AEGON

ANNUAL REPORT 2005

Local knowledge. Global power.

ABOUT AEGON

AEGON is one of the world's largest life insurance and pension companies, and a strong provider of investment products. We empower our local business units to identify and provide products and services that meet the evolving needs of our customers, using distribution channels best suited to their local markets. We take pride in balancing a local approach with the power of an expanding global operation.

With headquarters in The Hague, the Netherlands, AEGON companies employ approximately 27,000 people. AEGON's three major markets are the United States, the Netherlands and the United Kingdom. In addition, the group is present in a number of other countries including Canada, China, Czech Republic, Hungary, Poland, Slovakia, Spain and Taiwan.

Respect, quality, transparency and trust constitute AEGON's core values as the company continually strives to meet the expectations of customers, shareholders, employees and business partners. AEGON is driven to deliver new thinking and our ambition is to be the best in the industry.

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Report of the Executive Board

For the Report of the Executive Board of AEGON N.V. please refer to pages 37-64 of this Annual Report.

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IFRS: ITS MEANING AND IMPACT

The 2005 annual report marks a major change in the way that AEGON reports its financial results. As of January 1, 2005, all publicly listed companies in the European Union are required to prepare their financial statements in conformity with International Financial Reporting Standards (IFRS).

IFRS is an accounting framework that establishes recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. IFRS was developed by the International Accounting Standards Board (IASB) in the public interest to provide a single set of high quality, understandable and uniform accounting standards. Within the IFRS framework, the insurance standard is still under review. AEGON participates actively in these discussions via the CFO Forum of the European insurance industry and also as a member of the IASB's Insurance Working Group.

The introduction of IFRS brings to an end the application of various sets of national accounting standards by listed companies in the different member states. For AEGON, this means that it no longer applies Dutch Accounting Principles (DAP) to its financial statements. All the numbers in the financial statements in this annual report, including the 2004 comparative numbers, are now based on IFRS. In previous annual reports, historical data covering an 11-year period was provided. Since IFRS came into effect in 2004, no information before this date is available.

While AEGON has been providing quarterly results in accordance with IFRS during 2005, the 2005 financial statements in this annual report are the first consolidated, audited financial statements reported under IFRS. AEGON will continue to provide reconciliations to US GAAP (Generally Accepted Accounting Principles in the United States) in accordance with the rules set by the Securities and Exchange Commission (SEC). However, AEGON supports the continued discussion on mutual recognition which will remove the requirement for reconciliation to US GAAP.

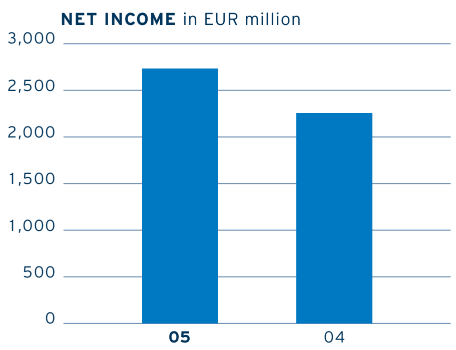
Income and shareholders' equity are expected to be more volatile in the short-term under IFRS than under DAP. Increased volatility is largely accounting driven and is in part a consequence of different valuations of investments and insurance liabilities. However, it is important to take into account that this effect on external reporting does not change the fundamental economic realities or related actual cash flows of AEGON's business. The way AEGON manages its business will not be altered by these new financial reporting standards.

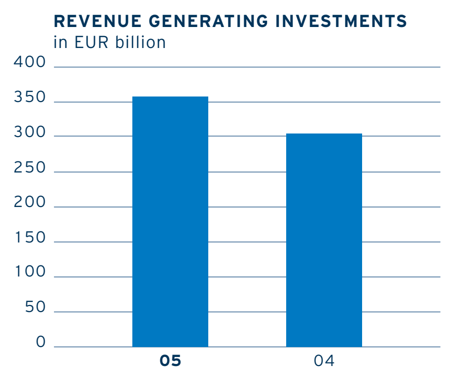
Finally, the application of IFRS should lead to better financial comparisons and enhanced transparency in financial reporting. These are objectives that AEGON fully supports. In addition, interested parties are encouraged to take into account other measures that will contribute to a better understanding of company performance.

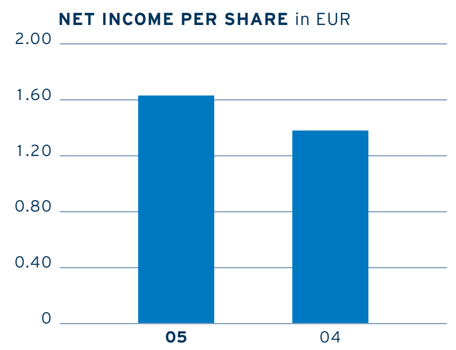
AEGON has highlighted operating earnings as a key item in the segment presentation of its financial results in order to enable analysts, investors and other stakeholders to assess the underlying business performance. The term operating earnings is explained in further detail elsewhere in this report (please refer to page 89). Embedded value and value of new business are also highlighted as key items in business performance. AEGON will report its embedded value and value of new business results for 2005 in conformity with the European Embedded Value standards on May 10, 2006. Moreover, AEGON will report value of new business numbers on a quarterly basis as of the first quarter of 2006.

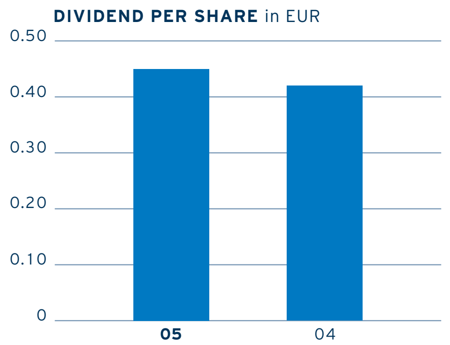
AEGON FINANCIAL HIGHLIGHTS

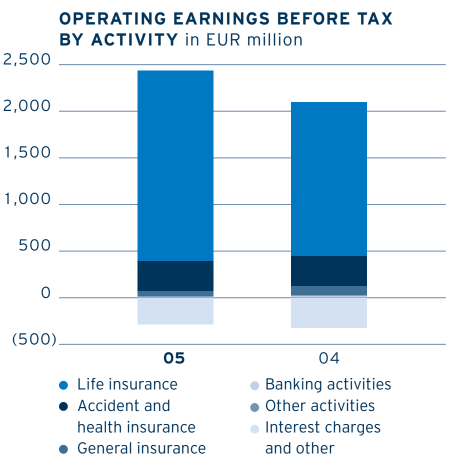
REVENUE GENERATING INVESTMENTS INCREASED BY EUR 53 BILLION TO EUR 358 BILLION

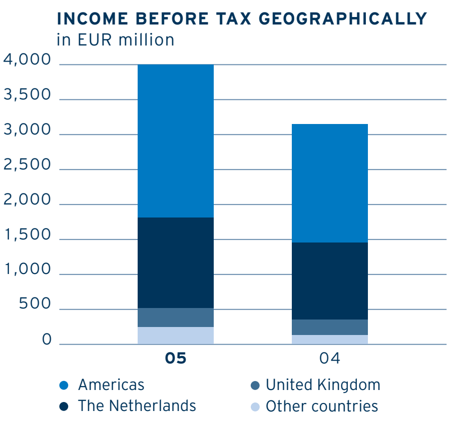




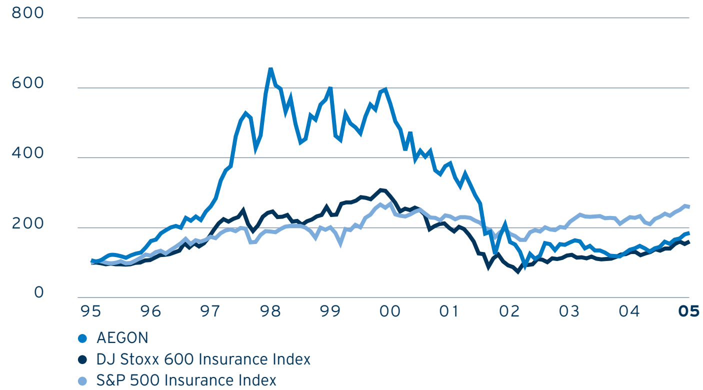




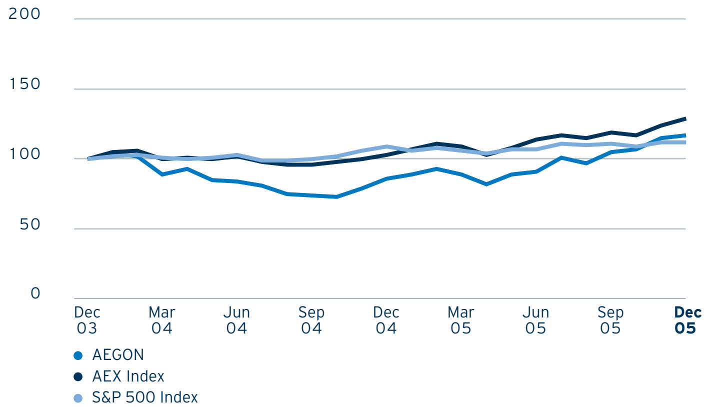


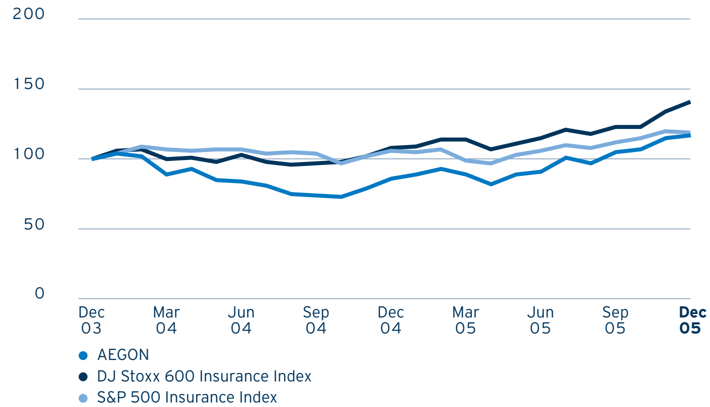


AEGON SHARE PRICE DEVELOPMENT VERSUS INDICES (rebased)

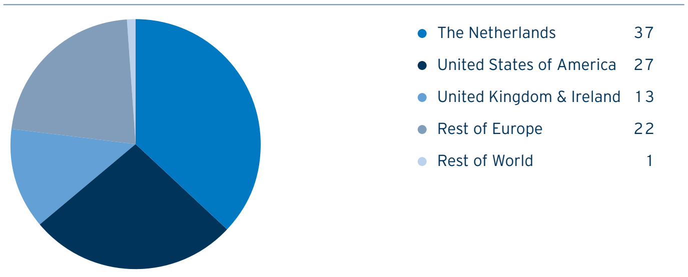


AEGON SHARE PRICE DEVELOPMENT VERSUS INDICES (rebased)





SHAREHOLDER BASE AEGON N.V. COMMON SHARES
in percentage (estimated)



AEGON GEOGRAPHICAL INFORMATION

USA

NUMBER OF EMPLOYEES 13,341, of which 2,654 agent-employees

MAIN OFFICES Baltimore, Cedar Rapids

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, fixed and variable annuities, institutional guaranteed products, fee business (incl. mutual funds), accident and health insurance, life reinsurance

MAJOR CUSTOMER SEGMENTS Individuals, companies, institutions

MAIN DISTRIBUTION CHANNELS Independent agents and agent-employees, marketing companies, financial institutions, broker-dealers, wirehouses, affinity groups, direct response, worksite marketing, institutional intermediaries

www.aegonins.com
www.transamerica.com

THE NETHERLANDS

NUMBER OF EMPLOYEES 5,698, of which 1,487 agents

MAIN OFFICES The Hague, Leeuwarden

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, fee business (incl. mutual funds), accident and health insurance, general insurance, banking

MAJOR CUSTOMER SEGMENTS Individuals, companies, institutions

MAIN DISTRIBUTION CHANNELS Independent brokers, tied agents, direct marketing, franchise sales force, worksite marketing

www.aegon.nl

UNITED KINGDOM

NUMBER OF EMPLOYEES 4,539, of which 161 agent-employees

MAIN OFFICE Edinburgh

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, fee business (incl. mutual funds)

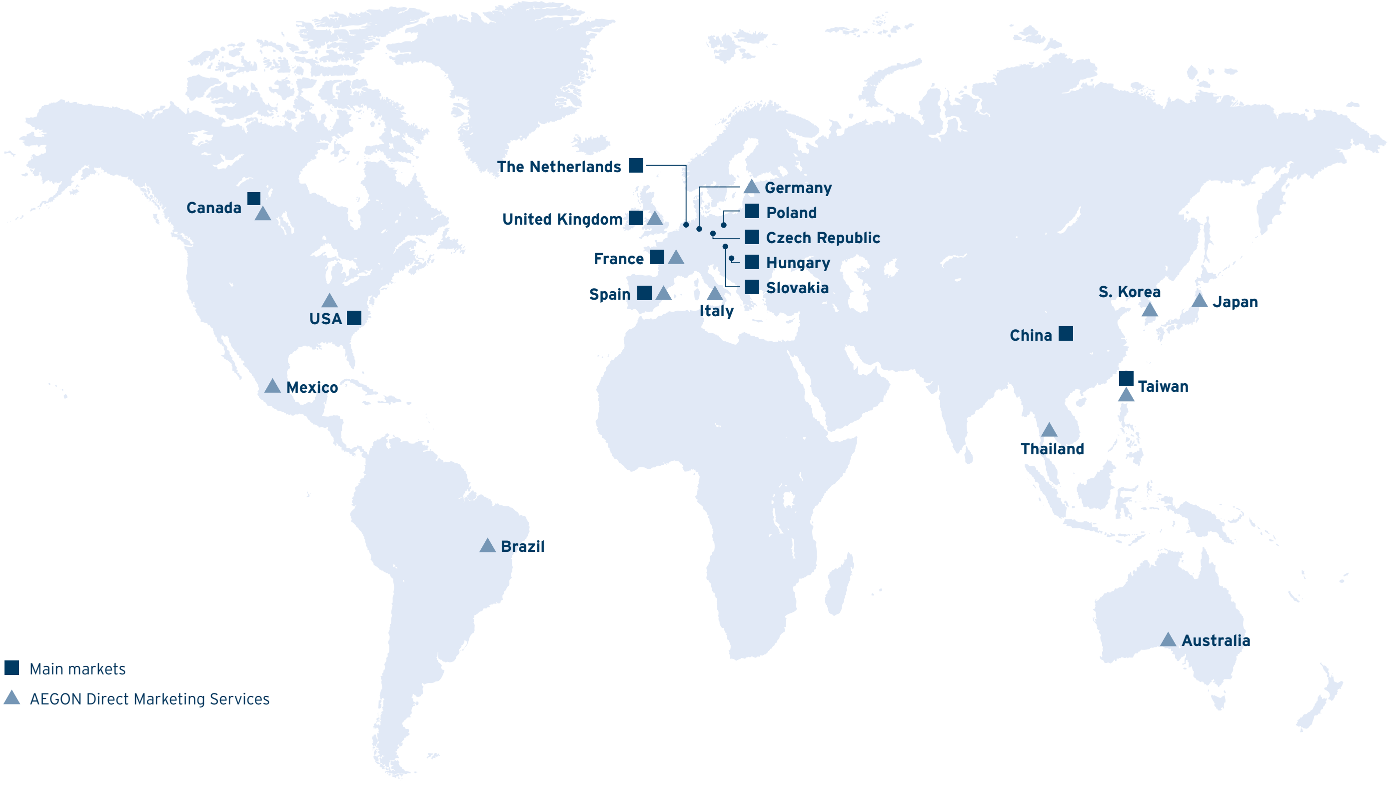
MAJOR CUSTOMER SEGMENTS Individuals, companies, institutions

MAIN DISTRIBUTION CHANNELS Financial advisors

www.aegon.co.uk

AEGON AROUND THE WORLD

(including ADMS* offices)



* AEGON Direct Marketing Services (ADMS) is one of the operating groups of AEGON USA.
Please refer to page 67 for more information.

CANADA

NUMBER OF EMPLOYEES 674

MAIN OFFICE Toronto

MAIN PRODUCT AREAS Traditional life, pensions, variable annuities, fee business (incl. mutual funds), accident and health insurance

MAJOR CUSTOMER SEGMENTS Individuals

MAIN DISTRIBUTION CHANNELS Independent advisors, brokers, financial planners, financial institutions

www.transamerica.ca

CHINA[1]

NUMBER OF EMPLOYEES 1,023, of which 629 agents (100%)

MAIN OFFICE Shanghai

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, accident & health insurance

MAJOR CUSTOMER SEGMENTS Individuals

MAIN DISTRIBUTION CHANNELS Tied agents, banks, direct marketing, brokers

www.aegon.cnooc.com

CZECH REPUBLIC

NUMBER OF EMPLOYEES 45

MAIN OFFICE Prague

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, accident and health insurance

MAJOR CUSTOMER SEGMENTS Individuals, companies

MAIN DISTRIBUTION CHANNELS Tied agents, brokers, direct marketing

www.aegon.cz

HUNGARY

NUMBER OF EMPLOYEES 818

MAIN OFFICE Budapest

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, fee business (incl. mutual funds), accident and health insurance, general insurance

MAJOR CUSTOMER SEGMENTS Individuals

MAIN DISTRIBUTION CHANNELS Independent and tied agents, pension advisors, direct marketing, worksite marketing

www.aegon.hu

[1] 50/50 joint venture by China National Offshore Oil Corporation and AEGON N.V.

POLAND

NUMBER OF EMPLOYEES 90

MAIN OFFICE Warsaw

MAIN PRODUCT AREAS Life for account of policyholders

MAJOR CUSTOMER SEGMENTS Individuals

MAIN DISTRIBUTION CHANNELS Tied agents, banks, brokers

www.aegonpolska.pl

SLOVAKIA

NUMBER OF EMPLOYEES 64

MAIN OFFICE Bratislava

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, accident and health insurance

MAJOR CUSTOMER SEGMENTS Individuals

DISTRIBUTION CHANNELS Tied agents, pension advisors, brokers

www.aegon.sk

SPAIN

NUMBER OF EMPLOYEES 228, (excl. employees in joint ventures and/or partnerships)

MAIN OFFICE Madrid

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, accident and health insurance

MAJOR CUSTOMER SEGMENTS Individuals, companies

DISTRIBUTION CHANNELS Financial institutions, independent and tied agents, brokers, direct marketing, worksite marketing

www.aegon.es

TAIWAN

NUMBER OF EMPLOYEES 964, of which 612 tied agents

MAIN OFFICE Taipei

MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, variable annuities, accident and health insurance

MAJOR CUSTOMER SEGMENTS Individuals, companies

DISTRIBUTION CHANNELS Tied agents, brokers, banks, worksite marketing, direct marketing

www.aegon.com.tw

AEGON AND THE FINANCIAL COMMUNITY

AEGON values its many trusted relationships within the global investment community and is committed to the highest standards of both of integrity and fair disclosure. The company's international business activities are reflected in the geographical diversity of its investor base. AEGON's Investor Relations program aims to enhance shareholder value through clear communication and ensures efficient and effective access to the global capital markets. AEGON's common shares are listed on major stock exchanges including Euronext Amsterdam, the London Stock Exchange and the New York Stock Exchange. AEGON shares are included in a number of the major equity market indices. In addition, AEGON has a variety of debt instruments outstanding in various major currencies.

In order to obtain a fair valuation for its securities, AEGON is committed to ensuring that equity and fixed income investors have an accurate understanding of the company's performance and prospects. To this end, AEGON's Investor Relations program focuses on providing the international investment community with the information required to make sound investment decisions. This includes information on key factors that drive AEGON's businesses and influence its results, financial condition and value. AEGON remains committed to ensuring that both financial and non-financial information is accurately and thoroughly disclosed in a timely and consistent manner.

A major change in the financial reporting of all listed companies in the European Union took place in 2005 with the introduction of International Financial Reporting Standards (IFRS). AEGON was proactive in informing its stakeholders about this transition. Over the past two years, AEGON held a number of presentations to educate the financial community on the relevant changes in accounting standards and their effect on financial results. On April 14, 2005, AEGON was one of the first companies in the insurance industry to provide a comprehensive set of comparative key IFRS figures for 2004. Upon the publication of its first quarter 2005 results on May 11, 2005, AEGON started to report its results on an IFRS basis.

In addition to its IFRS results, AEGON believes value of new business and embedded value information should be considered in arriving at a balanced assessment of its underlying performance. AEGON supports the European Embedded Value Principles, which are aimed at improving the consistency and transparency of the life insurance industry's embedded value reporting. In keeping with its commitment to further improve disclosure, AEGON will report quarterly value of new business information, beginning with the first quarter 2006 results. Additionally, AEGON will provide information on its various business activities in a statistical supplement to be included in its quarterly earnings releases.

In 2005, AEGON completed a number of capital markets transactions that include two successful offerings of perpetual capital securities, which strengthened the capital base in a non-dilutive and cost effective manner.

With the aim of ensuring equal access to all relevant information, AEGON actively maintains contact with the financial community. Interactions with the financial community include roadshows throughout the USA, Europe and Asia, webcasts, press releases, and regularly scheduled investor days. Moreover, shareholders, bondholders and potential investors are encouraged to learn more about AEGON's businesses and management decisions aimed at achieving its strategy of long-term profitable growth in AEGON's major and developing markets. In keeping with its ongoing determination to maintain an open dialogue with the financial community, AEGON's professional Investor Relations staff is available to answer questions at any time.

INVESTOR RELATIONS

The Hague, the Netherlands: +31 (0)70 344 83 05
E-mail:gca-ir@aegon.com
Baltimore, USA: +1 410 576 45 77
E-mail: ir@aegonusa.com

SHARE PRICE INFORMATION (IN EUR)

	2005	2004	2003	2002	2001
Price – high	**14.25**	12.98	13.47	28.89	41.85
Price – low	**9.63**	8.24	5.87	9.04	22.15
Price – year end	**13.75**	10.03	11.73	11.79	29.23
Price/earnings ratio	**8.44**	7.27			

Source: Bloomberg.

SHARE PRICE INFORMATION (IN USD)

	2005	2004	2003	2002	2001
Price – high	**16.78**	16.12	14.80	26.00	39.96
Price – low	**12.19**	10.41	6.76	8.88	20.19
Price – year end	**16.32**	13.71	14.80	12.33	25.74

Source: Bloomberg.

LISTINGS

Amsterdam	Euronext Amsterdam
Frankfurt	Deutsche Börse
London	London Stock Exchange
New York	New York Stock Exchange
Tokyo	Tokyo Stock Exchange
Zurich	Swiss Exchange
Free float of common shares* 12/31/2005	88%
Average daily trading volume 2005 (million common shares)	8.4

* Percentage of outstanding common shares, excluding Treasury shares and shares owned by Vereniging AEGON.

Source: Bloomberg.

2. Strategy and governance
Pursuing growth and managing our businesses responsibly

CHAIRMAN'S LETTER

DONALD J. SHEPARD
CHAIRMAN OF THE EXECUTIVE BOARD

Dear Reader,

On behalf of the Executive Board, it is my pleasure to present AEGON's 2005 Annual Report detailing the progress we have made across our businesses in the Americas, Europe and Asia. In addition to the increased earnings reported by all major country units for the year, notable progress was made to enhance AEGON's broad-base distribution network, improve further AEGON's solid capital position and strengthen AEGON's leadership position in the growing retirement markets of the United States and Europe.

AEGON's full-year 2005 results, reported on March 9, 2006, included a 21% increase in operating earnings, matched by a 21% improvement in net income and a 9% increase in new life sales for the Group. The increased sales and earnings achieved during the year, combined with enhanced distribution and improvements in our operations, indicate that we have made good progress and are in a solid position to pursue balanced growth.

At AEGON, it continues to be our view that the life insurance and pensions business presents substantial growth opportunity. Demographic trends are creating the opportunities for life and pension companies to serve the evolving needs of individuals and families for long-term protection, asset accumulation, dissavings and wealth transfer solutions. AEGON, as one of the world's leading companies specializing in these products, is taking steps to claim its share of the potential.

In the United States, AEGON's largest country unit, we continue to serve nearly every customer segment with a broad range of life insurance, pensions and related savings and investment products, delivered through a highly diversified distribution network. The diversity of both our products and distribution channels enables AEGON USA to achieve higher economic returns over time. In the retirement market, we are focused on serving the needs arising from people living longer and having to manage their accumulated assets for a longer period of time. We are also committed to providing need-specific products and advice to the underserved middle-income segment (some 60 million households). We are developing new worksite marketing initiatives and further leveraging the expertise of our direct marketing business to capture growth internationally.

In the Netherlands, recent efforts to streamline operations and improve service to customers have yielded positive results. AEGON The Netherlands, with its expertise in the group life sector, was successful in capturing several large group pension contracts during 2005. We expect continued momentum of sales in our group life business, in addition to improved sales to individuals, as a result of new product initiatives.

In the United Kingdom, AEGON UK made considerable progress in growing its independent financial advisor network during 2005. The number of registered individuals affiliated with Positive Solutions has nearly doubled since AEGON's initial investment in 2002. Further progress was also made in broadening AEGON's product range in the UK. Growth in annuities, bonds, risk and investment products was encouraging, while AEGON UK's pension business remained strong. We remain confident about the prospects for continued growth in the evolving UK market.

Reviewing briefly other highlights of 2005, AEGON's position in Central and Eastern Europe was strengthened with the acquisition of a leading life insurance company in Poland. In Slovakia, enrollment in the pension fund which was begun in 2004 has continued to increase, and in June 2005, AEGON started operations in the Czech Republic. Furthermore, we have organized our activities in the region under the very capable leadership of AEGON Hungary's CEO.

The Central and Eastern European countries, with a population of over 65 million, where AEGON is now active, offer strong growth potential for life and pension products.

It continues to be our view that pensions represent 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 multi-national corporate clients with cross-border solutions. The recent addition of HDI Pensionsmanagement, a leading provider of group pensions in Germany, has added further momentum to this initiative which now covers ten European countries in addition to the United States.

In Spain, two new bancassurance joint ventures with Caja de Badajoz and Caja Navarra will serve to complement AEGON's successful partnership with Caja de Ahorros del Mediterráneo. We will be exploring additional opportunities in the bank channel in keeping with our aim to grow AEGON's presence in Spain.

During the year, we made further progress in our growth strategy for Asia. In Taiwan, recurring life business continued to be the main driver of growth during the year. However, AEGON Taiwan has also been successful in its strategy to introduce unit-linked products in the market with encouraging early results. AEGON-CNOOC received new licenses to begin operations in Beijing, as well as Nanjing which is located in the highly developed Jiangsu province of mainland China. In January of 2006, AEGON was among the first foreign insurers to receive a license to operate in Shandong, a prosperous coastal province. In addition, AEGON recently launched operations in Singapore under its well-established Transamerica brand. We have made clear our long-term commitment to China and believe that the 165 million inhabitants living in the areas where AEGON is now active are an indication of the future growth potential for our business.

AEGON successfully converted to International Financial Reporting Standards (IFRS) as of January 1, 2005. The overall objective of this major accounting change, which AEGON supports, is greater comparability among European-based companies. Even before reporting our first full set of IFRS results, in addition to comparative 2004 results, we initiated a program to inform our stakeholders about the ramifications of the conversion, and the inevitable volatility that IFRS entails. Throughout the process, we have emphasized the importance of considering other measures in evaluating the underlying performance of AEGON's businesses around the world. Developments in AEGON's embedded value and value of new business will continue to provide additional benchmarks for assessing our progress. While it will take some time to adjust to the new reporting standard, our shareholders, partners and employees can be assured that the underlying performance of AEGON's business is unaffected by accounting changes.

Maintaining a strong capital base is essential to our ability to pursue and achieve long-term growth. During 2005, AEGON's capital position was improved further by the 21% increase in net income for the year, growth of equity through benign financial markets and the further issuance of perpetual capital securities. AEGON continues to benefit from strong capitalization in all our local country units, and the Group's capital position remains solid. While AEGON expects capital definition to evolve over time, we remain committed to maintaining the strong capitalization of our companies.

During the past year, AEGON's employees around the world again demonstrated their commitment to the communities in which they work and live. The unprecedented tragedies brought about by hurricane disasters in 2005 inspired our employees and agents to respond generously with financial assistance – matched dollar-for-dollar by the AEGON/Transamerica Foundation – and through numerous volunteer efforts. This response followed the support extended by AEGON employees to victims of the Tsunami disaster in early 2005. Contributions were also matched by the AEGON/Transamerica Foundation, as well as by AEGON N.V., and directed to Habitat for Humanity International and the International Red Cross. Once again, AEGON's employees and our partners made clear their determination to create the possibility of better futures for those most in need.

We further commend AEGON's dedicated staff and partners for enabling us to maximize the opportunities that we are identifying in our markets. Going forward, we will continue to leverage AEGON's expertise and broad resources to strengthen the capabilities of local managers as they respond to the evolving needs of our customers with innovative need-specific products and services, delivered through a broad and efficient distribution network. Your ongoing interest in AEGON and support for our efforts is very much appreciated.

Yours sincerely,

Donald J. Shepard, chairman of the Executive Board
The Hague, March 8, 2006

STRATEGIC FRAMEWORK

COMMITMENT TO CORE BUSINESS
AEGON focuses 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.

DECENTRALIZED ORGANIZATION
AEGON maintains a multi-brand, decentralized business strategy and seeks to leverage the knowledge of local management to identify and deliver products and services that meet the evolving needs of customers, using distribution channels best suited to their local markets.

EMPHASIS ON PROFITABILITY
AEGON aims to achieve a long-term average net income growth rate of 10% per annum. In its pricing of new business and acquisitions, AEGON sets a minimum return on investment target well in excess of the cost of capital. Disciplined expense management, together with divestiture of non-core and structurally underperforming activities, are key to achieving these objectives.

MARKET POSITION
AEGON aims to achieve a leading position in its chosen markets in order to realize the benefits of scale.

INTERNATIONAL EXPANSION
AEGON pursues organic growth, complemented by growth through selective acquisitions and partnerships, in countries that offer long-term profitable growth opportunities.

MEMBERS OF THE EXECUTIVE BOARD OF AEGON N.V.


DONALD J. SHEPARD


JOSEPH B.M. STREPPEL


JOHAN G. VAN DER WERF


ALEXANDER R. WYNAENDTS

DONALD J. SHEPARD
(1946, American nationality) started his career with Life Investors in 1970. Serving in various management and executive functions with Life Investors, he became executive vice-president and COO in 1985, a position he held until AEGON consolidated its other United States operations with Life Investors to form AEGON USA in 1989. In 1992, he became a member of the Executive Board of AEGON N.V., and on April 18, 2002, he was appointed chairman of the Executive Board. Mr. Shepard is also a member of the Boards of Directors of Mercantile Bankshares Corp. and CSX Corporation.

JOHAN G. VAN DER WERF
Johan G. van der Werf (1952, Dutch nationality) started his career in 1973 as an officer in the Merchant Marine. In 1982 he joined one of the predecessors of AEGON as a sales manager. From 1987 to 1992 he was chairman of the management board of Spaarbeleg and, in 1992, he became a member of the management board of AEGON The Netherlands. Since April 2002, he has been a member of the Executive Board of AEGON N.V. and CEO of AEGON The Netherlands. Mr. Van der Werf is also a member of the Supervisory Board of Delta Public Utilities N.V.

JOSEPH B.M. STREPPEL
(1949, Dutch nationality) started 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 Labouchere and, in 1995, also chairman of FGH BANK. In 1998 he became CFO of AEGON N.V. Since May 2000, he has been 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) started 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.

MEMBERS AND COMMITTEES OF THE SUPERVISORY BOARD OF AEGON N.V.

DUDLEY G. EUSTACE – CHAIRMAN
(1936, British nationality) is chairman of Smith & Nephew plc (London, UK) and a retired vice-chairman of Royal Philips Electronics. 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 Royal KPN N.V. and Hagemeyer 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., Hospira, Inc. He is currently a member of the Supervisory Board Strategy Committee.

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 Finance, 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/senior counsel 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.

PETER R. VOSER
(1958, Swiss nationality) is chief financial officer of Royal Dutch Shell plc. Until 2004, he was Group CFO and a member of the Group Executive Committee of ABB (Asea Brown Boveri) Ltd. He was appointed to AEGON's Supervisory Board in 2004 and his current term will end in 2008. He is also a non-executive member of the Board of Directors of UBS in Switzerland. He is currently a member of the Supervisory Board Audit Committee.

O. JOHN OLCAY – VICE-CHAIRMAN
(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 Boards of TNT N.V. and VNU 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 Supervisory Board Nominating Committee.

TONI REMBE
(1936, American nationality) is a retired partner/senior counsel 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 2006. He is also chairman of the Supervisory Board of KLM Royal Dutch Airlines N.V., 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.


DUDLEY G. EUSTACE


O. JOHN OLCAY


IRVING W. BAILEY, II


RENE DAHAN


SHEMAYA LEVY


TONI REMBE


WILLEM F.C. STEVENS


KEES J. STORM


PETER R. VOSER


LEO M. VAN WIJK

SUPERVISORY BOARD COMMITTEES

AUDIT COMMITTEE
Shemaya Levy, chairman
Toni Rembe, member
Willem F.C. Stevens, member
Peter R. Voser, member

STRATEGY COMMITTEE
Dudley G. Eustace, chairman
Irving W. Bailey, II, member
O. John Olcay, member
Kees J. Storm, member

NOMINATING COMMITTEE
Dudley G. Eustace, chairman
René Dahan, member
O. John Olcay, member

COMPENSATION COMMITTEE
René Dahan, chairman
Willem F.C. Stevens, member
Leo M. van Wijk, member

REPORT OF THE SUPERVISORY BOARD

ROLE OF THE SUPERVISORY BOARD

AEGON's Supervisory Board currently has ten non-executive members. The Board's primary duties consist of providing counsel to and supervising the Executive Board's management. With the assistance of its four specialized committees, the Supervisory Board recommends appointments and reappointments of Executive Board members when appropriate and deliberates and decides on compensation levels for Executive Board members. It also recommends to shareholders the appointment or reappointment of Supervisory Board members. Additionally, the Board discusses the following issues related to the company: quarterly results; embedded value; accounting principles; dividends; capital position; internal control procedures; and risk management. Together with the Executive Board, the Supervisory Board also regularly reviews AEGON's business strategy. The Supervisory Board held a total of six meetings in 2005, and the attendance was over 95%. Meetings were typically preceded or followed by meetings of its various committees.

CORPORATE GOVERNANCE

Please refer to page 23 and further for AEGON's full report on corporate governance and its compliance with the Dutch Corporate Governance Code. In 2005, the Supervisory Board again discussed the Dutch Corporate Governance Code and its implications for AEGON's corporate governance and approved the amendments to AEGON's Articles of Incorporation necessitated by this Code. These amendments were subsequently approved by shareholders during the General Meeting of Shareholders (AGM) held on April 21, 2005. Corporate governance was also a separate item on the agenda of that AGM. AEGON's compliance with the Dutch Corporate Governance Code was discussed by shareholders during the AGM, as recommended by the Corporate Governance Committee in the Dutch Corporate Governance Code.

SUPERVISORY BOARD MEETINGS

In accordance with AEGON's Supervisory Board Rules, the regular meetings in 2005 were preceded by preparatory meetings, attended by the chairman and vice-chairman of the Supervisory Board and the chairman and the chief financial officer of the Executive Board. The Executive Board members attended the meetings held in February, March, June, August, November, and December. In December 2005, in the absence of the Executive Board members, the Supervisory Board discussed its own composition and performance and those of the Executive Board. During the meeting held in February 2005, the Supervisory Board approved the Executive Board's proposal that AEGON should enter into a settlement agreement with Dexia.

The director of the Group Finance department attended the meetings during which the Supervisory Board discussed the quarterly and annual results; the dividend policy and the interim and final dividends; and press releases. Representatives from Ernst & Young, AEGON's independent auditor, attended the discussion regarding the results for 2004.

The June 2005 Board meeting was devoted to AEGON's corporate strategy and the risks of the business activities, to the assessment by the Executive Board of the structure and operation of the internal risk management and control systems, and to the Group Management Overview and management development. This meeting was preceded and prepared by the Strategy Committee. It was hosted by AEGON USA and took place in Cedar Rapids, Iowa, USA. The occasion provided a good opportunity for AEGON USA's management and Board of Directors to exchange a broad range of information about AEGON in general and AEGON USA in particular. The Supervisory Board will pursue further opportunities to engage with AEGON's international senior management.

AEGON's embedded value and value of new business were included among the many topics discussed during the Supervisory Board meetings in 2005. AEGON's 2004 Embedded Value Report was disclosed in May 2005 with the support of the Supervisory Board.

Recognizing the increasing importance of economic capital, capital management and effective risk management, the Audit Committee talked about these issues, reviewed the measures that AEGON has implemented, and reported on these to the full Board. The conversion to International Financial Reporting Standards (IFRS) was also examined along with the process initiated by AEGON to ensure compliance starting with the 2005 financial year.

Attention was also devoted to partnerships, acquisitions, and divestitures. The Supervisory Board approved the partnerships with Caja de Badajoz and Caja Navarra in Spain as well as the acquisition of Nationwide Poland. The Supervisory Board also approved the divestiture of the German life operations and AEGON Spain's general insurance business.

Topics of particular interest to the Supervisory Board included equity lease and 'Koersplan' products in the Netherlands as well as regulatory and other legal issues in the USA and in Europe. In accordance with the Sarbanes-Oxley Act (SOX), the Supervisory Board followed the advice of the Audit Committee to adopt the Pre-approval Policy for 2005 that relates to the services of AEGON's independent auditor, Ernst & Young.

As is customary, a special Supervisory Board meeting was dedicated to AEGON's budget and the Capital Plan budget for 2006. The Board followed the recommendation of the Audit Committee to approve the budget and the budgeted Capital Plan for 2006 and to authorize the Executive Board to fill AEGON's funding needs as budgeted for 2006.

The Board followed the advice of the Audit Committee to adopt the amended Rules on Insider Trading, the Rules on Trading in non-AEGON Securities, and the AEGON Group Compliance Guidelines. The Board further endorsed the AEGON Group Compliance Program, which includes a web-based compliance training program within AEGON. The Rules have been disclosed on AEGON's corporate website, www.aegon.com.

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.

The Audit Committee held seven regular meetings during 2005, which also were attended by the CFO, the director of Group Finance, and representatives of Ernst & Young. The chairman of the Executive Board, the Group Internal Auditor and the Group Actuary 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 reports on independence, their fees and the Audit Plan for 2005. The Audit Committee advised the Supervisory Board to recommend to shareholders that Ernst & Young be reappointed as the independent auditor for the financial year 2005. The Audit Committee also discussed the consequences of SOX and the Dutch Corporate Governance Code, as well as the role of the independent auditors. The Audit Committee confirmed that Mr. Levy and Mr. Voser qualify as financial experts 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 2005. Two meetings, in March 2005 and September 2005, were devoted to AEGON's filings with the SEC, the annual report 2004 (Form 20-F), and the results for the first six months 2005 (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, as well as on general compliance issues. During its meeting in December, the Audit Committee engaged in a discussion on AEGON's tax planning and on AEGON's Risk Management Report as presented by the Chief Risk Officer. It also pre-discussed the budget for 2006 as well as the amended Insider Trading Rules; the Rules on Trading in non-AEGON Securities; AEGON Group Compliance Guidelines; and the AEGON Group Compliance Program. The Audit Committee subsequently advised the Supervisory Board to adopt these Rules and Guidelines.

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.

The Strategy Committee held two meetings in 2005, 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 Cedar Rapids, Iowa, USA, in June 2005.

The Nominating Committee held three meetings in 2005. 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. It also advised the Supervisory Board on a nomination for appointment in 2006. In addition, the Nominating Committee talked about reappointments to the Executive Board and advised the Supervisory Board on a nomination for reappointment in 2006. The Nominating Committee also discussed the introduction of an educational program for Supervisory Board members. Moreover, the Nominating Committee advised the Board to amend the Nominating Committee Charter. The proceedings of the Nominating Committee meetings were reported during subsequent Supervisory Board meetings.

The Compensation Committee held three meetings in 2005, which were attended by the Executive Board's chairman. Following the implementation of the Dutch Corporate Governance Code, the Compensation Committee reviewed the employment agreements of the Executive Board members and subsequently advised the Supervisory Board on those. The full text of those employment agreements is available on AEGON's corporate website. The Compensation Committee also discussed the Executive Board's Short-term and Long-term Incentive Plans and advised the Supervisory Board on those incentives payable in 2005. Moreover, the Compensation Committee decided to prepare a new Remuneration Policy for the Executive Board during 2006. The proceedings of the Compensation Committee meetings were reported during subsequent Supervisory Board meetings.

REMUNERATION POLICY

Please refer to pages 33 to 36 for the full text of the Compensation Committee Remuneration Report and the Remuneration Policy, and to pages 174-177 for financial details. The Short-term and Long-term Incentive Plans, as adopted by the Supervisory Board in line with the company's current Remuneration Policy, will run through 2006. The Compensation Committee decided to advise the Supervisory Board, and the Board agreed, to request that shareholders consent during the AGM in 2006 to extend the existing Remuneration Policy (which ends on December 31, 2006) until the AGM in 2007. It is the intention to propose to shareholders during the AGM in 2007 to adopt a new Remuneration Policy, which will replace the current one. The remuneration of the Supervisory Board members was increased by shareholders during the AGM in 2005, as proposed by the Supervisory Board and advised upon by the Compensation

Committee. The base salaries for the Executive Board, after having been assessed by the Compensation Committee, were not changed in 2005, save for the 1.25% increase in the base salaries of the Dutch Executive Board members in November 2005, following the new Central Labor Agreement (CAO) for the Dutch insurance industry.

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. Mr. Storm is not considered to be independent within the meaning of the Code because he was the chairman of AEGON's Executive Board before his retirement in April 2002.

In 2005, the four-year terms of office for Messrs. Eustace, Stevens and Tabaksblat expired. The Supervisory Board nominated Messrs. Eustace and Stevens for reappointment for another term, and they were subsequently reappointed by shareholders during the AGM in 2005. In compliance with the Dutch Corporate Governance Code, Mr. Tabaksblat was not eligible for reappointment and stepped down at the end of the AGM in 2005. The Supervisory Board is very grateful for his distinguished fifteen years of membership and five years of chairmanship.

The Supervisory Board appointed Mr. Eustace as chairman (succeeding Mr. Tabaksblat) and Mr. Olcay as vice-chairman (succeeding Mr. Eustace).

Mr. Voser has, after taking up his current assignment as CFO of Royal Dutch Shell plc, informed the Supervisory Board that he will step down from the Board at the AGM on April 25, 2006. The Board has accepted his resignation with great regret.

Following the advice of the Nominating Committee, the Supervisory Board has decided to nominate Mr. Clifford M. Sobel for appointment by shareholders during the AGM in 2006. Details of Mr. Sobel will be provided together with the agenda for the AGM on April 25, 2006.

In 2006, Mr. Storm's four-year term of office will expire. He is eligible for reappointment and the Supervisory Board, upon the advice of the Nominating Committee, has decided to nominate him for reappointment for another term by shareholders during the AGM in 2006.

EXECUTIVE BOARD COMPOSITION

In compliance with the Dutch Corporate Governance Code, the members of the Executive Board are appointed for a term of four years, subject to possible reappointment by the AGM. According to the schedule (which has been posted on AEGON's corporate website), the terms of office for Messrs. Shepard and Streppel expired in 2005. The Supervisory Board, following the advice of the Nominating Committee, nominated them for reappointment, and they were subsequently reappointed during the AGM in 2005 for another four-year term.

In 2006, the four-year term for Mr. Van der Werf will end. His performance was discussed in the Nominating Committee and the Supervisory Board and the Supervisory Board, following the advice of the Nominating Committee, has decided to nominate him to be reappointed for another four-year term by shareholders during the AGM in 2006.

ANNUAL ACCOUNTS AND DIVIDEND

This annual report includes the annual accounts for 2005, which were deliberated upon and proposed by the Audit Committee and the Supervisory Board and subsequently submitted by the Executive Board. The Supervisory Board recommends that shareholders adopt these accounts. A total dividend for 2005 of EUR 0.45 per common share is proposed. This entails a proposed final dividend payment of EUR 0.23 per common share since an interim dividend payment of EUR 0.22 per common share was made in September 2005.

ACKNOWLEDGEMENT

The Supervisory Board members wish to commend the Executive Board and all members of the worldwide AEGON community for their unabated commitment to growing AEGON's business profitably. The Board wishes to extend its appreciation for the dedication and professionalism they continuously demonstrate in responding to the ever-changing regulatory environment and market conditions.

The Hague, March 8, 2006
Dudley G. Eustace, chairman of the Supervisory Board

DONALD J. SHEPARD
CHAIRMAN OF THE EXECUTIVE BOARD

AEGON remains firmly focused on life insurance, pensions and investments. What makes this an attractive business and why have you chosen this focused strategy?
At AEGON we continue to believe that it's important to stay focused on what we know and do best. Life insurance, pensions and related investment products are lines of business that continue to present strong growth potential. People in general realize that they have to take responsibility for their own long-term financial needs and life companies have the expertise to provide the long-term protection, savings and investment solutions to serve those needs. Pension systems throughout much of Europe are being reformed and new systems based on private savings and investment are emerging.

At the same time, people are transitioning into retirement with a lifetime of accumulated assets that have to be managed for a longer period of time. AEGON is focused on assisting those individuals manage the drawdown of those assets in a fiscally attractive way. In the United States, for instance, there is an estimated USD 6 trillion in accumulated assets that will be distributed over the next six years. We expect a similar trend in other countries as wealth levels and life expectancies also increase. By continuing to develop need-specific products, ensuring quality service and advice, and strengthening AEGON's broad distribution capability, we are confident that AEGON will continue to be a leader in the life and pensions market.

What do you consider to be AEGON's main growth drivers, given its strong presence in a number of markets that are generally seen as relatively mature?
We believe that there is sufficient growth opportunity in those markets where AEGON has a well-established presence. In the Netherlands, we have reorganized our operations to be more efficient and responsive to the needs of our customers, while at the same time making some good progress in growing our group pensions business. We anticipate further consolidation in the Dutch group pension market and AEGON is well-positioned to capture further growth given our strong presence in pension administration (TKP Pensioen), asset management and as a leading provider of insured pension solutions.

In the United Kingdom, we have strengthened our distribution capability through Positive Solutions, our independent financial advisor network. This past year, we accelerated our 100% acquisition of Positive Solutions to take fuller advantage of the opportunities in the UK market. While maintaining AEGON's leading position in the UK pensions market is our primary goal, we have also expanded AEGON's product offering to include annuities, risk and investment products.

In the United States, there is an increasing demand for a broader menu of investment, protection and dissavings products as individuals face the prospect of managing their assets for a longer period of time during retirement. We intend to strengthen AEGON's leading position in the US retirement market by assisting customers to better manage the drawdown of their accumulated assets over time and even make provisions for wealth transfer to second and third generations. We continue to see opportunity in serving the middle-income market with need-specific life protection and asset accumulation products, and also see good growth potential for our reinsurance business in light of the consolidation that has occurred in recent years. AEGON Direct Marketing Services continues to be a very effective and efficient means for entering new markets. The business model has proven successful in a number of international markets and will, no doubt, provide us further opportunities in the future. Finally, our professional agent channel network is a core strength for AEGON in the US market given the increasing need for value-added, sound financial advice.

In addition to the steps we have taken to capture the growth that we see in our major markets, we have also made notable progress in growing our businesses in Central and Eastern Europe and in Asia. Life insurance penetration is still relatively low in these markets and it is clear that the economic developments underway will fuel further growth. In just the past five years, the areas where we are now active in Central and Eastern Europe have experienced double digit percentage growth in new life and pensions premiums. In China and Taiwan the market growth has been even more promising during the same period. Clearly, there is plenty of opportunity for our industry in general and we believe AEGON is well positioned to capture a fair share of the growth potential, with continued financial discipline and a view to the long term.

In all your main markets, regulators are moving to greater transparency and disclosure by insurance companies. What impact does this have on AEGON and the way it operates around the world?
Transparency in our business is a top priority at AEGON. It's the only way to really gain the trust of our partners, customers and shareholders, and keep it. The way we conduct our business, the relationships that we depend on and the products we deliver have to be transparent not only to regulators but to all our stakeholders. Of course, the costs for doing so are significant and are likely to increase over time. The work of ensuring transparency is ongoing and requires a substantial commitment or resources both in terms of people and costs.

It is for this reason that we have moved to greater centralization in certain areas, such as risk management, our capital management and compliance programs. We have taken these steps not only because they are necessary in today's environment, but also because they will contribute to ensuring long-term confidence in AEGON's businesses and the sustained trust of our many stakeholders.

JOSEPH B.M. STREPPEL
MEMBER OF THE EXECUTIVE BOARD

This is the first year that AEGON is reporting under IFRS – what have been the implications for the company and do you expect any further accounting changes?
The transition from Dutch accounting principles to IFRS was an accounting change on an unprecedented scale. Fortunately, AEGON was well prepared for this change and through the hard work of everyone involved, the transition at AEGON has been executed successfully. From the very start, we have viewed the adoption of IFRS as a major project that would require proactive communication about the possible implications. We have been informing our investors, analysts and the media of the changes and been as open and transparent as possible in explaining the differences between the old and the new system. As IFRS and the interpretation of rules continue to be refined, we will endeavor to continue to explain the impact on how we report our results. As was visible in the quarterly results that we have published in 2005, IFRS has and will continue to lead to an increase in the volatility of our reported results, but it didn't change the underlying economics of our business. Until we go to the second phase of insurance accounting under IFRS, which we hope will be finalized before 2009, this is something that we will have to learn to live with. Of course, we will continue to do our best in explaining what is driving our results. Ultimately, we believe that the harmonization of accounting standards can lead to greater comparability of results across companies, which AEGON strongly supports.

How strong is AEGON's current capital position and has it changed over the past year?
AEGON is in a very strong and sound financial position. We started the year with a strong capital base and finished it even stronger. The insurance companies in each of our major markets retained their solid AA financial strength ratios, while the capital ratios at the holding company level improved further. At the end of 2005, shareholders' equity accounted for 76% of our total capital base, compared to 72% at the end of 2004, while group equity amounted to 89% of total capital at the end of 2005. Under IFRS accounting rules, the composition of reported equity has changed and will be subject to higher volatility. AEGON will monitor its capital ratios under IFRS, and review the definitions to remain consistent with our historical tolerances, to ensure continued strong capitalization. Over the past year, we have completed two successful offerings of perpetual capital securities, which strengthened the capital base in a non-dilutive and cost effective manner. The proceeds of these issues have largely been used to repay senior and perpetual subordinated debt. Our strong capital position and good cash flows have enabled us to raise the total dividend by 7% to EUR 0.45 per share.

What is AEGON's dividend policy and do you expect to continue to offer a cash and a stock alternative?
AEGON recognizes the importance of offering its shareholders a dividend, which is consistent with the company's cash flow and capital position. The total dividend for the full year is composed of an interim dividend, declared at the time of the publication of the six months' results in August, and a final dividend proposed at the time of the year end results in March and to be approved at the annual General Meeting of Shareholders. It is part of AEGON's dividend policy to offer shareholders a choice between a cash and a stock dividend. Over the past years, over 50% of AEGON's dividends have been paid in shares. Although we expect this percentage to go down for the final dividend over 2005, following our proposal to set the value of the stock dividend approximately equal to the value of the cash dividend, we believe that a large number of our shareholders appreciate that they have the choice between cash and stock. As such, we will continue to offer shareholders this choice.

Interest rates have remained at relatively low levels. How is this environment affecting AEGON?
Although interest rates are not at levels where they are causing any problems for AEGON, it is fair to say that we would like to see rates move higher, preferably in a gradual way. Low interest rates make some of our products, such as fixed annuities, less attractive when compared to certain other savings and investment products. Additionally, low interest rates lead to lower reinvestment rates for our investment portfolio. Over time, this could cause pressure on margins in certain product lines, particularly those where we have provided minimum guarantees. AEGON actively manages its asset and liability mismatch in a disciplined way and as such current interest rates are not cause for concern.

JOHAN G. VAN DER WERF
MEMBER OF THE EXECUTIVE BOARD
AND CEO AEGON THE NETHERLANDS

The Dutch market has seen many changes in terms of legislation, regulation and tax treatment of products. What is the outlook for the Dutch market and how is AEGON positioned?

In 2005, the social and fiscal legislation in the Netherlands changed dramatically in a number of different areas. The changes with regards to disability, pensions and the life cycle arrangement (Levensloop) have a major impact on the market for insurance and other financial products. All group pension schemes have to be thoroughly analyzed and in many cases need to be adjusted to comply with the new rules. This requires a lot of work, but it also creates new opportunities. Building on AEGON's strong position in the group market, the life cycle arrangement is a typical worksite marketing opportunity. With a competitive and differentiated product line, we are off to a good start, and at the end of 2005, many employers signed life cycle arrangement contracts with AEGON for their employees. These contracts help employers to smoothly meet the requirements of the life cycle arrangement. In 2006, employees have to make their actual choice for a life cycle arrangement and start to save. Initial savings and sign up rates by employees are encouraging and AEGON The Netherlands expects to capture a substantial share of the life cycle market.

In 2005, AEGON The Netherlands has renewed and improved its products and services for the immediate annuity and mortgage markets. We are intent on growing our market share in these markets with renewed efforts and profitable products.

How do you see the distribution landscape in the Netherlands developing and does AEGON The Netherlands have sufficient distribution capabilities in the market?

AEGON The Netherlands uses many different types of distribution, such as independent intermediaries, our subsidiary Meeùs and own sales organizations, such as Spaaradvies. Our own organizations, including Meeùs, comply with the requirements under the new legislation, the Wet Financiële Dienstverlening (Financial Services Law). Smaller, independent intermediaries will in some cases have more difficulty to comply with the Financial Service Law requirements. We are ready to help intermediaries to meet these requirements.

For distribution through independent intermediaries, AEGON The Netherlands uses service concepts that can be tailored to the specific needs and way of operating of different intermediaries. Whereas one may be focused on intensive advise-based products, the next might be eager to use new ways and means to work more efficiently and effectively. Some intermediaries operate locally, others nationally. Whatever the case may be, our service concepts fit their needs very well.

The group pension business is an area in which AEGON The Netherlands is particularly strong. What are the expectations for the development of this segment?

In the group pensions market, the main changes will come from the fact that the requirements of regulators and the legislator with regards to content are making pension plan administration ever more difficult and complex. This is stimulating a consolidation trend in the market. Smaller company and industry pension funds are aligning themselves with larger funds. AEGON The Netherlands offers a broad spectrum of services for this market, both in terms of insured pension solutions and in offering services, such as through TKP Pensioen, to pension funds that wish to remain independent. TKP Pensioen can offer administration, asset management and a range of other support to the board of a fund, for example in the area of actuarial or legal services.

AEGON The Netherlands has been working hard to increase the customer focus of the organization. Can you provide some examples of how you want to achieve this and the progress made so far?

The new organizational structure of AEGON The Netherlands has led to a more streamlined and unified organization. One of the principles behind the creation of the new organization is to eliminate duplication. As a result, AEGON The Netherlands can now service its intermediaries and customers more effectively, with high quality products and services. It will also enable us to further improve service levels in 2006. Our new products and services in the areas of immediate annuities, mortgages and asset management were partly made possible because of the new organizational structure. The AEGON brand is well recognized in the Netherlands. For a number of years, AEGON has been relatively low key in its advertising campaigns. In the fall of 2005, we started once again with a large scale, innovative TV campaign focused on pensions. In 2006, we will continue with new advertising campaigns.

ALEXANDER R. WYNAENDTS
MEMBER OF THE EXECUTIVE BOARD

Many insurers are pursuing the growth opportunities that exist in Asia. What is AEGON's approach and how does it differ from that of its competitors?
AEGON continues to focus on a limited number of markets in Asia that offer sufficient scale and growth opportunities. We currently have a strong presence in Taiwan, where AEGON is among the largest foreign life insurers in the sector. We are also present with fully-fledged life insurance activities in mainland China through our joint venture with CNOOC. This joint venture, which began in 2003 in Shanghai, has since expanded to include operations in Beijing and Nanjing, which is located in the prosperous Jiangsu region. Early in 2006, AEGON was among the first foreign insurers to gain access to the coastal province of Shandong. We also received a license to sell life insurance in Singapore. Other markets that potentially fit AEGON's entry criteria for fully fledged life insurance activities in the region are India, Japan and South Korea.

In addition to our focused approach, AEGON's distinct advantage is the distribution model we have implemented. Whereas many companies rely mostly on a large agent force, AEGON has used its multi-channel distribution approach to expand its operations. We now work with banks, brokers, agents and direct marketing distribution channels to sell our products in the region. I might add that AEGON Direct Marketing Services has enabled us to enter a number of countries in Asia, including South Korea, Taiwan, Thailand, Japan, and Australia.

What are the key capabilities that AEGON can transfer when entering new markets or establishing new partnerships?
It has long been AEGON's approach to leverage its expertise and capabilities that have contributed to success in our main markets to enter new markets. In addition to relying on multi-channel distribution and our direct marketing skills, which have both been put to good use in a number of countries, we look to transfer product features that can likewise serve the needs of customers in different geographic areas. AEGON, for instance, was one of the first companies to introduce a variable annuity product in Taiwan. We will also consider broadening the product range of our recently acquired Polish operations to include regular premium risk products, group and individual pensions, and credit/mortgage life insurance.

AEGON, as a leading pension provider in the United States and Europe, has been able to transfer its knowledge and experience to develop pension businesses in new countries, such as Slovakia. As demographic trends continue, this will prove a distinct competitive advantage for AEGON. We rely on strong partners at the local level, as we have in Spain with our bank partners, to maximize the opportunities that we see. This is an approach that enables us to benefit from a broader range of resources and knowledge to respond more efficiently to the growth opportunity within AEGON's developing markets.

How is AEGON addressing cross-border pension needs?
AEGON, with our partners at La Mondiale, is leading the effort to provide cross border pension solutions to multi-national companies and their employees through the AEGON Pension Network. Many international companies have expressed a clear desire for a more integrated approach to issues involving risk and asset pooling, reporting, the customization of local pension and employee benefit programs, as well as expatriate solutions. The AEGON Pension Network will leverage the expertise of AEGON The Netherlands, Scottish Equitable, Diversified Investment Advisors, La Mondiale, and our newest partner, HDI Pensionsmanagement AG in Germany to provide simplification and flexibility to pension systems.

AEGON's multi-channel distribution strategy is one of the company's key competitive strengths. What have you done over the past year to strengthen the distribution capabilities further?
In 2005, AEGON strengthened its distribution capabilities in both its major and its developing markets. In the United Kingdom, for instance, we accelerated the acquisition of the remaining 40% of Positive Solutions, our independent financial advisor platform that continues to experience a strong increase in the number of registered individuals joining the network. In addition, we are closely connected with a number of the large multi-tie distribution platforms and believe that we are well-positioned to benefit in the new environment following depolarization in the United Kingdom. In the United States, we have strengthened our distribution relationships with a number of key bank partners, continued to recruit new life agents and expand our wholesaling force in the broker-dealer and wirehouse channels.

In Spain, we announced new partnerships with two savings banks – Caja de Badajoz and Caja Navarra – which will complement our successful partnership with Caja de Ahorros del Mediterráneo and strengthen our position in the Spanish life and pension market. In China, we signed national cooperation agreements with two major banks to sell our products throughout the country. Clearly, distribution remains a key growth driver for AEGON in both our main and developing markets.

PAT BAIRD
CEO AEGON USA

A hallmark of AEGON's strategy is to concentrate on its core markets of life, pension and investment products, while at the same time developing market-leading breadth of product and distribution within that market. What do you view as the benefits of this diversity within AEGON USA?
We see diversity as the real strength of AEGON in the United States, and consider it essential to maintaining our profitability and managing our risk. Products fall out of favor from time to time due to market, legislative and regulatory matters. At AEGON USA, other product lines pick up the pace. Thus, we can continue to grow without having to sacrifice profitability or our risk management disciplines, while more effectively managing our capital. Ultimately, diversity of both product and distribution channel allows AEGON USA to achieve higher economic returns.

A good example is our life reinsurance business, which is achieving strong growth as a result of decreasing capacity, increasing rates, tighter underwriting standards and resulting market disruption. We think that life reinsurance will continue to outpace other products for several more years and our returns in that business help offset higher reinsurance costs that we have endured as a direct carrier.

What is your branding strategy in the US market and is having a strong brand becoming an increasingly important competitive factor?
We continue to be a multi-brand player in the United States, but have focused more recently on building the Transamerica brand at both a retail and distributor level. Multiple brands provide us with the opportunity to sell our products through multiple distributors often in the same geographical area, thereby further penetrating a market than we would otherwise not be able to. However, some of our businesses increasingly require a strong and powerful brand at a retail level, so we will continue investing in and building our Transamerica name brand.

How is AEGON USA positioning itself to service the changing needs of the growing number of people moving into the post-retirement phase?
AEGON USA formed a new division called Transamerica Retirement Management, which will focus on those individuals nearing or at retirement, and provide those individuals for the rest of their lives. Many of the products needed at this stage of life have already been developed within AEGON USA.

By forming a separate and new division, we will have specialists packaging these products as needed by our customers and then communicating results relative to the customers' retirement goals.

Some consider the United States to be a mature market. What do you view as AEGON's growth opportunities in the United States?
We view most of our operating units as growth-oriented and still see many new opportunities emerging within our definition of core business. An example is the middle market. Sixty million households fall in the USD 25,000 to USD 100,000 annual income bracket. But there has been a 30% decrease in the number of agents covering them during the past 30 years. The result is that there has been a strong decline in households with life insurance, and currently less than half own an individual policy. A significant opportunity exists for tailored products, sold via both traditional and low-cost distribution techniques. We will launch our worksite marketing initiative over the next two years and see this as an efficient and effective channel to serve the middle market. In addition, we successfully launched a new product, Equity-Indexed Universal Life, which we think is well suited for the middle market.

A second example is our pension business, where we have more than USD 60 billion in retirement assets under management and a top five position in pensions among life insurance companies. Demographic trends remain compelling as individuals become increasingly aware that more of the retirement burden is being shifted to the individual and away from government-provided and employer-pay-all plans. As a result we view the retirement market as a key driver of profitable growth.

A third driver of growth is our opportunistic approach to leveraging AEGON USA specific skills to new markets outside the United States. Within AEGON Direct Marketing Services, for example, we are transferring a successful business model into new countries in Asia, Latin America and Europe with a low-cost, low-risk entry model. Bringing innovative distribution skills developed in the United States to new markets will continue to be a growth driver.

OTTO THORESEN
CEO AEGON UK

Given recent developments in the industry, what is the future of the pension business in the United Kingdom?

Pensions are assuming a central position in political debate in the United Kingdom. This, of course, leads to an increased awareness on the part of individuals of the need to save more during their working life to help fund their lifestyle in retirement. The Turner report, published in late 2005, heightened the discussion and highlighted many of the key considerations that will be the subject of further debate in 2006.

Although the process of arriving at a broad consensus about the future shape of pensions in the United Kingdom will inevitably be a difficult one, we believe that the life insurance industry can play a central role in achieving the objective of increasing individual retirement savings levels. The industry has an infrastructure in place which can deal with large volumes of regular amounts being invested in pensions products in a cost effective manner. We believe this expertise can be built upon to deliver the solutions which will allow individuals to save more efficiently for their retirement.

There are, of course, already very large amounts of accumulated pension assets and we see some exciting opportunities arising from that. For instance, we see continued pressure on companies which provide 'final salary scheme' pension arrangements for their employees, thus creating additional opportunities for the insured pension sector.

Overall, we believe that the pension landscape in the United Kingdom will undergo significant change. However, we see this not as a threat, but as an opportunity for our industry.

The distribution landscape in the United Kingdom has changed significantly following depolarization. How is AEGON UK positioned?

Regardless of the regulatory landscape, we regard the role of advisers as crucial in the process of assisting customers choose the best products for their retirement needs.

There have been two major impacts of depolarization to date: first, many distributors that were previously tied to a single life insurer have broadened the range of insurers whose products they sell; second, some independent financial advisors (IFAs) have set up multi-tie operations within their business model.

AEGON UK is very pleased to have concluded distribution partnerships with many of those businesses in the former category such as Openwork (formerly Zurich), St James's Place, Royal Liver and The Principality Building Society. These arrangements mean that a range of AEGON products are being distributed by over 4,000 sales advisors with whom we previously had no connection.

Although there has been much speculation on the impact of multi-tie business models on distributors who were previously IFAs, there has been a limited volume of business transacted through such businesses, most of which has been related to products specific to the mortgage market. We do participate in such arrangements where we think there are clear opportunities to transact profitable business. Of course, this means being vigilant and ready to react if developments in the market necessitate taking a different course.

AEGON UK is traditionally seen as a pure pensions company, but has experienced significant growth in other areas such as protection products and annuities. What are the rationale and drivers behind this growth?

Although we believe that pensions are, and will continue to be, the most important product area in the UK long-term savings market, we recognized that in a 'stakeholder pensions' world, margins on pensions products would inevitably be reduced. We, therefore, decided to expand into other product areas where higher margins were available.

Diversifying AEGON UK's product offering has involved establishing our offshore business, building on the risk product expertise which we acquired in the Guardian businesses and, more recently, moving into the annuity and investment product markets. This diversification also allows us to assume different types of risk, while continuing to rely on our strong balance sheet and capital resources of the parent company.

Given the very competitive nature of the UK market, what are the key strengths of AEGON UK to ensure it remains one of the leading players in the industry?

Clearly, AEGON UK has a number of strengths which set it apart and ensure its competitive advantage going forward. Our expertise in the corporate and individuals pensions markets is a notable strength. We have taken steps to grow our position in other markets that we believe afford AEGON UK additional and significant profitable opportunities. We have maintained our clear focus on pursuing profitable business, consistent with the strategy for the AEGON Group as a whole. Furthermore, we own one of the largest and most profitable distribution businesses in the UK. We have also taken the lead in developing the use of technology in our manufacturing and distribution businesses. This has delivered significant efficiencies into our working practices allowing us to reduce underlying operating expenses by over 25% since 2002. We will remain focused on delivering further efficiencies while continuing to diversify and grow our business, a strategy that continues to provide AEGON UK with a definite advantage. And finally, we have a very strong parent company – the AEGON Group – which provides us access to a range of resources and expertise.

We remain very confident about our position in the evolving UK market. By maximizing the opportunities available through the ownership of distribution, diversifying our product offering, and by taking decisive steps to ensure an efficient and responsive organization, we believe that AEGON UK's leading position in the UK market will remain strong.

CORPORATE GOVERNANCE

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.

GENERAL MEETING OF SHAREHOLDERS

A General Meeting of Shareholders is held at least once a year to discuss and decide on matters such as the adoption of the annual accounts and the approval of dividends and any appointments to the Executive and Supervisory Boards. Meetings are convened by public notice.

Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Executive Board whenever they are deemed necessary. In accordance with the Articles of Incorporation, requests will generally be honored to add topics to the agenda of a General Meeting of Shareholders when supported by shareholders representing at least 0.1% of the issued common shares.

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 requirements pertaining to the provision of evidence of shareholder's 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 the 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 the practice in the United States.

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 2.08 votes per preferred share in the event that Vereniging AEGON, in its sole discretion, has determined that a 'special cause' has occurred. Each 'special cause' is then limited to a period of six months. Reference to Vereniging AEGON is made on page 193 of this annual report's financial statements.

At the General Meeting of Shareholders, an absolute majority of the valid votes adopts all resolutions unless a greater majority is required by law or by the Articles of Incorporation.

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 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 by the Supervisory Board.

Members of the Executive Board are eligible for retirement upon reaching the age of 60. Retirement is mandatory at the age of 62. 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.

SUPERVISORY BOARD

The oversight 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 by the Supervisory Board. The Supervisory Board currently consists of ten non-executive members, one of whom is a former member of the Executive Board. Specific issues are prepared and dealt with in committees by the Supervisory Board members. With the goal of attaining a balanced composition of the Supervisory Board, a profile has been drawn up that outlines 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 fixed by the General Meeting of Shareholders.

DUTCH CORPORATE GOVERNANCE CODE

In December 2003, a new 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 2005. 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.

IMPLEMENTING THE CORPORATE GOVERNANCE CODE

COMPLIANCE WITH AND ENFORCEMENT OF THE CODE

The Executive Board and the Supervisory Board will continue to take responsibility for 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.

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. The 2005 annual General Meeting of Shareholders reappointed the chairman of the Executive Board, Mr. Shepard, and the CFO, Mr. Streppel, for four-year terms in accordance with this schedule, which is available on the company's website www.aegon.com.
The Supervisory Board also intends to propose to the annual General Meeting of Shareholders in 2006 that Mr. Van der Werf be reappointed as a member of the Executive Board for a four-year term. Mr. Wynaendts is eligible for reappointment in 2007. The Articles of Incorporation were amended to reflect the agreed-upon four-year appointments with possible reappointment to the Executive Board.

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 will 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. For detailed information about AEGON's risk management and the 'in control' statement please refer to page 55-63.

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. More detailed rules and regulations have been implemented regarding the reporting of finance-related complaints within the framework of the Financial Controls Complaints Procedure, which provides reports to the Audit Committee. 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 www.aegon.com.

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.

None of the members of AEGON's Executive Board is a member of the Supervisory Board of two or more Dutch-listed companies nor is a chairman of the Supervisory Board of a Dutch-listed company. The Executive Board Rules, as posted on AEGON's website www.aegon.com, provide that any prospective appointment of an AEGON Executive Board member to a supervisory or non-executive director 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 acceptance of such position.

REMUNERATION

AEGON's Remuneration Policy was adopted by the General Meeting of Shareholders on April 22, 2004 and will be in place for a period of three years (2004-2006). The Supervisory Board will propose to extend the duration of the existing Remuneration Policy until the annual General Meeting of Shareholders in 2007. 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 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 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 on page 33 to 36 of this annual report.

The 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 correspond to 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 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 www.aegon.com.

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 personnel as a whole. Such loans to Board members are subject to the prior approval of the Supervisory Board.

DETERMINATION AND DISCLOSURE OF REMUNERATION

AEGON's Remuneration Policy was adopted at the General Meeting of Shareholders on April 22, 2004. Any future changes to the Remuneration Policy will be submitted to the General Meeting of Shareholders for adoption. As indicated, the Supervisory Board will propose to extend the existing Remuneration Policy until the General Meeting of Shareholders in 2007.

The Supervisory Board explains in its Remuneration Report found on page 33 to 36 of this annual report the manner in which the Remuneration Policy pertaining to the members of the Executive Board has been applied. In addition, each year the annual report presents an overview of the current Remuneration Policy. For example, an overview of the Remuneration Policy for years 2004-2006 (proposed to be extended until 2007) is included in this annual report. The Remuneration Report is also included in this annual report. The principal points in the Remuneration Report are mentioned in the Report of the Supervisory Board.

The remuneration of the individual members of the Executive Board is determined by the Supervisory Board within the scope of the adopted 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.

In AEGON's annual accounts, the value of options and share appreciation rights, if any, granted to the Executive Board and personnel shall be recognized with an indication as to how the value is determined.

CONFLICTS OF INTEREST

AEGON's Code of Conduct is a code of ethics that addresses conflicts of interest that may occur between AEGON and its employees, including the members of the Executive Board. The Code of Conduct is available on AEGON's website www.aegon.com.

More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Executive Board Rules. 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 www.aegon.com.

DUTCH CORPORATE GOVERNANCE CODE

COMPLIANCE

AEGON has detailed regulations applicable to members of the Executive Board and the Supervisory Board concerning the ownership of and transactions in securities, other than AEGON shares. These regulations are in conformity 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 and the Supervisory Board are posted on AEGON's website www.aegon.com.

SUPERVISORY BOARD

ROLE AND PROCEDURE

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. The Supervisory Board 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 AEGON and its affiliated enterprises. 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 shall continue its existing practice of including a detailed account of its activities during the financial year in each annual report. The activity report includes the information prescribed in the Dutch Corporate Governance Code. It also makes reference to 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 directors. 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 fulfill his or her designated role. The profile also takes into account the nature of AEGON's insurance 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 www.aegon.com, where shareholders and investors can also find the prescribed information about each member of the Supervisory Board as well as his or her retirement schedule.

Every year the Supervisory Board convenes to discuss 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.

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, the Supervisory Board decided to request that Mr. Olcay complete his current term in office despite the fact that he has served more than the maximum terms allowed by the Code. The Supervisory Board has determined that in the interest of continuity given the high number of vacancies recently filled and yet to be filled, it was prudent to request Mr. Olcay to serve on the Supervisory Board until the end of his current term in office.

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.

ROLE OF THE CHAIRMAN OF THE SUPERVISORY BOARD AND THE COMPANY SECRETARY

In accordance with 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 board's composition, duties, and internal procedures are defined. The Committee Charters are available on AEGON's website www.aegon.com.

The Supervisory Board's yearly report, which is included in this annual report, 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 attended 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 as it shall be in place from time to time. 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 reviews on a regular basis 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.

DUTCH CORPORATE GOVERNANCE CODE

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 www.aegon.com.

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.

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 called 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 Executive Board welcome increased shareholder participation. At the 2005 annual General Meeting of Shareholders it was an amendment to the Articles of Incorporation that has been adopted require certain Executive Board resolutions to be subject to the approval of the General Meeting of Shareholders, namely those entailing significant changes to the identity or character of AEGON or its business.

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 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 23,850,000 preferred shares class B, representing approximately 1.3% 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 (approximately 2.08 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 any unfriendly actions by a hostile bidder or others. The Supervisory and Executive Boards take the view that this arrangement is in accordance with the principles that the Dutch Corporate Governance Committee has recommended to the legislature and which should be taken into consideration when drafting a law on anti-takeover measures.

AEGON's Articles of Incorporation provide that the General Meeting of Shareholders may cancel the binding character of binding 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. This qualified majority requirement was included in order to give AEGON a temporary protection against unfriendly actions by a hostile bidder, for example. Effectively, these provisions provide Vereniging AEGON a period of six months during which time it can block any 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, 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, 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 expected to be set in 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 will be 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 institutional 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 www.aegon.com. 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 www.aegon.com.

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 www.aegon.com.

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 2005 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.

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.

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 its 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.

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 that the CEO and CFO would be precluded 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 and in line with accepted practice with respect to anti-takeover measures in the Netherlands. 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.

CORPORATE RESPONSIBILITY

As one of the world's largest life insurance and pensions companies, AEGON has a responsibility to contribute positively to the society and environment in which it operates.

At AEGON, Corporate Responsibility (CR) is an integral part of the work culture. It ensures that AEGON is operating its business according to its core values of respect, quality, transparency, and trust as defined in its Code of Conduct. CR also makes sure that AEGON is responsible for the benefit of all of its stakeholders: customers, employees, shareholders, business partners, and communities.

AEGON's Executive Board recognizes the importance of CR. Johan van der Werf, as a member of the AEGON N.V. Executive Board and CEO of AEGON The Netherlands, is responsible for CR at the Group level, including all social and environmental issues.

In keeping with the Group's decentralized strategy, AEGON's country units have the autonomy to pursue at country level those CR issues relevant to their market and culture, and they comprise the core of AEGON's CR activities. The country level CR efforts are supplemented by more broad based CR programs at the Group level.

Over the past few years, AEGON has made significant progress in the field of CR. The company developed a Code of Conduct, instituted an environmental policy, and launched an annual CR report. In 2005, AEGON launched the planning phase for a global e-learning program to further educate and train the global workforce on the Code of Conduct and core values. This e-learning program will be rolled out in mid-2006 and supplements the Code of Conduct education that was developed by AEGON Americas in 2004. In addition, the Group maintained its position in the leading CSR indices, placing in the top 10% of the Dow Jones Sustainability Index and successfully maintaining the Group's position in the FTSE4Good list.

AEGON ensures its CR activities are aligned to its business strategy and to the issues most relevant to its business. Therefore, in addition to living its core values, AEGON will increasingly focus on matters like corporate governance, risk management, compliance, and workplace issues like 'health and safety' and 'training and development'. Moreover, AEGON takes into account some of the most commonly accepted CR measurements including Global Reporting Indicators (GRI).

AEGON's first CR report was published for 2003. The report was a comprehensive and accurate reflection of AEGON's CR progress and the Group's core strategy of decentralization. AEGON also published an updated report for 2004. Both reports can be found on the company's website www.aegon.com. AEGON plans to produce a 2005 CR report in mid-2006, which will also be posted on the Group website.

For further information please go to www.aegon.com, corporate responsibility.

AEGON'S CORE VALUES

RESPECT
We treat all our stakeholders the way that we want to be treated with consideration for individual and cultural diversity.

QUALITY
We offer products and services that are designed to improve the futures and financial security of our customers.

TRANSPARENCY
We provide open, accurate and timely information about our products, performance and financial results.

TRUST
We build long-term relationships by honoring our commitments.

FOR OUR STAKEHOLDERS

CUSTOMERS
We build long-term relationships with our customers by delivering products and services that are designed to improve their financial security and futures. We strive to provide them with clear, accurate and timely information to enable them to choose the right products and services. We respect our customers by soliciting feedback, acting upon it and honoring our commitments.

SHAREHOLDERS
By living our values and balancing the interests of all stakeholders, we strive to create sustainable financial returns for our shareholders. Open, accurate and timely communication will allow our shareholders to make informed decisions.

EMPLOYEES
We work together to create a culture in which we encourage and reward our employees for living the core values and being committed to each others success through teamwork. Everyone is expected to seek the opportunities, training and resources necessary to succeed. We hold each other accountable for living our values, demonstrating initiative and teamwork, and acting in the long-term interest of all of our stakeholders.

BUSINESS PARTNERS
We strive to build long-term relationships with our business partners based upon our core values. Together we work to provide quality products and services. By striving to communicate openly and accurately and expecting our business partners to do the same, we enable all of our stakeholders to make informed decisions.

COMMUNITIES
We demonstrate that we are good corporate citizens by striving to establish long-term relationships with and enrich the communities where we do business.

REMUNERATION POLICY AND REPORT

The Compensation Committee, one of the four committees of the Supervisory Board, 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 the remuneration of Supervisory Board members. The Compensation Committee makes its recommendations to the Supervisory Board.

The Compensation Committee consists of three members, Messrs. Dahan (chairman), Stevens and Van Wijk.

This chapter presents the Remuneration Policy for 2004-2006 and the Executive and Supervisory Board members Remuneration Report for the year ended December 31, 2005.

REMUNERATION POLICY

SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board is made up of a base compensation and a compensation relating to committee membership and meetings. The members of the Supervisory Board do not receive any performance or equity-related compensation and do not accrue any pension rights with AEGON. The compensation of Supervisory Board members is reviewed every three years. Any change in the compensation will be submitted to the shareholders for adoption.

EXECUTIVE BOARD REMUNERATION

REMUNERATION OBJECTIVES

The Remuneration Policy for the Executive Board is aimed at creating a reward-based structure that will allow the company to attract and retain qualified, expert executives by providing a well-balanced and incentive-based compensation.

POLICY TERM

The shareholders adopted the Remuneration Policy on April 22, 2004. The Remuneration Policy took effect on January 1, 2004, for a three-year term. Any material changes in this Remuneration Policy shall be submitted to the General Meeting of Shareholders (AGM) for adoption. The Supervisory Board will propose to the 2006 AGM to extend the duration of the existing Remuneration Policy until the AGM in 2007.

TERM OF APPOINTMENT

The Supervisory Board has determined that, as of January 1, 2005, the term of appointment for new members of the Executive Board will be four years. Every appointment will be for the full term, and Executive Board members may be reappointed for successive periods of four years. However, members may have to leave before the end of their term if they reach the age of retirement.

TERMINATION OF EMPLOYMENT

Termination of the employment contracts requires a three months 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 member of the Executive Board would be entitled to a severance arrangement.

Under his Employment Agreement, Mr. Shepard shall 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 year's 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.

The Supervisory Board has determined that as of January 1, 2005, employment contracts for new members of the Executive Board will contain a notice period of three months for the Executive Board member, six months for the company, and termination arrangements will be in line with the Dutch Corporate Governance Code.

REMUNERATION COMPONENTS

The remuneration of Executive Board members comprises the following components: a base salary, variable compensation in the form of a Short-term Incentive Plan (STI Plan) and a Long-term Incentive Plan (LTI Plan), pension arrangements and other arrangements.

BASE SALARY

Base salary levels are set to reflect the requirements and responsibilities of an Executive Board position. The Compensation Committee will ensure that base salary levels are realistic and competitive, taking into account individual roles and responsibilities of the Executive Board members and considering benchmark information provided by independent external advisors.

Annually, the Compensation Committee will review the levels, considering circumstances that would justify 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 Board members' commitment to the company and its objectives. A considerable part of the total remuneration consists of variable compensation linked to previously determined and measurable performance targets. As explained further on and in the plans posted on AEGON's website, when performance is at target level, for Mr. Shepard approximately 75% of his total compensation is variable, whilst for the other members the variable portion is approximately 50%.

SHORT-TERM INCENTIVE PLAN

Members of the Executive Board are eligible to participate in the Short-term Incentive (STI) Plan that provides for an annual cash bonus for the achievement of previously determined targets that reflect their respective individual responsibilities.

The achievable STI bonus levels vary between the members of the Executive Board due to differences in their responsibilities and base salary. Whilst the base salary of Messrs. Van der Werf and Wynaendts is lower than that of Mr. Streppel, their achievable bonuses are higher, reflecting their role as *value drivers* for AEGON.

The amount of the STI Plan bonus will be determined by the level of achieved operating earnings (OE) relative to the OE target. The STI Plan bonus increases when the actual OE exceeds the target OE. In case the actual OE is equal to or higher than 150% of the target OE, then the STI Plan bonus reaches its maximum value. For example: when the actual OE is equal to the target OE, then Mr. Shepard could receive a STI Plan bonus of 118% of his base salary. The maximum STI Plan bonus Mr. Shepard could receive is equal to 189% of his base salary. The OE target is calculated as the rolling, three-year average OE, increased by 2.5% to reflect inflation.

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%

The STI Plan determines that a bonus will be paid only if a positive value of new business (VNB), as publicly disclosed, is realized. This measure was chosen because it reflects AEGON's commitment towards profitable growth. A specific area of responsibility has been determined for which VNB will be taken into account for each member of the Executive Board.

AREAS OF RESPONSIBILITY FOR STI

Shepard	Group: determines 100% of STI bonus
Streppel	Group: determines 100% of STI bonus
Van der Werf	Group: determines 40% of STI bonus country unit(s) under his responsibility: determine 60% of STI bonus
Wynaendts	Group: determines 40% of STI bonus country unit(s) under his responsibility: determine 60% of STI bonus

Provided the VNB of the AEGON Group in the plan year was 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 was positive, Messrs. Van der Werf and Wynaendts become eligible for the remaining 60% of their STI Plan bonus.

Annually, the Compensation Committee will review the agreed parameters to ensure that they continue to provide the best reference. Independent external advisors, Tillinghast and Ernst & Young, will sign off on all 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 intends to orient members of the Executive Board toward 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 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 determined as a fixed percentage of the base salary of the Executive Board members; that is 95% of Mr. Shepard's base salary and 60 % of the base salary of the other members. The grant is a 50/50 combination of the value of performance shares and performance options. The actual value of the bonus paid under the LTI Plan is dependent on AEGON's relative performance in terms of TSR.

Each year, the value (amount) of the grant is determined and the related number of shares and options are 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 group consists of Allianz, Aviva, AXA, Fortis, Generali, ING, Jefferson-Pilot, John Hancock Life Insurance, Lincoln National, Nationwide FS Inc., 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 once 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

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. Please refer to page 175 for more information on the share options granted under the LTI Plan.

During the three-year grant period, the TSR data are compiled by the Compensation Committee based on information from an independent outside advisor (Towers Perrin). 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 monitor that the peer group composition and the performance incentive zone continue to provide an appropriate reference.

PENSION ARRANGEMENTS

The Remuneration Policy aims at offering the 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. 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 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. Please refer to page 174 for more information on the costs.

OTHER ARRANGEMENTS

Members of the Executive Board receive other benefits, based on their contractual agreements, local practices, and customary arrangements for executives of multinational companies, like the use of a company car, medical insurances, and other benefits and welfare plans. 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.

REMUNERATION REPORT 2005

SUPERVISORY BOARD REMUNERATION

The compensation of the members of the Supervisory Board is reviewed every three years. In line with this guideline, an analysis was performed by outside experts in order to benchmark the remuneration. On the basis of this study, the AGM in April 2005, approved the introduction of a three-components structure: (1) a base fee (for membership of the Supervisory Board); (2) an additional fee (for membership of a Committee); and (3) an attendance fee for 'face-to-face' Committee meetings (i.e. where physical attendance has taken place). This structure has been applied starting January 1, 2005, as follows:

1. BASE FEE PER ANNUM FOR MEMBERSHIP OF THE SUPERVISORY BOARD

Chairman	60,000
Vice-chairman	50,000
Member	40,000

2. FEE PER ANNUM FOR MEMBERSHIP OF A COMMITTEE

Audit Committee	
Chairman	10,000
Member	8,000
Other Committees	
Chairman	7,000
Member	5,000

3. ATTENDANCE FEE FOR MEETINGS OF THE COMMITTEES

Audit Committee	3,000
Other Committees	1,250*

* In case of intercontinental travel this will be EUR 2,500 per face-to-face meeting.

EXECUTIVE BOARD REMUNERATION

TERM OF APPOINTMENT

Messrs. Shepard and Streppel have been reappointed in 2005 for a four-year term. Messrs. Van der Werf and Wynaendts are eligible for reappointment in 2006 and 2007.

TOTAL COMPENSATION

Please refer to pages 174-176 for information on the remuneration of members of the Executive Board.

BASE SALARY

The base salaries of the Executive Board members were not changed in 2005, save the adaptation in accordance with the general salary rounds applicable to AEGON employees in the Netherlands, as stipulated in the employment contracts with the Dutch Executive Board members.

BASE SALARY 2005[1]

Shepard	USD	1,000,000
Streppel	EUR	679,000
Van der Werf	EUR	575,000
Wynaendts	EUR	575,000

[1] Base salary including increase due to Dutch collective labor agreement, the customary employee profit sharing bonus as well as a tax deferred employee savings scheme.

SHORT-TERM INCENTIVE, 2004 PLAN

In line with the regulations of the STI Plan, it was established that the 2004 VNB of the Group and of the relevant country units was positive, as stated in the 2004 Embedded Value Report. Subsequently, operating earnings (OE) have been compared to the relevant target OE. On this basis and after adoption of the 2004 annual accounts by shareholders, this translated into the STI bonuses for the 2004 Plan as paid in 2005.

REMUNERATION POLICY AND REPORT

STI BONUSES FOR THE 2004 PLAN[1,2]

	OE per area of responsibility (results as % of target)	STI bonus (as % of base pay)	STI amount (in EUR)
Shepard	134%	166%	1,334,912
Streppel	134%	70%	468,661
Van der Werf	109%	98%	552,237
Wynaendts	113%	101%	568,090

[1] OE per area of responsibility has been established as explained in the Remuneration Policy and described in the STI Plan Rules.
[2] The reported STI bonus percentages have been rounded off.

In addition, Mr. Shepard received EUR 1,663,000 in 2005 as an additional STI bonus related to AEGON's net income over the financial year 2004, as reported in accordance with Dutch Accounting Principles.

SHORT-TERM INCENTIVE, 2005 PLAN

The STI bonuses for the 2005 Plan, as well as Mr. Shepard's additional STI bonus, will be paid in 2006, after adoption of the 2005 annual accounts by shareholders.

LONG-TERM INCENTIVE, 2005 PLAN

In accordance with the 2005 LTI Plan, non-vested (conditional) AEGON common shares and options were 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 2005 LTI Plan was April 22, 2005 and the closing price of that day was EUR 9.91. The value of the performance option was set at 50% of the value of the performance share.

LTI BONUSES FOR THE 2005 PLAN[1]

	Target LTI value (% of base pay)	EUR	Number of shares	Number of options
Shepard[2]	95%	763,911	38,542	77,084
Streppel	60%	399,750	20,169	40,338
Van der Werf	60%	338,250	17,066	34,132
Wynaendts	60%	338,250	17,066	34,132

[1] LTI target bonus amounts have been calculated from base salaries as per January 1, 2005.
[2] Calculation example Mr. Shepard:
EUR 763,911.00 : 2 = EUR 381,955.50 : EUR 9.91 = 38,542 shares.

Vesting of these rights will take place after three years, in accordance with the aforementioned LTI vesting schedule. The announcement of two mergers caused the Compensation Committee to review the LTI peer group in 2005. The Compensation Committee proposed, and the Supervisory Board subsequently approved, that John Hancock Life Insurance and Jefferson-Pilot be replaced by Prudential Financial Inc. and Metlife Inc. This change is expected to have a minor impact on the probability of AEGON reaching a certain ranking within the peer group.

PENSION

Due to new regulations in the Netherlands, additional arrangements were required to ensure that existing agreements would not be affected. The Compensation Committee suggested, and the Supervisory Board agreed to harmonize the individual pension agreements for Messrs. Van der Werf and Wynaendts with the new Dutch VPL law (Wet Vut Prepensioen en Levensloop), and to also reconcile the pension plan for Dutch Executive Board members with these regulations as from January 2006. Mr. Shepard is exempted from these new regulations since he is under an AEGON USA Pension Plan. As the new law allows to exempt employees who have reached the age of 56 or above as per December 31, 2005, Mr. Streppel will also not be affected.

OTHER ARRANGEMENTS

As from August 2005, Mr. Wynaendts has been seconded temporarily to AEGON USA. In determining the specific provisions of the secondment, AEGON has engaged independent advisors to advise that the arrangements are customary. The Compensation Committee has reviewed and approved these provisions.

DISCLOSURE

The Remuneration Policy and Report 2005 will be posted on the company website, www.aegon.com.

3. Report of the Executive Board

A comprehensive account of AEGON's performance in 2005.

RESULTS OF OPERATIONS

	2005 in million EUR	2004 in million EUR	%
INCOME 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	*(4)*
Impairment charges	14	(183)	
Other non-operating income/(charges)	277	(22)	
Share in profit/(loss) of associates	20	25	*(20)*
INCOME BEFORE TAX	**3,615**	**2,795**	***29***
Income tax	(885)	(537)	*65*
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***
Income tax	(885)	(537)	*65*
Minority interest	2	(2)	
NET INCOME	**2,732**	**2,256**	***21***

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

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**
Fee 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**

OVERVIEW

During 2005, AEGON strengthened its position in the three major markets – the United States, the United Kingdom and the Netherlands. In addition, AEGON continued to invest in Central and Eastern Europe, Spain and Asia, where the Group sees good growth prospects over time. AEGON has taken a number of steps to improve the operations of its businesses as well as to enhance AEGON's strategic position in the life insurance and pension sectors overall. AEGON is pleased to report increased earnings from all major country units for the year, enhanced distribution and a stronger balance sheet. AEGON believes that the Group is well-positioned to deliver the products and services that will lead to the continued growth of its business.

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

The variable annuity business in the Americas showed a 19% production growth for the year, led by a 41% increase through the wirehouse channel and a 24% increase in the pension business. Although fourth quarter retail sales were lower than previous quarters of the year, AEGON anticipates sales growth going forward driven by new product development as the Group continues to build its wholesaling capability. Despite the challenging interest rate environment in the United States, and against the backdrop of declining industry sales, AEGON has seen consecutive quarterly growth in the fixed annuity sales in 2005, due largely to new bank distribution agreements as well as the 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, AEGON The Netherlands signed approximately 775 life cycle (Levensloop) contracts with employers and 2,250 group disability contracts. Looking ahead, AEGON The Netherlands expects continued momentum of sales in the 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. AEGON UK regards this as key to ensuring its position in the UK market as further reforms are implemented and the distribution environment becomes more competitive.

Elsewhere in Europe, AEGON divested its general insurance business in Spain and focused its efforts on establishing life insurance partnerships with savings banks. The partnership with Caja de Ahorros del Mediterráneo achieved a 27% increase in recurring premiums during the year. AEGON established also 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. AEGON Spain 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 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 was 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 AEGON launched operations in April.

AEGON continues to see pensions as a key growth driver for its business. Leveraging AEGON's pension expertise, AEGON formally launched the AEGON Pension Network, which has been developed with its French partners at La Mondiale to provide multinational corporate clients cross-border solutions. The recent addition of HDI Pensionsmanagement, 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, AEGON's 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.

In China, AEGON has expanded from its base in Shanghai, having received licenses to begin operations in Beijing, Nanjing and most recently the Shandong province, where AEGON is 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. AEGON has made clear its long-term commitment to China and will continue to identify additional opportunities to expand its geographic presence.

AEGON continues to benefit from strong capitalization in all its 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 AEGON's strengthened capital position and good cash flows, AEGON has 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 AEGON is confident about its prospects for capturing further growth in its core lines of business. The increased sales and earnings for the year, combined with enhanced distribution and improved operational efficiency, indicate that AEGON has made good progress within its three major markets while investing in new markets that offer long-term growth.

REVIEW OF OPERATIONS

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 in the institutional GIC business 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 policyholder 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% of Positive Solution. 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 4% 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 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 a EUR 218 million charge relating to the settlement with Dexia. Also included in other non-operating income/(charges) are 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.

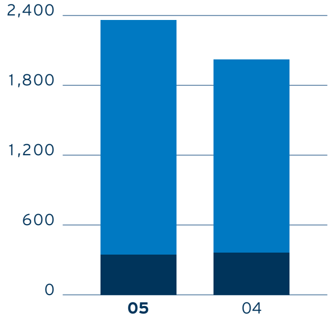
Net income increased 21% to EUR 2,732 million in 2005, reflecting higher operating earnings, increased net gains on investments and impairment charges, and higher non-operating income. The effective tax rate increased to 24% from 19% in 2004, reflecting higher taxable earnings, higher policyholder taxes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

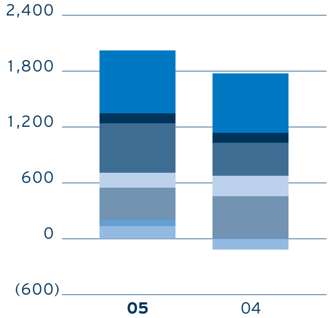
AMERICAS

OPERATING EARNINGS BEFORE TAX
in USD million



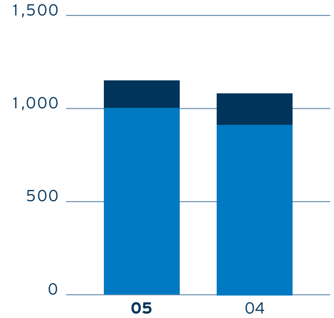
- Life
- Accident & health

OPERATING EARNINGS BEFORE TAX LIFE INSURANCE
in USD million



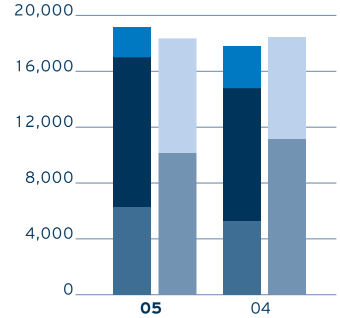
- Traditional
- Account policyholders
- Fixed annuities
- Variable annuities
- Institutional guaranteed products
- Fee business
- Reinsurance

STANDARDIZED NEW PREMIUM PRODUCTION
in USD million



- Single
- Recurring annualized

TOTAL DEPOSITS/ OFF BALANCE SHEET PRODUCTION
in USD million



On balance sheet
- Fixed annuities
- Institutional guaranteed products
- Variable annuities

Off balance sheet
- Synthetic GICs
- Mutual funds/collective trusts & other managed assets

3

AMERICAS (INCLUDES AEGON USA AND AEGON CANADA)

INCOME BY PRODUCT SEGMENT	**2005 in million USD**	2004 in million USD	%	**2005 in million EUR**	2004 in million EUR	%
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*
Minority interest	2	(3)		2	(2)	
NET INCOME	**2,014**	**1,670**	***21***	**1,617**	**1,343**	***20***

EXCHANGE RATES

PER 1 EUR	Weighted average **2005**	2004	Year end **2005**	2004
USD	1.2456	1.2436	1,1797	1.3621
CAD	1.5094	1.6166	1,3725	1.6416

REVIEW OF OPERATIONS
AMERICAS

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 43 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 a 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.

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.

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 an 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.

IMPACT OF VOLATILE ITEMS IN THE AMERICAS

(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 insurance	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
TOTAL 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 market valuation of these assets contributed net 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 – The total return 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 total 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 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, net 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 securities where market values increased significantly and objective evidence can be obtained as to the reason for the increase.

3

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), 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 remained stable at USD 2,456 million, 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.

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 800 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 259 million was USD 82 million or 46% 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.

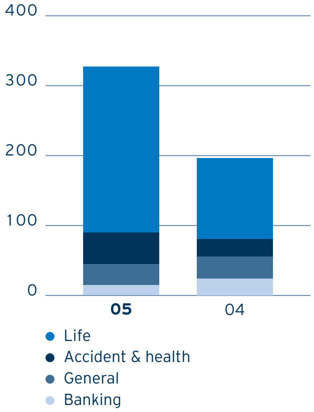
Variable annuity deposits of USD 6,260 million increased 19% compared to 2004. The strong year over year growth is notable in both the retail and pension markets. The growth in the retail segment in 2005 was 13%, much of which is attributable to the ‘5 for Life’ product that was introduced in the fourth 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 increased 6% over 2005.

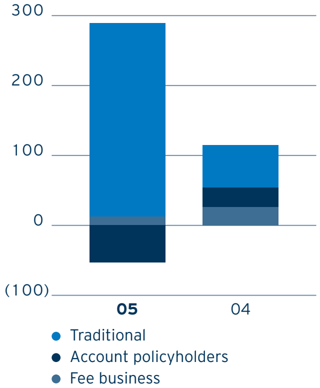
Off balance sheet products include managed assets such as mutual funds, collective investment trusts and synthetic GICs. Off balance sheet production of USD 18.4 billion slightly decreased compared to that of 2004. Mutual fund sales of USD 10.1 billion decreased 9% in 2005 compared to 2004. Synthetic 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.

THE NETHERLANDS

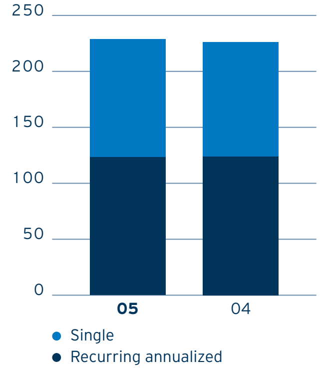
OPERATING EARNINGS BEFORE TAX
in EUR million



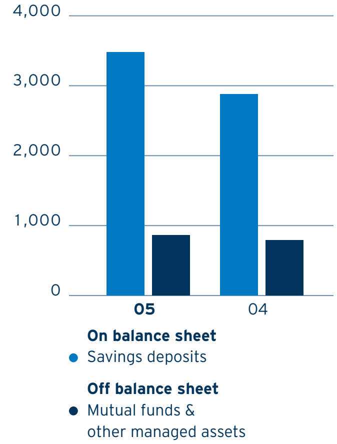
OPERATING EARNINGS BEFORE TAX LIFE INSURANCE
in EUR million



STANDARDIZED NEW PREMIUM PRODUCTION
in EUR million



TOTAL DEPOSITS/ OFF BALANCE SHEET PRODUCTION
in EUR million



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AEGON THE NETHERLANDS

INCOME BY PRODUCT SEGMENT	2005 in million EUR	2004 in million EUR	%
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***

REVIEW OF OPERATIONS
THE NETHERLANDS

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 its '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.

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 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 (run-off of the '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

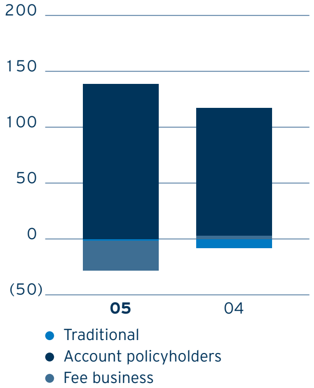
Standardized new life production of EUR 231 million was 2% higher than that of 2004.

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%.

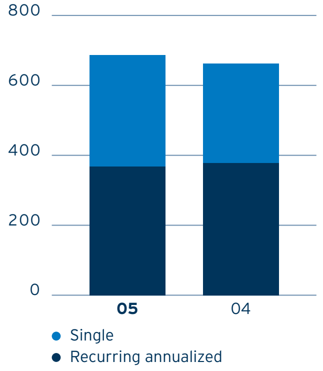
Non-life production decreased by 25% in comparison to 2004. Accident and health production declined in 2005 as a consequence of announced changes to legislation. The strong production in 2004 came from the new sick leave product (EUR 8 million) and from the disability product for self-employed. In 2005, 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 The Netherlands 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.

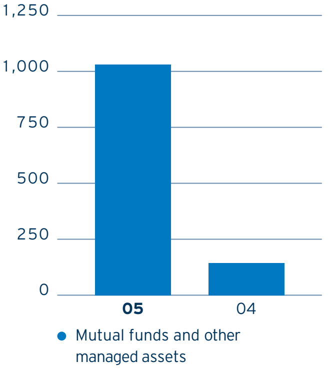
OPERATING EARNINGS BEFORE TAX LIFE INSURANCE
in GBP million



STANDARDIZED NEW PREMIUM PRODUCTION
in GBP million



OFF BALANCE SHEET PRODUCTION
in GBP million



AEGON UNITED KINGDOM

INCOME BY PRODUCT SEGMENT	2005 in million GBP	2004[1] in million GBP	%	2005 in million EUR	2004[1] in million EUR	%
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		9	4	
Impairment charges	(2)	(2)		(3)	(3)	
Other non-operating income/(charges)[2]	71	40	*78*	104	58	*79*
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 a GBP 33 million charge 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	2004	Year end 2005	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.

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 policyholders 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 policyholders 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 represent charges made to policyholders in respect of corporation tax and are offset by an equal and opposite amount included in the line income tax attributable to policyholders 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 15% in 2005, largely due to non-recurring tax charges in 2004 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 that 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 products sales amounted to GBP 1,032 million compared to GBP 143 million in 2004.

REVIEW OF OPERATIONS
OTHER COUNTRIES

OTHER COUNTRIES (INCLUDES AEGON HUNGARY, AEGON CZECH REPUBLIC, AEGON POLAND, AEGON SLOVAKIA, AEGON TAIWAN AND AEGON-CNOOC)

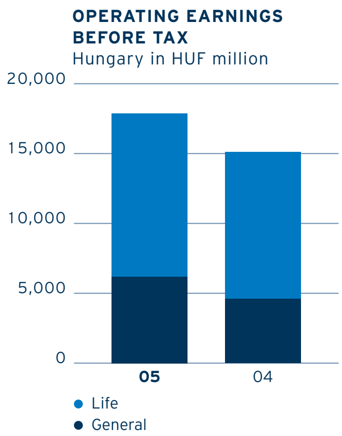
INCOME BY PRODUCT SEGMENT	2005 in million EUR	2004 in million EUR	%
Traditional life	13	24	*(46)*
Life for account of policyholders	6	5	*20*
Fee – off balance sheet products	4	6	*(33)*
Accident and health insurance	2	8	*(75)*
General insurance	25	70	*(64)*
Other	(6)	0	
OPERATING EARNINGS BEFORE TAX	**44**	**113**	***(61)***
Gains/(losses) on investments	12	15	*(20)*
Impairment charges	0	(2)	
Other non-operating income/(charges)	176	0	
Share in profit/(loss) of associates	16	9	*78*
INCOME BEFORE TAX	**248**	**135**	***84***
Income tax	(37)	(34)	*9*
NET INCOME	**211**	**101**	

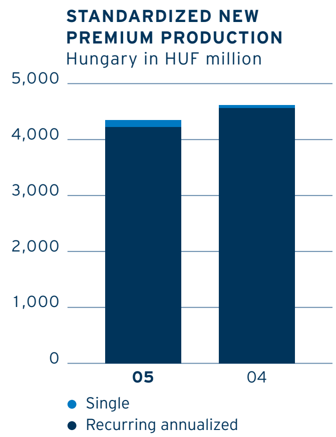
Weighted average exchange rates for the currencies of the countries included in the Other countries segment, and which do not report in euro, are summarized in the table below.

EXCHANGE RATES

PER 1 EUR	2005	2004
Czech Republik Krona (CZK)	29.5900	30.4640
Hungarian Forint (HUF)	248.0200	251.8300
New Taiwan Dollar (NTD)	39.7600	41.6900
Polish Zloty (PLN)	3.8600	–
Rin Min Bi Yuan (CNY)	10.1000	11.2734
Slovakian Koruna (SKK)	38.6400	38.7450

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.





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. 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. Operating 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 32,500 to 456,000 members. Off balance sheet investments grew by 44% to HUF 282 billion compared to the 2004 year end level.

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 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.

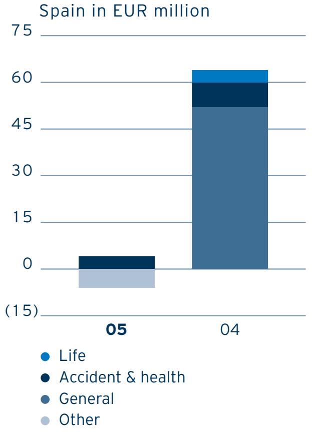
AEGON Slovakia exceeded the threshold of 50,000 members required by regulatory authorities for a pension fund to be deemed viable, ahead of the June 2006 deadline. AEGON Slovakia has sold over 70,000 policies so far, of which 57,000 are officially registered, reflecting the good investment performance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

AEGON POLAND

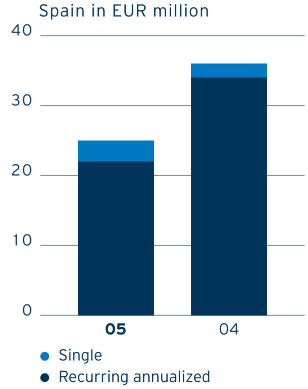
On October 4, 2005, the acquisition of AEGON Poland was completed. Standardized new premium production was PLN 41 million in the fourth quarter and operating earnings before tax amounted to a loss of PLN 4 million.

REVIEW OF OPERATIONS
OTHER COUNTRIES

OPERATING EARNINGS BEFORE TAX
Spain in EUR million



STANDARDIZED NEW PREMIUM PRODUCTION
Spain in EUR 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 includes health insurance. Both businesses were negatively impacted by a loss of economies of scale due to the sale of the general insurance 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 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.

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 and health premiums increased 6% compared to 2004.

COMMISSIONS AND OPERATING EXPENSES

Regardless the impact of the sale of the general insurance business, the operating expenses increased by EUR 3 million.

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 general insurance activities.

JOINT VENTURES

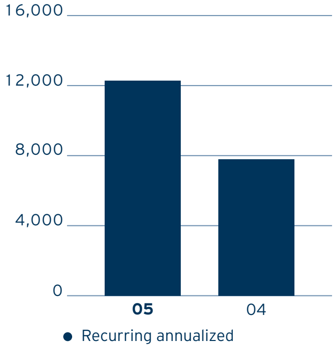
In July 2005, AEGON Spain signed an agreement to set up a 50/50 partnership with Caja de Badajoz. This transaction has not received the approval from the Insurance authorities before December 31, 2005 and therefore no activity has been reported in 2005.

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 February 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 Caja de Ahorros del Mediterráneo (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 of the partnership in the line share in profit/(loss) of associates.

STANDARDIZED NEW PREMIUM PRODUCTION
Taiwan in NTD million



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 variance is mainly the result of substantial growth in new business and higher hedging costs in connection with hedging the USD denominated bonds in the investment portfolio. The increase in hedging costs is a result of a widening of the interest differential between the NTD and USD.

Operating earnings before tax of traditional life amounted to a loss of 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 USD 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

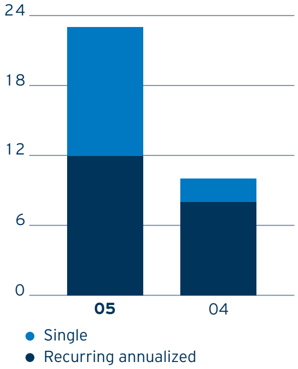
Commissions and operating expenses were NTD 4,495 million for the year 2005 compared to NTD 3,462 million reported for the same period last year, mainly due to higher first year commissions as a result of higher new business production.

PRODUCTION

Standardized new premium production increased from NTD 7.8 billion during 2004 to NTD 12.3 billion during 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.

REVIEW OF OPERATIONS
OTHER COUNTRIES

STANDARDIZED NEW PREMIUM PRODUCTION
in CNY million



AEGON-CNOOC

OPERATING EARNINGS BEFORE TAX

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.

RISK AND CAPITAL MANAGEMENT

GENERAL

As an insurance company, AEGON is in the 'risk' business and as a result is exposed to a variety of risks. Below a description of the risk management and control systems is given on the basis of the identified important risks for AEGON. 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, AEGON's 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 AEGON sells, 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 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 with corporate oversight, while remaining 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 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?' scenario's to manage the Group's risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated if necessary.

IFRS-BASED SENSITIVITY ANALYSES

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 AEGON's 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.

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 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. 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 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 2-year historical income before tax and capital in units on an IFRS basis are shown in table 1.

Table 1

Income before tax (in millions)	2005	2004
AEGON Americas (in USD)	2,717	2,112
AEGON The Netherlands (in EUR)	1,286	1,097
United Kingdom (in GBP)	186	150
Other countries (in EUR)	248	135

Capital in units (in millions)	2005	2004
AEGON Americas (in USD)	19,149	18,215
AEGON The Netherlands (in EUR)	5,011	4,038
United Kingdom (in GBP)	2,124	2,004
Other countries (in EUR)	1,155	1,002

The exchange rates for US dollar and UK pound per euro for each of the last five year-ends are set forth in table 2.

Table 2

Closing rates	2005	2004	2003	2002	2001
USD	1.18	1.36	1.26	1.05	0.88
GBP	0.69	0.71	0.70	0.65	0.61

The sensitivity analysis in table 3 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.

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 AEGON country units local 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 AEGON 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 AEGON's 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.

Table 3

SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO CURRENCY EXCHANGE RATE MARKETS [1,2]

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 12% and 13%	increase between 14% and 15%
Decrease versus the euro of non-euro currencies of 15%	decrease between 12% and 13%	decrease between 14% and 15%

[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, 2005.

The general account fixed income portfolios of AEGON Americas and AEGON The Netherlands accounted for 95% of the total general account fixed income portfolio of the AEGON Group on December 31, 2005. AEGON USA and AEGON The Netherlands manage their duration mismatch (which is the difference between the average life of liabilities and the average life of assets) 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.

For AEGON USA's business, the average duration of assets is approximately 4.2 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 (guaranteed investment contracts 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 8.0 years. The combined market value weighted duration mismatch of AEGON USA and AEGON The Netherlands was around minus 1.0 years on December 31, 2005. 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 of interest rate exposure could be higher or lower than what this static duration measure implies.

Table 4 shows each of the last five year end interest rates for the period from 2001 through 2005.

Table 4

	2005	2004	2003	2002	2001
3 month US Libor	4.54%	2.56%	1.15%	1.38%	1.88%
3 month Euribor	2.49%	2.16%	2.12%	2.87%	3.29%
10-year US Treasury	4.39%	4.22%	4.25%	3.82%	5.04%
10-year Dutch government	3.29%	3.68%	4.29%	4.24%	5.13%

The sensitivity analysis in table 5 shows an estimate of interest rate movements on net income and shareholders' equity.

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

3

Table 5

SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO INTEREST RATES [1,2]
(in EUR millions)

Parallel movement of yield curve	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Shift up 100 basis points	(563)	(840)
Shift up 200 basis points	(1,088)	(1,642)
Shift down 100 basis points	554	628
Shift down 200 basis points	1,095	1,183

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, 2005.

Table 6

GENERAL ACCOUNT INVESTMENTS AND REINSURANCE ASSETS
(in EUR millions)

Rating category	AEGON AMERICAS	AEGON THE NETHERLANDS	AEGON UK	OTHER COUNTRIES	TOTAL[1] 2005
AAA	16,829	1,364	201	200	18,598
AA	7,355	906	536	445	9,241
A	24,896	1,861	2,091	479	29,327
BBB	18,997	529	521	55	20,101
BB	2,109	133	–	2	2,244
B	1,609	–	–	–	1,609
CCC or lower	341	–	–	–	341
Sovereign exposure	7,225	10,854	467	1,935	20,501
Assets not rated	32,680	13,965	255	178	47,349
Total	**112,041**	**29,612**	**4,071**	**3,294**	**149,311**

1 Includes investments of holding and other activities.

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 the investments are currently shorter in duration than the liabilities and as a result of minimum guarantees present in some products. Similarly when interest rates rise, the company is currently better off since the investments are currently shorter in duration than the 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.

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), 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 2005, 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.

AEGON actively manages its credit risk exposure by individual counterparty, sector and asset class. It may mitigates 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. AEGON may also mitigates 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 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 table 6 on page 57 and are organized by rating category.

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 aggregated by counterparty and measured for compliance against country unit credit limits and group wide credit limits. The group wide limits are shown in table 7.

Table 7

AEGON GROUP WIDE COUNTERPARTY EXPOSURE LIMITS[1]
(in EUR millions)

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 table 7. Exceptions to these limits can only be made after explicit approval from AEGON's Group Risk and Capital Committee.

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. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC 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 net income. AEGON's general account equity and certain other investment holdings are shown in table 8.

The general account equity, real estate and other non-fixed-income portfolio of AEGON USA and AEGON The Netherlands accounted for 98% 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.

Table 9 sets forth the year end closing levels of certain major indices.

Table 9

Year-end	**2005**	2004	2003	2002	2001
S&P 500	1,248	1,212	1,112	880	1,148
Nasdaq	2,205	2,175	2,003	1,336	1,950
FTSE 100	5,619	4,814	4,477	3,940	5,217
AEX	437	348	338	323	507

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.

Sensitivity analysis of net income and shareholders' equity to equity and real estate markets is presented in table 10 on page 60.

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.

Table 8

EQUITY, REAL ESTATE AND NON-FIXED INCOME EXPOSURE IN GENERAL ACCOUNT ASSETS[1]
amounts in millions

ASSETS	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	488	1,472	64	-	-	1,980
Common shares[1]	501	3,417	4	20	(29)	3,838
Preferred shares	294	562	-	31	-	842
Real estate	677	1,798	-	35	16	2,423
Hedge funds	1,038	269	-	-	-	1,149
Credit investment strategies	103	-	-	-	-	87
Total equity, real estate and other non-fixed income exposure	3,101	7,518	68	86	(13)	10,319

[1] Of AEGON The Netherlands' common shares, EUR 338 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.

3

DERIVATIVES RISK

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.

AEGON's inability to manage risks successfully through derivatives or a counterparty's failure to honor its obligations could have a material adverse effect on AEGON's business, results of operations and financial condition.

LIQUIDITY RISK

Liquidity risk is inherent in much of AEGON's 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 AEGON requires significant amounts of cash on short notice in excess of normal cash requirements and existing credit facilities, AEGON may have difficulty selling these investments at attractive prices, in a timely manner, or both.

On September 19, 2005, AEGON N.V. signed a USD 5 billion syndicated facility agreement with a syndicate of international banks. The facility has a term of five years and is extendable for two one-year periods. The facility is split between a revolving standby USD 3 billion loan and a USD 2 billion letter of credit facility.

Illiquid assets, consisting of general account investments in real estate, loans and unlisted bonds and shares, amounted to EUR 39 billion or 26% of general account investments at the end of 2005 (EUR 33 billion or 26% in 2004).

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 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, 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.

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 accidental 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 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

Table 10

SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO EQUITY AND REAL ESTATE MARKETS[1,2]
(in EUR millions)

Immediate change in	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Equity increase 10%	103	366
Equity decrease 10%	(202)	(457)
Equity decrease 20%	(425)	(888)
Real estate increase 10%	204	219
Real estate decrease 10%	(204)	(219)
Real estate decrease 20%	(408)	(439)

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, 2005.

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 table 11.

NEW PRODUCTS

AEGON may face claims from customers and adverse negative publicity if its 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 AEGON and by the intermediaries who distribute AEGON's 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 AEGON's results of operation, corporate reputation and financial condition.

TAX CHANGES

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 United States 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' (life cycle). Any changes in United States or Dutch tax law affecting products could have a material adverse effect on AEGON's business, results of operations and financial condition.

GENERAL ECONOMIC CONDITIONS

AEGON's result of operations and financial condition may be materially affected from time to time by the general economic conditions, such as levels of employment, consumer lending or inflation, in the countries in which the Group operates.

OTHER RISKS

RATINGS

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 AEGON to accelerate amortization of policy acquisition costs, reducing net income.

Table 11

SENSITIVITY ANALYSIS OF NET INCOME AND SHAREHOLDERS' EQUITY TO VARIOUS UNDERWRITING RISKS[1,2]

(in EUR millions)

Underwriting risk sensitivity	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Lapses increase 20%	(114)	(114)
Mortality/morbidity increases 10%	(94)	(94)
Mortality/morbidity decreases 10%	90	90
Expenses increase 10%	(111)	(111)

[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 mortality/morbidity sensitivities assume that mortality/morbidity increases or decreases for all products regardless of whether one product produces a gain or loss on the directional change.

Table 12

RATINGS

as per January 31, 2006

	CREDIT	INSURANCE FINANCIAL STRENGTH		
	AEGON N.V.	AEGON USA	AEGON NL	Scottish Equitable
S&P ating	A+	AA	AA	AA
S&P outlook	Stable	Stable	Stable	Stable
Moody's rating	A2	Aa3	Not rated	A1
Moody's outlook	Stable	Stable	Not rated	Stable
Fitch rating	AA-	AA+	Not rated	Not rated
Fitch outlook	Stable	Stable	Not rated	Not rated

3

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

Negative changes in credit ratings may also increase AEGON's cost of funding. During 2005, 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 assigned AEGON N.V. an AA– (double A minus) rating to AEGON N.V.'s senior debt with a stable outlook and A+ ratings to subordinated debt and perpetual securities. The current S&P, Moody's and Fitch credit and insurance financial strength ratings and ratings outlook are shown in table 12 on page 61.

INFORMATION TECHNOLOGY

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 AEGON's results of operation and corporate reputation. In addition, AEGON must commit significant resources to maintain and enhance its existing systems in order to keep pace with industry standards and customer preferences. If AEGON fails to keep up-to-date information systems, the Group may not be able to rely on accurate information for product pricing and underwriting decisions.

CATASTROPHIC EVENTS

AEGON's operating results and financial position can be adversely affected by volatile natural and man-made disasters such as hurricanes, windstorms, earthquakes, 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. AEGON generally seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, such events could lead to considerable financial losses.

Furthermore, natural disasters, terrorism and fires could disrupt AEGON's operations and result in significant loss of property, key personnel and information about AEGON's clients and AEGON. If AEGON's business continuity plans have not included effective contingencies for such events, they could adversely affect AEGON's business, results of operations, corporate reputation and financial condition for a substantial period of time.

GOVERNMENT REGULATIONS

AEGON's insurance business is subject to comprehensive regulation and supervision in all countries in which AEGON operates. 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 to 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 AEGON's 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 AEGON's reporting and corporate governance practices, including the requirement that AEGON issues a report on its internal controls over financial reporting, beginning for the year ending December 31, 2006 onwards. If AEGON is unable to maintain or achieve compliance with the SOX Act, it may have a material adverse impact on AEGON's business.

LITIGATION

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 subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities concerning industry practices such as the disclosure of contingent commissions and the accounting treatment of finite reinsurance or other non-traditional insurance products. AEGON cannot predict at this time the effect this current trend towards litigation and investigation will have on the insurance industry or the 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 AEGON's business, results of operations and financial condition.

CHANGES IN ACCOUNTING PRINCIPLES

For the first time in 2005, AEGON's financial statements have been prepared and presented in accordance with IFRS. Any future change in these accounting principles may have a significant impact on AEGON's reported results, financial condition and shareholders' equity. This includes the level and volatility of reported results and shareholders' equity.

DEFAULT OF A MAJOR MARKET PARTICIPANT

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

JUDGMENTS OF COURTS IN THE UNITED STATES

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 courts in the United States, 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 AEGON in the United States may not be able to require the Group 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 United States 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.

IN CONTROL STATEMENT

AEGON's internal audit departments are responsible for performing an annual risk assessment and conducting audits as necessary to evaluate the effectiveness of the design and operation of its internal controls. AEGON has also established a Group Risk and Capital Committee at the Group level. The objectives of the Group Risk and Capital Committee include monitoring AEGON's overall risk exposures as well as making recommendations and overseeing remedial action where exposures are deemed excessive. Moreover, this Committee is responsible for ensuring that risks are well managed and measured within the country units. The Group Risk and Capital Committee regularly reports to the Executive Board and the Supervisory Board. In preparation for the formal attestation regarding to the financial year 2006 under section 404 of the Sarbanes-Oxley Act 2002 (SOX 404), the Executive Board has established a group wide framework to document, evaluate, and report on the effectiveness of the internal controls over the financial reporting process. Compliance with the Sarbanes-Oxley Act covers an extensive range of business procedures supporting the financial reporting process. Within this context, the COSO framework is applied.

On the basis hereof, the Executive Board declares the following regarding AEGON's financial reporting risks:

1. the risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
2. the risk management and control systems have worked properly in 2005;
3. there are no indications that the risk management and control systems will not work properly in 2006.

Since the internal control systems throughout the whole organization are currently under review in view of the future obligations pursuant to SOX 404, the above statement does not imply an assessment as required by SOX 404.

RISK AND CAPITAL MANAGEMENT

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

The AEGON Group 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 2005, 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, 2005, AEGON held approximately 383% 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 to comprise at least 70% shareholders' equity, at least 5% capital securities, and a maximum of 25% dated subordinated and senior debt. At December 31, 2005, AEGON's capital base was within these prescribed tolerances: shareholders' equity capital represented 76% of its total capital base, while perpetual capital securities comprised 13% of its total capital base. Senior and dated subordinated debt accounted for the remaining 11%.

During 2005, AEGON N.V. issued USD 1,750 million junior perpetual capital securities to refinance maturing debt and perpetual cumulative subordinated bonds. This further improved the quality of the capital base and reduced refinancing risk.

The ratio of shareholders' equity to total capital improved, mainly due to an increase in shareholders' equity, supported by strong capital cash flows. In the future, AEGON's capital base may be subject to regulatory requirements arising from new legislation in the Netherlands. Under IFRS accounting rules, reported equity has been subject to higher volatility. AEGON will monitor the development of its capital ratios under IFRS in order to ensure continued strong capitalization.

SHAREHOLDERS' EQUITY

Shareholders' equity was EUR 19,276 million at December 31, 2005, compared to EUR 14,875 million at December 31, 2004. The increase of EUR 4,401 million is largely due to the net income of EUR 2,732 million and currency translation gains of EUR 1,515 million offset in part by cash dividends of EUR 272 million.

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 in amounts that are eligible for benchmark inclusion and to support the maintenance of liquid secondary markets in these securities. AEGON also aims to maintain excellent access to retail investors, as witnessed by the successful issuance of Junior Perpetual Capital Securities in 2004 and 2005. AEGON's focus on the fixed income investor base will continue 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 Group companies whose securities are guaranteed by AEGON N.V. AEGON N.V. has employed its regular access to the capital markets through private placements issued under its USD 6 billion Euro Medium Term Notes Program and under a separate US shelf registration. AEGON's USD 2 billion Euro Commercial Paper Program and AEGON Funding Corp.'s USD 4.5 billion Euro Commercial Paper Program (guaranteed by AEGON N.V.) facilitate access to international and domestic money markets, when required. Additionally, AEGON N.V. utilizes a USD 300 million Euro Commercial Paper Program.

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 2010 and extendable until 2012, of which USD 3 billion acts as a back-up facility for AEGON's Commercial Paper Programs. At December 31, 2005, AEGON N.V. had EUR 2.0 billion outstanding under its Medium Term Notes Program and no amounts under its Commercial Paper Programs.

Operating leverage is not part of the capital base. At December 31, 2005, operating leverage was EUR 1.6 billion (2004: EUR 1.0 billion). Operating debt increased during 2005 due to the issuance of USD 500 million, 15-year fixed-rate notes to finance collateral reserve relief for business units of AEGON USA, as alternatives to current letter of credit requirements. This use of debt represents the largest portion of operating leverage. Other operating debt activities primarily relate to the financing of Transamerica Finance Corporation and its subsidiaries.

Internal sources of liquidity include distributions from operating subsidiaries on the basis of excess capital or cash and cash equivalents. During 2005, 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 debt and interest rate structure is managed in line with the duration of surplus assets related to its investments in its subsidiaries, subject to liquidity needs, capital, and other requirements. Of AEGON's total capital debt and hybrid securities at December 31, 2005, approximately EUR 1.0 billion matures within three years. EUR 0.4 billion between three and five years. EUR 4.8 billion is perpetual or matures after five years. AEGON believes its working capital, backed by the external funding programs and facilities, is amply sufficient for the group's present requirements.

CORPORATE GOVERNANCE AND REMUNERATION

For detailed information about AEGON's corporate governance and compliance with the Dutch Corporate Governance Code, please refer to pages 23 to 31. The Remuneration Policy and Report can be found on pages 33 to 36.

The Hague, March 8, 2006
The Executive Board

4. AEGON around the world
Information about country units and product lines

AEGON AROUND THE WORLD
AMERICAS

GENERAL HISTORY

AEGON's operations in the Americas comprise AEGON USA Inc. and AEGON Canada Inc., 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..

AEGON USA

AEGON USA Inc., the 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 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'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, Inc.**
- **Transamerica Life Insurance & Annuity 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 have 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 segment in business.

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 more 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.

PRODUCTS AND DISTRIBUTION

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 that it serves by providing various tax and estate planning products. The Agency Group consists of the following:

- **Life Investors Career Agents/Independent Marketing Organizations**
- **Intersecurities, Inc.**
- **Transamerica Insurance & Investment Group**
- **World Financial Group**
- **Monumental Division**
- **Long Term Care Division**
- **Worksite Marketing**

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 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.

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 include 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.

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. TIIG also targets the upper-middle and affluent markets in the Pacific Rim, with particular emphasis on asset management and wealth transfer. TIIG has a branch in Hong Kong and, in 2005, TOLIC became the first outside insurer in fourteen years to be granted a license to operate in Singapore as a direct insurer.

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 will celebrate the 100th anniversary of the founding of the original Transamerica life company, Occidental Life Insurance Company.

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.

The Monumental division targets the lower and middle-income markets, selling individual traditional life and supplemental health insurance through three distinct distribution systems: Career Agency, PreNeed, and Military. Approximately 2,700 agents in 22 states reflect the diversity found in the communities they serve. The career agents provide face-to-face service to the policyholders. The PreNeed unit sells life insurance products through funeral directors and their agents to pre-fund funerals. In the Military unit, former military officers market life insurance and retirement savings products to commissioned and non-commissioned officers based in the United States and abroad.

The Long Term Care division administers an existing block of insurance products designed to meet clients' long-term health care needs during retirement. Long-term care insurance products provide coverage primarily for care services provided at home, in an assisted living facility, or in a nursing home. Sales of long-term care insurance in this division were discontinued in 2005.

Transamerica Worksite Marketing offers a wide range of voluntary payroll deduction life and supplemental health insurance products for groups ranging in size from as few as five employees to more than 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.

DIRECT MARKETING SERVICES GROUP

AEGON Direct Marketing Services (ADMS)is focused on customers that might not be reached by AEGON USA's other distribution channels. 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., Transamerica Investment Management, LLC, 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 seeks to customize products and support to help banks expand their relationship with their customers.

Transamerica Investment Management is a registered investment advisor that provides investment management services to mutual funds, institutional accounts, pension funds, variable annuity, and variable life insurance company separate accounts.

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 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 and fee-based businesses such as synthetic GICs in which IMD holds a leading market (source: reports of LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2005 Third Quarter Sales, 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 a Structured Products group that is generally involved in various capital markets transactions such as writing credit default swaps, undertaking synthetic collateralized debt obligations, and providing guarantees of affordable housing tax credits. IMD also administers AEGON USA's block of structured settlement pay-out annuities 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 life, 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: 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.

Over the past five years, Transamerica Reinsurance has initiated programs to expand and diversify geographically. Offices have been established 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, and traditional life reinsurance.

Transamerica Reinsurance writes business through various AEGON USA companies as well as offshore affiliates, Transamerica International Re (Bermuda) Ltd. and Transamerica International Reinsurance Ireland Limited.

PENSION GROUP

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

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 pension assets. These products and services are sold through a variety of intermediaries, including benefit consulting firms, broker-dealers, and brokers.

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 small businesses and 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. 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 group fixed annuity contracts 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's insurance subsidiaries in the United States are key competitive factors as this market requires the effective management of long-term pension liabilities. Group fixed annuity products are distributed primarily through large benefit consulting firms or selected specialty brokers.

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 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.

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 principal office is located in Toronto, Canada.

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.

PRODUCTS AND DISTRIBUTION

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 offer a diverse spectrum of planning products and services to investors. With 57 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.

AEGON Canada's principle 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

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.

REINSURANCE CEDED

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 honour 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.

AEGON AROUND THE WORLD
THE NETHERLANDS

GENERAL HISTORY

AEGON Nederland N.V. is the holding company for the Group's Dutch insurance and banking activities. AEGON's operations in the Netherlands are collectively referred to as AEGON The Netherlands.

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

AEGON The Netherlands primary operational subsidiaries in the Netherlands 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**
- **Meeùs Groep B.V.**
- **TKP Pensioen B.V.**
- **Nedasco B.V.**

AEGON The Netherlands is involved in both the life and non-life insurance business and provides banking, financial and asset management services.

RECENT DEVELOPMENTS

As of January 1, 2004, AEGON The Netherlands implemented a new organizational structure with five service centers and four marketing and sales organizations. Prior to this reorganization, a business unit structure was in place. The five service centers that focus on customer service and the administration of the five main product lines are as follows:

- **Service center pensions**
- **Service center life insurance**
- **Service center non-life insurance**
- **Service center banking**
- **Service center asset management**

During 2005, AEGON The Netherlands continued the restructuring process, transferring marketing activities from each of the three organizations to a central marketing unit for the Netherlands. This reorganization has energized the development of new product propositions and has made the integration of IT systems possible, a task which will be completed in 2006.

The sales organizations (SO) have been structured to serve different sales channels, such as independent brokers, AEGON affiliated organizations, and AEGON The Netherlands' own advisors.

The SO's are:

- **Corporate & Institutional Clients (C&IC) –** focuses on large companies, company pension funds, and industry pension funds.
- **Intermediair –** which includes the Meeùs Groep since the third quarter of 2005, focuses on retail and institutional clients and independent brokers.
- **AEGON Spaarbeleg –** supports AEGON The Netherlands' own advisors as well as direct sales.

PRODUCTS AND DISTRIBUTION

AEGON The Netherlands offers five product lines:

- **Pensions**
- **Life insurance**
- **Non-life insurance**
- **Banking**
- **Asset management**

While the majority of AEGON The Netherlands product are sold through brokers, some products are also sold via other channels such as direct marketing, specialized agents and tied agents. Institutional clients and large companies are directly targeted by the sales organization C&IC.

PENSIONS

Pension products are mainly sold by C&IC and Intermediary.

The main pension products are:

- **Products for account of policyholders with guarantees** (separate investment guaranteed contracts)
- **Products for account of policyholders without guarantees** (separate investment capital contracts)
- **Medium and small-sized enterprises (guaranteed) pensions**
- **AEGON Pensioen Pakket** (defined contribution)
- **AEGON Garantie Pensioen** (defined benefit)

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

AEGON Garantie Pensioen and medium and small-sized enterprises growth pensions are also defined benefit products with single and recurring premiums. The initial contract period is ten years, with renewals for five-year periods. Profit-sharing is based on excess interest earned on the general account investment portfolio. 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), after employee retirement.

End 2004, AEGON The Netherlands introduced AEGON Persoonlijk Pensioen Plan, an individual pension product based on defined contribution, which targets employees that fall outside a collective pension plan and directors who own a company. Clients can choose from several investment options including two options with limited guarantees. The insurance cover is client-specific, which means the client can select the retirement date and the type of pension.

TKP Pensioen offers administrative services for large pension funds. New acquisitions by this unit in 2005 have further enlarged its base of participants to a total of 220,000 and assets under management to EUR 8.9 billion.

LIFE INSURANCE

The life insurance products are mainly sold by the sales organization Intermediary and by AEGON Spaarbeleg.
The products are predominantly standardized financial products. The most important products are discussed below.

Fund plan and savings plan products. Fund plan and savings plan products are mainly endowment and savings type products, both single premium and recurring premiums with profit sharing based on the selected fund performance. A customer may choose from a wide 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 if the policyholder has paid the premium for a consecutive period of at least ten years or on death of the insured.

Endowment and savings products. Endowment and savings products have recurring premiums with contractual surplus interest profit sharing.

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. If the insured dies within the policy contract period, the benefit payment is used to repay the mortgage loan. The interest paid on the loan is normally tax deductible, and the customer retains the full income tax benefit over the contract period so long as there is no early redemption. The interest paid on the mortgage loan usually equals the interest accumulated on the account balance under the savings policy. In case of surrender, the policyholder loses the tax benefit.

End 2004, AEGON The Netherlands introduced AEGON LevenHypotheek, a universal life-based mortgage investment product. The loan is repaid in full or in part at the redemption date with the proceeds from a savings policy. If the insured dies during the contract period, the benefit payment is used to repay the mortgage loan. The customer can choose from six funds in which to invest the savings premiums; two of these six funds offer limited guaranteed benefit payments on maturity date. The actual amount available at the maturity date will vary depending on the performance of the underlying funds.

Spaarbeleg Kas N.V. and AEGON Spaarkas N.V. sell life products with both single and recurring premiums and profit-sharing based on a specific bonus system (tontine system). 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 (a new series starts at the beginning of each calendar year) to which the deceased policyholder belonged. 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. In addition to the tontine products, Spaarbeleg Kas N.V. sells a number of tax-driven products, and the seller has provided better access to products and services in order to meet consumers' requests with respect to pension issues.

NON-LIFE PRODUCTS

Non-life insurance products are mainly sold by the sales organization Intermediary (including Meeùs). Non-life products consist primarily of accident and health and property and casualty.

Over the past few years, the Dutch government has gradually withdrawn from the sick leave and workers disability market. In the property and casualty segment, AEGON The Netherlands' strategy is to seek value creation rather than volume.

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.

AEGON AROUND THE WORLD
THE NETHERLANDS

BANKING

AEGON Bank N.V. supplies savings accounts with straightforward conditions. The products are sold under the Spaarbeleg and AEGON Bank names through the various sales organizations.
In 2005, AEGON The Netherlands developed an offering in the new 'Levensloop' market. Building on AEGON The Netherlands' position in the group market, the 'Levensloop' arrangement has proved as a worksite marketing opportunity. This savings product provides investment options and is a tax-friendly means for individuals to save for paid leave or early retirement.

ASSET MANAGEMENT

AEGON Asset Management's (AAM) approach is to further develop the institutional market by winning asset management customers in cooperation with the sales organization C&IC.
AAM is also the asset manager for AEGON The Netherlands' insurance activities.

OTHER ACTIVITIES

AEGON The Netherlands other activities consist primarily of the distribution units of the Meeùs Groep, which is an intermediary company specializing in insurance and real estate. Within the financial advice segment, the Meeùs Groep has developed a broad range of activities such as insurance, pensions, mortgages, financing, savings, and investments. In the real estate business, the Meeùs Groep acts as both a residential and commercial broker. The Meeùs Groep is also active in the real estate management business. Nedasco B.V is a service provider for independent financial advisors.

REINSURANCE CEDED

LIFE

Reinsurance takes place through a profit-sharing contract between AEGON Levensverzekering N.V. and Swiss Re.
The contract includes retentions of EUR 900,000 per policy with respect to death risk and EUR 25,000 annually for disability risk.

NON-LIFE

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

AEGON AROUND THE WORLD
UNITED KINGDOM

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). It is a company limited by shares, incorporated on December 1, 1998. The principal offices of AEGON UK are Edinburgh (Scotland), London (England), Lytham (England), and Dublin (Ireland).

The primary operating subsidiaries of AEGON UK are:

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

AEGON UK operates four distinct businesses:

- **AEGON Individual** – all operations relating to the individual investment, protection, and pension markets in the United Kingdom; this business primarily operates under the 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 businesses

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.

AEGON Individual brings together individual pension and protection and onshore and offshore life businesses in order to focus on providing solutions to meet the protection, long-term savings, and retirement income needs of individuals. This business operates primarily through the Scottish Equitable brand.

AEGON Corporate provides group pensions and employee benefit solutions through the Scottish Equitable brand, scheme administration through the HS Administrative Services brand and worksite marketing software through the AEGON Benefit Solutions brand.

PENSIONS

The UK government increase in the price cap for new stakeholder business to 1.5% for 10 years and then 1% thereafter was implemented in April 2005. So far, only a small number of product providers (including AEGON UK) have adopted the new charge cap, but others are expected to follow during 2006.

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 will apply to all types of pension arrangements. This will be implemented in April 2006 and will impact all pension providers in the United Kingdom. Reviews of product ranges and supporting infrastructure are underway to ensure that AEGON UK capitalizes on the opportunities presented by these changes.

Sales of more specialized pensions remain strong, particularly in the area of income drawdown and phased retirement products. These allow individuals up to the age of 75 to access part of their pension income without having to fully purchase an annuity until a later date.

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.

Group pensions. Group pensions is a key business area of AEGON Corporate. These are pension arrangements for the employees of corporate customers that cover a range of benefit options, 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 age 75. AEGON Corporate also sells and administers defined benefit pension schemes. The market for new defined benefit schemes has decreased in recent years, but opportunities remain to take over the administration and investment of existing schemes.

Individual pensions. AEGON Individual offers a comprehensive range of pension products, including stakeholder pensions, pensions for executives, transfers from other schemes, phased retirement, and income drawdown. AEGON Individual offers a Self Invested Personal Pension (SIPP) that allows the policyholder to invest in a range of investments, including insured funds and property.

UK AND OFFSHORE BONDS

AEGON UK distributes both UK and offshore bonds. The differences between these bonds lie in the tax advantages related to each type of bond. Offshore bonds offer the opportunity to defer personal tax as generally, tax is not paid until the bond is encashed.

UK bonds. The bond market in the United Kingdom is one of considerable size and is still seen by most financial advisors and product providers as a core part of their business. Onshore bonds offer a tax-efficient method of investing for a wide range of investors.

AEGON Individual offers a range of internally managed funds as well as a comprehensive range of managed funds provided by a range of major fund managers.

Offshore Bonds. Offshore bonds are sophisticated, packaged investment products with tax advantages for clients in the United Kingdom and overseas. The products meet the needs of high net-worth individuals looking for investment choice and flexibility, inheritance tax planning (in conjunction with trust arrangements), and general tax planning. They are also recommended for investing corporate money.

In 2005, AEGON UK's product range was extended with the addition of another charging basis on the open architecture contract (the Private Client Portfolio) and the launching of new sector funds on the insured bond (the Investment Portfolio).

INDIVIDUAL PROTECTION

AEGON Individual Protection (AIP) operates in the individual protection market under the brand name of Scottish Equitable Protect. Launched in 2001, Scottish Equitable Protect offers menu-based products targeted at meeting the needs of both individual and business customers.

New electronic business services have been increasingly embraced by advisors in 2005, improving productivity and efficiency for advisors and product providers. The importance of electronic transaction services within the overall proposition will continue to increase, and development of new electronic business services will be a focus throughout 2006. Moreover, the pension reforms in April 2006 will revitalize the pension term assurance market and open up a new potential market for AIP.

GROUP RISK CONTRACTS

AEGON Corporate offers a range of corporate risk products exclusively through financial advisors to suit the needs of all employers and their employees. AEGON UK's core product lines include group life, group income protection, and group critical illness. Each can be bought on a stand-alone basis or together in the form of a tailored employee benefits package, either on a core or flexible benefits basis. A product called the Employee Protection Menu, aimed specifically at small to medium enterprises, is also offered through intermediaries. This product is purchased by the employer at a predefined cost and allows each individual employee to select appropriate levels of protection to suit their individual needs.

MUTUAL FUNDS

AEGON Asset Management UK (AAM UK) is a major provider of asset management services both within AEGON UK and to institutional customers and individuals. As of December 31, 2005, AAM UK managed approximately GBP 45 billion of funds, providing both mutual and segregated funds for clients.

ADVICE

AEGON UK's principal means of distribution is through the financial advisor channel in the United Kingdom market. These advisors provide their customers 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 includes financial advisors operating in the multi-tied, single-tied, whole of market, and independent channels, reflecting 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, but is particularly involved with the networks and with large local firms.

To support this activity, there are over 250 broker-consultants based in the United Kingdom that operate out of local branch offices and via a telephone sales center. They provide financial advisors with business development support, technical advice, and training.

In 2002 and 2003, AEGON UK acquired six independent financial advisors in the United Kingdom. Five of these businesses were merged in 2004 to form a new company called Origen, which became fully operational on March 1, 2005. Origen 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. The sixth acquired firm, Positive Solutions, provides management services to self-employed independent financial advisors that use sophisticated technology platforms.

REINSURANCE CEDED

AEGON UK reinsures risk where it believes it is prudent and economically sound to do so while maintaining a target credit rating requirement of AA by Standard & Poor's. Credit exposure to other reinsurers is considered on a case by case basis.

AEGON AROUND THE WORLD
HUNGARY

GENERAL HISTORY

AEGON Hungary Composite Insurance Company Limited by Shares (AEGON Hungary) is a member of the AEGON Group since 1992. The legal predecessor of the company was the state-owned ÁB, which was incorporated in the 1940's. The company operates in Hungary and has its head office in Budapest.

AEGON Hungary's main operations are life insurance, general insurance, pensions, and asset management. AEGON Hungary operations are organized by sales channels and functional areas.

AEGON Hungary has three subsidiaries:

- AEGON Real Estate Limited Company
- AEGON Pension Fund Management Company Limited by Shares
- AEGON Hungary Investment Fund Management Company Limited by Shares

On September 5, 2005, AEGON Hungary Financial Services Company Limited by Shares merged into AEGON Hungary Composite Insurance Company.

PRODUCTS AND DISTRIBUTION

AEGON Hungary is a composite insurance company offering both life insurance and non-life insurance products. The core business products are life, pension, mortgage, and household insurance. Strong pension fund sales have played a key role in the sales performance of AEGON Hungary in 2005. The life insurance product portfolio consists of traditional general account products and unit-linked products, although in recent years unit-linked sales have been much more significant than general account product sales. AEGON Hungary's share in the household segment was 36% in 2004 (source: Annual Report of Hungarian Insurance Association). Margins for household insurance are attractive, and they present AEGON Hungary with opportunities for cross-selling life insurance products. Property and car insurance are also represented in the portfolio but are not core products.

PENSION INSURANCE

Pension insurance is a core business product of AEGON Hungary. Pension fund administrative services are also offered. In 2004, the mandatory and voluntary pension funds of AEGON Hungary were among the largest in the country in terms of managed assets and number of members (source: www.pszaf.hu). The pension fund business concentrates its growth strategy on adding new members and taking over other pension funds.

TRADITIONAL GENERAL ACCOUNT PRODUCTS

These products consist of individual life policies that were issued before AEGON Hungary became part of the AEGON Group. The premium income and the profit margin from these policies are very low. 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.

UNIT-LINKED PRODUCTS

Unit-linked products are AEGON Hungary's most important products and make up the largest part of AEGON Hungary's new sales. Unit-linked premiums are invested in various asset funds. AEGON Hungary charges asset management fees, policy fees, and risk charges to the fund. The unit-linked products cover all types of life insurance including, pensions, endowment and savings.

GROUP LIFE PRODUCTS

Group life products are yearly renewable term products with optional accident and health coverage. These products are mainly unit-linked products that sometimes offer an interest guarantee.

ASSET MANAGEMENT

AEGON Hungary also provides asset management services through its subsidiary, AEGON Hungary Investment Fund Management Company. It offers six mutual funds to the public: domestic bond, domestic equity, international bond, international equity, money market, and a mixed fund. AEGON Hungary Investment Fund Management Company manages the assets in the general account portfolio of AEGON Hungary, the unit-linked portfolios and AEGON Hungary Pension Funds. It also provides asset management services to third parties. AEGON Hungary Investment Fund Management Company is responsible for all the investment activities in Hungary and the Central Eastern European region.

The AEGON Hungary Pension Fund Management Company is responsible for the operation and management of voluntary and mandatory pension funds. Its two main sources of revenue are fees for asset management and administrative services.

DISTRIBUTION CHANNELS

AEGON Hungary's distribution channels comprise a composite network that sells both life and non-life products. Distribution also depends on a specialized team that targets the Budapest market and other independent agents and brokers.

The composite network and the specialized team work with agents. AEGON Hungary also uses alternative channels and partners to increase sales. This approach enabled AEGON Hungary to keep a strong fourth position in the pension fund and life insurance market in 2005 (source: www.pszaf.hu and www.mabisz.hu).

The renewed, integrated direct sales and direct marketing operation focuses on core portfolio protection and the sale of standardized products.

AEGON Hungary also fosters relationships with banks. AEGON Hungary's current partner banks offer mortgage products, simple savings products and units of AEGON Hungary Investment Fund Management Company's mutual funds to the public.

REINSURANCE CEDED

AEGON Hungary's reinsurance partners are all large reinsurers in the European markets with a minimum Standard & Poor's rating of A. The three most important reinsurance programs in force in the last ten years are the Catastrophe Excess of Loss Treaty, the Motor Third Party Liability Excess of Loss Treaty, and the Property per Risk Excess of Loss Treaty. AEGON Hungary's catastrophe cover, which protects private homeowners, is popular in the Hungarian market. Additionally, AEGON Hungary has smaller treaties for other business lines such as General Third Party Liability, Marine Cargo, and Life & Group Life Business. The majority of AEGON Hungary's programs are non-proportional Excess of Loss programs, which is in line with AEGON Hungary's strategy to cede only the higher risks or involve the reinsurers in high losses.

AEGON AROUND THE WORLD
CZECH REPUBLIC, POLAND, SLOVAKIA

GENERAL HISTORY AEGON CZECH REPUBLIC
AEGON started insurance operations in the Czech Republic within a locally founded company when it received a license from the Ministry of Finance in April 2005.

PRODUCTS AND DISTRIBUTION
AEGON Czech Republic offered the following three basic products in 2005:

- **Regular premium product** (unit-linked, traditional, tied agents/brokers)
- **Single premium product** (unit-linked, traditional, tied agents/brokers)
- **Children's product** (unit-linked, traditional, tied agents/brokers)

In addition, AEGON Czech Republic offered the following five riders:

- **Accidental death**
- **Accidental disability**
- **Children's accidental disability**
- **Diseases**
- **Waiver of premium** (for regular premium products)

Distribution in the Czech Republic consists of an internal distribution network (IDN), an external distribution network (EDN), and alliance partner key account managers and distribution networks. IDN is comprised of tied agents who are associated to ten regional offices. EDN includes brokers. The key account managers are responsible for corporate business.

REINSURANCE CEDED
AEGON Czech Republic's reinsurance partner is Munich Re, with a Standard and Poor's rating of A+. Mortality risk and risk of disability are reinsured. The retention on any one life is CZK 600.

GENERAL HISTORY AEGON POLAND
AEGON Poland has been a member of the AEGON Group since October 4, 2005. The company was incorporated on December 24, 1999. AEGON Poland is a joint stock company. It operates in Poland and is headquartered in Warsaw. AEGON Poland operates in the life insurance business. AEGON Poland operations are organized by sales channels and functional areas.

PRODUCTS AND DISTRIBUTION
AEGON Poland is a life insurance company offering mainly individual unit-linked products, including long-term savings and retirement products. AEGON Poland is first in this segment with a 21% share in the life insurance single premium segment. The company also achieved the fifth position in the total life insurance market with a 5% market share (based on premiums written, source: Annual Report of KNUiFE – Insurance and Pension Funds Supervisory Commission, 2004).

UNIT-LINKED PRODUCTS
Open-architecture, unit-linked products are the most important products sold by AEGON Poland. AEGON Poland offers over 50 investment funds managed by different fund managers. In one product, a variable premium can be invested in 20 to 30 external investment funds and in one internal fund called the Guaranteed Fund. Both single premium and recurring premium products are sold. AEGON Poland charges asset management fees, policy fees, and risk charges to the fund. Death benefit in the unit-linked products is in most cases the higher of the fund value or the premium paid.

DISTRIBUTION CHANNELS
AEGON Poland's distribution channels are comprised of tied agent networks, external agency networks (e.g., brokers), and the bank channels. In all networks, AEGON Poland is the provider of life insurance investment programs. Additionally, in the bank channel, AEGON Poland provides credit life protection to mortgages.

REINSURANCE CEDED
AEGON Poland's reinsurance partners have a minimum Standard & Poor's A rating. All products containing significant insurance risk, including risk riders and credit life, are reinsured. The company has both proportional and non-proportional protection.

GENERAL HISTORY AEGON SLOVAKIA
There are two AEGON operating units in Slovakia:

- **AEGON Life Insurance –** the life insurance operations were started up on September 2, 2003 as a branch office of AEGON Levensverzekering N.V. At the end of October 2004, AEGON Life insurance Slovakia started its own operations. The branch office is in the process of being converted into a local company.
- **AEGON Pension Asset Management –** the pension asset management company is a second pillar mandatory pension fund and received a license to do business on October 1, 2004. The mandatory pension fund market in Slovakia opened on January 1, 2005.

PRODUCTS AND DISTRIBUTION
AEGON Life Insurance Slovakia offers the following products:

- **Universal life and unit-linked endowment, fixed term, whole life insurance, and endowments for children**
- **Riders** (accidental death, critical illness, waiver of premium, basic, and extended accidental rider)
- **Mortgage** (packaged endowment product)
- **Group life**

The Pension Asset Management company offers products for the second pillar retirement market (mandatory pension fund market).

Both AEGON companies are selling their products through their tied agents networks and the broker channel. Recently, the bank channel was added as a distribution channel for mortgage related products.

REINSURANCE CEDED
AEGON Life Insurance reinsures mortality and morbidity risk with Munich Re, which is rated A+. The retention is SKK 1,000,000 per life with respect to the death risk. The riders are reinsured using a quota share model.

AEGON AROUND THE WORLD
SPAIN

GENERAL HISTORY
In 2005, 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 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.

RECENT DEVELOPMENTS
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.

Effective January 1, 2005, AEGON Seguros Generales was sold to Reale Mutua Group (Reale). It was additionally agreed that AEGON Seguros Generales' distribution network in Spain will continue to sell AEGON's life and health insurance products. Moreover, AEGON Spain acquired the Spanish life portfolio of Reale and gained access to Reale's agent distribution network for five years and renewable thereafter.

In July 2005, AEGON Spain entered into a strategic partnership agreement with Caja de Badajoz (CB) aiming at setting up a new insurance company, which will sell AEGON Spain's life insurance, accident and pension products through the CB network. AEGON Spain will provide the back office services for this joint venture company. The agreement is subject to regulatory approval, and the transaction is expected to be completed in the first quarter of 2006.

In November 2005, AEGON Spain signed a strategic partnership agreement with the Spanish savings bank Caja Navarra (CN), whereby AEGON will acquire a 50% stake in CN's life insurance and pensions subsidiary, Seguros Navarra S.A. The acquisition took place in two tranches; initially AEGON acquired a 15% stake and another 35% is acquired in February 2006. The acquisition is subject to approval by the Spanish and European regulatory authorities.

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

PRODUCTS AND DISTRIBUTION
Over the past several years, AEGON Spain has focused on the life insurance business for portfolio growth. By marketing unit-linked variable life products through multiple distribution channels significant inroads were 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 exclusively through the agency channel, using a network of agents and brokers.

Individual life products are sold by specialized agents and brokers in urban centers and by specialized agents and through direct marketing in rural areas. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

REINSURANCE CEDED
AEGON Spain has proportional reinsurance protection for individual risk policies and non-proportional protection for group risk policies. AEGON Spain's reinsurers generally have at least a Standard & Poor's A rating.

AEGON AROUND THE WORLD
TAIWAN

GENERAL HISTORY
AEGON Life Insurance Inc. (AEGON Taiwan) is a life insurance company that was formed in 2001 to conduct life insurance business in the Republic of China. AEGON Taiwan's operations began in 1994 as a branch office of Life Investors Insurance Company of America, an AEGON USA life insurance company.

In 1998, AEGON Taiwan took over a block of business comprised of 55,000 policies of American Family Life Assurance Company Taiwan. In 1999, the Transamerica Taiwan branch was added 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.

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. Variable universal life, introduced in April 2002, is one of the major products in the agency channel. In 2003, new product initiatives included an updated version of the whole life product series. Furthermore, AEGON Taiwan launched an innovative variable annuity product in 2004, targeted at long-term savings and retirement planning. Both products are sold through multiple distribution channels.
The agency channel consists of a network of over 618 full-time professional career agents operating from 26 offices throughout Taiwan. The agency channel's business is a mix of traditional and variable life insurance. The brokerage channel mainly sells whole life business written by independent agents. Whole life products are also sold via the bank channel. In the group business sector, AEGON Taiwan provides protection through yearly renewable life, accidental, or medical business to employees of its corporate clients.

Over the past three years, distribution through brokerage and bancassurance has resulted in substantial growth in new accounts and business volume for the majority of AEGON Taiwan's total new business premiums.

REINSURANCE CEDED
AEGON Taiwan has its mortality and morbidity risks reinsured by local and international reinsurers. Other than the local Central Reinsurance Company, which is going through a privatization, all reinsurers carry a current rating of A+ or higher. The reinsurance covers both excess surplus risks and catastrophic concentration risks.

AEGON AROUND THE WORLD
CHINA

GENERAL HISTORY
AEGON-CNOOC 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. After a twelve-month preparatory period, AEGON-CNOOC commenced its operations in Shanghai in May 2003. AEGON-CNOOC is licensed to sell both traditional life insurance products as well as accident and health products in mainland China.

In April 2005, AEGON-CNOOC's Beijing branch completed its business registration and started its full operation. Subsequently, in September 2005, the Jiangsu branch celebrated its opening ceremony in Nanjing and became one of the first joint venture life insurance company to enter into Jiangsu Province.

PRODUCTS AND DISTRIBUTION
Since its inception in 2003, AEGON-CNOOC has successfully established multiple distribution channels, including the agency, the bancassurance, direct marketing, and telemarketing channels. In addition, AEGON-CNOOC's brokerage channel started to perform well since the Jiangsu branch began its business in September 2005.

The agency channel portfolio consists primarily of universal life and traditional life products including level whole life, coupon whole life, endowment life, and 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 short-term universal life product. AEGON-CNOOC is also planning to gradually sell more regular premium products 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.

ASSET LIABILITY MANAGEMENT
Being a newly established company, the asset liability management of AEGON-CNOOC is in an early stage. Considering that most insurance liability is derived from 5-year 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 to achieve higher investment return.

REINSURANCE CEDED
According to the regulations of the China Insurance Regulatory Commission (CIRC), 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 is 15%, 10% for the business written in 2004, and 5% for the business written in 2005.

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

LINES OF BUSINESS

The AEGON companies around the world offer a range of insurance, pensions and investment products tailored to the specific needs of their customer bases.

These products are sold through a highly diversified distribution network. Similar types of products are grouped together and reported on in a certain line of business. For example: whole life, term life and universal life insurance products are grouped together in the traditional life line of business. The table on this page provides a broad overview of the lines of business for each country unit. The section 'AEGON Around the world' (page 65-79) provides more detail on the specific products sold in each country unit and in the financial statements information about products is also included.

EARNINGS CONTRIBUTION
(in EUR millions)

	2005	2004
Traditional life	823	566
Life for account of policyholders	243	304
Fixed annuities	425	284
Variable annuities	130	177
Institutional guaranteed products	280	367
Fee – off balance sheet products	33	36
Reinsurance	105	(88)
Accident and health insurance	324	325
General insurance	55	104
Banking	15	24
Other	(6)	0
Interest charges and other	(280)	(327)
OPERATING EARNINGS BEFORE TAX	**2,147**	**1,772**

GENERAL ACCOUNT	United States	Canada	Netherlands	United Kingdom	Hungary	Czech Republic	Poland	Slovakia	Spain	Taiwan	China
Traditional life	●	●	●	●	●	●		●	●	●	●
Fixed annuities	●	●									
Institutional guaranteed products*	●										
ACCOUNT OF POLICYHOLDERS											
Life for account of policyholders	●		●	●	●	●	●	●	●	●	●
Variable annuities	●	●								●	
Fee – off balance sheet products	●	●	●	●	●						
Banking			●								
Accident and health insurance	●	●	●		●	●		●	●	●	●
General insurance			●		●						

* Also distributed internationally from the United States

5. Financial information

AEGON is committed to providing transparent information and quality services to existing and potential shareholders.

EXCHANGE RATES AT DECEMBER 31, 2005

		EUR	USD	GBP	CAD	PLN	CNY	HUF	NTD	CZK	SKK
1	EUR	–	1.1797	0.6853	1.3725	3.860	9.5204	252.870	38.690	29.000	37.880
1	USD	0.848	–	0.581	1.163	3.272	8.070	214.351	32.796	24.583	32.110
1	GBP	1.459	1.721	–	2.003	5.633	13.892	368.992	56.457	42.317	55.275
1	CAD	0.729	0.860	0.499	–	2.812	6.937	184.240	28.189	21.129	27.599
1	PLN	0.259	0.306	0.178	0.356	–	2.466	65.510	10.023	7.513	9.813
1	CNY	0.105	0.124	0.072	0.144	0.405	–	26.561	4.064	3.046	3.979
100	HUF	0.395	0.467	0.271	0.543	1.526	3.765	–	15.300	11.468	14.980
100	NTD	2.585	3.049	1.771	3.547	9.977	24.607	653.580	–	74.955	97.906
100	CZK	3.448	4.068	2.363	4.733	13.310	32.829	871.966	133.414	–	130.621
100	SKK	2.640	3.114	1.809	3.623	10.190	25.133	667.555	102.138	76.558	–

WEIGHTED AVERAGE EXCHANGE RATES 2005

		EUR	USD	GBP	CAD	PLN	CNY	HUF	NTD	CZK	SKK
1	EUR	–	1.2456	0.6837	1.5094	3.860	10.100	248.020	39.760	29.590	38.640
1	USD	0.803	–	0.549	1.212	3.099	8.109	199.117	31.920	23.756	31.021
1	GBP	1.463	1.822	–	2.208	5.646	14.773	362.761	58.154	43.279	56.516
1	CAD	0.663	0.825	0.453	–	2.557	6.691	164.317	26.342	19.604	25.600
1	PLN	0.259	0.323	0.177	0.391	–	2.617	64.254	10.301	7.666	10.010
1	CNY	0.099	0.123	0.068	0.149	0.382	–	24.556	3.937	2.930	3.826
100	HUF	0.403	0.502	0.276	0.609	1.556	4.072	–	16.031	11.930	15.579
100	NTD	2.515	3.133	1.720	3.796	9.708	25.402	623.793	–	74.422	97.183
100	CZK	3.380	4.210	2.311	5.101	13.045	34.133	838.189	134.370	–	130.585
100	SKK	2.588	3.224	1.769	3.906	9.990	26.139	641.874	102.899	76.579	–

EXCHANGE RATES AT DECEMBER 31, 2004

		EUR	USD	GBP	CAD	CNY	HUF	NTD	CZK	SKK
1	EUR	–	1.3621	0.7051	1.6416	11.2734	245.970	43.315	30.464	38.745
1	USD	0.734	–	0.518	1.205	8.276	180.581	31.800	22.365	28.445
1	GBP	1.418	1.932	–	2.328	15.988	348.844	61.431	43.205	54.950
1	CAD	0.609	0.830	0.430	–	6.867	149.836	26.386	18.558	23.602
1	CNY	0.089	0.121	0.063	0.146	–	21.819	3.842	2.702	3.437
100	HUF	0.407	0.554	0.287	0.667	4.583	–	17.610	12.385	15.752
100	NTD	2.309	3.145	1.628	3.790	26.027	567.863	–	70.331	89.449
100	CZK	3.283	4.471	2.315	5.389	37.006	807.412	142.184	–	127.183
100	SKK	2.581	3.516	1.820	4.237	29.096	634.843	111.795	78.627	–

WEIGHTED AVERAGE EXCHANGE RATES 2004

		EUR	USD	GBP	CAD	CNY	HUF	NTD	CZK	SKK
1	EUR	–	1.2436	0.679	1.6166	11.2734	251.830	41.690	30.464	38.745
1	USD	0.804	–	0.546	1.300	9.065	202.501	33.524	24.497	31.156
1	GBP	1.473	1.832	–	2.381	16.603	370.884	61.399	44.866	57.062
1	CAD	0.619	0.769	0.420	–	6.974	155.778	25.789	18.844	23.967
1	CNY	0.089	0.110	0.060	0.143	–	22.338	3.698	2.702	3.437
100	HUF	0.397	0.494	0.270	0.642	4.477	–	16.555	12.097	15.385
100	NTD	2.399	2.983	1.629	3.878	27.041	604.054	–	73.073	92.936
100	CZK	3.283	4.082	2.229	5.307	37.006	826.648	136.850	–	127.183
100	SKK	2.581	3.210	1.752	4.172	29.096	649.968	107.601	78.627	–

CONSOLIDATED BALANCE SHEET OF AEGON GROUP AS AT DECEMBER 31, 2005

Amounts in millions

2005 USD	2004 USD		Note number	2005 EUR	2004 EUR
		ASSETS			
5,518	5,698	Intangible assets	6	4,678	4,183
172,325	175,052	Investments	7	146,075	128,516
150,467	145,524	Investments for account of policyholders	8	127,547	106,838
2,708	2,337	Derivatives	9	2,295	1,716
639	659	Investments in associates	10	542	484
4,866	4,493	Reinsurance assets	11	4,125	3,298
483	440	Defined benefit assets	25	409	323
98	17	Deferred tax assets	27	83	13
13,387	12,338	Deferred expenses and rebates	12	11,348	9,058
8,029	8,800	Other assets and receivables	13	6,806	6,460
8,620	10,628	Cash and cash equivalents	14	7,307	7,803
367,140	**365,986**	**TOTAL ASSETS**		**311,215**	**268,692**
		EQUITY AND LIABILITIES			
22,740	20,261	Shareholders' equity	15	19,276	14,875
3,986	3,908	Other equity instruments	16	3,379	2,869
26,726	24,169	Issued capital and reserves attributable to equity holders of AEGON N.V.		22,655	17,744
18	21	Minority interest		15	15
26,744	**24,190**	**GROUP EQUITY**		**22,670**	**17,759**
515	515	Trust pass-through securities	17	437	378
335	346	Subordinated borrowings	18	284	254
112,886	112,804	Insurance contracts	19	95,690	82,816
82,909	81,595	Insurance contracts for account of policyholders	20	70,280	59,904
45,822	45,807	Investment contracts	21	38,842	33,630
69,277	64,212	Investment contracts for account of policyholders	22	58,724	47,142
2,598	2,690	Derivatives	9	2,202	1,975
6,526	7,712	Borrowings	23	5,532	5,662
298	381	Provisions	24	253	280
2,377	2,667	Defined benefit liabilities	25	2,015	1,958
100	104	Deferred revenue liabilities	26	84	76
3,434	4,653	Deferred tax liabilities	27	2,911	3,416
12,661	17,625	Other liabilities	28	10,733	12,939
658	685	Accruals	29	558	503
340,396	**341,796**	**TOTAL LIABILITIES**		**288,545**	**250,933**
367,140	**365,986**	**TOTAL EQUITY AND LIABILITIES**		**311,215**	**268,692**

The Group's financial statements are presented in euro. US dollar figures are included for information purposes only.

CONSOLIDATED INCOME STATEMENT OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2005

Amounts in millions

2005 USD	2004 USD		Note number	2005 EUR	2004 EUR
		INCOME			
23,519	22,794	Premium income	30	18,882	18,329
12,378	11,611	Investment income	31	9,937	9,337
1,799	1,620	Fee and commission income	32	1,444	1,303
91	412	Other revenues	33	73	331
37,787	**36,437**	**TOTAL REVENUES**		**30,336**	**29,300**
2,106	1,925	Income from reinsurance ceded		1,691	1,548
869	256	Fair value and foreign exchange gains	34	698	206
14,125	7,304	Gains on investments for account of policyholders	35	11,340	5,873
1,581	1,604	Gains on investments	36	1,269	1,290
219	172	Other income	37	176	138
56,687	**47,698**	**TOTAL INCOME**		**45,510**	**38,355**
		CHARGES			
1,936	1,944	Premiums to reinsurers	30	1,554	1,563
42,110	33,557	Policyholder claims and benefits	38	33,807	26,984
213	194	Profit sharing and rebates	39	171	156
6,878	7,193	Commissions and expenses	40	5,522	5,784
479	247	Fair value and foreign exchange losses	34	385	199
2	16	Losses on investments for account of policyholders	35	2	13
139	108	Losses on investments	36	112	87
(17)	228	Impairment charges/reversals	41	(14)	183
465	495	Interest charges and related fees	42	373	398
4	271	Other charges	43	3	218
52,209	**44,253**	**TOTAL CHARGES**		**41,915**	**35,585**
4,478	**3,445**	**INCOME BEFORE SHARE IN PROFIT/(LOSS) OF ASSOCIATES AND TAX**		**3,595**	**2,770**
25	31	Share in profit/(loss) of associates		20	25
4,503	**3,476**	**INCOME BEFORE TAX**		**3,615**	**2,795**
(1,102)	(668)	Income tax	44	(885)	(537)
3,401	**2,808**	**INCOME AFTER TAX**		**2,730**	**2,258**
2	(2)	Attributable to minority interest		2	(2)
3,403	**2,806**	**NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF AEGON N.V.**		**2,732**	**2,256**
		EARNINGS AND DIVIDENDS PER SHARE			
2.03	1.72	Basic earnings per share (cents per share)[1]	45	1.63	1.38
2.03	1.72	Diluted earnings per share (cents per share)[1]	45	1.63	1.38
		Dividend per share (cents per share)	46	0.45	0.42

[1] After deduction of preferred dividends and coupons on perpetuals

The Group's financial statements are presented in euro. US dollar figures are included for information purposes only.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2005

Amounts in EUR millions

	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
YEAR ENDED DECEMBER 31, 2005								
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	–	–	–	–	1,456	1,456	–	1,456
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	–	–	–	–	4	4	–	4
Other	–	362	–	–	–	362	–	362
AT DECEMBER 31, 2005	**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.

	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
YEAR ENDED DECEMBER 31, 2004								
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	**6,590**	**6,825**	**2,141**	**(681)**	**2,869**	**17,744**	**15**	**17,759**

[1] Issued capital and reserves attributable to equity holders of AEGON N.V.

5

CONSOLIDATED CASH FLOW STATEMENT OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2005

Amounts in millions

2005 USD	2004 USD		Note number	2005 EUR	2004 EUR
		CASH FLOWS FROM OPERATING ACTIVITIES			
4,503	**3,476**	**INCOME BEFORE TAX**		**3,615**	**2,795**
(11,491)	**(5,387)**	**ADJUSTMENTS**	49.1	**(9,225)**	**(4,332)**
(6,988)	**(1,911)**	**CASH GENERATED FROM OPERATIONS**		**(5,610)**	**(1,537)**
11,533	10,559	Interest received		9,259	8,491
1,081	990	Dividends received		868	796
(296)	(370)	Interest paid		(238)	(297)
(847)	(368)	Income tax paid		(680)	(296)
4,483	**8,900**	**NET CASH FLOWS FROM OPERATING ACTIVITIES**		**3,599**	**7,157**
		CASH FLOWS FROM INVESTING ACTIVITIES			
(73,206)	(80,252)	Purchase of financial assets, excluding fair value option assets and derivatives		(58,771)	(64,532)
(301)	(136)	Purchase of investments in real estate and real estate held for own use		(242)	(109)
(189)	(9)	Acquisition of a subsidiary		(152)	(7)
68,517	74,176	Proceeds from sale and maturity of financial assets, excluding fair value option assets and derivatives		55,007	59,646
326	305	Proceeds from sale of investments in real estate and real estate held for own use		262	245
395	6,928	Divestiture of a subsidiary		317	5,571
(166)	(1,693)	Changes in money market investments		(133)	(1,361)
(406)	(136)	Other		(326)	(110)
(5,030)	**(817)**	**NET CASH FLOWS FROM INVESTING ACTIVITIES**		**(4,038)**	**(657)**
		CASH FLOWS FROM FINANCING ACTIVITIES			
2	1	Proceeds from issue of share capital		2	1
1,815	1,681	Proceeds from issue of perpetuals		1,457	1,352
1,293	710	Proceeds from borrowings and amounts due to banks		1,038	571
139	123	Proceeds from issue of treasury shares		112	99
(1,183)	–	Repayments of perpetuals		(950)	–
–	(228)	Repayments of capital securities and subordinated borrowings		–	(183)
(1,959)	(4,232)	Repayments of borrowings and amounts due to banks		(1,573)	(3,403)
(47)	(96)	Purchase of treasury shares		(38)	(77)
(339)	(436)	Dividends paid		(272)	(351)
(164)	(104)	Coupons on perpetuals		(132)	(84)
(809)	(918)	Other		(649)	(739)
(1,252)	**(3,499)**	**NET CASH FLOWS FROM FINANCING ACTIVITIES**		**(1,005)**	**(2,814)**
(1,799)	**4,584**	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS**		**(1,444)**	**3,686**
9,268	4,500	Net cash and cash equivalents at the beginning of the year		6,804	3,563
(311)	184	Effects of exchange rate changes on cash and cash equivalents		708	(445)
7,158	**9,268**	**NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**6,068**	**6,804**

The cash flow statement is prepared according to the indirect method.

The Group's financial statements are presented in euro. US dollar figures are included for information purposes only.

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, Frankfurt, London, Tokyo and Zurich.

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 27,000 people worldwide.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

These are the Group's first consolidated financial statements prepared in accordance with IFRS, with the 2004 comparatives restated accordingly. Previously, the financial statements were prepared based on the reporting requirements embodied in Part 9 of Book 2 of the Netherlands Civil Code. The effects of the transition to IFRS as of January 1, 2004 on the financial position, financial performance and cash flows can be found in note 56.

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.

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2005, the Group has chosen to early adopt the following relevant standards:

- The amendments to IAS 39 *Fair value option* – required date of adoption January 1, 2006;
- The amendments to IAS 39 and IFRS 4 *Financial Guarantee Contracts* – required date of adoption January 1, 2006;
- The amendments to IAS 19 *Actuarial Gains and Losses, Group Plans and Disclosures* – required date of adoption January 1, 2006.

The early adoption of these standards and interpretations did not have an impact on equity or net income.

The amendments to IAS 39 *Fair value option* revised the fair value option previously included in IAS 39 by limiting its use to those financial instruments that meet certain conditions. The amendments to IAS 39 and IFRS 4 introducing a definition of a financial guarantee contract include requirements on the accounting for such contracts. The Group's accounting policies, including the designation of financial instruments as at fair value through profit or loss, were not affected by the adoption of these two amendments.

The adoption of the amendments to IAS 19 has resulted in more extensive disclosures on the Group's post-employment benefit plans. The option provided by the amendment to IAS 19 to recognize actuarial gains and losses immediately outside income has not been adopted. In accordance with the transitional provisions to the amendments, the amounts included in disclosures that require comparatives for four previous years will be determined for each annual period prospectively from 2005 onwards.

The following standards and interpretations will be introduced 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;
- The amendments to IAS 21 *Net investments in foreign operations* – required date of adoption January 1, 2006;
- IFRIC 4 *Determining whether an arrangement contains a lease* – required date of adoption January 1, 2006;
- IFRIC 8 *Scope IFRS 2 Share-based Payment* – required adoption date January 1, 2007.

The Group intends to apply these standards and interpretations as of the required date of adoption, subject to EU endorsement.

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 Group will adopt these standards effective January 1, 2007.

The amendments to IAS 21 redefine which monetary items should be included in an entity's net investment in a foreign operation. In order to meet the definition of a net investment in a foreign operation, 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. 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 seems to be received.

The Group intends to adopt the amendments to IAS 21, IFRIC 4 and IFRIC 8 effective January 1, 2006, subject to EU endorsement, and is currently investigating the effect of these standards and interpretations on its accounting.

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 States Generally Accepted Accounting Principles (US GAAP). On September 19, 2005, the Financial Accounting Services Board (FASB) 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. The Group is currently investigating the effect of SOP 05-1 on its accounting.

2.2 BASIS OF CONSOLIDATION

The following accounting principles have been applied consistently to the interests in subsidiaries and joint ventures acquired after the transition to IFRS on January 1, 2004. Business combinations that occurred before this date have not been restated.

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, 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 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 amounts are 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.

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. 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 not reflected 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 an economic activity with other parties 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.

2.3 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 prevailing exchange 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 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.

The US dollar information provided in the consolidated financial statements for comparative purposes is translated from euro by translating balance sheet items at the closing rate on the balance sheet date and income statement items at the average exchange rate.

2.4 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 information is reported for groups of related products.

Segment reporting includes information on operating earnings. Included in operating earnings are segment revenues and segment expenses. Segment revenues consist 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: income from reinsurance ceded, 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 charges and related fees.

2.5 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.

2.6 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.

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. The adjustment is recognized directly in equity.

VOBA is derecognized when the related contracts are settled or disposed of.

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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 amortization and impairment losses. The depreciable amount of the asset is amortized over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The amortization 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.

2.7 INVESTMENTS
Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate and real estate held for own use.

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, 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.

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 equity. Financial assets that are designated as hedged items are measured in accordance with the hedge accounting requirements.

- 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, with the exception of future credit losses. Fees and points 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 as comparative data in the notes to the financial statements.

  The fair value of an asset is the amount for which an asset 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 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 or retaining of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. A transfer of an asset generally involves the transfer of the contractual right to receive cash flows of 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.

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 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 in the financial statements. A receivable is recognized for any related cash collateral paid by AEGON. If the Group subsequently sells that security, a liability is recognized to repurchase the asset 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 classified as investments.

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 any 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 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.

On disposal of an asset, the difference between the net proceeds received and the carrying amount of the asset is recognized in the income statement. Any remaining attributable surplus 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.

2.8 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 consistent with those applicable to general account investments with the same classification, as described in note 2.7.

2.9 DERIVATIVES

a. Definition

Derivatives are financial instruments whose 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 held by the Group 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 as 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 forecast 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 equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in 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 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 derivative is recognized in equity. Any ineffectiveness is recognized in the income statement. The amount in equity is released to the income statement when the foreign operation is disposed of.

Hedges that are no longer considered effective are discontinued prospectively. 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 it is no longer probable that a forecasted transaction will occur, the accumulated gain or loss in 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 equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

2.10 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 insurance funds that qualify as an associate are accounted for as an investment 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 by the associate directly in its equity are reflected in Group 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 equity investment and any other long-term interest that are part of the net investment are reduced to nil.

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 and are recognized immediately. Own equity instruments 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 equity are reversed and recorded through the income statement.

2.11 REINSURANCE ASSETS

Reinsurance contracts are contracts entered into by the Group whereby it will receive compensation for losses on contracts written by the Group from another insurer. 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 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 reinsured 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.

2.12 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 bond and equity returns, 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. The adjustment is recognized directly in the related revaluation reserve in 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 based on the expected surplus interest that will be earned on the contract. The expected return on investments is based on a portfolio of existing 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.

2.13 OTHER ASSETS AND RECEIVABLES

Other assets include fixed assets other than property, trade and other receivables and prepaid expenses. Fixed assets are initially carried at cost, depreciated on a straightline basis over their useful life to their residual value and are subject to impairment testing. Trade and other receivables are recognized at fair value when due and are subsequently measured at amortized cost.

2.14 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 commitments.

2.15 IMPAIRMENT OF ASSETS

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. Tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, are tested for impairment when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets that are not amortized are tested at least annually. For assets denominated in a foreign currency, a decline in the foreign exchange rates is considered an indication of impairment.

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 all its inherent risks and uncertainties.

Impairment losses are charged to 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 other 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 equity is reversed and recognized in the income statement. 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.

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 equity is reversed and 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.

2.16 EQUITY

Financial instruments that are issued by the Group are classified as equity if they evidence 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 the issuer and AEGON has the option to defer coupon payments at its discretion. These securities are measured at par and 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 and are deducted from equity, regardless of the objective of the transaction. No gain or loss is recognized on the purchase, sale, issue or cancellation of the instruments. The consideration paid or received is recognized directly in equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per share.

2.17 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. The liability is derecognized when the Group's obligation under the contract expires or is discharged or cancelled.

2.18 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. Contracts that have been reclassified 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 2.18(c) or, if bifurcated from the host contract, as described in 2.9.

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 smoothed so that interest on actuarial funding is at an expected rate of return.

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

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 the test considers actual future investment returns. In such cases, shadow accounting is applied. Shadow accounting ensures that all recognized 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 gains and losses are recognized in the income statement or directly in equity. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized in equity, together with the unrealized gain or loss.

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.

2.19 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 contracts expire, are discharged or are 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 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 the Group designates investment contracts without discretionary features as at fair value through profit or loss if by doing so a potential accounting mismatch in the financial statements 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.

2.20 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.

2.21 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

On transition to IFRS on January 1, 2004, assets or liabilities relating to defined benefit plans were recognized for the differences between the defined benefit obligations and the fair value of the plan assets.

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 Group's 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 never 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 directly, but are deferred and included in the liability on the balance sheet date as unrecognized actuarial gains and losses.

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 and the plan assets. The amortization charge is reassessed at the beginning of each year.

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 Group equity instruments. 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 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.

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.

2.22 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.

2.23 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 asset 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.

2.24 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.

2.25 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 revenues when they become receivable. Not reflected as premium income are deposits from certain products that are sold 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 non-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.

2.26 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.

2.27 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.

2.28 POLICYHOLDER CLAIMS AND BENEFITS

Policyholder claims and benefits consists of claims and benefits paid to policyholders, including excess benefit claims 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.

2.29 GAINS AND LOSSES ON INVESTMENTS

Gains and losses on investments includes 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 derivatives that are used for economic hedge purposes, as part of the Group's asset liability management, and for which no hedge accounting is applied. These derivatives are considered economic hedges of certain exposures related to an existing asset or liability. The fair value movements of these derivatives are not offset by fair value movements as the underlying asset or liability is not valued at fair value through profit or loss. Gains and losses on investments also include the ineffective portions of hedge transactions. The impact of gains and losses on the valuation of DPAC, VOBA and insurance liabilities are included in gains and losses on investments.

The gains and losses on investments are aggregated 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 7 of the consolidated financial statements.

2.30 IMPAIRMENT CHARGES

Impairment charges on investments in financial assets are disclosed in note 41. Other impairment charges are included in fair value and foreign exchange losses.

2.31 OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor 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.

2.32 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.

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.

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 mortality 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 and Canada is the annual net long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions as to the net long-term growth rate are made after considering the net 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.

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.

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 for periods ending on the last day of the exercise period.

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.

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.

4.1.1 TRADITIONAL LIFE

Traditional life products are sold in the United States, Canada, the Netherlands, the United Kingdom, Hungary, Slovakia, 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.

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 disintermediation 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.

5

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. 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.

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. The policyholder can choose a guaranteed interest rate for a guarantee period running between five and 25 years, a floating daily rate with a low minimum floor, 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. There is no minimum interest rate guarantee on the latter two options. Policyholders can divide their account values up such that the credited interest rate for each portion is tied to different investment options. Policyholders can switch among these various options.

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%.

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 if the insured dies during the term of the contract. Whole life insurance pays out death benefits when the insured dies, regardless of when this event occurs. 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%.

4.1.2 REINSURANCE

AEGON provides an array of reinsurance solutions in the United States.

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, persistency, investment and capital requirements. Yearly renewable term is a reinsurance plan for which the premium rates are not related to the original plan of insurance and the ceding company only reinsures the mortality risk.

In addition to life reinsurance, fixed and variable annuity reinsurance programs are offered.

AEGON USA assumes a certain guaranteed minimum withdrawal benefit rider from a client company. This guaranteed minimum withdrawal benefit rider provides an option for the insured to withdraw up to 7% of the premium deposit each year until their full premium is withdrawn. This permits the insured to recover their full premium despite any potential reductions in their account balance due to market fluctuations. Transamerica Reinsurance participates only in the guaranteed minimum withdrawal benefit portion of the underlying variable annuity contract and funds policyholder withdrawals, if any, at the point their account balance is exhausted.

AEGON USA also reinsures variable annuity business on a modified coinsurance with funds withheld basis. Under modified coinsurance with funds withheld arrangements, Transamerica Reinsurance typically finances acquisition costs of a variable annuity block of the client company. In return, Transamerica Reinsurance gets a regular fee generated from the underlying variable annuity account. Lapse risk is a significant risk assumed by the reinsurer.

AEGON USA also assumes fixed annuity business on a coinsurance basis from client companies. With the coinsurance arrangement, the client company pays the reinsurer the reinsurance premiums equal to the reinsurer's quota share of the gross contribution or premiums that the client company receives on the 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. The reinsurer can choose whether to participate in the annuitization guarantee, but shares in all other significant risks inherent in the underlying contract, including lapse, expense and investment risks.

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 both interest rate risk and lapse risk. The 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. In addition, 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.

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.

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed or indexed basis with the option of liquidating the contract at any time after the purchase. 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. 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.

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 discontinued form of an immediate annuity previously sold by AEGON USA. These contracts are usually 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 are structured as a lifetime annuity with mortality risk, or 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 non-forfeiture regulations. On average, minimum interest guarantees are at around 3%, with new products at 1.5%. Equity indexed annuities offer returns that are indexed to S&P 500, with a minimum of 0% and a cap on the return. The cap is reset periodically and is currently at 6.5%.

Besides the minimum interest rate guarantee, some recent 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 a pseudo guarantee 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. Some contracts are sold on the basis that a market value adjustment will apply for surrenders prior to maturity, while other contracts are sold on the basis that they are redeemable; however these contracts will provide a lower rate of interest than the non-redeemable contracts.

4.1.4 INSTITUTIONAL GUARANTEED PRODUCTS

This line of business primarily includes the issuance of guaranteed investment contracts (GICs) and funding agreements (FAs).

GICs and FAs are marketed to institutional investors, such as pension funds, retirement plans, college savings plans, money market funds, municipalities and United States and overseas investors. GICs are generally issued to tax qualified plans, while FAs are typically sold to non-tax qualified institutional investors. The products are marketed through an internal sales force in the United States and Ireland.

GICs and FAs are spread-based products that are generally issued on a fixed- or floating-rate basis and provide the customer a guarantee of principal and a specified rate of return. For some of the products, the customer receives a return based on a change in a published index, such as the S&P 500. The term of the contract can be fixed, primarily from six months up to ten years, or it can have an indefinite maturity. Contracts with an indefinite maturity provide the customer with a put option whereby the contract will be terminated with advance notice, ranging from three to thirteen months. Some contracts offer benefit-responsive withdrawal rights to the client, but these withdrawals cannot be for economic reasons.

AEGON utilizes consolidated special purpose entities linked to medium-term notes for the issuance of certain 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. 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 linked to asset-backed commercial paper for the issuance of certain FAs. These are reflected in other FAs in the table that follows.

The account balances at December 31, 2005 consisted of fixed-rate, fixed-maturity contracts (48%); floating-rate, fixed-maturity contracts (30%); indeterminate-maturity contracts (21%); and market-indexed, fixed-maturity contracts (1%). Practically all of the fixed-rate contracts are swapped to floating-rate via swap agreements. Credited interest on floating-rate contracts reset mostly on a monthly basis on various indices. Indeterminate-maturity contracts allow the customer to withdraw funds with advance notice periods, ranging from three to thirteen months, without a withdrawal penalty. 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 and effectively convert the contracts to a floating-rate. All contracts are swapped to US dollars to eliminate the currency risk.

Major components of GICs and FAs are summarized in the following table. The balances reflected are equal to the contract values.

	2005	2004
Liabilities for GICs and FAs:		
GICs issued to defined contribution/benefit plans	3,203	3,089
FAs and notes issued to institutional investors	9,492	7,385
Cash market funding agreements	5,733	5,003
Municipal/governmental FAs/investment contracts	4,673	3,807
Other FAs	3,247	2,287
TOTAL LIABILITIES FOR GICs AND FAs	**26,348**	**21,571**

The following table presents liabilities for GICs and FAs by withdrawal regulation:

	2005	2004
Book value out[1]		
Puttable:		
90 days put	1,348	1,166
180 days put	681	589
364 days + put	3,331	2,926
Total puttable	**5,360**	**4,681**
Market value out[2]		
90 days notice	326	778
180 days notice	–	65
Total market value out	326	843
Not puttable or surrenderable	20,662	16,047
TOTAL GICs AND FAs	**26,348**	**21,571**

[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 FAs generally include downgrade language pursuant to which, should various downgrade events be triggered, one of the following four options must be followed:

- 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.

As at December 31, 2005, the contractual maturities (based on nominal amounts) for all contracts with defined maturities were:
- 2006 – EUR 5,623 million;
- 2007 – EUR 4,703 million;
- 2008 – EUR 1,576 million;
- 2009 – EUR 2,462 million;
- 2010 – EUR 1,753 million; and
- Thereafter – EUR 4,870 million.

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.

4.1.5 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 and Slovakia 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 0% or the realized return (on an amortized cost basis), both corrected 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.

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.

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 before, 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 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 a guaranteed interest rate of 2.75% is offered on unit-linked products.

4.1.6 VARIABLE ANNUITIES

Variable annuities are sold to individuals and pension funds in the United States, Canada and Taiwan.

Variable annuities allow a customer to save for the future on a tax-deferred basis and to participate in equity or bond market performance with a degree of downside protection. Furthermore, it allows 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 funds offered by AEGON and other third party providers, including bond and equity funds, with most products 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.

The account value of variable annuities reflects the performance of the funds. AEGON earns mortality and expense charges as well as various types of rider fees for providing various forms of guarantees and benefits. This category includes segregated fund products offered by AEGON Canada.

UNITED STATES

In the United States, a guaranteed minimum withdrawal benefit is either offered on some variable annuity products AEGON 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 will cause the guaranteed benefits to exceed the policyholder account value and thus become in the money.

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. 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.

4.1.7 FEE – OFF BALANCE SHEET PRODUCTS

Products are sold in the United States, Canada, the Netherlands, the United Kingdom, Hungary and Slovakia.

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 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 (AEGON USA's mutual funds) and Diversified Investors Funds Group family of mutual funds. AEGON selects and retains external managers based upon performance from a variety of investment firms. The external manager remains with the investment company and acts as a sub-advisor for AEGON's mutual funds. AEGON earns investment management fees on these investment products.

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. It 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.

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.

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.

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 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 discontinued in 2005.

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.

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.

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.

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.

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. In the Netherlands, the majority of 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. The remainder of the capital base (capital securities, subordinated and senior debt) is held 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 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 of 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.

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 95% of the total general account fixed-income portfolio of the Group on December 31, 2005. 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 2001 through 2005.

	2001	2002	2003	2004	2005
3-month US Libor	1.88%	1.38%	1.15%	2.56%	4.54%
3-month Euribor	3.29%	2.87%	2.12%	2.16%	2.49%
10-year US Treasury	5.04%	3.82%	4.25%	4.22%	4.39%
10-year Dutch government	5.13%	4.24%	4.29%	3.68%	3.29%

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 - 2005

	Amount	< 1 yr Yield	Amount	1 < 5 yrs Yield	Amount	5 < 10 yrs Yield	Amount	> 10 yrs 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%

GENERAL ACCOUNT BONDS, MONEY MARKET INVESTMENTS, MORTGAGE LOANS AND PRIVATE LOANS - 2004

	Amount	< 1 yr Yield	Amount	1 < 5 yrs Yield	Amount	5 < 10 yrs Yield	Amount	> 10 yrs Yield
• Bonds, money market and other short-term investments	8,287	5.15%	26,561	5.08%	34,734	5.39%	27,944	5.81%
• Mortgage loans	2,820	3.85%	4,276	5.91%	4,711	6.41%	3,942	6.69%
• Private loans	223	7.20%	279	6.56%	148	5.73%	186	6.02%

FINANCIAL LIABILITIES RELATING TO TRUST PASS-THROUGH SECURITIES AND BORROWINGS – 2005

	Amount	< 1 yr Yield	Amount	1 < 5 yrs Yield	Amount	5 < 10 yrs Yield	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%

FINANCIAL LIABILITIES RELATING TO TRUST PASS-THROUGH SECURITIES AND BORROWINGS – 2004

	Amount	< 1 yr Yield	Amount	1 < 5 yrs Yield	Amount	5 < 10 yrs Yield	Amount	> 10 yrs Yield
• Trust pass-through securities	–	–	–	–	–	–	378	7.69%
• Subordinated borrowings	221	8.02%	33	6.51%	–	–	–	–
• Borrowings	2,079	6.75%	1,679	5.28%	1,431	4.07%	473	5.78%

Amounts in EUR millions, unless otherwise stated

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. Although credit default rates were benign in 2005, 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.

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. 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] 2005**	Total[1] 2004
AAA	16,829	1,364	201	200	18,598	16,034
AA	7,355	906	536	445	9,242	6,829
A	24,896	1,861	2,091	479	29,327	26,098
BBB	18,997	529	521	55	20,102	19,828
BB	2,109	133	–	2	2,244	2,209
B	1,609	–	–	–	1,609	1,528
CCC or lower	341	–	–	–	341	293
Sovereign exposure	7,225	10,854	467	1,935	20,501	17,366
Assets not rated	32,680	13,965	255	178	47,348	40,708
	112,041	**29,612**	**4,071**	**3,294**	**149,312**	**130,893**

[1] Includes investments of Holding and other activities

The following table shows the credit quality of general account reinsurance assets specifically.

	Carrying value 2005	Carrying value 2004
AAA	1,141	884
AA	1,297	1,177
A	378	231
Below A	122	94
Not rated	867	642
	3,805	**3,028**

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.

	Gross exposure 2005	Gross exposure 2004
ON BALANCE SHEET GENERAL ACCOUNT EXPOSURES		
Shares	7,896	6,474
Bonds	107,947	94,778
Money market and other short-term investments	3,201	2,748
Mortgage loans	17,231	15,749
Private loans	609	836
Other loans	3,945	3,763
Other financial assets	2,823	1,984
Derivatives with positive values	1,855	1,533
Reinsurance assets	3,805	3,028
	149,312	130,893
OFF BALANCE SHEET EXPOSURES		
Guarantees	146	69
Standby letters of credit	34	52
Other	12	33
	192	154

Refer to note 50 for further information on capital commitments and contingencies, 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
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 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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Amounts in EUR millions, unless otherwise stated

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] 2005	Total[1] 2004
Communication	81	–	–	2	83	115
Consumer cyclical	57	101	–	–	158	128
Consumer non-cyclical	47	381	–	3	431	667
Financials	889	1,824	6	10	2,700	1,720
Funds	625	1,472	93	10	2,200	1,896
Industries	17	686	–	3	706	368
Resources	–	261	–	–	261	174
Services cyclical	–	499	–	–	499	637
Services non-cyclical	–	165	–	–	165	171
Technology	53	242	–	7	302	229
Transport	5	–	–	–	5	4
Other	281	89	–	16	386	365
	2,055	**5,720**	**99**	**51**	**7,896**	**6,474**

[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] 2005	Total[1] 2004
Asset backed securities (ABSs) – Aircraft	303	–	–	–	303	199
ABSs – Collateralized Bond Obligations (CBOs)	1,153	–	–	44	1,197	1,037
ABSs – Housing related	3,764	–	–	44	3,808	3,366
ABSs – Credit cards	2,995	–	–	–	2,995	2,181
ABSs – Other	2,918	–	–	3	2,921	2,540
Collateralized mortgage backed securities	10,007	–	14	48	10,069	8,679
Financial	21,856	3,129	1,722	524	27,233	23,630
Industrial	31,374	1,499	1,046	230	34,152	31,757
Utility	7,311	165	287	124	7,887	6,811
Sovereign exposure	7,194	10,854	484	2,031	20,583	17,326
	88,875	**15,647**	**3,553**	**3,048**	**111,148**	**97,526**

[1] Includes investments of Holding and other activities.

CREDIT RISK CONCENTRATIONS – MORTGAGES

	Americas	The Netherlands	United Kingdom	Other countries	Total 2005	Total 2004
Agricultural	428	49	–	–	477	444
Apartment	2,316	418	–	–	2,734	2,355
Industrial	2,443	–	–	–	2,443	410
Office	4,486	34	–	–	4,520	3,714
Retail	2,604	2	–	–	2,606	1,999
Other commercial	518	54	–	3	575	2,449
Residential	148	3,728	–	–	3,876	4,378
	12,943	**4,285**	**–**	**3**	**17,231**	**15,749**

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 98% of the total general account equity, real estate and other non-fixed-income portfolio of the 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 that follows sets forth the year end closing levels of certain major indices.

Year-end	2001	2002	2003	2004	**2005**
S&P 500	1,148	880	1,112	1,212	1,248
Nasdaq	1,950	1,336	2,003	2,175	2,205
FTSE 100	5,217	3,940	4,477	4,814	5,619
AEX	507	323	338	348	437

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 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.

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]

	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
10% increase in lapse rates	(57)	(57)
10% decrease in lapse rates	41	41
5% increase in mortality/morbidity rates	(47)	(47)
5% decrease in mortality/morbidity rates	45	45

[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 mortality sensitivities assume that mortality/morbidity increases or decreases for all products regardless of whether one product produces a gain or loss on the directional change.

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Amounts in EUR millions, unless otherwise stated

5 SEGMENT INFORMATION

INCOME STATEMENT – 2005

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi- nations	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]	**1,899**	**322**	**162**	**44**	**(260)**	**(20)**	**2,147**
Gains/(losses) on investments	240	985	9	12	(89)	–	1,157
Impairment charges	42	(25)	(3)	–	–	–	14
Other non-operating income/(charges)[2]	–	–	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**

[1] Operating earnings before tax for 2005 consists of:

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi- nations	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
Fair value and foreign exchange gains	270	303	13	2	117	(7)	698
Gains on investments for account of policyholders	3,061	1,751	6,477	62	–	(11)	11,340
Segment expenses[2]	(17,578)	(7,644)	(14,144)	(1,668)	(124)	–	(41,158)
Fair value and foreign exchange losses	(58)	(202)	–	(12)	(113)	–	(385)
Losses on investments for account of policyholders	–	–	–	(2)	–	–	(2)
Interest charges and related fees	(58)	(50)	(2)	–	(881)	618	(373)
	1,899	**322**	**162**	**44**	**(260)**	**(20)**	**2,147**

[2] 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 – 2004

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	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
Other	–	–	–	–	–	–	–
Interest charges and other	–	–	–	–	(328)	1	(327)
OPERATING EARNINGS BEFORE TAX[1]	**1,629**	**196**	**161**	**113**	**(328)**	**1**	**1,772**
Gains/(losses) on investments	225	907	4	15	52	–	1,203
Impairment charges	(159)	(19)	(3)	(2)	–	–	(183)
Other non-operating income/(charges)[2]	–	–	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**

[1] Operating earnings before tax for 2004 consists of:

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	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
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
Fair value and foreign exchange gains	189	6	2	1	7	1	206
Gains on investments for account of policyholders	3,424	50	2,359	39	–	1	5,873
Segment expenses[2]	(17,603)	(5,592)	(9,590)	(1,417)	(343)	–	(34,545)
Fair value and foreign exchange losses	(114)	(79)	–	(2)	(4)	–	(199)
Losses on investments for account of policyholders	–	–	–	(13)	–	–	(13)
Interest charges and related fees	(29)	(60)	(1)	–	(825)	517	(398)
	1,629	**196**	**161**	**113**	**(328)**	**1**	**1,772**

[2] 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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Amounts in EUR millions, unless otherwise stated

OTHER SELECTED INCOME STATEMENT ITEMS

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Total
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						
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.

ANALYSIS OF OPERATING EARNINGS BEFORE TAX FROM NON-LIFE BUSINESS

			2005			2004
	Accident and health insurance	**General insurance**	**Total**	Accident and health insurance	General insurance	Total
Premium income	2,230	573	2,803	2,241	813	3,054
Investment income	225	54	279	201	66	267
Fee and commission income	134	–	134	166	–	166
Income from reinsurance ceded	390	–	390	351	15	366
Fair value and foreign exchange gains	21	15	36	15	–	15
Premiums to reinsurers	(326)	(20)	(346)	(361)	(39)	(400)
Policyholder claims and benefits	(1,478)	(359)	(1,837)	(1,402)	(495)	(1,897)
Commissions and expenses	(866)	(200)	(1,066)	(884)	(255)	(1,139)
Fair value and foreign exchange losses	(6)	(8)	(14)	(2)	(1)	(3)
	324	**55**	**379**	**325**	**104**	**429**

SUMMARIZED ASSETS AND LIABILITIES PER GEOGRAPHICAL SEGMENT

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	Total
2005							
ASSETS							
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
Other assets	22,331	5,218	6,002	982	6,761	(4,243)	37,051
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**
2004							
ASSETS							
Investments general account	95,259	27,689	2,703	2,728	157	(20)	128,516
Investments for account of policyholders	37,502	18,901	50,094	367	–	(26)	106,838
Investments in associates	3	59	–	417	5	–	484
Other assets	17,766	5,805	5,186	706	6,930	(3,539)	32,854
TOTAL ASSETS	**150,530**	**52,454**	**57,983**	**4,218**	**7,092**	**(3,585)**	**268,692**
LIABILITIES							
Insurance contracts general account	60,650	16,831	2,729	2,606	–	–	82,816
Insurance contracts for account of policyholders	29,148	17,796	12,604	356	–	–	59,904
Investment contracts general account	27,187	5,633	810	–	–	–	33,630
Investment contracts for account of policyholders	8,357	1,089	37,685	11	–	–	47,142
Other liabilities	11,815	7,068	1,313	244	7,671	(670)	27,441
TOTAL LIABILITIES	**137,157**	**48,417**	**55,141**	**3,217**	**7,671**	**(670)**	**250,933**

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Amounts in EUR millions, unless otherwise stated

SEGMENT ASSETS BY LINE OF BUSINESS[1]

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	Total
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**
2004							
Traditional life	26,430	22,747	3,334	3,091	–	–	55,602
Life for account of policyholders	4,228	21,741	54,536	402	–	–	80,907
Fixed annuities	45,379	–	–	–	–	–	45,379
Variable annuities	37,573	–	–	12	–	–	37,585
Institutional guaranteed products	26,395	–	–	–	–	–	26,395
Fee – off balance sheet products	357	179	114	43	–	–	693
Reinsurance	4,888	–	–	–	–	–	4,888
Accident and health insurance	5,118	578	–	104	–	–	5,800
General insurance	–	798	–	563	–	–	1,361
Banking activities	–	6,373	–	–	–	–	6,373
Other	–	–	–	–	7,099	(3,586)	3,513
	150,368	**52,416**	**57,984**	**4,215**	**7,099**	**(3,586)**	**268,496**

[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.

6 INTANGIBLE ASSETS

	Goodwill	VOBA	Future servicing rights	Software	Other	Total
NET BOOK VALUE						
At January 1, 2004	–	4,614	162	111	–	4,887
At December 31, 2004	13	3,950	133	80	7	4,183
At December 31, 2005	65	4,396	151	60	6	4,678

	Goodwill	VOBA	Future servicing rights	Software	Other	Total
COST						
At January 1, 2004	–	7,026	193	230	–	7,449
Additions	–	13	–	7	8	28
Acquisitions through business combinations	14	–	–	–	–	14
Disposals	–	–	–	(1)	–	(1)
Net exchange differences	(1)	(385)	(7)	1	–	(392)
AT DECEMBER 31, 2004	**13**	**6,654**	**186**	**237**	**8**	**7,098**
ACCUMULATED AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES						
At January 1, 2004	–	2,412	31	119	–	2,562
Amortization / depreciation through income statement	–	393	23	40	1	457
Shadow accounting adjustments	–	(6)	–	–	–	(6)
Impairment losses	–	95	–	–	–	95
Net exchange differences	–	(200)	(1)	(1)	–	(202)
Other	–	10	-	(1)	–	9
AT DECEMBER 31, 2004	**–**	**2,704**	**53**	**157**	**1**	**2,915**
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**

Amounts in EUR millions, unless otherwise stated

Goodwill relates to the acquisition of Nationwide Poland in the last quarter of 2005, as well as the acquisition of an investment advisor company, Westcap Investors, LLC during 2005 and a smaller acquisition by AEGON UK in 2004. On both acquisitions in 2005, as well as on the acquisition of an insurance portfolio in 2005, VOBA has been recognized as an intangible asset relating to the value of established customer relationships. 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.

VOBA PER LINE OF BUSINESS

	2005	2004
Traditional life	1,965	1,690
Life for account of policyholders	1,121	1,061
Fixed annuities	140	150
Variable annuities	115	100
Institutional guaranteed products	23	23
Reinsurance	814	709
Accident and health insurance	218	217
AT DECEMBER 31	**4,396**	**3,950**

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 8 for investments for which the investment risk is borne by the policyholders and to note 9 for details on general account derivatives.

	Note	2005	2004
Available-for-sale (AFS)	7.1	109,926	95,049
Loans	7.2	21,785	20,348
Held-to-maturity (HTM)	7.3	1,202	584
Financial assets at fair value through profit or loss (FVTPL)[1]	7.4	10,739	10,351
Total financial assets, excluding derivatives		143,652	126,332
Investments in real estate	7.5	2,068	1,856
Real estate held for own use	7.6	355	328
TOTAL INVESTMENTS FOR GENERAL ACCOUNT		**146,075**	**128,516**

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

FINANCIAL ASSETS, EXCLUDING DERIVATIVES

	AFS	Loans	HTM	FVTPL	2005 Total	AFS	Loans	HTM	FVTPL	2004 Total
Shares	5,201	–	–	2,695	7,896	5,097	–	–	1,377	6,474
Bonds	100,866	–	1,166	5,915	107,947	86,770	–	579	7,429	94,778
Money market and other short-term investments	3,151	–	–	50	3,201	2,641	–	–	107	2,748
Mortgages	–	17,231	–	–	17,231	–	15,749	–	–	15,749
Private loans	–	609	–	–	609	–	836	–	–	836
Deposits with financial institutions	–	1,342	–	–	1,342	–	870	–	–	870
Policy loans	–	1,543	–	–	1,543	–	1,271	–	–	1,271
Receivables out of share lease agreements	–	772	–	–	772	–	1,312	–	–	1,312
Other	708	288	36	2,079	3,111	541	310	5	1,438	2,294
AT DECEMBER 31	**109,926**	**21,785**	**1,202**	**10,739**	**143,652**	**95,049**	**20,348**	**584**	**10,351**	**126,332**

Refer to the analysis of credit risk concentrations for bonds and money market investments on page 112, as part of note 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, US government agencies or US government sponsored entities.

Included in debt securities at fair value through profit or loss are convertible bonds and preferred shares of EUR 505 million (2004: EUR 412 million). At the end of 2005 approximately 97% of these convertible options are exercisable within the next year and the remaining 3% are exercisable within one to five years, all at various exchange ratios. In addition, AEGON also holds EUR 818 million (2004: EUR 852 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.

AEGON owns EUR 126 million (2004: EUR 93 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.

As part of the AEGON Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. At December 31, 2005 a total of five publicly placed and two privately placed securitization contracts were outstanding with a total value of EUR 6.1 billion. In 2005, AEGON Levensverzekering N.V. completed one publicly placed securitization transaction whereby the economic ownership of EUR 1.2 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 either AEGON or the special purpose company. The special purpose company has the right to notify the borrowers upon the occurrence of certain pre-defined 'notification events'. A first 'undisclosed' right of pledge on the mortgage receivables was given to the special purpose company. 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 cashflow forecasts. In 2004, AEGON Levensverzekering N.V. completed one mortgage-related publicly placed securitization contract for EUR 1.1 billion that was structured similarly to the 2005 securitization described above. A portion of securitized mortgage loans amounting to EUR 28 million (2004: EUR 32 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.

Only insignificant amounts of unquoted equity instruments are measured at cost.

Refer to note 51 for a discussion of collateral received and paid.

No financial assets were reclassified during the financial year.

Amounts in EUR millions, unless otherwise stated

7.1 AVAILABLE-FOR-SALE

LISTED AND UNLISTED SHARES AND BONDS	2005	2004
Listed shares	4,223	3,772
Unlisted shares	978	1,325
Listed bonds	89,342	77,798
Unlisted bonds	11,524	8,972
	106,067	**91,867**

PROCEEDS, REALIZED GAINS AND REALIZED LOSSES FROM SALES OF AVAILABLE-FOR-SALE INSTRUMENTS	2005	2004
Proceeds	48,874	53,100
Realized gains	665	765
Realized losses	–	81

Gross realized gains and losses are determined as the difference between proceeds and cost prices, before taking tax effects into account.

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**

UNREALIZED GAINS AND LOSSES – 2004	(Amortized) cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Shares	4,302	839	(44)	5,097	4,455	642
Bonds						
– United States government	3,918	53	(23)	3,948	1,697	2,251
– Dutch government	1,392	87	–	1,479	1,479	–
– Other government	8,805	643	(19)	9,429	8,185	1,244
– Mortgage backed	6,678	190	(29)	6,839	4,998	1,841
– Asset backed	9,138	122	(168)	9,092	6,185	2,907
– Corporate	52,966	3,289	(272)	55,983	46,740	9,243
Money market investments	2,641	–	–	2,641	2,641	–
Other	510	49	(18)	541	362	179
	90,350	**5,272**	**(573)**	**95,049**	**76,742**	**18,307**

UNREALIZED LOSSES – SHARES	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005	Carrying value of instruments with unrealized losses 2004	Gross unrealized losses 2004
Communication	3	(1)	1	–
Consumer cyclical	40	(3)	33	(5)
Consumer non-cyclical	31	(6)	55	(5)
Financials	76	(4)	114	(7)
Funds	31	(1)	145	(8)
Industries	36	(5)	55	(3)
Resources	1	(1)	20	(2)
Services cyclical	19	(2)	101	(5)
Services non-cyclical	36	(2)	29	(2)
Technology	33	(4)	59	(6)
Other	91	(7)	30	(1)
	397	**(36)**	**642**	**(44)**

UNREALIZED LOSSES – BONDS AND MONEY MARKET INVESTMENTS	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005	Carrying value of instruments with unrealized losses 2004	Gross unrealized losses 2004
Asset backed securities (ABSs) – aircraft	113	(25)	177	(89)
ABSs – CBOs	242	(23)	280	(39)
ABSs – Housing related	1,658	(32)	886	(17)
ABSs – Credit cards	1,229	(19)	541	(5)
ABSs – Other	1,545	(31)	1,029	(18)
Collateralized mortgage backed securities	5,914	(105)	1,833	(29)
Financial	7,463	(159)	3,499	(75)
Industrial	11,211	(354)	4,592	(164)
Utility	2,486	(57)	1,046	(30)
Sovereign exposure	2,891	(52)	3,603	(45)
	34,752	**(857)**	**17,486**	**(511)**

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Amounts in EUR millions, unless otherwise stated

7.2 LOANS

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**

UNREALIZED GAINS AND LOSSES – 2004	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Mortgages	15,749	1,201	(36)	16,914	16,041	873
Private loans	836	64	(1)	899	874	25
Deposits with financial institutions	870	–	–	870	870	–
Policy loans	1,271	–	–	1,271	1,271	–
Receivables out of share lease agreements	1,312	–	–	1,312	1,312	–
Other	310	5	–	315	315	–
	20,348	**1,270**	**(37)**	**21,581**	**20,683**	**898**

7.3 HELD-TO-MATURITY

LISTED AND UNLISTED BONDS	2005	2004
Listed bonds	1,158	579
Unlisted bonds	8	–
	1,166	**579**

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**

UNREALIZED GAINS AND LOSSES – 2004	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	507	20	(1)	526	475	51
– Corporate	72	1	–	73	71	2
	579	**21**	**(1)**	**599**	**546**	**53**

7.4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LISTED AND UNLISTED SHARES AND BONDS	2005	2004
Listed shares	1,651	1,177
Unlisted shares	1,044	200
Listed bonds	5,859	7,388
Unlisted bonds	56	41
	8,610	**8,806**

7.5 INVESTMENTS IN REAL ESTATE

	2005	2004
At January 1	1,856	1,847
Additions	73	39
Subsequent expenditure capitalized	5	–
Transfers from real estate held for own use and mortgage loans	134	89
Disposals	(268)	(200)
Fair value gains/(losses)	221	104
Net exchange differences	49	(23)
Other	(2)	–
	2,068	**1,856**

Properties were last valued in 2005. More than 95% of these valuations were performed by independent external appraisers.

AEGON has entered into operating leases on its portfolio of investments in real estate which consists primarily of residential properties, but also includes office, retail and industrial buildings. The leases on residential properties are for an indefinite period, whereas the leases on commercial property have remaining lease terms of between one month and twelve years. Although most leases have a clause enabling upward revision of the rental charge on an annual basis on the basis of either a fixed schedule or prevailing market conditions, a large proportion of the residential property is subject to limitations on rental increases. Under Dutch law, the rent on residential property rented for less than EUR 606 per month may be increased by a maximum of the inflation rate plus a margin varying between 1.5% and 3% over the next four years.

FUTURE MINIMUM LEASE PAYMENTS TO BE RECEIVED UNDER NON-CANCELLABLE OPERATING LEASES

	2005	2004
Not later than one year	38	33
Later than one year and not later than five years	87	86
Later than five years	12	17

Rental income of EUR 92 million (2004: EUR 106 million) is reported as part of investment income in the income statement. Of this amount 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 33 million (2004: EUR 25 million). EUR 2 million (2004: EUR nil million) of direct operating expenses related to investment property 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 50 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

Amounts in EUR millions, unless otherwise stated

7.6 REAL ESTATE HELD FOR OWN USE

NET BOOK VALUE

At January 1, 2004	416
At December 31, 2004	328
AT DECEMBER 31, 2005	**355**

	2005	2004
COST		
At January 1	347	477
Additions	162	9
Capitalized subsequent expenditure	1	–
Expenditure in the course of construction	–	61
Revaluations	–	1
Disposals	(47)	(120)
Realized gains/(losses) through income statement	1	(1)
Transfers to investments in real estate	(108)	(77)
Net exchange differences	26	(11)
Other	(5)	8
AT DECEMBER 31	**377**	**347**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
At January 1	19	61
Depreciation through income statement	7	9
Disposals	–	(51)
Net exchange differences	1	–
Other	(5)	–
AT DECEMBER 31	**22**	**19**

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 would be approximately EUR 152 million (2004: EUR 159 million).

Included in the year end balance are EUR 118 million (2004: EUR 105 million) relating to property under construction. Borrowing costs to the amount of EUR 4.5 million (2004: EUR 3.5 million) have been capitalized during the period, applying a capitalization rate of 6%.

Real estate held for own use was last revalued in 2005, based on market value appraisals by qualified internal and external appraisers. Approximately 30% of the appraisals in 2005 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 note 50 for a summary of contractual commitments for the acquisition of real estate held for own use.

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 note 9 for detail on derivatives for account of policyholders.

	2005	2004
Shares		
– Listed	39,902	31,095
– Unlisted	69	73
Bonds		
– Listed	31,465	28,420
– Unlisted	31	31
Money market and other short-term investments	2,297	1,331
Deposits with financial institutions	1,288	1,942
Separate accounts and unconsolidated investment funds	48,775	41,104
Other	2,314	2,214
Total financial assets at fair value through profit or loss, excluding derivatives [1]	126,141	106,210
Investments in real estate	1,266	530
Real estate held for own use	140	98
TOTAL INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS	**127,547**	**106,838**

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

INVESTMENTS IN REAL ESTATE

	2005	2004
At January 1	530	212
Additions	618	320
Subsequent expenditure capitalized	31	11
Disposals	(26)	(54)
Fair value gains/(losses)	99	53
Net exchange differences	14	(12)
AT DECEMBER 31	**1,266**	**530**

No property interests held under operating leases are classified and accounted for as investment property.

Rental income 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 50 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

Amounts in EUR millions, unless otherwise stated

9 DERIVATIVES

	Derivative asset		Derivative liability	
	2005	2004	**2005**	2004
DERIVATIVES FOR GENERAL ACCOUNT				
– Derivatives not designated in a hedge	1,058	734	690	569
– Derivatives designated as fair value hedges	335	276	516	755
– Derivatives designated as cash flow hedges	326	140	227	95
– Net foreign investment hedges	136	383	91	84
	1,855	**1,533**	**1,524**	**1,503**
DERIVATIVES FOR ACCOUNT OF POLICYHOLDERS				
– Derivatives not designated in a hedge	440	183	678	472
	440	**183**	**678**	**472**
TOTAL DERIVATIVES[1]	**2,295**	**1,716**	**2,202**	**1,975**

[1] Refer to note 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.

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 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 utilizes derivative instruments as a part of its asset liability risk management practices, where the derivatives do not qualify for hedge accounting, or AEGON has elected to not apply hedge accounting. These derivatives include financial futures contracts, interest rate swaps, currency swaps, credit derivatives, financial options, and foreign currency forwards. These derivatives are considered economic hedges of certain exposures related to an existing asset or liability. In all cases, these are in accordance with internal risk guidelines and are closely monitored for continuing compliance.

Credit derivatives are used to add credit risk by selling credit protection in the form of single name credit default swaps and AAA rated tranches of synthetic collateralized debt 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 credits 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 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, together with derivatives not designated in a hedge. These embedded derivatives that are bifurcated are embedded in various institutional products, modified coinsurance and insurance contracts in the form of guarantees for minimum benefits.

The total values of these bifurcated embedded derivatives can be summarized as follows:

	Derivative asset		Derivative liability	
	2005	2004	**2005**	2004
Bifurcated embedded derivatives	27	24	1,054	787

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 that are included in the bifurcated embedded derivatives:

	United States[1]	Canada[1]	The Netherlands[2]	2005 Total	United States[1]	Canada[1]	The Netherlands[2]	2004 Total
At January 1	(22)	441	229	648	(21)	434	213	626
Incurred guarantee benefits	(3)	53	149	199	(3)	12	16	25
Paid guarantee benefits	–	–	–	–	–	–	–	–
Net exchange differences	(3)	92	–	89	2	(5)	–	(3)
AT DECEMBER 31	**(28)**	**586**	**378**	**936**	**(22)**	**441**	**229**	**648**

	United States[1]	Canada[1]	The Netherlands[2]	2005 Total	United States[1]	Canada[1]	The Netherlands[2]	2004 Total
Account value	1,465	3,651	5,510	10,626	307	2,951	5,300	8,558
Net amount at risk	1	831	18	850	10	850	173	1,033

[1] Guaranteed minimum accumulation and withdrawal benefits
[2] Fund plan and unit-linked guarantees

Refer to note 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, 2005, the reinsured account value was EUR 9.9 billion (2004: EUR 8.6 billion) and the guaranteed remaining balance was EUR 7.3 billion (2004: EUR 6.7 billion).

The reinsurance contract is accounted for as a derivative and is carried in AEGON's balance sheet at fair value. At December 31, 2005, the contract had a value of EUR 14 million (2004: EUR 19 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.

- **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, 2005 and 2004, AEGON recognized gains and losses related to the ineffective portion of designated fair value hedges of EUR 32 million and EUR 37 million respectively. No portion of derivatives were 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.

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 seventeen and a half years. For the year ended December 31, 2005, 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 years.

Immaterial amounts of hedge ineffectiveness were recorded in the income statement during 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.

- **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. 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 functional currency of the investment. This policy will ensure that total capital will reflect currency movements without distorting debt 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, forward foreign exchange contracts and foreign swap contracts.

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 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.

		Assets		2005 Liabilities		Assets		2004 Liabilities
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
INTEREST RATE CONTRACTS								
OTC:								
– Forwards	–	–	2	–	–	–	–	–
– Swaps	31,062	1,693	24,444	672	23,678	966	19,464	754
– Options	6,080	270	–	–	2,184	161	51	–
Exchange traded contracts:								
– Futures	145	1	2,238	3	568	2	130	1
FOREIGN EXCHANGE CONTRACTS								
OTC:								
– Forwards	2,498	3	2,339	9	1,835	11	693	5
– Swaps	2,507	218	3,376	437	5,436	480	1,918	398
CREDIT CONTRACTS								
OTC:								
– Swaps	1,146	8	434	6	858	8	364	5
EQUITY CONTRACTS								
OTC:								
– Swaps	547	42	520	9	544	32	837	10
– Options	34	24	818	–	35	9	581	–
Exchange traded contracts:								
– Futures	307	5	632	6	753	17	437	2
– Options	8	4	–	–	5	6	–	–
OTHER DERIVATIVES								
Embedded derivatives	2	27	9,415	1,054	–	24	7,376	787
Synthetic GICs	–	–	36,076	–	–	–	29,818	–
Other contracts	–	–	–	6	–	–	–	13
	44,336	**2,295**	**80,294**	**2,202**	**35,896**	**1,716**	**61,669**	**1,975**

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.

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Amounts in EUR millions, unless otherwise stated

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**

MATURITY TABLE – 2004

	< 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:								
– Swaps	4,132	(1)	15,100	(99)	7,012	(187)	16,898	499
– Options	263	8	408	24	560	43	1,004	86
Exchange traded contracts:								
– Futures	698	1	–	–	–	–	–	–
FOREIGN EXCHANGE CONTRACTS								
OTC:								
– Forwards	2,528	6	–	–	–	–	–	–
– Swaps	1,417	82	3,536	179	1,668	(109)	733	(70)
CREDIT CONTRACTS								
OTC:								
– Swaps	13	–	1,061	2	120	1	28	–
EQUITY CONTRACTS								
OTC:								
– Swaps	459	1	518	(5)	–	–	404	26
– Options	571	1	19	2	–	–	26	6
Exchange traded contracts:								
– Futures	1,190	15	–	–	–	–	–	–
– Options	–	–	5	6	–	–	–	–
OTHER DERIVATIVES								
Embedded derivatives	24	(74)	3,119	(414)	61	(35)	4,172	(240)
Synthetic GICs	2,148	–	38	–	–	–	27,632	–
Other contracts	–	–	–	(3)	–	(4)	–	(6)
	13,443	**39**	**23,804**	**(308)**	**9,421**	**(291)**	**50,897**	**301**

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Amounts in EUR millions, unless otherwise stated

10 INVESTMENTS IN ASSOCIATES

	2005	2004
Investments in associates	542	484
At January 1	484	91
Additions	22	329
Share in net income	20	25
Share in changes in associate's equity (note 15.5)	20	59
Dividend	(3)	–
Disposals	(2)	(19)
Net exchange differences	1	(1)
AT DECEMBER 31	**542**	**484**

All associates are unlisted and are accounted for using the equity method.

There are no restrictions on the ability of associates to transfer funds in the form of cash dividends, or repayment of loans or advances. There are also no unrecognized shares of losses of associates.

SUMMARIZED FINANCIAL INFORMATION OF ASSOCIATES

Assets	8,124	6,986
Liabilities	7,884	6,634
Revenue	1,747	893
Net income	20	25

The summarized financial information is based on the Group's relative holding. Refer to note 53 for a listing of the principal investments in associates and the Group's percentage holding.

11 REINSURANCE ASSETS

ASSETS ARISING FROM REINSURANCE CONTRACTS RELATED TO

	2005	2004
Life insurance general account	3,001	2,409
Life insurance for account of policyholders	320	270
Non-life insurance	799	609
Investment contracts	5	10
TOTAL REINSURANCE ASSETS	**4,125**	**3,298**

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 13).

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**

MOVEMENTS DURING THE YEAR IN REINSURANCE ASSETS RELATING TO NON-LIFE INSURANCE

	Non-life
At January 1, 2005	609
Gross premium and deposits – existing and new business	346
Unwind of discount / interest credited	23
Technical reserves released	(179)
Changes to valuation of expected future benefits	1
Changes in unearned premiums	(80)
Changes in unexpired risks	(3)
Incurred related to current year	75
Incurred related to prior years	5
Release for claims settled current year	(11)
Release for claims settled prior years	(50)
Change in IBNR	(9)
Disposals	(21)
Net exchange differences	93
AT DECEMBER 31, 2005	**799**

12 DEFERRED EXPENSES AND REBATES

	2005	2004
DPAC for insurance contracts and investment contracts with discretionary participation features	10,789	8,499
Deferred transaction costs for investment management services	287	234
Unamortized interest rate rebates	272	325
	11,348	**9,058**

	DPAC	Deferred transaction costs	Unamortized interest rate rebates
At January 1, 2004	8,117	222	361
Costs deferred/rebates granted during the year	1,717	19	23
Amortization through income statement	(1,137)	(12)	(59)
Shadow accounting adjustments	137	–	–
Net exchange differences	(359)	(10)	–
Other	24	15	–
AT DECEMBER 31, 2004	**8,499**	**234**	**325**

	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)
Shadow accounting adjustments	413	–	–
Disposals	(44)	–	–
Net exchange differences	930	21	–
Other	8	–	–
AT DECEMBER 31, 2005	**10,789**	**287**	**272**

At December 31, 2005, 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% (2004: 9%); gross short-term growth rate of 6% (2004: 6.25%); gross short- and long-term fixed security growth rate of 6% (2004: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2004: 3.5%). For Canada these assumptions, at December 31, 2005, were as follows: gross long-term equity growth rate of 9% (2004: 9%); and gross short-term growth rate of 9.75% (2004: 10.75%). For both countries the reversion period for the short-term rate is five years.

Amounts in EUR millions, unless otherwise stated

DPAC AND DEFERRED TRANSACTION COSTS PER LINE OF BUSINESS

	DPAC		Deferred transaction costs	
	2005	2004	**2005**	2004
Traditional life	3,699	2,688	–	–
Life for account of policyholders	4,257	3,941	127	105
Fixed annuities	443	–	20	18
Variable annuities	970	865	78	60
Fee – off balance sheet products	–	–	43	34
Reinsurance	685	404	–	–
Accident and health insurance	734	600	–	–
General insurance	1	1	–	–
Other	–	–	19	17
	10,789	**8,499**	**287**	**234**

13 OTHER ASSETS AND RECEIVABLES

	Note	**2005**	2004
Equipment	13.1	270	390
Receivables	13.2	4,230	4,100
Accrued income	13.3	2,216	1,855
Prepaid expenses	13.4	90	115
		6,806	**6,460**

13.1 EQUIPMENT

NET BOOK VALUE	
At January 1, 2004	1,437
At December 31, 2004	390
AT DECEMBER 31, 2005	**270**

COST

	2005	2004
At January 1	1,044	2,831
Additions	80	258
Acquisitions through business combinations	1	–
Disposal	(596)	(2,013)
Net exchange differences	101	(32)
Other	10	–
AT DECEMBER 31	**640**	**1,044**

ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES

	2005	2004
At January 1	654	1,394
Depreciation through income statement	76	214
Disposal	(427)	(930)
Net exchange differences	59	(24)
Other	8	–
AT DECEMBER 31	**370**	**654**

Included in the net book amounts of equipment are equipment held for lease of EUR 66 million (2004: EUR 205 million).

Equipment has not been pledged as security for liabilities, nor are 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 three to five years.

13.2 RECEIVABLES

	2005	2004
Loans to associates	8	27
Finance lease assets	108	86
Receivables from policyholders	2,170	1,469
Receivables from brokers and agents	161	146
Receivables from reinsurers	578	621
Investment income receivable	1	–
Cash outstanding from assets sold	15	10
Trade receivables	29	20
Reverse repurchase agreements	23	2
Income tax receivable	275	198
Other	1,010	1,682
Provision for impairment	(148)	(161)
	4,230	**4,100**
Current	3,977	3,788
Non-current	253	312
Fair value on non-current receivables	244	284

13.3 ACCRUED INCOME

	2005	2004
Accrued interest	2,216	1,855
Current	2,216	1,840
Non-current	–	15

13.4 PREPAID EXPENSES

	2005	2004
Prepaid expenses	**90**	**115**

All prepaid expenses are current.

Amounts in EUR millions, unless otherwise stated

14 CASH AND CASH EQUIVALENTS

	2005	2004
Cash at bank and in hand	1,032	1,346
Short-term deposits	2,209	2,787
Money market investments	4,066	3,670
	7,307	**7,803**

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

Included in the balances for short-term deposits and money market investments is cash collateral received of EUR 4,616 million (2004: EUR 4,910 million), of which EUR 3,917 million (2004: EUR 4,372 million) relates to security lending and repurchase agreements. A corresponding liability to repay the cash is recognized in other liabilities (note 28). Refer to note 51 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. A maximum weighted average maturity of the investment portfolio of no greater than 90 days is specified. 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 were approximately EUR 21 million (2004: EUR 13 million).

The weighted effective interest rate on short-term deposits was 2.71% (2004: 2.50%) and these deposits have an average maturity of 3.39 days (2004: 6.86 days).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2005	2004
Cash and cash equivalents	7,307	7,803
Bank overdrafts (note 23)	1,239	999
NET CASH AND CASH EQUIVALENTS	**6,068**	**6,804**

The majority of cash is not subject to any restrictions. However, the Dutch National Bank requires AEGON The Netherlands to hold 2% of their assets relating to banking activities in an account with the bank. 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 103 million (2004: EUR 106 million).

Furthermore, AEGON The Netherlands holds required funds related to post-retirement benefits for former employees in a bank deposit, amounting to EUR 102 million at year end (2004: EUR 35 million).

15 SHAREHOLDERS' EQUITY

Issued share capital and reserves attributable to shareholders of AEGON N.V.

	Note	2005	2004
Share capital – par value	15.1	251	243
Share premium	15.2	7,106	7,112
Treasury shares	15.3	(545)	(765)
Total share capital		6,812	6,590
Retained earnings		9,318	6,825
Revaluation reserves	15.4	2,293	2,141
Other reserves	15.5	853	(681)
TOTAL SHAREHOLDERS' EQUITY		**19,276**	**14,875**

15.1 SHARE CAPITAL – PAR VALUE

	2005	2004
Common shares	192	186
Preferred shares A	53	53
Preferred shares B	6	4
	251	**243**

COMMON SHARES	2005	2004
Authorized share capital	360	360
Par value in cents per share	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**

PREFERRED SHARES	2005	2004
Authorized share capital	250	250
Par value in cents per share	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
Shares issued	–	–	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**

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All issued common and preferred shares are fully paid. Repayment of capital can only be initiated by the Executive Board, needs approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on preferred shares needs approval by 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 come from solvency and legal requirements. Refer to note 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., has the right to have issued to it as many class B preferred shares as shall enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of total voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In 2003/2004 16,900,000 class B preferred shares were issued under these option rights. In 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 share dividend issuances and treasury share sales 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.

Refer to note 40.1 for a description of share appreciation rights and share options.

15.2 SHARE PREMIUM

	2005	2004
At January 1	7,112	7,116
Share dividend	(6)	(4)
AT DECEMBER 31	**7,106**	**7,112**
Share premium relating to:		
– Common shares	5,054	5,060
– Preferred shares	2,052	2,052
	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.

15.3 TREASURY SHARES

On the balance sheet date AEGON N.V. and its subsidiaries held 23,314,930 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:

	2005 Number of shares (thousands)	2004 Number of shares (thousands)
At January 1	25,233	27,429
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 April 1, April 22 and July 19, average price EUR 10.29	–	(9,663)
AT DECEMBER 31	**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 recognized at the consideration paid or received.

	2005		2004	
	Number of shares (thousands)	Total amount	Number of shares (thousands)	Total amount
Held by AEGON N.V.	18,651	442	25,233	657
Held by subsidiaries	4,664	103	4,657	108
TOTAL AT DECEMBER 31	**23,315**	**545**	**29,890**	**765**

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
Revaluation	817	1	103	921
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
Revaluation	(431)	(1)	139	(293)
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**

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:

	2005	2004
Shares	1,097	662
Bonds	1,072	1,518
Other	(70)	(116)
	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.

Amounts in EUR millions, unless otherwise stated

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**

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.

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**

JUNIOR PERPETUAL CAPITAL SECURITIES

	Coupon rate	Coupon date: quarterly, as of	Year of first call	2005	2004
USD 500 million	6.5%	March 15	2010	424	–
USD 250 million	floating Libor rate	March 15	2010	212	–
EUR 950 million	floating CMT rate	January 15	2014	950	950
USD 500 million	floating CMS rate	January 15	2014	402	402
USD 1 billion	6.375%	March 15	2015	821	–
TOTAL JUNIOR PERPETUAL CAPITAL SECURITIES				**2,809**	**1,352**

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%. The coupon of the euro junior perpetual capital securities 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%. 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.

PERPETUAL CUMULATIVE SUBORDINATED BONDS

	Coupon rate	Coupon date	Year of first call	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%	July 10	2008	114	114
EUR 136 million	7.25%	October 14	2008	136	136
EUR 203 million	7.125%	March 4	2011	203	203
EUR 114 million[1]	4.156%	June 8	2015	114	114
TOTAL PERPETUAL CUMULATIVE SUBORDINATED BONDS				**567**	**1,517**

[1] Issued at an interest rate of 8%, which was reset in June 2005.

The coupon for the EUR 114 million 8% bonds was set at 8% until June 8, 2005. As of this date, the coupon is set at 4.156% until 2015. 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. The coupon of the EUR 114 million with an interest rate of 7.625% is fixed.

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.

Amounts in EUR millions, unless otherwise stated

17 TRUST PASS-THROUGH SECURITIES

	Coupon rate	Coupon date	Year of issue	Year of maturity	2005	2004
USD 100 million	7.8%	June 1; December 1	1996	2026	85	73
USD 225 million	7.65%	June 1; December 1	1996	2026	191	165
USD 190 million	7.625%	May 15; November 15	1997	2037	161	140
TOTAL TRUST PASS-THROUGH SECURITIES					**437**	**378**

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. Earlier redemption is possible for the USD 100 million 7.8% trust pass-through securities on or after December 1, 2006, either in whole or in part, at any time after December 1, 2006. The call price ranges from 103.5% if called in 2006 to par if called in 2016 or thereafter. The trust pass-through securities are subordinated to all other unsubordinated borrowings and liabilities.

The fair value of these loans amounts to EUR 574 million (2004: EUR 468 million).

18 SUBORDINATED BORROWINGS

	2005	2004
USD 264 million 8%	224	194
Other subordinated loans	60	60
TOTAL SUBORDINATED LOANS	**284**	**254**

These loans are subordinated to all other unsubordinated borrowings and liabilities. There were no defaults or breaches of conditions during the period. Effective interest rates vary from 6.51% to 8.18% (2004: 6.51% to 8.18%). The fair value of these loans amounts to EUR 309 million (2004: EUR 279 million).

19 INSURANCE CONTRACTS

	2005	2004
Life insurance	88,107	76,221
Non-life insurance		
– Outstanding claims	4,502	3,936
– IBNR	391	439
Incoming reinsurance	2,690	2,220
	95,690	**82,816**

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. Insurance contract liabilities at December 31, 2005 that are considered non-current amount to EUR 23,955 million.

Non-life insurance		
– Accident and health insurance	4,160	3,406
– General insurance	733	969
	4,893	**4,375**

MOVEMENTS DURING THE YEAR IN LIFE INSURANCE	2005
At January 1, 2005	76,221
Acquisitions through business combinations	49
Portfolio transfers and acquisitions	864
Gross premium and deposits – existing and new business	7,806
Unwind of discount/interest credited	3,627
Technical reserves released	(9,791)
Changes in valuation of expected future benefits	(76)
Fund charges released	(168)
Losses recognized as a result of liability adequacy testing	151
Shadow accounting adjustments	503
Net exchange differences	8,960
Other	(39)
AT DECEMBER 31, 2005	**88,107**

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

	GMDB[1]	GMIB[2]	GMAB[3]	2005 Total	GMDB[1]	GMIB[2]	GMAB[3]	2004 Total
At January 1	100	59	96	255	90	69	66	225
Incurred guarantee benefits	36	50	13	99	65	(6)	30	89
Paid guarantee benefits	(26)	–	–	(26)	(47)	–	–	(47)
Net exchange differences	16	12	–	28	(8)	(4)	–	(12)
AT DECEMBER 31	**126**	**121**	**109**	**356**	**100**	**59**	**96**	**255**

	GMDB[1]	GMIB[2]	GMAB[3]	2005 Total[4]	GMDB[1]	GMIB[2]	GMAB[3]	2004 Total[4]
Account value	24,991	9,122	6,164	40,277	22,084	6,406	5,900	34,390
Net amount at risk	2,357	380	84	2,821	2,632	487	284	3,403
Average attained age of contractholders	64	63	–	–	60	61	–	–

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 4 for a discussion of these guarantees for minimum benefits.

MOVEMENTS DURING THE YEAR IN NON-LIFE INSURANCE	2005
At January 1, 2005	4,375
Portfolio transfers and acquisitions	3
Gross premium and deposits – existing and new business	2,684
Unwind of discount/interest credited	164
Technical reserves released	(1,680)
Changes in valuation of expected future benefits	(17)
Change in unearned premiums	(833)
Change in unexpired risks	(3)
Incurred related to current year	682
Incurred related to prior years	64
Release for claims settled current year	(253)
Release for claims settled prior years	(483)
Change in IBNR	23
Disposals	(309)
Net exchange differences	470
Other	6
AT DECEMBER 31, 2005	**4,893**

Prior year run-off results, compared to opening balances of the non-life reserve, are immaterial.

Amounts in EUR millions, unless otherwise stated

MOVEMENTS DURING THE YEAR IN INCOMING REINSURANCE	2005
At January 1, 2005	2,220
Gross premium and deposits – existing and new business	1,244
Unwind of discount/interest credited	168
Technical reserves released	(1,309)
Changes in valuation of expected future benefits	32
Net exchange differences	350
Other	(15)
AT DECEMBER 31, 2005	**2,690**

20 INSURANCE CONTRACTS FOR ACCOUNT OF POLICYHOLDERS

	2005	2004
Insurance contracts for account of policyholders	**70,280**	**59,904**

	2005
At January 1, 2005	59,904
Acquisitions through business combinations	416
Portfolio transfers and acquisitions	(1,826)
Gross premium and deposits – existing and new business	6,202
Unwind of discount/interest credited	6,937
Technical reserves released	(5,630)
Fund charges released	(798)
Changes in valuation of expected future benefits	(67)
Net exchange differences	5,129
Other	13
AT DECEMBER 31, 2005	**70,280**

21 INVESTMENT CONTRACTS

	2005	2004
Investment contracts[1]	**38,842**	**33,630**

	Without discretionary participation features 2005	With discretionary participation features 2005	Total 2005
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**

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

	2005
Fair value of investment contracts without discretionary participation features	37,658

Investment contracts consist of the following:

	2005	2004
Institutional guaranteed products	26,348	21,567
Fixed annuities	6,212	5,164
Savings accounts	5,047	5,519
Investment contracts with discretionary participation features	702	810
Other	533	570
	38,842	**33,630**

Refer to note 4.1.4 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 5,361 million (2004: EUR 4,514 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								
– 2005	5,623	4.08%	10,494	4.14%	2,845	4.49%	2,025	4.11%
– 2004	4,017	2.66%	9,288	3.56%	2,059	2.68%	1,689	3.56%

Included in the total balance for fixed annuities is EUR 4,351 million (2004: EUR 3,483 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								
– 2005	163	5.74%	670	5.99%	528	6%	500	6.44%
– 2004	160	7.08%	598	6.78%	473	6.97%	450	7.31%

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Savings accounts are part of the banking activities of the Group, as described in note 4.1.10. Due to the nature of these products, policyholders have flexibility to withdraw cash from these savings accounts, with limited restrictions.

The balance of investment contracts with discretionary participation features reflects the excess of the liability over the funded value of the units.

22 INVESTMENT CONTRACTS FOR ACCOUNT OF POLICYHOLDERS

	2005	2004
Investment contracts for account of policyholders[1]	**58,724**	**47,142**

	Without discretionary participation features 2005	With discretionary participation features 2005	Total 2005
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**

[1] Refer to note 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 relate to such participations held by third parties, amounting to EUR 858 million (2004: EUR 734 million).

Amounts in EUR millions, unless otherwise stated

23 BORROWINGS

	2005	2004
Debentures and other loans	4,293	4,599
Bank overdrafts	1,239	999
Bank borrowings	–	64
	5,532	**5,662**
Current	1,357	1,966
Non-current	4,175	3,696
Total fair value of borrowings	5,743	5,907

DEBENTURES AND OTHER LOANS

	Coupon rate	Issue/ Maturity	Coupon date	2005	2004
USD 250 million Eurobonds[1]	7.375%	2000/05	July 25	–	172
USD 250 million Senior Notes	floating	2003/05	Quarterly	–	184
EUR 350 million Eurobonds[1]	4.75%	2001/05	February 28	–	350
JPY 10,000 million Medium-Term Notes	floating	2003/05	Semi-annual	–	72
USD 200 million Domestic Debentures[1]	6.75%	1996/06	May/November 15	170	146
USD 50 million Zero Coupon Bonds[1]		1982/07		34	26
USD 100 million Domestic Debentures[1]	9.375%	1996/08	March/September 1	87	77
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	March/September 15	102	83
USD 133 million Zero Coupon Bonds[1]		1982/10		65	50
USD 200 million Zero Coupon Bonds[1]		1982/12		70	54
USD 750 million Senior Notes	4.75%	2003/13	Semi-annual	636	550
EUR 500 million Medium-Term Notes	4.125%[2]	2004/14	December 8	512	499
EUR 75 million Medium-Term Notes	4.625%[2]	2004/19	December 9	79	75
USD 500 million Medium-Term Notes[1]	5.75%[2]	2005/20	December 15	434	–
GBP 250 million Eurobonds	6.125%	1999/31	December 15	365	355
Other				739	906
				4,293	**4,599**

[1] Issued by subsidiaries of, and guaranteed by AEGON N.V.
[2] Recorded 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.

Included in debentures and other loans are EUR 1,025 million (2004: EUR 574 million) relating to borrowings measured at fair value. The remainder of the balance consists of borrowings measured at amortized cost.

	2005	2004
UNDRAWN COMMITTED BORROWING FACILITIES		
Floating-rate		
Expiring within one year	254	2,775
Expiring beyond one year	2,607	447
	2,861	**3,222**

There were no defaults or breaches of conditions during the period.

24 PROVISIONS

	2005	2004
Provisions	253	280
Current	230	200
Non-current	23	80
At January 1	280	316
Additional provisions charged to the income statement	161	57
Unused amounts reversed through the income statement	(13)	(26)
Used during the year	(196)	(40)
Net exchange differences	15	(5)
Other	6	(22)
AT DECEMBER 31	**253**	**280**

The provisions include litigation provisions.

25 DEFINED BENEFIT PLANS

	2005	2004
Retirement benefit plans	1,369	1,398
Other post-employment benefit plans	237	237
TOTAL DEFINED BENEFIT PLANS	**1,606**	**1,635**
Retirement benefit plans in surplus	409	323
TOTAL DEFINED BENEFIT ASSETS	**409**	**323**
Retirement benefit plans in deficit	1,778	1,721
Other post-employment benefit plans in deficit	237	237
TOTAL DEFINED BENEFIT LIABILITIES	**2,015**	**1,958**

MOVEMENTS DURING THE YEAR IN DEFINED BENEFIT PLANS

	Retirement benefit plans 2005	Other post-employment benefit plans 2005	Total 2005	Retirement benefit plans 2004	Other post-employment benefit plans 2004	Total 2004
At January 1	1,398	237	1,635	1,342	223	1,565
Acquisitions through business combinations	–	–	–	7	–	7
Releases	–	–	–	–	(3)	(3)
Defined benefit expenses	126	(8)	118	122	44	166
Contributions paid	(33)	(12)	(45)	(36)	(12)	(48)
Benefits paid	(61)	(4)	(65)	(51)	(4)	(55)
Net exchange differences	(25)	22	(3)	15	(11)	4
Other	(36)	2	(34)	(1)	–	(1)
AT DECEMBER 31	**1,369**	**237**	**1,606**	**1,398**	**237**	**1,635**

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Amounts in EUR millions, unless otherwise stated

THE AMOUNTS RECOGNIZED IN THE BALANCE SHEET ARE DETERMINED AS FOLLOWS

	Retirement benefit plans 2005	Other post-employment benefit plans 2005	Total 2005	Retirement benefit plans 2004	Other post-employment benefit plans 2004	Total 2004
Present value of wholly or partly funded obligations	2,569	4	2,573	2,091	–	2,091
Fair value of plan assets	(2,570)	–	(2,570)	(2,125)	–	(2,125)
	(1)	4	3	(34)	–	(34)
Present value of wholly unfunded obligations	1,629[1]	254	1,883	1,543[1]	246	1,789
Unrecognized actuarial gains/(losses)	(96)	(21)	(117)	(111)	(9)	(120)
Unrecognized past service cost	(163)	–	(163)	–	–	–
TOTAL DEFINED BENEFIT PLANS	**1,369**	**237**	**1,606**	**1,398**	**237**	**1,635**

[1] Assets held by AEGON The Netherlands for retirement benefits do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets also do not form part of the calculation of defined benefit expenses.

	2005	2004
Fair value of AEGON's own financial instruments included in plan assets	574	471
Fair value of other assets used by AEGON included in plan assets	1	1

DEFINED BENEFIT EXPENSES

	Retirement benefit plans 2005	Other post-employment benefit plans 2005	Total 2005	Retirement benefit plans 2004	Other post-employment benefit plans 2004	Total 2004
Current year service costs	100	6	106	92	6	98
Interest cost	205	14	219	194	13	207
Expected return on plan assets	(184)	–	(184)	(169)	–	(169)
Actuarial gains/(losses) recognized on present value of defined benefit obligation	2	(28)	(26)	–	26	26
Actuarial gains/(losses) recognized on plan assets	1	–	1	–	–	–
Past service cost	2	–	2	5	(1)	4
TOTAL DEFINED BENEFIT EXPENSES	**126**	**(8)**	**118**	**122**	**44**	**166**

Defined benefit expenses are included in 'Commissions and expenses' in the income statement.

ACTUAL RETURN ON PLAN ASSETS AND REIMBURSEMENT RIGHTS

	Retirement benefit plans 2005	Other post-employment benefit plans 2005	Total 2005	Retirement benefit plans 2004	Other post-employment benefit plans 2004	Total 2004
	237	**(1)**	**236**	**235**	**–**	**235**

MOVEMENTS DURING THE YEAR IN PLAN ASSETS FOR RETIREMENT BENEFIT PLANS

	2005	2004
At January 1	2,125	2,089
Expected return on plan assets	184	169
Actuarial gains and losses	58	65
Contributions by employer	33	37
Contributions by plan participants	3	2
Benefits paid	(107)	(102)
Settlements	–	(1)
Net exchange differences	274	(134)
AT DECEMBER 31	**2,570**	**2,125**

All other post-employment benefits plans are unfunded.

BREAKDOWN OF PLAN ASSETS FOR RETIREMENT BENEFIT PLANS

	2005	2004
Equity instruments	1,839	1,530
Debt instruments	627	509
Other	104	86
AT DECEMBER 31	**2,570**	**2,125**

All other post-employment benefits plans are unfunded.

SENSITIVITY OF ASSUMED MEDICAL COST TREND RATES

Assumed medical cost trend rates have an effect on the amounts reported for the health care plans. A one-percentage change in assumed medical cost trend rates would have the following effects:

	+ 1% 2005	- 1% 2005	+ 1% 2004	- 1% 2004
Aggregate of current service cost and interest cost components of net periodic post-employment medical costs	1	(1)	1	(1)
Accumulated post-employment benefit obligation for medical cost	(15)	13	(11)	9

EXPERIENCE ADJUSTMENTS ARISING ON

	2005	2004
Plan liabilities	(28)	90
Plan assets	52	66

An experience adjustment on plan liabilities is the difference between the actuarial assumptions underlying the scheme and the actual experience during the period. This excludes the effect of changes in the actuarial assumptions that would also qualify as actuarial gains and losses. Experience adjustments on plan assets are the difference between expected and actual return on assets.

Best estimate of contributions expected for the next annual period	30

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ESTIMATED FUTURE BENEFITS

	Pension benefits	Other benefits	Total
2006	155	18	173
2007	162	20	182
2008	168	20	188
2009	172	21	193
2010	178	21	199
2011 to 2015	1,001	102	1,103

Defined benefit plans are mainly operated by AEGON USA, AEGON The Netherlands and AEGON UK. The following sections contain a general description of the plans in each of these subsidiaries, a summary of the principal actuarial assumptions applied in determining the value of defined benefit plans and a description of the basis used to determine the overall expected rate of return on plan assets.

Amounts in EUR millions, unless otherwise stated

AEGON USA

AEGON USA has defined benefit plans covering substantially all its employees that are qualified under the Internal Revenue Service Code. The benefits are based on years of service and the employee's compensation during the highest five, complete, consecutive years of employment. These defined benefit plans were overfunded by EUR 386 million at December 31, 2005.

AEGON USA also sponsors supplemental retirement plans to provide senior management with benefits in excess of normal pension benefits. These plans are unfunded and non-qualified under the Internal Revenue Service Code. The unfunded amount related to these plans, for which a liability has been recorded, is EUR 126 million.

	2005	2004
ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AT YEAR END		
Discount rate	5.65%	5.75%
Rate of increase in compensation levels	4.5%	4.5%
ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST FOR THE YEAR ENDED DECEMBER 31, AT YEAR END		
Discount rate	5.75%	6.25%
Rates of increase in compensation levels	4.5%	4.5%
Expected long-term rate of return on assets	8.25%	8.25%

The expected return on plan assets is set at the long-term rate expected to be earned based on the long-term investment strategy and the various classes of the invested funds. For each asset class, a long-term asset return assumption is developed taking into account the long-term level of risk of the asset and historical returns of the asset class. A weighted average expected long-term rate was developed based on long-term returns for each asset class and the target asset allocation of the plan.

AEGON USA provides health care benefits to retired employees, which are predominantly unfunded. The post-retirement health benefit liability amounts to EUR 158 million.

The principal actuarial assumptions that apply for the year ended December 31, 2005 (that is at January 1, 2005) are as follows:

	2005	2004
ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AT YEAR END		
Discount rate	5.65%	6.25%
ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST AT YEAR END		
Discount rate	5.75%	6.25%
ASSUMED HEALTH CARE TREND RATES		
Health care cost trend rate assumed for next year	9%	6.25%
Rate that the cost trend rate gradually declines to	5%	5.25%
Year that the rate reaches the rate that it is assumed to remain at	2009	2006

TARGET ALLOCATION OF PLAN ASSETS FOR RETIREMENT BENEFIT PLANS FOR THE NEXT ANNUAL PERIOD IS	
Equity instruments	53-73%
Debt instruments	22-42%
Other	5%

The overall goal of the plans is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk and diversification. AEGON believes that the asset allocation is an important factor, determining the long-term performance of the plans. From time to time the actual asset allocation may deviate from the desired asset allocation ranges due to different market performance among the various asset categories. If it is determined that rebalancing is required, future additions and withdrawals will be used to bring the allocation to the desired level.

Pension plan contributions were not required for AEGON USA in 2005.

AEGON THE NETHERLANDS

AEGON The Netherlands has a defined benefit plan. The contributions to the retirement benefit plan of AEGON The Netherlands are paid by both the employees and employer, with the employer contribution being variable. The benefits covered are retirement benefits, disability, death and survivor pension and are based on an average salary system. Employees earning more than EUR 40,039 per year (as at January 1, 2005) have an option to contribute to a defined contribution plan for the excess salary. However, the cost for the company remains the same. The defined benefit plan was unfunded by EUR 1,612 million at December 31, 2005. Assets held by AEGON The Netherlands for retirement benefits do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets also do not form part of the calculation of defined benefit expenses.

AEGON The Netherlands also has a post-retirement medical plan that contributes to the health care coverage of employees and beneficiaries after retirement. The liability related to this plan amounted to EUR 75 million at December 31, 2005.

The principal actuarial assumptions that apply for the year ended December 31, 2005 are as follows:

	2005	2004
Discount rate	4%	4.75%
Salary increase rate	2.5%	2.5%
Social security increase rate	2.5%	2.5%
Pension increase rate	2%	2%
Health care cost trend rate assumed for next year	5%	5%
Rate that the cost trend rate gradually declines to	2.5%	2.5%
Year that the rate reaches the rate it is assumed to remain at	2014	2014

AEGON UK

AEGON UK operates a defined benefit pension scheme providing benefits for staff based on final pensionable salary. The assets of the scheme are held under trust separately from those of the Group. The assets of the scheme are held in policies effected with Scottish Equitable plc. The scheme is closed to new entrants. The defined benefit plan was underfunded by EUR 256 million at December 31, 2005.

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For each asset class, a long-term return assumption is derived taking into account market conditions, historical returns (both absolute returns and returns relative to other asset classes) and general forecasts for future returns. Government bonds are taken as providing the return with the least risk. The expected long-term rate of return is calculated as a weighted average of these assumed rates, taking account of the long-term strategic allocation of funds across the different classes adopted by the trustees of the scheme.

The principal actuarial assumptions that apply for the year ended December 31, 2005 are as follows:

	2005	2004
Discount rate	5.3%	5.4%
Salary increase rate	4.1%	4.6%
Pension increase rate	2.6%	2.6%
Price inflation	2.6%	2.6%
Expected long-term return on assets	6.94%	7.4%

TARGET ALLOCATION OF PLAN ASSETS FOR RETIREMENT BENEFIT PLANS FOR THE NEXT ANNUAL PERIOD IS

Equity instruments	62.5-77.5%
Debt instruments	22.5-37.5%

The target asset allocation is moving over time from 75% equities and 25% bonds to a target of 65% equities and 35% bonds.

OTHER COUNTRIES

The other countries mostly operate defined contribution plans, with the exception of smaller defined benefit plans in AEGON Canada, AEGON Spain and AEGON Taiwan, with total liabilities of EUR 21 million.

Amounts in EUR millions, unless otherwise stated

26 DEFERRED REVENUE LIABILITIES

	2005	2004
At January 1	76	83
Income deferred	19	5
Amortization through income statement	(13)	(12)
Net exchange differences	2	–
AT DECEMBER 31	**84**	**76**

27 DEFERRED TAX

	2005	2004
Deferred tax assets	83	13
Deferred tax liabilities	2,911	3,416
TOTAL NET DEFERRED TAX	**2,828**	**3,403**

	Real estate	Financial assets	Insurance contracts	Deferred expenses, VOBA and other intangible assets	Defined benefit plans	Losses	Other	Total
At January 1, 2004	429	1,020	(1,557)	2,888	(54)	(918)	1,141	2,949
Disposals	–	–	–	–	–	–	11	11
Charged to income statement	50	(130)	311	110	17	211	(452)	117
Charged to equity	–	330	22	(5)	–	–	30	377
Net exchange differences	(4)	(51)	59	(114)	(7)	13	1	(103)
Other	4	232	(59)	13	–	104	(242)	52
AT DECEMBER 31, 2004	**479**	**1,401**	**(1,224)**	**2,892**	**(44)**	**(590)**	**489**	**3,403**
At January 1, 2005	479	1,401	(1,224)	2,892	(44)	(590)	489	3,403
Acquisition through business combinations	–	–	–	–	–	–	14	14
Disposals	(5)	(5)	4	–	–	–	7	1
Charged to income statement	81	696	(1,454)	675	30	53	58	139
Charged to equity	(16)	(55)	–	(3)	–	(11)	(427)	(512)
Net exchange differences	9	147	(233)	302	13	(37)	14	215
Other	7	(248)	(92)	(92)	12	(19)	–	(432)
AT DECEMBER 31, 2005	**555**	**1,936**	**(2,999)**	**3,774**	**11**	**(604)**	**155**	**2,828**

DEFERRED TAX ASSETS COMPRISE TEMPORARY DIFFERENCES ON

	2005	2004
Financial assets	3	3
Insurance and investment contracts	56	35
Deferred expenses, VOBA and other intangible assets	(120)	(65)
Defined benefit plans	2	1
Other	142	39
AT DECEMBER 31	**83**	**13**

DEFERRED TAX LIABILITIES COMPRISE TEMPORARY DIFFERENCES ON

	2005	2004
Real estate	555	479
Financial assets	1,939	1,404
Insurance and investment contracts	(2,943)	(1,189)
Deferred expenses, VOBA and other intangible assets	3,654	2,827
Defined benefit plans	13	(43)
Losses	(604)	(590)
Other	297	528
AT DECEMBER 31	**2,911**	**3,416**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. The aggregate amount of these deferred income tax assets is EUR 10 million (2004: nil).

AEGON did not recognize deferred income tax assets in respect of losses amounting to EUR 474 million (2004: EUR 507 million) that can be carried forward to future taxable income. Losses amounting to EUR 322 million (2004: EUR 401 million) can be carried forward indefinitely; losses amounting to EUR 137 million (2004: EUR 95 million) will expire within the next five years; losses amounting to EUR 11 million (2004: EUR 7 million) will expire in five to ten years; and losses amounting to EUR 4 million (2004: EUR 4 million) will expire in ten to fifteen years.

Deferred income tax liabilities have not been recognized for withholding taxes and other taxes that would be payable on the unremitted earnings of certain subsidiaries, branches, associates and joint ventures, since such amounts are permanently reinvested. Unremitted earnings totaled EUR 1,741 million (2004: EUR 1,300 million).

28 OTHER LIABILITIES

	2005	2004
Payables due to policyholders	324	853
Payables due to brokers and agents	1,127	2,255
Payables out of reinsurance	1,460	1,273
Social security and taxes payable	54	97
Income tax payable	458	23
Investment creditors	255	439
Cash collateral	4,616	4,910
Share appreciation rights	66	40
Other creditors	2,373	3,049
	10,733	**12,939**
Current	9,636	11,565
Non-current	1,097	1,374
Fair value	9,598	12,124

Refer to note 40.1 for a description of share appreciation rights and related expenses.

29 ACCRUALS

	2005	2004
Accrued interest	355	365
Accrued expenses	203	138
	558	**503**

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

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Amounts in EUR millions, unless otherwise stated

30 PREMIUM INCOME AND PREMIUMS TO REINSURERS

	General account		For account of policyholders		Total	
	Gross	Reinsurance	Gross	Reinsurance	Gross	Reinsurance
2005						
LIFE INSURANCE						
Recurring	6,205	238	4,328	46	10,533	284
Single	1,751	811	3,795	113	5,546	924
TOTAL LIFE INSURANCE PREMIUMS	**7,956**	**1,049**	**8,123**	**159**	**16,079**	**1,208**
NON-LIFE					**2,803**	**346**
TOTAL					**18,882**	**1,554**
2004						
LIFE INSURANCE						
Recurring	5,542	216	4,213	48	9,755	264
Single	1,936	821	3,584	78	5,520	899
TOTAL LIFE INSURANCE PREMIUMS	**7,478**	**1,037**	**7,797**	**126**	**15,275**	**1,163**
NON-LIFE					**3,054**	**400**
TOTAL					**18,329**	**1,563**

31 INVESTMENT INCOME

	2005	2004
Interest income	8,967	8,426
Dividend income	868	796
Rental income	102	115
	9,937	**9,337**
Investment income related to general account	7,031	6,547
Investment income for account of policyholders	2,906	2,790
	9,937	**9,337**
Investment income from:		
Shares	868	796
Bonds and money market instruments	7,522	6,894
Loans	1,303	1,203
Real estate	102	115
Other	142	329
	9,937	**9,337**

Included in interest income is EUR 37 million (2004: EUR 39 million) in respect of interest income accrued on impaired financial assets.

32 FEE AND COMMISSION INCOME

	2005	2004
Fee income from asset management	611	522
Sales commissions	386	268
Commissions from intermediary activities	197	218
Other	250	295
	1,444	**1,303**

33 OTHER REVENUES

	2005	2004
Other revenues	**73**	**331**

Other revenues relate to non-core activities.

34 FAIR VALUE AND FOREIGN EXCHANGE GAINS AND LOSSES

	2005	2004
Fair value and foreign exchange gains	698	206
Fair value and foreign exchange losses	385	199
	313	**7**
FAIR VALUE AND FOREIGN EXCHANGE GAINS COMPRISE		
Positive fair value changes of general account financial assets and liabilities at fair value through profit or loss, other than derivatives	472	172
Positive fair value changes of derivatives	53	25
Positive foreign currency results	173	9
	698	**206**
FAIR VALUE AND FOREIGN EXCHANGE LOSSES COMPRISE		
Negative fair value changes of general account financial assets and liabilities at fair value through profit or loss, other than derivatives	27	4
Negative fair value changes of derivatives	257	12
Negative foreign currency results	89	87
Impairment charges on non-financial assets and receivables	12	96
	385	**199**

35 GAINS AND LOSSES ON INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS

	2005	2004
Gains on investments for account of policyholders	11,340	5,873
Losses on investments for account of policyholders	2	13
	11,338	**5,860**

Investments for account of policyholders comprise of financial assets, investments in real estate and real estate for own use. Refer to note 8 for further information. Financial assets for account of policyholders are classified as at fair value through profit or loss.

Investment income on investments for account of policyholders is included in investment income. Refer to note 31 for further information.

GAINS ON INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS COMPRISE

Positive fair value changes of for account of policyholder financial assets at fair value through profit or loss	11,240	5,820
Positive fair value changes of investments in real estate for account of policyholders	100	53
	11,340	**5,873**

LOSSES ON INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS COMPRISE

Negative fair value changes of for account of policyholder financial assets at fair value through profit or loss	**2**	**13**

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Amounts in EUR millions, unless otherwise stated

36 GAINS AND LOSSES ON INVESTMENTS

	2005	2004
Gains on investments	1,269	1,290
Losses on investments	112	87
	1,157	**1,203**

GAINS ON INVESTMENTS COMPRISE		
Gross gains on investments	1,002	973
Impact of gains on investments on the valuation of insurance assets and liabilities	(75)	(104)
Positive ineffective portion of hedge transactions	31	39
Fair value gains on economic hedges for which no hedge accounting is applied	311	372
Realized gains on repurchased debt	–	10
	1,269	**1,290**

LOSSES ON INVESTMENTS COMPRISE		
Gross losses on investments	–	86
Fair value losses on economic hedges for which no hedge accounting is applied	112	1
	112	**87**

GROSS GAINS AND LOSSES ON INVESTMENTS FROM		
– Shares	389	353
– Bonds and money market instruments	332	352
– Loans	115	95
– Real estate	222	103
– Other	(56)	(16)
TOTAL GROSS GAINS AND LOSSES ON INVESTMENTS	**1,002**	**887**

37 OTHER INCOME

	2005	2004
Other income	**176**	**138**

Other income in 2005 relates to the sale of Seguros Generales, the general insurance company in Spain. The corresponding amount in 2004 relates to the gain on the sale of businesses of Transamerica Finance Corporation.

38 POLICYHOLDER CLAIMS AND BENEFITS

	2005	2004
Claims and benefits paid to policyholders	16,025	11,266
Change in valuation of liabilities for insurance and investment contracts	17,782	15,718
	33,807	**26,984**

39 PROFIT SHARING AND REBATES

	2005	2004
Amortization of interest rate rebates	56	59
Surplus interest bonuses	21	24
Profit appropriated to policyholders	94	73
	171	**156**

40 COMMISSIONS AND EXPENSES

	2005	2004
Commissions	3,317	3,051
Employee expenses	1,662	1,784
Administration expenses	1,281	1,208
Deferred expenses	(1,980)	(1,735)
Amortization of deferred expenses	955	1,103
Amortization of VOBA and future servicing rights	287	373
	5,522	**5,784**

Included in administration expenses above is depreciation amounting to EUR 125 million in 2005 (EUR 264 million in 2004) that relates to equipment, software and real estate held for own use.

40.1 EMPLOYEE EXPENSES

	2005	2004
Salaries	1,139	1,193
Post-employment benefit costs	124	182
Social security charges	185	197
Other personnel costs	171	198
Share appreciation rights and share options	43	14
	1,662	**1,784**

SHARE APPRECIATION RIGHTS AND SHARE OPTIONS

Senior executives of AEGON companies, as well as other AEGON employees, have been offered both share appreciation rights and share options. These share appreciation rights and share options have been granted at an exercise price equal to the market price of the shares at the date of the grant. The rights and options granted in 2005 and 2004 vest after three years and can only be exercised during the four years after the vesting date. The rights and options granted in 2003 and 2002 vest after two years and can only be exercised during the five years after the vesting date. The plans for 2000 and 2001 can be exercised three years after being granted and then during a period of two years. Vesting and exercisability depend on continuing employment of the individual employee to which the rights and options have been granted.

Plans for share appreciation rights and share options can only be established with prior consent of the annual General Meeting of Shareholders. If, subsequently, the Executive Board decides to implement such plans, that decision has to be approved by the Supervisory Board. Options granted pursuant to the purchase agreement with Providian have various expiration dates. The options granted in 1997 to senior executives of former Providian business units fully vest in three years and the exercise period is up to ten years, with the latest period ending in August 2008.

In compliance with regulations under Dutch law, share appreciation rights and share options cannot be exercised in blackout periods.

Amounts in EUR millions, unless otherwise stated

The following tables present the movements in balances over the last two years, as well as the breakdown of share appreciation rights (SARs) and options outstanding.

	Number of SARs/options	Weighted average exercise price[1] in EUR	Weighted average share price[1] in EUR
AT DECEMBER 31, 2003	**55,667,110**	**37.38**	
Issued	11,574,850	10.56	
Forfeited	(6,784,400)		
Exercised (only Providian options)	(86,200)	8.61	10.43
Lapsed	(12,406,012)	45.40	
AT DECEMBER 31, 2004	**47,965,348**	**22.14**	
Issued	10,161,760	10.86	
Forfeited	(3,232,652)		
Exercised	(4,003,298)	6.73	11.06
Lapsed	(10,609,700)	34.50	
AT DECEMBER 31, 2005	**40,281,458**	**18.20**	

SARs/options	Original number granted[1]	Outstanding January 1 2005[1]	Outstanding December 31 2005[1]	Exercise price in EUR[1]	Exercise period
Providian	7,204,384	1,013,198	853,048	21.86[2]	until August 6, 2008
2000	10,609,700	10,609,700	–	34.50	until March 14, 2005
2001	11,288,800	7,933,100	7,299,700	34.84	until March 13, 2006
2002[3]	11,555,700	8,815,900	8,643,200	26.70	until March 12, 2009
2003[3]	11,447,300	9,501,600	5,038,700	6.30	until March 11, 2010
2004[3]	11,574,850	10,091,850	8,994,850	10.56	until March 17, 2011
2005[3]	10,161,760	–	9,451,960	10.86	until March 8, 2012
	73,842,494	**47,965,348**	**40,281,458**		

[1] Adjusted for the share split in 2000.
[2] Weighted average exercise price of the outstanding share options in USD calculated at the closing rate.
[3] Number of share options granted in 2005 amounted to 5,965,560 (2004: 364,400; 2003: 438,200; 2002: 263,100).

Share appreciation rights and share options exercisable as at December 31, 2005, amount to 21,834,648 (2004: 28,371,898) and their weighted average exercise price amounts to EUR 24.52 (2004: EUR 31.90).

Fair value of the share appreciation rights and share options granted during the year amounts to EUR 24 million at the grant date (2004: EUR 32 million).

The following assumptions are used in estimating the fair value of share appreciation rights and share options at the measurement date:

	2005	2004
Volatility	26%	28.7%
Expected dividend yield	3.12%	4.19%
Expected term (in years)	5.22	5.6
Risk-free rate	3.36%	3.54%
AEGON share price	13.75	10.03

The liability related to share appreciation rights is valued at fair value at each balance sheet date. Refer to note 28 for details. The change in value of the liability amounts to EUR 26 million (2004: EUR 12 million) and is recognized in the income statement as part of 'Commissions and expenses'.

The total intrinsic value of options exercised and share appreciation rights paid during 2005 amounts to EUR 17 million (2004: nil). At December 31, 2005, the total compensation cost related to non-vested awards not yet recognized is estimated at EUR 28 million. The weighted average period over which it is expected to be recognized is 1.5 years. The intrinsic value at the balance sheet date for the vested share options and share appreciation rights amounts to EUR 38 million.

The exposure from the issued share appreciation rights and share options is economically hedged by a position in treasury shares. At December 31, 2005 AEGON held 18,650,865 of its own common shares with a face value of EUR 0.12 each by virtue of acquisitions for this purpose.

There have been no modifications to the plans during the financial year.

The breakdown of the share appreciation rights and share options granted in 2005 is as follows: Executive Board nil, other senior executives 4,711,960 and other employees 5,449,800 (2004: 200,000, 4,498,250 and 6,876,600).

Refer to note 54 for detailed information about the share options granted to the Executive Board.

41 IMPAIRMENT CHARGES/(REVERSALS)

	2005	2004
Impairment charges on financial assets, excluding receivables	147	275
Impairment reversals on financial assets, excluding receivables	(160)	(79)
Impact of impairments on the valuation of insurance assets and liabilities	(1)	(13)
	(14)	**183**
Impairment charges from:		
– Shares	20	30
– Bonds and money market instruments	91	229
– Loans	33	9
– Other	3	7
TOTAL IMPAIRMENT CHARGES	**147**	**275**
Impairment reversals from:		
– Bonds and money market instruments	139	80
– Loans	21	(1)
TOTAL IMPAIRMENT REVERSALS	**160**	**79**

42 INTEREST CHARGES AND RELATED FEES

	2005	2004
Capital securities	32	32
Subordinated loans	22	31
Borrowings	256	335
Other	63	–
	373	**398**

43 OTHER CHARGES

	2005	2004
OTHER CHARGES	**3**	**218**

In February 2005, AEGON settled legal proceedings brought by Banque Internationale à Luxembourg S.A. (BIL) and Dexia Bank Belgium S.A. (Dexia) in connection with AEGON's sale in 2000 of Labouchere, at that time a subsidiary company of AEGON. Dexia had alleged that AEGON had made certain misrepresentations and breached certain warranties contained in the purchase agreement. The alleged misrepresentations and breaches of warranties related to securities leasing products sold by Labouchere. Without admitting the claims brought by BIL and Dexia, AEGON agreed to pay EUR 218 million in cash to BIL and Dexia in full and final settlement of all and any claims in this regard. The settlement amount was paid on February 14, 2005.

44 INCOME TAX

	2005	2004
Current tax		
– Current year	751	437
– Adjustments to prior year	(5)	(17)
	746	**420**
Deferred tax (refer to note 27)		
– Origination / (reversal) of temporary differences	245	164
– Changes in tax rates/bases	(48)	(49)
– Recognition of previously unrecognized tax loss/tax credit	(66)	1
– Write off / (reversal of write off) of deferred tax assets	8	1
	885	**537**

RECONCILIATION BETWEEN STANDARD AND EFFECTIVE INCOME TAX

	2005	2004
Income before tax	3,615	2,795
Income tax calculated using weighted average applicable statutory rates	1,217	956
Difference due to the effects of:		
– Non-taxable income	(229)	(373)
– Non-tax deductible expenses	8	79
– Changes in tax rate/base	(48)	(49)
– Different tax rates on overseas earnings	(15)	(19)
– Tax credits	(143)	(71)
– Other taxes	164	28
– Adjustments to prior years	(5)	(17)
– Changes in deferred tax assets as a result of recognition/write off of previously not recognized/recognized tax losses, tax credits and deductible temporary differences	(66)	1
– Non-recognition of deferred tax assets	2	3
– Tax effect of profit/losses from associates	1	–
– Other	(1)	(1)
	885	**537**

The weighted average applicable tax rate is 33.7% (2004: 34.2%). The change from 2004 to 2005 is due to a change in the profitability of the countries and a change in applicable statutory tax rates. The Dutch statutory tax rate has changed from 34.5% in 2004 to 31.5% in 2005.

45 EARNINGS PER SHARE

BASIC EARNINGS PER SHARE:

Basic earnings per share is calculated by dividing the net income attributable to equity holders, after deduction of preferred dividends declared and accrued coupons on perpetuals, by the weighted average number of ordinary shares, excluding ordinary shares purchased by the company and held as treasury shares (refer to note 15).

	2005	2004
Net income attributable to equity holders	2,732	2,256
Dividends on preferred shares	(79)	(95)
Coupons on perpetuals	(132)	(84)
Net income attributable to ordinary shareholders for basic earnings per share calculation	2,521	2,077
Weighted average number of ordinary shares (thousands)	1,548,346	1,503,127
Basic earnings per share (EUR per share)	1.63	1.38

DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by adjusting the average number of shares outstanding for the dilutive effect of share options. For the purpose of calculating diluted earnings per share, AEGON assumed that all dilutive share options have been exercised at the exercise price, or adjusted exercise price if necessary. The proceeds are regarded as having been received from the issue of ordinary shares at the average market price of the AEGON N.V. share during the year. The difference between the number of dilutive options issued and the number of ordinary shares that would have been issued at the average market price has been treated as an issue of ordinary shares for no consideration.

The number of share options that has not been included in the weighted average number of ordinary shares used in the calculation of diluted earnings per share, because these share options were anti-dilutive for the periods presented, amounted to 10,256,000 (2004: 8,392,000). The exercise prices of these share options range from EUR 34.84 to EUR 10.56.

	2005	2004
Net income attributable to equity holders	2,732	2,256
Dividends on preferred shares	(79)	(95)
Coupons on perpetuals	(132)	(84)
Net income attributable to ordinary shareholders for diluted earnings per share calculation	2,521	2,077
Weighted average number of ordinary shares (thousands)	1,548,346	1,503,127
Adjustments for:		
– Share options (thousands)	201	–
Weighted average number of ordinary shares for diluted earnings per share calculation (thousands)	1,548,547	1,503,127
Diluted earnings per share (EUR per share)	1.63	1.38

46 DIVIDEND PER SHARE

The dividend per share paid in 2005 and 2004 were EUR 0.43 and EUR 0.41 respectively. A final dividend in respect of 2005 of EUR 0.23 per share, amounting to a total dividend of EUR 0.45 per share for 2005 is to be proposed at the annual General Meeting of Shareholders on April 25, 2006. These financial statements do not reflect the final dividend payable.

47 CAPITAL AND SOLVENCY

AEGON's capital base reflects the capital employed in insurance activities and consists of shareholders' equity, capital securities and dated subordinated and senior debt. AEGON manages its capital base to comprise at least 70% shareholders equity, at least 5% capital securities (consisting of junior perpetual capital securities, perpetual cumulative subordinated bonds and trust pass-through securities) and a maximum of 25% other subordinated and senior debt related to insurance activities.

The table that follows reconciles total shareholders' equity to the total capital base:

	2005	2004
Total shareholders' equity	19,276	14,875
Junior perpetual capital securities	2,809	1,352
Perpetual cumulative subordinated bonds	567	1,517
Share options not yet exercised	3	-
Minority interest	15	15
Trust pass-through securities	437	378
Subordinated borrowings	284	254
Borrowings	5,532	5,662
Borrowings not related to capital funding of insurance activities[1]	(3,473)	(3,392)
TOTAL CAPITAL BASE	**25,450**	**20,661**

[1] Borrowings not related to capital funding of insurance activities mainly include operational funding of TFC businesses, operational funding of collateral reserve relief for the AEGON USA reinsurance business and short-term funding of cash and collateral management activities.

Amounts in EUR millions, unless otherwise stated

Both insurance and banking companies are required to maintain a minimum solvency margin based on local directives. AEGON's insurance subsidiaries in the United States are subject to risk-based standards established by the National Association of Insurance Commissioners. At December 31, 2005, the combined risk-based capital ratio of AEGON's life insurance subsidiaries in the United States was 383%. Under the Insurance Industry Supervision Act 1993 in the Netherlands, life insurance companies are required to maintain equity of among others 4% of general account technical reserves and, in case of no interest guarantee, 1% of technical reserves with investments for account of policyholders plus 0.3% of the amount at risk under the insurance policies for life insurers. The Financial Services Authority regulates insurance companies in the United Kingdom under the Financial Services and Markets Act 2000 and sets minimum standards for capital adequacy and solvency.

The required solvency margin shown in the table that follows is the sum of the individual margins of all AEGON's insurance and banking companies based on European directives implemented in Dutch legislation. Liability capital available includes shareholders' equity, capital securities and subordinated loans of the Group. The solvency position of the Group has been outlined in the following table:

	2005	2004
Liability capital of the Group	23,391	18,391
Required solvency margin	8,613	7,461
Solvency surplus	14,778	10,930
Solvency as a percentage of required solvency margin	272	246

AEGON is subject to legal restrictions on the amount of dividends it can pay to its shareholders. Under Dutch law the amount that is available to pay dividends consists of total shareholders' equity less the issued and outstanding capital and less the reserves required by law. At December 31, 2005, the issued and outstanding capital is EUR 251 million, the reserves required by law amount to EUR 3,373 million and EUR 15,652 million is available for dividends. However, certain of AEGON's subsidiaries, principally insurance companies, are subject to restrictions on the amounts of funds they may transfer in the form of cash dividends or otherwise to their parent companies. While management does not believe such restrictions on AEGON's subsidiaries will affect its ability to pay dividends in the future, there can be no assurance that these restrictions will not limit or prevent AEGON from doing so.

48 SUMMARY OF TOTAL FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	Trading 2005	Designated 2005	Trading 2004	Designated 2004
Investments for general account	774	9,965	581	9,770
Investments for account of policyholders	–	126,141	–	106,210
Derivatives with positive values not designated as hedges	1,498	–	917	–
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**2,272**	**136,106**	**1,498**	**115,980**
Investment contracts	–	223	–	217
Investment contracts for account of policyholders	–	22,258	–	17,283
Derivatives with negative values not designated as hedges	1,368	–	1,041	–
Borrowings	–	1,025	–	574
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**1,368**	**23,506**	**1,041**	**18,074**

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	Trading 2005	Designated 2005	Trading 2004	Designated 2004
Gains	666	11,410	588	5,801
Losses	267	131	18	12

No loans and receivables were designated as at fair value through profit or loss.

Changes in the fair value of financial liabilities designated as at fair value through profit or loss were not attributable to changes in credit risk. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

49 CASH GENERATED FROM OPERATIONS

49.1 ADJUSTMENTS FOR NON-CASH ITEMS AND ITEMS DISCLOSED SEPARATELY

	2005	2004
Change in insurance contracts	7,574	6,949
Change in investment contracts	6,677	6,538
Change in reinsurance assets	(411)	(340)
Depreciation and amortization	1,475	1,889
Impairment losses and reversals	(13)	291
Investments for account of policyholders	(9,184)	(9,140)
Investments in financial assets	(170)	(2,138)
Derivatives	(41)	(144)
Deferred expenses and rebates	(1,982)	(1,759)
Other	(3,630)	2,386
Interest and dividends	(9,520)	(8,864)
	(9,225)	**(4,332)**

49.2 NET (INCREASE)/DECREASE IN OPERATING ASSETS AND LIABILITIES

(Excluding the effect of acquisitions and exchange differences on consolidation)

	2005	2004
Other assets and receivables	64	523
Other liabilities	(3,421)	1,754
Accrued interest	(12)	(160)
	(3,369)	**2,117**

50 COMMITMENTS AND CONTINGENCIES

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 next year. 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.

	2005		2004	
	Purchase	Sale	Purchase	Sale
Real estate	2	(5)	–	(15)
Mortgage loans	559	–	490	–
Bonds	11	(12)	–	–
Private loans	441	–	74	–
Other	1,420	–	1,036	–

GUARANTEES GIVEN TO THIRD PARTIES

	2005	2004
Guarantees	146	69
Standby letters of credit	34	52
Other	12	33

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.

Other commitments include private placement commitments, mortgage loan commitments, and limited partnership commitments.

Certain insurance and investment products have minimum guarantees for which liabilities have been recognized and are therefore not included in the table. These guarantees are discussed in note 4.

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Amounts in EUR millions, unless otherwise stated

OTHER COMMITMENTS AND CONTINGENCIES

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.

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 3,680 million). At December 31, 2005, 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 1,659 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, 2005.

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 law suits in respect of certain products in the Netherlands. The products involved include securities leasing products and the Koersplan product. We believe we have established adequate litigation policies to deal with the claims defending ourselves when the claim is without merit and seeking to settle in certain circumstances. This and any other litigation we have 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 we will be able to resolve existing litigation in the manner we expect 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.

	2005	2004
Share of contingent liabilities incurred in relation to interests in joint ventures	676	625
Capital commitments for the acquisition of intangible assets	–	3
Other capital commitments and contingencies	81	62

FUTURE LEASE PAYMENTS

	2005			2004		
	Not later than 1 year	**1-5 years**	**Later than 5 years**	Not later than 1 year	1-5 years	Later than 5 years
Finance lease obligations	–	–	–	8	7	–
Operating lease obligations	101	320	286	100	315	319

51 COLLATERAL

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.

	2005	2004
Financial assets pledged for liabilities	3,395	3,404
Other financial assets pledged as collateral	103	106

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 13, are as follows:

	2005	2004
Cash collateral pledged on reverse repurchase agreements	23	2

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.

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:

	2005	2004
Fair value of financial assets accepted as collateral	4,616	4,910

Under security lending and repurchase agreements, AEGON accounts for a liability to repay cash collateral received. The balance of these payables, included in other liabilities in note 28, are as follows:

	2005	2004
Cash collateral repayable on security lending	3,917	4,372

AEGON does not account for the delivery of the securities as the Group still has economic ownership. When collateral received takes the form of non-cash, AEGON does not account for the collateral received, nor for the delivery of securities as there is no change in economic ownership.

52 BUSINESS COMBINATIONS

AEGON acquired 100% of the shares of Nationwide Towarzystwo Ubezpieczen na Zycie S.A. (Nationwide Poland) in early October 2005 and consolidated the business as of October 1, 2005. AEGON also acquired an investment advisor company, Westcap Investors, LLC during 2005. These business combinations did not have a material impact on the consolidated financial statements of the Group.

53 GROUP COMPANIES

SUBSIDIARIES

The principal subsidiaries of the parent company AEGON N.V. are listed by geographical segment. All are wholly owned, directly or indirectly, unless stated otherwise, and are involved in insurance or reinsurance business, asset management or services related to these activities. The voting power in these subsidiaries held by AEGON is equal to the shareholdings.

Americas
AEGON USA, Inc., Cedar Rapids, Iowa (United States)
Commonwealth General Corporation, Wilmington, Delaware (United States)
Life Investors Insurance Company of America, Cedar Rapids, Iowa (United States)
Monumental Life Insurance Company, Baltimore, Maryland (United States)
Peoples Benefit Life Insurance Company, Cedar Rapids, Iowa (United States)
Stonebridge Casualty Insurance Company, Columbus, Ohio (United States)
Stonebridge Life Insurance Company, Rutland, Vermont (United States)
Transamerica Corporation, Wilmington, Delaware (United States)
Transamerica Financial Life Insurance Company, Inc., Purchase, New York (United States)
Transamerica Life Canada, Toronto, Ontario (Canada)
Transamerica Life Insurance and Annuity Company, Charlotte, North Carolina (United States)
Transamerica Life Insurance Company, Cedar Rapids, Iowa (United States)
Transamerica Occidental Life Insurance Company, Cedar Rapids, Iowa (United States)
Veterans Life Insurance Company, Springfield, Illinois (United States)
Western Reserve Life Assurance Co. of Ohio, Columbus, Ohio (United States)

The Netherlands
AEGON Bank N.V., Utrecht
AEGON Financiële Diensten B.V., The Hague
AEGON International N.V., The Hague
AEGON Levensverzekering N.V., The Hague
AEGON NabestaandenZorg N.V., Groningen
AEGON Nederland N.V., The Hague
AEGON Schadeverzekering N.V., The Hague
AEGON Spaarkas N.V., The Hague
AEGON Vastgoed Holding B.V., The Hague
Meeùs Groep B.V., Amersfoort
Spaarbeleg Kas N.V., Utrecht
TKP Pensioen B.V., Groningen
AEGON Investment Management B.V., The Hague

United Kingdom
AEGON Asset Management UK plc, London
AEGON UK Distribution Holdings Ltd., London
AEGON UK plc, London
Guardian Assurance plc, Lytham St Annes
Guardian Linked Life Assurance Limited, Lytham St Annes
Guardian Pensions Management Limited, Lytham St Annes
HS Administrative Services Limited, Chester
Scottish Equitable International Holdings plc, London
Scottish Equitable plc, Edinburgh

Other countries
AEGON Hungary Composite Insurance Company Rt., Budapest (Hungary)
AEGON España S.A., Madrid (Spain) (99.98%)
AEGON Life Insurance (Taiwan) Inc., Taipei (Taiwan)
AEGON Pension Fund Management Company Slovakia, Bratislava (Slovakia)
AEGON Pojistóvna a.s., Prague (Czech Republic)
AEGON Towarzystwo Ubezpieczen na Zycie S.A., Warsaw (Poland)

JOINT VENTURES
The principal joint ventures are listed by geographical segment.

The Netherlands
AMVEST Vastgoed B.V., Utrecht (50%)

Other countries
AEGON-CNOOC Life Insurance Company Ltd, Beijing (China) (50%)
Caja Badajoz Vida y Pensiones, Sociedad Anónima de Seguros, Badajoz (Spain) (50%)

SUMMARIZED FINANCIAL INFORMATION OF JOINT VENTURES FOR 2005 ACCOUNTED FOR USING PROPORTIONATE CONSOLIDATION

	Current assets	Long-term assets	Current liabilities	Long-term liabilities	Income	Expenses
AMVEST	46	905	13	614	74	13
AEGON-CNOOC	10	25	2	16	14	21
	56	**930**	**15**	**630**	**88**	**34**

There were no operations yet in Caja Badajoz Vida y Pensiones by the end of 2005.

INVESTMENTS IN ASSOCIATES
The principal investments in associates are listed by geographical segment.

The Netherlands
Nieuw Rotterdam Holding B.V., Utrecht (45%)
N.V. Levensverzekering-Maatschappij 'De Hoop', The Hague (35%)

United Kingdom
Tenet Group Limited, Leeds (19.51%)

Other countries
CAM AEGON Holding Financiero, Alicante (Spain) (49.99%)
La Mondiale Participations S.A., Lille (France) (35%)

Refer to note 10 for further details on investments in associates.

54 RELATED PARTY TRANSACTIONS
Related party transactions for the period under review include transactions between AEGON N.V. and Vereniging AEGON, as well as the reinsurance of blocks of immediate annuity business in with profit funds to shareholders of Guardian Assurance plc and transactions from the relationship with Prisma Capital Partners LP.

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. 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.

As described in note 4.1.5, 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 profits policyholders at a suitable rate. In particular, Guardian Assurance plc has reinsured blocks of immediate annuity business to the shareholder on terms reflective of prevailing market rates; this helps avoid a tontine effect building up in the fund, whilst the number of with profit policyholders reduces.

AEGON has a 60% limited partnership interest in Prisma Capital Partners LP, a company that performs investment management services and creates fund of funds investments in the hedge fund industry. Two outside entities, Prisma Capital Partners I, LP (31%) and Prisma Capital Partners EH LLC (8%) also have a limited partnership interest. Prisma GP LLC is the general partner with a 1% interest and is responsible for day-to-day activities. A management board with seven voting members (three appointed by AEGON, three appointed by Prisma GP LLC and one independent member) has to approve certain policies and activities. The limited partnership currently serves as investment manager for certain of AEGON's hedge fund investments, in exchange for management fees. It has also created several hedge fund of funds to be marketed to institutional investors. The limited partnership will manage these funds and receive a management fee and an incentive fee. AEGON concluded that it does not control Prisma Capital Partners LP, but that it does have significant influence. As a result, the investment is accounted for using the equity method.

In addition to these transactions, the remuneration and share-based compensation of members of the Executive Board and the Supervisory Board are disclosed in the sections that follow.

REMUNERATION OF ACTIVE AND RETIRED MEMBERS OF THE EXECUTIVE BOARD

Amounts in EUR thousands

	Short-term benefits					
	Periodic payments		Performance related			
	Salary	Other[1]	Cash[3]	Shares[4]	Pension premiums	Total
2005						
D.J. Shepard	803[2]	223	2,998[5]	–	270	4,294
J.B.M. Streppel	679[6]	14	469	–	217	1,379
J.G. van der Werf	575[6]	11	552	–	184	1,322
A.R. Wynaendts	575[6]	180	568	–	183	1,506
TOTAL	**2,632**	**428**	**4,587**	**–**	**854**	**8,501**
2004						
D.J. Shepard	804[2]	458	1,878[5]	188	226	3,554
J.B.M. Streppel	668[6]	15	144	144	227	1,198
J.G. van der Werf	566[6]	11	144	144	192	1,057
A.R. Wynaendts	566[6]	13	102	102	192	975
Total for active members	2,604	497	2,268	578	837	6,784
P. van de Geijn (pro rata for the year 2003)	–	–	241	–	–	241
TOTAL	**2,604**	**497**	**2,509**	**578**	**837**	**7,025**

1 Other periodic payments are additional remuneration elements, including social security contributions borne by the Group. For Mr. Shepard, the Group has also borne expenses and non-monetary benefits mainly related to personal life insurance and tax planning. For Mr. Wynaendts, the amount also includes compensation for relocation and cost of living related to his temporary secondment to AEGON USA.
2 Mr. Shepard earns a salary of USD 1 million.
3 In line with the regulations of the Short-Term Incentive (STI) plan 2004, it was established that the 2004 value of new business of the Group and of the relevant country units was positive. Subsequently, operating earnings were calculated and established per area of responsibility. After adoption of the 2004 annual accounts by the shareholders, the disclosed STI cash bonuses for the 2004 plan were paid in 2005. Under the 2003 STI Plan, paid in 2004, Mr. Shepard was entitled to receive USD 50,000 per percentage point increase in the preceding year's earnings per share. The other members of the Executive Board were entitled to receive EUR 32,432 per percentage point increase in the preceding year's earnings per share in excess of the rate of European inflation as indicated by the European Central Bank. The relevant percentage was 8.9%. All 2003 bonuses were maximized at 150% of the year's salary. Under the STI Plan 2003, Executive Board members could opt for payment in cash or in shares.
4 In 2004, all the members of the Executive Board opted for payment of half of the cash value of their 2003 STI bonus in AEGON N.V. common shares. These shares are restricted (non-transferable) for a period of three years. The number of shares for each member was: Mr. Shepard 16,143; Mr. Streppel 12,409; Mr. Van der Werf 12,409; and Mr. Wynaendts 8,771. After the three-year holding period, the Executive Board members will be entitled to bonus shares, provided that they are still employed by AEGON. The number of bonus shares will be calculated through performance based matching, on the basis of earnings per share growth over inflation in the preceding three years, i.e. 2004, 2005 and 2006. The number of bonus shares varies from 0 to 100% of the number of shares mentioned above.
5 In addition to the STI Plan, Mr. Shepard is entitled to a short-term incentive bonus equal to 0.1% of the net income of AEGON N.V. according to the adopted accounts. The amounts included in the 2005/2004 figures presented in the table are based on the 2004/2003 net income as reported in accordance with Dutch accounting principles.
6 Base salary including adoption in accordance with the general salary rounds applicable to AEGON employees in the Netherlands, the customary employee profit sharing bonus, as well as a tax deferred employee savings scheme.

In accordance with the 2005 LTI Plan, non-vested (conditional) AEGON common shares and options were 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 2005 LTI Plan was April 22, 2005 and the closing price of that day was EUR 9.91. The value of the performance option was set at 50% of the value of the performance share.

For further details about the LTI Plan, refer to the Remuneration Policy and Report on pages 33-36.

TOTAL OVERVIEW OF CONDITIONALLY GRANTED SHARES:

	Balance January 1	Granted	Vested	Expired/ forfeited	Balance December 31	Reference period
D.J. Shepard	35,767	–	–	–	35,767	2004-2006
		38,542	–	–	38,542	2005-2007
J.B.M. Streppel	16,661	–	–	–	16,661	2004-2006
		20,169	–	–	20,169	2005-2007
J.G. van der Werf	14,106	–	–	–	14,106	2004-2006
		17,066	–	–	17,066	2005-2007
A.R. Wynaendts	14,106	–	–	–	14,106	2004-2006
		17,066	–	–	17,066	2005-2007

TOTAL OVERVIEW OF CONDITIONALLY GRANTED OPTIONS:

	Balance January 1	Granted	Vested	Expired/ forfeited	Balance December 31	Reference period
D.J. Shepard	71,534	–	–	–	71,534	2004-2006
		77,084	–	–	77,084	2005-2007
J.B.M. Streppel	33,322	–	–	–	33,322	2004-2006
		40,338	–	–	40,338	2005-2007
J.G. van der Werf	28,212	–	–	–	28,212	2004-2006
		34,132	–	–	34,132	2005-2007
A.R. Wynaendts	28,212	–	–	–	28,212	2004-2006
		34,132	–	–	34,132	2005-2007

The numbers of shares and options conditionally granted were based on the closing price on the day of the grant. This was also the exercise price of the options. For the conditionally granted options, the exercise prices are:

	EUR
Options of reference period 2004-2006	11.74
Options of reference period 2005-2007	9.91

Amounts in EUR millions, unless otherwise stated

SHARE OPTIONS AND SHARE APPRECIATION RIGHTS AND INTERESTS IN AEGON N. V. HELD BY ACTIVE MEMBERS OF THE EXECUTIVE BOARD

	Balance at January 1	Exercise price EUR	Granted	Exercise price EUR	Lapsed	Date	Market price EUR	Balance at December 31	Exercise price EUR	Shares held in AEGON at December 31
D.J. Shepard	200,000	34.50			200,000	–	–	–	–	
	100,000	34.84						100,000	34.84	
	50,000[1]	26.70						50,000[1]	26.70	
	50,000[1]	10.56						50,000[1]	10.56	330,180
J.B.M. Streppel	40,000	34.50			40,000	–	–	–	–	
	100,000	34.84						100,000	34.84	
	50,000[1]	26.70						50,000[1]	26.70	
	50,000[1]	10.56						50,000[1]	10,56	13,595
J.G. van der Werf	48,000	34.50			48,000	–	–	–	–	
	50,000	34.84						50,000	34.84	
	50,000[1]	26.70						50,000[1]	26.70	
	50,000[1]	10.56						50,000[1]	10.56	140,293
A.R. Wynaendts	20,000[1]	34.50			20,000	–	–	–	–	
	16,000	34.50			16,000	–	–	–	–	
	20,000[1]	34.84						20,000[1]	34.84	
	15,000	34.84						15,000	34.84	
	40,000[1]	26.70						40,000[1]	26.70	
	50,000[1,2]	6.30						50,000[1]	6.30	
	50,000[1]	10.56						50,000[1]	10.56	9,546

1 Share appreciation rights. For a description refer to pages 163 - 165.
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.
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.

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 after voluntary repayment of EUR 71,766 in 2005; Mr. Van der Werf had a mortgage loan of EUR 1,240,000 at a 2,5% 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 2005 from Messrs Van der Werf and Wynaendts. The terms of the board members' loans have not been amended.

SEVERANCE PAYMENT ARRANGEMENTS

Termination of the employment contracts requires a three months' 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 member of the Executive Board would be entitled to a severance arrangement.

Under his Employment Agreement, Mr. Shepard shall 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 year's 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 take-over.

REMUNERATION OF ACTIVE AND RETIRED MEMBERS OF THE SUPERVISORY BOARD

In EUR	2005	2004
D.G. Eustace	82,565	58,904
O.J. Olcay	66,250	34,034
I.W. Bailey, II (as of April 22, 2004)	48,750	23,562
R. Dahan (as of April 22, 2004)	59,500	23,562
S. Levy (as of April 21, 2005)	46,808	–
T. Rembe	60,000	51,050
W.F.C. Stevens	74,750	48,214
K.J. Storm	47,500	34,034
P.R. Voser (as of April 22, 2004)	54,000	34,906
L.M. van Wijk	48,750	34,034
TOTAL FOR ACTIVE MEMBERS	**588,873**	**342,300**
M. Tabaksblat (up to April 21, 2005)	22,769	56,722
H. de Ruiter (up to April 22, 2004)	–	14,137
F.J. de Wit (up to April 22, 2004)	–	10,603
TOTAL	**611,642**	**423,762**

Starting January 1, 2005, a three-components structure has been introduced for the remuneration of the Supervisory Board: (1) a base fee (for membership of the Supervisory Board); (2) an additional fee for membership of a Committee; and (3) an attendance fee for face-to-face Committee meetings.

SHARE OPTIONS AND SHARE APPRECIATION RIGHTS OF ACTIVE MEMBERS OF THE SUPERVISORY BOARD

	Balance at January 1	Exercise price EUR	Lapsed	Date	Market price EUR	Balance at December 31	Exercise price EUR
K.J. Storm	200,000	34.50	200,000	–	–	–	–
	100,000	34.84	0	–	–	100,000	34.84

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

	2005	2004
I.W. Bailey, II	29,759	29,759
R. Dahan	25,000	25,000
T. Rembe	6,658	6,658
K.J. Storm	276,479	276,479
TOTAL	**337,896**	**337,896**

55 EVENTS AFTER THE BALANCE SHEET DATE

On January 10, 2006, AEGON announced that AEGON-CNOOC Life Insurance Company Ltd., the 50/50 joint venture of AEGON N.V. and the Chinese National Offshore Oil Corporation (CNOOC), received a license from the regulatory authorities to begin life insurance activities in China's Shandong province.

On January 30, 2006, Fitch Ratings assigned AEGON N.V. AA- (double A minus) ratings to AEGON N.V.'s senior debt and A+ ratings to subordinated debt and perpetual securities, with a stable outlook. In addition, Fitch affirmed the AA+ (double A plus) insurance financial strength ratings of AEGON USA.

On February 13, 2006, AEGON N.V. and HDI Pensionsmanagement AG announced that HDI Pensionsmanagement has joined the AEGON Pension Network. The AEGON Pension Network was created jointly by AEGON and La Mondiale in 2005 as the first international network dedicated to providing specialized cross border group pensions solutions for multi-national corporate clients and their employees.

5

56 FIRST-TIME ADOPTION OF IFRS

Amounts in EUR millions	December 31, 2004	January 1, 2004
DAP SHAREHOLDERS' EQUITY	**14,413**	**13,947**
Investments		
Revaluation from amortized cost to fair value and changes in impairments	4,062	3,738
Release of bond default reserve	170	192
Release of deferred bond gains	1,456	1,386
Other	(89)	(47)
Derivatives	107	(445)
DPAC, VOBA and liability valuation	(2,693)	(2,704)
Defined benefit plans	(1,490)	(1,642)
Goodwill	251	0
Tax differences	(1,160)	(936)
Other	(152)	(192)
TOTAL	**462**	**(650)**
IFRS SHAREHOLDERS' EQUITY	**14,875**	**13,297**
Minority shareholders' interest	15	29
Perpetual capital securities	2,869	1,517
IFRS GROUP EQUITY	**17,759**	**14,843**

RECONCILIATION OF SHAREHOLDERS' EQUITY FROM DAP TO IFRS

REVALUATION FROM AMORTIZED COST TO FAIR VALUE AND CHANGES IN IMPAIRMENTS

Investments in bonds are mostly classified as either available-for-sale financial assets or as financial assets at fair value through profit or loss under IFRS. These bonds were valued at cost under DAP and consequently have been revalued to fair value under IFRS.

Where applicable, impaired financial assets have been adjusted to fair value at the date of impairment, rather than amounts expected to be recovered. This difference in valuation of impaired financial assets also results in differences in impairment reversals.

RELEASE OF BOND DEFAULT RESERVE

Under DAP, a default reserve was required for bonds. This default reserve is not recognized under IFRS and is therefore released to equity.

RELEASE OF DEFERRED BOND GAINS

Under DAP, interest related gains and losses on debt securities were deferred and released into the income statement over the estimated average remaining term to maturity. Under IFRS, gains and losses are recognized in the income statement when realized. The net deferred gains that existed in the DAP balance sheet have been released to shareholders' equity for IFRS.

DERIVATIVES

Under IFRS, all derivatives have been valued at fair value. Under DAP, accounting for derivatives follows the accounting for the related investment or debt instrument.

DPAC, VOBA AND LIABILITY VALUATION

The deferred transaction costs for products classified as investment contracts without discretionary participation features have been reduced in the Opening Balance Sheet and the amount of transaction costs that can be deferred in the future under IFRS will be lower. Under IFRS, only certain costs directly related to the rendering of investment management services can be deferred.

For certain products, DPAC and VOBA balances are amortized based on expected gross profits under both DAP and IFRS. Due to the removal of the deferred interest-related gains and other changes to the underlying basis of the assets under IFRS, expected gross profits under IFRS will change when compared to DAP and consequently the DPAC and VOBA balances were reduced.

Liability valuation changes are mainly caused by the application of shadow accounting, the valuation of embedded derivatives, the recognition of losses from liability adequacy testing and the valuation of a specific liability at fair value.

Shadow accounting is applied when there is a direct relationship between the measurement of the invested assets and the measurement of the insurance liabilities or related DPAC and VOBA. When unrealized gains or losses arise on available-for-sale financial assets, insurance liabilities and related assets are adjusted to the same extent that they would be adjusted if those unrealized gains or losses had been realized.

Some of the products in AEGON USA contain embedded derivatives related to ceded reinsurance under IFRS. These embedded derivatives have to be separated from the host contracts and valued on a stand alone basis at fair value in the financial statements. The same applies for certain guarantees within the variable annuity business (segregated funds) in AEGON Canada.

For some products, primarily the life contingent block of payout annuities, losses were recognized from liability adequacy testing. For DAP, no such adjustment was necessary, because there were excess margins primarily from the amortization of deferred interest-related gains on the DAP balance sheet.

Further changes in liability valuation are caused by a specific product that provides customers with a pass-through of total investment returns, subject to a cumulative minimum guarantee. This product contains an embedded derivative that cannot be separated from the host contract and valued on a stand alone basis at fair value and as a result, the entire contract is valued at fair value. The investments backing this product have also been classified as financial assets at fair value through profit or loss. The changes in the fair value of the liabilities and the assets backing the product should generally offset each other. However, changes in the asset values are not always offset with changes in the liabilities during a rising interest rate environment, due to the contractual minimum guarantees.

DEFINED BENEFIT PLANS

Under IFRS, AEGON will show a liability in the Opening Balance Sheet for defined benefit plans that are underfunded and an asset for defined benefit plans that are overfunded.

IFRS allows the use of the 'fresh-start' approach for the Opening Balance Sheet, under which all cumulative actuarial gains and losses, both realized and unrealized, are effectively recognized in retained earnings on the Opening Balance Sheet, leaving no unrecognized actuarial gains and losses. AEGON elected to make use of this approach and, as a result, additional liabilities for AEGON The Netherlands and AEGON UK were set up and assets relating to AEGON Americas that existed in the DAP balance sheet were charged to shareholders' equity in the Opening Balance Sheet.

GOODWILL

Under DAP, goodwill was not capitalized, but charged directly to equity at the time of acquisition. Under IFRS, goodwill is capitalized as an asset. IFRS allows the prospective application of the standard applicable to business combinations to acquisitions after January 1, 2004. As a result, goodwill written off to equity before this date will not be reinstated on transition to IFRS. The adjustment from DAP equity relates to goodwill from acquisitions during 2004.

TAX DIFFERENCES

Tax differences relate to the tax effects of reconciling items as well as tax differences due to discounting. DAP required that the deferred tax balance be presented on a discounted basis. Under IFRS this is no longer allowed and as a result the deferred tax liability is increased in the Opening Balance Sheet with a corresponding charge to shareholders' equity. Furthermore, deferred tax related to the liability for accrued policyholder surplus taxes is reduced as a result of a change in tax legislation.

MINORITY SHAREHOLDERS' INTEREST

Minority shareholders' interest relates to entities that are consolidated under IFRS, but that were not consolidated under DAP, and in which AEGON owns less than a 100% interest.

PERPETUAL CAPITAL SECURITIES

Perpetual capital securities are classified as equity under IFRS, rather than as debt, as these securities have no final maturity date, repayment is at the discretion of the issuer and AEGON has the option to defer coupon payments at its discretion.

RECONCILIATION OF CONSOLIDATED NET INCOME FROM DAP TO IFRS

	amounts in EUR millions
NET INCOME DAP, 2004	**1,663**
Investment income	(422)
Fair value movements on financial assets at fair value through profit or loss	52
DPAC, VOBA and liability valuation	(322)
Interest charges and related fees	122
Net gains on investments and impairment charges	845
Non-recurring income	138
Other	155
Tax	25
TOTAL ADJUSTMENTS	**593**
NET INCOME IFRS, 2004	**2,256**

INVESTMENT INCOME
Under DAP, interest related gains and losses on debt securities were deferred and released into the income statement, as investment income, over the estimated average remaining term to maturity. Investment income under IFRS decreased due to the reversal of the amortization of deferred investment gains.

FAIR VALUE MOVEMENTS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
This adjustment relates to fair value movements on general account financial assets, including embedded derivatives that are separated from host contracts and that are classified as financial assets at fair value through profit or loss.

DPAC, VOBA AND LIABILITY VALUATION
The amount of transaction costs that can be deferred under IFRS is less than what can be deferred for DAP for investment contracts without discretionary participation features. This in itself results in a decrease of IFRS net income compared to DAP. This decrease is somewhat offset by the fact that amortization charges are lower under IFRS, as deferred transaction cost balances are lower. However, for flexible premium products, such as universal life and some fixed and variable annuity products, the amortization of DPAC is based on profit emergence. The inclusion of the net realized gains on debt securities causes the total investment return on assets backing this business to be higher than the investment return under DAP. This increase in total investment return was slightly offset by the reversal of the amortization of deferred investment gains. The net increase in profits caused increases in DPAC and VOBA amortization.

An adjustment to the VOBA of AEGON USA caused a further decrease in net income compared to DAP. This adjustment was necessary primarily due to changes in estimates regarding future gross profits on certain assumed reinsurance contracts. For DAP no such adjustment was necessary, because there were excess future margins primarily due to the amortization of deferred interest-related gains.

Furthermore, a specific product sold by AEGON USA that provides customers with a pass-through of total investment returns, subject to a cumulative minimum guarantee, caused some changes in liability valuation. The product contains an embedded derivative that cannot be separated from the host contract and valued on a stand alone basis at fair value and, as a result, the entire contract is valued at fair value. The investments backing this product have also been classified as financial assets at fair value through profit or loss. The changes in the fair value of the liabilities and the assets backing the product should generally offset each other. However, changes in the asset values are not always offset with changes in the liabilities during a rising interest rate environment, due to the contractual minimum guarantees.

INTEREST CHARGES AND RELATED FEES
Perpetual capital securities are classified as equity under IFRS, rather than as debt. As a result, coupons and transaction costs on these instruments are recognized as a direct deduction from equity, instead of an expense in the income statement for DAP and therefore cause an increase in IFRS net income.

NET GAINS ON INVESTMENTS AND IMPAIRMENT CHARGES
Under IFRS, all realized gains and losses on investments are recognized as incurred. Under DAP, only realized gains and losses on shares and real estate were recognized as incurred, while interest related gains and losses were deferred. The recognition of realized gains and losses in 2004 result in an increase of net income under IFRS.

Also included in net gains on investments are fair value changes for derivatives that are used for economic hedge purposes, as part of asset liability management, for which no hedge accounting is applied. These derivatives are considered economic hedges of certain exposures related to an existing asset or liability. The fair value movements of these derivatives are not offset by fair value movements as the underlying asset or liability is not valued at fair value through profit or loss. In addition, this line also includes the ineffective portions of transactions for which hedge accounting is applied.

Impaired assets are written down to fair value for IFRS, while for DAP write offs were only to the recoverable amount. As a result, impairment charges and reversals of impairments for IFRS are higher compared to DAP.

NON-RECURRING INCOME

The gain on the sale of Transamerica Finance Corporation businesses in 2004, which was credited to shareholders' equity under DAP, is reflected in the income statement in 2004 under IFRS and caused an increase in net income.

TAX

The effective tax rate is affected by the reduction of deferred tax related to the liability for accrued policyholder surplus taxes that can be released as a result of a change in tax legislation.

DESIGNATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES AS FINANCIAL ASSETS OR FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS OR AS AVAILABLE-FOR-SALE FINANCIAL ASSETS

The following table provides a summary of the fair value of financial assets and financial liabilities designated into each of these categories as at January 1, 2004, and their classification and carrying amount in the previous financial statements:

FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS AT JANUARY 1, 2004

	Carrying value under DAP	Fair value January 1, 2004
CLASSIFICATION UNDER DAP		
General account investments		
Other financial investments	9,489	9,803
Investments for account of policyholders	99,868	99,868
	109,357	**109,671**

FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS AT JANUARY 1, 2004

	Carrying value under DAP	Fair value January 1, 2004
CLASSIFICATION UNDER DAP		
General account liabilities		
Technical provisions	638	638
Technical provisions with investments for account of policyholders	42,506	42,539
	43,144	**43,177**

FINANCIAL ASSETS CLASSIFIED AS AVAILABLE-FOR-SALE AT JANUARY 1, 2004

	Carrying value under DAP	Fair value January 1, 2004
CLASSIFICATION UNDER DAP		
General account investments		
Other financial investments	88,183	91,831
	88,183	**91,831**

The Hague, March 8, 2006

Supervisory Board
D.G. Eustace
O.J. Olcay
I.W. Bailey, II
R. Dahan
S. Levy
T. Rembe
W.F.C. Stevens
K.J. Storm
P.R. Voser
L.M. van Wijk

Executive Board
D.J. Shepard
J.B.M. Streppel
J.G. van der Werf
A.R. Wynaendts

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INTRODUCTION
We have audited the consolidated financial statements for the year 2005 (as set out on pages 82 to 182 that are part of the financial statements of AEGON N.V., The Hague. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

SCOPE
We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result and the cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore, we have to the extent of our competence, established that the Report of the Executive Board is consistent with the consolidated financial statements.

THE HAGUE, MARCH 8, 2006
FOR ERNST & YOUNG ACCOUNTANTS

Alexander F.J. van Overmeire

Chris J. Westerman

BALANCE SHEET OF AEGON N.V. AS AT DECEMBER 31, 2005

Amounts in EUR millions

	Note number	2005	2004
INVESTMENTS			
Group companies			
Shares in group companies	3	17,525	13,502
Loans to group companies	4	7,259	5,984
		24,784	**19,486**
Other loans	5	72	95
		24,856	**19,581**
RECEIVABLES			
Receivables from group companies		3,969	4,595
Other receivables		2	44
		3,971	**4,639**
OTHER ASSETS			
Cash and cash equivalents		1,886	1,018
Deferred tax assets		548	–
Other		32	271
		2,466	**1,289**
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		211	196
TOTAL ASSETS		**31,504**	**25,705**
SHAREHOLDERS' EQUITY			
Share capital	6	251	243
Tax-free paid-in surplus	7	6,561	6,347
Retained earnings	7	6,359	4,402
Net income	7	2,732	2,256
Revaluation account	7	2,520	2,308
Other reserves	7	853	(681)
		19,276	**14,875**
OTHER EQUITY INSTRUMENTS	8	**3,379**	**2,869**
TOTAL EQUITY		**22,655**	**17,744**
SUBORDINATED BORROWINGS		**284**	**254**
LONG-TERM BORROWINGS	9	**2,626**	**2,885**
CURRENT LIABILITIES			
Amounts owed to credit institutions		1,444	1,400
Loans from group companies		441	1,152
Payables to group companies		3,448	1,764
Deferred tax liabilities		–	44
Other payables	10	409	277
		5,742	**4,637**
ACCRUALS AND DEFERRED INCOME		**197**	**185**
TOTAL EQUITY AND LIABILITIES		**31,504**	**25,705**

INCOME STATEMENT OF AEGON N.V. FOR THE YEAR ENDED DECEMBER 31, 2005

Amounts in EUR millions

	2005	2004
Net income group companies	2,681	2,346
Other income	51	(90)
NET INCOME	**2,732**	**2,256**

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, Frankfurt, London, Tokyo and Zurich.

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 27,000 people worldwide.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 2:362.8 of the Netherlands Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRS), as used for the preparation of the consolidated financial statements of the Group.

Companies are allowed to apply IFRS valuation principles in their financial statements prepared under Part 9 as of January 1, 2004 following a change in legislation in the course of 2005. The transition to IFRS valuation principles by AEGON N.V. had a negative effect on shareholders' equity as at January 1, 2004 of EUR 617 million and a positive effect on the reported net income for 2004 of EUR 596 million. Both effects are disclosed in the table in note 7 on page 188 of the financial statements. For comparative purposes, the balance sheet and income statement for 2004 have been adjusted accordingly.

2.2 TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

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, monetary liabilities and own equity instruments denominated in foreign currencies are translated at the prevailing exchange 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 accordingly consistently with other gains and losses on these items.

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2.3 OFFSETTING OF ASSETS AND LIABILITIES

Financial assets and liabilities are offset in the balance sheet when AEGON N.V. has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

2.4 INVESTMENTS

The group companies are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies refer to the notes to the consolidated financial statements on page 87 and following.

2.5 DERIVATIVES

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. Derivatives with positive fair values are reported as other assets and derivatives with negative values are reported as other liabilities.

2.6 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 commitments.

2.7 OTHER ASSETS

Other assets include fixed assets, derivatives with positive fair values, other receivables and prepaid expenses. Other receivables are recognized at fair value when due and are subsequently measured at amortized cost.

2.8 IMPAIRMENT OF ASSETS

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. Tangible, intangible and financial assets, if not held at fair value through profit or loss, are tested for impairment when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets that are not amortized are tested at least annually. For assets denominated in a foreign currency, a decline in the foreign exchange rates is considered an indication of impairment.

Amounts in EUR millions, unless otherwise stated

2.9 EQUITY

Financial instruments that are issued by the company are classified as equity if they evidence a residual interest in the assets of the company after deducting all of its liabilities. In addition to common shares and preferred shares, the company 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 the issuer and AEGON has the option to defer coupon payments at its discretion. These securities are measured at par and 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 of AEGON N.V. reacquired by the Group and are deducted from equity regardless of the objective of the transaction. No gain or loss is recognized on the purchase, sale, issue or cancellation of the instruments. The consideration paid or received is recognized directly in equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per share.

2.10 SUBORDINATED BORROWINGS AND OTHER BORROWINGS

A financial instrument issued by the company 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 company.

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. The liability is derecognized when the company's obligation under the contract expires or is discharged or cancelled.

2.11 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 booked to the income statement as an interest expense.

2.12 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.

2.13 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.

3 SHARES IN GROUP COMPANIES

	2005	2004
At January 1	13,502	11,530
Capital contribution and acquisitions	46	–
Divestitures	–	(203)
Dividend paid	(250)	–
Net income for the financial year	2,681	2,346
Revaluations	1,546	(171)
AT DECEMBER 31	**17,525**	**13,502**

For a list of names and locations of the most important group companies, refer to note 53 to the consolidated financial statements of the Group, page 172. The legally required list of participations as set forth in article 379 of Book 2 of the Netherlands Civil Code has been registered with the Trade Register in The Hague.

4 LOANS TO GROUP COMPANIES

	2005	2004
LOANS TO GROUP COMPANIES – LONG-TERM		
At January 1	4,397	5,811
Additions / repayments	(129)	551
Other changes	458	(1,965)
AT DECEMBER 31	**4,726**	**4,397**
LOANS TO GROUP COMPANIES – SHORT-TERM		
At January 1	1,587	276
Additions / repayments	852	252
Other changes	94	1,059
AT DECEMBER 31	**2,533**	**1,587**
TOTAL	**7,259**	**5,984**

5 OTHER LOANS

	2005	2004
At January 1	95	201
Repayments	(23)	(106)
AT DECEMBER 31	**72**	**95**

6 SHARE CAPITAL

ISSUED AND OUTSTANDING

	2005	2004
Common shares	192	186
Preferred shares A	53	53
Preferred shares B	6	4
	251	**243**

AUTHORIZED

	2005	2004
Common shares	360	360
Preferred shares A	125	125
Preferred shares B	125	125
	610	**610**

PAR VALUE IN CENTS PER SHARE

	2005	2004
Common shares	12	12
Preferred shares A	25	25
Preferred shares B	25	25

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., has the right to have issued to it as many class B preferred shares as shall enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of total voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In 2003/2004, 16,900,000 class B preferred shares were issued under these option rights. In 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 share dividend issuances and treasury share sales 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.

Amounts in EUR millions, unless otherwise stated

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.

	2005	2004
NUMBER OF COMMON SHARES		
At January 1	1,552,685,053	1,514,377,800
Share dividend	46,291,621	38,307,253
AT DECEMBER 31	**1,598,976,674**	**1,552,685,053**

The weighted average number of EUR 0.12 common shares for 2005 was 1,548,346,110 (2004: 1,503,127,441).

The shares repurchased by AEGON, although included in the issued and outstanding number of shares, are excluded from the calculation of the weighted average number of shares. The number has been adjusted for share dividend.

SHARE APPRECIATION RIGHTS AND SHARE OPTIONS

For detailed information on share appreciation rights and share options granted to senior executives and other AEGON employees, refer to note 40.1 on page 163 of the consolidated financial statements of the Group.

BOARD REMUNERATION

Detailed information on remuneration of active and retired members of the Executive Board including their share option rights, remuneration of active and retired members of the Supervisory Board along with information about shares held in AEGON by the members of the Boards is included on pages 174 and following of the consolidated financial statements of the Group.

7 SHAREHOLDERS' EQUITY

	Share capital	Paid-in-surplus	Retained earnings	Net income	Revaluation account	Other reserves	Total
AT DECEMBER 31, 2003 ACCORDING TO DUTCH ACCOUNTING POLICIES (DAP)	**238**	**7,116**	**4,167**	**1,033**	**1,393**	**–**	**13,947**
Conversion from DAP to IFRS:							
Effect on valuation	–	–	(932)	–	267	15	(650)
Reclassification treasury shares	–	(1,001)	1,001	–	–	–	–
TOTAL	**–**	**(1,001)**	**69**	**–**	**267**	**15**	**(650)**
AT JANUARY 1, 2004 ACCORDING TO IFRS VALUATION PRINCIPLES	**238**	**6,115**	**4,236**	**1,033**	**1,660**	**15**	**13,297**
Net income 2003 retained	–	–	1,033	(1,033)	–	–	–
Net income 2004	–	–	–	2,256	–	–	2,256
TOTAL NET INCOME	**–**	**–**	**1,033**	**1,223**	**–**	**–**	**2,256**
Changes in foreign currency translation reserve	–	–	–	–	–	(755)	(755)
Changes in revaluation subsidiaries	–	–	–	–	481	–	481
Transfer to legal reserve	–	–	(167)	–	167	–	–
Other	–	–	(24)	–	–	59	35
OTHER COMPREHENSIVE INCOME	**–**	**–**	**(191)**	**–**	**648**	**(696)**	**(239)**
Dividend common shares	–	–	(256)	–	–	–	(256)
Dividend preferred shares	–	–	(95)	–	–	–	(95)
Share dividend	4	(4)	–	–	–	–	–
Issuance of shares	1	–	–	–	–	–	1
Repurchased and sold own shares	–	236	(214)	–	–	–	22
Coupons on perpetuals, net of tax	–	–	(84)	–	–	–	(84)
Other	–	–	(27)	–	–	–	(27)
CHANGES IN EQUITY FROM RELATION WITH SHAREHOLDERS	**5**	**232**	**(676)**	**–**	**–**	**–**	**(439)**
AT DECEMBER 31, 2004	**243**	**6,347**	**4,402**	**2,256**	**2,308**	**(681)**	**14,875**

	Share capital	Paid-in-surplus	Retained earnings	Net income	Revaluation account	Other reserves	Total
AT DECEMBER 31, 2004	**243**	**6,347**	**4,402**	**2,256**	**2,308**	**(681)**	**14,875**
Net income 2004 retained	–	–	2,256	(2,256)	–	–	–
Net income 2005	–	–	–	2,732	–	–	2,732
TOTAL NET INCOME	**–**	**–**	**2,256**	**476**	**–**	**–**	**2,732**
Changes in foreign currency translation reserve	–	–	–	–	–	1,515	1,515
Changes in revaluation subsidiaries	–	–	4	–	152	–	156
Transfer to legal reserve	–	–	(60)	–	60	–	–
Other	–	–	(55)	–	–	19	(36)
OTHER COMPREHENSIVE INCOME	**–**	**–**	**(111)**	**–**	**212**	**1,534**	**1,635**
Dividend common shares	–	–	(193)	–	–	–	(193)
Dividend preferred shares	–	–	(79)	–	–	–	(79)
Share dividend	6	(6)	–	–	–	–	–
Issuance of shares	2	–	–	–	–	–	2
Repurchased and sold own shares	–	220	(146)	–	–	–	74
Coupons on perpetuals, net of tax	–	–	(132)	–	–	–	(132)
Other	–	–	362	–	–	–	362
CHANGES IN EQUITY FROM RELATION WITH SHAREHOLDERS	**8**	**214**	**(188)**	**–**	**–**	**–**	**34**
AT DECEMBER 31, 2005	**251**	**6,561**	**6,359**	**2,732**	**2,520**	**853**	**19,276**

The revaluation account reflects the legal reserve for investments in group companies.

The foreign currency translation reserve is the legal reserve for currency differences on non-euro subsidiaries and refers to accumulated translation differences amounting to EUR 760 million (2004: EUR (755) million). The amounts are released to the income statement upon the sale of the subsidiary. In case of a negative balance, no distributions can be made out of the retained earnings to the level of this negative amount.

On the balance sheet date AEGON N.V. and its subsidiaries held 23,314,930 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:

	2005	2004
At January 1	25,232,494	27,429,342
Transactions in 2005:		
Purchase: one transaction on May 17, price EUR 9.85	3,821,645	–
Sale: 31 transactions, average price EUR 10.28	(10,403,274)	–
Transactions in 2004:		
Purchase: two transactions on May 18 and September 24, average price EUR 9.88	–	7,466,660
Sale: three transactions April 1, April 22 and July 19, average price EUR 10.29	–	(9,663,508)
AT DECEMBER 31	**18,650,865**	**25,232,494**

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 included at their consideration paid or received.

	2005		2004	
	Number of shares	Consideration	Number of shares	Consideration
Held by AEGON N.V.	18,650,865	442	25,232,494	657
Held by subsidiaries	4,664,065	103	4,657,291	108
TOTAL AT DECEMBER 31	**23,314,930**	**545**	**29,889,785**	**765**

The consideration for the related shares is deducted from or added to the paid-in-surplus.

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8 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**
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**

JUNIOR PERPETUAL CAPITAL SECURITIES

	Coupon rate	Coupon date: quarterly, as of	Year of first call	2005	2004
USD 500 million	6.5%	March 15	2010	424	–
USD 250 million	floating Libor rate	March 15	2010	212	–
EUR 950 million	floating CMT rate	January 15	2014	950	950
USD 500 million	floating CMS rate	January 15	2014	402	402
USD 1 billion	6.375%	March 15	2015	821	–
TOTAL JUNIOR PERPETUAL CAPITAL SECURITIES				**2,809**	**1,352**

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%. The coupon of the euro junior perpetual capital securities is based on the yield of ten-year Dutch government bonds ('CMT') 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%. 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 ('CMS'), 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.

PERPETUAL CUMULATIVE SUBORDINATED BONDS

	Coupon rate	Coupon date	Year of first call	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%	July 10	2008	114	114
EUR 136 million	7.25%	October 14	2008	136	136
EUR 203 million	7.125%	March 4	2011	203	203
EUR 114 million[1]	4.156%	June 8	2015	114	114
TOTAL PERPETUAL CUMULATIVE SUBORDINATED BONDS				**567**	**1,517**

[1] Issued at an interest rate of 8%, which was reset in June 2005.

The coupon for the EUR 114 million 8% bonds was set at 8% until June 8, 2005. As of this date, the coupon is set at 4.156% until 2015. 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 0.85%. The coupon of the EUR 114 million with an interest rate of 7.625% is fixed.

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.

9 LONG-TERM BORROWINGS

	2005	2004
Remaining terms less than 1 year	–	373
Remaining terms 1 - 5 years	1,033	1,034
Remaining terms 5 - 10 years	1,148	1,048
Remaining terms over 10 years	445	430
TOTAL LONG-TERM LIABILITIES	**2,626**	**2,885**

The repayment periods of borrowings vary from in excess of one year up to a maximum of 26 years. The interest rates vary from 2.75 to 9% per annum.

The market value of the long-term liabilities amounts to EUR 2,712 million (2004: EUR 2,970 million).

10 OTHER PAYABLES

Other payables includes derivatives with negative fair values.

COMMITMENTS AND CONTINGENCIES

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.

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 3,680 million). At December 31, 2005, 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 1,659 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, 2005.

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THE HAGUE, MARCH 8, 2006

Supervisory Board
D.G. Eustace
O.J. Olcay
I.W. Bailey, II
R. Dahan
S. Levy
T. Rembe
W.F.C. Stevens
K.J. Storm
P.R. Voser
L.M. van Wijk

Executive Board
D.J. Shepard
J.B.M. Streppel
J.G. van de Werf
A.R. Wynaendts

PROPOSAL FOR PROFIT APPROPRIATION

Appropriation of profit will be determined in accordance with the articles 31 and 32 of the Articles of Incorporation of AEGON N.V. The relevant provisions read as follows:

1. The General Meeting of Shareholders shall adopt the annual accounts.
2. If the adopted profit and loss account shows a profit, the Supervisory Board may decide, upon the proposal of the Executive Board, to set aside part of the profit to augment and/or form reserves.
3. From the net profit as reflected in the profit and loss account, if it is sufficient to this end after a part of the profit has been set aside for augmenting and/or forming reserves in accordance with 2, first of all the holders of preferred shares shall receive, on the amount paid on their preferred shares, a dividend the percentage of which, on an annual basis, shall be equal to the European Central Bank's fixed interest percentage for basic refinancing transactions, to be increased by 1.75 percentage points, all applicable to the first trading day on Euronext Amsterdam in the financial year to which the dividend relates. Apart from this, no other dividend is to be paid on the preferred shares.
4. The profits remaining after application of the above shall be put at the disposal of the General Meeting of Shareholders. The Executive Board, subject to the approval of the Supervisory Board, shall make a proposal for that purpose. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders.
5. The Executive Board may, subject to the approval of the Supervisory Board, 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 under 3.
6. The Executive Board may, subject to the approval of the Supervisory Board, decide that a distribution on common shares shall not take place as a cash payment but as a payment in common shares, or decide that holders of common shares shall have the option to receive a distribution as a cash payment and/or as a payment in common shares, in all cases out of the profit and/or at the expense of reserves. Subject to the approval of the Supervisory Board, the Executive Board shall also determine the conditions applicable to the aforementioned choices.
7. The company's policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Executive Board. The adoption and thereafter each amendment of the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item.

It is proposed to the annual General Meeting of Shareholders on April 25, 2006, to pay a dividend for the year 2005 of EUR 0.45 per common share of EUR 0.12 par value which, after taking into account the EUR 0.22 interim dividend, leads to a final dividend of EUR 0.23 per common share. It is also proposed that the final dividend will be made available entirely in cash or entirely in shares, at the election of the shareholder. The value of the stock dividend will be approximately the same as the value of the cash dividend and will be paid out of the paid-in surplus fund. Shareholders can elect to receive a dividend in cash or in shares up to and including May 5, 2006.

In order to reflect the prevailing market price of AEGON N.V. common shares fully within the indication provided, the number of dividend coupons that gives entitlement to a new common share of EUR 0.12 will be determined on May 9, 2006, after 5:30 p.m., based on the average share price quoted by Euronext Amsterdam in the five trading days from May 3, 2006 up to and including May 9, 2006.

In accordance with article 32, paragraph 3 of the Articles of Incorporation, a cash dividend equal to 3.75% of the amount paid on the preferred shares will be distributed.

Upon approval of this proposal, profit will be appropriated as follows:

	2005
Dividend on preferred shares	79
Interim dividend on common shares (cash portion)	102
Final dividend on common shares (cash portion)	362
Earnings to be retained	2,189
NET INCOME	**2,732**

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. and 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%.

On May 9, 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:

- 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., has the right to have issued to it as many class B preferred shares as shall enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of total voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In 2003/2004 16,900,000 class B preferred shares were issued under these option rights. In 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 share dividend issuances and treasury share sales during the year.

DEVELOPMENT OF SHAREHOLDING IN AEGON N.V.

Number of shares	Common	Preferred A	Preferred B
At January 1, 2005	171,974,055	211,680,000	16,900,000
Share dividend 2004 received	3,821,645	–	–
Sale of shares, offering price of EUR 9.847 per share	(3,821,645)	–	–
Interim share dividend 2005 received	3,439,481	–	–
Exercise option right preferred B shares	–	–	6,950,000
Sale of shares, offering price of EUR 11.45 per share	(3,439,481)	–	–
AT DECEMBER 31, 2005	**171,974,055**	**211,680,000**	**23,850,000**

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, 2005, amounts to approximately 22.44%. In the event of a 'special cause', Vereniging AEGON's voting rights will increase, currently to 32%, for up to six months per 'special cause'.

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At December 31, 2005, 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.

OTHER MAJOR SHAREHOLDERS

Based on publicly available information there are no major shareholders exceeding 5% participation.

INTRODUCTION

We have audited the company financial statements for the year 2005 (as set out on pages 183 to 195) that are part of the financial statements of AEGON N.V., The Hague. These company financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these company financial statements based on our audit.

SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the company financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the company financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the company financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the company financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result for the year then ended in accordance with the accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have to the extent of our compentence, established that the Report of the Executive Board is consistent with the company financial statements.

THE HAGUE, MARCH 8, 2006
FOR ERNST & YOUNG ACCOUNTANTS

Alexander F.J. van Overmeire Chris J. Westerman

INFORMATION BASED ON US ACCOUNTING PRINCIPLES

The consolidated financial statements of the AEGON Group have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), which differ in certain respects from those principles generally accepted in the United States (US GAAP). The following information is a summary of the effect on AEGON's shareholders' equity and net income of the application of US GAAP, which is included in further detail in the Form 20-F report filed with the Securities and Exchange Commission. The Form 20-F report is available on request, free of charge, and can also be retrieved from the EDGAR database of the SEC at www.sec.gov and via www.aegon.com.

SUMMARY RECONCILIATION

RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET INCOME BASED ON IFRS TO US GAAP

	Shareholders' equity December 31,		Net income	
Amounts in EUR millions	2005	2004	2005	2004
AMOUNTS IN ACCORDANCE WITH IFRS:	**19,276**	**14,875**	**2,732**	**2,256**
ADJUSTMENTS FOR:				
a) Goodwill	2,992	2,709	–	(144)
b) Deferred expenses/VOBA	235	(6)	226	24
c) Real estate	(1,109)	(896)	(202)	(47)
d) Financial assets	(77)	(116)	(65)	91
e) Derivatives	87	198	13	(420)
f) Insurance and investment contracts	669	290	(422)	(17)
g) Pensions and other post-employment benefits	1,268	1,432	(278)	15
h) Other equity instruments	12	62	(200)	(129)
i) Balance of other items	(112)	(89)	57	(58)
j) Tax	(328)	(143)	228	143
AMOUNTS DETERMINED IN ACCORDANCE WITH US GAAP	**22,913**	**18,316**		
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES			**2,089**	**1,714**
Cumulative effect of adopting SOP 03-01, net of tax			–	(207)
Cumulative effect of adopting DIG B36, net of tax			–	(77)
Cumulative effect of adopting FAS 123, net of tax			(5)	–
NET INCOME IN ACCORDANCE WITH US GAAP			**2,084**	**1,430**
Other comprehensive income, net of tax:				
Foreign currency translation adjustments			1,987	(971)
Unrealized gains and (losses) on available-for-sale financial assets			840	911
Reclassification adjustment for (gains) and losses included in net income			(538)	(526)
Net unrealized gains on cash flow hedges			97	66
Minimum pension liability adjustment			30	(47)
Other comprehensive income/(loss)			2,416	(567)
COMPREHENSIVE INCOME IN ACCORDANCE WITH US GAAP			**4,500**	**863**

SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP, WHICH HAVE AN IMPACT ON REPORTED SHAREHOLDERS' EQUITY OR NET INCOME

a) Goodwill

IFRS

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.

US GAAP

Under US GAAP goodwill is capitalized and 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 impairment may be necessary. Impairment testing requires the determination of the fair value for each of the identified reporting units. The reporting units identified for AEGON based upon the Statement of Financial Accounting Standards 142 Goodwill and other Intangible Assets include: AEGON Americas, AEGON The Netherlands, AEGON UK insurance companies, AEGON UK distribution companies and Other countries. 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. 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 judgment 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 adjustment in the shareholders' equity column of the reconciliation represents the goodwill capitalized under US GAAP before January 1, 2004. The 2004 net income column includes EUR 148 million, representing the write off of goodwill related to the sale of TFC businesses. Under US GAAP goodwill was capitalized for these businesses; under IFRS the goodwill was charged to shareholders' equity in the year of acquisition (pre January 1, 2004).

b) Deferred expenses and VOBA

IFRS

Deferred expenses comprise DPAC and deferred transaction 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 bond and equity returns, 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. The adjustment is recognized directly in the related revaluation reserve in equity.

DPAC is derecognized when the related contracts are settled or disposed of.

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.

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 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.

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. The adjustment is recognized directly in equity.

VOBA is derecognized when the related contracts are settled or disposed of.

US GAAP

Under US GAAP the accounting for fixed premium products is the same as under IFRS in all countries. For flexible premium products sold in the Americas, US GAAP is the same as IFRS. For flexible premium products sold in the Netherlands, the United Kingdom and Other countries an unlocking adjustment is made for US GAAP, using a revised DPAC amortization schedule based on actual gross profits earned to date and revised estimates of future gross profits.

Acquisition costs related to non-insurance investment type products related to 401(k) plans in the United States and investment products in the United Kingdom are deferred and amortized in terms of Statement of Financial Accounting Standard 97 *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* (SFAS 97). US GAAP allows for the deferral of costs that vary directly with production, while IFRS is more restrictive limiting deferral to costs that are incremental and directly attributable to the issuance of the contract. In addition, some service contracts are sold in the United States for which advertising costs are deferred and amortized under Statement of Position 93-7 *Reporting on Advertising Costs* (SOP 93-7). IFRS does not allow the deferral and future amortization of these costs.

The adjustment in the shareholders' equity column of the reconciliation and the adjustment in the net income column of the reconciliation include the effect of unlocking for DPAC on flexible premium products in the United Kingdom and the Netherlands and the difference in accounting for acquisition costs related to non-insurance investment type products and service contracts in the United States and the United Kingdom.

c) Real estate

IFRS

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 classified as investments.

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. Property held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. 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 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.

On disposal of an asset, the difference between the net proceeds received and the carrying amount of the asset is recognized in the income statement. Any remaining attributable surplus in the revaluation reserve is transferred to retained earnings.

US GAAP

Under US GAAP real estate is carried at historical cost less accumulated depreciation and is adjusted for any impairment in value. Depreciation is provided over the estimated economic life of the real estate. Realized gains or losses and all other operating income and expense are reported in the income statement.

The adjustment shown in the shareholders' equity column of the reconciliation represents the reduction from fair value to the depreciated historical cost basis.

The adjustment shown in the net income column of the reconciliation represents:

- The reversal of the unrealized gains (losses) under IFRS on investments in real estate, the difference in realized gains (losses) on disposed real estate reflecting different carrying values for both investment real estate and real estate held for own use under IFRS; and
- The annual depreciation charge on investment property under US GAAP and the difference in depreciation charge on property held for own use.

d) Financial assets
A number of differences still exist between IFRS and US GAAP. These differences can be summarized as follows:

- Write offs on impaired debt instruments can be partially or fully reversed under IFRS if the value of the impaired assets increase. Such reversals are not allowed under US GAAP. Under IFRS certain mortgage loan securitizations of AEGON The Netherlands have been derecognized and realized gains have been reported, while for US GAAP these mortgage loans are recognized on the balance sheet.
- Some assets are reported as available-for-sale financial assets under IFRS, while US GAAP requires the equity method of accounting.
- Additional impairments have been recorded for US GAAP. If a particular asset does not fit AEGON's long-term investment strategy and is in an unrealized loss position due solely to interest rate changes, the security has been impaired to the fair value under US GAAP while such impairment would not be required under IFRS. For securities not impaired under US GAAP, AEGON has the intent and ability to hold these securities until recovery or maturity.

e) Derivatives
Derivatives are measured at fair value under both IFRS and US GAAP.

The adjustment shown in the shareholders' equity column of the reconciliation represents transactions that are accounted for as derivatives under IFRS and not under US GAAP.

The adjustment shown in the net income column of the reconciliation represents the effect of different starting dates for certain hedge transactions. Under IFRS these transactions were designated retrospectively and under US GAAP these transactions were designated at the time the formal FAS 133 documentation requirements were established.

In 2004, a change in estimate with regards to the assumptions used in the valuation of embedded derivatives included in the Canadian segregated funds business resulted for US GAAP in a net loss, after DPAC offset and tax, of EUR 114 million.

f) Insurance and investment contracts
IFRS
Refer to note 2 of the consolidated financial statements for a discussion of the accounting for technical reserves under IFRS.

US GAAP
For AEGON Americas all life insurance liabilities on an IFRS basis are determined following US GAAP as these local accounting principles were followed previously for DAP. Therefore no reconciling item exists for AEGON Americas.

The adjustment in the shareholders' equity column of the reconciliation represents the effect of different models used in calculating insurance liabilities under US GAAP for the Netherlands and the United Kingdom.

Under US GAAP the technical reserves for traditional life insurance contracts are computed using the net level premium method with investment yields, mortality, lapses and expenses based on historical assumptions and include a provision for adverse deviation. For universal life contracts and investment type contracts (annuities) the technical reserves are equal to the policyholder account balances at the balance sheet date. The technical reserve in the United Kingdom is reduced to equal the contractholder balance. The technical reserve for fixed annuities, guaranteed investment contracts and funding agreements is the same as under IFRS.

For AEGON UK, investment contracts without discretionary participation features are recognized using a funded value for IFRS and a nominal value for US GAAP. Furthermore, profits on reinsurance contracts are recognized directly in net income under IFRS and deferred and amortized under US GAAP.

For AEGON The Netherlands, traditional life and universal life type contracts, the insurance liabilities under IFRS are based on current assumptions for longevity and future administration expenses. Furthermore, DPAC is amortized on a straight line basis over the duration of the contracts. Under US GAAP traditional life contract liabilities are adjusted using historical assumptions and a deferred revenue liability is established. For universal life type contracts the liabilities for US GAAP are adjusted to the policyholder account balance and an unearned revenue liability is established. For traditional limited pay products a deferred profit liability is established.

In various countries products are sold that contain minimum guarantees. For these products the regular technical reserve is recognized under technical reserves with investments for account of policyholders. The liabilities for life insurance includes liabilities for guaranteed minimum benefits related to contracts where the policyholder otherwise bears the investment risk. The valuation of these guarantees under IFRS is the same as under SOP 03-1 for US GAAP, with the exception of the guarantees on the group pension contracts in the Netherlands. The minimum interest guarantees on group pension contracts in the Netherlands are given for nominal benefits, based on the 3% or 4% actuarial interest rate, after retirement of the employees. Due to the nature of the product, these guarantees have a long-term horizon of about 30 to 60 years. Under IFRS the liability is measured by applying the accrual method based on pricing assumptions less actual deductions. Under US GAAP an additional annuitization benefit liability is set up in accordance with SOP 03-1.

Under IFRS a charge to shareholders' equity is recorded in connection with shadow loss recognition to the extent that a loss recognition charge to the income statements would have been recognized when unrealized results would have been realized. The reinvestment return assumption in the IFRS shadow loss recognition calculation is based on current market swap rates. Under US GAAP shadow loss recognition is calculated using reinvestment return assumptions based on management's best estimate.

SOP 03-01 changed the reserving for mortality on universal life contracts and for guaranteed living and death benefits on variable annuity and variable life contracts. The implementation mainly changed the timing of the recognition of mortality profits in earnings. The liability for guaranteed living and death benefits on variable annuity and variable life contracts in the United States is the same as described for IFRS. For US GAAP, the impact from the adoption of SOP 03-01 was recorded as a cumulative effect of a change in accounting principles as at January 1, 2004.

g) Pensions and other post-retirement benefits

IFRS

For defined benefit plans, a liability is recognized for the excess of the defined benefit obligation over the fair value of the plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. However, actuarial gains and losses that occurred before the transition to IFRS on January 1, 2004 are not reflected in the measurement of the liability as they were recognized on transition to IFRS.

Some countries issued group life insurance policies covering own employee benefit obligations. These policies are generally at market-consistent terms and subject to policyholder protection legislation. However, the policies are not recognized in the consolidated financial statements as they do not meet the definition of a liability. The employee benefit obligation is therefore considered unfunded. The assets held by the country to cover the benefits payable under the eliminated contract do not qualify as plan assets, but are classified as investments.

US GAAP

US GAAP Statement of Financial Accounting Standard 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, such as recently experienced, this moving average is higher than the fair value of the assets. The difference between the expected return reflected in the income 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.

The adjustment in the shareholders' equity column of the reconciliation represents the cumulative unrecognized actuarial gains and losses at January 1, 2004 that were, as part of the conversion to IFRS, directly recognized in equity. For US GAAP, the unrecognized actuarial gains and losses at January 1, 2004 are capitalized.

The amount in reconciliation in the net income column represents the difference between the pension expenses on SFAS 87 basis including the amortization of the cumulative actuarial gains and losses outside the corridor and the pension expenses based on IAS 19 *Employee benefits* (IAS 19) taking into account the amortization of the cumulative actuarial gains and losses outside the corridor since January 1, 2004. Furthermore, it includes the different treatment related to assets held by country units that do not qualify as plan assets but are classified as investments. As a result the direct income on these investments is included in net income and the expected return on plan assets is not taken into account for the determination of the pension expenses.

h) Other equity instruments

IFRS

Other equity instruments comprise junior perpetual capital securities and perpetual cumulative subordinated bonds.

Under IFRS the junior perpetual capital securities, as well as perpetual cumulative subordinated bonds, are classified as equity instruments and are valued at face value. In the consolidated balance sheet these instruments are shown as a separate component of group equity and are not part of shareholders' equity. Accrued coupons are charged to retained earnings within shareholders' equity.

US GAAP

Under US GAAP the junior perpetual capital securities, as well as perpetual cumulative subordinated bonds, are treated as debt instruments. Interest charges, based on the effective interest rate, are included in net income.

The adjustment in the net income column of the reconciliation represents the interest charges for the respective years.

i) Balance of other items

Certain items are recorded differently or in different periods on the two bases of accounting.

j) Taxation

Reflects taxation on reconciling items between IFRS and US GAAP and include some differences in tax-treatment between IFRS and US GAAP.

QUARTERLY RESULTS

amounts in millions

2004 First quarter	Second quarter	Third quarter	Fourth quarter	EUR Total year		2005 First quarter	Second quarter	Third quarter	Fourth quarter	EUR Total year
					BY PRODUCT SEGMENT					
132	143	134	157	566	Traditional life	125	241	233	224	823
66	70	72	96	304	Life for account of policyholders	60	14	90	79	243
107	15	67	95	284	Fixed annuities	55	113	119	138	425
46	66	(1)	66	177	Variable annuities	30	(32)	33	99	130
103	84	99	81	367	Institutional guaranteed products	64	62	85	69	280
18	11	14	(7)	36	Fee – off balance sheet products	20	32	(9)	(10)	33
22	4	23	(137)	(88)	Reinsurance	29	21	30	25	105
83	84	76	82	325	Accident and health insurance	87	96	74	67	324
21	22	33	28	104	General insurance	17	18	10	10	55
4	5	5	10	24	Banking activities	7	(10)	7	11	15
0	0	0	0	0	Other	0	(1)	1	(6)	(6)
(100)	(70)	(79)	(78)	(327)	Interest charges and other	(64)	(79)	(74)	(63)	(280)
502	**434**	**443**	**393**	**1,772**	**OPERATING EARNINGS BEFORE TAX**	**430**	**475**	**599**	**643**	**2,147**
191	113	340	559	1,203	Gains/(losses) on investments	307	508	201	141	1,157
(10)	(20)	(87)	(66)	(183)	Impairment charges	(10)	21	8	(5)	14
210	10	31	(273)	(22)	Other non-operating income/(charges)	204	27	22	24	277
1	12	5	7	25	Share in profit/(loss) of associates	3	11	(2)	8	20
894	**549**	**732**	**620**	**2,795**	**INCOME BEFORE TAX**	**934**	**1,042**	**828**	**811**	**3,615**
(260)	(115)	(211)	49	(537)	Income tax	(256)	(293)	(213)	(123)	(885)
1	(4)	(2)	3	(2)	Minority interest	(1)	2	2	(1)	2
635	**430**	**519**	**672**	**2,256**	**NET INCOME** [1]	**677**	**751**	**617**	**687**	**2,732**
					TOTAL REVENUES BY PRODUCT SEGMENT					
6,492	6,015	6,061	6,642	25,210	Life insurance	6,944	6,020	6,603	7,183	26,750
701	681	641	585	2,608	Accident and health insurance	678	634	652	625	2,589
253	220	199	207	879	General insurance	191	165	131	140	627
72	69	69	74	284	Banking activities	67	68	58	56	249
93	90	95	41	319	Other activities	38	21	29	33	121
7,611	**7,075**	**7,065**	**7,549**	**29,300**	**TOTAL REVENUES**	**7,918**	**6,908**	**7,473**	**8,037**	**30,336**
585	565	531	639	2,320	Standardised new premium production insurance (life total recurring plus 1/10 single)	611	732	553	643	2,539
4,381	4,794	4,715	3,303	17,193	Gross deposits	4,830	4,196	5,323	4,543	18,892
54	283	(42)	(1,397)	(1,102)	Net deposits	(713)	(468)	(1,093)	(1,115)	(3,389)
4,159	3,819	3,633	4,416	16,027	Off balance sheet production	4,626	4,206	4,142	4,451	17,425
					AMOUNTS PER COMMON SHARE OF EUR 0.12					
0.42	**0.21**	**0.33**	**0.42**	**1.38**	**NET INCOME** [2]	**0.43**	**0.41**	**0.38**	**0.41**	**1.63**
At Mar. 31	At Jun. 30	At Sept. 30	At Dec. 31			At Mar. 31	At Jun. 30	At Sept. 30	At Dec. 31	
8.66	7.89	8.41	8.38		Shareholders' equity [3]	8.94	10.53	10.45	10.89	

[1] Net income refers to net income attributable to equity holders of AEGON N.V.
[2] After deduction of preferred dividend and coupons on perpetuals.
[3] Shareholders' equity per share is calculated after deduction of the preferred share capital and considering the number of outstanding treasury shares.

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FINANCIAL CALENDAR

IMPORTANT DATES 2006

March 9	AEGON reported on full year 2005 results
April 25	Annual General Meeting of Shareholders
April 26	Ex-dividend date in the United States
April 28	Final dividend 2005 record date
May 2	Ex-dividend date in the Netherlands
Up to and incl. May 5	Election period for cash or stock dividend
May 10	AEGON will report on first three months 2006 results
May 10	AEGON will release Embedded Value 2005 report
May 16	Final dividend 2005 payment date
May 22/23	Analyst & Investor Day (London)
August 10	AEGON will report on first six months 2006 results, interim dividend announcement.
August 11	Interim dividend 2006 record date in the Netherlands
August 14	Ex-dividend date
August 16	Interim dividend 2006 record date in the United States
September	Interim dividend 2006 payment (date has not been determined yet)
November 9	AEGON will report on first nine months 2006 results
November 28/29	Analyst & Investor Day (New York)

IMPORTANT DATES 2007

March 8	AEGON will report on full year 2006 results
April 25	Annual General Meeting of Shareholders
May 9	AEGON will report on first three months 2007 results
August 9	AEGON will report on first six months 2007 results
November 8	AEGON will report on first nine months 2007 results

Acquisition date is the date on which the acquirer effectively obtains control of the acquiree. In most cases this includes at least the transfer of risks and rewards related to the acquired business or assets/liabilities.

Actuarial gains and losses relate to the accounting for post-employment benefit plans. They comprise the effects of experience adjustments and changes in assumptions used to determine the cost of a plan.

Amortized cost is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Assets held by long-term employee benefit funds are part of plan assets. These are assets (other than non-transferable financial instruments issued by the reporting entity) that:

- Are held by an entity that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- Are available to be used only to pay or fund employee benefits and are not available to the reporting entity's own creditors.

Bifurcation is the measurement and presentation of embedded derivatives separate from the host contracts, as if they were stand-alone derivative financial instruments.

Binomial option pricing model uses a binomial lattice that represents possible paths that might be followed by the underlying asset's price over the life of the option, for a given number of time steps between valuation date and option expiration. Each node in the lattice represents a possible price of the underlying asset, at a particular point in time. The valuation process is iterative; it starts at each final node and then works backwards through the lattice to the first node, which is the valuation date, where the calculated result is the value of the option.

Business combination is the bringing together of separate entities or operations of entities into one reporting entity. This can be realized through a purchase transaction or by means of a merger. A business combination involving entities (or operations of entities) under common control is a business combination in which all of the combining entities (or operations of entities) ultimately are controlled by the same party or parties both before and after the combination, and that control is not transitory.

Capitalization is the recognition of a cost as part of the cost of an asset on the balance sheet.

Cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cedant is the policyholder under a reinsurance contract.

Claims settlement expenses are costs incurred in settling a claim. These costs include internal administration and payout costs, but also such items as attorney's fees and investigation expenses.

Collateral is an asset pledged by a borrower to secure a loan and is subject to seizure in the case of default.

Compound financial instruments are financial instruments that, from the issuer's perspective, contain both a liability and an equity element.

Constructive obligation is an obligation that derives from an entity's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities, and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Currency risk is a market risk, namely the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Deferred tax assets are amounts of income taxes recoverable in future periods in respect of deductible temporary differences; the carryforward of unused tax losses; and the carryforward of unused tax credits.

Deferred tax liabilities are amounts of income taxes payable in future periods in respect of taxable temporary differences.

Defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Deposit accounting method includes amounts charged and paid to customers directly into the financial liability and not through the income statement as premium income and claims.

Derecognition is the removal of a previously recognized asset or financial liability from an entity's balance sheet.

Derivatives are financial instruments whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on:
  - The performance of a specified pool of contracts or a specified type of contract;
  - Realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - The profit or loss of the company, fund or other entity that issues the contract.

Effective interest rate method is a method of calculating the amortized cost of a financial asset or liability 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 financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a derivative.

Equity instruments are financial instruments issued by the Group that are classified as equity if they evidence a residual interest in the assets of the Group after deducting all of its liabilities.

Equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Exchange differences are differences resulting from translating a given number of units of one currency into another currency at different exchange rates.

Finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

Financial asset is any asset that is:

- Cash;
- An equity instrument of another entity;
- A contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another party under conditions that are potentially favorable; or
- A contract that will or may be settled in the entity's own equity instruments and is:
  - A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability is any liability that is:

- A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- A contract that will or may be settled in the entity's own equity instruments and is:
  - A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial risks are risks of a possible future change in one or more of the following variables: a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

Foreign currency is a currency other than the functional currency of an entity within the Group.

Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity within the Group, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which an entity within the Group operates.

Goodwill is the amount of future economic benefits arising from assets that are not capable of being individually identified and separately recognized as an asset in a business combination.

Guaranteed benefits are payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

Incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of a financial instrument.

Insurance asset is an insurer's contractual right under an insurance contract.

Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance liability is an insurer's contractual obligation under an insurance contract.

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer.

Joint control is the contractually agreed sharing of control over an economic activity, which exists when the strategic and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Liability adequacy testing is an assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased) based on a review of future cash flows.

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Master netting agreement is an agreement providing for an entity that undertakes a number of financial instrument transactions with a single counterparty to make a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any contract.

Minority interests are that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Onerous contracts are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits.

Plan assets are assets held by a long-term employee benefit fund and qualifying insurance policies.

Policy acquisition costs are the expenses incurred in soliciting and placing new business as well as renewal of existing business. It includes agent's commissions, underwriting expenses, medical and credit report fees, marketing expenses and all other direct and indirect expenses of the departments involved in such activities.

Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.

Presentation currency is the currency in which the financial statements are presented.

Price risk is a market risk, namely the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

Private loan is a non-derivative financial asset with a fixed interest rate and a maturity date, which is not bought in an active market but negotiated between the two parties involved. Private loans are not embodied in securities. When a private loan takes the form of a private placement of bonds or other investments directly to an institutional investor like an insurance company, it has more the character of a bond loan and such financial instruments are classified as available-for-sale investments rather than as loans and receivables.

Projected unit credit method is an actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Qualifying insurance policies are a component of plan assets. These are insurance policies issued by an insurer that is not a related party of the reporting entity, if the proceeds of the policies:
- Can be used only to pay or fund employee benefits under a defined benefit plan; and
- Are not available to the reporting entity's own creditors.

Real estate investments foreclosed are real estate investments purchased through foreclosure on the mortgage. Such purchases are not accounted for as mortgages, but as real estate investments until they can be sold at a better price than at the foreclosure. Meanwhile they yield a rental income.

Realizable value is the amount of cash or cash equivalents that could currently be obtained by selling an asset in an orderly disposal.

Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the following criteria for recognition:
- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item has a cost or value that can be measured with reliability.

Reinsurance assets are a cedant's net contractual rights under a reinsurance contract.

Reinsurance contract is an insurance contract issued by one insurer to compensate another insurer for losses on one or more contracts issued by the cedant.

Renewal of a contract is when a policyholder takes whatever action is required, typically payment of a premium, in order to maintain benefits under the contract.

Repurchase agreement is a sale of securities with an agreement to buy back the securities at a specified time and price.

Return on plan assets is the investment income derived from plan assets, together with realized and unrealized gains and losses on the plan assets less any costs of administering the plan and less any tax payable by the plan itself.

Reverse repurchase agreement is a purchase of securities with the agreement to resell them at a later specified date and price.

Security lending involves a loan of a security from one party to another.

Settlement date is the date that a financial asset is delivered to the entity that purchased it.

Sovereign exposures are AAA rated government bonds, or lower rated government bonds if purchased in local currency by a reporting unit.

Spot exchange rate is the exchange rate for immediate delivery.

Spread is the difference between the current bid and the current ask or offered price of a given security.

Stochastic modeling is a statistical process that uses probability and random variables to predict a range of probable investment performances.

Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base that will reverse over time.

Trade date is the date that an entity commits itself to purchase or sell an asset.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Unlocking of DPAC and VOBA refers to the process of updating the DPAC or the VOBA amortization schedule to reflect changes between the past and current expectations of key assumptions used in the projection of future gross profits.

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, 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 statements*, 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.

The paper used for this annual report meets the strictest environmental standards set by the Nordic Swan Council and is fully recyclable. It is made at a mill accredited to ISO 14001. The pulp used to produce the paper is generated locally and bleached without the use of elemental chlorine.

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