were from time to time also attended by the chairman or the CFO of the Executive Board. The Compensation Committee discussed the Executive Board s Short-term and Long-term Incentive Plans and advised the Supervisory Board on those incentives payable in 2006. The main item of discussion during the meetings in 2006 concerned the preparation of a new Remuneration Policy for the Executive Board. This new Remuneration Policy will be put to shareholders for adoption during the 2007 Annual General Meeting of Shareholders (AGM) and, if adopted, will be retroactively effective as from January 1, 2007. The Committee also discussed the worldwide stock option plans within AEGON and reconfirmed that exercise prices will not be changed once they have been set at the date of grant of stock options, except in case of dilution of the AEGON share price as expressly stated in the rules of the Option Plans. The proceedings of the Compensation Committee meetings were reported during subsequent Supervisory Board meetings.

v Supervisory Board Composition

In the Supervisory Board s opinion, best practice provision III.2.1 of the Dutch Corporate Governance Code has been fulfilled because all but one Supervisory Board members are independent as defined by best practice provision III.2.2 of the Dutch Corporate Governance Code. Mr. Storm is not considered to be independent within the meaning of the Code due to the fact that he served as chairman of AEGON s Executive Board prior to his retirement in April 2002. Mr. Storm joined the Supervisory Board in July 2002.

Mr. Storm s four-year term of office expired in 2006. The Supervisory Board nominated him for reappointment for another term, and he was subsequently reappointed by shareholders during the AGM in 2006.

Mr. Sobel, as nominated by the Supervisory Board, was appointed by shareholders during the AGM in April, 2006 as a member of the Supervisory Board. However, he was required to submit his resignation as a Supervisory Board member in July 2006, following his appointment as the United States ambassador to Brazil. His resignation also left a vacancy in the Audit Committee. The Supervisory Board, following the recommendation of the Nominating Committee, appointed Mr. Bailey as a member of the Audit Committee, effective per August 1, 2006.

Following the advice of the Nominating Committee, the Supervisory Board has decided to nominate Mrs. Peijs and Mr. Burgmans for appointment by shareholders during the AGM on April 25, 2007. Their biographies will be provided together with the agenda for the 2007 AGM.

Mr. Van Wijk s four-year term of office will expire in 2007. He is eligible for reappointment and the Supervisory Board, following the advice of the Nominating Committee, has decided to nominate him for reappointment for another term by shareholders during the AGM in 2007.

vi Executive Board composition

In compliance with the Dutch Corporate Governance Code, the members of the Executive Board are appointed by shareholders for a term of four years, with the possibility of being reappointed for additional four-year terms. According to the schedule (which is included in the Executive Board Rules and has been posted on AEGON s corporate website), the term of office for Mr. van der Werf expired in 2006. Although he was reappointed by shareholders during the 2006 AGM, Mr. Van der Werf submitted his resignation as an Executive Board member, effective December 31, 2006, because he was appointed at the Management Board of AEGON N.V. per January 1, 2007.

In 2007, Mr. Wynaendts four-year term will expire. His performance was discussed in the Nominating Committee and the Supervisory Board. Following the recommendation of the Nominating Committee, the Supervisory Board has decided to nominate Mr. Wynaendts for reappointment to the Executive Board for another four-year term. This nomination will be proposed to shareholders during the AGM in 2007.

In 2006, the Supervisory Board decided, on a proposal from the Executive Board and recommended by the Nominating Committee, to establish a Management Board in order to enhance the coordination and management of AEGON s business activities worldwide. The Management Board became effective on January 1, 2007. In this new management structure the Executive Board continues to be the statutory executive body and legal representative of AEGON N.V. entrusted with the management of the company, while the Management Board will oversee a broad range of management issues that impact AEGON s business and growth objectives internationally. The Management Board consists of the Executive Board members, Messrs. Shepard, Streppel and Wynaendts, and the CEOs of AEGON USA, AEGON The Netherlands and AEGON UK, respectively Messrs. Baird, Van der Werf and Thoresen. The Chairman of the Executive Board will be the Chairman of the Management Board.

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6.10 Compensation of Directors and Officers

i General

The Compensation Committee, one of the Supervisory Board s four committees, is responsible for the design, development, implementation, and review of the Remuneration Policy. This policy outlines the terms and conditions of Executive Board member employment and remuneration of Supervisory Board members. The Compensation Committee comprises three members: Messrs. Dahan (chairman), Stevens and Van Wijk.

Each year, the Compensation Committee reviews the adequacy of the Remuneration Policy, based on information from an independent external advisor (Towers Perrin). Subsequently, it makes recommendations to the Supervisory Board. Any material changes to the Remuneration Policy are submitted to the General Meeting of Shareholders (AGM) for adoption.

This section details the Remuneration Policy for the period 2004-2006 and the Executive and Supervisory Board members Remuneration Report for the year ended December 31, 2006.

ii Remuneration policy

Supervisory Board remuneration

The remuneration of the members of the Supervisory Board is made up of three separate components, each of fixed amounts:

Base fee per annum, for membership of the supervisory board, in EUR

Chairman	60,000
Vice-chairman	50,000
Member	40,000

Fee per annum, for membership of a committee, in EUR

Audit Committee	
Chairman	10,000
Member	8,000
Other Committees	
Chairman	7,000
Member	5,000

Attendance fee per meeting, in EUR, for face-to-face meetings of the committees (i.e. committee members have attended the meeting in person)

Audit Committee	3,000
Other Committees	1,250*

* in case of intercontinental travel this fee will be EUR 2,500 per face-to-face meeting.

Supervisory Board members do not receive any performance or equity related compensation and do not accrue any pension rights with AEGON.

Executive Board remuneration

Aims and Objectives

This policy aims at enhancing simplicity, transparency and credibility of Executive Board remuneration. The objectives of this Remuneration Policy may be summarized as follows:

The remuneration structure should enable the company to attract and retain highly qualified, expert members for its Executive Board by providing well-balanced and performance-related remuneration.

The structure should ensure the interests of Executive Board members are closely aligned with those of shareholders by linking Executive Board remuneration directly to company performance.

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Target Total Compensation of Executive Board members should be based on market standards for executives from selected peer companies and should consist of a fixed component and a variable component. Actual Variable Compensation will be based on company performance.

Policy term

This Remuneration Policy took effect on January 1, 2004, for a three-year term. The AGM approved an extension of the existing Remuneration Policy until the AGM in 2007. A proposal for a new policy will be submitted to the AGM for adoption at the 2007 meeting and will, upon approval, take effect retrospectively as of January 1, 2007.

Term of appointment

New members of the Executive Board are appointed for a period of four years and they may be reappointed for successive periods of four years.

Remuneration components

The remuneration of Executive Board members comprises the following components: (1) fixed compensation (base salary) and variable compensation in the form of (2) a short-term incentive and (3) a long-term incentive compensation; (4) pension arrangements; (5) perquisites and (6) termination arrangements.

Fixed compensation

Levels for Fixed Compensation reflect the requirements and responsibilities of an Executive Board position. The Compensation Committee ensures that these levels are realistic and competitive, taking into account individual roles and responsibilities of Executive Board members and benchmark information provided by independent external advisors.

Each year, the Compensation Committee reviews remuneration levels, taking into account circumstances that might justify any adjustment, such as fundamental changes in the business environment or in the individual s responsibilities.

Variable compensation

The variable part of the remuneration is designed to strengthen the Executive Board members commitment to the company and its objectives. The greater part of the total remuneration consists of variable compensation linked to previously determined and measurable performance targets.

Short-term incentive plan

Members of the Executive Board participate in the Short-term Incentive (STI) Plan, which provides for an annual cash bonus for the achievement of previously determined performance targets. The achievable STI bonus levels relate to the fixed compensation and vary among the members of the Executive Board, reflecting the differences in responsibilities.

Under the STI Plan, a bonus is paid only if a positive value of new business (VNB), as publicly disclosed, is realized. Each member of the Executive Board has been assigned a specific area of responsibility of which the related VNB will be taken into account when determining individual bonus levels.

The amount of the STI Plan bonus will then be determined by the level of achieved operating earnings (OE) relative to the OE target. The STI Plan bonus increases as the actual OE exceeds the target OE; in the event that the actual OE is equal to or higher than 150% of the target OE, the STI Plan bonus will be regarded as having reached its maximum value. The OE target is calculated as the rolling three-year average OE, increased by 2.5% to reflect inflation.

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STI Plan Bonus (% of base salary)

	Actual OE equals Target OE	Actual OE equals or is higher than 150% of target OE (maximum STI Plan bonus)
Shepard	118%	189%
Streppel	50%	80%
Van der Werf	80%	125%
Wynaendts	80%	125%

Provided the VNB of the AEGON Group in the plan year is positive, the members of the Executive Board are eligible for an STI Plan bonus. If the VNB of the AEGON Group is positive, Messrs. Shepard and Streppel are eligible for 100% of their STI Plan bonus, while Messrs. Van der Werf and Wynaendts are eligible for 40% of their STI Plan bonus. In the event that the VNB in the areas of their respective responsibilities is also positive, Messrs. Van der Werf and Wynaendts become eligible for the remaining 60% of their STI Plan bonus.

Each year, the Compensation Committee reviews the agreed parameters to ensure that they continue to provide the best reference. Independent external advisors, Tillinghast and Ernst & Young, review and confirm relevant data.

Additionally, Mr. Shepard is entitled to a cash bonus equal to 0.1% of AEGON s net income for the corresponding year.

Long-term incentive plan

The Long-term Incentive (LTI) Plan is designed to focus members of the Executive Board on achieving long-term growth of sustainable value for the company s shareholders. For this purpose, the Plan aims to reward Executive Board members for AEGON s relative total shareholders return (TSR) performance over a three-year period. TSR is defined as the return, in terms of share price appreciation and dividends, to shareholders.

Each year, a LTI grant is determined to serve as a basis for the calculation of the achievable bonus under the LTI Plan. The LTI grant is calculated as a fixed percentage of the base salary of the Executive Board members. The grant is a 50/50 combination of the value of performance shares and performance options. For each year, the value (amount) of the grant is determined, as is the related number of shares and options granted. After three financial years, starting with the grant year, vesting of the granted shares and options is subject to AEGON s TSR performance relative to that of a select peer group. This peer group comprises companies that are comparable in type of business, size, geographical presence, and that are generally recognized as the most appropriate reference group. The reference group consists of Allianz, Aviva, AXA, Fortis, Generali, ING, Lincoln National, Metlife, Nationwide Financial Services, Prudential Financial, and Prudential PLC. Should AEGON rank nine through twelve within this group (after three years), the granted shares and options will not vest. The granted shares and options will only vest if AEGON achieves a number eight position or better, with an increasing percentage according to the following schedule.

Vesting schedule

Ranking	vesting as % of the grant
1	200
2	180
3	160
4	140
5	120
6	100
7	75
8	50
9	0
10	0
11	0
12	0

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Shares granted to Executive Board members under the LTI Plan shall be retained for a period of at least five years from the grant date or at least until the end of the employment if this latter period is shorter. Neither the exercise price nor other conditions regarding the granted share options shall be modified during the term of the options, except in the case that such modification is prompted by structural changes in the company or its shares in accordance with established market practice. For more information on the share options granted under the LTI Plan, please refer to Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

During the three-year grant period, the TSR data are compiled by the Compensation Committee based on independent external advice. After the grant period, the Compensation Committee will advise the Supervisory Board on the percentage of the LTI grant to be vested. The Compensation Committee will also ensure that the peer group composition and the performance incentive zone continue to provide an appropriate reference.

Pension arrangements

The Remuneration Policy aims to offer Executive Board members pension arrangements that are in line with local practices in their countries of residence and retirement benefits that are consistent with those provided to executive directors of other multinational companies in those countries. Pension arrangements are based on a retirement age of 62, with an optional early retirement for the Dutch members at reaching the age of 60.

Mr. Shepard s benefits would be based on 55% of his final average earnings calculation (his five highest complete and consecutive calendar years of pensionable earnings). For Messrs. Streppel, Van der Werf and Wynaendts, their benefits are 70% of their final salary, provided they have completed 37 years of service. In addition, the arrangements include entitlements to a pension in the event of disability and a pension for spouse or dependent in the event of the participant s death. For more information on the costs of the pension arrangements, please refer to Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

Perquisites

Members of the Executive Board receive other benefits, based on local practices, and customary arrangements for executives of multinational companies. Moreover, it is the company s policy not to grant Executive Board members any personal loans, guarantees or the like, unless in the normal course of business and on terms applicable to the personnel as a whole, and only after Supervisory Board approval. No remission of loans shall be granted.

Termination of employment

Termination of the employment contracts requires a three-month notice period for the current members of the Executive Board. In the event of contract termination by AEGON, the company must adhere to a notice period of six months and, unless terminated for urgent cause, the members of the Executive Board would be entitled to a severance arrangement**.**

Under his employment agreement, Mr. Shepard will be entitled to a specified amount of severance upon termination of his employment for reasons specified in the employment agreement. Under his employment agreement, Mr. Shepard shall be entitled to severance in the amount of three years base salary and the aggregate short-term incentive compensation he received during the three years prior to the termination in the event that Mr. Shepard s employment is terminated (a) by AEGON other than for urgent cause, death, disability, voluntary resignation or retirement, (b) by AEGON in connection with a merger, take-over or fundamental changes of policy and related organizational amendments, or (c) by Mr. Shepard in the event that his responsibilities or position are diminished by such circumstances. Any such severance payments received by Mr. Shepard shall be taken into account in determining the amounts payable to him under his AEGON USA Supplemental Executive Retirement Plan (SERP). In addition, three additional years of service will be credited for the purpose of calculating his benefits under the SERP.

Mr. Streppel would be entitled to compensation according to the Zwartkruis formula , which means that the severance payment would be calculated on the basis of and depending on age, years of service, functional level, and the probability of finding an equivalent position.

Messrs. Van der Werf and Wynaendts would be entitled to three years fixed salary, only in the case of termination in connection with a merger or takeover.

Employment contracts for any new members of the Executive Board would contain a notice period of three months for the Executive Board member, six months for the company, and termination arrangements would be in line with the Dutch Corporate Governance Code.

ii Remuneration report

Supervisory Board remuneration

The compensation arrangement of the Supervisory Board members is reviewed every three years. The last review took place in 2005. The compensation arrangement remained unchanged in 2006.

Executive Board remuneration

Terms of appointment

Messrs. Shepard (2005), Streppel (2005) and van der Werf (2006) have been reappointed for a four-year term. Mr. Van der Werf however, resigned from the Executive Board as of January 1, 2007, upon his appointment as a member of the Management Board as of that date. Mr. Wynaendts is eligible for reappointment in 2007.

Total compensation

As explained in the plans which are posted on AEGON s website, when performance is at target level, for Mr. Shepard approximately 75% of his total compensation is based on variable reward components, while for the other members the variable portion is approximately 50%.

For more information on the remuneration of members of the Executive Board, please refer to Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

Fixed compensation

Base salaries of the Executive Board members in 2006 are as follows:

BASE SALARY 2006 [1]

Shepard	USD	1,000,000
Streppel	EUR	679,409
Van der Werf	EUR	575,086
Wynaendts	EUR	575,086

[1] For Dutch members the amounts include an increase due to Dutch Central Labor Agreement, the customary employee profit sharing bonus as well as a tax deferred employee savings plan.

Short-term incentive, 2005 plan

In line with the regulations of the STI Plan, it was established that the 2005 VNB of the AEGON Group and of the relevant country units was positive, as stated in the 2005 Embedded Value Report. Subsequently, operating earnings (OE) has been compared to the relevant target OE. On this basis and after adoption of the 2005 annual accounts by shareholders, this translated into the following STI bonuses for the 2005 Plan as paid in 2006:

STI bonuses for the 2005 plan[1,2]

	OE per area of responsibility (results as % of target)	STI bonus (as % of base pay)	STI amount (in EUR)
Shepard	133	165	1,327,098
Streppel	133	70	474,639
Van der Werf	174	122	697,392
Wynaendts	121	105	602,415

1 OE per area of responsibility was established as set out in the Remuneration Policy and described in the STI Plan Rules.

2 The reported STI bonus percentages have been rounded off.

Mr. Shepard also received EUR 2,732,000 in 2006 as an additional STI bonus related to AEGON s net income over the financial year 2005.

Short-term incentive, 2006 plan

The bonuses for the 2006 Plan, as well as Mr. Shepard s additional STI bonus related to AEGON s net income over the financial year 2006, will be calculated and paid in 2007, after adoption of the 2006 annual accounts by shareholders, and be reported in the 2007 Annual Report.

Long-term incentive, 2006 plan

The LTI grant is determined as a fixed percentage of the base salary of the Executive Board members.

In accordance with the 2006 LTI Plan, non-vested (conditional) AEGON common shares and options have been granted to each of the Executive Board members. Vesting of these rights is conditional upon AEGON s TSR performance relative to that of the peer group over a three-year period. The date of grant for the 2006 LTI Plan was April 26, 2006 and the closing share price of that day was EUR 14.55. The grant is a 50/50 combination of the value of the performance shares and performance options. Vesting of these rights will take place after three years, in accordance with the aforementioned LTI vesting schedule.

LTI Bonuses for the 2006 Plan[1]

	Target LTI value (% of base pay)	EUR	Number of shares	Number of options
Shepard[2]	95%	762,807	26,213	150,989
Streppel	60%	407,747	13,909	80,115
van der Werf	60%	342,478	11,769	67,789
Wynaendts	60%	342,478	11,769	67,789

1 LTI target bonus amounts have been calculated from base salaries as per January 1, 2006.

2 Calculation example Mr. Shepard: EUR 762,807 ÷ 2 = 381,403.50 ÷ 14.55 = 26,213 shares

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Pension arrangements

Mr. Shepard s benefits are based on 55% of his final average earnings calculation (his five highest complete and consecutive calendar years of pensionable earnings). For Messrs. Streppel, Van der Werf and Wynaendts, their benefits are 70% of their final salary, provided they have completed 37 years of service.

The pension plan for Dutch Executive Board members was reconciled with new regulations in the Netherlands (the so-called VPL law (Wet Vut Prepensioen en Levensloop) as from January 2006.

Other arrangements

Mr. Wynaendts was seconded to AEGON USA for 12 months, from August 2005 to September 2006. In determining the specific provisions of the secondment, AEGON engaged independent advisors to ensure that the arrangements were in line with customary practices. The Compensation Committee reviewed and approved these provisions.

6.11 Employees and labor relations

At the end of 2006, AEGON had 28,726 employees of which were 5,150 agent-employees. Approximately 50% are employed in the Americas, 23% in the Netherlands, 16% in the United Kingdom and 11% in Other Countries. All of AEGON s employees in the Netherlands, other than senior management, are covered by collective labor agreements, which are generally renegotiated annually on an industry wide basis. Individual companies then enter into employment agreements with their employees based on the relevant collective agreement. Since its founding, AEGON has participated in collective negotiations in the insurance industry and has based its employment agreements with its employees on the relevant collective agreement. The collective agreements are generally for a duration of one year. AEGON has experienced no significant strike, work stoppage or labor dispute in recent years.

Under Dutch law, members of the Central Works Council responsible for AEGON in the Netherlands are elected by AEGON The Netherlands employees. The Central Works Council has certain defined powers at the level of the Dutch subsidiary company AEGON Nederland N.V., including the right to make non-binding recommendations for appointments to its Supervisory Board and the right to enter objections against proposals for appointments to that Supervisory Board. Moreover, the Central Works Council of AEGON The Netherlands is to be consulted as regards a nomination for appointment pertaining to one seat on the Supervisory Board of AEGON.

The average number of employees per geographical area was:

	2006	**2005**	**2004**
Americas	14,104	14,139	14,773
The Netherlands	5,908	5,962	5,940
United Kingdom	4,553	4,520	4,620
Other countries	2,894	2,597	2,573
	27,459	27,218	27,906
Of which agent-employees	5,057	5,323	5,146

See Note 18.40 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for a description of share-based payments to employees.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

General

As of December 31, 2006, our total authorized share capital consisted of 3,000,000,000 common shares with a par value of EUR 0.12 per share and 1,000,000,000 class A and class B preferred shares, each with a par value of EUR 0.25 per share. At the same date, there were 1,622,927,058 common shares, 211,680,000 class A preferred shares and 29,290,000 class B preferred shares issued. Of the issued common shares 37,723,865 common shares were held by AEGON N.V. as treasury shares and 3,085,845 common shares were held by its subsidiaries. All of our common shares and preferred shares are fully paid and not subject to calls for additional payments of any kind. All of our common shares are registered shares and held by shareholders worldwide either through Euroclear Netherlands as Deposit Shares or directly registered in the Register of Shareholders kept by the Company. Holders of New York Registry shares hold their common shares in registered form issued by our New York transfer agent on our behalf. New York Registry shares and Deposit Shares are exchangeable on a one-to-one basis and are entitled to the same rights, except that cash dividends are paid in US dollars on New York Registry shares.

As of December 31, 2006, 220 million common shares were held in the form of New York Registry shares. As of December 31, 2006, there were approximately 25,000 record holders, resident in the United States, of our New York Registry.

7A Major shareholders

i Vereniging AEGON

Vereniging AEGON is the continuation of the former mutual insurer AGO. In 1978, AGO demutualized and Vereniging AGO became the only shareholder of AGO Holding N.V., which was the holding company for its insurance operations. In 1983, AGO Holding N.V. and Ennia N.V. merged into AEGON N.V.. Vereniging AGO initially received approximately 49% of the common shares (which was reduced gradually to less than 40%) and all of the preferred shares in AEGON N.V., giving it voting majority in AEGON N.V.. At that time Vereniging AGO changed its name into Vereniging AEGON.

The objective of Vereniging AEGON is the balanced representation of the interests of AEGON N.V. and all of its stakeholders, including shareholders, AEGON group companies, insured parties, employees and other relations of the companies.

In accordance with the 1983 Merger Agreement, Vereniging AEGON had certain option rights on preferred shares to prevent dilution of voting power as a result of share issuances by AEGON N.V. This enabled Vereniging AEGON to maintain voting control at the General Meeting of Shareholders of AEGON N.V. In September 2002, AEGON N.V. effected a non-dilutive capital restructuring whereby Vereniging AEGON sold 350,000,000 of its common shares, of which 143,600,000 common shares were sold directly by Vereniging AEGON in a secondary offering outside the United States and 206,400,000 common shares were purchased by AEGON N.V. from Vereniging AEGON. AEGON N.V. subsequently sold these common shares in a global offering. The purchase price for the 206,400,000 common shares sold by Vereniging AEGON to AEGON N.V. was EUR 2,064,000,000, which amount Vereniging AEGON contributed as additional paid-in capital on the existing AEGON N.V. preferred shares, all held by Vereniging AEGON. As a result of these transactions, Vereniging AEGON s beneficial ownership interest in AEGON N.V. s common shares decreased from approximately 37% to approximately 12% and its beneficial ownership interest in AEGON N.V. s voting shares (excluding issued common shares held in treasury by AEGON N.V.) decreased from approximately 52% to approximately 33%.

In 2003, AEGON s shareholders approved certain changes to AEGON s corporate governance structure and AEGON s relationship with Vereniging AEGON in an extraordinary General Meeting of Shareholders. AEGON s Articles of Incorporation were subsequently amended on May 26, 2003. The relationship between Vereniging AEGON and AEGON N.V. was changed as follows:

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The 440,000,000 preferred shares with nominal value of EUR 0.12 held by Vereniging AEGON were converted into 211,680,000 new class A preferred shares with nominal value of EUR 0.25 and the paid-in capital on the preferred shares was increased by EUR 120,000 to EUR 52,920,000. The voting rights pertaining to the new preferred shares (the class A preferred shares as well as the class B preferred shares which may be issued to Vereniging AEGON under the option agreement as described in the following sections) were adjusted accordingly to 25/12 vote per preferred share.

AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a special cause has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

AEGON N.V. and Vereniging AEGON have amended the option arrangements under the 1983 Merger Agreement. Under the amended option arrangements Vereniging AEGON, in case of an issuance of shares by AEGON N.V., may purchase as many class B preferred shares as would enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2005 23,850,000 class B preferred shares were issued under these option rights. In 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances during the year.

Development of shareholding in AEGON N.V.

Number of shares	Common	Preferred A	Preferred B
At January 1, 2006	171,974,055	211,680,000	23,850,000
Exercise option right Preferred B shares			5,440,000
At December 31, 2006	**171,974,055**	**211,680,000**	**29,290,000**

Accordingly, under normal circumstances the voting power of Vereniging AEGON, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by AEGON N.V.) at December 31, 2006, amounts to approximately 22.61%. In the event of a special cause , Vereniging AEGON s voting rights will increase, currently to 32.29%, for up to six months per special cause .

At December 31, 2006, the General Meeting of Members of Vereniging AEGON consisted of eighteen members. The majority of the voting rights is with the sixteen members not being employees or former employees of AEGON N.V. or one of the AEGON group companies, nor current or former members of the Supervisory Board or the Executive Board of AEGON N.V. The two other members are both elected by the General Meeting of Members of Vereniging AEGON from among the members of the Executive Board of AEGON N.V.

Vereniging AEGON has an Executive Committee consisting of seven members, five of whom, including the chairman and the vice-chairman, are not nor have ever been, related to AEGON. The other two members are also members of the Executive Board of AEGON N.V. Resolutions of the Executive Committee, other than with regard to amendment of the Articles of Association, are made with an absolute majority of the votes. When a vote in the Executive Committee results in a tie, the General Meeting of Members has the deciding vote. With regards to the amendment of the Articles of Association of Vereniging AEGON, a special procedure is in place to provide for the need of a unanimous proposal from the Executive Committee, thereby including the consent of the representatives of AEGON N.V. at the Executive Committee. Following the amendment of the Articles of Association as effected on September 13, 2005, this requirement does not apply in the event of a hostile change of control at the General Meeting of Shareholders of AEGON N.V., in which event Vereniging AEGON may amend its Articles of Incorporation without the cooperation of AEGON N.V.

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ii Other major shareholders

Based on publicly available information, there are no other major shareholders exceeding 5% participation.

7B Related party transactions

Related party transactions for the period under review include transactions between AEGON N.V. and Vereniging AEGON, as well as selling a 100% subsidiary to the associate La Mondiale Participations S.A.

On November 24, 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances during the year.

On December 21, 2006, Vereniging AEGON sold at intrinsic value and transferred to AEGON International N.V. all shares of its subsidiary company Albidus B.V. for an immaterial amount.

In both 2001 and 2002, AEGON N.V. entered into total return swaps with Vereniging AEGON in order to hedge the share option plan for each respective year. On April 15, 2005, these total return swaps were terminated, resulting in a positive impact on shareholders equity of EUR 115 million. The amount has been added to retained earnings.

On May 17, 2005, AEGON N.V. purchased 3,821,645 of its common shares from Vereniging AEGON at a purchase price of EUR 9.847 million. On December 5, 2005, Vereniging AEGON exercised its option rights to purchase in aggregate 6,950,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances and treasury stock sales during the year.

AEGON provide reinsurance, asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits of AEGON employees. Certain post-employment insurance benefits are provided to employees in the form of insurance policies issued by affiliated insurance subsidiaries.

In 2006, AEGON sold its 100% interest in Scottish Equitable International SA for EUR 29 million to La Mondiale Participations S.A., a 35% associate. Details of the transaction are provided in Note 18.51 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

Interest of management in certain transactions

At the balance sheet date, the following members of the Executive Board had loans with AEGON or any AEGON related company: Mr. Streppel had a 5% mortgage loan of EUR 608,934; Mr. Van der Werf had a mortgage loan of EUR 1,240,000, with half of the amount at 3.4% fixed rate and half of the amount at 3.4% floating-rate at year end; and Mr. Wynaendts had two mortgage loans totalling EUR 635,292, with interest rates of 3.9% and 4.1% respectively. In accordance with the terms of the contracts, no principal repayments were received on the loans in 2006. The terms of the board members loans have not been amended.

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ITEM 8. FINANCIAL INFORMATION

8A Consolidated Statements and Other Financial Information

This Annual Report contains the audited consolidated financial statements of AEGON for the fiscal year ended December 31, 2006. The consolidated financial statements in Item 18 of this Annual Report contain a Report of Independent Registered Public Accounting Firm dated March 27, 2007, balance sheets as at December 31, 2006 and 2005, consolidated income statements for the three years ended December 31, 2006, consolidated statement of changes in equity for the three years ended December 31, 2006, consolidated cash flow statements for the three years ended December 31, 2006 and notes to the financial statements.

Legal Proceedings

AEGON is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. In particular, certain current and former customers, and groups representing customers, have initiated litigation and certain groups are encouraging others to bring lawsuits in respect of certain products in the Netherlands. The products involved include securities leasing products and unit linked products (so called beleggingsverzekeringen including the KoersPlan product). AEGON has established adequate litigation policies to deal with the claims defending when the claim is without merit and seeking to settle in certain circumstances. This and any other litigation AEGON has been involved in over the last twelve months have not had any significant effects on the financial position or profitability of AEGON N.V. or the Group. However, there can be no assurances that AEGON will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

In addition, in recent years, the insurance industry has increasingly been the subject of litigation, investigations and regulatory activity by various governmental and enforcement authorities concerning certain practices. AEGON subsidiaries have received inquiries from local authorities in various jurisdictions including the United States, the United Kingdom and the Netherlands. In certain instances, AEGON subsidiaries modified business practices in response to such inquiries or the findings thereof. Certain AEGON subsidiaries have been informed that the regulators may seek fines or other monetary penalties or changes in the way AEGON conducts its business.

Dividend policy

Under Dutch law and our Articles of Incorporation, holders of our common shares are entitled to dividends paid out of the profits remaining, if any, after the creation of a reserve account. First of all a fixed dividend is paid on the preferred shares, as described below. The Company may determine the dividend payment date and the dividend record date for the common shares, which may vary for the various kinds of registered shares. The Company may also determine the currency or currencies in which the dividends will be paid. We have declared interim and final dividends on our own common shares annually.

The Company may make one or more interim distributions to the holders of common shares and/or to the holders of preferred shares, the latter subject to the maximum dividend amount set forth below.

Interim dividends have traditionally been paid (usually in September) after the release of our six-month results. Each year a final dividend is paid, usually in May, upon adoption of the annual accounts at the annual General Meeting of Shareholders.

Holders of common shares historically have been permitted to elect to receive dividends in cash or in common shares, except for the final dividend for 2002, as distributed in May 2003, which was made in common shares only. For dividends, which holders may elect to receive in either cash or common shares, the value of the stock alternative may differ slightly from the value of the cash option. We pay cash dividends on New York Registry Shares in US dollars through Citibank, N.A., our NYSE paying agent, based on the foreign exchange reference Rate (the rate based on the daily concertation procedure between central banks as published each working day at 14:15 hours by the European Central Bank) on the business day following the announcement of the interim dividend or on the business day following the shareholder meeting approving the relevant final dividend.

The annual dividend on our class A and class B preferred shares is calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on Euronext Amsterdam s first working day of the financial year to which the dividend relates. Apart from this, no other dividend is to be paid on the preferred shares.

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ITEM 9. THE OFFER AND LISTING

9A Offer and listing details

The principal market for our common shares is Euronext Amsterdam. Our common shares are also listed on the NYSE and the London and Tokyo stock exchanges.

The table below sets forth, for the calendar periods indicated, the high and low sales prices of our common shares on Euronext Amsterdam and the NYSE as reported by Bloomberg and is based on closing prices. Share prices have been adjusted for all stock splits and stock dividends through December 31, 2006.

	Euronext Amsterdam		New York Stock Exchange	
	High	Low	High	Low
	(EUR)		(USD)	
2002	28.89	9.04	26.00	8.88
2003	13.47	5.87	14.80	6.76
2004	12.98	8.24	16.12	10.41
2005	14.25	9.63	16.78	12.19
2006	15.56	12.17	18.97	15.24
2005				
First quarter	10.95	10.03	14.57	13.19
Second quarter	10.82	9.63	13.43	12.19
Third quarter	12.35	10.76	15.00	12.90
Fourth quarter	14.25	12.16	16.78	14.58
2006				
First quarter	15.56	12.67	18.86	15.38
Second quarter	15.25	12.17	18.91	15.24
Third quarter	14.79	12.20	18.77	15.37
Fourth quarter	14.86	13.52	18.97	18.06
September 2006	14.79	13.60	18.77	17.36
October 2006	14.86	14.41	18.90	18.31
November 2006	14.84	13.69	18.97	18.16
December 2006	14.44	13.52	18.95	18.06
January 2007	15.70	14.44	20.31	18.83
February 2007	15.87	14.95	20.88	19.65
March 2007 (through March 13, 2007)	15.20	14.35	19.94	18.62

On Euronext Amsterdam only Euronext registered shares may be traded and on the NYSE only New York Registry Shares may be traded.

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9B Plan of distribution

Not applicable

9C Markets

Please see Items 4 and 9A above

9D Selling shareholders

Not applicable

9E Dilution

Not applicable

9F Expenses of the issue

Not applicable

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ITEM 10. ADDITIONAL INFORMATION

10A Share capital

Not applicable

10B Memorandum and articles of incorporation

AEGON is registered under number 27076669 in the Commercial Register of the Chamber of Commerce and Industries for Haaglanden, The Hague, the Netherlands.

Certain provisions of AEGON s current Articles of Incorporation are discussed below. The amendments to the Articles of Incorporation, as proposed to the Annual General Meeting of Shareholders scheduled to take place on April 25, 2007, are not taken into account below. In this regard reference is made to the relevant proposals.

Objects and purposes

(1) The objects of AEGON are to incorporate, acquire and alienate shares and interests in, to finance and grant security for commitments of, to enter into general business relationships with, and to manage and grant services to legal entities and other entities, in particular those involved in the insurance business, and to do all that is connected therewith or which may be conducive thereto, all to be interpreted in the broadest sense.

(2) In achieving the aforesaid objects due regard shall be taken, within the scope of sound business operations, to provide fair safeguards for the interests of all the parties directly or indirectly involved in AEGON.

Provisions related to directors

For information with respect to provisions in the Articles of Incorporation relating to members of the Supervisory Board and Executive Board, see Item 6, Directors, Senior Management and Employees .

Description of AEGON s capital stock

AEGON has two types of shares: Common shares (par value EUR 0.12) and (class A and class B) Preferred shares (par value EUR 0.25).

Common Characteristics of the Common and Preferred Shares

(1) All shares are in registered form.

(2) All shares have dividend rights except for those shares (if any) held by AEGON as treasury stock. Dividends which have not been claimed within five years lapse to AEGON.

(3) Each currently outstanding share is entitled to one vote except for shares held by AEGON as treasury stock. There are no upward restrictions.

However, Vereniging AEGON, the sole holder of preferred shares may cast 25/12 votes per preferred share due to their higher par value. Vereniging AEGON and AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 votes per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board). If, in its sole discretion, Vereniging AEGON determines that a special cause has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 votes per preferred share for a limited period of six months.

(4) All shares have the right to participate in AEGON s net profits. Net profits is the amount of profits after contributions, if any, to a reserve account.

(5) In the event of liquidation, all shares have the right to participate in any remaining balance after settlement of all debts.

(6) The General Meeting of Shareholders may, at the proposal of the Executive Board, as approved by the Supervisory Board, resolve to reduce the outstanding capital either by (i) repurchasing shares and subsequently canceling them, or (ii) by reducing their nominal share value.

(7) There are no sinking fund provisions.

(8) All issued shares are fully paid-up; so there is no liability for further capital calls.

(9) There are no provisions discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares.

Differences between common and preferred shares

(1) The common shares are listed; the preferred shares are not listed.

(2) Preferred shares under certain circumstances are entitled to cast 25/12 votes per share due to their higher nominal value.

(3) Preferred shares are entitled to a preferred dividend on the paid-in amount, restricted to the fixed rate set by the European Central Bank for basic refinancing transactions plus 1.75%. No additional dividend is paid on the preferred shares and the remaining profit is available for distribution to the holders of common shares.

(4) Any remaining balance after settlement of all debts in the event of liquidation, will first be allocated (to the extent possible) to repaying the paid-in capital on the preferred shares.

(5) Holders of common shares have pre-emptive rights in relation to any issuance of common shares, while holders of preferred shares have no such pre-emptive rights.

Actions necessary to change the rights of shareholders

A change to the rights of shareholders would require an amendment to the Articles of Incorporation. The General Meeting of Shareholders (annual General Meeting or extraordinary General Meeting) may only pass a resolution to amend the Articles of Incorporation pursuant to a proposal of the Executive Board with the approval of the Supervisory Board. The resolution requires a majority of the votes cast at the meeting in order to pass. The actual changes to the text of the Articles of Incorporation will be executed by a civil law notary upon certification that the Minister of Justice does not object.

Furthermore, a resolution of the General Meeting of Shareholders to amend the Articles of Incorporation which has the effect of reducing the rights attributable to holders of preferred shares of a specific class shall be subject to the approval of the meeting of holders of preferred shares of such class.

Conditions under which meetings are held

Annual General Meetings and extraordinary General Meetings of Shareholders shall be convened by an announcement in one or more Dutch daily newspapers and in the official price list of Euronext Amsterdam. Notice must be given no later than the fifteenth day prior to the date of the meeting. The notice in the newspaper must contain a summary agenda and indicate the place where the complete agenda together with the documents pertaining to the agenda may be obtained. The agenda is also sent to shareholders registered with the Company Register and New York Registry shareholders at their addresses or to their brokers.

For admittance to and voting at the meeting, shareholders must produce evidence of their shareholding as of the record date set by the Executive Board. Holders of shares registered with the Company Register must notify AEGON of their intention to attend the meeting.

Limitation on the right to own securities

There are no limitations, either under the laws of the Netherlands or in AEGON s Articles of Incorporation, on the rights of non-residents of the Netherlands to hold or vote AEGON common shares.

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Provisions that would have the effect of delaying a change of control

A resolution of the General Meeting of Shareholders to suspend or dismiss a member of the Executive Board or a member of the Supervisory Board, other than pursuant to a proposal by the Supervisory Board, shall require at least two-thirds of the votes cast representing more than one-half of the issued capital.

In the event a special cause occurs (such as the acquisition of 15% of AEGON s voting shares, a tender offer for AEGON s shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON will be entitled to exercise its full voting rights of 25/12 votes per preferred share for up to six months per special cause , thus increasing its current voting rights to 32.29%.

Threshold above which shareholder ownership must be disclosed

There are no such provisions in the Articles of Incorporation. Dutch law requires public disclosure to a supervising government agency with respect to the ownership of listed shares when the following thresholds are met: 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% and 95%.

Material differences between Dutch law and US law with respect to the items above

Dutch company law is different from US law in the following respects:

AEGON, like other large Dutch public companies, has a two-tier governance system involving an executive board and a supervisory board. The Executive Board is the executive body and its members are employed by the Company. Members of the Executive Board are appointed and dismissed by the General Meeting of Shareholders, as inside directors are in the United States. The remuneration policy as regards the members of the Executive Board is adopted by the General Meeting of Shareholders. The number of the Executive Board members and the terms of their employment are determined by the Supervisory Board within the scope of the adopted remuneration policy. The Supervisory Board performs supervisory and advisory functions only and its members are outsiders that are not employed by the Company. The Supervisory Board has the duty to supervise the performance of the Executive Board, the Company s general course of affairs and the business connected with it. The Supervisory Board also assists the Executive Board by giving advice. Other powers of the Supervisory Board include the prior approval of certain important resolutions of the Executive Board. Members of the Supervisory Board are appointed for a four-year term and may be dismissed by the General Meeting of Shareholders. The remuneration of Supervisory Board members is fixed by the General Meeting of Shareholders. Resolutions entailing a significant change in the identity or character of the Company or its business require the approval of the General Meeting of Shareholders.

For more detailed information with respect to AEGON s Supervisory Board and Executive Board, see Item 6, Directors, Senior Management and Employees .

Special Conditions Governing Changes in the Capital

There are no conditions more stringent than what is required by law.

10C Material contracts

There are no material contracts.

10D Exchange controls

There are no legislative or other legal provisions currently in force in the Netherlands or arising under AEGON s Articles of Incorporation restricting remittances to holders of AEGON s securities that are not resident in the Netherlands. Cash dividends payable in euro on AEGON s common shares may be officially transferred from the Netherlands and converted into any other convertible currency.

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10E Taxation

i Taxation in the Netherlands

Certain Dutch Tax Consequences for holders of common shares in AEGON

This section describes the principal tax consequences that will generally apply to holders of common shares in AEGON under Dutch tax law, Dutch tax treaties, published case law, regulations and judicial interpretations thereof, in each case as in force and in effect as of the date hereof. This description is subject to changes in Dutch law including changes that could have retroactive effect. No assurance can be given that authorities or courts in the Netherlands will agree with the description below. Not every potential tax consequence of such investment under the laws of the Netherlands will be addressed and the description below should not be read as extending by implication to matters not specifically referred to herein. Each holder or prospective investor should therefore consult their own tax advisor with respect to the tax consequences in relation to the acquiring, owning and disposing of common shares in AEGON (hereafter referred to as: common shares).

Dutch taxation of resident shareholders

The description of certain Dutch taxes set out in this section Dutch taxation of resident shareholders is only intended for the following investors:

(1) individuals who are resident or deemed to be resident in the Netherlands and, with respect to personal income taxation, individuals who opt to be taxed as a resident of the Netherlands for purposes of Dutch taxation and who invest in the common shares (Dutch Individuals), excluding individuals:

(a) who derive benefits from the common shares that are taxable as benefits from miscellaneous activities ;

(b) for whom the common shares or any payment connected therewith may constitute employment income; or

(c) who have a substantial interest, or a deemed substantial interest, in AEGON; and

(2) corporate entities (including associations which are taxed as corporate entities) that are resident or deemed to be resident in the Netherlands for purposes of Dutch taxation and who invest in the common shares (Dutch Corporate Entities), excluding:

(a) corporate entities that are not subject to Dutch corporate income tax;

(b) pension funds and other entities that are exempt from Dutch corporate income tax;

(c) corporate entities that hold common shares, the benefits derived from which are exempt under the participation exemption (as laid down in the Dutch Corporate Income Tax Act 1969); and

(d) investment institutions as defined in the Dutch Corporate Income Tax Act 1969.

Generally, an individual who holds common shares will have a substantial interest if he or she holds, alone or together with his or her partner, whether directly or indirectly, the ownership of, or certain other rights relating to, shares representing 5% or more or the total issued and outstanding capital in AEGON (or the issued and outstanding capital of any class of shares), or rights to acquire shares, whether or not already issued, that represent at any time 5% or more of the total issued and outstanding capital in AEGON (or the issued and outstanding capital of any class of shares), or the ownership of certain profit participating certificates that relate to 5% or more of our annual profit and/or to 5% or more of our liquidation proceeds. A holder of common shares will also have a substantial interest in AEGON if certain relatives (including foster children) of that holder or of his or her partner have a substantial interest in AEGON. If a holder of common shares does not have a substantial interest, a deemed substantial interest will be present if (part of) a substantial interest has been disposed of, by this holder, or is deemed to have been disposed of, on a non-recognition basis.

Personal and corporate income tax

Dutch individuals not engaged or deemed to be engaged in an enterprise. Generally, a Dutch individual who holds common shares that are not attributable to an enterprise from which it derives profits as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder (a Dutch Private Individual), will be subject to a fictitious yield tax. Irrespective of the actual income or capital gains, the annual taxable benefit of all the assets and liabilities of a Dutch individual that are taxed under such regime including, as the case may be, the common shares, is set at a fixed percentage. This percentage is 4% of the average fair market value of these assets and liabilities at the beginning and at the end of every year (minus a tax-free amount). The tax rate applicable under the fictitious yield tax is 30%.

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Dutch individuals engaged or deemed to be engaged in an enterprise and Dutch Corporate Entities. Any benefits derived or deemed to be derived from the common shares (including any capital gains realized on the disposal thereof) that are attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder, are generally subject to personal income tax in its hands. Any benefits derived or deemed to be derived from the common shares (including any capital gains realized on the disposal thereof) that are held by a Dutch Corporate Entity are generally subject to corporate income tax in its hands.

Withholding tax

Dividend distributions are generally subject to a withholding tax imposed by the Netherlands at a rate of 25%. Effective as per January 1, 2007, the dividend withholding tax rate has been reduced from 25% to 15%. The concept dividends we distribute used in this section includes, but is not limited to:

(1) distributions in cash or in kind, deemed and constructive distributions, and (partial) repayments of paid-in capital not recognized for Dutch dividend withholding tax purposes;

(2) liquidation proceeds in excess of the qualifying average paid-in capital for Dutch dividend withholding tax purposes;

(3) consideration for the redemption of the common shares, or, as a rule, consideration for the repurchase of common shares by AEGON (including a purchase by a direct or indirect subsidiary of AEGON) in excess of the qualifying average paid-in capital of these specific class of shares for Dutch dividend withholding tax purposes, unless such repurchase is made for temporary investment purposes or is exempt by law;

(4) the par value of common shares issued to a holder of the common shares or an increase of the par value of common shares (unless distributed out of qualifying paid-in capital for Dutch dividend withholding tax purposes), to the extent that it does not appear that a contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

(5) partial repayment of paid-in capital, recognized for Dutch dividend withholding tax purposes, if and to the extent that AEGON has (cumulative) net profits, or can expect to derive such profits (anticipated profits), unless:

  (a) a general meeting of the AEGON shareholders has resolved in advance to make such repayment; and

  (b) the par value of the common shares concerned has been reduced by an equal amount by way of an amendment of the articles of association.

Dutch Individuals and Dutch Corporate Entities can generally credit the withholding tax against their personal income tax or corporate income tax liability and are generally entitled to a refund of dividend withholding taxes exceeding their aggregate personal income tax or corporate income tax liability. Under certain circumstances Dutch qualifying pension funds, certain Dutch exempt entities and Dutch qualifying investment institutions may apply for a refund of Dutch dividend withholding tax.

With retroactive effect as from April 27, 2001, provisions against dividend stripping were introduced in Dutch tax law. In the case of dividend stripping, dividend withholding tax cannot be credited or refunded. Dividend stripping is deemed to be present if the recipient of a dividend is not the beneficial owner thereof and is entitled to a larger reduction or refund of dividend withholding tax than the beneficial owner of the dividends. Under the anti-dividend stripping provisions, a recipient of dividends will not be considered the beneficial owner thereof if as a consequence of a combination of transactions, a person other than the recipient wholly or partly benefits from the dividends, whereby such person retains, whether directly or indirectly, an interest in the shares on which the dividends were paid comparable with his position in similar shares before such combination of transactions, including the sole acquisition of one or more dividend coupons and the establishment of short-term rights of enjoyment on common shares, while the transferor retains the ownership of the common shares. The provisions apply to the transfer of the common shares and dividend coupons and also to transactions that have been entered into in the anonymity of a regulated stock market.

Gift and inheritance taxes

A liability to gift tax will arise in the Netherlands with respect to an acquisition of the common shares by way of a gift by an individual who is resident in the Netherlands or a corporate entity that is established in the Netherlands. A liability to inheritance tax will arise in the Netherlands with respect to an acquisition or deemed acquisition of the common shares by way of an inheritance or bequest on the death of an individual who is resident in the Netherlands.

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For purposes of Dutch gift and inheritance taxes, an individual who holds Dutch nationality will, inter alia, be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the 12 months preceding the date of the gift.

Dutch taxation of non-resident shareholders

This section describes certain Dutch tax consequences for a holder of common shares who is neither resident nor deemed to be resident in the Netherlands (a Non-Resident Shareholder). This section does not describe the tax consequences for Non-Resident Shareholders that hold the common shares as a participation under the participation exemption as laid down in the Dutch Corporate Income Tax Act 1969.

It is noted that a Non-Resident Shareholder will not become resident, or be deemed to become resident, in the Netherlands solely as a result of holding the common shares, or of the performance, execution, delivery and/or enforcement of rights in respect of the common shares.

Taxes on income and capital gains

A Non-Resident Shareholder will not be subject to any Dutch taxes on income or capital gains in respect of dividends AEGON distributes (other than withholding tax described below) or in respect of any gain realized on the disposal of common shares, provided that:

(1) such Non-Resident Shareholder does not derive profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder which enterprise is, in whole or in part, carried on through a (deemed) permanent establishment or a permanent representative in the Netherlands and to which permanent establishment or permanent representative, as the case may be, the common shares are attributable;

(2) such Non-Resident Shareholder does not have a substantial interest or a deemed substantial interest in AEGON, or, if such holder does have such an interest, it forms part of the assets of an enterprise;

(3) if such Non-Resident Shareholder is an individual, the benefits derived from the shares are not taxable in the hands of such holder as a benefit from miscellaneous activities in the Netherlands;

(4) such Non-Resident Shareholder is not entitled to a share in the profits of an enterprise effectively managed in the Netherlands, other than by way of the holding of securities or through an employment contract, to which enterprise the common shares or payments in respect of the common shares are attributable;

(5) such Non-Resident Shareholder does not carry out and has not carried out employment activities in the Netherlands, does not serve and has not served as a director or a board member of an entity resident in the Netherlands and does not serve and has not served as civil servant of a Dutch public entity with which the holding of or income derived from the common shares is connected; and

(6) if such Non-Resident Shareholder is an individual, he or she does not opt to be taxed as a resident of the Netherlands for purposes of Dutch taxation.

See the section Dutch taxation of resident shareholders for a description of the circumstances under which your common shares form part of a substantial interest or may be deemed to form part of a substantial interest in AEGON. It is noted that both non-resident individuals and non-resident corporate entities can hold a substantial interest.

Withholding tax

Dividends we distribute are generally subject to a withholding tax imposed by the Netherlands at a rate of 25%. Effective as per January 1, 2007, the dividend withholding tax rate has been reduced from 25% to 15%. Reference is made to the section Dutch taxation of resident shareholders Withholding tax for a description of the concept dividends we distribute .

Entities that are resident of a country which is a member of the European Union and that qualify for the application of the E.U. Parent Subsidiary Directive are eligible for an exemption of dividend withholding tax, provided certain conditions are met (one of the conditions is that the parent company that is resident in the European Union must have a shareholding of at least 20%). Effective as per January 1, 2007, and subject to various specified conditions, this withholding exemption for parent companies that are resident in the European Union, may apply to a shareholding of 5% or more.

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If a holder of common shares, whether an individual or an entity, is resident in a country other than the Netherlands and if a treaty for the avoidance of double taxation with respect to taxes on income is in effect between the Netherlands and that country, and the holder is a qualifying resident for purposes of such treaty, such holder may, depending on the terms of that particular treaty, qualify for full or partial relief at source or for a refund (in whole or in part) of the Dutch dividend withholding tax.

In the section Dutch taxation of resident shareholders Withholding tax , certain legislation is discussed that was introduced with retroactive effect from April 27, 2001. This legislation may also be applied to deny reduction or a refund of Dutch dividend withholding tax under double taxation conventions or the E.U. Parent Subsidiary Directive.

Both the European Free Trade Association Court of Justice as well as the European Court of Justice (ECJ) issued judgments concerning outbound dividend payments to foreign shareholders. According to both courts, it is in breach with the European freedom of capital and the freedom of establishment to treat outbound dividend payments less favorably than dividend payments to domestic shareholders. As of January 1, 2007, in general, dividend payments to certain qualifying EU resident corporate shareholders are treated the same as dividend payments to certain qualifying Dutch resident corporate shareholders. Dividend payments to corporate shareholders residing outside the EU are still treated less favorably as opposed to dividend payments to certain qualifying Dutch resident corporate shareholders. The above stated court cases may have significant implications for certain non-EU resident shareholders that receive dividends that are subject to Netherlands dividend withholding tax (i.e. the aforementioned different treatment may be a breach of the European freedom of capital).

Although the freedom of capital generally also applies to capital movements to and from third countries, such as the United States, it cannot be ruled out that the freedom of capital movements to and from third countries must be interpreted more stringent as opposed to the freedom of capital movements to EU member states. Furthermore, the freedom of capital movements to and from third countries is generally subject to grandfathering (stand-still) provisions in the EC-Treaty (i.e. the restriction of the freedom of capital movements is allowed if these stand-still provisions apply). However, based on case law of the ECJ it may be held that these stand-still provisions do not apply in the specific case of claiming a refund of the Netherlands dividend withholding tax by a shareholder who did not acquire the shares in AEGON with a view to establishing or maintaining lasting and direct economic links between the shareholder and AEGON which allow the shareholder to participate effectively in the management of the company or in its control.

Especially the following non-EU resident shareholders may be affected and may as a result be entitled to a refund of Netherlands dividend withholding tax.

- Legal entities that could have invoked the participation exemption with respect to the dividends received in case they would have been a resident of the Netherlands for tax purposes. In general, the participation exemption applies in case of shareholdings of 5% or more. In case of legal entities resident in the Netherlands, in effect no Dutch dividend withholding tax is due with respect to dividends on shareholdings that apply for the participation exemption.

Individuals if the shares do not belong to the assets of a business enterprise or do not belong to a substantial interest. In case such a natural person would have been a resident of the Netherlands, the dividend as such would not be subject to individual income tax. In stead, the individual would be taxed on a deemed income, calculated at 4% of his net equity, whereas the dividend tax withheld would have been credited in full against the individual income tax due.

- Legal entities that, if they had been based in the Netherlands, would not have been subject to corporate income tax, or would have qualified as an investment institution for the purposes of this tax, and that would, because of this, be eligible for a refund of dividend withholding tax withheld at their expense.

Residents of the United States that qualify for, and comply with the procedures for claiming benefits under, the income tax convention between the Netherlands and the United States (the US/NL Income Tax Treaty) are generally eligible for a reduction of the Dutch withholding tax on dividend income to 15%, which rate may, under various specified conditions, be reduced to 5% if the beneficial owner is a company which holds directly at least 10% of the voting power in AEGON. The US/NL Income Tax Treaty provides, subject to certain conditions, for a complete exemption from, or refund of, Dutch dividend withholding tax for dividends received by exempt pension trusts and exempt organizations, as defined therein.

A Protocol amending the US/NL Income Tax Treaty is generally effective for dividend payments made or credited after February 1, 2005. Under this Protocol, dividend distributions may be exempt from withholding tax if the beneficial owner is a United States resident company owning directly 80 percent or more of the voting power in AEGON and provided certain other conditions are met.

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Subject to compliance with the procedures for claiming benefits, a holder of common shares will generally qualify for benefits under the US/NL Income Tax Treaty (an eligible U.S. holder), if the holder:

is the beneficial owner of the dividends paid on the common shares;

is resident in the United States according to the US/NL Income Tax Treaty;

is not restricted in claiming the benefits of the US/NL Income Tax Treaty under article 26 of the US/NL Income Tax Treaty (limitation on benefits);

does not carry on business in the Netherlands through a permanent establishment of which the common shares form part of the business property;

does not perform independent personal services from a fixed base in the Netherlands to which the holding of the common shares pertains; and is an individual, an exempt pension trust or exempt organization as defined in the US/NL Income Tax Treaty, an estate or trust whose income is subject to U.S. taxation as the income of a resident, either in its hands or in the hands of its beneficiaries, or a corporation that is not excluded from treaty benefits under the limitation on benefits provision of the US/NL Income Tax Treaty.

Gift and inheritance taxes

No liability for gift or inheritance taxes will arise in the Netherlands with respect to an acquisition of the common shares by way of a gift by, or on the death of, a Non-Resident Shareholder, unless:

(1) such Non-Resident Shareholder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which permanent establishment or permanent representative, as the case may be, the common shares are or were attributable; or

(2) in the case of a gift of the common shares by an individual who at the time of the gift was a Non-Resident Shareholder, such individual dies within 180 days after the date of the gift while (at the time of his death) being resident or deemed to be resident in the Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will, inter alia, be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the 12 months preceding the date of the gift.

Furthermore, in exceptional circumstances the deceased or the donor will be deemed to be a resident in the Netherlands for purposes of Dutch gift and inheritance taxes if the heirs jointly, or the recipient of the gift, as the case may be, elect the deceased or the donor, as the case may be, to be treated as a resident of the Netherlands for purposes of Dutch gift and inheritance taxes.

Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands by the investors in respect of or in connection with the subscription, issue, placement, allotment or delivery of the common shares.

Value Added Tax

No Dutch value added tax will arise in respect of payments in consideration for the acquisition or the disposition of common shares, or in respect of payments by AEGON under common shares.

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ii Taxation in the United States

This section describes certain material US Federal income tax consequences to beneficial holders of common shares that hold common shares as capital assets. This section does not address all US Federal income tax matters that may be relevant to a particular holder. Each investor should consult a professional tax advisor with respect to the tax consequences of an investment in the common shares. This section does not address tax considerations applicable to a holder of common shares that may be subject to special tax rules including, without limitation, the following:

- financial institutions;
- insurance companies;
- dealers or traders in securities or currencies;
- tax-exempt entities;
- regulated investment companies;
- persons that will hold the common shares as part of a hedging or conversion transaction or as a position in a straddle or as part of a synthetic security or other integrated transaction for US Federal income tax purposes;
- holders that own (or are deemed to own for US Federal income tax purposes) 10% or more of the voting shares of AEGON;
- partnerships or pass-through entities or persons who hold common shares through partnerships or other pass-through entities; and
- holders that have a functional currency other than the US dollar.

Further, this section does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of common shares. This section also does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the Federal income tax laws of the US Federal government.

This section is based on the US Internal Revenue Code of 1986, as amended, US Treasury regulations and judicial and administrative interpretations, in each case as in effect and available on the date of this Annual Report on Form 20-F. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this section, a US holder is a beneficial owner of common shares that is, for US Federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation or other entity that is treated for US Federal income tax purposes as a corporation, created or organized in or under the laws of the United States or any state of the United States (including the District of Columbia);

- an estate, the income of which is subject to US Federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more US persons have the authority to control all of the substantial decisions of such trust.

A non-US holder is a beneficial owner of common shares that is not a US holder.

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Tax Consequences to US Holders

Distributions

The gross amount of any distribution (including any amounts withheld in respect of Dutch withholding tax) actually or constructively received by a US holder with respect to common shares will be taxable to the US holder as a dividend to the extent of AEGON s current and accumulated earnings and profits as determined under US Federal income tax principles. The US holder will not be eligible for any dividends received deduction in respect of the dividends received otherwise allowable to corporations. Distributions in excess of AEGON s current and accumulated earnings and profits will be treated as non-taxable return at capital to the US holder to the extent of, and will be applied against and reduce, the US holder s adjusted tax basis in the common shares. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the US holder as capital gain from the sale or exchange of property. AEGON does not maintain calculations of its earnings and profits under US Federal income tax principles. If AEGON does not report to a US holder the portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution.

Certain qualified dividends income received by individual US holders are subject to a maximum income tax rate of 15%. This reduced income tax rate is only applicable to dividends paid by US corporations or a qualified foreign corporation and only with respect to shares held by an individual US holder for a minimum holding period (generally, 61 days during the 121-day period beginning 60 days before the ex-dividend date). Because AEGON is eligible for benefits under the comprehensive income tax treaty between the Netherlands and the US, AEGON should be considered a qualified foreign corporation for this purpose. Accordingly, dividends paid by AEGON to individual US holders on shares held for the minimum holding period may be eligible for a reduced income tax rate. The reduced rate for qualified dividends is currently scheduled to expire on December 31, 2010, unless further extended by Congress. Each US holder should consult its own tax advisor regarding the reduced rate.

The amount of any distribution paid in currency other than US dollars (a foreign currency), including the amount of any withholding tax thereon, will be included in the gross income of a US holder in an amount equal to the US dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the foreign currency is converted into US dollars. If the foreign currency is converted into US dollars on the date of receipt, a US holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currency received in the distribution is not converted into US dollars on the date of receipt, a US holder will have a basis in the foreign currency equal to its US dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as ordinary income or loss.

Dividends received by a US holder with respect to common shares will be treated as foreign source income for the purposes of calculating that holder s foreign tax credit limitation. Subject to certain conditions and limitations and subject to the discussion in the next paragraph, any Dutch income tax withheld on dividends may be deducted from taxable income or credited against a US holder s Federal income tax liability. For taxable years beginning after December 31, 2006, the limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to passive category income and general category income . For this purpose, dividends distributed by AEGON generally will constitute passive category income , or, in the case of certain US holders, financial services income , which is treated as general category income. For taxable years beginning prior to January 1, 2007, dividends distributed by AEGON would generally constitute passive income , or in the case of certain US holders, financial services income for purposes of the foreign tax credit limitation. In certain circumstances, a US holder may be unable to claim foreign tax credits for foreign taxes imposed on a dividend. Each US holder should consult its own tax advisor regarding the availability of the foreign tax credit under its own particular circumstances.

The amount of the qualified dividend income paid by AEGON to a US holder that is subject to the reduced dividend income tax rate and that is taken into account for purposes of calculating the US holder s US foreign tax credit limitation must be reduced by the rate differential portion of such dividend (which, assuming a US holder in the highest income tax bracket, would generally require a reduction of the dividend amount by approximately 57.14%). Each US holder should consult its own tax advisor regarding the implications of the rules relating to qualified dividend income on the calculation of US foreign tax credits under its own particular circumstances.

In general, upon making a distribution to shareholders, AEGON is required to remit all amounts withheld as Dutch dividend withholding tax to the Dutch tax authorities and, in such circumstances, the full amount of the taxes so withheld would generally (subject to certain limitations and conditions) be eligible for the US holder s foreign tax deduction or credit as described above. Investors are urged to consult their tax advisors regarding the general creditability or deductibility of Dutch withholding taxes.

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A distribution of additional common shares to US holders with respect to their common shares that is made as part of a pro rata distribution to all shareholders generally will not be subject to US Federal income tax unless holders can elect that the distribution be payable in either additional common shares or cash, in which case the distribution will be taxable under the rules described above.

Sale or other disposition of shares

A US holder will generally recognize gain or loss for US Federal income tax purposes upon the sale or exchange of common shares in an amount equal to the difference between the US dollar value of the amount realized from such sale or exchange and the US holder s tax basis for those common shares. This gain or loss will be a capital gain or loss and will generally be treated as from sources within the United States, except that certain US holders may be subject to certain dividend recapture rules under which such losses could be treated as foreign source to the extent the US holder received dividends that were includible in the financial services income basket during the 24-month period prior to the sale. Investors should consult their own tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that have held the common shares for more than one year) and capital losses (the deductibility of which is subject to limitations).

If a US holder receives foreign currency upon a sale or exchange of common shares, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into US dollars on the date received by the US holder, the US holder generally should not be required to recognize any gain or loss on such conversion.

Redemption of common shares

The redemption of common shares by AEGON will be treated as a sale of the redeemed shares by the US holder (which is taxable as described above under Sale or Other Disposition of Shares) or, in certain circumstances, as a distribution to the US holder (which is taxable as described above under Distributions).

Passive Foreign Investment Company Considerations

Based on the nature of AEGON s gross income, the average value of AEGON s gross assets, and the active conduct of AEGON s insurance business, AEGON does not believe that it will be classified as a PFIC. If AEGON were treated as a PFIC in any year during which a US holder owns common shares, certain adverse tax consequences could apply. AEGON s status in any taxable year will depend on its assets and activities in each year and because this is a factual determination made annually at the end of each taxable year, there can be no assurance that AEGON will not be considered a PFIC for any future taxable year. Investors should consult their own tax advisors with respect to any PFIC considerations.

Tax Consequences to Non-US Holders

A non-US holder generally will not be subject to US Federal income tax on dividends received on common shares or on any gain realized on the sale or exchange of common shares unless the gain is connected with a trade or business that the non-US holder conducts in the United States or unless the non-US holder is an individual, such holder was present in the United States for at least 183 days during the year in which such holder disposes of the common shares, and certain other conditions are satisfied. Non-US holders should consult their own tax advisors with respect to the US Federal income tax consequences of dividends received on, and any gain realized from the sale or exchange of, the common shares.

Tax Consequences to US Holders and Non-US Holders

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the common shares and to proceeds of the sale or redemption of the common shares to US holders made within the United States. AEGON, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if a US holder fails to furnish the US holder s taxpayer identification number, fails to certify that such US holder is not subject to backup withholding, or fails to otherwise comply with the applicable requirements of the backup withholding rules. Certain US holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements.

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Non-US holders that provide the required tax certifications of exempt or foreign status will generally be exempt from US information reporting requirements and backup withholding. However, sales proceeds a non-US holder receives on a sale of common shares through a broker may be subject to information reporting and backup withholding if the non-US holder is not eligible for an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a US holder or a non-US holder generally may be claimed as a credit against such holder s US Federal income tax liability provided that the required information is furnished to the US Internal Revenue Service. Investors should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. Non-US holders should consult their own tax advisors concerning the applicability of the information reporting and backup withholding rules.

10F Dividends and Paying Agents

Not applicable

10G Statements by Experts

Not applicable

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10H Documents on Display

AEGON files annual reports with and furnishes other information to the Securities and Exchange Commission. You may read and copy any document filed with or furnished to the SEC by AEGON at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. AEGON s SEC filings are also available to the public through the SEC s web site at www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room in Washington D.C. and in other locations.

The SEC allows AEGON to incorporate by reference information into this Annual Report on Form 20-F, which means that:

Incorporated documents are considered part of this Annual Report on Form 20-F; and

AEGON can disclose important information to you by referring you to those documents.

Those documents contain important information about AEGON and our financial condition. You may obtain copies of those documents in the manner described above. You may also request a copy of those documents (excluding exhibits) at no cost by contacting us at:

Investor Relations	Investor Relations
AEGON N.V.	AEGON USA, Inc.
P.O. Box 85	1111 North Charles Street
2501 CB The Hague	Baltimore, MD 21201
The Netherlands	USA
Tel: +31-70-344-8305	Tel: +1-410-576-4577
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10I Subsidiary Information

Not applicable

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ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

11A Risk Management and Sensitivity Analysis

As an insurance company, AEGON is in the risk business and as a result is exposed to a variety of risks. A description of our risk management and control systems is given below on the basis of significant identified risks for us. Some risks, such as currency translation risk, are related to the international nature of AEGON s business. Other risks include insurance related risks, such as changes in mortality and morbidity. However, our largest exposures are to changes in financial markets (e.g. interest rate, credit and equity market risks) that affect the value of the investments, liabilities from products that we sell, deferred expenses and value of business acquired.

AEGON manages risk at the local level where business is transacted, based on principles and policies established at the Group level. AEGON s integrated approach to risk management involves common measurement of risk and scope of risk coverage to allow for aggregation of the Group s risk position. In addition, this integrated framework facilitates the sharing of best practices and the latest research on methodologies. The risk management functions are applied locally and are tied to the speed of business, while corporate oversight remains independent of the business activity providing oversight and peer review.

To manage its risk exposure, AEGON employs risk management programs including asset liability management (ALM) processes and models, hedging programs (which are largely conducted via the use of derivatives) and insurance programs (which are largely conducted through the use of reinsurance). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but also for the Group. Derivative and reinsurance usage by the company are governed by derivative and reinsurance usage policies. These policies establish the control, authorization, execution and monitoring requirements of the usage of such instruments. In addition, these policies stipulate necessary mitigation of credit risk created through these derivatives and reinsurance risk management tools. For derivatives, credit risk is often mitigated by requirements to post collateral via credit support annex agreements. For reinsurance, credit risk is often mitigated through funds withheld by treaties (when AEGON owns the assets) or through assets held in trust for the benefit of AEGON (in the event of reinsurer insolvency).

As part of these risk management programs, AEGON takes inventory of its current risk position across risk categories. We also measure the sensitivity of net income and shareholders equity to stochastic and deterministic scenarios. Management uses the insight gained through these what if? scenarios to manage the Group s risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated as necessary.

Results of AEGON s sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders equity to various scenarios. These sensitivity analyses are presented according to IFRS. These scenario results do not consider the actions that might be taken to mitigate losses inherent in our risk management processes. As financial markets fluctuate, these actions may involve selling investments, changing investment portfolio allocation and adjusting interest rates or bonuses credited to policyholders. Also, the results do not take into account correlation between factors and assume unchanged conditions for all other assets and liabilities. Results of the analyses also cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results. Also refer to Item 5, Operating and Financial Review and Prospects Application of Critical Accounting Policies IFRS .

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i Currency Exchange Rate Risk

As an international group, AEGON is subject to currency risk. Also, currency risk exists for any policy denominated in currencies other than the policy s local currency. In the Netherlands, the majority of AEGON s equity holdings are invested in an internationally diversified portfolio, rather than solely in Dutch equities. Equity held in subsidiaries is kept in local currencies to the extent shareholders equity is required to satisfy regulatory and self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of shareholders equity as a result of translation into euro. We hold the remainder of our capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of our country units. This balancing mitigates currency translation impacts on equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles.

We do not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As AEGON has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. AEGON may experience significant changes in net income and shareholders equity because of these fluctuations.

AEGON s 3-year historical of income before tax and capital in units on an IFRS basis are shown in the table below:

TABLE 1

In millions	2004	2005	2006
Income before tax			
AEGON Americas (in USD)	2,112	2,717	2,689
AEGON The Netherlands (in EUR)	1,097	1,286	1,042
United Kingdom (in GBP)	150	186	225
Other Countries (in EUR)	135	248	81
Capital in units			
AEGON Americas (in USD)	18,215	19,149	19,796
AEGON The Netherlands (in EUR)	4,038	5,011	4,769
United Kingdom (in GBP)	2,004	2,124	2,285
Other Countries (in EUR)	1,002	1,155	1,335

The exchange rates for US dollar and UK pound per euro for each of the last five year-ends are set forth in the table below:

TABLE 2

	2002	2003	2004	2005	2006
Closing Rates					
USD	1.05	1.26	1.36	1.18	1.32
GBP	0.65	0.70	0.71	0.69	0.67

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The sensitivity analysis in the table below shows the estimated approximate effects on net income and shareholders equity of movements in the exchange rates of AEGON s non-euro currencies relative to the euro[1,2].

TABLE 3

Movement of markets

	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
Increase versus the euro of non-euro currencies of 15%	increase between 11% and 12%	increase between 12% and 13%
Decrease versus the euro of non-euro currencies of 15%	decrease between 11% and 12%	decrease between 12% and 13%

1 Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All percentage changes are relative to net income and shareholders equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

2 The effect of currency exchange rate movements is reflected as a one-time shift up or down in the value of the non-euro currencies versus the euro on December 31, 2006.

ii Interest Rate Risk

We bear interest rate risk with many of our products. In cases where cash flows are highly predictable, investing in assets that closely match the liabilities can mitigate this risk. For some AEGON country units, local capital markets are not well developed which prevents a complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

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

If interest rates rise, there may be unrealized losses on some of our assets that will be recorded as negative income under IFRS. This is inconsistent with the IFRS accounting on much of the company s liabilities where corresponding unrealized gains when interest rates rise do not affect income in the shorter term. Over time, the short-term reduction in income due to rising interest rates would be offset by higher income in later years all else being equal. Therefore, rising interest rates are not considered a long-term risk to the company.

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The general account fixed income portfolios of AEGON Americas and AEGON The Netherlands accounted for 93% of the total general account fixed income portfolio of the AEGON Group on December 31, 2006. AEGON USA and AEGON The Netherlands manage within limits - their duration mismatch (which is the difference between the weighted average life of liabilities and the weighted average life of assets) on the basis of their expectations for the future level of interest rates. Presently, other AEGON country units target the duration of their assets to equal approximately the duration of their liabilities where possible. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at the Group level.

For AEGON USA s business, the average duration of assets is approximately 3.8 years. This relatively low duration, as compared to the long-term nature of most of AEGON USA s businesses, is driven by the asset and liability management process applied to the institutional markets business in the United States (GICs and funding agreements). Both the assets and the liabilities for this business are managed on a floating rate basis, with extensive use of interest rate swaps. As a result, the asset duration is short for this business. In the Netherlands, the average duration of assets is approximately 6.9 years. AEGON The Netherlands actively uses derivatives to manage its interest rate risk. During 2006, AEGON The Netherlands significantly increased their derivative positions to reduce interest rate mismatch with their liabilities. The combined effective duration mismatch of AEGON USA and AEGON The Netherlands was around minus 0.1 years on December 31, 2006. This duration mismatch is an indication of the degree of interest rate risk on a fair value basis. As cash flows emerge and interest rates change, the actual impact from interest rate exposure could be higher or lower than what this static duration measure implies.

The table below shows the year-end interest rates for the period from 2002 through 2006.

TABLE 4

	2002	2003	2004	2005	2006
3 month US LIBOR	1.38%	1.15%	2.56%	4.54%	5.36%
3 month EURIBOR	2.87%	2.12%	2.16%	2.49%	3.73%
10-year US Treasury	3.82%	4.25%	4.22%	4.39%	4.70%
10-year Dutch Government	4.24%	4.29%	3.68%	3.29%	3.97%

The sensitivity analysis in the table below shows an estimate of the effect of interest rate movements on net income and shareholders equity[1,2].

TABLE 5

Parallel Movement of Yield Curve In million EUR	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
Shift up 100 basis points	(1,345)	(2,277)
Shift up 200 basis points	(2,524)	(4,277)
Shift down 100 basis points	1,635	2,398
Shift down 200 basis points	3,559	4,947

1 Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All changes are relative to net income and shareholders equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

2 The effect of interest rate movements is reflected as the effect of a one-time parallel shift up or down of all relevant yield curves on December 31, 2006.

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Under IFRS, income and shareholders equity are adversely affected when interest rates rise and favorably affected when interest rates fall. When interest rates shift up, there would be unrealized losses on certain assets that adversely affect net income and shareholders equity. However when rates shift up, IFRS does not recognize the unrealized gains in corresponding liabilities in net income and shareholders equity. Similarly, when rates shift down, there would be unrealized gains on certain assets that favorably affect net income and shareholders equity. However when rates shift down, IFRS also does not recognize the unrealized losses in corresponding liabilities in net income and shareholders equity. As a result under IFRS, the impact of interest rate changes on net income and shareholders equity can give an incomplete and even incorrect impression of the true risk exposure of the company. In fact, the company is at risk if rates decline as our assets are currently shorter in duration than our liabilities and as a result of minimum guarantees present in some products. Similarly when interest rates rise, the company is currently better off since our assets are currently shorter in duration than our liabilities. When interest rates rise sharply, this benefit would be partially offset in the short-term due to a likely sudden rise in lapse rates on fixed annuity products in AEGON USA.

iii Credit Risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, we typically bear the risk for investment performance equaling the return of principal and interest. AEGON is exposed to credit risk on its general account fixed income portfolio (bonds, mortgages and private placements), over-the-counter derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in AEGON s major markets resulted in significant investment impairments on AEGON s investment assets due to defaults and overall declines in the securities markets. Although credit default rates were benign in 2006, a reversion to excessive defaults, or other reductions in the value of these securities and loans, could have a material adverse effect on AEGON s business, results of operations and financial condition.

We actively manage our credit risk exposure by individual counterparty, sector and asset class. We may mitigate credit risk in derivative contracts by entering in collateral agreements where practical and in International Swaps and Derivatives Association (ISDA) master netting agreements for each of AEGON s legal entities to facilitate AEGON s right to offset credit risk exposure. We may also mitigate credit risk in reinsurance contracts where possible by retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, we employ deterministic and stochastic credit risk modeling in order to assess AEGON s credit risk profile, associated earnings and capital implications due to various credit loss scenarios. The ratings distribution of general account portfolios of AEGON s major country units are presented in the table below and are organized by rating category:

TABLE 6

	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
AAA	17,022	1,464	160	273	18,923	18,598
AA	8,424	921	887	502	10,734	9,242
A	19,088	1,849	2,478	946	24,361	29,327
BBB	16,630	633	680	83	18,025	20,102
BB	1,836	155		11	2,003	2,244
B	1,522	161	5	2	1,691	1,609
CCC or lower	318	17			335	341
Sovereign exposure	6,035	9,611	359	2,220	18,242	20,501
Assets not rated	30,213	13,391	262	295	44,462	47,348
	101,088	28,202	4,831	4,332	138,776	149,312

The table above includes general account investments and general account reinsurance assets.

1 Total includes Holding and other activities.

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Country units apply specific guidelines for the acceptable levels of credit risk. We monitor our aggregate exposure to credit counterparties at group level. For this purpose, AEGON aggregates exposures from its country units to assess overall credit risk. To manage its credit risk, AEGON has a single credit counterparty limit policy to be applied to all forms of credit risk. All forms of credit risk are required to be aggregated by counterparty and measured for compliance against country unit credit limits and Group-wide credit limits. The Group-wide limits are shown in the table below.

TABLE 7

AEGON Group-wide counterparty exposure limits in EUR million[1]:

Credit Rating	Limit
AAA	1,000
AA	1,000
A	750
BBB	500
BB	250
B	125
CCC or lower	50

[1] The fixed income issuer rating is used when applying the credit counterparty limit exposure policy.

If an exposure exceeds the stated limit as a result of a downgrade, the exposure must be readjusted to the limit for that rating category as soon as practicable. The limits vary with the asset quality of the security as can be seen in the above table. Exceptions to these limits can only be made after explicit approval from AEGON s Group Risk and Capital Committee.

iv Equity Market and Other Investment Risks

Fluctuations in the equity, real estate and capital markets have adversely affected AEGON s profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where AEGON bears all or most of the volatility in returns and investment performance risk. General economic conditions, as well as significant events like terrorist actions have led to and may again result in significant decreases in the value of our equity investments.

Equity market exposure is present in equity-linked products whereby policyholder funds are invested in equities at the discretion of the policyholder; here most of the risk remains with the policyholder. Examples of these products include variable annuities, variable universal life, unit-linked products and mutual funds. AEGON typically earns a fee on the asset balance in these products and therefore has a risk related to the investment performance. In addition, some of this business has minimum return or accumulation guarantees, which are often life contingent or contingent upon policyholder persistency. AEGON is at risk if equity market returns do not exceed these guarantee levels and the company may need to set up additional reserves to fund these future guaranteed benefits. AEGON is also at risk if returns are not sufficient to allow amortization of DPAC and VOBA. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC and VOBA and to establish additional provisions for minimum guaranteed benefits, which would reduce net income and shareholders equity. Volatile or poor market conditions may also significantly reduce the popularity of some of AEGON s savings and investment products, which could lead to lower sales and lower net income. AEGON s general account equity and certain other investment holdings are shown in table 8:

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TABLE 8

Equity, real estate and non-fixed income exposure in general account assets

Amounts in millions	AEGON Americas (in USD)	AEGON The Netherlands (in EUR)	AEGON UK (in GBP)	Other Countries (in EUR)	Holdings and eliminations (in EUR)	Total (in EUR)
Equity funds	1,267	1,925		77		2,964
Common shares [1]	1,521	3,350	49	12	(20)	4,571
Preferred shares	393	176				474
Investments in real estate	1,399	1,967		37	14	3,080
Hedge funds	1,990			16		1,527
Credit investment strategies	240					182
Total equity, real estate and other non fixed income exposure	6,810	7,418	49	142	(6)	12,798

1 Of AEGON the Netherlands common shares, EUR 485 million are invested in a property company and are therefore internally viewed as real estate exposure. For the purpose of the sensitivities, this exposure is included in the real estate section.

The general account equity, real estate and other non-fixed income portfolio of AEGON USA and AEGON The Netherlands accounted for 92% of the total general account equity, real estate and other non-fixed income portfolio of the AEGON Group. Of AEGON s country units, AEGON The Netherlands holds the largest amount of equities, both in absolute terms and expressed as a percentage of total general account investments. The largest part of the equity portfolio of AEGON The Netherlands consists of a diversified portfolio of global equities and 5% equity holdings in Dutch companies, which include non-redeemable preferred shares.

The table below shows the year-end closing levels of certain major indices.

TABLE 9

Year-end	2002	2003	2004	2005	2006
S&P 500	880	1,112	1,212	1,248	1,418
Nasdaq	1,336	2,003	2,175	2,205	2,415
FTSE 100	3,940	4,477	4,814	5,619	6,221
AEX	323	338	348	437	495

AEGON s shareholders equity is directly exposed to, among other things, movements in the equity and real estate markets and to movements in interest rates. With the implementation of IFRS, income and shareholders equity are expected to be more volatile and subject to increased sensitivity to movements in equity and real estate markets and to movements in interest rates. In addition, net income is sensitive to the fees earned on equity investments held for the account of policyholders as well as the amortization of DPAC and provisioning for minimum product guarantees.

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The sensitivity analysis of net income and shareholders equity to equity and real estate markets is presented in the table below.[1,2]

TABLE 10

Immediate change in In million EUR	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
Equity increase 10%	129	348
Equity decrease 10%	(183)	(392)
Equity decrease 20%	(453)	(837)
Real estate increase 10%	198	202
Real estate decrease 10%	(212)	(202)
Real estate decrease 20%	(423)	(404)

1 Basic assumptions: no correlation between markets and risks, unchanged conditions for all other assets and liabilities and limited management actions taken. All changes are relative to net income and shareholders equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

2 The effect of movements in equity and real estate markets is reflected as a one-time increase or decrease of worldwide equity and real estate markets on December 31, 2006.

The sensitivity of shareholders equity and net income to changes in equity and real estate markets reflects changes in the market value of AEGON s portfolio, changes in DPAC amortization, contributions to pension plans for AEGON s employees and the strengthening of the guaranteed minimum benefits, when applicable. The main reason for the non-linearity of results in the equity portion of the sensitivity is that more severe scenarios could cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not.

v Underwriting Risk

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

Sources of underwriting risk include policy lapses and policy claims such as mortality, morbidity and expenses. In general, AEGON is at risk if policy lapses increase as sometimes AEGON is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, AEGON sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance, and sells certain types of policies that are at risk if mortality decreases, such as annuity products. AEGON is also at risk if expenses are higher than assumed by management.

We monitor and manage our underwriting risk by each underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. AEGON s units also perform experience studies for underwriting risk assumptions, comparing AEGON s experience to industry experience as well as combining AEGON s experience and industry experience based on the depth of the history of each source to AEGON s underwriting assumptions. Where policy charges are flexible in products, AEGON uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. We also have the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

The sensitivity analysis of net income and shareholders equity to various underwriting risks is shown in the table below[1, 2].

TABLE 11

Underwriting risk sensitivity In million EUR	**Estimated approximate effects on net income/equity**
20% increase in lapse rates	(44)
20% decrease in lapse rates	44
10% increase in mortality rates	(88)
10% decrease in mortality rates	88
10% increase in morbidity rates	(61)
10% decrease in morbidity rates	61

1 Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All changes are relative to net income and shareholders equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

2 The mortality/morbidity sensitivities assume that increases or decreases are for all products regardless of whether a product produces a gain or loss on the direction of the change.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None

ITEM 15. CONTROLS AND PROCEDURES

A Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 20-F, our management carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective in providing reasonable assurance regarding the reliability of financial reporting.

B Management s annual report on internal control over financial reporting

The directors and management of AEGON are responsible for establishing and maintaining adequate internal control over financial reporting. AEGON s internal control over financial reporting is a process designed under the supervision of AEGON s principal executive and financial officers to provide reasonable but not absolute assurance regarding the reliability of financial reporting and the preparation of its published financial statements. Internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with the generally accepted accounting principles;

- Provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorization of management and directors of the company;

- Provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected in a timely manner.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

Management assessed our internal control over financial reporting as of December 31, 2006. In making its assessment management used the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the assessment, management has concluded that our internal control over financial reporting was effective as at December 31, 2006. We have reviewed the results of our work with the Audit Committee of the Supervisory Board.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young, an independent registered public accounting firm, as stated in their report which is included in Item 15C below.

C Attestation report of the independent registered public accounting firm

Report of Independent Registered Public Accounting Firm

The Supervisory Board and the Executive Board of AEGON N.V.

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting, that AEGON N.V. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AEGON N.V. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that AEGON N.V. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, AEGON N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

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We also have audited, in accordance with auditing standards generally accepted in The Netherlands and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AEGON N.V. as of December 31, 2006 and 2005, and the related consolidated income statements, statements of changes in equity, and cash flow statements for each of the three years in the period ended December 31, 2006 of AEGON N.V. and our report dated March 27, 2007 expressed an unqualified opinion thereon.

/s/Ernst & Young Accountants

The Hague, The Netherlands

March 27, 2007

D Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting during the period covered by this Annual Report on Form 20-F that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT

The Audit Committee of the Supervisory Board has determined that its composition satisfies the criteria of independence as defined by the SEC and the Corporate Governance Rules of the NYSE. The current chairman of the Audit Committee, Mr.S. Levy, is a financial expert as defined by the SEC.

ITEM 16B CODE OF ETHICS

AEGON has adopted a Code of Conduct, which contains AEGON s ethical principles in relation to various subjects. The Code of Conduct applies to AEGON employees worldwide, including AEGON s principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions.

In 2006, no amendments were made to, and no waivers were granted in respect of the Code of Conduct. The Code of Conduct is posted on our website www.aegon.com.

ITEM 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young Accountants has served as AEGON s independent public accountant for each of the fiscal years in the three-year period ended December 31, 2006, for which audited financial statements appear in this Annual Report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by Ernst & Young Accountants to AEGON in 2004, 2005 and 2006.

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Fees Ernst & Young

In million EUR	2006	2005	2004
Audit	23.8	23.3	14.4
Audit-related	1.7	2.5	5.5
Tax	0.4	0.5	0.5
Other services	0.5	0.0	1.0
	26.4	26.3	21.4

(a) Audit fees consist of fees billed for the annual financial statement audit (including required quarterly reviews), subsidiary audits, equity investment audits and other procedures required to be performed by the independent auditor to be able to form an opinion on AEGON s consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review. They also include fees billed for other audit services, which are those services that only the external auditor reasonably can provide, and include statutory audits or financial audits for subsidiaries or affiliates of the Company and services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

(b) Audit-related fees consist of fees billed for audit-related services including assurance and related services that are reasonably related to the performance of the audit or review of AEGON s financial statements or that are traditionally performed by the independent auditor. Audit-related services include, among others, due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations related to accounting, financial reporting or disclosure matters not classified as Audit services ; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; financial audits of employee benefit plans; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements.

(c) Tax fees include fees billed for tax compliance.

(d) All other fees include fees billed for permissible non-audit services that AEGON believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC s rules on auditor independence.

Audit Committee Pre-approval Policies and Procedures

AEGON s Audit Committee is responsible, among other matters, for the oversight of the external auditor. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services provided by our independent auditors (the Pre-approval Policy).

Under the Pre-approval Policy, proposed services either

(i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services (general pre-approval); or

(ii) require the specific pre-approval of the Audit Committee (specific pre-approval). Appendices to the Pre-approval Policy (that are adopted each year) set out the audit, audit-related, tax and other services that have received the general pre-approval of the Audit Committee. All other audit, audit-related, tax and other services must receive specific pre-approval from the Audit Committee.

During 2006, all services provided to AEGON by Ernst & Young Accountants were pre-approved by the Audit Committee in accordance with the Pre-approval Policy.

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ITEM 16D EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable

ITEM 16E PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

	Total number of shares purchased [1]	Average price paid per share in EUR	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs at end of month
January 1 - 31, 2006	3,941	13.11		
February 1 - 28, 2006	6,278	13.60		
March 1 - 31, 2006	7,479,949	14.86		
April 1 - 30, 2006	5,535	14.60		
May 1 - 31, 2006	23,288	14.03		
June 1 - 30, 2006	4,600	13.10		
July 1 - 31, 2006	5,388	12.45		
August 1 - 31, 2006	4,694	13.81		
September 1 - 30, 2006	21,458	14.81		11,600,000
October 1 - 31, 2006	11,603,434	14.71	11,600,000	
November 1 - 30, 2006	3,508	14.47		
December 1 - 31, 2006	2,975	14.33		
Total	19,165,048			

[1] The shares have been purchased to neutralize the dilutions effect of issued stock dividends, to hedge AEGONs obligations under its employee stock appreciation plans and other agent related incentive programs. Excludes AEGON shares purchased by index funds controlled by AEGON. Such purchases are made to the extent necessary to maintain a basket of securities within the relevant fund reflecting the underlying index.

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PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

Note 18.55 to the consolidated financial statements includes a discussion of net income and shareholders equity based upon US GAAP.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Supervisory Board and the Executive Board of AEGON N.V.

We have audited the accompanying consolidated balance sheets of AEGON N.V. as of December 31, 2006 and 2005, and the related consolidated income statements, statements of changes in equity, and cash flow statements for each of the three years in the period ended December 31, 2006. Our audits also include the financial statement schedules listed in the Index at Item 18. These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in The Netherlands and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AEGON N.V. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with international financial reporting standards, as adopted by the European Union, which differs in certain respects from U.S. generally accepted accounting principles (see Note 18.55 to the consolidated financial statements). Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 18.2.2 to the financial statements, in 2006 AEGON N.V. changed its presentation of certain cash flows in the consolidated cash flow statement.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AEGON N.V. s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 27, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young Accountants
The Hague, The Netherlands

March 27, 2007

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Consolidated balance sheet of AEGON Group as at December 31, 2006

Amounts in EUR millions

	Note number	2006	2005
ASSETS			
Intangible assets	18.6	4,338	4,678
Investments	18.7	136,131	146,075
Investments for account of policyholders	18.8	135,537	127,547
Derivatives	18.9	1,883	2,295
Investments in associates	18.10	478	542
Reinsurance assets	18.11	3,970	4,125
Defined benefit assets	18.25	398	409
Deferred tax assets	18.27	3	83
Deferred expenses and rebates	18.12	11,458	11,348
Other assets and receivables	18.13	7,473	6,806
Cash and cash equivalents	18.14	13,144	7,307
Total assets		**314,813**	**311,215**
EQUITY AND LIABILITIES			
Shareholders equity	18.15	19,137	19,276
Other equity instruments	18.16	4,032	3,379
Issued capital and reserves attributable to equity holders of AEGON N.V.		23,169	22,655
Minority interest		16	15
Group equity		**23,185**	**22,670**
Trust pass-through securities	18.17	123	437
Subordinated borrowings	18.18	34	284
Insurance contracts	18.19	88,428	95,690
Insurance contracts for account of policyholders	18.20	72,194	70,280
Investment contracts	18.21	36,618	38,842
Investment contracts for account of policyholders	18.22	64,097	58,724
Derivatives	18.9	1,788	2,202
Borrowings	18.23	4,991	5,532
Provisions	18.24	262	253
Defined benefit liabilities	18.25	2,040	2,015
Deferred revenue liabilities	18.26	43	84
Deferred tax liabilities	18.27	2,843	2,911
Other liabilities	18.28	17,734	10,733
Accruals	18.29	433	558
Total liabilities		**291,628**	**288,545**
Total equity and liabilities		**314,813**	**311,215**

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Consolidated income statement of AEGON Group for the year ended December 31, 2006

Amounts in EUR millions (except per share data)

	Note number	2006	2005	2004
INCOME				
Premium income	18.30	24,570	18,882	18,329
Investment income	18.31	10,376	9,937	9,337
Fee and commission income	18.32	1,665	1,444	1,303
Other revenues	18.33	4	73	331
Total revenues		**36,615**	**30,336**	**29,300**
Income from reinsurance ceded		1,468	1,691	1,548
Net fair value and foreign exchange gains	18.34	937	698	206
Net gains on investments for account of policyholders	18.35	9,313	11,340	5,873
Net gains on investments	18.36	965	1,269	1,290
Other income	18.37	11	176	138
Total income		**49,309**	**45,510**	**38,355**
CHARGES				
Premiums to reinsurers	18.30	1,671	1,554	1,563
Policyholder claims and benefits	18.38	35,848	33,807	26,984
Profit sharing and rebates	18.39	133	171	156
Commissions and expenses	18.40	6,085	5,522	5,784
Net fair value and foreign exchange losses	18.34	127	385	199
Net losses on investments for account of policyholders	18.35	1,174	2	13
Net losses on investments	18.36	526	112	87
Impairment charges/(reversals)	18.41	24	(14)	183
Interest charges and related fees	18.42	362	373	398
Other charges	18.43	1	3	218
Total charges		**45,951**	**41,915**	**35,585**
Income before share in profit/(loss) of associates and tax		**3,358**	**3,595**	**2,770**
Share in profit/(loss) of associates		32	20	25
Income before tax		**3,390**	**3,615**	**2,795**
Income tax	18.44	(601)	(885)	(537)
Income after tax		**2,789**	**2,730**	**2,258**
Attributable to minority interest			2	(2)
Net income attributable to equity holders of AEGON N.V.		**2,789**	**2,732**	**2,256**

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Consolidated income statement of AEGON Group for the year ended December 31, 2006 (continued)

	Note number	2006	2005	2004
Earnings and dividends per share				
Basic earnings per share (EUR per share) [1]	18.45	1.63	1.63	1.38
Diluted earnings per share (EUR per share) [1]	18.45	1.62	1.63	1.38
Dividend per share (EUR per share)	18.46	0.55	0.45	0.42

[1] After deduction of preferred dividends and coupons on perpetuals

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Consolidated cash flow statement of AEGON Group for the year ended December 31, 2006

Amounts in EUR millions

	Note Number	2006	2005[1]	2004[1]
Income before tax		**3,390**	**3,615**	**2,795**
Gains and losses on investments (including foreign exchange differences)		(9,397)	**(12,820)**	**(7,166)**
Amortization and depreciation		1,916	1,792	1,957
Impairment losses		33	(2)	279
Income from associates		(32)	(20)	(25)
Other		7	334	(139)
Adjustments of non-cash items		**(7,473)**	**(10,716)**	**(5,094)**
Insurance and investment liabilities		1,993	3,512	4,206
Insurance and investment liabilities for account of policyholders		12,028	13,964	9,447
Accrued income and prepayments		(3,119)	(1,937)	(1,274)
Accrued expenses and other liabilities		2,729	(3,309)	(1,114)
Release of cash flow hedging reserve		(130)	63	(23)
Changes in accruals		**13,501**	**12,293**	**11,242**
Purchase of investments (other than money market investments)		(63,989)	(64,310)	(70,078)
Purchase of derivatives		(1,009)	(76)	(528)
Disposal of investments (other than money market investments)		64,046	61,943	62,819
Disposal of derivatives		855	35	384
Net purchase of investments for account of policyholders		(5,361)	(1,628)	(751)
Net change in cash collateral		5,774	(822)	2,783
Net purchase of money market investments		(1,623)	(57)	(2,386)
Cash flow movements on operating items not reflected in income		**(1,307)**	**(4,915)**	**(7,757)**
Tax paid		(442)	(680)	(296)
Other		185	(683)	(94)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**7,854**	**(1,086)**	**796**
Purchase of individual intangible assets (other than VOBA and future servicing rights)		(10)	(17)	(16)
Purchase of equipment and other material assets		(62)	(80)	(258)
Acquisition of subsidiaries and associates		(143)	(174)	(336)
Disposal of individual intangible assets (other than VOBA and future servicing rights)		1		
Disposal of equipment and other material assets		19	9	29
Disposal of subsidiaries and associates		11	319	5,590
Dividend received from associates		4	3	
Other		(19)		
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(199)**	**60**	**5,009**

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	Note Number	2006	2005[1]	2004[1]
Issuance of share capital		2	2	1
Issuance of perpetuals		638	1,457	1,352
Issuance and purchase of treasury shares		(262)	74	22
Proceeds from TRUPS, subordinated loans and borrowings		1,554	1,038	571
Repayment of perpetuals			(950)	
Repayment of TRUPS, subordinated loans and borrowings		(2,109)	(1,573)	(3,586)
Dividends paid		(471)	(272)	(351)
Coupon on perpetuals		(204)	(192)	(129)
Other		(22)	(2)	1
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(874)**	**(418)**	**(2,119)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS [2]		**6,781**	**(1,444)**	**3,686**
Net cash and cash equivalents at the beginning of the year		6,068	6,804	3,563
Effects of changes in exchange rate		(458)	708	(445)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18.14	**12,391**	**6,068**	**6,804**

1 In 2006, AEGON changed its presentation of cash flows from purchases and disposals of financial assets (excluding derivatives and financial assets through profit or loss), investments in real estate and real estate held for own use. The 2005 and 2004 comparatives have been adjusted accordingly. Refer to note 18.2.2 for more details.

2 Included in net increase in cash and cash equivalents are interest received (EUR 9,458 million; 2005: EUR 9,099 million and 2004: EUR 8,180 million), dividends received (EUR 1,192 million: 2005: EUR 870 million and 2004: EUR 796 million) and interest paid (EUR 123 million: 2005: EUR 50 million and 2004: EUR 189 million).

The cash flow statement is prepared according to the indirect method.

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Consolidated statement of changes in equity of AEGON Group for the year ended December 31, 2006

Amounts in EUR millions

	Note Number	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves[1]	Minority interest	Total
At January 1		6,812	9,318	2,293	853	3,379	22,655	15	22,670
Revaluations				(660)			(660)		(660)
Transfers between revaluation reserves and retained earnings									
(Gains)/losses transferred to income statement on disposal and impairment				(130)			(130)		(130)
Equity movements of associates					(66)		(66)		(66)
Foreign currency translation differences				(77)			(77)		(77)
Movements in foreign currency translation and net foreign investment hedging reserves					(1,325)		(1,325)		(1,325)
Aggregate tax effect of items recognized directly in equity				134		2	136		136
Other			(15)	88			73	1	74
Net income recognized directly in equity			(15)	(645)	(1,391)	2	(2,049)	1	(2,048)
Net income recognized in the income statement			2,789				2,789		2,789
Total recognized net income for 2006			2,774	(645)	(1,391)	2	740	1	741
Shares issued		2					2		2
Treasury shares		(242)	(20)				(262)		(262)
Other equity instruments issued						638	638		638
Dividends paid on ordinary shares			(391)				(391)		(391)
Preferred dividend			(80)				(80)		(80)
Coupons on perpetuals			(143)				(143)		(143)
Share options						13	13		13
Other			(3)				(3)		(3)
At December 31, 2006	**18.15, 18.16**	6,572	11,455	1,648	(538)	4,032	23,169	16	23,185

1 Issued capital and reserves attributable to equity holders of AEGON N.V.

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Consolidated statement of changes in equity of AEGON Group for the year ended December 31, 2005

Amounts in EUR millions

	Note Number	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
At January 1		6,590	6,825	2,141	(681)	2,869	17,744	15	17,759
Revaluations				(293)			(293)		(293)
Transfers between revaluation reserves and retained earnings			4	(4)					
(Gains)/losses transferred to income statement on disposal and impairment				54			54		54
Equity movements of associates					19		19		19
Foreign currency translation differences				142			142		142
Movements in foreign currency translation and net foreign investment hedging reserves					1,515		1,515		1,515
Aggregate tax effect of items recognized directly in equity				242			242		242
Other			(55)	11			(44)	2	(42)
Net income recognized directly in equity			(51)	152	1,534		1,635	2	1,637
Net income recognized in the income statement			2,732				2,732	(2)	2,730
Total recognized net income for 2005			2,681	152	1,534		4,367		4,367
Shares issued		2					2		2
Treasury shares		220	(146)				74		74
Other equity instruments issued						1,457	1,457		1,457
Other equity instruments redeemed						(950)	(950)		(950)
Dividends paid on ordinary shares			(193)				(193)		(193)
Preferred dividend			(79)				(79)		(79)
Coupons on perpetuals			(132)				(132)		(132)
Share options						3	3		3
Other			362				362		362
At December 31, 2005	**18.15, 18.16**	6,812	9,318	2,293	853	3,379	22,655	15	22,670

[1] Issued capital and reserves attributable to equity holders of AEGON N.V.

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Consolidated statement of changes in equity of AEGON Group for the year ended December 31, 2004

Amounts in EUR millions

	Note Number	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
At January 1		6,353	5,269	1,660	15	1,517	14,814	29	14,843
Revaluations				921			921		921
(Gains)/losses transferred to income statement on disposal and impairment				(23)			(23)		(23)
Equity movements of associates					59		59		59
Foreign currency translation differences				(77)			(77)		(77)
Movements in foreign currency translation and net foreign investment hedging reserves					(755)		(755)		(755)
Aggregate tax effect of items recognized directly in equity			(29)	(329)			(358)		(358)
Other			5	(11)			(6)	(16)	(22)
Net income recognized directly in equity			(24)	481	(696)		(239)	(16)	(255)
Net income recognized in the income statement			2,256				2,256	2	2,258
Total recognized net income for 2004			2,232	481	(696)		2,017	(14)	2,003
Shares issued		1					1		1
Treasury shares		236	(214)				22		22
Other equity instruments issued						1,352	1,352		1,352
Dividends paid on ordinary shares			(256)				(256)		(256)
Preferred dividend			(95)				(95)		(95)
Coupons on perpetuals			(84)				(84)		(84)
Other			(27)				(27)		(27)
At December 31, 2004	**18.15, 18.16**	6,590	6,825	2,141	(681)	2,869	17,744	15	17,759

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Notes to the consolidated financial statements of AEGON Group

Amounts in EUR millions, unless otherwise stated

18.1 General information

AEGON N.V., incorporated and domiciled in the Netherlands, is a limited liability share company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at AEGONplein 50, 2591 TV The Hague. AEGON N.V. serves as the holding company for the AEGON Group and has listings of its common shares in Amsterdam, New York, London and Tokyo.

AEGON N.V. and its subsidiaries and joint ventures (AEGON or the Group) have life insurance and pensions operations in over ten countries in Europe, the Americas and Asia and are also active in savings and investment operations, accident and health insurance, general insurance and limited banking operations in a number of these countries. The largest operations are in the United States. Headquarters are located in The Hague, the Netherlands. The Group employs approximately 29,000 people worldwide.

18.2 Summary of significant accounting policies

18.2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), which for AEGON is equal to IFRS as published by the International Accounting Standard Board (IASB). AEGON therefore also complies with IFRS as published by the IASB.

With regard to the income statement of AEGON N.V., article 402, Part 9 of Book 2 of the Netherlands Civil Code has been applied, allowing a simplified format. Certain amounts in prior years have been reclassified to conform to the current year presentation.

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2006, the Group has adopted the following relevant standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC):

- The amendments to International Accounting Standard (IAS) 21 *Net investments in foreign operations* required date of adoption January 1, 2006;

- IFRIC 4 *Determining whether an arrangement contains a lease* required adoption date January 1, 2006.

The amendments to IAS 21 broadens the definition of net investment so that monetary items no longer need to be denominated in either the functional currency of the parent company or the functional currency of the foreign operation. Also, the new standard clarifies that monetary items resulting from transactions between subsidiaries may also qualify.

IFRIC 4 addresses how to determine whether an arrangement is, or contains, a lease as defined in IAS 17 *Leases*, when the assessment or reassessment of the arrangement would be made and, if applicable, how the payments for the lease should be separated from payments for any other elements in the arrangement.

The adoption of these standards and interpretations did not have an impact on equity or net income. The Group has not opted to early adopt any standards or interpretations in 2006.

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The following standards and interpretations will be implemented in the coming years:

IFRS 7 *Financial Instruments: Disclosures* required adoption date January 1, 2007;

The amendments to IAS 1 *Capital Disclosures* required adoption date January 1, 2007;

The amendments to the guidance on implementation of IFRS 4 *Insurance Contracts* required adoption date January 1, 2007;

IFRS 8 *Operating segments* required adoption date January 1, 2009;

IFRIC 8 Scope IFRS 2 *Share-based payment* required adoption date January 1, 2007;

IFRIC 9 *Reassessment of embedded derivatives* required adoption date January 1, 2007;

IFRIC 10 *Interim financial reporting and impairment* required adoption date January 1, 2007;

IFRIC 11 IFRS 2 *Group and Treasury Share Transactions* required adoption date January 1, 2007.

The Group intends to apply these standards and interpretations as of the required dates of adoption, subject to EU endorsement, with the exception of IFRS 8 which will be early adopted in 2007.

IFRS 7, the related amendments to IAS 1 and the implementation guidance to IFRS 4 will affect the disclosures on financial instruments, insurance contracts and capital provided in the Group s consolidated financial statements. The standards are not expected to have an impact on equity or net income.

The IASB issued IFRS 8 as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting as required in SFAS 131 Disclosures about Segments of an Enterprise and Related Information. AEGON intends to early adopt IFRS 8 as it allows for a better portrayal of the Group s operating segments performance as the information reported is consistent with that used internally for management purposes.

IFRIC 8 clarifies that IFRS 2 *Share-based Payment* applies to all transactions in which an entity receives non-financial assets or services as consideration for the issue of its equity instruments, even where nil consideration appears to be received. The interpretation is not expected to have an impact on equity or net income.

IFRIC 9 provides additional guidance to the principle in IAS 39 to assess whether a contract contains embedded derivatives that require bifurcation when the company first becomes a party to the contract. IFRIC 9 requires an additional assessment to be performed when there is a change in the terms of the contract that significantly modifies the contract s cash flows. The interpretation prohibits subsequent reassessments to be performed in other instances, with the exception of business combinations for which a scope exclusion is made. IFRIC 9 is consistent with the Group s current policy on the reassessment of embedded derivatives. Therefore, no impact on equity or net income is expected.

IFRIC 10 prohibits entities from reversing impairment losses recognized in previous interim periods in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The interpretation is not expected to have an impact on equity or net income.

As allowed by IFRS 4 *Insurance Contracts*, the Group values its insurance contracts in accordance with the accounting principles that were applied prior to the transition to IFRS. The assets and liabilities relating to insurance contracts issued in the United States and Canada are accounted for in accordance with United Stated Generally Accepted Accounting Principles (US GAAP). On September 19, 2005, the American Institute of Certified Public Accountants (AICPA) released SOP 05-1 *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*. This SOP provides guidance on the accounting for replacements of one contract by another. Depending on whether certain conditions are met, the replacement is accounted for as either an extinguishment or as a continuation of the replaced contract. The classification will affect the accounting for unamortized deferred policy acquisition costs (DPAC), unearned revenue liabilities and deferred sales inducement assets from the replaced contract.

The Group will adopt SOP 05-1 for insurance contracts issued in the United States and Canada effective January 1, 2007. AEGON will adopt SOP 05-1 effective January 1, 2007. As a result of adopting SOP 05-1, AEGON expects to report a cumulative effect of a change in accounting principle resulting in a noncash decrease to retained earnings of an immaterial amount. The adoption of SOP 05-1 is also expected to result in an immaterial increase in DAC amortization in 2007 and future years. The actual impact will depend on policy modification activity as well as any possible exchange programs implemented in the future.

18.2.2 Changes in accounting and presentation policies

In 2006 AEGON changed its presentation of cash flows from purchases and sales of financial assets (excluding derivatives and financial assets at fair value through profit and loss), investments in real estate and real estate held for own use. These cash flows were previously reported as cash flows from investing activities and are now reported as cash flows from operating activities.

AEGON believes it is more relevant to group together all cash flows from transactions related to policyholders and contractholders, including premiums and deposits, claims and other benefits, and the associated purchase and sale of investments related to the cash flows from transactions with policyholders and contractholders, as cash flows from operating activities because all of these activities relate to AEGON s principal revenue producing activity of entering into insurance and investment contracts with policyholders and contractholders and subsequently investing the premiums and deposits received to meet the obligations resulting from these contracts. Furthermore, AEGON has refined its definition of investing activities to include only those investing activities not related to transactions with policyholders and contractholders, as well as the definition of financing activities to include only those items that AEGON views as part of the financing of the Group s activities. The 2005 and 2004 comparatives have been reclassified accordingly.

18.2.3 Basis of consolidation

Business combinations that occurred before the adoption date of IFRS (1 January 2004) have not been restated. No operations have been identified as assets held for sale or disposal unit.

a. Subsidiaries

The consolidated financial statements include the financial statements of AEGON N.V. and its subsidiaries. Subsidiaries are entities over which AEGON has direct or indirect power to govern the financial and operating policies so as to obtain benefits from its activities (control). The assessment of control is based on the substance of the relationship between the Group and the entity and, among other things, considers existing and potential voting rights that are currently exercisable and convertible.

Special purpose entities are consolidated if, in substance, the activities of the entity are conducted on behalf of the Group, the Group has the decision-power to obtain control of the entity or has delegated these powers through an autopilot, the Group can obtain the majority of the entity s benefits or the Group retains the majority of the residual risks related to the entity or its assets.

The subsidiary s assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the Group s accounting principles and reporting year. Intra-group transactions, including AEGON N.V. shares held by subsidiaries, which are recognized as treasury shares in equity, are eliminated. Intra-group losses are eliminated, except to the extent that the underlying asset is impaired. Minority interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the minority s share in changes in the subsidiary s equity.

The excess of the cost of acquisition, comprising the consideration paid to acquire the interest and the directly related costs, over the Group s share in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair value of the assets, liabilities and contingent liabilities acquired in the business combination has been determined provisionally, adjustments to these values resulting from the emergence of new evidence within twelve months after the acquisition date are made against goodwill. Also, goodwill is adjusted for changes in the estimated value of contingent considerations given in the business combination when they arise. Contingent consideration is discounted and the unwinding is recognized in the income statement as an interest expense.

When control is obtained in successive share purchases, each significant transaction is accounted for separately. The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds and the carrying amount of the subsidiary is recognized in the income statement.

Investment funds

Investment funds managed by the Group in which the Group holds an interest are consolidated in the financial statements if the

Group can govern the financial and operating policies of the fund. In assessing control all interests held by the Group in the fund are considered, regardless of whether the financial risk related to the investment is borne by the Group or by the policyholders.

On consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. Where this is not the case, other participations held by third parties are presented as minority interests in equity. The assets allocated to participations held by third parties or by the Group on behalf of policyholders are presented in the consolidated financial statements as investments for account of policyholders.

Equity instruments issued by the Group that are held by the investment funds are eliminated on consolidation. However, the elimination is reflected in equity and not in the measurement of the related financial liabilities towards policyholders or other third parties.

b. Jointly controlled entities

Joint ventures are contractual agreements whereby the Group undertakes with other parties an economic activity that is subject to joint control.

Interests in joint ventures are recognized using proportionate consolidation, combining items on a line by line basis from the date the jointly controlled interest commences. Gains and losses on transactions between the Group and the joint venture are recognized to the extent that they are attributable to the interests of other venturers, with the exception of losses that are evidence of impairment and that are recognized immediately.

The acquisition of an interest in a joint venture may result in goodwill, which is accounted for consistently with the goodwill recognized on the purchase of a subsidiary.

The use of proportionate consolidation is discontinued from the date on which the Group ceases to have joint control.

18.2.4 Foreign exchange translation

a. Translation of foreign currency transactions

A group entity prepares its financial statements in the currency of the primary environment in which it operates. Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing at the date of the transaction.

At the balance sheet date monetary assets and monetary liabilities are translated at the closing rate. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in equity as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items are recognized in equity or the income statement, consistently with other gains and losses on these items.

b. Translation of foreign currency operations

On consolidation, the financial statements of group entities with a foreign functional currency are translated to euro, the currency in which the consolidated financial statements are presented. Assets and liabilities are translated at the closing rates on the balance sheet date. Income, expenses and capital transactions (such as dividends) are translated at average exchange rates or at the prevailing rates on the transaction date, if more appropriate. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated at the closing rates on the balance sheet date.

The resulting exchange differences are recognized in the foreign currency translation reserve , which is part of shareholders equity. On disposal of a foreign entity the related cumulative exchange differences included in the reserve are recognized in the income statement.

On transition to IFRS on January 1, 2004, the foreign currency translation reserve was reset to nil.

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18.2.5 Segment reporting

As the Group s risks and rates of return are predominantly affected by the fact that it operates in different countries, the primary basis for segment reporting is geographical segments. Geographical segments are defined based on the location of assets. Secondary segment information is reported for groups of related products.

The Group uses operating earnings before tax in its segment reporting as an important indicator of its financial performance. Included in operating earnings are segment revenues and segment expenses. Segment revenues consists of premium income, investment income, fee and commission income, income from banking activities and other revenues. Segment expenses consist of premiums to reinsurers, policyholder claims and benefits (excluding the effect of charges to policyholders in respect of income tax), profit sharing and rebates and commissions and expenses. In addition to segment revenues, the following income items are also included in the calculation of operating earnings: reinsurance claims and benefits, fair value and foreign exchange gains and gains on investments for account of policyholders. Similarly, in addition to segment expenses, the following expense items are also included in the calculation of operating earnings: fair value and foreign exchange losses, losses on investments for account of policyholders and interest and related charges.

Operating earnings before tax excludes the effect from net gains and losses on investments, impairment charges and non-recurring income and expense items. Net gains / losses on investments includes net realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss, and net gains and losses on investments in real estate. Net gains / losses also includes fair value changes for derivatives for which no hedge accounting is applied and the economically hedged underlying assets or liabilities are not valued at fair value through profit or loss. Derivatives included in gains and losses on investments are considered economic hedges of certain exposures related to an existing asset or liability and are part of the Group s asset liability management. Gains and losses on investments also include the ineffective portions of hedge transactions. DPAC and VOBA offsetting charges for realized gains and losses and impairments on investments are included in other income / other charges and excluded from operating earnings.

18.2.6 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

18.2.7 Intangible assets

a. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and joint ventures acquired after January 1, 2004 and is measured as the positive difference between the acquisition cost and the Group s interest in the net fair value of the entity s identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary or joint venture is disposed of.

b. Value of Business Acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA). The Group also recognizes VOBA when it acquires a portfolio of investment contracts with discretionary participation features.

VOBA is amortized over the useful life of the acquired contracts, based on either the expected future premiums or the expected gross profit margins. For products sold in the United States and Canada, with amortization based on expected gross profit margins, the amortization period and pattern are reviewed at each reporting date. Any change in estimates is recorded in the income statement. For all products, VOBA is assessed for recoverability at least annually on a country-by-country basis and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test for each reporting period.

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When unrealized gains or losses arise on available-for-sale assets, VOBA is adjusted to equal the effect that the realization of the gains or losses would have had on VOBA. The adjustment is recognized directly in shareholders equity.

VOBA is derecognized when the related contracts are settled or disposed of.

c. Future servicing rights

On the acquisition of a portfolio of investment contracts without discretionary participation features under which AEGON will render investment management services, the present value of future servicing rights is recognized as an intangible asset. Future servicing rights can also be recognized on the sale of a loan portfolio or the acquisition of insurance agency activities.

The present value of the future servicing rights is amortized over the servicing period as the fees from services emerge and is subject to impairment testing. It is derecognized when the related contracts are settled or disposed of.

d. Other intangible assets

Other intangible assets are recognized to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

The intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in the income statement.

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

18.2.8 Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and real estate held for own use.

a. Financial assets

Financial assets are recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the Group s risk management and investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances the Group designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near future are accounted for as loans. To the extent that the Group has the intention and ability to hold a quoted financial asset with fixed payments to the maturity date, it is classified as held-to-maturity.

All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

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Loans and assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized directly in shareholders equity. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

The consolidated financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the values are provided in the notes to the financial statements.

The fair value of an asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arm s length transaction. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied the discount rate is based on current market rates applicable to financial instruments with similar characteristics.

Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset s cash flows expire, when the Group has transferred the asset and substantially all the risks and rewards of ownership, or when the Group has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. Financial assets, in respect of which the Group has neither transferred nor retained all the risks and rewards, are recognized to the extent of the Group s continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders equity is also recognized in the income statement.

Security lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash collateral received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash collateral paid by AEGON. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and measured at fair value.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure is foreclosed. When cash collateral is recognized, a liability is recorded for the same amount.

b. Real estate

Property that is occupied by the Group and that is not intended to be sold in the near future is classified as real estate held for own use. Investments in real estate is property held to earn rentals or for capital appreciation, or both. Considering the Group s asset liability management policies, under which both categories of property can be allocated to liabilities resulting from insurance and investment contracts, both are presented as investments.

All property is initially recognized at cost. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognized in the related revaluation reserve in shareholders equity and are released to retained earnings over the remaining useful life of the property.

Valuations of both investments in real estate and real estate held for own use are conducted with sufficient regularity to ensure the value correctly reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property s net earning power will support and the value indicated by recent sales of comparable properties. For property held for own use, valuers may also consider the present value of the future rental income cash flows that could be achieved had the real estate been let out.

On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

Property under construction

The Group develops property itself with the intention to hold it as investments in real estate. During the construction phase both the land and the building are presented as real estate held for own use, are held at cost, including directly attributable borrowing costs, and are not depreciated. When the construction phase is completed, the property is transferred to investments in real estate and revalued at fair value. Any resulting gain or loss is recognized in the income statement.

Maintenance costs and other subsequent expenditure

Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

18.2.9 Investments for account of policyholders

Investments held for account of policyholders consist of investments in financial assets, excluding derivatives, as well as investments in real estate and real estate held for own use. Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. The accounting principles are the same as those applicable to general account investments, as described in note 18.2.8.

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18.2.10 Derivatives

a. Definition

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Group considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. Derivatives for which the contractual obligation can only be settled by exchanging a fixed amount of cash for a fixed amount of AEGON N.V. equity instruments are accounted for in shareholders equity and are therefore discussed in the notes on equity.

b. Measurement

All derivatives are recognized on the balance sheet at fair value. All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net foreign investment.

The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available.

c. Hedge accounting

As part of its asset liability management, the Group enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and 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 prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the actual results of the hedge are within a ratio of 80% to 125%.

For hedge accounting purposes, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Fair value hedges are hedges of a change in the fair value of an unrecognized firm commitment or an asset or liability that is not held at fair value through profit or loss. The hedged item is remeasured to fair value in respect of the hedged risk and the resulting adjustment is recorded in the income statement.

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecasted transaction or a recognized asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognized in the related revaluation reserve in shareholders equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in shareholders equity is released to the income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in shareholders equity is included in the initial cost of the asset or liability.

Net investment hedges are hedges of currency exposures on a net investment in a foreign operation. To the extent that the hedge is effective, the change in the fair value of the hedging instrument is recognized in shareholders equity. Any ineffectiveness is recognized in the income statement. The amount in shareholders equity is released to the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a fair value hedge, the derivative continues to be carried on the balance sheet with changes in its fair value recognized in the income statement. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders equity is recognized immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

18.2.11 Investments in associates

Entities over which the Group has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary or joint venture, are accounted for using the equity method. Interests held by venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by the Group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Interests in associates are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group s share in the net assets of the associate and is subject to impairment testing. The net assets are determined based on the Group s accounting policies. Any gains and losses recorded directly in shareholders equity by the associate are reflected in other reserves in shareholders equity, while the share in the associate s net income is recognized as a separate line item in the consolidated income statement. The Group s share in losses is recognized until the investment in the associate s equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group s interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of AEGON N.V. that are held by the associate are not eliminated.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in shareholders equity are reversed and recorded through the income statement.

18.2.12 Reinsurance assets

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for losses on contracts written by the Group (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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18.2.13 Deferred expenses and rebates

a. Deferred policy acquisition costs

DPAC relates to insurance contracts and investment contracts with discretionary participation features and represents the variable costs that are related to the acquisition or renewal of these contracts.

Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on either the expected future premiums or the expected gross profit margins. For products sold in the United States and Canada with amortization based on expected gross profit margins, the amortization period and pattern are reviewed at each reporting date and any change in estimates is recognized in the income statement. Estimates include, but are not limited to: an economic perspective in terms of future returns on bond and equity instruments, mortality, disability and lapse assumptions, maintenance expenses and expected inflation rates. For all products, DPAC is assessed for recoverability at least annually on a country-by-country basis and is considered in the liability adequacy test for each reporting period. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. The portion of DPAC that is determined not to be recoverable is charged to the income statement.

When unrealized gains or losses arise on available-for-sale assets, DPAC is adjusted to equal the effect that the realization of the gains or losses would have had on its measurement. This is recognized directly in the related revaluation reserve in shareholders equity.

DPAC is derecognized when the related contracts are settled or disposed of.

b. Deferred transaction costs

Deferred transaction costs relate to investment contracts without discretionary participation features under which AEGON will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the carrying amount of the financial liability.

The deferred transaction costs are amortized in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. Deferred transaction costs are subject to impairment testing at least annually.

c. Deferred interest rebates

An interest rebate is a form of profit sharing whereby the Group gives a discount on the premium payable (usually single premium) based on the expected surplus interest that will be earned on the contract. The expected surplus interest is calculated with reference to a portfolio of government bonds. The rebate can be subject to additional conditions concerning actual returns or the continuation of the policy for a specified number of years.

Interest rebates that are expected to be recovered in future periods are deferred and amortized as the surplus interest is realized. They are considered in the liability adequacy test for insurance liabilities.

18.2.14 Other assets and receivables

Other assets include trade and other receivables, prepaid expenses and fixed assets other than property. Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost. Fixed assets are initially carried at cost, depreciated on a straight line basis over their useful life to their residual value and are subject to impairment testing.

18.2.15 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investment for account of policyholders.

18.2.16 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinitive useful life that are not amortized, are tested at least annually.

a. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset s value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

Impairment losses are charged to shareholders equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

With the exception of goodwill, impairment losses are reversed when there is objective evidence that there has been a change in the estimates used to determine the asset s recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets recoverable amounts. With the exception of goodwill, impairment losses on non-financial assets can be reversed.

b. Impairment of debt instruments

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized gain or loss previously recognized in shareholders equity is taken to the in the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.

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Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be related objectively to a credit related event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed its amortized cost at the reversal date.

c. Impairment of equity instruments

For equity instruments, a significant or prolonged decline in fair value below initial cost is considered objective evidence of impairment and always results in a loss being recognized in the income statement. Equity investments are impaired to the asset s fair value and any unrealized gain or loss previously recognized in shareholders equity is taken to the in the income statement in the impairment loss. The amount exceeding the balance of previously recognized unrealized gains or loss is recognized in the income statement.

Impairment losses on equity instruments cannot be reversed.

d. Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured. Impairment losses are recognized in the income statement.

18.2.17 Equity

Financial instruments that are issued by the Group are classified as equity if they represent a residual interest in the assets of the Group after deducting all of its liabilities. In addition to common shares and preferred shares, the Group has issued perpetual securities that are classified as equity, rather than as debt, as these securities have no final maturity date, repayment is at the discretion of AEGON and AEGON has the option to defer coupon payments at its discretion. These securities are measured at par and those that are denominated in US dollars are translated using historical exchange rates.

Incremental external costs that are directly attributable to the issuing or buying back of own equity instruments are recognized in equity, net of tax.

Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Treasury shares are own equity instruments reacquired by the Group. They are deducted from shareholders equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per share.

18.2.18 Trust pass-through securities, subordinated borrowings and other borrowings

A financial instrument issued by the Group is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the Group.

Trust pass-through securities, subordinated loans and other borrowings are initially recognized at their fair value and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through the profit and loss as part of a fair value hedge relationship. The liability is derecognized when the Group s obligation under the contract expires or is discharged or cancelled.

18.2.19 Insurance contracts

Insurance contracts are contracts under which the Group accepts a significant risk other than a financial risk from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged or is cancelled.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by the Group prior to the transition to IFRS, as further described in the following paragraphs. In order to reflect the specific nature of the products written, subsidiaries are allowed to apply local accounting principles to the measurement of insurance contracts. All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

a. Life insurance contracts

Life insurance contracts are insurance contracts with guaranteed life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

Some products, such as traditional life insurance products in continental Europe and products in the United States, for which account terms are fixed and guaranteed, are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance comprises reserves for unearned premiums and unexpired risks as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Other products with account terms that are not fixed or guaranteed are generally measured at the policyholder s account balance. Depending on local accounting principles, the liability may include amounts for future services on contracts where the policy administration charges are higher in the initial years than in subsequent years. In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in 2.19c or, if bifurcated from the host contract, as described in 2.10.

One insurance product in the United States is carried at fair value through profit or loss as it contains an embedded derivative that could not be reliably bifurcated. The fair value of the contract is measured using market consistent valuation techniques.

b. Life insurance contracts for account of policyholders

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders.

The liability for the insurance contracts for account of policyholders is measured at the policyholder account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. If applicable, the liability representing the nominal value of the policyholder unit account is amortized over the term of the contract so that interest on actuarial funding is at an expected rate of return.

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c. Embedded derivatives and participation features

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives. If the embedded derivative cannot be reliably bifurcated, the entire insurance contract is carried at fair value through profit or loss.

Other terms and conditions, such as participation features and expected lapse rates are considered when establishing the insurance liabilities. Where the Group has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

Guaranteed minimum benefits

The Group issues life insurance contracts, which, as a rule, do not expose the Group to interest risk as the account terms are not fixed or guaranteed or because the return on the investments held is passed on to the policyholder. However, in some cases these contracts may contain guaranteed minimum benefits. An additional liability for life insurance is established for guaranteed minimum benefits that are not bifurcated. Bifurcated guaranteed minimum benefits are classified as derivatives.

In the United States the additional liability for guaranteed minimum benefits that are not bifurcated is determined each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

In the Netherlands, an additional liability is established for guaranteed minimum benefits that are not bifurcated on group pension plans, based on stochastic modeling. The liability is measured by applying the accrual method based on market assumptions less actual claims incurred. A corridor for the provision is determined regularly based on stochastic modeling methods. If the provision develops outside the corridor, a charge or credit is recognized in the income statement. Due to the nature of the product, these guarantees have a long-term horizon of 30 to 60 years.

d. Shadow accounting

Shadow accounting ensures that all gains and losses on investments affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of VOBA or DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized in shareholders equity in the revaluation reserve, together with the unrealized gain or loss.

Some profit sharing schemes issued by the Group entitle the policyholder to a bonus which is based on the actual total return on specific assets held. To the extent that the bonus relates to gains on available-for-sale investments for which the unrealized gains are recognized in the revaluation reserve in equity, shadow accounting is applied. This means that the increase in the liability is also charged to equity to offset the unrealized gains rather than to the income statement.

e. Liability adequacy testing

At each reporting date the adequacy of the life insurance liabilities, net of VOBA and DPAC, is assessed using the existing liability adequacy test that is acceptable under local accounting principles. Additional recoverability tests for policies written in the last year may also result in loss recognition.

Life insurance contracts for account of policyholders and any related VOBA and DPAC are considered in the liability adequacy test performed on insurance contracts. To the extent that the account balances are insufficient to meet future benefits and expenses, additional liabilities are established and included in the liability for life insurance.

All tests performed within the Group are based on current estimates of all contractual future cash flows, including related cash flows and policyholder options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling. Aggregation levels and the level of prudence applied in the test are consistent with local requirements. To the extent that the tests involve discounting of future cash flows, the interest rate applied may be prescribed by the local regulator or may be based on management s expectation of the future return on investments. In the Netherlands, the discount rate is the lower of the tariff rate and management s prudent assumption based on current market interest rates.

Any resulting deficiency is recognized in the income statement, initially by impairing the DPAC and VOBA and subsequently by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of loss recognition. The assumptions do not include a margin for adverse deviation, unless required under local accounting policies. Impairment losses resulting from liability adequacy testing can only be reversed if allowed by local accounting principles.

f. Non-life insurance contracts

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities. Discounting of liabilities is generally applied when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

The adequacy of the non-life insurance liability is tested at each reporting date. Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

18.2.20 Investment contracts

Contracts issued by the Group that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Group are accounted for as investment contracts. Depending on whether the Group or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is cancelled.

a. Investment contracts with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investment contracts, specific investments held by the Group or on the issuer s net income. If the Group has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Some unitized investment contracts provide policyholders with the option to switch between funds with and without discretionary participation features. The entire contract is accounted for as an investment contract with discretionary participation features if there is evidence of actual switching resulting in discretionary participation benefits that are a significant part of the total contractual benefits.

b. Investment contracts without discretionary participation features

At inception investment contracts without discretionary features are designated as at fair value through profit or loss if by doing so a potential accounting mismatch is eliminated or significantly reduced or if the contract is managed on a fair value basis. Some investment contracts with embedded derivatives that have not been bifurcated are also carried at fair value through profit or loss. All other contracts are carried at amortized cost.

The contracts are initially recognized at transaction price less, in the case of investment contracts not carried at fair value through profit or loss, any transaction costs directly attributable to the issue of the contract. Fees and commissions incurred with the recognition of a contract held at fair value through profit or loss and that are not related to investment management services provided under the contract are recognized immediately in the income statement.

Subsequently, contracts designated as at fair value through profit or loss are measured at fair value, which generally equals the contractholder s account value. All changes in the fair value are recognized in the income statement as incurred. Other investment contracts without discretionary participation features are carried at amortized cost based on the expected cash flows and using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability s original effective interest rate. Any adjustment is immediately recognized in the income statement.

The consolidated financial statements provide information on the fair value of all financial liabilities, including those carried at amortized cost. As these contracts are not quoted in active markets, their value is determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. For investment contracts that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

c. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholder. Also included are participations held by third parties in consolidated investment funds that meet the definition of a financial liability.

Investment contracts for account of policyholders are designated as at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Group recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortized over the life of the contract or a shorter period, if appropriate.

18.2.21 Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

Onerous contracts

With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligations exceed the expected future economic benefits.

18.2.22 Assets and liabilities relating to employee benefits

a. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee absences expected to be paid within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

b. Post-employment benefits

The Group has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when the Group has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset is recognized to the extent that the contribution paid exceeds the amount due for services provided.

Defined benefit plans

The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. Plan improvements are charged directly to the income statement, unless they are conditional on the continuation of employment. In this case the related cost is deducted from the liability as past service cost and amortized over the vesting period. In measuring the defined benefit obligation the Group uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables. The benefits are discounted using an interest rate based on the market yields for high-quality corporate bonds on the balance sheet date.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the Group s creditors. They are measured at fair value and are deducted in determining the amount recognized on the balance sheet.

The cost of the plans is determined at the beginning of the year, based on the prevalent actuarial assumptions, discount rate and expected return on plan assets. Changes in assumptions, discount rate and experience adjustments are not charged to the income statement in the period in which they occur, but are deferred.

The unrecognized actuarial gains and losses are amortized in a straight line over the average remaining working life of the employees covered by the plan, to the extent that the gains or losses exceed the corridor limits. The corridor is defined as ten percent of the greater of the defined benefit obligation or the plan assets. The amortization charge is reassessed at the beginning of each year. The corridor approach described above was not applied retrospectively to periods prior to the transition to IFRS (January 1, 2004).

c. Share-based payments

The Group has issued share-based plans that entitle employees to receive equity instruments issued by the Group or cash payments based on the price of AEGON N.V. common shares. Some plans provide employees of the Group with the choice of settlement.

For share option plans that are equity-settled, the expense recognized is based on the fair value on the grant date of the share options, which does not reflect any performance conditions other than conditions linked to the price of the Group s shares. The cost is recognized in the income statement, together with a corresponding increase in shareholders equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management s best estimate of the number of shares expected to vest ultimately.

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Share appreciation right plans are initially recognized at fair value at the grant date, taking into account the terms and conditions on which the instruments were granted. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

Share option plans that can be settled in either shares or cash at the discretion of the employee are accounted for as a compound financial instrument, which includes a debt component and an equity component.

18.2.23 Deferred revenue liability

Initial fees and front-end loadings paid by policyholders and other clients for future investment management services related to investment contracts without discretionary participation features are deferred and recognized as revenue when the related services are rendered.

18.2.24 Tax assets and liabilities

a. Current tax assets and liabilities

Tax assets and liabilities for current and prior periods are measured at the amount that is expected to be received from or paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the reporting date.

b. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognized for tax loss carryforwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. The carrying amount is not discounted and reflects the Group s expectations concerning the manner of recovery or settlement.

18.2.25 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

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18.2.26 Premium income

Gross premiums, including recurring and single premiums, from life and non-life insurance and investment contracts with discretionary participation features are recognized as revenue when they become receivable. Not reflected as premium income are deposits from certain products that are sold only in the United States and Canada, such as deferred annuities. For these products the surrender charges and charges assessed have been included in gross premiums.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognized as an expense. Depending on the applicable local accounting principles, bonuses that are used to increase the insured benefits may be recognized as gross premiums.

18.2.27 Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends accrued and rental income due, as well as fees received for security lending.

18.2.28 Fee and commission income

Fees and commissions from investment management services and mutual funds, and from sales activities are recognized as revenue over the period in which the services are performed or the sales have been closed.

18.2.29 Policyholder claims and benefits

Policyholder claims and benefits consists of claims and benefits paid to policyholders, including benefit claims in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

18.2.30 Net fair value and net foreign exchange gains and losses

Net fair value and net foreign exchange gains and losses include fair value changes of general account financial assets and liabilities carried at fair value through profit or loss, foreign exchange results and fair value changes of derivatives for which hedge accounting is applied, excluding the ineffective portion. It also includes fair value changes for hedging derivatives for which no hedge accounting is applied but the economically hedged underlying assets or liabilities are valued at fair value through profit or loss. Fair value and foreign exchange gains and losses are aggregated to net gains or net losses by country, per type of instrument.

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18.2.31 Net gains and losses on investments

Gains and losses on investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss, and gains and losses on investments in real estate. It also includes fair value changes for hedging derivatives for which no hedge accounting is applied and the economically hedged underlying assets or liabilities are not valued at fair value through profit or loss. Derivatives included in gains and losses on investments are considered economic hedges of certain exposures related to an existing asset or liability and are part of the Group s asset liability management. Gains and losses on investments also include the ineffective portions of hedge transactions.

The gains and losses on investments are aggregated to net gains or net losses by country, per category of financial assets and, in the case of available-for-sale financial assets, per type of instrument included in the category as reported in note 18.7 of the consolidated financial statements.

18.2.32 Impairment charges

Impairment charges on investments in financial assets are disclosed in note 18.41. Other impairment charges are included in fair value and foreign exchange losses.

18.2.33 Leases

Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the balance sheet according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

18.2.34 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

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18.3 Critical accounting estimates and judgment in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

Valuation of assets and liabilities arising from life insurance contracts

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management s current estimates of future cash flows. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognized in the income statement. In the event that the failure relates to unrealized gains and losses on available for sale investments, the additional liability is recognized in the revaluation reserve in equity.

Some insurance contracts without a guaranteed or fixed account term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets respectively and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability.

Actuarial assumptions

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are either prescribed by the local regulator or based on management s future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States, Canada and some of the smaller country units, is the annual long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions as to the long-term growth rate are made after considering the effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Credible own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

Fair value of investment contracts

Investment contracts issued by AEGON are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments. Changes in own credit risk are not considered when determining the fair value of insurance and investment liabilities as these contractholders have precedent over other creditors in case of default. Own credit risk is considered in measuring the fair value of borrowings and other liabilities.

Fair value of investments and derivatives determined using valuation techniques

Financial instruments

In the absence of an active market, the fair value of non-quoted investments in financial assets is estimated by using present value or other valuation techniques. For example, the measurement of interests held in non-quoted investments funds is based on the fair value of the underlying assets. The fair value of non-quoted fixed interest debt instruments is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics. For mortgage and other loans originated by the Group interest rates currently being offered for similar loans to borrowers with similar credit ratings are applied. The fair value of floating interest rate debt instruments and assets maturing within a year is assumed to be approximated by their carrying amount.

Financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. The values for OTC derivatives are verified using observed market information, other trades in the market and dealer prices, along with management judgment.

Derivatives embedded in insurance and investment contracts

Certain bifurcated embedded derivatives in insurance and investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) forward curve or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data or observed market performance. Correlations of market returns across underlying indices are based on actual observed market returns and relationships over a number of years preceding the valuation date. The current risk-free spot rate is used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group s assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Group or changes in other facts and circumstances will lead the Group to change its investment decision. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment charge recorded.

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Factors considered include industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, nationally recognized credit rating declines and a breach of contract.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Valuation of defined benefit plans

The liabilities or assets recognized in the balance sheet in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, the expected return on plan assets, estimated future salary increases and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carryforwards of unused tax losses and carryforwards of unused tax credits when in the judgment of management it is more likely than not that AEGON will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews AEGON s deferred tax positions periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the tax income and expense items, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

Valuation of share appreciation rights and share options

Because of the inability to measure the fair value of employee services directly, fair value is measured by reference to the fair value of the rights and options granted. This value is estimated using the binomial option pricing model, taking into account the respective vesting and exercise periods of the share appreciation rights and share options.

The volatility is derived from quotations from external market sources and the expected dividend yield reflects AEGON s current dividend yield. Future blackout periods are taken into account in the model in conformity with current blackout periods. The expected term is explicitly incorporated in the model by assuming that early exercise occurs when the share price is greater than or equal to a certain multiple of the exercise price. This multiple has been set at two based on empirical evidence. The risk free rate is the interest rate for Dutch government bonds.

Recognition of provisions

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

18.4 Management of insurance and financial risk

As an insurance company, AEGON is in the risk business and as a result is exposed to a variety of risks. Some risks, such as currency translation risk, are related to the international nature of AEGON s business. Other risks include insurance related risks, such as changes in mortality, morbidity and lapses. However, the Group s largest exposures are to changes in financial markets (for example interest rate, credit and equity market risks) that affect the value of the investments, liabilities related to the products sold, VOBA and deferred expenses.

This section contains a summary of the terms and conditions of the products sold and provides further background for an understanding of the business and its related risks. This is followed by an overview of the approach to risk management and highlights of specific risks to which the Group is exposed.

18.4.1 Terms and conditions of the products sold per line of business

General account life products

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

For account of policyholders life products

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

18.4.1.1 Traditional life

Traditional life products are sold in the United States, Canada, the Netherlands, the United Kingdom, Hungary, Slovakia, Czech Republic, Spain, Taiwan and China.

A key risk for all countries selling traditional life business is mortality risk. The most significant factors that could increase the overall frequency or timing of claims are epidemics, natural or man made disasters, or a general deterioration in population mortality due to lifestyle changes. Insured mortality risk can usually be reasonably predicted under normal circumstances with thorough underwriting and with a large number of insureds. The level of underwriting employed by the company depends on the materiality of the mortality risk relative to other product attributes, the size of the sum assured and the cost-benefit analysis for each product.

In addition to the mortality risk as described above, the pension and annuity business of specifically AEGON The Netherlands and AEGON UK that are reported as part of traditional life also carry significant longevity risk. Longevity risk arises from enhanced medical treatment and improved life circumstances, although this is not easy to predict.

The timing and extent of policyholder lapses is another risk of these products. Early policyholder lapsation before acquisition costs have been fully recovered and without sufficient commission claw back clauses can cause a loss. In some products, lapses significantly below expectations can result in more future claims than anticipated in the premium pricing and contribute to losses.

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Investment of future recurring premiums and reinvestment of premiums already received at prevailing market interest rates lower than priced for are also risks. In addition, some products provide minimum interest rate guarantees, exposing AEGON to interest rate risk in a prolonged low interest rate environment. In a rapidly rising interest rate environment, the company is exposed to lapse risk, although this risk is mitigated by surrender charges in early policy years.

AEGON s underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and level of benefits. AEGON also uses third party reinsurers to spread mortality risk. Furthermore, AEGON s risk policy dictates a maximum insured benefit on a country basis it will retain on any one life, reinsuring the excess.

UNITED STATES

In the United States traditional life products consist largely of permanent life, universal life and term life insurance.

Permanent life

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with implicit minimum interest rate guarantees prescribed by statutory requirements of between 4 and 5%. A customer may either withdraw the cash value, subject to withdrawal charges, or receive the benefit upon a predetermined event, such as the death of the insured.

Permanent life insurance is also known as whole life insurance in the United States. It can be participating or non-participating. Premiums are generally fixed and are payable over the life of the policy or for a limited time period. Participating policies allow the policyholder to receive policy dividends, as declared by the insurer s board of directors. These dividends are not guaranteed and are based on the insurer s experience for a given class of policies.

Universal life

Universal life insurance has either a flexible or single premium. The contract has a feature that allows the customer greater flexibility as to when to pay premiums and with regard to the amount of the premiums, subject to a minimum and a maximum. The interest rate at which the cash value accumulates is adjusted periodically.

Minimum interest rate guarantees exist in all generations of fixed universal life products, as they are required by non-forfeiture regulations. These are mostly at 4%, with newer products at 3%. No lapse guarantees were introduced in recent universal life products. The no lapse guarantee feature provides a policyholder the guarantee that the universal life policy will stay in force, even if the cash value becomes zero or less than zero, provided that a specified minimum premium payment is made when due or a shadow account remains positive. The guarantee period can vary from five years to the entire contract term.

Equity indexed universal life products have both interest rate guarantees of between 1 and 2% and equity index return guarantees, with a cap currently around 12%.

Term life insurance

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

Other

Traditional life products also include life insurance sold as part of defined benefit pension plans, endowment policies, post-retirement annuity products and group risk products. Bank- or corporate-owned life insurance (BOLI/COLI) is sold to corporations as a method of funding employee benefit liabilities. The corporation insures key employees and is the owner and beneficiary of the policies.

CANADA

The traditional life products sold by AEGON Canada include term life insurance, term to 100 and universal life. In addition, AEGON Canada also classifies its single premium immediate annuity product as part of its traditional life line of business.

Term life insurance

The terms and conditions of AEGON Canada s term life insurance product are consistent with those described above for the operations of the United States.

Term to 100

Term to 100 is a permanent life insurance product with level premiums, level coverage amounts, minimal or no cash values and no expiry age. These policies are priced as lapse supported business and approximately 90% of the lapse and mortality exposures have been reinsured with third party reinsurers.

Universal life

Universal life insurance is another form of permanent life insurance and has features similar to those described for the United States.

These products provide policyholders with a wide range of choices in determining the credited interest rate that will be applicable to the account values of their policies. Policyholder investment options include a fixed rate investment for a guaranteed interest rate for a guarantee period running between five and 25 years, a floating daily rate, a rate that is tied to the movement of various share and bond market indices, or a rate that is tied to the movement of various mutual funds. Similar to the operations in the United States, there are minimum interest rate guarantees on fixed rate investments, which vary from 0% to 4% depending on when the policy was issued, and what term of investment was chosen. There is no minimum interest rate guarantee on returns tied to market indices or to mutual funds. Policyholders can allocate their account values such that the credited interest rate for various portions is tied to different investment options. Policyholders can switch among these various options as they desire.

Single premium immediate annuities

This product is a life contingent payout annuity with guaranteed regular payments for the life of the annuitant. Some of these contracts have a minimum guaranteed payment period.

THE NETHERLANDS

The traditional life products of AEGON The Netherlands consist largely of endowment insurance and pensions and annuity insurance.

Endowment insurance

This category includes products that accumulate a cash value and term life insurance products. Premiums are paid at inception or over the term of the contract.

The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or equal the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product.

Minimum interest guarantees exist for all generations of accumulation products written. Older generations contain a 4% guarantee; in recent years the guarantee has decreased to 3%.

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There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in pension business, as discussed in the following section) or used to increase the sum assured. For one common form of profit sharing, the bonus levels are set by reference to external indices that are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolio have different remaining durations and interest rates and together are considered an approximation of the long-term rate of return on Dutch high quality financial investments. Another common form of profit sharing are the interest rebates, whereby policyholders receive a discount on single premium business which reflects the expectation that the actual rate of return on the contract will exceed the minimum interest guarantee used to determine the premiums and sums assured. Here too, the expected actual rate of return is based on a portfolio of Dutch government bonds.

Term and whole life insurance

Term life insurance pays out death benefits when the insured dies during the term of the contract. Whole life insurance pays out death benefits when the insured dies, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the insured. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profitsharing features, which are based on external indices or return of related assets.

Pension and annuity insurance

This category includes products in accumulation phase and in payout phase. Payout commences at a date determined in the policy and usually continues until death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%.

Interest rebates are given on both single and regular premium pension and annuity insurance and may be based on a portfolio of Dutch government bonds, although other calculation bases are also applied. There are also profit sharing schemes set by reference to external indices that are based on predefined portfolios of Dutch government bonds.

UNITED KINGDOM

The AEGON UK traditional life business primarily comprises immediate annuity, individual protection and group protection business. The protection business provides insurance of major life events such as death, critical illness and total or permanent disability on individual or groups of lives. A menu approach offers flexibility on the level and combination of benefits that can be chosen. Premium levels for individual business are typically fixed over the term of the contract, while those for group arrangements are normally reviewed every two years.

OTHER COUNTRIES

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Traditional non-profit share products have 5.5% technical interest rates, but this is a declining block of business. Profit share products mainly have a 3.5% technical interest rate and 85% participation in excess interest. The average minimum interest guarantee is about 3.4%.

In Spain a minimum interest guarantee of between 0% and 6% applies for traditional life products with fixed premiums. Current new business provides interest guarantees mostly between 2% and 3.4%.

The most significant guarantees in Taiwan relate to individual traditional life products with fixed premiums. These products carry interest guarantees at various levels. The current new business provides interest guarantees mostly at 2%. The average in force guarantee rate is approximately 3.3%. Business issued in 2003 and prior also carries the Ministry of Finance Dividend that requires the insurance company to pay to the policyholder a dividend referring to industry mortality experience and the average two-year term deposit rates.

In Slovakia the current minimum interest rate on universal life products is 3%.

Universal life products in the Czech Republic have a guaranteed interest rate of 2.4%.

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18.4.1.2 Life for account of policyholders

Life for account of policyholder products are sold in the United States, the Netherlands, the United Kingdom, Hungary, Slovakia, Czech Republic, Poland, Spain, Taiwan and China.

Life for account of policyholder products include several forms of life insurance and pension products whereby death benefits and cash values vary with the performance of a portfolio of investments. Premiums can be allocated among a variety of investments that offer different degrees of risk and reward, including shares, bonds, combinations of both, or investment products that guarantee interest and principal. The customer retains the investment risk and AEGON earns a return from investment management fees, mortality-based cost of insurance charges, other guarantee charges and expense charges. The contract account balance varies with the performance of the investments chosen by the policyholder.

These products include:

- Variable universal life in the United States;
- Tontine plans in the Netherlands;
- Separate account group contracts in the Netherlands;
- Unit-linked contracts in the Netherlands, the United Kingdom, Hungary, Spain, Taiwan, Poland, Slovakia and Czech Republic; and
- With-profit business in the United Kingdom.

UNITED STATES

Variable universal life products in the United States are similar to universal life products reported as part of the traditional life line of business, but include investment options and maintenance of investments for the account of policyholders. Some products contain minimum death benefit guarantees and the risk is that poor market performance may erode the policyholder account value to the extent that available cost of insurance charges prove inadequate. The fixed account has a minimum guaranteed interest rate of either 3% or 4% depending on the product. Newer products have a 2% guarantee. This product also contains a no lapse guarantee, which is an equity option. Under the no lapse guarantee, the contract is guaranteed to remain in force regardless of the level of underlying account value, provided the policyholder continues to meet minimum premium requirements. The value of this guarantee increases with higher cost of insurance charges and with lower minimum required premiums. This product is not sensitive to equity returns until the no lapse guarantee threshold is breached.

THE NETHERLANDS

Tontine plans in the Netherlands are linked endowment savings contracts with a specific bonus structure. Policyholders can choose from several AEGON funds to invest premiums paid. The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder s estate, but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. In general, a new series starts at the beginning of each calendar year, but there are also open ended tontine plans in the portfolio. When the policyholder dies before maturity, AEGON The Netherlands pays a death benefit equal to the premiums paid accumulated at a 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term.

Separate account group contracts of AEGON The Netherlands are large group contracts that have an individually determined asset investment underlying the pension contract. The guarantee given is that the profit sharing is the minimum of the technical interest of either 3% or 4% or the realized return (on an amortized cost basis). If there is a negative profit sharing, the minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed.

In the Netherlands, variable unit linked products are sold. These products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years. The 10-year period may be reset at the policyholder s option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio (MER) charged to the funds is not guaranteed and can be increased at management s discretion.

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UNITED KINGDOM

The main life for account of policyholder products currently sold in the United Kingdom are:

- Unit-linked pensions, for individuals or groups of lives, through regular and/or single premium contributions and
- Unit-linked single premium savings contracts (bonds) outside the pensions environment.

A wide variety of different internal and external fund choices is available. This includes internal funds offering smoothing of returns with discretionary participation features, but without investment guarantees.

Included in for account of policyholder assets and liabilities are the invested assets and the insurance and investment contract liabilities of AEGON UK s with profit funds. The assets and liabilities are equal as any excess of assets over liabilities in respect of guaranteed benefits and constructive obligations are classified as an insurance or investment contract liability. The Scottish Equitable with profit fund is a 100:0 fund, where all benefits are held for participating policyholders. The Guardian Assurance plc with profit fund is a 90:10 fund where there is a 10% profit participation by AEGON UK in surpluses distributed to policyholders. For the Guardian fund, profit for AEGON UK emerges based on bonuses declared.

The operation of with profit funds is complex. What is set out below is a brief summary of our overall approach.

Guarantees

All AEGON UK contracts with investment guarantees have been written in policyholder-owned funds (called with profit funds) that contain assets which, as yet, have not been distributed to individual policyholders. These free assets help meet the cost of guarantees and provide a buffer to deal with adverse events; an exposure for AEGON UK only arises once these have been exhausted and, as also outlined later, AEGON believes this exposure to be low.

Scottish Equitable and Guardian Assurance used to sell guaranteed annuity products in the United Kingdom. Certain policies also have a guaranteed minimum rate of return or guaranteed death or other benefits. Any guaranteed rates of return only apply if the policy is kept in force to the dates specified, or on the events described, in the policy conditions. The costs of all guarantees are borne by the with profits funds and therefore impact the payouts to with profits policyholders. AEGON UK s main with profits classes are summarized at a very high level in the following sections.

Scottish Equitable plc

As part of its demutualization process before being acquired by AEGON N.V., on December 31, 1993 the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc. AEGON UK has no financial interest in Scottish Equitable plc s with profits fund, apart from routine yearly fund management charges, costs and expenses that it takes on the basis agreed at the time of demutualization.

Guaranteed rates of return on with profits policies are typically in the range of 0% to 5.5% per year, with the highest rates closed to new premiums in 1999 and all funds closed to new business with investment guarantees from October 2002, except for a low level of increments.

Under a number of contracts written mainly in the 1970s and 1980s, Scottish Equitable also offered minimum pension guarantees (including guaranteed annuity options). As longevity has improved and interest rates have fallen over time, these minimum guarantees are now often valuable.

Guardian Assurance plc

The AEGON UK interest in Guardian Assurance plc s with profit fund is 10% of profits in the fund, with the remaining 90% going to with profits policyholders. In 1998, prior to acquisition by AEGON UK, the with profit fund was restructured and became closed to new business, except for a low level of increments.

Guaranteed returns on policies without guaranteed cash options or annuity payments are typically 0% to 3.5% per year. Those on policies with guaranteed cash options or annuity payments depend on the value of the options at retirement. Currently, the guaranteed annuities are in the money.

Management of the with profit funds

It has been AEGON UK s practice for each of the with profits funds to have an investment strategy that reflects the nature of the underlying guarantees. Funds can invest in a variety of different asset types; the main categories are United Kingdom and overseas equities, United Kingdom fixed interest securities, property and cash. Each with profits fund has a target range for the percentage of its assets that are invested in a combination of equities and property; the ranges may be varied. Within the target ranges, there is a policy of holding an appropriate mix of asset classes to reduce risk.

The investment performance of the with profits funds is distributed to policyholders through a system of bonuses which depend on:

- The guarantees under the policy, including previous annual bonus additions.

- The investment returns on the underlying assets, with an allowance for smoothing to reduce volatility. Although smoothing means that investment profits are spread from one year to the next, the aim is to pay out all of the investment profits earned by the fund over the long-term. On early withdrawal there are other measures to ensure that a fair share of total fund growth has been received. Indeed, a market value reduction may be applied under certain funds when, for cohorts of similar contracts, the face value of the benefits is greater than the value of the underlying assets. Policy conditions may state specific points at which a market value reduction will not apply.

As mentioned above, the free assets (i.e. assets which, as yet, have not been distributed to policyholders) help meet the cost of guarantees and provide a buffer to deal with adverse events. An exposure for AEGON UK only arises once free assets have been exhausted; this has been assessed by AEGON UK to be immaterial through extending the risk based capital approach now required for solvency reporting to the regulator in the United Kingdom.

As all of AEGON UK s with profit funds are closed to new business with investment guarantees, the process has begun of gradually distributing free assets to with profits policyholders through the bonus system outlined earlier. Part of the management of this process involves trying to ensure that any surpluses in the with profit fund from other (historic) business lines can be distributed to existing with profit policyholders at a suitable rate. In particular, Guardian Assurance plc has reinsured blocks of immediate annuity business to another part of AEGON UK on terms reflective of prevailing market rates; this helps avoid a tontine effect building up in the fund, as the number of with profit policyholders decline.

OTHER COUNTRIES

In Hungary a small part of the current new business provides a minimum interest guarantee of 2%. In Poland an insurance fund with minimum rate reset quarterly and annually is offered on unit-linked products.

18.4.1.3 Fixed annuities

Fixed annuities are sold to individuals and pension funds in the United States and Canada.

UNITED STATES

Fixed annuities include both deferred annuities and immediate annuities. A fixed deferred annuity exposes AEGON to interest rate risk and lapse risk. The insurer interest rate risk can be mitigated through asset liability matching and hedging, though policyholder behavior can never be fully matched. Surrender charges in early policy years serve as a deterrent to early duration lapses. Fixed annuities sold in the United States contain a significant longevity risk created by guaranteed annuity options and may also offer waiver of account value surrender charges upon the death of the insured. Immediate annuities contain interest rate risk and also longevity risk if annuity payments are life contingent.

In the United States, AEGON sells group and individual fixed annuities and retirement plan contracts to small and medium-sized institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services which are provided by AEGON after the annuities are sold.

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An immediate annuity is purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. The benefit payment period can be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Immediate annuities and payout options under deferred annuities may also offer riders, which provide the owner or beneficiaries with the option to surrender the annuity to have access to the account value if needed for unexpected events.

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed interest crediting method or indexed basis. The customer can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed deferred annuities have a specified crediting rate that can be reset periodically by AEGON. Fixed deferred annuity contracts in the United States also offer discretionary crediting rates, as well as guaranteed minimum surrender values and payout options. Upon maturity of the annuity, the customer can select payout options, including a lump sum payment or income for life, as well as payment for a specified period of time. Should the customer die prior to receiving the benefits of the policy, the beneficiary receives either an accumulated cash value death benefit or an enhanced death benefit in the event there are benefit riders attached to the base contract. A discontinued multi-strategy annuity allows a customer a choice of investment strategies to allocate funds and provides a cumulative minimum guaranteed interest rate. Early withdrawal by the customer of the cash value of the annuity is subject to surrender charges.

Terminal funding is a single premium non-participating group annuity product. This product is usually used for an insurance company takeover of a terminating defined benefit pension plan. The company receives a single deposit from the contractholder and in return guarantees the payment of benefits to participants. Usually these annuity payments are paid monthly for the life of the participant or participant and spouse, commencing immediately for retired participants or at some date in the future for deferred participants.

A structured settlement is a form of an immediate annuity previously issued by AEGON USA. These contracts were typically purchased by customers as a result of a lawsuit or a claim and the customer receives special tax treatment. Rather than paying the injured party a lump sum, the payments were structured as a lifetime annuity with mortality risk, a period certain annuity, or a combination of both.

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. On average, minimum interest guarantees are at around 3%, with new products at 1.5%. Equity indexed annuities offer additional returns that are indexed to S&P 500, with a minimum cash value equal to a percentage of the premium increased at a minimum rate that varies, and a cap on the return. The cap is reset periodically and is currently at 7.0%.

Besides the minimum interest rate guarantee, certain fixed deferred annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders can surrender their contracts without incurring any surrender charges. The bailout provision serves as an additional insurance to the customers during the surrender charge period.

CANADA

Fixed annuity contracts in Canada have fixed rates for specified terms and contracts are sold as redeemable or non-redeemable. Most redeemable contracts are sold on the basis that a market value adjustment will apply for surrenders prior to maturity, while a small number use a fixed surrender charge. Contracts sold on a redeemable basis provide a lower rate of interest than the non-redeemable contracts. There are no minimum interest rate guarantees on these products.

18.4.1.4 Variable annuities

Variable annuities are sold to individuals and pension funds in the United States, Canada and Taiwan.

Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance with a degree of downside protection. Variable annuities allow a customer to select payout options that meet the customer s need for income upon maturity, including lump sum payment or income for life or for a period of time.

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

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The account value of variable annuities reflects the performance of the funds. AEGON USA earns mortality and expense charges as well as various types of rider fees for providing various guarantees and benefits. This category includes segregated fund products offered by AEGON Canada. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup any acquisition costs paid or to write down any remaining deferred acquisition cost.

UNITED STATES

In the United States, a guaranteed minimum withdrawal benefit is offered on some variable annuity products AEGON USA either issued or assumed from a ceding company. This benefit guarantees a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable insurance contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature provides for minimum payments if the contractholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value. These benefits subject the company to equity market risk, since poor market performance can cause the guaranteed benefits to exceed the policyholder account value.

AEGON USA undertakes to address equity market risk by using hedging strategies. Variable products also contain a degree of interest rate risk and policyholder behavior risk, which are handled similarly to those in fixed annuities.

CANADA

In Canada, variable products sold are known as segregated funds. Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits). The initial guarantee period is ten years. The ten-year period may be reset at the contractholder s option to lock in market gains. Certain limits and conditions for the timing and frequency of resets exist. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased at management s discretion.

18.4.1.5 Institutional guaranteed products

This line of business primarily includes the issuance of Guaranteed investment contracts (GICs), Funding agreements (FAs) and notes, which are marketed to institutional investors, such as pension funds, retirement plans, college savings plans, money market funds, municipalities, United States investors and non-US investors. GICs are generally issued to tax qualified plans, while FAs and notes are typically issued to non-tax qualified institutional investors. These products are marketed through an internal sales force in the United States and Ireland.

These spread-based products are issued on a fixed-rate or floating-rate basis and provide the customer a guarantee of principal and a specified rate of return. Practically all of the fixed-rate contracts are swapped to floating-rate via swap agreements and contracts issued in foreign currencies are swapped to US dollars to eliminate currency risk at issuance. Credited interest on floating-rate contracts predominately resets on a monthly basis to various market indices. The term of the contract can be fixed, generally from six months up to ten years, or it can have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a designated index, such as the S&P 500. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate. Indeterminate-maturity contracts allow the customer to withdraw funds without a withdrawal penalty by providing the customer with a put option whereby the contract may be terminated with advance written notice. Historically, this advance notice period would range from three to twelve months: however, a recent decision was made to eliminate practically all contracts with advance notice periods prior to twelve months. Other contracts offer benefit-responsive withdrawal rights to the customer, but these withdrawals cannot be for economic reasons. The account balances at December 31, 2006 consisted of fixed-rate, fixed-maturity contracts (48%); floating-rate, fixed-maturity contracts (35%); indeterminate-maturity contracts (16%); and market-indexed, fixed-maturity contracts (1%).

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AEGON utilizes consolidated special purpose entities to issue medium-term notes that are backed by funding agreements. The proceeds of each note series are used to purchase a FA from an AEGON insurance company, which is used to secure that particular series of notes. The payment terms of any particular series substantially match the payment terms of the FA that secures that series. AEGON also sells fixed-rate AAA-wrapped municipal debt securities to consolidated special purpose entities, which issue floating-rate notes. AEGON receives residual income from these entities and provides certain guarantees to the noteholders in the event of early termination. These are reflected in FAs and notes issued to institutional investors in the table that follows.

In addition, AEGON utilizes consolidated special purpose entities to issue commercial paper, that is backed by the issuance of certain FAs. These are reflected in Other FAs in the table that follows.

AEGON Global Institutional Markets plc (AGIM) is domiciled in Ireland for the purpose of issuing medium term notes to non-US investors and investing in a diversified portfolio of eligible assets with the proceeds of the issued notes. AEGON Financial Assurance Ireland limited (AFA), another AEGON Ireland entity, provides a financial guarantee for the medium term notes issued by AGIM.

Major product components are summarized in the following table. The balances reflected are equal to the contract values.

	2006	2005
Institutional guaranteed product liabilities:		
GICs issued to defined contribution/benefit plans	2,743	3,203
FAs and notes issued to institutional investors	10,207	9,492
Cash market funding agreements	4,350	5,733
Municipal/governmental FAs/investment contracts	4,218	4,673
Other FAs	3,013	3,247
Total Institutional guaranteed products	24,531	26,348

The following table presents Institutional guaranteed product liabilities by withdrawal regulation:

	2006	2005
Book value out [1]		
Puttable:		
90 days put	49	1,348
180 days put		681
364 days + put	3,183	3,331
Total puttable	3,232	5,360
Market value out [2]		
90 days notice	110	326
180 days notice		
Total market value out	110	326
Not puttable or surrenderable	21,189	20,662
Total Institutional guaranteed products	24,531	26,348

1 Book value out: the amount equal to the sum of deposits less withdrawals with interest accrued at the contractual interest rate

2 Market value out: the amount equal to the book value out plus a market value adjustment to adjust for changes in interest rates.

The municipal/governmental Funding agreements generally include downgrade language pursuant to which, should various downgrade events be triggered, one of the following four decisions must be followed at our option:

- Transfer contract to a higher-rated party;
- Purchase a credit enhancement;
- Collateralize the underlying position; or
- Pay the contract out at book value.

These options are negotiated with the customer at contract issuance, but AEGON unilaterally retains the ultimate decision-making capability in the event of a downgrade. Available collateral is monitored to ensure AEGON would be able to utilize this option at its discretion.

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As at December 31, 2006, the contractual maturities (based on nominal amounts) for all contracts with defined maturities were:

2007 EUR 5,506 million;

2008 EUR 2,892 million;

2009 EUR 4,103 million;

2010 EUR 2,105 million;

2011 EUR 1,906 million and

Thereafter EUR 3,961 million.

18.4.1.6 Fee off balance sheet products

Products are sold in the United States, Canada, the Netherlands, the United Kingdom, Hungary, Slovakia and Spain.

AEGON s fee business comprises products that generate fee income by providing management, administrative or risk services related to off balance sheet assets (i.e. equity or bond funds, third party managed assets and collective investment trusts). Fee income is mainly sensitive to policyholder withdrawals and equity market decreases.

UNITED STATES

AEGON s operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation (retirement planning) services.

Bundled retirement plans are sold to mid-sized and large employers. A manager of managers investment approach is generally used specifically for the retirement plans market, which allows clients access to institutional investment managers across the major asset classes. These funds are generally available in a core-and-feeder structure, in which the core is similar to a mutual fund and the feeder provides an institutional customer with a choice of products that are directly linked to the performance of the mutual fund, such as a registered or non-registered variable annuity, a collective investment trust (off balance sheet) or mutual funds (off balance sheet). Clients also have the flexibility to supplement institutionally managed funds with funds from retail fund families.

The operations in the United States provide the fund manager oversight for the Transamerica/IDEX Mutual Funds, the Premier Funds, and Diversified Investors Funds Group family of mutual funds. AEGON USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance. The manager remains with the investment company and acts as a sub-advisor for AEGON USA s mutual funds. AEGON USA earns investment management fees on these investment products. AEGON USA also earns direct investment management fees through affiliated managers acting as sub-advisors.

In the United States, synthetic GICs are sold primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans, as well as college savings plans. AEGON provides a synthetic GIC wrapper around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager. A synthetic GIC is typically issued with an evergreen maturity and is cancelable by the plan sponsor under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan cash flows. In certain contracts, AEGON agrees to make advances to meet benefit payment needs and earns a market interest rate on these advances. The periodically adjusted contract crediting rate is the means by which investment and benefit responsive experience is passed through to participants.

CANADA

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

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THE NETHERLANDS

AEGON The Netherlands offers financial advice, provides asset management and administrative services and is involved in intercession activities in real estate. The financial advice activities include selling insurance, pensions, mortgages, financing, savings and investment products. The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business.

UNITED KINGDOM

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

OTHER COUNTRIES

AEGON Hungary provides asset management services, including pension asset management.

Pension asset management services are being provided in Slovakia since the beginning of 2005.

18.4.1.7 Reinsurance

AEGON USA provides an array of life and annuity reinsurance solutions in the United States, Asia, and Latin America.

The core life reinsurance offering, mortality risk transfer, is sold primarily through coinsurance, as well as yearly renewable term arrangements. Under a coinsurance arrangement, reinsurance is ceded and assumed in the same form as the direct policy and the reinsurer shares proportionately in the product risks, including mortality, morbidity, persistency, investment, and capital requirements. Yearly renewable term reinsurance has premium rates that are not related to the original plan of insurance and the ceding company only reinsures the mortality or morbidity risk.

AEGON USA also assumes fixed annuity business on a coinsurance basis. Under a coinsurance arrangement, reinsurance is ceded in the same form as the direct policy and the client company typically pays the reinsurer premiums equal to its share of the premiums that the client company receives on the underlying policies. The reinsurer will pay the client death or surrender benefits upon death or surrender of the policyholder and will reimburse the client specific allowances which cover its share of expenses.

AEGON USA also reinsures fixed and variable annuity business on a modified coinsurance basis. Like coinsurance, modified coinsurance is ceded and assumed in the same form as the direct policy however, the reserves and assets backing the transaction remain with the ceding company in its accounts. AEGON USA typically finances variable annuity acquisition costs in exchange for a fixed fee reinsurance premium that is based upon the account value. Lapse risk is a significant risk assumed by the reinsurer.

AEGON USA assumes certain guaranteed minimum withdrawal, death and income benefits associated with variable annuity policies in exchange for a fee typically expressed as a fixed percentage of the account value. AEGON USA pays a portion of the guaranteed benefits that cannot be funded from the underlying policyholder s account value.

18.4.1.8 Accident and health insurance

Accident and health products are sold in the United States, Canada, the Netherlands, Spain, Hungary, Taiwan and China.

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

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With accident and health the risk insured is morbidity. Uncertainties arise from the timing, frequency and severity of insured claims. When the premium is not guaranteed, AEGON reserves the right to raise premiums, if justified by adverse experience. A related risk is persistency, in that greater than expected persistency may increase the aggregate level of claims beyond what was anticipated in the pricing. An additional risk is investment related, in that recurring future premiums are subject to investment at future rates that may be less than those assumed when pricing the product.

UNITED STATES

AEGON USA offers accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Others pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts not covered by other health insurance.

Long-term care (LTC) products offered by AEGON USA provide benefits to customers who, because of their advanced age or a serious illness, require continuous care. These products protect the insured s income and retirement savings from the costs of long-term care. Sales of long-term care insurance by AEGON USA were temporarily discontinued in 2005. The LTC Division is currently re-evaluating the LTC marketplace and intends to begin selling new LTC products in 2007.

CANADA

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

THE NETHERLANDS

AEGON The Netherlands offers sick leave products that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk.

18.4.1.9 General insurance

General insurance is sold in the Netherlands and Hungary. AEGON sold its general insurance business in Spain with effect from January 1, 2005.

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

18.4.1.10 Banking activities

Banking products are only sold by AEGON The Netherlands and include savings accounts and investment contracts. Both products generate investment-spread income for AEGON. Savings accounts retain flexibility to withdraw cash with limited restrictions. AEGON discontinued selling security lease products in early 2003. Banking products also include investment products that offer index-linked returns and generate fee income on the performance of the investments.

18.4.2 Approach to risk management

The Group manages risk at the local level where business is transacted, based on principles and policies established at the group level. AEGON s integrated approach to risk management involves common measurement of risk and scope of risk coverage to allow for aggregation of the Group s risk position. In addition, this integrated framework facilitates the sharing of best practices and the latest research on methodologies. The risk management functions are applied locally with corporate oversight and are tied to the speed of business, while remaining independent of the business activity providing oversight and peer review.

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To manage its risk exposure, AEGON employs risk management programs, including asset liability management processes and models, hedging programs (which are largely conducted via the use of derivatives) and insurance programs (which are largely conducted through the use of reinsurance). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but also for AEGON. Derivative and reinsurance usage by the company is governed by derivative and reinsurance usage policies. These policies establish the control, authorization, execution and monitoring requirements of the usage of such instruments. In addition, these policies stipulate necessary mitigation of credit risk created through these risk management tools of derivatives and reinsurance. For derivatives, credit risk is often mitigated by requirements to post collateral via credit support annex agreements. For reinsurance, credit risk is often mitigated through funds withheld treaties (when AEGON owns the assets) or through assets held in trust for the benefit of AEGON (in the event of reinsurer insolvency).

As part of these risk management programs, AEGON takes inventory of its current risk position across risk categories. AEGON also measures the sensitivity of net income and shareholders equity to stochastic and deterministic scenarios. Management uses the insight gained through these what if? scenarios to manage the Group s risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated if necessary.

a. Currency exchange rate risk

As an international group, AEGON is subject to currency risk. Also, currency risk exists for any policy denominated in currencies other than the policy s local currency. Equity held in subsidiaries is kept in local currencies to the extent shareholders equity is required to satisfy regulatory and self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of shareholders equity as a result of translation into euro. The remainder of the capital base (perpetual capital securities, perpetual cumulative subordinated bonds, subordinated and senior debt) is held in, or swapped to, the various currencies in amounts that are targeted to correspond proportionally to the book value of its country units. This balancing mitigates currency translation impacts to equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles. In the Netherlands, the majority of AEGON s equity holdings are invested in an internationally diversified portfolio rather than solely in euro denominated equities.

AEGON does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As AEGON has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. AEGON may experience significant changes in net income and shareholders equity because of these fluctuations.

b. Interest rate risk

AEGON bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the liabilities can mitigate this risk. For some of the businesses capital markets are not well developed which prevents the complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

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

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If interest rates rise, there may be unrealized losses on some of our assets that will be recorded as negative income under IFRS. This is inconsistent with the IFRS accounting on much of the company s liabilities where corresponding unrealized gains when interest rates rise do not affect income in the shorter term. Over time, the short-term reduction in income due to rising interest rates would be offset by higher income in later years all else equal. Therefore, rising interest rates are not considered a long-term risk to the company.

The general account fixed-income portfolios of AEGON Americas and AEGON The Netherlands accounted for 93% of the total general account fixed-income portfolio of the Group on December 31, 2006. AEGON USA and AEGON The Netherlands manage their duration mismatch on the basis of their expectations for the future level of interest rates within limits. Presently, other AEGON country units target the duration of their assets to equal approximately the duration of their liabilities where possible. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at group level.

The table that follows shows each of the last five year end interest rates for the period from 2002 through 2006.

	2002	2003	2004	2005	2006
3-month US LIBOR	1.38%	1.15%	2.56%	4.54%	5.36%
3-month EURIBOR	2.87%	2.12%	2.16%	2.49%	3.73%
10-year US Treasury	3.82%	4.25%	4.22%	4.39%	4.70%
10-year Dutch government	4.24%	4.29%	3.68%	3.29%	3.97%

The tables that follow show the effective interest rates and the earliest of contractual repricing or maturity dates for general account financial assets and borrowings.

General account bonds, money market investments, mortgage loans and private loans 2006

	< 1 yr		1<5 yrs		5<10 yrs		>10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Bonds, money market and other short-term investments	9,472	5.40%	29,033	5.43%	28,176	5.52%	35,298	5.90%
Mortgage loans	2,023	5.69%	3,843	5.96%	5,650	5.79%	4,655	6.09%
Private loans	60	5.79%	98	5.89%	123	5.04%	26	6.28%

General account bonds, money market investments, mortgage loans and private loans 2005

	< 1 yr		1<5 yrs		5<10 yrs		>10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Bonds, money market and other short-term investments	7,992	6.03%	30,895	4.92%	37,680	5.42%	34,581	5.85%
Mortgage loans	2,840	4.86%	4,118	6.02%	5,508	5.94%	4,765	6.35%
Private loans	240	4.35%	176	5.96%	171	5.08%	22	5.71%

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Financial liabilities relating to trust pass-through securities and borrowings 2006

	< 1 yr Amount	< 1 yr Yield	1<5 yrs Amount	1<5 yrs Yield	5<10 yrs Amount	5<10 yrs Yield	>10 yrs Amount	>10 yrs Yield
Trust pass-through securities							123	7.64%
Subordinated borrowings			34	6.51%				
Borrowings	935	4.30%	1,397	6.17%	1,173	5.12%	1,486	5.89%

Financial liabilities relating to trust pass-through securities and borrowings 2005

	< 1 yr Amount	< 1 yr Yield	1<5 yrs Amount	1<5 yrs Yield	5<10 yrs Amount	5<10 yrs Yield	>10 yrs Amount	>10 yrs Yield
Trust pass-through securities							437	7.67%
Subordinated borrowings	251	8.02%	33	6.51%				
Borrowings	1,357	6.61%	1,689	6.11%	1,549	5.53%	937	6.27%

The tables that follow show the expected cash flows for insurance and investment contracts.

Financial liabilities relating to insurance and investment contracts 2006

	< 1 yr Amount	1<5 yrs Amount	5<10 yrs Amount	>10 yrs Amount
Insurance contracts [1]	7,698	21,901	16,943	110,137
Insurance contracts for account of policyholders [1]	5,169	21,504	19,833	74,481
Investment contracts [2]	12,528	16,211	5,908	9,750
Investment contracts for account of policyholders [1 2]	4,214	19,290	21,940	83,098

1 The projected cash benefit payments are based on managements best estimates of the expected gross benefits and expenses partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with AEGON s historical experience, modified for recent observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance. The liability amount in our consolidated financial statement reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 18.19, 18.20 and 18.22. More details on the products, terms and conditions are included in note 18.4.1.

2 The cash flows included in the table are consistent with those included in the fair value measurement of the liabilities. More details on the products, and terms and conditions are included in notes 18.4.1 and 18.22.

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c. Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, AEGON typically bears the risk for investment performance equaling the return of principal and interest. AEGON is exposed to credit risk on its general account fixed-income portfolio (bonds, mortgages and private placements), OTC derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in AEGON s major markets resulted in significant investment impairments on AEGON s investment assets due to defaults and overall declines in the securities markets. Credit default rates have been benign in 2005 and 2006. However, a return to excessive defaults or other reductions in the value of these securities and loans could have a material adverse effect on AEGON s business, results of operations and financial condition. AEGON manages credit risk exposure by individual counterparty, sector and asset class. It may mitigate credit risk in derivative contracts by entering in collateral agreements where practical and in International Swaps and Derivatives Association (ISDA) master netting agreements for each of AEGON s legal entities to facilitate AEGON s right to offset credit risk exposure. The credit risk associated with financial assets subject to a master netting arrangement, is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realized. The extent to which the exposure to credit risk is reduced through a master netting agreement may change substantially within a short period of time, because the exposure is affected by each transaction subject to the arrangement. AEGON may also mitigate credit risk in reinsurance contracts where possible by retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, AEGON employs deterministic and stochastic credit risk modeling in order to assess the Group s credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

The ratings distribution of general account portfolios of AEGON s major country units are presented in the table that follows, organized by rating category.

	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
AAA	17,022	1,464	160	273	18,923	18,598
AA	8,424	921	887	502	10,734	9,242
A	19,088	1,849	2,478	946	24,361	29,327
BBB	16,630	633	680	83	18,025	20,102
BB	1,836	155		11	2,003	2,244
B	1,522	161	5	2	1,691	1,609
CCC or lower	318	17			335	341
Sovereign exposure	6,035	9,611	359	2,220	18,242	20,501
Assets not rated	30,213	13,391	262	295	44,462	47,348
	101,088	28,202	4,831	4,332	138,776	149,312

[1] Includes investments of Holding and other activities

The following table shows the credit quality of general account reinsurance assets specifically.

	Carrying value 2006	Carrying value 2005
AAA	7	1,141
AA	1,865	1,297
A	1,057	378
Below A	28	122
Not rated	734	867

3,691	3,805

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The table that follows shows the Group s maximum credit exposure from investments in general account financial assets, as well as general account derivatives and reinsurance assets and off balance sheet exposures.

	Exposure 2006	Exposure 2005
On balance sheet general account exposures		
Shares	7,745	7,896
Bonds	97,554	107,947
Money market and other short-term investments	4,425	3,201
Mortgage loans	16,171	17,231
Private loans	307	609
Other loans	4,127	3,945
Other financial assets	3,246	2,823
Derivatives with positive values	1,510	1,855
Reinsurance assets	3,691	3,805
	138,776	149,312

Refer to note 18.49 and note 18.50 for further information on capital commitments and contingencies and on collateral given, which may expose the Group to credit risk.

Country units apply specific guidelines for the acceptable levels of credit risk. AEGON monitors its aggregate exposure to credit counterparties at group level. For this purpose, AEGON aggregates exposures from its country units to assess overall credit risk. To manage its credit risk, AEGON has a single credit counterparty limit policy to be applied to all forms of credit risk. All forms of credit risk are required to be aggregated by counterparty and measured for compliance against country unit credit limits and group wide credit limits. The group wide limits are shown in the table that follows.

AEGON group wide counterparty exposure limits in EUR million [1]:

Credit Rating	Limit
AAA	1,000
AA	1,000
A	750
BBB	500
BB	250
B	125

[1] The fixed-income issuer rating is used when applying the credit counterparty limit exposure policy.

If an exposure exceeds the stated limit as a result of a downgrade, the exposure must be readjusted to the limit for that rating category as soon as possible. The limits vary with the asset quality of the security as can be seen in the above table. Exceptions to these limits can only be made after explicit approval from AEGON s Group Risk and Capital Committee.

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The tables that follow present specific credit risk concentration information for general account financial assets.

Credit risk concentrations - shares

	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
Communication	56	55		12	122	83
Consumer cyclical	94	105		2	201	158
Consumer non-cyclical	29	407			436	431
Financials	1,042	1,792	2	5	2,821	2,700
Funds	681	1,337	71	21	2,110	2,200
Industries	20	465		5	490	706
Resources		287			287	261
Services cyclical		242			242	499
Services non-cyclical		374			374	165
Technology	81	215			296	302
Transport	2	38			40	5
Other	130	134		61	325	386
	2,135	5,451	73	106	7,745	7,896

1 Includes investments of Holding and other activities

Credit risk concentrations bonds and money market investments

	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
Asset backed securities (ABSs) - Aircraft	195				195	303
ABSs Collateralized Bond Obligations (CBOs)	926			31	957	1,197
ABSs Housing related	3,314	14		13	3,341	3,808
ABSs Credit cards	2,557				2,557	2,995
ABSs Other	3,027			42	3,068	2,921
Collateralized mortgage backed securities	9,992	889	12	58	10,951	10,069
Financial	20,870	2,769	2,527	782	26,951	27,233
Industrial	26,082	1,232	1,283	431	29,030	34,152
Utility	6,013	306	154	194	6,667	7,887
Sovereign exposure	6,006	9,601	359	2,277	18,262	20,583
	78,982	14,811	4,335	3,828	101,979	111,148

1 Includes investments of Holding and other activities

Credit risk concentrations - mortgages

	Americas	The Netherlands	United Kingdom	Other countries	Total 2006	Total 2005

Agricultural	444	39		483	477
Apartment	2,004	434		2,438	2,734
Industrial	2,349			2,349	2,443
Office	4,076	29		4,105	4,520
Retail	2,348	2	2	2,352	2,606
Other commercial	487	18	2	507	575
Residential	107	3,830		3,937	3,876
	11,815	4,352	4	16,171	17,231

d. Equity market and other investment risks

Fluctuations in the equity, real estate and capital markets have adversely affected AEGON s profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where AEGON bears all or most of the volatility in returns and investment performance risk. Significant terrorist actions, as well as general economic conditions, have led to and may again result in significant decreases in the value of AEGON s equity investments.

Equity market exposure is present in equity-linked products whereby policyholder funds are invested in equities at the discretion of the policyholder; here most of the risk remains with the policyholder. Examples of these products include variable annuities, variable universal life, unit-linked products and mutual funds. AEGON typically earns a fee on the asset balance in these products and therefore has a risk related to the investment performance. In addition, some of this business has minimum return or accumulation guarantees, which are often life contingent or contingent upon policyholder persistency. AEGON is at risk if equity market returns do not exceed these guarantee levels and the company may need to set up additional reserves to fund these future guaranteed benefits. AEGON is also at risk if returns are not sufficient to allow amortization of DPAC and deferred transaction costs. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC and deferred transaction costs and to establish additional reserves for minimum guaranteed benefits, which would reduce net income and shareholders equity. Volatile or poor market conditions may also significantly reduce the popularity of some of AEGON s savings and investment products, which could lead to lower sales and lower net income.

The general account equity, real estate and other non-fixed-income portfolio of AEGON USA and AEGON The Netherlands accounted for 99% of the total general account equity, real estate and other non-fixed-income portfolio of the Group at December 31, 2006. Of AEGON s country units, AEGON The Netherlands holds the largest amount of equities, both in absolute terms and expressed as a percentage of total general account investments. The largest part of the equity portfolio of AEGON The Netherlands consists of a diversified portfolio of global equities and 5% equity holdings in Dutch companies, which include non-redeemable preferred shares.

The table that follows sets forth the year end closing levels of certain major indices.

Year-end	**2002**	**2003**	**2004**	**2005**	**2006**
S&P 500	880	1,112	1,212	1,248	1,418
Nasdaq	1,336	2,003	2,175	2,205	2,415
FTSE 100	3,940	4,477	4,814	5,619	6,221
AEX	323	338	348	437	495

AEGON s shareholders equity is directly exposed to, among other things, movements in the equity and real estate markets and to movements in interest rates. In addition, net income is sensitive to the fees earned on equity investments held for the account of policyholders as well as the amortization of DPAC and deferred transaction costs and provisioning for minimum product guarantees.

e. Underwriting risk

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

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Sources of underwriting risk include policy lapses and policy claims such as mortality, morbidity and expenses. In general, AEGON is at risk if policy lapses increase as sometimes AEGON is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, AEGON sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance, and sells certain types of policies that are at risk if mortality decreases such as annuity products. AEGON is also at risk if expenses are higher than assumed by management.

AEGON monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. AEGON s units also perform experience studies for underwriting risk assumptions, comparing AEGON s experience to industry experience as well as combining AEGON s experience and industry experience based on the depth of the history of each source to AEGON s underwriting assumptions. Where policy charges are flexible in products, AEGON uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. AEGON also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Sensitivity analysis of net income and shareholders equity to various underwriting risks is shown in the table that follows[1, 2].

	2006 Estimated approximate effects on net income/ equity
20% increase in lapse rates	(44)
20% decrease in lapse rates	44
10% increase in mortality rates	(88)
10% decrease in mortality rates	88
10% increase in morbidity rates	(61)
10% decrease in morbidity rates	61

1 Basic assumptions: no correlation between markets and risks, unchanged conditions for all other assets and liabilities and limited management actions taken. All changes are relative to net income and shareholders equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decrease

2 The mortality sensitivities assume that mortality increases or decreases for all products regardless of whether one product produces a gain or loss on the directional change.

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18.5 Segment information

Income statement Operating Earnings - 2006

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
Traditional life	570	189	21	10			790
Life for account of policyholders	87	315	204	8			614
Fixed annuities	434			(1)			433
Variable annuities	260			1			261
Institutional guaranteed products	275						275
Fee off balance sheet products	54	35		(14)			75
Reinsurance	163						163
Accident and health insurance	331	34		4			369
General insurance		26		29			55
Banking activities		35					35
Other							
Interest charges and other					(238)	(4)	(242)
Operating earnings before tax	2,174	634	225	37	(238)	(4)	2,828
Gains/(losses) on investments	(22)	413	16	20	42		469
Impairment charges	(115)	(27)	(1)				(143)
Impairment reversals	103	15					118
Other non-operating income/(charges)			90			(4)	86
Income before share in profit/loss of associates and tax	2,140	1,035	330	57	(196)	(8)	3,358
Share in profit/(loss) of associates		7	1	24			32
Income before tax	2,140	1,042	331	81	(196)	(8)	3,390
Income tax	(587)	(2)	(99)	(45)	132		(601)
Income after tax	1,553	1,040	232	36	(64)	(8)	2,789
Attributable to minority interest							
Net income attributable to equity holders of AEGON N.V.	**1,553**	**1,040**	**232**	**36**	**(64)**	**(8)**	**2,789**

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Income statement Operating Earnings - 2005

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
Traditional life	541	270	(1)	13			823
Life for account of policyholders	87	(53)	203	6			243
Fixed annuities	425						425
Variable annuities	130						130
Institutional guaranteed products	280						280
Fee off balance sheet products	54	15	(40)	4			33
Reinsurance	105						105
Accident and health insurance	277	45		2			324
General insurance		30		25			55
Banking activities		15					15
Other				(6)			(6)
Interest charges and other					(260)	(20)	(280)
Operating earnings before tax	1,899	322	162	44	(260)	(20)	2,147
Gains/(losses) on investments	240	985	9	12	(89)		1,157
Impairment charges	(100)	(44)	(3)				(147)
Impairment reversals	142	19					161
Other non-operating income/(charges)			104	176	(3)		277
Income before share in profit/loss of associates and tax	2,181	1,282	272	232	(352)	(20)	3,595
Share in profit/(loss) of associates		4		16			20
Income before tax	2,181	1,286	272	248	(352)	(20)	3,615
Income tax	(566)	(272)	(128)	(37)	118		(885)
Income after tax	1,615	1,014	144	211	(234)	(20)	2,730
Attributable to minority interest	2						2
Net income attributable to equity holders of AEGON N.V.	**1,617**	**1,014**	**144**	**211**	**(234)**	**(20)**	**2,732**

Income statement Operating Earnings - 2004

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
Traditional life	514	40	(12)	24			566
Life for account of policyholders	86	45	168	5			304
Fixed annuities	284						284
Variable annuities	177						177
Institutional guaranteed products	367						367
Fee off balance sheet products	(1)	26	5	6			36
Reinsurance	(88)						(88)
Accident and health insurance	290	27		8			325

General insurance		34		70			104
Banking activities		24					24
Interest charges and other					(328)	1	(327)
Operating earnings before tax	1,629	196	161	113	(328)	1	1,772
Gains/(losses) on investments	225	907	4	15	52		1,203
Impairment charges	(237)	(19)	(3)	(2)			(261)
Impairment reversals	78						78
Other non-operating income/(charges)			58		(80)		(22)
Income before share in profit/loss of associates and tax	1,695	1,084	220	126	(356)	1	2,770
Share in profit/(loss) of associates	3	13		9			25
Income before tax	1,698	1,097	220	135	(356)	1	2,795
Income tax	(353)	(177)	(99)	(34)	126		(537)
Income after tax	1,345	920	121	101	(230)	1	2,258
Attributable to minority interest	(2)						(2)
Net income attributable to equity holders of AEGON N.V.	**1,343**	**920**	**121**	**101**	**(230)**	**1**	**2,256**

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Income statement Segment revenues - 2006

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
Traditional life	4,962	2,683	1,824	1,247			10,716
Life for account of policyholders	1,923	2,123	9,865	759			14,670
Fixed annuities	2,546						2,546
Variable annuities	832			1			833
Institutional guaranteed products	1,550						1,550
Fee off balance sheet products	538	316	216	27			1,097
Reinsurance	1,719						1,719
Accident and health insurance	2,309	214		74			2,597
General insurance		471		139			610
Banking activities		227					227
Holding and other activities					895	(845)	50
	16,379	**6,034**	**11,905**	**2,247**	**895**	**(845)**	**36,615**
Income from reinsurance ceded	1,342	1	115	10			1,468
Net fair value and foreign exchange gains	612	264	15	5	45	(4)	937
Net gains on investments for account of policyholders	4,963	528	3,668	156		(2)	9,313
Segment expenses [1]	(20,962)	(5,984)	(14,449)	(2,355)	(92)		(43,842)
Net fair value and foreign exchange losses	(59)			(23)	(45)		(127)
Net losses on investments for account of policyholders	(1)	(156)	(1,014)	(3)			(1,174)
Interest charges and related fees	(100)	(53)	(15)		(1,041)	847	(362)
Operating earnings before tax	**2,174**	**634**	**225**	**37**	**(238)**	**(4)**	**2,828**

1 Charges to policyholders in respect of income tax in AEGON UK to the amount of EUR 75 million are excluded from segment expenses and included in other non-operating income/(charges).

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Income statement Segment revenues - 2005

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
Segment revenues							
Traditional life	5,114	1,763	986	1,160			9,023
Life for account of policyholders	1,077	3,181	6,412	257			10,927
Fixed annuities	2,538						2,538
Variable annuities	780			1			781
Institutional guaranteed products	1,133						1,133
Fee off balance sheet products	459	269	142	20			890
Reinsurance	1,455						1,455
Accident and health insurance	2,299	218		72			2,589
General insurance		484		143			627
Banking activities		249					249
Other				3			3
Holding and other activities					741	(620)	121
	14,855	6,164	7,540	1,656	741	(620)	30,336
Income from reinsurance ceded	1,407		278	6			1,691
Net fair value and foreign exchange gains	270	303	13	2	117	(7)	698
Net gains on investments for account of policyholders	3,061	1,751	6,477	62		(11)	11,340
Segment expenses [1]	(17,578)	(7,644)	(14,144)	(1,668)	(124)		(41,158)
Net fair value and foreign exchange losses	(58)	(202)		(12)	(113)		(385)
Net losses on investments for account of policyholders				(2)			(2)
Interest charges and related fees	(58)	(50)	(2)		(881)	618	(373)
Operating earnings before tax	**1,899**	**322**	**162**	**44**	**(260)**	**(20)**	**2,147**

1 Charges to policyholders in respect of income tax in AEGON UK to the amount of EUR 104 million are excluded from segment expenses and included in other non-operating income/(charges).

Income statement Segment revenues - 2004

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
Segment revenues							
Traditional life	4,991	1,976	609	856			8,432
Life for account of policyholders	1,168	2,720	6,476	130			10,494
Fixed annuities	2,710						2,710
Variable annuities	692			1			693
Institutional guaranteed products	802						802
Fee off balance sheet products	417	257	113	15			802
Reinsurance	1,277						1,277
Accident and health insurance	2,305	211		92			2,608

General insurance		485		394			879
Banking activities		284					284
Other							
Holding and other activities					837	(518)	319
	14,362	5,933	7,198	1,488	837	(518)	29,300
Income from reinsurance ceded	1,400	(62)	193	17			1,548
Net fair value and foreign exchange gains	189	6	2	1	7	1	206
Net gains on investments for account of policyholders	3,424	50	2,359	39		1	5,873
Segment expenses [1]	(17,603)	(5,592)	(9,590)	(1,417)	(343)		(34,545)
Net fair value and foreign exchange losses	(114)	(79)		(2)	(4)		(199)
Net losses on investments for account of policyholders				(13)			(13)
Interest charges and related fees	(29)	(60)	(1)		(825)	517	(398)
Operating earnings before tax	**1,629**	**196**	**161**	**113**	**(328)**	**1**	**1,772**

[1] Charges to policyholders in respect of income tax in AEGON UK to the amount of EUR 58 million are excluded from segment expenses and included in other non-operating income/(charges).

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Other selected income statement items

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Total
2006						
Amortization of deferred expenses, VOBA and future servicing rights	999	199	276	83		1,557
Depreciation	47	13	40	10	2	112
Impairment charges/(reversals) on financial assets, excluding receivables	12	12	1			25
Impairment charges/(reversals) on non-financial assets and receivables	9					9
2005						
Amortization of deferred expenses, VOBA and future servicing rights	832	157	187	66		1,242
Depreciation	45	12	46	9	13	125
Impairment charges/(reversals) on financial assets, excluding receivables	(42)	25	3			(14)
Impairment charges/(reversals) on non-financial assets and receivables	3			2	7	12
2004						
Amortization of deferred expenses, VOBA and future servicing rights	1,004	242	176	54		1,476
Depreciation	46	11	49	9	149	264
Impairment charges/(reversals) on financial assets, excluding receivables	159	19	3	2		183
Impairment charges/(reversals) on non-financial assets and receivables	95			1		96
Number of employees						
2006						
Employees excluding agents	11,753	5,048	4,489	2,113	173	23,576
Agent employees	2,483	1,356	150	1,161		5,150
	14,236	6,404	4,639	3,274	173	28,726
2005						
Employees excluding agents	11,361	4,211	4,378	1,794	186	21,930
Agent employees	2,654	1,487	161	927		5,229
	14,015	5,698	4,539	2,721	186	27,159
2004						
Employees excluding agents	11,275	4,337	4,354	1,929	326	22,221
Agent employees	2,754	1,473	159	839		5,225
	14,029	5,810	4,513	2,768	326	27,446

Revenue from transactions between reporting segments were not material during the financial period, with the exception of the interest income on intercompany loans issued by a holding company in the Holdings and other activities segment amounting to EUR 845 million (2005: EUR 620 million and 2004: 518 million). All intercompany loans transactions are done on at arms length basis, based on readily available information.

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Analysis of operating earnings before tax from non-life business

	2006			2005		
	Accident and health insurance	General insurance	Total	Accident and health insurance	General insurance	Total
Premium income	2,241	561	2,802	2,230	573	2,803
Investment income	240	49	289	225	54	279
Fee and commission income	116		116	134		134
Income from reinsurance ceded	336	3	339	390		390
Fair value and foreign exchange gains	16	1	17	21	15	36
Premiums to reinsurers	(318)	(20)	(338)	(326)	(20)	(346)
Policyholder claims and benefits	(1,420)	(348)	(1,768)	(1,478)	(359)	(1,837)
Commissions and expenses	(840)	(199)	(1,039)	(866)	(200)	(1,066)
Fair value and foreign exchange losses	(2)	8	6	(6)	(8)	(14)
	369	55	424	324	55	379

	2004		
	Accident and health insurance	General insurance	Total
Premium income	2,241	813	3,054
Investment income	201	66	267
Fee and commission income	166		166
Income from reinsurance ceded	351	15	366
Fair value and foreign exchange gains	15		15
Premiums to reinsurers	(361)	(39)	(400)
Policyholder claims and benefits	(1,402)	(495)	(1,897)
Commissions and expenses	(884)	(255)	(1,139)
Fair value and foreign exchange losses	(2)	(1)	(3)
	325	104	429

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Summarized assets and liabilities per geographical segment

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
2006							
ASSETS							
VOBA and future servicing rights	2,800	117	1,120	41			4,078
Investments general account	97,973	29,382	4,408	4,352	36	(20)	136,131
Investments for account of policyholders	48,187	20,725	64,999	1,646		(20)	135,537
Investments in associates	24	32	17	404	5	(4)	478
Deferred expenses	6,801	686	3,286	446			11,219
Other assets	13,458	8,286	2,207	666	8,120	(5,367)	27,370
Total assets	169,243	59,228	76,037	7,555	8,161	(5,411)	314,813
LIABILITIES							
Insurance contracts general account	61,159	18,151	5,043	4,075			88,428
Insurance contracts for account of policyholders	36,986	20,383	13,201	1,624			72,194
Investment contracts general account	30,380	5,492	591	155			36,618
Investment contracts for account of policyholders	11,201	798	52,075	23			64,097
Other liabilities	14,486	9,635	1,724	343	7,770	(3,667)	30,291
Total liabilities	154,212	54,459	72,634	6,220	7,770	(3,667)	291,628
2005							
ASSETS							
VOBA and future servicing rights	3,359	12	1,135	41			4,547
Investments general account	108,618	30,407	3,652	3,313	113	(28)	146,075
Investments for account of policyholders	47,448	19,782	59,379	974		(36)	127,547
Investments in associates	3	67	16	451	5		542
Deferred expenses	6,911	778	2,965	422			11,076
Other assets	12,061	4,428	1,902	519	6,761	(4,243)	21,428
Total assets	178,400	55,474	69,049	5,720	6,879	(4,307)	311,215
LIABILITIES							
Insurance contracts general account	70,720	18,033	3,632	3,305			95,690
Insurance contracts for account of policyholders	36,331	19,536	13,456	957			70,280
Investment contracts general account	32,983	5,157	702				38,842
Investment contracts for account of policyholders	11,118	1,217	46,372	17			58,724
Other liabilities	11,017	6,520	1,787	285	6,968	(1,568)	25,009
Total liabilities	162,169	50,463	65,949	4,564	6,968	(1,568)	288,545

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Segment assets by line of business [1]

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Eliminations	Total
2006							
Traditional life	31,190	25,240	5,755	5,076			67,261
Life for account of policyholders	7,547	25,712	70,010	1,994			105,263
Fixed annuities	41,442						41,442
Variable annuities	45,324			21			45,345
Institutional guaranteed products	30,776						30,776
Fee off balance sheet products	578	423	142	61			1,204
Reinsurance	5,795						5,795
Accident and health insurance	6,166	692		199			7,057
General insurance		939		201	30		1,170
Banking activities		6,223					6,223
Other					8,429	(5,411)	3,018
	168,818	59,229	75,907	7,552	8,459	(5,411)	314,554
2005							
Traditional life	33,857	24,311	4,600	4,207			66,975
Life for account of policyholders	6,084	23,634	64,204	1,136			95,058
Fixed annuities	47,766						47,766
Variable annuities	46,072			17			46,089
Institutional guaranteed products	31,620						31,620
Fee off balance sheet products	516	172	170	56			914
Reinsurance	5,956						5,956
Accident and health insurance	6,331	621		68			7,020
General insurance		858		199			1,057
Banking activities		5,879			1		5,880
Other					6,912	(4,308)	2,604
	178,202	55,475	68,974	5,683	6,913	(4,308)	310,939

1 Segment assets include all assets, except income tax receivables.

Cost to acquire investments in real estate, software and equipment were not material during the financial period.

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18.6 Intangible assets

	Goodwill	VOBA	Future servicing rights	Software	Other	Total
Net book value						
At January 1, 2005	13	3,950	133	80	7	4,183
At December 31, 2005	65	4,396	151	60	6	4,678
At December 31, 2006	221	3,959	119	34	5	4,338
Cost						
At January 1, 2005	13	6,654	186	237	8	7,098
Additions		4		17		21
Acquisitions through business combinations	50	88	25			163
Net exchange differences	2	905	18	10		935
Other		(6)				(6)
At December 31, 2005	65	7,645	229	264	8	8,211
Accumulated amortization, depreciation and impairment losses						
At January 1, 2005		2,704	53	157	1	2,915
Amortization / depreciation through income statement		308	22	41	1	372
Shadow accounting adjustments		(187)				(187)
Impairment losses		1				1
Net exchange differences		418	3	6		427
Other		5				5
At December 31, 2005		3,249	78	204	2	3,533
Cost						
At January 1, 2006	65	7,645	229	264	8	8,211
Additions		11		10		21
Acquisitions through business combinations	160	114				274
Disposals		(29)		(7)		(36)
Deferred tax	(1)					(1)
Net exchange differences	(3)	(635)	(12)	1		(649)
At December 31, 2006	221	7,106	217	268	8	7,820
Accumulated amortization, depreciation and impairment losses						
At January 1, 2006		3,249	78	204	2	3,533
Amortization / depreciation through income statement		246	22	35	1	304
Shadow accounting adjustments		(20)	1			(19)
Disposals				(7)		(7)

Net exchange differences	(328)	(3)	2		(329)
At December 31, 2006	3,147	98	234	3	3,482

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In the preparation of the Opening Balance Sheet under IFRS as at January 1, 2004, business combinations prior to that date have not been restated and goodwill previously written off through equity has not been reinstated.

Amortization and depreciation through the income statement is included in Commissions and expenses , except when it is related to the gains and losses on investments, in which case it is included in Gains and losses on investments .

None of the intangible assets have titles that are restricted or have been pledged as security for liabilities.

Please refer to note 18.51 for information on the business combinations entered into by AEGON in 2005 and 2006. The deferred tax in 2006 relates to an adjustment to goodwill resulting from the subsequent recognition of a deferred tax asset for the acquisition of Nationwide Poland, completed in the last quarter of 2005. The initial allocation of goodwill has not been completed for all business combinations included in the financial statements of 2006.

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. VOBA and Future Servicing Rights are amortized over the term of the related insurance contracts, which can vary significantly depending on the maturity of the acquired portfolio. Software is generally amortized over a period of three to five years.

VOBA per line of business

	2006	2005
Traditional life	1,659	1,961
Life for account of policyholders	1,101	1,121
Fixed annuities	91	140
Variable annuities	96	115
Institutional guaranteed products	8	23
Fee off balance sheet products	122	4
Reinsurance	710	814
Accident and health insurance	172	218
At December 31	3,959	4,396

18.7 Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and real estate held for own use. Refer to note 18.8 for investments for which the investment risk is borne by the policyholders and to note 18.9 for details on general account derivatives.

	Note	2006	2005
Available-for-sale (AFS)	18.7.1	101,895	109,926
Loans	18.7.2	20,605	21,785
Held-to-maturity (HTM)	18.7.3	1,527	1,202
Financial assets at fair value through profit or loss (FVTPL) [1]	18.7.4	9,548	10,739
Total financial assets, excluding derivatives		133,575	143,652
Investments in real estate	18.7.5	2,243	2,068
Real estate held for own use	18.7.6	313	355
Total investments for general account		136,131	146,075

[1] Refer to note18. 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

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Financial assets, excluding derivatives

	2006					2005				
	AFS	Loans	HTM	FVTPL	Total	AFS	Loans	HTM	FVTPL	Total
Shares	4,963			2,782	7,745	5,201			2,695	7,896
Bonds	91,637		1,502	4,415	97,554	100,866		1,166	5,915	107,947
Money market and other short-term investments	4,387			38	4,425	3,151			50	3,201
Mortgages		16,171			16,171		17,231			17,231
Private loans		307			307		609			609
Deposits with financial institutions		1,995			1,995		1,342			1,342
Policy loans		1,557			1,557		1,543			1,543
Receivables out of share lease agreements		373			373		772			772
Other	908	202	25	2,313	3,448	708	288	36	2,079	3,111
At December 31	101,895	20,605	1,527	9,548	133,575	109,926	21,785	1,202	10,739	143,652

Terms and conditions

Refer to the analysis of credit risk concentrations for bonds and money market investments in note18. 4.2, for an overview of asset backed securities and collateralized mortgage backed securities. Asset backed securities expose the Group to prepayment risk. Changes in estimates of prepayments will impact the calculation of the effective yield and therefore the carrying value and interest income related to these securities. Collateralized mortgage backed securities are a combination of commercial and residential mortgage backed securities. Commercial mortgage backed securities are secured by a pool of mortgages on income producing properties and are subject to credit risk, but unlike other structured products, are generally not subject to prepayment risk due to protections within the underlying commercial mortgages, whereby borrowers are effectively restricted from prepaying their mortgages due to changes in interest rates. Residential mortgage backed securities are subject to credit risk and interest rate risk. The credit risk associated with residential mortgage backed securities is mitigated due to the fact that the portfolio consists of securities that were issued by, or have underlying collateral that is guaranteed by, U.S. government agencies or U.S. government sponsored entities.

Actual maturities are generally expected to differ from contractual maturities for mortgage loans, as borrowers may have the right to call or apply for earlier redemptions, with or without call or prepayment penalties.

Included in debt securities at fair value through profit or loss are convertible bonds and preferred shares of EUR 881 million (2005: EUR 505 million). At the end of 2006 approximately 99% of these convertible options are exercisable within the next year and the remaining 1% are exercisable after five years, all at various exchange ratios. In addition, AEGON also holds EUR 623 million (2005: EUR 818 million) of convertible bonds and preferred shares backing a fixed annuity product considered to contain an embedded derivative. This entire liability is also measured at fair value, with changes reported through the income statement.

Derecognition

As part of the AEGON Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. At December 31, 2006 a total of six publicly placed and one privately placed securitization contracts were outstanding with a total value of EUR 5.8 billion. In 2006, AEGON Levensverzekering N.V. has terminated one of the two privately placed securitization transactions reported in prior years. Also, it completed one publically placed securitization transaction in 2006, whereby the economic ownership of EUR 2.1 billion of aggregate mortgage receivables was conveyed to a special purpose company. The special purpose company funded this purchase with the issuance of mortgage-backed securities. The transfer of ownership title will take place upon notification of the borrowers by the special purpose company. The special purpose company has the right to notify the borrowers upon the occurrence of certain pre-defined notification events . At the same time AEGON entered into a fixed-to-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). After a period of seven years, the interest of the notes issued by the special purpose company in respect of this transaction will step-up, together with a similar step-up in the fixed-to-floating swap agreement. At that same time, the special purpose company has the right to call the notes. A deferred purchase arrangement forming part of the contract to sell the mortgage loans to the special purpose company entitles AEGON Levensverzekering N.V. to any residual positive value of the special purpose entity at maturity. The value of this arrangement is included in the valuation of the interest rate swap as it is viewed as a correction on the assumptions underlying the cash flow forecasts. In 2005, AEGON Levensverzekering N.V. completed one mortgage-related publicly placed securitization contract for EUR 1.2 billion that was structured similarly to the 2006 securitization described above. A portion of securitized mortgage loans amounting to EUR 24 million (2005: EUR 28 million) continues to be recognized as a financial asset on balance, representing the interest rate risk retained by AEGON in respect of the fourth publicly placed securitization contract.

For the year ending December 31, 2006, AEGON USA sold approximately EUR 105 million (2005: EUR 21 million) of AAA-wrapped municipal debt securities to qualifying SPEs (QSPEs). Due to AEGON s continuing involvement with the assets in these QSPEs, it consolidates these entities. The fair value of all such debt securities reflected in investments and also measured at fair value through profit or loss is EUR 678 million as of December 31, 2006 (2005: EUR 866 million). The acquisition of these securities was financed by the QSPEs through issuance of floating rate notes at par value to third parties and issuance of a de minimus residual investment to AEGON. Upon early termination of a QSPE, up to 10% of the excess of the fair value of the securities over the notes value may be shared with the noteholders, with residual flowing to AEGON. In the event that the fair value of the securities is less than the notes value at early termination and the securities have maintained their investment grade rating, AEGON will reimburse the QSPE liquidity provider for this shortfall. AEGON must pledge collateral to support these shortfall agreements. At December 31, 2006, 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 resulting from AEGON s involvement is the December 31, 2006 unpaid principal and accrued interest on the notes of EUR 649 million (2005: EUR 840 million) reflected in financial liabilities-investment contracts. Management does not anticipate any future funding requirements with respect to these guarantees that would have a material effect on reported financial results.

Measurement

AEGON owns EUR 113 million (2005: EUR 126 million) of shares in the Federal Home Loan Bank of Des Moines, Iowa, that are measured at par. The bank has implicit financial support from the United States government. The redemption value of the shares is fixed at par and can only be redeemed by the bank.

Only insignificants amounts of unquoted equity instruments are measured at cost.

Refer to note 18.50 for a discussion of collateral received and paid.

No financial assets were reclassified during the financial year.

18.7.1 Available-for-sale

Listed and unlisted shares and bonds

	2006	2005
Listed shares	4,270	4,223
Unlisted shares	693	978
Listed bonds	82,035	89,342
Unlisted bonds	9,602	11,524
	96,600	106,067

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Proceeds, realized gains and realized losses from sales of available-for-sale instruments

	2006	2005
Proceeds	55,573	48,874
Realized gains	732	665
Realized losses	196	

Realized gains and losses are determined as the difference between proceeds and cost prices, before taking tax effects into account.

Unrealized gains and losses - 2006

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Shares	4,017	973	(27)	4,963	4,530	433
Bonds						
United States government	3,192	86	(37)	3,241	1,415	1,826
Dutch government	2,301	52	(27)	2,326	1,100	1,226
Other government	10,442	545	(66)	10,921	7,114	3,807
Mortgage backed	10,519	79	(73)	10,525	6,127	4,398
Asset backed	9,985	57	(72)	9,970	5,855	4,115
Corporate	53,652	1,643	(643)	54,652	30,022	24,630
Money market investments	4,387			4,387	4,387	
Other	844	88	(24)	908	660	248
	99,339	3,523	(969)	101,893	61,210	40,683

Unrealized gains and losses - 2005

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Shares	4,016	1,221	(36)	5,201	4,804	397
Bonds						
United States government	3,374	60	(41)	3,393	1,289	2,104
Dutch government	2,227	133		2,360	2,360	
Other government	10,673	912	(8)	11,577	10,943	634
Mortgage backed	10,142	112	(121)	10,133	3,761	6,372

Asset backed	11,063	76	(130)	11,009	6,221	4,788
Corporate	60,339	2,612	(557)	62,394	41,540	20,854
Money market investments	3,151			3,151	3,151	
Other	668	83	(43)	708	513	195
	105,653	5,209	(936)	109,926	74,582	35,344

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Unrealized losses shares

	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005
Communication	11	(1)	3	(1)
Consumer cyclical	9	(1)	40	(3)
Consumer non-cyclical	25	(2)	31	(6)
Financials	219	(9)	76	(4)
Funds	19	(1)	31	(1)
Industries	36	(3)	36	(5)
Resources	7	(1)	1	(1)
Services cyclical	19	(1)	19	(2)
Services non-cyclical	11	(1)	36	(2)
Technology	42	(4)	33	(4)
Transport	5	-	-	-
Other	30	(3)	91	(7)
	433	(27)	397	(36)

Unrealized losses bonds and money market investments

	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005
Asset Backed Securities (ABSs) Aircraft	63	(7)	113	(25)
ABSs CBOs	103	(3)	242	(23)
ABSs Housing related	1,499	(29)	1,658	(32)
ABSs Credit cards	705	(7)	1,229	(19)
ABSs Other	1,758	(27)	1,545	(31)
Collateralized mortgage backed securities	4,407	(73)	5,914	(105)
Financial	9,452	(185)	7,463	(159)
Industrial	12,224	(370)	11,211	(354)
Utility	2,936	(87)	2,486	(57)
Sovereign exposure	6,855	(130)	2,891	(52)
	40,002	(918)	34,752	(857)

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18.7.2 Loans

Unrealized gains and losses 2006

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Mortgages	16,171	399	(108)	16,462	7,959	8,503
Private loans	307	26	(1)	332	324	8
Deposits with financial institutions	1,995	9		2,004	2,004	
Policy loans	1,557			1,557	1,557	
Receivables out of share lease agreements	373			373	352	21
Other	202			202	202	
	20,605	434	(109)	20,930	12,398	8,532

Unrealized gains and losses 2005

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Mortgages	17,231	788	(75)	17,944	14,403	3,541
Private loans	609	42		651	651	
Deposits with financial institutions	1,342			1,342	1,342	
Policy loans	1,543			1,543	1,543	
Receivables out of share lease agreements	772	4		776	776	
Other	288			288	288	
	21,785	834	(75)	22,544	19,003	3,541

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18.7.3 Held-to-maturity

Listed and unlisted bonds

	2006	2005
Listed bonds	1,487	1,158
Unlisted bonds	15	8
	1,502	1,166

Unrealized gains and losses 2006

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
Other government	1,294	56	(1)	1,349	1,184	165
Asset backed	8			8	8	
Corporate	200	1	(1)	200	121	79
	1,502	57	(2)	1,557	1,313	244

Unrealized gains and losses 2005

	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
Other government	1,085	60	(1)	1,144	1,014	130
Corporate	81	1		82	73	9
	1,166	61	(1)	1,226	1,087	139

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18.7.4 Financial assets at fair value through profit or loss

Listed and unlisted shares and bonds

	2006	2005
Listed shares	2,627	1,651
Unlisted shares	155	1,044
Listed bonds	3,497	5,859
Unlisted bonds	918	56
	7,197	8,610

18.7.5 Investments in real estate

	2006	2005
At January 1	2,068	1,856
Additions	41	73
Subsequent expenditure capitalized	11	5
Transfers from real estate held for own use and mortgage loans	140	134
Disposals	(140)	(268)
Fair value gains/(losses)	166	221
Net exchange differences	(43)	49
Other		(2)
	2,243	2,068

94% of all properties were last valued in 2006. More than 99% of these valuations were performed by independent external appraisers.

AEGON USA has entered into commercial property leases on its investment property portfolio, consisting of office, retail and industrial buildings. These non-cancellable leases have remaining lease terms up to 12 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to either a fixed schedule or prevailing market conditions.

AEGON NL has entered into long-term residential property leases that can be terminated subject to a short term notice. Under Dutch law, the maximum annual rent increase on residential property rented for less than EUR 615 per month is specified by the Dutch national government and equals to the annual inflation rate plus a small margin.

Refer to note 18.49 for description of non-cancellable lease rights.

Rental income of EUR 90 million (2005: EUR 92 million; 2004: EUR 106 million) is reported as part of investment income in the income statement. Of this amount EUR 2 million (2005: EUR 3 million; 2004: EUR 1 million) is attributable to rent on foreclosed real estate. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to EUR 28 million (2005: EUR 33 million; 2004: EUR 25 million). No amounts (2005: EUR 2 million; 2004:EUR 0 million) of direct operating expenses related to investment property that did not generate rental income during the period.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 18.49 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

18.7.6 Real estate held for own use

Net book value	
At January 1, 2005	328
At December 31, 2005	355
At December 31, 2006	313

	2006	2005
Cost		
At January 1	377	347
Additions	90	162
Acquired through business combinations	18	
Capitalized subsequent expenditure	5	1
Disposals	(3)	(46)
Unrealized gains/(losses) through equity	16	(1)
Realized gains/(losses) through income statement	(5)	1
Transfers to investments in real estate	(136)	(108)
Net exchange differences	(21)	26
Other		(5)
At December 31	341	377
Accumulated depreciation and impairment losses		
At January 1	22	19
Depreciation through income statement	8	7
Disposals	(1)	
Net exchange differences	(1)	1
Other		(5)
At December 31	28	22

General account real estate held for own use are mainly held by AEGON USA and AEGON The Netherlands, with relatively smaller holdings in Hungary and Spain and are carried at revalued amounts. The carrying value under a historical cost model amounts to EUR 169 million (2005: EUR 152 million).

61% of the real estate held for own use was last revalued in 2006, based on market value appraisals by qualified internal and external appraisers. Approximately 75% of the appraisals in 2006 were performed by independent external appraisers.

Real estate held for own use has not been pledged as security for liabilities, nor are there any restrictions on title.

Depreciation expenses are charged in Commissions and expenses in the income statement. The useful lives of buildings range between 40 and 50 years.

Refer to 18.49 for a summary of contractual commitments for the acquisition of real estate held for own use.

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18.8 Investments for account of policyholders

Investments for account of policyholders comprise financial assets at fair value through profit or loss, excluding derivatives, as well as investments in real estate and real estate held for own use. Refer to 18.9 for details on derivatives for account of policyholders.

	2006	2005
Shares		
Listed	44,663	39,902
Unlisted	53	69
Bonds		
Listed	30,339	31,465
Unlisted	35	31
Money market and other short-term investments	2,248	2,297
Deposits with financial institutions	2,344	1,288
Separate accounts and unconsolidated investment funds	51,874	48,775
Other	1,504	2,314
Total investments for account of policyholders at fair value through profit or loss, excluding derivatives [1]	133,060	126,141
Investments in real estate	2,327	1,266
Real estate held for own use	150	140
Total investments for account of policyholders	135,537	127,547

[1] Refer to note 18.48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

Investments in real estate

	2006	2005
At January 1	1,266	530
Additions	814	618
Subsequent expenditure capitalized	36	31
Disposals	(16)	(26)
Fair value gains/(losses)	187	99
Net exchange differences	40	14
At December 31	2,327	1,266

No property interests held under operating leases are classified and accounted for as investment property.

Rental income of EUR 90 million (2005: EUR 10 million; 2004: EUR 10 million) is reported as part of investment income in the income statement. There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 18.49 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

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18.9 Derivatives

	Derivative asset 2006	Derivative asset 2005	Derivative liability 2006	Derivative liability 2005
Derivatives for general account				
Derivatives not designated in a hedge	860	1,058	558	690
Derivatives designated as fair value hedges	256	335	480	516
Derivatives designated as cash flow hedges	197	326	133	227
Net foreign investment hedges	197	136	38	91
	1,510	1,855	1,209	1,524
Derivatives for account of policyholders				
Derivatives not designated in a hedge	373	440	579	678
	373	440	579	678
Total derivatives [1]	1,883	2,295	1,788	2,202

1 Refer to note 18.48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

Types of derivatives

AEGON uses derivative financial instruments to hedge its exposures related to investments, liabilities and borrowings, to optimize credit risk exposure and as part of its ordinary underwriting activities.

Interest rate contracts are used to manage AEGON s exposure to interest rate risks. These contracts are designated as economic hedges to AEGON s risk exposures. The main types of derivative financial instruments used are interest rate swaps, swaptions, caps/floors and forward rate agreements/futures:

An interest rate swap is an agreement between two parties to exchange, at specific dates, the difference between a fixed interest rate and/or a floating interest rate payment on a predetermined notional amount.

A swaption is an option to enter into an interest rate swap at a specific future date.

Caps/floors are contracts to settle the difference between a market interest rate and a certain strike rate for a certain period of time on a specified notional amount.

Forward rate agreements/futures are commitments to purchase or sell a financial instrument at a future date for a specific price.

Foreign exchange contracts are used to manage AEGON s exposure on its net investment in subsidiaries denominated in foreign currencies and other investments. The main types of derivative financial instruments used are cross currency swaps and forward foreign exchange contracts:

Cross currency swap agreements are contracts to exchange two principal amounts of two currencies at the prevailing exchange rate at inception of the contract. During the life of the swap the counterparties exchange fixed- or floating-rate interest payments in the swapped currencies and at maturity the principal amounts are again swapped at a predetermined rate of exchange.

A forward foreign exchange contract is an agreement that obligates its parties to purchase / sell a predetermined amount of foreign currency at a specified exchange rate at a specified future date.

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Other derivative transactions are used to manage equity and credit related exposures. The main types of derivative financial instruments used are equity swaps, options, futures and credit derivatives:

An equity swap is a swap agreement in which one party makes payments based on either a floating index or a fixed-rate, while the other party makes payments based on the return of an equity index, basket, or single shares.

Options are contracts that give the option purchaser the right, but not the obligation, to buy or sell, at or before a specified future date, a financial instrument at a specified price.

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price.

Credit derivatives are contracts between two parties that allow for transfer of credit risk from one party to another. The party transferring the risk has to pay a fee to the party that assumes the risk.

A commonly used credit derivative instrument is a credit default swap. A credit default swap allows the transfer of third party credit risk from one party to another. In essence, the buyer of a credit default swap is insured against third party credit losses. If the third party defaults, the party providing insurance will have to purchase the defaulted asset from the insured party or settle net in cash. AEGON uses credit derivatives to hedge credit exposures.

Synthetic GICs sold by AEGON are fee-based products that are further described in note 18.4 under Fee off balance sheet products.

Liquidity agreements issued by AEGON are fee-based products that could require AEGON to provide liquidity in certain predetermined events.

Use of derivatives

Derivatives not designated in a hedge

AEGON holds financial derivatives for trading purposes. It also utilizes derivative instruments as a part of its asset liability risk management practices. The derivatives held for risk management purposes are classified as Derivatives not designated in a hedge to the extent that they do not qualify for hedge accounting, or that AEGON has elected to not apply hedge accounting. These derivatives are either classified as economic or non-economic hedges. The economic hedges of certain exposures relate to an existing asset or liability. In all cases, these are in accordance with internal risk guidelines and are closely monitored for continuing compliance.

Derivatives are used to add risk by selling protection in the form of single name credit default swaps and tranches of synthetic collateralized debt and commodity obligations. Another strategy used is to synthetically replicate corporate credit exposures with credit derivatives. This involves the purchase of high quality low risk assets and the sale of credit derivatives. The program is designed to purchase asset positions that are already subject to review by management, but may not be available under the same terms and conditions in the cash bond market.

Furthermore synthetic GICs and liquidity agreements and principal protection agreements are sold by AEGON to earn a fee.

In addition to these instruments, embedded derivatives that are not closely related to the host contracts have been bifurcated and recorded at fair value in the balance sheet. These bifurcated embedded derivatives are embedded in various institutional products, modified coinsurance and insurance contracts in the form of guarantees for minimum benefits.

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The total values of these bifurcated embedded derivatives can be summarized as follows:

	Derivative asset		Derivative liability	
	2006	2005	2006	2005
Bifurcated embedded derivatives	30	27	834	1,054

AEGON USA reinsures some business on a modified coinsurance basis or coinsurance with funds withheld basis. These reinsurance arrangements contain embedded derivatives in that the credit risk of the underlying investment is not closely related to the host contracts. These embedded derivatives are bifurcated and carried at fair value. The change in fair value of the embedded derivative, as well as the gains or losses on trading investments supporting these arrangements, flows through the income statement. This embedded derivative is not eligible for hedge accounting treatment.

The following table provides information on the liabilities for guarantees for minimum benefits:

	2006				2005			
	United States[1]	Canada[1]	The Netherlands[2]	Total	United States[1]	Canada[1]	The Netherlands[2]	Total
At January 1	(14)	586	378	950	(3)	441	229	667
Incurred guarantee benefits	(17)	(37)	(103)	(157)	(10)	53	149	192
Paid guarantee benefits								
Net exchange differences	3	(57)		(54)	(1)	92		91
At December 31	(28)	492	275	739	(14)	586	378	950

	2006				2005			
	United States[1]	Canada[1]	The Netherlands[2]	Total	United States[1]	Canada[1]	The Netherlands[2]	Total
Account value	2,393	3,446	6,171	12,010	1,465	3,651	5,510	10,626
Net amount at risk	1	602	45	648	1	831	18	850

1 Guaranteed minimum accumulation and withdrawal benefits

2 Fund plan and unit-linked guarantees

Refer to note 18.4 for a discussion of these guarantees for minimum benefits.

In addition AEGON reinsures the elective guaranteed minimum withdrawal benefit rider issued with a ceding company s variable annuity contracts. The rider is essentially a return of premium guarantee, which is payable over a period of at least fourteen years from the date that the policyholder elects to start withdrawals. At contract inception, the guaranteed remaining balance is equal to the premium payment. The periodic withdrawal is paid by the ceding company until the account value is insufficient to cover additional withdrawals. Once the account value is exhausted, AEGON pays the periodic withdrawals until the guaranteed remaining balance is exhausted. At December 31, 2006, the reinsured account value was EUR 8.4 billion (2005: EUR 9.9 billion) and the guaranteed remaining balance was EUR 5.5 billion (2005: EUR 7.3 billion).

The reinsurance contract is accounted for as a derivative and is carried in AEGON s balance sheet at fair value. At December 31, 2006, the contract had a value of EUR 15 million (2005: EUR 14 million). AEGON entered into a derivative program to mitigate the overall exposure to equity market and interest rate risks associated with the reinsurance contract. This program involves selling S&P 500 futures contracts to mitigate the effect of equity market movement on the reinsurance contract and the purchase of over-the-counter interest rate swaps to mitigate the effect of movements in interest rates on the reinsurance contracts.

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Derivative instruments designated as fair value hedges

AEGON has entered into interest rate swap agreements that effectively convert certain fixed-rate assets and liabilities to a floating-rate basis (generally to six months or less LIBOR), in order to more closely match the performance of the assets and liabilities within AEGON 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.

AEGON has entered into cross-currency interest rate swap agreements that effectively convert certain foreign currency fixed- and floating-rate assets and liabilities to US dollar floating-rate assets and liabilities. These agreements involve the exchange of the underlying principal amounts.

For the years ended December 31, 2006, 2005 and 2004, AEGON recognized gains and losses related to the ineffective portion of designated fair value hedges of EUR 5 million, EUR 32 million and EUR 37 million respectively. No portion of derivatives was excluded when assessing hedge effectiveness.

Derivative instruments designated as cash flow hedges

AEGON has entered primarily into interest rate swap agreements that effectively convert certain variable-rate assets and liabilities to a fixed-rate basis in order to match the performance of the assets and liabilities within AEGON s portfolio more closely. These agreements involve the payment or receipt of variable rate interest amounts in exchange for fixed-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. AEGON is hedging its exposure to the variability of future cash flows from the interest rate movements for terms up to five and a half years for hedges converting existing floating-rate assets and liabilities to fixed-rate assets.

AEGON 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 forecasted transaction. Fair value adjustments for these interest rate swaps are deferred and recorded in equity until the occurrence of the forecasted transaction at which time the interest rate swaps will be terminated. The accumulated gain or loss in equity will be amortized into investment income as the acquired asset affects income. AEGON is hedging its exposure to the variability of future cash flows from interest rate movements for terms up to sixteen and a half years. These transactions will affect the profit and loss for approximately 40 years. For the year ended December 31, 2006, none of AEGON s cash flow hedges has been discontinued, as it was probable that the original forecasted transactions would occur by the end of the originally specified time period documented at inception of the hedging relationship.

In addition, AEGON also makes use of cross currency swaps to convert variable foreign currency cash flows into fixed cash flows in local currencies. The cash flows from these hedging instruments are expected to occur over the next 30 35 years. These agreements involve the exchange of the underlying principal amounts.

Immaterial amounts of hedge ineffectiveness were recorded in the income statement during 2006, 2005 and 2004. The amount of deferred gains or losses to be reclassified from equity into net income during the next twelve months is expected to be immaterial. AEGON did not exclude any portion of the derivative when assessing hedge effectiveness.

Derivative instruments designated as net foreign investment hedges

AEGON funds its investments in insurance subsidiaries with a mixture of debt and equity. AEGON aims to denominate debt funding in the same currency as the functional currency of the investment. Investments outside the Eurozone, the United States, United Kingdom and Canada are funded in Euros. When the debt funding of investments is not in the functional currency of the investment, AEGON uses derivatives to swap the currency exposure of the debt instrument to the appropriate functional currency. This policy will ensure that total capital will reflect currency movements without distorting debt to shareholders equity ratios. AEGON utilizes various financial instruments as designated hedging instruments of its foreign investments. These instruments include subordinated borrowings, long-term and short-term borrowings, short-term debts to credit institutions, cross currency swap contracts and forward foreign exchange contracts.

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The following table represents aggregate notional amounts and fair values of derivatives, held for own account as well as for account of policyholders. The notional amounts listed for interest rate contracts will not be exchanged by parties and, thus, do not reflect an exposure of the company. The amounts listed for cross currency swaps, included under Foreign exchange contracts will be exchanged at amounts calculated on the basis of the notional amounts and the terms of the derivatives, which are related to interest rates, exchange rates and/or certain indices.

	2006				**2005**			
	Assets		**Liabilities**		**Assets**		**Liabilities**	
	Notional value	**Fair value**	**Notional value**	**Fair value**	**Notional value**	**Fair value**	**Notional value**	**Fair value**
Interest rate contracts								
OTC:								
Forwards	5,223	97					2	
Swaps	48,296	1,142	22,538	512	31,062	1,693	24,444	672
Options	5,577	201	24		6,080	270		
Exchange traded contracts:								
Futures	3,047	17	558	8	145	1	2,238	3
Foreign exchange contracts								
OTC:								
Forwards	1,402	17	1,393	13	2,498	3	2,339	9
Swaps	4,153	225	8,140	377	2,507	218	3,376	437
Credit contracts								
OTC:								
Swaps	832	7	862	5	1,146	8	434	6
Equity contracts								
OTC:								
Swaps	629	38	1,244	7	547	42	520	9
Options	1,127	102	1,260	10	34	24	818	
Exchange traded contracts:								
Futures	681	6	1,588	22	307	5	632	6
Options	9	1			8	4		
Other derivatives								
Embedded derivatives	1,766	30	9, 721	834	2	27	9,415	1,054
Synthetic GICs			37,076				36,076	
Other contracts								6
	72,742	1,883	84,404	1,788	44,336	2,295	80,294	2,202

The fair value of the derivatives reflects the estimated amounts that AEGON 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. The cross currency interest rate swaps are presented as foreign exchange contracts.

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Maturity table - 2006

	< 1 yr		1<5 yrs		5<10 yrs		>10 yrs	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Interest rate contracts								
OTC:								
Forwards	323		1,748	29	1,491	32	1,661	36
Swaps	4,525	(14)	22,337	13	10,692	137	33,280	494
Options	107	4	3,877	40	580	57	1,037	100
Exchange traded contracts:								
Futures	3,605	5		4				
Foreign exchange contracts								
OTC:								
Forwards	2,795	4						
Swaps	5,686	(56)	3,926	46	1,468	(58)	1,213	(84)
Credit contracts								
OTC:								
Swaps	19		832	4	98	(2)	745	
Options								
Equity contracts								
OTC:								
Swaps	136		1,682	30	55	1		
Options	1,028	22	750	22	575	39	34	9
Exchange traded contracts:								
Futures	2,269	(16)						
Options	6		3	1				
Other derivatives								
Embedded derivatives	48	(6)	2,741	(300)	1,414	(195)	7,284	(303)
Synthetic GICs	38						37,038	
Other contracts								
	20,585	(57)	37,896	(111)	16,373	11	82,292	252

Maturity table - 2005

	< 1 yr		1<5 yrs		5<10 yrs		>10 yrs	
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Interest rate contracts								
OTC:								
Forwards					2			
Swaps	5,566	(9)	17,344	(162)	10,194	(37)	22,402	1,229
Options			4,440	78	704	83	936	109
Exchange traded contracts:								
Futures	2,383	(2)						
Foreign exchange contracts								
OTC:								
Forwards	4,837	(6)						
Swaps	230	(33)	3,241	103	1,296	(102)	1,116	(187)
Credit contracts								

OTC:								
Swaps	8		1,317	4	227	(2)	28	
Equity contracts								
OTC:								
Swaps	49	1	525	(2)	493	34		
Options	807	16	15	1			30	7
Exchange traded contracts:								
Futures	939	(1)						
Options	8	4						
Other derivatives								
Embedded derivatives	44	(7)	3,389	(531)	466	(80)	5,518	(409)
Synthetic GICs	99		60				35,917	
Other contracts				(1)		(2)		(3)
	14,970	(37)	30,331	(510)	13,382	(106)	65,947	746

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18.10 Investments in associates

	2006	2005
Investments in associates	478	542
At January 1	542	484
Additions	26	22
Acquisition of a subsidiary	1	
Consolidation following acquisition of remaining shares in an associate	(41)	
Share in net income	32	20
Share in changes in associate s equity (note 18.15.5)	(68)	20
Dividend	(4)	(3)
Other	(10)	(1)
At December 31	478	542

All associates are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in associates include interest in insurance companies who are required to maintain a minimum solvency margin based on local directives. While management does not believe that such restrictions will affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, there can be no assurance that these restrictions will not become a limitation in the future. There are also no unrecognized shares of losses of associates.

Summarized financial information of associates

	2006	2005
Assets	9,504	8,124
Liabilities	9,181	7,884
Revenue	1,895	1,747
Net income	32	20

The summarized financial information is based on the Group s relative holding and excludes any goodwill included in the measurement of the investment in associates. Refer to note 18.52 for a listing of the principal investments in associates and the Group s percentage holding.

18.11 Reinsurance assets

Assets arising from reinsurance contracts related to:

	2006	2005
Life insurance general account	2,901	3,001
Life insurance for account of policyholders	279	320
Non-life insurance	785	799
Investment contracts	5	5
Total reinsurance assets	3,970	4,125

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in other assets and receivables (note 18.13).

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Movements during the year in reinsurance assets relating to life insurance:

	Life insurance general account	Life insurance for account of policyholders	Total life insurance
At January 1, 2005	2,409	270	2,679
Acquisitions through business combinations	1		1
Portfolio transfers and acquisitions	(8)	(22)	(30)
Gross premium and deposits existing and new business	1,083	125	1,208
Unwind of discount / interest credited	184	10	194
Technical reserves released	(1,012)	(78)	(1,090)
Changes to valuation of expected future benefits	4	14	18
Net exchange differences	340	1	341
At December 31, 2005	3,001	320	3,321

	Life insurance general account	Life insurance for account of policyholders	Total life insurance
At January 1, 2006	3,001	320	3,321
Acquisitions through business combinations			
Portfolio transfers and acquisitions	(19)	(18)	(37)
Gross premium and deposits existing and new business	970	103	1,073
Unwind of discount / interest credited	136	11	147
Technical reserves released	(955)	(139)	(1,094)
Changes to valuation of expected future benefits	16	(1)	15
Net exchange differences	(255)	3	(252)
Other movements	7		7
At December 31, 2006	2,901	279	3,180

Movements during the year in reinsurance assets relating to non-life insurance:

	2006	2005
At January 1	799	609
Gross premium and deposits existing and new business	313	346
Unwind of discount / interest credited	34	23
Technical reserves released	(185)	(179)
Changes to valuation of expected future benefits	3	1
Changes in unearned premiums	(89)	(80)
Changes in unexpired risks	(3)	(3)
Incurred related to current year	106	75
Incurred related to prior years	18	5
Release for claims settled current year	(26)	(11)
Release for claims settled prior years	(109)	(50)

Change in IBNR	13	(9)
Disposals		(21)
Net exchange differences	(84)	93
Other movements	(5)	
At December 31	785	799

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18.12 Deferred expenses and rebates

	2006	2005
DPAC for insurance contracts and investment contracts with discretionary participation features	10,938	10,789
Deferred transaction costs for investment management services	281	287
Unamortized interest rate rebates	239	272
	11,458	11,348

	DPAC	Deferred transaction costs	Unamortized interest rate rebates
At January 1, 2005	8,499	234	325
Costs deferred/rebates granted during the year	1,919	60	3
Amortization through income statement	(936)	(28)	(56)
Disposals	(44)		
Shadow accounting adjustments	413		
Net exchange differences	930	21	
Other	8		
At December 31, 2005	10,789	287	272

	DPAC	Deferred transaction costs	Unamortized interest rate rebates
At January 1, 2006	10,789	287	272
Costs deferred/rebates granted during the year	1,891	83	16
Amortization through income statement	(1,243)	(45)	(49)
Disposal of group assests		(29)	
Shadow accounting adjustments	157		
Net exchange differences	(697)	(12)	
Other	41	(3)	
At December 31, 2006	10,938	281	239

At December 31, 2006, the reversion to the mean assumptions for variable products, primarily variable annuities, were as follows in the United States: gross long-term equity growth rate of 9% (2005: 9%); gross short-term growth rate of 4.75% (2005: 6 %); gross short- and long-term fixed security growth rate of 6% (2005: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2005: 3.5%). For Canada these assumptions, at December 31, 2006, were as follows: gross long-term equity growth rate of 9% (2005: 9%); and gross short-term growth rate of 9% (2005: 9.75%). For both countries the reversion period for the short-term rate is five years. For Hungary and the eastern European countries, the assumptions for the gross long-term growth rate on external investment funds was 5.27% (2005: 5.27%).

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DPAC and deferred transaction costs per line of business

	DPAC		Deferred transaction costs	
	2006	2005	2006	2005
Traditional life	3,703	3,699		
Life for account of policyholders	4,488	4,257	133	127
Fixed annuities	400	443	19	20
Variable annuities	852	970	73	78
Fee off balance sheet products			43	43
Reinsurance	767	685		
Accident and health insurance	726	734		
General insurance	2	1		
Banking			13	19
	10,938	10,789	281	287

18.13 Other assets and receivables

	Note	2006	2005
Equipment	18.13.1	236	270
Receivables	18.13.2	5,414	4,320
Accrued income	18.13.3	1,823	2,216
		7,473	6,806

18.13.1 Equipment

Net book value

At January 1, 2005	390
At December 31, 2005	270
At December 31, 2006	236

Cost

	2006	2005
At January 1	640	1,044
Additions	62	80
Acquisitions through business combinations	9	1
Disposal	(83)	(596)
Net exchange differences	(39)	101
Other		10
At December 31	589	640

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Accumulated depreciation and impairment losses

	2006	2005
At January 1	370	654
Depreciation through income statement	68	76
Disposal	(65)	(427)
Net exchange differences	(20)	59
Other		8
At December 31	353	370

Included in the net book amounts of equipment are equipment held for lease of EUR 40 million (2005: EUR 66 million).

Equipment has not been pledged as security for liabilities, nor is there any restrictions on title.

Depreciation expenses have been charged in Commissions and expenses in the income statement. Equipment is generally depreciated over a period of 3 to 5 years.

18.13.2 Receivables

	2006	2005
Loans to associates	11	8
Finance lease assets	63	108
Receivables from policyholders	3,632	2,170
Receivables from brokers and agents	184	161
Receivables from reinsurers	278	578
Investment income receivable		1
Cash outstanding from assets sold	8	15
Trade receivables	527	29
Cash collateral on securities borrowed	34	
Reverse repurchase agreements	4	23
Income tax receivable	259	275
Other	572	1,100
Provision for impairment	(158)	(148)
	5,414	4,320
Current	5,017	4,067
Non-current	397	253
Fair value on non-current receivables	382	244

18.13.3 Accrued income

	2006	2005
Accrued interest	1,821	2,216
Other	2	

	1,823	2,216

All accrued income is current.

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18.14 Cash and cash equivalents

	2006	2005
Cash at bank and in hand	686	1,032
Short-term deposits	1,884	2,209
Money market investments	5,859	4,066
Short term collateral	4,715	
	13,144	7,307

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

Included in the balances for short-term deposits, money market investments and short term collateral is cash collateral received of EUR 10.0 billion (2005: EUR 4.6 billion), of which EUR 8.5 billion (2005: EUR 3.9 billion) relates to security lending and repurchase agreements. A corresponding liability to repay the cash is recognized in other liabilities (note 18.28). Refer to note 18.50 for a discussion of collateral received and paid. Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. AEGON earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities. Income from security lending programs was approximately EUR 26 million (2005: EUR 21 million; 2004: EUR 13 million).

The weighted effective interest rate on short-term deposits was 4.21% (2005: 2.71%) and these deposits have an average maturity of 4.31 days (2005: 3.39 days).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2006	2005
Cash and cash equivalents	13,144	7,307
Bank overdrafts (note 18. 23)	(753)	(1,239)
Net cash and cash equivalents	12,391	6,068

The majority of cash is not subject to any restrictions. However, the Dutch National Bank (DNB) requires AEGON The Netherlands to hold 2% of their assets relating to banking activities in an account with the DNB. This amount on deposit is reassessed on a monthly basis and carries interest at approximately 2%. The balance at the end of the year was EUR 90 million (2005: EUR 103 million).

Furthermore, AEGON The Netherlands holds required funds related to post-employment benefits for former employees in a bank deposit, amounting to EUR 61 million at year end (2005: EUR 102 million).

Operating assets and liabilities

The following table provides information on the net (increase)/decrease in operating assets and liabilities, excluding the effect of acquisitions and exchange rate differences on consolidation:

	2006	2005
Other assets and receivables	(708)	64
Other liabilities	7,146	(3,421)
Accrued interest	(64)	(12)
	6,374	(3,369)

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18.15 Shareholders equity

Issued share capital and reserves attributable to shareholders of AEGON N.V.

	Note	2006	2005	2004
Share capital par value	18.15.1	255	251	243
Share premium	18.15.2	7,104	7,106	7,112
Treasury shares	18.15.3	(787)	(545)	(765)
Total share capital		6,572	6,812	6,590
Retained earnings		11,455	9,318	6,825
Revaluation reserves	18.15.4	1,648	2,293	2,141
Other reserves	18.15.5	(538)	853	(681)
Total shareholders equity		19,137	19,276	14,875

18.15.1 Share capital par value

	2006	2005	2004
Common shares	195	192	186
Preferred shares A	53	53	53
Preferred shares B	7	6	4
	255	251	243

Common shares

	2006	2005	2004
Authorized share capital	360	360	360
Par value in cents per share	12	12	12

	Number of shares (thousands)	Total amount
At January 1, 2004	1,514,378	182
Share dividend	38,307	4
At December 31, 2004	1,552,685	186
Share dividend	46,292	6
At December 31, 2005	1,598,977	192
Share dividend	23,950	3
At December 31, 2006	1,622,927	195

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Preferred shares

	2006	2005	2004
Authorized share capital	250	250	250
Par value in cents per share	25	25	25

	Preferred shares A		Preferred shares B	
	Number of shares (thousands)	Total amount	Number of shares (thousands)	Total amount
At January 1, 2004	211,680	53	11,100	3
Share dividend			5,800	1
At December 31, 2004	211,680	53	16,900	4
Shares issued			6,950	2
At December 31, 2005	211,680	53	23,850	6
Shares issued			5,440	1
At December 31, 2006	211,680	53	29,290	7

All issued common and preferred shares are fully paid. Repayment of capital can only be initiated by the Executive Board, is subject to approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on preferred shares needs approval of the related shareholders.

There are restrictions on the amount of funds that companies within the Group may transfer in the form of cash dividends or otherwise to the parent company. These restrictions stem from solvency and legal requirements. Refer to note 18.47 for a description of these requirements.

Vereniging AEGON, based in The Hague, holds all of the issued preferred shares.

Vereniging AEGON, in case of an issuance of shares by AEGON N.V., may purchase as many class B preferred shares as would enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2005 23,850,000 class B preferred shares were issued under these option rights. In 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances during the year.

AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a special cause has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

In both 2001 and 2002, AEGON N.V. entered into total return swaps with Vereniging AEGON in order to hedge the share option plan for each respective year. On April 15, 2005, these total return swaps were terminated, resulting in a positive impact on shareholders equity of EUR 115 million. The amount has been added to retained earnings.

With regard to granted share appreciation rights and option rights and their valuation we refer to note 18.40.

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18.15.2 Share premium

	2006	2005	2004
At January 1	7,106	7,112	7,116
Share dividend	(2)	(6)	(4)
At December 31	7,104	7,106	7,112
Share premium relating to:			
Common shares	5,052	5,054	5,060
Preferred shares	2,052	2,052	2,052
	7,104	7,106	7,112

The share premium account reflects the balance of paid-in amounts above par value at issuance of new shares less the amounts charged for share dividends.

18.15.3 Treasury shares

On the balance sheet date AEGON N.V. and its subsidiaries held 40,809,710 of its own common shares with a face value of EUR 0.12 each.

Movements in the number of repurchased own shares held by AEGON N.V. were as follows:

	2006 Number of shares (thousands)	2005 Number of shares (thousands)	2004 Number of shares (thousands)
At January 1	18,651	25,233	27,429
Transactions in 2006:			
Purchase: 30 transactions, average price EUR 14.78	19,076		
Sale: 2 transactions, average price EUR 13.46	(3)		
Transactions in 2005:			
Purchase: one transaction on May 17, price EUR 9.85		3,821	
Sale: 31 transactions, average price EUR 10.28		(10,403)	
Transactions in 2004:			
Purchase: two transactions on May 18 and September 24, average price EUR 9.88			7,467
Sale: three transactions on April 1, April 22 and July 19, average price EUR 10.29			(9,663)
At December 31	37,724	18,651	25,233

As part of their insurance and investment operations, subsidiaries within the Group also hold AEGON N.V. common shares, both for their own account and for account of policyholders. These shares have been treated as treasury shares and are (de)recognized at the consideration paid or received.

	2006		2005		2004	
	Number of shares	Total	Number of shares	Total	Number of shares	Total

	(thousands)	amount	(thousands)	amount	(thousands)	amount
Held by AEGON N.V.	37,724	724	18,651	442	25,233	657
Held by subsidiaries	3,086	63	4,664	103	4,657	108
Total at December 31	40,810	787	23,315	545	29,890	765

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18.15.4 Revaluation reserves

	Available-for-sale investments	Real estate held for own use	Cash flow hedging reserve	Total
At January 1, 2004	1,620	28	12	1,660
Gross revaluation	1,266	1	103	1,370
Reversal of gross revaluation	(449)			(449)
(Gains)/losses transferred to income statement			(23)	(23)
Foreign currency translation differences	(76)	(1)		(77)
Tax effect	(305)	(1)	(23)	(329)
Other	8		(19)	(11)
At December 31, 2004	2,064	27	50	2,141
At January 1, 2005	2,064	27	50	2,141
Gross revaluation	274	(1)	139	412
Reversal of gross revaluation	(705)			(705)
(Gains)/losses transferred to income statement	(9)		63	54
Foreign currency translation differences	139	3		142
Tax effect	304		(62)	242
Other	32	(4)	(21)	7
At December 31, 2005	2,099	25	169	2,293
At January 1, 2006	2,099	25	169	2,293
Gross revaluation	(131)	15	(17)	(133)
Reversal of gross revaluation	(527)			(527)
(Gains)/losses transferred to income statement			(130)	(130)
Foreign currency translation differences	(70)	(3)	(4)	(77)
Tax effect	88	(5)	51	134
Other	77		11	88
At December 31, 2006	1,536	32	80	1,648

The revaluation accounts for both available-for-sale investments and for real estate held for own use include unrealized gains and losses on these investments, net of tax. Upon sale, the amounts realized are recognized in the income statement or transferred to retained earnings. There are restrictions on the distribution of the balance of the revaluation reserve related to real estate held for own use to shareholders.

The closing balances of the revaluation reserve for available-for-sale investments relate to the following instruments:

	2006	2005	2004
Shares	909	1,097	662
Bonds	612	1,072	1,518
Other	15	(70)	(116)
	1,536	2,099	2,064

The cash flow hedging reserve is made up of unrealized gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the hedged cash flow. No amounts have been released from equity to be included in the initial measurement of non-financial assets or liabilities.

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18.15.5 Other reserves

	Foreign currency translation reserve	Net foreign investment hedging reserve	Equity movements of associates	Total
At January 1, 2004			15	15
Movement in foreign currency translation and net foreign investment hedging reserves	(827)	72		(755)
Equity movements of associates			59	59
At December 31, 2004	(827)	72	74	(681)
At January 1, 2005	(827)	72	74	(681)
Movement in foreign currency translation and net foreign investment hedging reserves	2,143	(628)		1,515
Equity movements of associates			19	19
At December 31, 2005	1,316	(556)	93	853
At January 1, 2006	1,316	(556)	93	853
Movement in foreign currency translation and net foreign investment hedging reserves	(1,478)	153		(1,325)
Disposals			2	2
Equity movements of associates			(68)	(68)
At December 31, 2006	(162)	(403)	27	(538)

The foreign currency translation reserve includes the currency results from investments in non-euro denominated subsidiaries. The amounts are released to the income statement upon the sale of the subsidiary.

The net foreign investment hedging reserve is made up of unrealized gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the net foreign investment.

The equity movements of associates reflect AEGON s share of changes recognized directly in the associate s equity.

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18.16 Other equity instruments

	Junior perpetual capital securities	Perpetual cumulative subordinated bonds	Share options not yet exercised	Total
At January 1, 2004	-	1,517	-	1,517
Instruments issued	1,352	-	-	1,352
At December 31, 2004	1,352	1,517	-	2,869
At January 1, 2005	1,352	1,517	-	2,869
Instruments issued	1,457	-	-	1,457
Instruments redeemed	-	(950)	-	(950)
Share options granted	-	-	3	3
At December 31, 2005	2,809	567	3	3,379
At January 1, 2006	2,809	567	3	3,379
Instruments issued	638	-	-	638
Instruments redeemed	-	-	-	-
Share options granted	-	-	13	13
Deferred tax	-	-	2	2
At December 31, 2006	3,447	567	18	4,032

Junior perpetual capital securities

	Coupon rate	Coupon date: quarterly, as of	Year of first call	2006	2005	2004
USD 500 million	6.5%	March 15	2010	424	424	
USD 250 million	floating LIBOR rate [1]	March 15	2010	212	212	
USD 550 million	6.875%	March 15	2011	438		
EUR 200 million	6.0%	July 21	2011	200		
EUR 950 million	floating CMT rate[2]	January 15	2014	950	950	950
USD 500 million	floating CMS rate[3]	January 15	2014	402	402	402
USD 1 billion	6.375%	March 15	2015	821	821	
Total junior perpetual capital securities				3,447	2,809	1,352

1 The coupon of the USD 250 million junior perpetual capital securities, callable in 2010, is based on the yield of three-month LIBOR plus an additional spread of 87.5 basis points. The coupon will be reset each quarter based on the then prevailing three-month LIBOR yield, with a minimum of 4%.

2 The coupon of the EUR 950 million junior perpetual capital securities, callable in 2014, is based on the yield of ten-year Dutch government bonds plus an additional spread of ten basis points. The coupon will be reset each quarter based on the then prevailing ten-year Dutch government bond yield, with a maximum of 8%.

3 The coupon of the USD 500 million junior perpetual capital securities, callable in 2014, is based on the yield of ten-year US dollar interest rate swaps, with an additional spread of ten basis points. The coupon is reset each quarter based on the then prevailing ten-year US dollar interest rate swap yield, with a maximum of 8.5%.

The interest rate exposure on some of these securities has been swapped, using derivatives, to three-month LIBOR yield.

The securities have been issued at par. The securities have subordination provisions and rank junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required coupon payment deferral. Although the securities have no stated maturity, AEGON has the right to call the securities for redemption at par for the first time on the coupon date in the years as specified, or on any coupon payment date thereafter.

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Perpetual cumulative subordinated bonds

	Coupon rate	Coupon date	Year of first call	2006	2005	2004
EUR 114 million	7.875%	September 29	2005			114
EUR 136 million	7.75%	December 15	2005			136
EUR 700 million	6.875%	December 20	2005			700
EUR 114 million	7.625%[1]	July 10	2008	114	114	114
EUR 136 million	7.25%[2]	October 14	2008	136	136	136
EUR 203 million	7.125%[2]	March 4	2011	203	203	203
EUR 114 million	4.156%[3]	June 8	2015	114	114	114
Total perpetual cumulative subordinated bonds				567	567	1,517

1 The coupon of the EUR 114 million bonds with an interest rate of 7.625% is fixed.

2 The coupon for the EUR 136 million 7.25% bonds is set at 7.25% until October 14, 2008, while the coupon for the EUR 203 million 7.125% bonds is set at 7.125% until March 4, 2011. On these dates, and after every consecutive period of ten years, the coupons will be reset at the then prevailing effective yield of nine- to ten-year Dutch government securities and a spread of 85 basis points.

3 The coupon for the EUR 114 million bonds was set at 8% until June 8, 2005. As of this date, the coupon is set at 4.156% until 2015.

The bonds have the same subordination provisions as dated subordinated debt. In addition, the conditions of the bonds contain provisions for interest deferral and for the availability of principal amounts to meet losses. Although the bonds have no stated maturity, AEGON has the right to call the bonds for redemption at par for the first time on the coupon date in the years as specified.

18.17 Trust pass-through securities

	Coupon rate	Coupon date	Year of issue	Year of maturity	2006	2005
USD 100 million	7.8%	June 1; December 1	1996	2026		85
USD 225 million	7.65%	June 1; December 1	1996	2026	85	191
USD 190 million	7.625%	May 15; November 15	1997	2037	38	161
Total trust pass-through securities					123	437

Trust pass-through securities are securities through which the holders participate in a trust. The assets of these trusts consist of junior subordinated deferrable interest debentures issued by Transamerica Corporation. The trust pass-through securities carry provisions with regard to deferral of distributions for extension periods up to a maximum of ten consecutive semi-annual periods. There were no defaults or breaches of conditions during the period. The USD 100 million 7.8% trust pass-through securities were called in 2006 at a call price of 103.5%. The USD 225 million 7.65% and the USD 190 million 7.625% trust pass-through securities were partially redeemed in 2006 through a cash tender offer.

The trust pass-through securities are subordinated to all other unsubordinated borrowings and liabilities.

The fair value of these loans amounts to EUR 123 million (2005: EUR 574 million).

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18.18 Subordinated borrowings

	2006	2005
USD 264 million 8%		224
Other subordinated loans	34	60
Total subordinated loans	34	284

These loans are subordinated to all other unsubordinated borrowings and liabilities. There were no defaults or breaches of conditions during the period. The effective interest rate on the subordinated loan was 6.51% (2005: 6.51% to 8.18%). The fair value of these loans amounts to EUR 35 million (2005: EUR 309 million).

18.19 Insurance contracts

	2006	2005
Life insurance	81,015	88,107
Non-life insurance		
Unearned premiums and unexpired risks	2,632	2,610
Outstanding claims	1,574	1,892
Incurred but not reported claims	680	391
Incoming reinsurance	2,527	2,690
	88,428	95,690

Certain insurance contracts contain surrender options, so that AEGON has no unconditional right to defer settlement of these liabilities for at least twelve months after balance sheet date. This feature results in the classification of these insurance contract liabilities as current.

	2006	2005
Non-life insurance:		
Accident and health insurance	4,135	4,160
General insurance	751	733
	4,886	4,893

Movements during the year in life insurance:

	2006	2005
At January 1	88,107	76,221
Acquisitions through business combinations	96	49
Portfolio transfers and acquisitions	50	864
Gross premium and deposits existing and new business	8,764	7,806
Unwind of discount / interest credited	3,650	3,627
Technical reserves released	(12,467)	(9,959)
Changes in valuation of expected future benefits	(70)	(76)
Losses recognized as a result of liability adequacy testing		151
Shadow accounting adjustments	(639)	503

Net exchange differences	(6,742)	8,960
Other	266	(39)
At December 31	81,015	88,107

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The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts:

	2006				2005			
	GMDB[1]	GMIB[2]	GMAB[3]	Total	GMDB[1]	GMIB[2]	GMAB[3]	Total
At January [1]	126	121	109	356	100	59	96	255
Incurred guarantee benefits	34	23	(57)		36	50	13	99
Paid guarantee benefits	(30)	(7)		(37)	(26)			(26)
Net exchange differences	(13)	(14)		(27)	16	12		28
At December 31	117	123	52	292	126	121	109	356

	2006				2005			
	GMDB[1]	GMIB[2]	GMAB[3]	Total[4]	GMDB[1]	GMIB[2]	GMAB[3]	Total[4]
Account value	23,814	8,562	7,489	39,865	24,991	9,122	6,164	40,277
Net amount at risk	1,614	296	40	1,950	2,357	380	84	2,821
Average attained age of contractholders	65	64			64	63		

1 Guaranteed minimum death benefit in the United States.

2 Guaranteed minimum income benefit in the United States.

3 Guaranteed minimum accumulation benefit in the Netherlands.

4 Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.

Refer to note 18.4 for a discussion of these guarantees for minimum benefits.

Movements during the year in non-life insurance:

	2006	2005
At January 1	4,893	4,375
Portfolio transfers and acquisitions	84	3
Gross premiums existing and new business	2,413	2,684
Unwind of discount / interest credited	174	164
Technical reserves released	(1,334)	(1,680)
Changes in valuation of expected future benefits	(3)	(17)
Change in unearned premiums	(1,009)	(833)
Change in unexpired risks	(8)	(3)
Incurred related to current year	713	682
Incurred related to prior years	191	64
Release for claims settled current year	(249)	(253)
Release for claims settled prior years	(624)	(483)
Change in IBNR	55	23
Disposals		(309)
Net exchange differences	(402)	470
Other	(8)	6

At December 31	4,886	4,893

Prior year run-off results, compared to opening balances of the non-life reserve, are immaterial.

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Movements during the year in incoming reinsurance:

	2006	2005
At January 1	2,690	2,220
Gross premium and deposits existing and new business	1,441	1,244
Unwind of discount / interest credited	197	168
Technical reserves released	(1,492)	(1,309)
Changes in valuation of expected future benefits	15	32
Net exchange differences	(286)	350
Other	(38)	(15)
At December 31	2,527	2,690

18.20 Insurance contracts for account of policyholders

	2006	2005
Insurance contracts for account of policyholders	72,194	70,280

	2006	2005
At January 1	70,280	59,904
Acquisitions through business combinations	15	416
Portfolio transfers and acquisitions	365	(1,826)
Gross premium and deposits existing and new business	7,387	6,202
Unwind of discount / interest credited	5,766	6,937
Technical reserves released	(6,522)	(5,630)
Fund charges released	(849)	(798)
Changes in valuation of expected future benefits	(71)	(67)
Net exchange differences	(3,717)	5,129
Other	(460)	13
At December 31	72,194	70,280

18.21 Investment contracts

	2006	2005
Investment contracts [1]	36,618	38,842

	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2005	32,820	810	33,630
Deposits	12,891		12,891
Portfolio transfers and acquisitions	237		237
Withdrawals	(13,246)		(13,246)

Technical reserves released		(132)	(132)
Interest credited	1,318		1,318
Fund charges released	(4)		(4)
Movements related to fair value hedges	(178)		(178)
Net exchange differences	4,295	24	4,319
Other	7		7
At December 31, 2005	38,140	702	38,842

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	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2006	38,140	702	38,842
Deposits	13,498		13,498
Portfolio transfers and acquisitions	374		374
Acquisitions through business combinations	114		114
Withdrawals	(14,608)		(14,608)
Technical reserves released		(123)	(123)
Interest credited	1,621		1,621
Fund charges released	1		1
Movements related to fair value hedges	(77)		(77)
Net exchange differences	(3,476)	12	(3,464)
Other	440		440
At December 31, 2006	36,027	591	36,618

1 Refer to note 18.48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

	2006	2005
Fair value of investment contracts without discretionary participation features	34,611	37,658

Investment contracts consist of the following:

	2006	2005
Institutional guaranteed products	24,531	26,348
Fixed annuities	5,619	6,212
Savings accounts	4,825	5,047
Investment contracts with discretionary participation features	591	702
Other	1,052	533
	36,618	38,842

Refer to note 18.4.1.5 for a description of institutional guaranteed products and an analysis of the contractual maturities for all institutional guaranteed products with defined maturities, based on nominal amounts. Below follows a maturity analysis of those contracts with defined maturities, based on carrying amounts. EUR 4,058 million (2005: EUR 5,361 million) of the total balance of institutional guaranteed products have no contractual maturities.

	< 1 yr		1<5 yrs		5<10 yrs		>10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Institutional guaranteed products with contractual repricing or maturity terms								
2006	5,506	4.90%	11,006	4.53%	2,815	5.10%	1,146	4.40%
2005	5,623	4.08%	10,494	4.14%	2,845	4.49%	2,025	4.11%

Included in the total balance for fixed annuities is EUR 4,043 million (2005: EUR 4,351 million) that relates to products without contractual maturity terms. For the remainder of the balance, contractual repricing or maturity information can be analyzed as follows:

	< 1 yr		1<5 yrs		5<10 yrs		>10 yrs	
	Amount	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Fixed annuities with contractual repricing or maturity terms								
2006	130	5.71%	552	5.81%	464	6.03%	430	6.43%
2005	163	5.74%	670	5.99%	528	6.00%	500	6.44%

Savings accounts are part of the banking activities of the Group, as described in note 18.4.1.10. Due to the nature of these products, policyholders have flexibility to withdraw cash from these savings accounts, with limited restrictions.

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The balance of investment contracts with discretionary participation features reflects the excess of the liability over the funded value of the units.

18.22 Investment contracts for account of policyholders

	2006	2005
Investment contracts for account of policyholders [1]	64,097	58,724

	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2005	17,283	29,859	47,142
Gross premium and deposits existing and new business	4,148	4,119	8,267
Withdrawals	(2,694)		(2,694)
Interest credited	1,792	4,837	6,629
Technical reserves released		(3,198)	(3,198)
Fund charges released	(26)		(26)
Net exchange differences	1,599	849	2,448
Other	156		156
At December 31, 2005	22,258	36,466	58,724
At January 1, 2006	22,258	36,466	58,724
Gross premium and deposits existing and new business	3,996	7,459	11,455
Withdrawals	(2,769)		(2,769)
Disposals	(1,097)		(1,097)
Interest credited	1,822	3,202	5,024
Technical reserves released		(6,600)	(6,600)
Fund charges released	(1)		(1)
Net exchange differences	(1,008)	806	(202)
Other	(437)		(437)
At December 31, 2006	22,764	41,333	64,097

[1] Refer to note 18.48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

On consolidation of an investment fund, participations held by third parties are classified as liabilities, as opposed to minority interests in equity, if the Group is legally obliged to buy back these participations. A portion of the balance of investment contract liabilities relates to such participations held by third parties, amounting to EUR 910 million (2005: EUR 858 million).

18.23 Borrowings

	2006	2005
Debentures and other loans	4,212	4,293
Bank overdrafts	753	1,239
Short term deposits	26	

	4,991	5,532
Current	935	1,357
Non-current	4,056	4,175
Total fair value of borrowings	5,081	5,743

Bankoverdrafts are largely part of cash pool agreements with banks and matched by cash balances. IFRS do not permit net presentation of these cash balances and bankoverdrafts under the current agreements with these banks.

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Debentures and other loans

	Coupon rate	Issue / Maturity	Coupon date	2006	2005
USD 200 million Domestic Debentures [1]	6.75%	1996 / 06	Semi-annually		170
USD 50 million Zero Coupon Bonds [1]		1982 / 07		35	34
USD 100 million Domestic Debentures [1]	9.375%	1996 / 08	Semi-annually	77	87
EUR 1,000 million Medium-Term Notes	4.625%	2003 / 08	April 16	1,000	1,000
USD 147 million Domestic Debentures [1]	6.4%	1998 / 08	Semi-annually	98	102
USD 133 million Zero Coupon Bonds [1]		1982 / 10		67	65
USD 200 million Zero Coupon Bonds [1]		1982 / 12		72	70
USD 750 million Senior Notes	4.75%	2003 / 13	Semi-annually	569	636
EUR 500 million Medium-Term Notes	4.125%	2004 / 14	December 8	485	512
EUR 75 million Medium-Term Notes	4.625%	2004 / 19	December 9	74	79
USD 500 million Medium-Term Notes [1]	5.75%	2005 / 20	December 15	379	434
GBP 250 million Eurobonds	6.125%	1999 / 31	December 15	372	365
USD 980 million Variable Funding Surplus Note [2]	Floating	2006 / 36	Quarterly	744	
Other				240	739
				4,212	4,293

1 Issued by subsidiaries of, and guaranteed by AEGON N.V.

2 Issued by a subsidiary of AEGON N.V.

Included in debentures and other loans are EUR 938 million (2005: EUR 1,025 million) relating to borrowings measured at fair value. Proceeds have been swapped, using derivatives, to USD floating-rate. Changes to AEGON s credit spread had no significant impact on the valuation of these borrowings throughout the year.

	2006	2005
Undrawn committed borrowing facilities:		
Floating-rate		
Expiring within one year	247	254
Expiring beyond one year	2,316	2,607
	2,563	2,861

There were no defaults or breaches of conditions during the period.

18.24 Provisions

	2006	2005
Provisions	262	253
Current	133	230
Non-current	129	23

At January 1	253	280
Additional provisions charged to the income statement	170	161
Acquisition of a subsidiary	15	
Unused amounts reversed through the income statement	(31)	(13)
Unwinding of discount and change in discount rate	2	
Used during the year	(134)	(196)
Net exchange differences	(13)	15
Other		6
At December 31	262	253

The provisions include litigation provisions and provisions for contingent consideration relating to business combinations.

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18.25 Defined benefit plans

	2006	2005
Retirement benefit plans	1,433	1,369
Other post-employment benefit plans	209	237
Total defined benefit plans	1,642	1,606
Retirement benefit plans in surplus	398	409
Total defined benefit assets	398	409
Retirement benefit plans in deficit	1,831	1,778
Other post-employment benefit plans in deficit	209	237
Total defined benefit liabilities	2,040	2,015

Movements during the year in defined benefit plans:

	Retirement benefit plans 2006	Other post-employment benefit plans 2006	Total 2006	Retirement benefit plans 2005	Other post-employment benefit plans 2005	Total 2005
At January 1	1,369	237	1,606	1,398	237	1,635
Acquisitions through business combinations	11		11			
Releases						
Defined benefit expenses	147					