ANNUAL REPORT 2006

Local knowledge. Global power.

AEGON

ABOUT AEGON

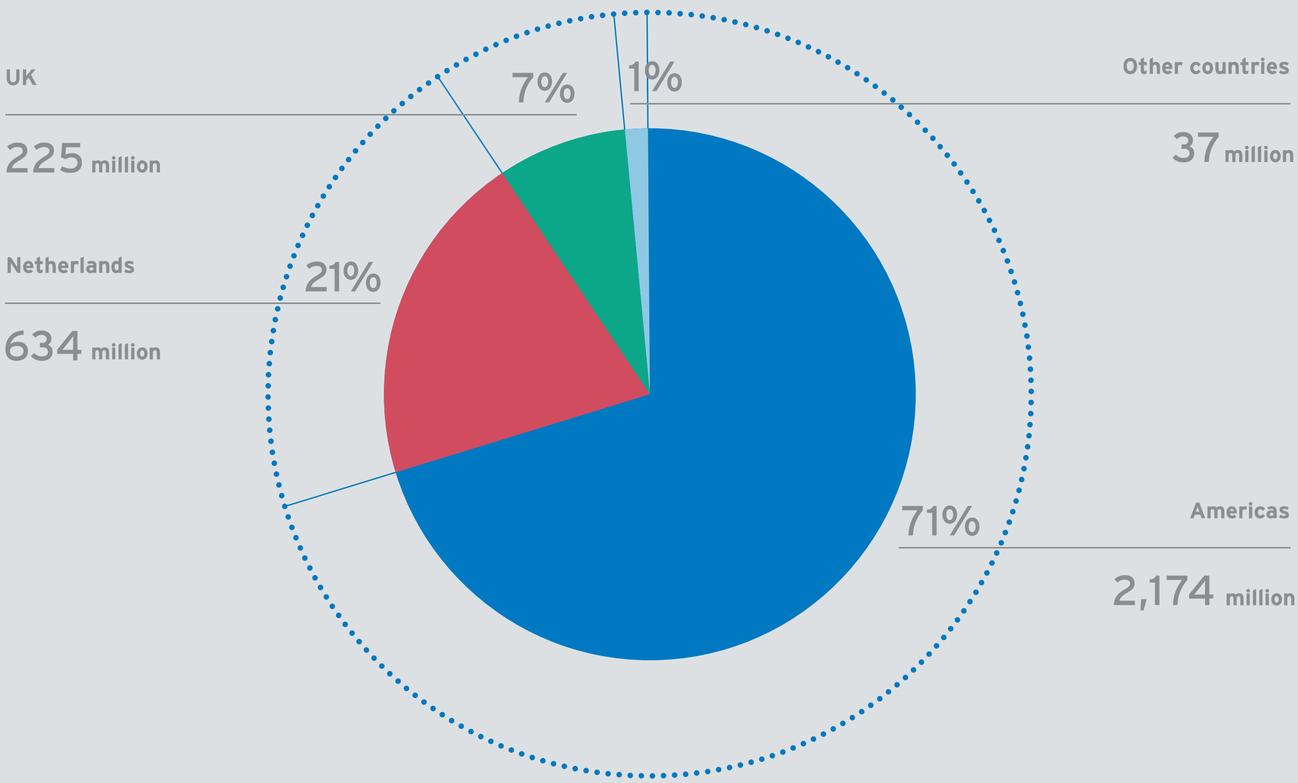
AEGON is one of the world's largest life insurance and pension companies, and a strong provider of investment products. We empower our local business units to identify and provide products and services that meet the evolving needs of our customers, using distribution channels best suited to their local 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 29,000 people. AEGON's businesses serve millions of customers in over twenty markets throughout the Americas, Europe, and Asia, with major operations in the United States, the Netherlands and the United Kingdom.

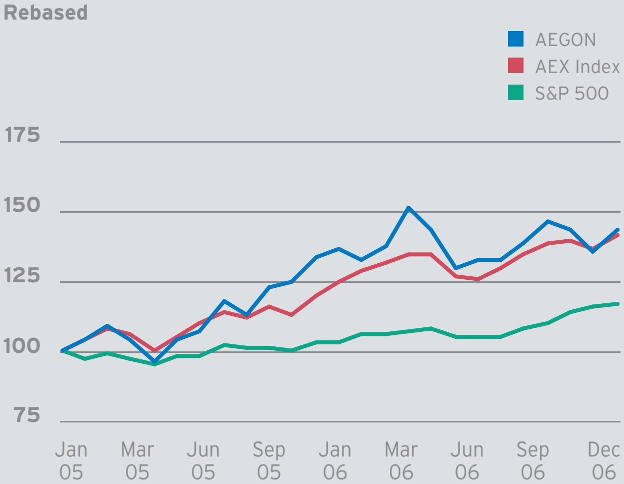
Respect, quality, transparency and trust constitute AEGON's core values as the company continually strives to meet the expectations of customers, shareholders, employees and business partners. AEGON is driven to deliver new thinking and our ambition is to be the best in the industry.

AT A GLANCE

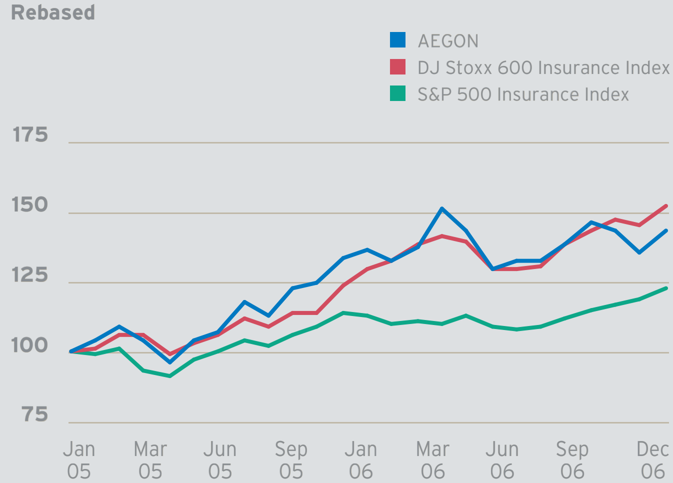
OPERATING EARNINGS BEFORE TAX GEOGRAPHICALLY
Amounts in EUR million and %



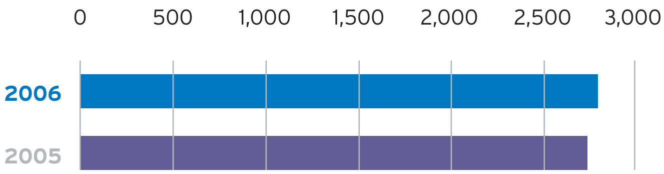
AEGON SHARE PRICE DEVELOPMENT VERSUS INDICES
Rebased



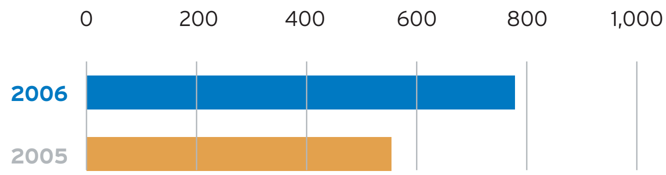
AEGON SHARE PRICE DEVELOPMENT VERSUS INDICES
Rebased



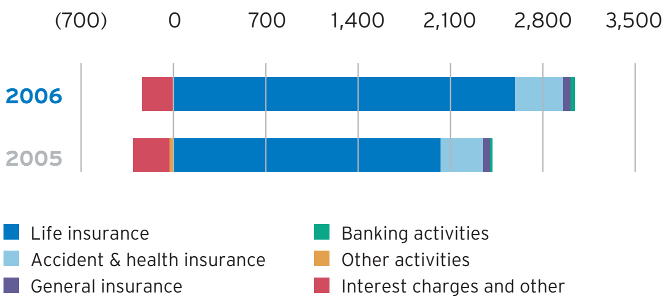
NET INCOME
Amounts in EUR million



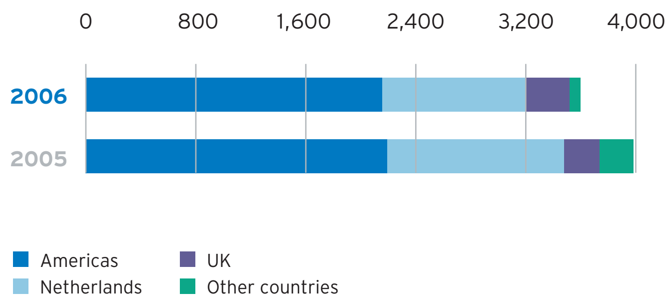
VALUE NEW BUSINESS
Amounts in EUR million



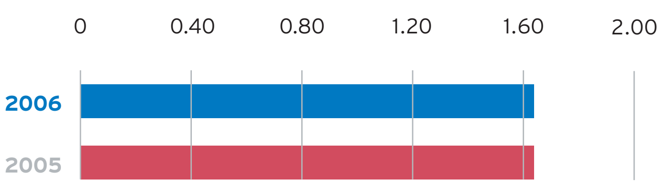
OPERATING EARNINGS BEFORE TAX BY ACTIVITY
Amounts in EUR million



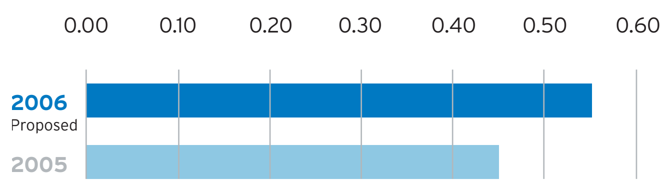
INCOME BEFORE TAX GEOGRAPHICALLY
Amounts in EUR million



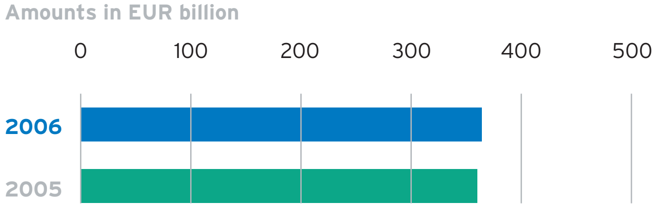
NET INCOME PER SHARE
Amounts in EUR



DIVIDEND PER SHARE
Amounts in EUR



REVENUE GENERATING INVESTMENTS
Amounts in EUR billion



Annual Report 2006

CONTENTS

COUNTRY UNIT INFORMATION

AEGON AROUND THE WORLD

USA

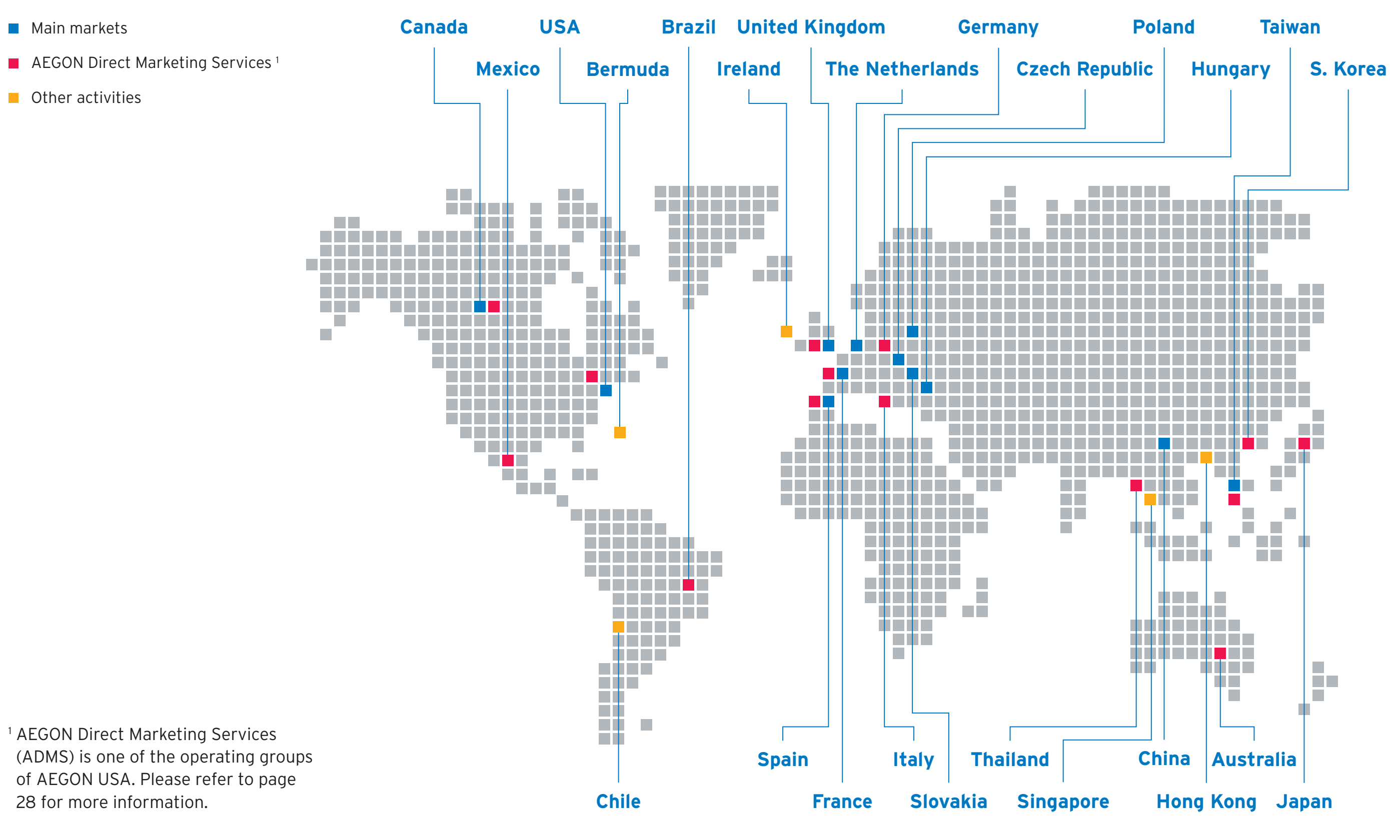
NUMBER OF EMPLOYEES 13,544, of which 2,483 agent-employees
MAIN OFFICES Baltimore, Cedar Rapids
MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, fixed and variable annuities, institutional guaranteed products, fee business (incl. mutual funds), accident and health insurance, life reinsurance
MAJOR CUSTOMER SEGMENTS Individuals, corporates, 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 6,404, of which 1,356 agent-employees
MAIN OFFICES The Hague, Leeuwarden, Groningen, Nieuwegein
MAIN PRODUCT AREAS Life insurance, pensions, life cycle, fee business (incl. mutual funds), accident and health insurance, general insurance, banking
MAJOR CUSTOMER SEGMENTS Individuals, corporates, institutions
MAIN DISTRIBUTION CHANNELS Brokers, tied agents, direct marketing, franchise sales force, worksite marketing
www.aegon.nl

UNITED KINGDOM

NUMBER OF EMPLOYEES 4,639, of which 150 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, corporates, institutions
MAIN DISTRIBUTION CHANNELS Financial advisors
www.aegon.co.uk



[1] AEGON Direct Marketing Services (ADMS) is one of the operating groups of AEGON USA. Please refer to page 28 for more information.

CANADA

NUMBER OF EMPLOYEES 692
MAIN OFFICE Toronto
MAIN PRODUCT AREAS Traditional life, variable annuities, fee business (incl. mutual funds)
MAJOR CUSTOMER SEGMENTS Individuals
MAIN DISTRIBUTION CHANNELS Independent advisors, brokers, financial planners, financial institutions
www.transamerica.ca

CHINA*

NUMBER OF EMPLOYEES 1,497, of which 909 agent-employees (100 percent)
MAIN OFFICE Shanghai
MAIN PRODUCT AREAS Traditional life, universal life, accident and health insurance
MAJOR CUSTOMER SEGMENTS Individuals
MAIN DISTRIBUTION CHANNELS Tied agents, banks, direct marketing, brokers
www.aegon-cnooc.com

* 50/50 joint venture by China National Offshore Oil Corporation and AEGON N.V.

CZECH REPUBLIC

NUMBER OF EMPLOYEES 55
MAIN OFFICE Prague
MAIN PRODUCT AREAS Unit-linked, universal life, risk products
MAJOR CUSTOMER SEGMENTS Individuals, corporates
MAIN DISTRIBUTION CHANNELS Tied agents, brokers, direct marketing
www.aegon.cz

FRANCE*

NUMBER OF EMPLOYEES 525
MAIN OFFICE Paris
MAIN PRODUCT AREAS Traditional life, unit-linked, pensions
MAJOR CUSTOMER SEGMENTS Individuals, corporates
MAIN DISTRIBUTION CHANNELS Brokers, financial institutions
www.lamondiale.com

* Joint ventures/associates: La Mondiale Participations (35 percent).

HUNGARY

NUMBER OF EMPLOYEES 960
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, mortgage loans
MAJOR CUSTOMER SEGMENTS Individuals
MAIN DISTRIBUTION CHANNELS Independent and tied agents, pension advisors, direct marketing, worksite marketing
www.aegon.hu

POLAND

NUMBER OF EMPLOYEES 113
MAIN OFFICE Warsaw
MAIN PRODUCT AREAS Life for account of policyholders
MAJOR CUSTOMER SEGMENTS Individuals
MAIN DISTRIBUTION CHANNELS Tied and independent agents, banks, brokers
www.aegon.pl

SLOVAKIA

NUMBER OF EMPLOYEES 67
MAIN OFFICE Bratislava
MAIN PRODUCT AREAS Universal life, unit-linked, pensions, accident and health insurance
MAJOR CUSTOMER SEGMENTS Individuals, corporates, institutions
MAIN DISTRIBUTION CHANNELS Tied agents, pension advisors, brokers
www.aegon.sk

SPAIN*

NUMBER OF EMPLOYEES 221 (excl. employees in joint ventures/associates)
MAIN OFFICE Madrid
MAIN PRODUCT AREAS Traditional life, life for account of policyholders, pensions, accident and health insurance
MAJOR CUSTOMER SEGMENTS Individuals, corporates
MAIN DISTRIBUTION CHANNELS Financial institutions, independent and tied agents, brokers, direct marketing, worksite marketing
www.aegon.es

* Joint ventures/associates: Caja de Badajoz Vida (50 percent), Seguros Navarra (50 percent), CAM AEGON Holding Financiero (49.99 percent).

TAIWAN

NUMBER OF EMPLOYEES 1,109, of which 706 agent-employees
MAIN OFFICE Taipei
MAIN PRODUCT AREAS Variable universal life, traditional life, structured notes, accident and health insurance
MAJOR CUSTOMER SEGMENTS Individuals, corporates, institutions
MAIN DISTRIBUTION CHANNELS Tied agents, brokers, banks, worksite marketing, direct marketing
www.aegon.com.tw

AEGON AND THE FINANCIAL COMMUNITY

"AEGON is committed to the highest standards of both integrity and fair disclosure."

LISTINGS

Amsterdam	:	Euronext Amsterdam
London	:	London Stock Exchange
New York	:	New York Stock Exchange
Tokyo	:	Tokyo Stock Exchange

The secondary listing of AEGON N.V. common shares on the Frankfurt Stock Exchange in Germany and on the SWX Swiss Exchange in Zurich, Switzerland wil be discontinued as per March 13, 2007.

INVESTOR RELATIONS

AEGON values its many trusted relationships within the global investment community and is committed to the highest standards of both integrity and fair disclosure.

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 is also active in the global debt capital markets. Using its strong credit ratings, AEGON has issued a variety of debt instruments in various major currencies in order to optimize its capital structure and reduce funding costs.

In 2006, 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.

RATINGS	**Credit**
as per December 31, 2006	AEGON N.V.
S&P rating	A+
Moody's rating	A2
Fitch rating	AA-

With the objective of obtaining 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.

AEGON's primary reporting basis is by geography and the secondary basis is by line of business. Starting with the first quarter of 2007, AEGON will more closely align its line of business reporting with the way the businesses are organized.

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 has started to report quarterly value of new business information and internal rate of return of the new business, 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 starting with the first quarter of 2007.

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, bond-holders 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.

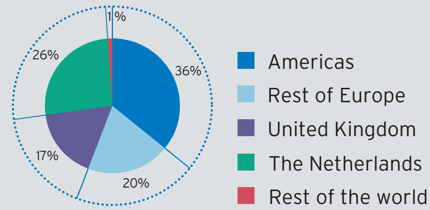
DIVIDEND POLICY

AEGON recognizes the importance of offering its shareholders a stable and adequate dividend, which is supported by the company's cash flow and capital position.

AEGON COMMON SHARES ARE INCLUDED IN A NUMBER OF THE MAJOR EQUITY MARKET INDICES, AMONGST OTHERS, IN THE FOLLOWING KEY INDICES:

AEX	**MSCI Euro Index**
FTSE Eurotop 100	**S&P Euro Index**
FTSE Eurotop 300	**DJ Euro Stoxx 50**
FTSE4Good Index	**DJ Sustainability Index**

SHAREHOLDER BASE Estimated



AEGON's 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 approved at the annual General Meeting of Shareholders. Payment of the interim and final dividend is either in cash or in stock to be paid out of the paid-in surplus fund (free of tax in the Netherlands) or, if so requested, out of the net income. The management has the ability to alter the relative attractiveness of cash versus stock dividend if deemed appropriate.

The stock fraction, used to determine the dividend in shares, will be based upon the average share price calculated over a period of five trading days. There will be no trading in dividend rights on Euronext Amsterdam N.V. or other stock exchanges.

In 2006, AEGON declared an interim dividend of EUR 0.24 per common share. The stock fraction was determined at 1/62 resulting in an approximately 5.6 percent lower value for the stock dividend compared to an interim dividend in cash. To neutralize the effect of the stock dividend, AEGON repurchased 11.6 million shares in the open market. The final dividend of 2006 proposed to the AGM amounts to EUR 0.31 per common share bringing the total 2006 dividend to EUR 0.55, an increase of 22 percent compared to the prior year. The final dividend in shares will be approximately 5 percent lower than the value of the cash dividend. AEGON started to repurchase shares to neutralize the effect of stock dividends. It remains AEGON's objective to increase dividend subject to the development of capital position and cash flows.

SHAREHOLDERS

AEGON's international business activities are reflected in the geographical diversity of its investor base.

The investor base consists of approximately 86 percent of institutional shareholders (including Vereniging AEGON) and 14 percent individual shareholders.

Based on publicly available information, Vereniging AEGON is the only major shareholder (exceeding 5 percent participation in AEGON common shares). For more information on Vereniging AEGON please refer to page 238.

AEGON VALUES ITS MANY TRUSTED RELATIONSHIPS WITHIN THE GLOBAL INVESTMENT COMMUNITY

SHARE PRICE DEVELOPMENT

In 2006, the AEGON share price appreciated 5.0 percent, from EUR 13.75 on December 30, 2005 to EUR 14.44 on December 29, 2006. In May 2006, AEGON paid a final dividend for 2005 of EUR 0.23 and in September 2006 an interim dividend of EUR 0.24 for 2006. Including the dividends paid in 2006 the total return[1] for an AEGON common share in 2006 was 8.7 percent (2005: 42.8 percent). This compares to total returns[1] for the European Insurance Index (DJ Stoxx 600 Insurance Index) of 20.7 percent (2005: 34.6 percent) and the S&P 500 Insurance Index (in EUR) of minus 0.5 percent (2005: 30.7 percent).

[1] The source for the total return calculation and comparison is Bloomberg. The calculation assumes reinvestment of the dividend in the stock or in the index.

FINANCIAL CALENDAR

Share price information[1] (in EUR)

	2006	2005	2004	2003	2002
Price - high	15.56	14.25	12.98	13.47	28.89
Price - low	12.17	9.63	8.24	5.87	9.04
Price - year-end	14.44	13.75	10.03	11.73	11.79
Price/earnings ratio	8.86	8.44	7.27		

Share price information[1] (in USD)

	2006	2005	2004	2003	2002
Price - high	18.97	16.78	16.12	14.80	26.00
Price - low	15.24	12.19	10.41	6.76	8.88
Price - year-end	18.95	16.32	13.71	14.80	12.33

[1] Source: Bloomberg

INVESTOR RELATIONS CONTACT INFORMATION

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

FINANCIAL CALENDAR 2007

March 8	Announcement of 2006 full year results
March 26	Record date for attending/voting at the April 25 AGM
March 30	Publication of 2006 Annual Report and Form 20-F
April 25	Annual General Meeting of Shareholders
April 26	Ex-dividend date for the final dividend 2006
April 30	Final dividend 2006 record date
May 2	Start of final dividend 2006 election period
May 9	First quarter 2007 results and Embedded Value Report 2006
May 16	End of final dividend 2006 election period
May 22-23	Analyst & Investor Conference – Amsterdam
May 23	Final dividend 2006 payment date
August 9	Second quarter 2007 results
August 10	Ex-dividend date interim dividend 2007
August 10	Start of interim dividend 2007 election period
August 14	Interim dividend 2007 record date
August 31	End of interim dividend 2007 election period
September 14	Interim dividend 2007 payment date
November 8	Third quarter 2007 results
November 26-27	Analyst & Investor Conference – New York

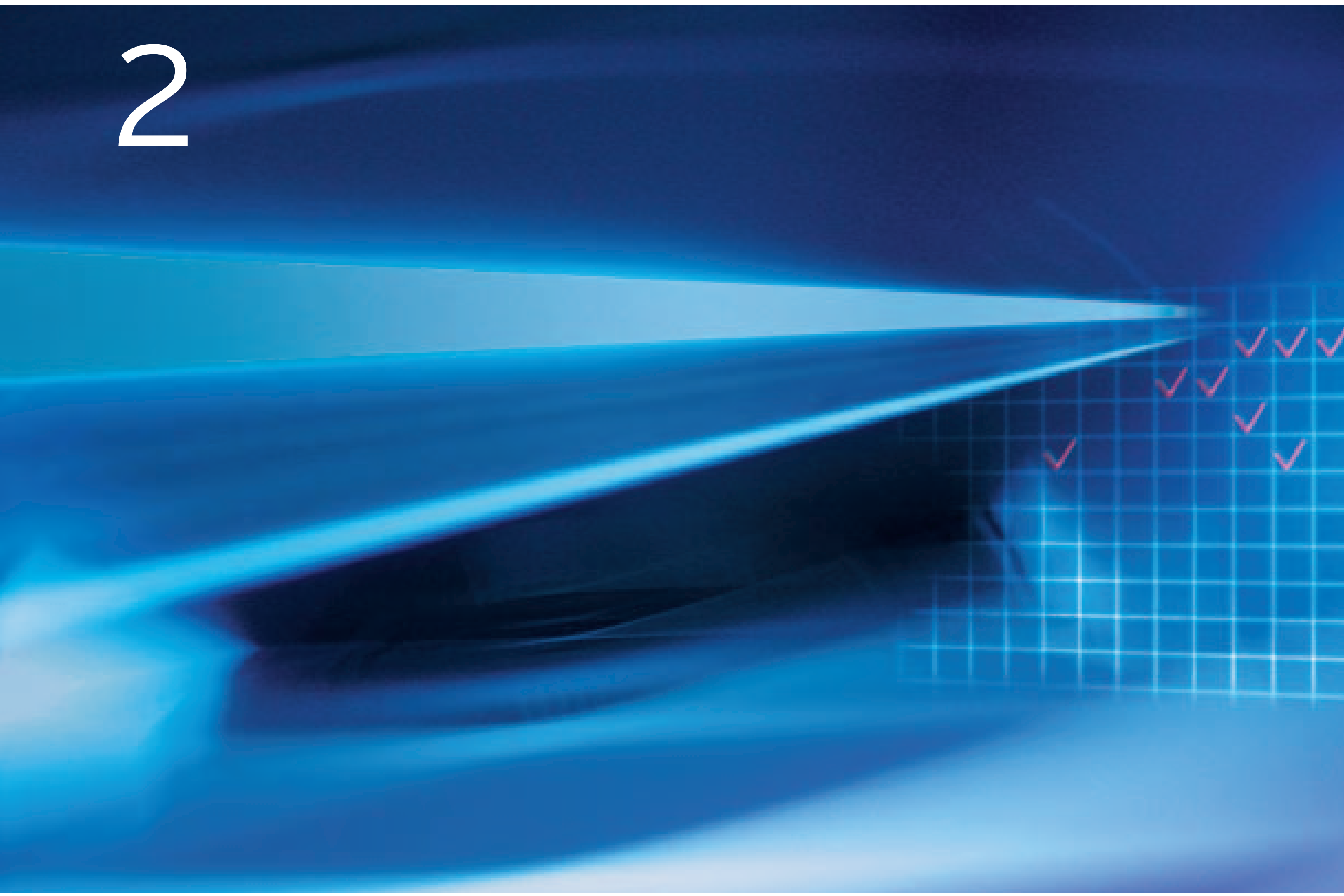
FINANCIAL CALENDAR 2008

March 6	Announcement of 2007 full year results
April 23	Annual General Meeting of Shareholders
May 7	First quarter 2008 results and Embedded Value Report 2007
August 7	Second quarter 2008 results
November 6	Third quarter 2008 results

Chapter two

GROWTH AND PROFITABILITY

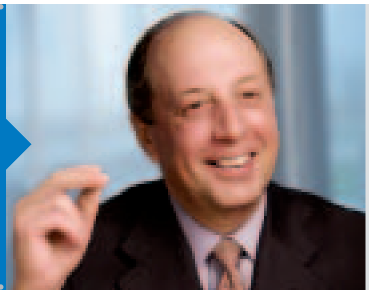
STRENGTHENING AEGON'S POSITION AS A LEADING LIFE INSURANCE PROVIDER



CHAIRMAN'S LETTER

Donald J. Shepard

CHAIRMAN OF
THE EXECUTIVE BOARD



DEAR READER,

During the past year, we took a number of important steps to strengthen AEGON's position as a leading provider of life insurance, pensions and related savings and investment products internationally. On behalf of the Executive Board, I am pleased to present this Annual Report detailing our progress and ongoing commitment to providing our customers with reliable, need-specific products and services while creating long-term value for AEGON's many stakeholders.

A CONSISTENT FOCUS ON PROFITABILITY

Profitability continues to be a cornerstone of AEGON's growth strategy. This was evident in 2006 with the 32 percent increase in operating earnings before tax, as well as the 41 percent increase in the value of new business for the AEGON Group, which represents a compound annual growth rate of 33 percent since 2003. Similarly, the internal rate of return on AEGON's new business improved to 14.5 percent during 2006, compared to 12.4 percent for 2005. These positive developments represent better-than-expected progress toward our goal of doubling AEGON's value of new business to EUR 1.1 billion by 2010. We are confident that our businesses in the Americas, the Netherlands, and the United Kingdom will continue to perform well and together comprise the majority of AEGON's earnings growth in the coming years. However, we believe that our operations in Central and Eastern Europe, as well as in other European countries and in Asia, will constitute an increased proportion of new business growth in the next several years.

SEIZING THE PENSION OPPORTUNITY GLOBALLY

Another key component in AEGON's growth strategy is the retirement opportunity globally. Demographics and trends in nearly every market indicate that ours is the right business at the right time. There is a clear and increasing need for a broader range of protection and pre- and post-retirement solutions given people's needs to successfully manage their accumulated assets during a longer retirement. It is for this reason that AEGON has identified pensions as a global growth initiative. By coordinating product concepts and sharing the broad expertise of our various business and country units, we believe that AEGON will further strengthen its leading position in the growing retirement market. Another indication of our concerted focus on the pension opportunity was our decision to acquire PTE Ergo Hestia, a top-ten pension fund management company in Poland. This will provide a strong complement to our successful life operations in Poland, following our entry into the Polish market in 2005.

TRENDS INDICATE THAT OURS IS THE RIGHT BUSINESS AT THE RIGHT TIME

During 2006, HDI Pensionsmanagement – Germany's third largest pension provider – joined the AEGON Pension Network, adding further momentum to our efforts to provide innovative cross-border pension solutions for AEGON's multi-national clients and their employees. Multi-national companies are taking a more international view of their pensions and AEGON Pension Network is providing solutions that will enable them to better negotiate the complexities involved.

"A key component in our growth strategy is the retirement opportunity."

EXPANDING AEGON'S INTERNATIONAL FOOTPRINT

International expansion is another essential pillar in AEGON's growth strategy and the past year was an especially productive one in this regard. In October, we completed our 49 percent acquisition of Seguros Argos in Mexico, and at the same time announced our plans to establish a pension management joint venture, known as Afore Argos. During the year, we also continued the roll-out of our operations in the highly developed coastal provinces in China with the opening of AEGON-CNOOC's Shandong branch, and in December we finalized our new partnership with the Ranbaxy Promoter Group in India to provide life insurance and asset management products through Ranbaxy's subsidiary, Religare. In January 2007, we fulfilled our intention to enter Romania with the formation of a new pension fund company with Banca Transilvania, in anticipation of the mandatory pension system next year. In addition, AEGON will also establish a life insurance company in Romania that will enter into a distribution agreement with Banca Transilvania to sell co-branded products through the bank's extensive network of 340 branches.

INTERNATIONAL EXPANSION IS AN ESSENTIAL PILLAR IN AEGON'S GROWTH STRATEGY

Also in January 2007, AEGON announced its intention to form a new life insurance company in Japan with Sony Life. The 50/50 joint venture will initially focus on developing variable annuity products that will be distributed through Sony Life's Lifeplanner® channel as well as through banks and other financial institutions. AEGON regards this new partnership with one of Japan's most respected companies as an excellent platform for ongoing collaboration in the world's second largest market for life insurance products and services.

STRENGTHENING DISTRIBUTION

Efforts to enhance further AEGON's broad distribution network were also successful in 2006. In November, we announced our agreement to acquire Clark Incorporated, a leading distributor of bank-owned and corporate-owned life insurance in the United States. AEGON also acquired the remaining 55 percent of Unirobe, a leading company of independent financial advisors in the Netherlands.

AEGON's strong relationship with banks in the United States, throughout Europe and in Asia provides critical access to a growing customer segment in both our established and developing markets. It is for this reason that we have also identified broadening AEGON's presence through the bank channel as another of our global growth initiatives. In addition to our successful partnership with Caja de Ahorros del Mediterráneo in Spain, two new joint ventures with Spanish mutual savings banks – Caja de Badajoz and Caja Navarra – became operational during 2006, extending AEGON's products and services through nearly 1,500 bank branches across the country. As banks internationally expand their product offering to include protection and retirement products, we intend to advance AEGON's reputation as a preferred partner in this essential distribution channel.

ENSURING THE BENEFITS OF SHARED EXPERTISE

In November, we announced the formation of the AEGON Management Board, as a way to further maximize the opportunities we see for AEGON's businesses internationally. In addition to my Executive Board colleagues Jos Streppel and Alex Wynaendts, the Management Board also includes the leaders of AEGON's major country units: Pat Baird, President and CEO of AEGON USA, Otto Thoresen, CEO of AEGON UK, and Johan van der Werf, CEO of AEGON The Netherlands. The Executive Board will continue its role as the statutory governing body of AEGON N.V. The Management Board will work to identify business opportunities consistent with AEGON's international growth strategy.

AEGON'S STRONG RELATIONSHIP WITH BANKS PROVIDES ACCESS TO A GROWING CUSTOMER SEGMENT

The formation of the Management Board reflects the clear and increasing need for closer cooperation between country and business units and the importance of coordinating global initiatives and leveraging AEGON's broad expertise.

Chairman's letter

CONTINUATION

CONTINUED GROWTH THROUGH FINANCIAL STRENGTH

AEGON has long focused on achieving and maintaining financial strength. In addition to providing the basis for continued growth and expansion, it is also an important measure of a company's future ability to deliver on the promises it makes to its customers, business partners and shareholders. During 2006, AEGON's capital position improved further. This enabled us to continue our investments in new partnerships and acquisitions, as well as increase the shareholder dividend by 22 percent to EUR 0.55. Also, we initiated a program to repurchase shares in 2006 to neutralize the effect of stock dividends. It is our intention to increase dividends annually, naturally subject to the development of AEGON's capital position and cash flows.

Our ability to ensure AEGON's continued growth and financial strength depends on the talent and dedication of management, employees and trusted business partners. Their many contributions to AEGON's business objectives enabled us to achieve the progress we are pleased to report for 2006. As we look to the opportunities ahead, AEGON remains committed to leveraging the resources of an expanding global operation with the knowledge and expertise of local business managers and partners. At the same time, we will continue to identify and implement operational and cost efficiencies in order to maintain AEGON's reputation as a competitive and reliable provider of life insurance, pensions and related savings products and services.

We are grateful for your ongoing support and continued interest in AEGON.

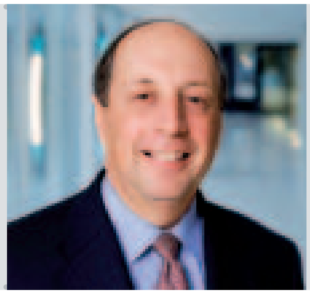
Sincerely, on behalf of the Executive Board,

Donald J. Shepard
CHAIRMAN OF THE EXECUTIVE BOARD

MANAGEMENT BOARD

From left to right

Donald J. Shepard
Joseph B.M Streppel
Alexander R. Wynaendts



From left to right

Patrick S. Baird
Otto Thoresen
Johan G. van der Werf



DONALD J. SHEPARD - CHAIRMAN EXECUTIVE BOARD

(1946, American nationality) began his career with Life Investors, Inc., an insurance holding company, in 1970. Serving in various management and executive functions with Life Investors, he became executive vice-president and chief operating officer in 1985, a position he held until AEGON consolidated its other United States operations with Life Investors to form AEGON USA in 1989, whereupon Mr. Shepard became president and CEO. In 1992, Mr. Shepard became a member of the Executive Board of AEGON N.V. and in April 2002 he was appointed chairman. He currently serves as a member of the Boards of Directors of the Mercantile Bankshares Corporation and the CSX Corporation.

JOSEPH B.M. STREPPEL - CFO, MEMBER EXECUTIVE BOARD

(1949, Dutch nationality) began his career in 1973 at one of AEGON's predecessors occupying several treasury and investment positions. In 1986, he became CFO of FGH BANK and in 1987 he joined the Executive Board of FGH BANK. In 1991, he became chairman and CEO of Labouchère and, in 1995, also chairman of FGH BANK. In 1998 he became CFO of AEGON N.V. In May 2000 he was appointed a member of the Executive Board of AEGON N.V. Mr. Streppel is also a member of the Supervisory Boards of Royal KPN N.V. and Van Lanschot Bankiers N.V.

ALEXANDER R. WYNAENDTS - MEMBER EXECUTIVE BOARD

(1960, Dutch nationality) began his career with ABN AMRO in 1984 and had several assignments in asset management (Amsterdam) and corporate finance (London). In 1997, he joined AEGON's Group Business Development department and was promoted to executive vice-president and head of Group Business Development in May 1998. In 2003 he was appointed a member of the Executive Board of AEGON N.V.

PATRICK S. BAIRD - PRESIDENT AND CEO AEGON USA

(1954, American nationality) began his career at AEGON USA in 1976. He served as executive vice-president and chief operating officer, chief financial officer and director of tax and was appointed in March 2002 to his current position as president and CEO of AEGON USA, Inc. He was appointed a member of the Management Board of AEGON N.V., effective January 1, 2007. He is also a member of the Board of Directors of QCR Holdings.

OTTO THORESEN - CEO AEGON UK

(1956, British nationality) began his career at Scottish Equitable in 1978. After qualifying as an actuary he served as marketing manager until leaving Scottish Equitable in 1988 to follow senior roles with Abbey Life and Royal Insurance before returning to AEGON UK in 1994 as development director. He was appointed finance director in 2002 and then became CEO of AEGON UK in 2005. He was appointed a member of the Management Board of AEGON N.V., effective January 1, 2007.

JOHAN G. VAN DER WERF - CEO AEGON THE NETHERLANDS

(1952, Dutch nationality) began 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. In April 2002, he was appointed CEO of AEGON The Netherlands and a member of the Executive Board of AEGON N.V.. Mr. Van der Werf stepped down from the Executive Board when he was appointed to the Management Board of AEGON N.V., effective January 1, 2007.

STRATEGY IN ACTION

AEGON BELIEVES ITS CORE BUSINESSES OFFER SIGNIFICANT POTENTIAL FOR GROWTH

AEGON's objective is to create long-term value for its many stakeholders. With this in mind, AEGON focuses on its core businesses of life insurance, pensions and related investment products. The company's strategy is to achieve long-term profitability, encourage entrepreneurship in its local markets, attain sufficient scale in each operating country and pursue opportunities for international expansion.

COMMITMENT TO CORE BUSINESSES

Given changing demographics, AEGON believes its core businesses of life insurance, pensions and related investment products offer significant potential for growth in the years ahead. Aging populations in the developed world and shrinking workforces mean that growth in the pension business will prove particularly strong.

In 2006, AEGON took a number of important steps to expand its worldwide pension business and is well positioned to capture future growth in both its established markets of the United States, the Netherlands and the United Kingdom, as well as in new and emerging markets.

In Central and Eastern Europe, AEGON's pension business is growing at a rapid pace. AEGON Hungary is experiencing particularly strong growth, while in Slovakia the number of customers registered with AEGON pension funds grew to more than 200,000 in 2006. The proposed acquisition of PTE Ergo Hestia, one of Poland's leading pension fund management companies, will further strengthen AEGON's position in the region. Thanks to this recent expansion, AEGON will soon manage the pension accounts of more than 1.2 million people throughout Central and Eastern Europe.

In the United States, AEGON's largest market, a key initiative is underway to provide financial solutions to customers entering reitrement. Transamerica Retirement Management was launched as a new business unit in 2006, aimed specifically at helping customers manage their assets during retirement. As life expectancy rates increase, more people are having to manage their pension assets over longer periods of time and AEGON believes it can offer broad and innovative solutions to serve this rapidly-expanding segment of the retirement market.

SERVING LOCAL NEEDS WITH GLOBAL CAPABILITIES

AEGON has always relied on talented local managers to identify the changing needs of their customers and the opportunities emerging in their particular markets. In this way, AEGON seeks to combine the resources of an expanding global operation with the more specific knowledge and expertise of its local businesses.

Through the AEGON Pension Network, AEGON is helping its multinational corporate customers negotiate the growing complexities of diverse national pension systems by providing local solutions within a broader, more international framework. Established with AEGON's French partner La Mondiale, the AEGON Pension Network is the first coordinated cross-border network to cater to the needs of multinational companies, addressing issues such as asset pooling, regulatory reporting, varying tax regimes and supplying pension solutions for expatriate workers. Since its inception, the AEGON Pension Network has been expanding steadily. Its members now include HDI Pensionsmanagement AG, Germany's third largest pensions provider.

In 2006, AEGON also extended its partnerships with banks in a number of countries – an essential part of the company's multichannel distribution strategy. AEGON's two new joint ventures in Spain – with leading savings banks Caja de Badajoz and Caja Navarra – complement the strong partnership established in 2003 with Caja de Ahorros del Mediterráneo.

In Asia, AEGON was among the first to introduce bancassurance to Taiwan and AEGON-CNOOC has secured cooperation agreements with three of China's leading banks as a way of supporting AEGON's expansion in the country.

In addition, AEGON further strengthened its distribution network in 2006 by acquiring the remaining 55 percent of Unirobe, a leading provider of financial advice in the Netherlands, and with its acquisition of Clark Inc., a distributor of bank- and corporate-owned life insurance in the United States.

STRATEGIC FRAMEWORK

COMMITMENT TO CORE BUSINESS

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

SERVING LOCAL NEEDS WITH GLOBAL CAPABILITIES

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

EMPHASIS ON PROFITABILITY

AEGON pursues a strategy of long-term profitability and sustainable growth. AEGON aims to achieve a long-term average net income growth rate of 10 percent per annum.

In the medium term, AEGON aims to double its value of new business during the period 2005-2010. AEGON sets its return objectives relative to the risks of its markets and well in excess of the cost of capital. Disciplined expense management, together with the divestiture of non-core and structurally underperforming activities, are key to achieving these objectives.

MARKET POSITION

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

INTERNATIONAL EXPANSION

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

EMPHASIS ON PROFITABILITY

Writing profitable new business is an essential pre-condition for growth in both AEGON's established and developing markets. It ensures a good return for shareholders as well as a financially sound company.

In 2006, AEGON posted an increase of 32 percent in its operating earnings and 41 percent in its value of new business. AEGON's internal rate of return (IRR), a measure of the profitability of the business AEGON is writing, rose to 14.5 percent in 2006, up from 12.4 percent in 2005. In November 2006, AEGON also announced a new growth target to double the value of new business for the Group by 2010 to EUR 1.1 billion.

AEGON's financial results, over the past two years, demonstrate the company's commitment to profitability, with significant increases in the value of new business and a consistent improvement in the IRR. The decision to set out a new financial target reflects AEGON's confidence in the strong growth potential of its core businesses.

MARKET POSITION

AEGON aims to achieve a leading position in each of its chosen markets. This allows extensive economies of scale and helps attract strong local business partners as well as talented managers and staff. Currently, AEGON is one of the largest providers of life insurance and pensions in the United States, the Netherlands and the United Kingdom. In addition, the company occupies a leading position in the Hungarian, Slovakian and Polish markets. In Asia, AEGON is one the largest foreign-owned life insurance providers in Taiwan and has a growing presence in China.

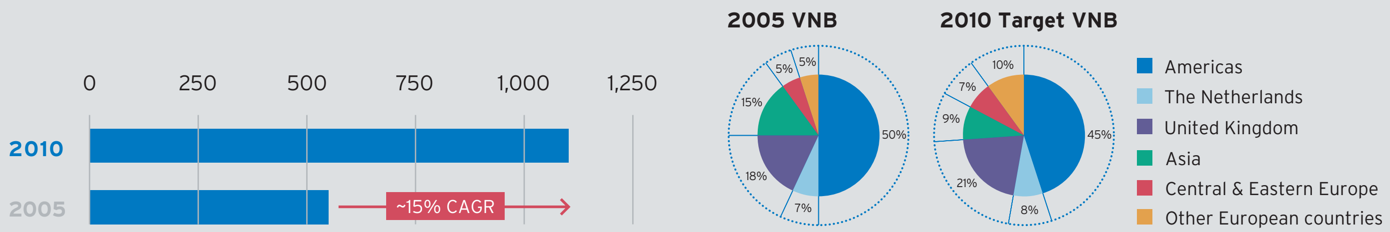
INTERNATIONAL EXPANSION

In 2006, AEGON made significant progress in its efforts to expand its international presence. During the year, AEGON fulfilled its ambition to re-enter the Mexican market, buying a 49 percent stake in life insurer Seguros Argos. In Poland, AEGON bought PTE Ergo Hestia, a pension fund management company. And in India, AEGON signed a new joint venture with the Ranbaxy Promoter Group and achieved further expansion in China with the opening of its new branch in the Shandong province.

In early 2007, AEGON's international expansion continued. AEGON announced plans to establish a new partnership in Romania with Banca Transilvania, the country's fifth largest commercial bank, in anticipation of a new mandatory pension system, to be introduced in the country in early 2008. In addition, AEGON also agreed to establish a new joint venture with Sony Life in Japan, providing access to the world's second largest life insurance market. In the coming year, AEGON will continue to pursue opportunities for international expansion, in line with its strategy of ensuring long-term growth and profitability for its products and services.

Growth and profitability

AMBITIOUS GROWTH TARGETS



A BLUEPRINT FOR GROWTH

In 2006, AEGON launched its new global growth initiatives. These initiatives seek to capitalize on significant opportunities in three areas: pensions, distribution through banks and international expansion. Executive Board member Alex Wynaendts has been given responsibility for coordinating efforts on these initiatives across the entire AEGON Group. For the first time in 2006, AEGON also set out an ambitious new medium-term financial growth target.

THE GLOBAL PENSION OPPORTUNITY

The worldwide pension market is changing rapidly – and AEGON is convinced that these changes will result in significant opportunities for the company in the years ahead. Throughout the developed world, people are living longer, while the size of the workforce available to fund pensions is shrinking. It is estimated that by the middle of this century, the working-age population in Europe will have declined by 20 percent. The population of over-65s, meanwhile, will have risen by 80 percent. This phenomenon is putting strain on many countries' pension systems. Increasingly, governments around the world are shifting responsibility for pension funding from the public to the private sector. More companies, conscious of their growing liabilities, are switching their pension plans from defined benefit to defined contribution, effectively transferring responsibility for retirement planning to the individual.

These changes are driving demand for the type of pension and long-term savings products in which AEGON specializes, as many individuals now have to manage their retirement assets for considerably longer periods of time than in the past. For these reasons, AEGON is determined to enhance its already significant presence in the worldwide pension business, not only in its established markets of the United States, the Netherlands and the United Kingdom, but also in the fast-growing, emerging markets of Central and Eastern Europe and Asia. As the baby-boomer generation enters retirement, much of the focus in Europe and the United States is now on helping individuals manage their pension assets. In emerging countries, however, market penetration of pensions and life insurance is still relatively low and recent reform – particularly in Central and Eastern Europe – is opening up previously-closed markets to private pension providers like AEGON.

PURSUING GROWTH THROUGH BANKS

For AEGON, partnerships with banks with well-established local branches are an essential means of distribution, given banks' growing role as providers of a wide range of financial and retirement solutions. For this reason, AEGON is determined to extend its network of bank partnerships as part of its broader, multi-channel distribution strategy. In many cases, particularly in the United States, AEGON already has relationships with banks that span decades. In some countries, banks have long been the primary means of distribution. In Spain, for example, where AEGON has distribution agreements in place with three of the country's largest regional savings banks, an estimated 70 percent of life insurance policies are sold through banks.

GROWTH THROUGH INTERNATIONAL EXPANSION

As part of its overall growth strategy, AEGON is working to expand its international presence targeting, through selected partnerships and joint ventures, markets that will offer above-average growth in the years ahead. These emerging markets promise significant potential. Reform is already spurring economic growth and wealth creation, while sales of life insurance and pension products are still very low, relative to AEGON's established markets. In many places, pension reform is underway, creating additional opportunities. In Hungary, Poland and Slovakia mandatory private pensions systems have already been introduced. It is expected that Romania will introduce a similar system in 2008, the reason AEGON signed a new joint venture partnership with Banca Transilvania in early 2007.

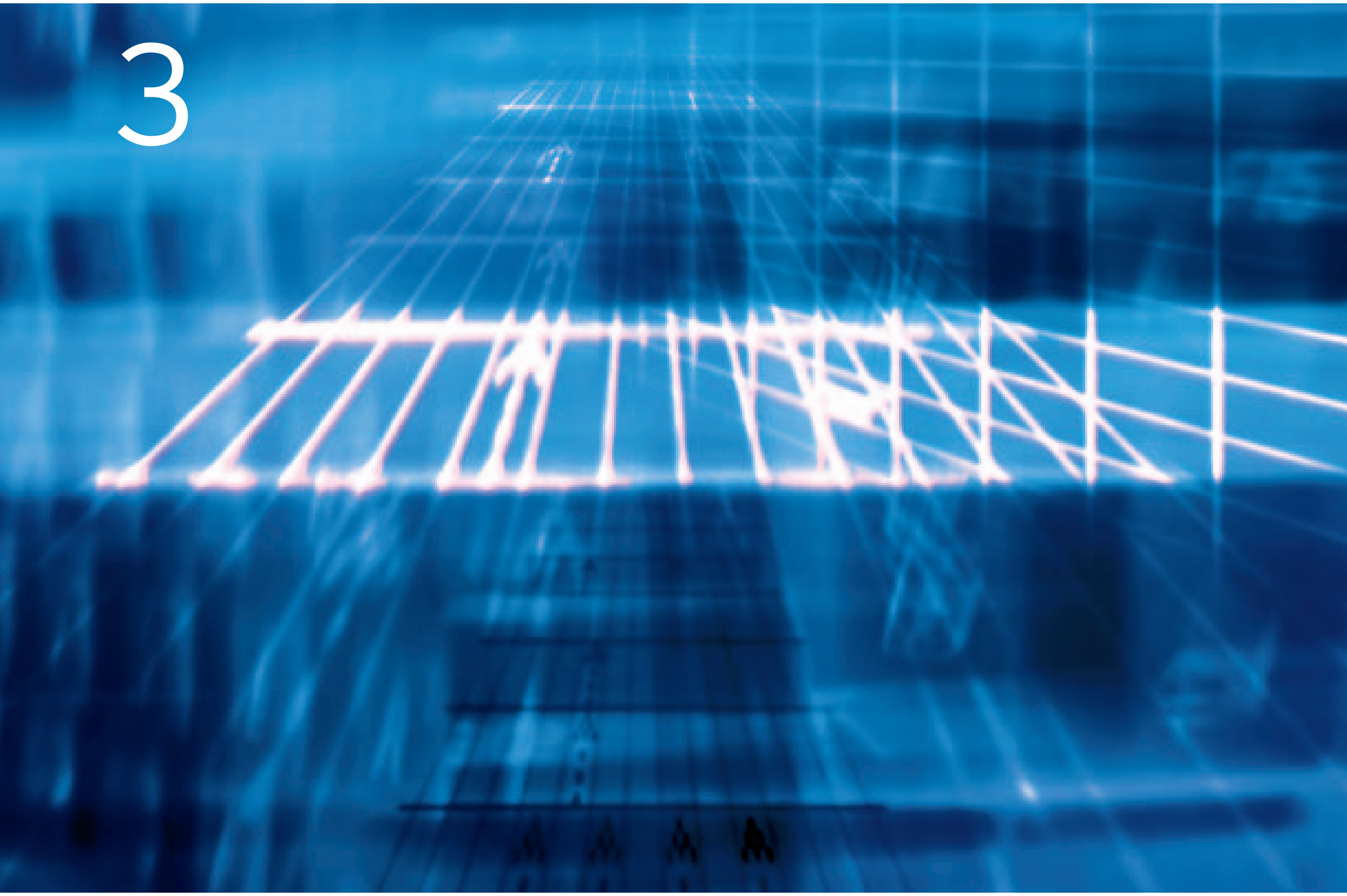
AMBITIOUS GROWTH TARGET

For the first time, in 2006, AEGON set out a medium-term financial target, a measure of the company's confidence in its core markets and businesses and the significant growth opportunities that will emerge in the coming years. AEGON's objective is to double the value of its new business by 2010 to EUR 1.1 billion. AEGON believes this target is ambitious, but realistic. Expanding the company's pension business, extending its network of bancassurance deals and targeting new, fast-growing emerging markets will all be vital, over the next few years, to achieve this objective.

Chapter three

REPORT OF THE EXECUTIVE BOARD

A COMPREHENSIVE ACCOUNT OF AEGON'S PERFORMANCE IN 2006



AEGON GROUP

Joseph B.M. Streppel

CFO AND MEMBER
EXECUTIVE BOARD

"AEGON is an avid supporter of developments that can lead to increased transparency and comparability."

AEGON's results demonstrate that 2006 has been a successful year for the company. Taking into consideration various measures of financial performance, each of these showed a positive development, with significant increases in operating earnings (32%), net income (2%) and value of new business (41%).

In addition, AEGON's cash flows and capital position improved further, allowing us to increase the dividend substantially. AEGON will propose to pay a final dividend of EUR 0.31 per share and taking into account the interim dividend, this will bring the total dividend for 2006 to EUR 0.55 per share. This represents an increase of 22 percent compared to the previous year. As in the case of the interim dividend, AEGON will buy back shares in the market to neutralize the dilution effect of stock dividends, affirming the solid cash flows of the company. Contingent on sustained strong capital position and cash flows, it is AEGON's objective to increase dividends.

During 2006, important progress was made in the development of Solvency II regulations for the insurance industry. A proposed directive is expected to be published in 2007, although implementation is unlikely to take place before 2010. AEGON is pleased with the progress made in the development of Solvency II as it is expected to be an economic capital based system, which will increase transparency and comparability among insurers all over Europe.

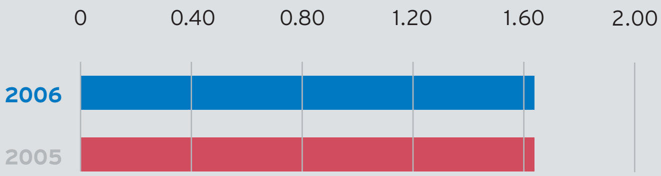
AEGON sees this as a very positive development, provided that Solvency II is implemented on the same basis as the next round of IFRS accounting to prevent an additional administrative burden for the insurance industry. Given the importance of various regulatory developments for AEGON and the industry, AEGON established a public affairs office in Brussels in 2006 to support decision makers in this process.

In 2007, AEGON will be running its economic capital model internally for calibration purposes, with full implementation of the model expected to be phased in during 2008. Large, diversified companies such as AEGON will be in the best position to capture the diversification benefits that exist under economic capital. For instance, while AEGON is exposed to mortality risk in some products, such as traditional life insurance, it is also exposed to longevity risk in its large pension business. These risks work in opposite directions and mitigate the overall risk in a diversified company such as AEGON.

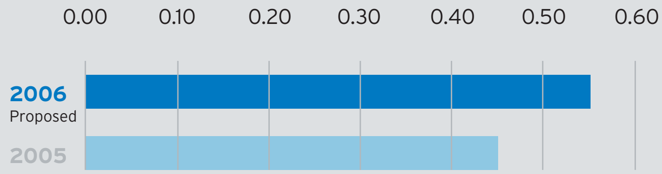
REVENUES GEOGRAPHICALLY 2006

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

NET INCOME PER SHARE
Amounts in EUR



DIVIDEND PER SHARE
Amounts in EUR



EARNINGS OVERVIEW

Amounts in EUR million

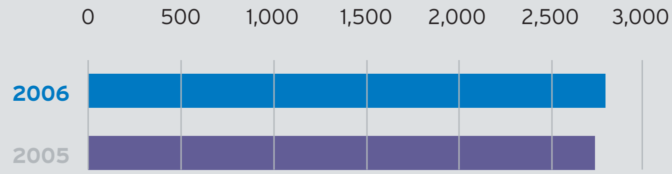
Result of operations	2006	2005	%
By product segment			
Traditional life	790	823	(4)
Life for account of policyholders	614	243	153
Fixed annuities	433	425	2
Variable annuities	261	130	101
Institutional guaranteed products	275	280	(2)
Fee - off balance sheet products	75	33	127
Reinsurance	163	105	55
Accident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

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

AEGON Group

CONTINUATION

NET INCOME
Amounts in EUR million



This leads to lower economic capital requirements, a benefit which is much more difficult to obtain for smaller, local insurance companies operating in specific niches.

Finally, European Embedded Value Principles continue to evolve. The CFO forum is trying to establish a market-consistent embedded value (MCEV) definition that is applicable to all members, so MCEV will also be comparable between participating companies. As an active member of the CFO forum, AEGON is an avid supporter of developments that can lead to increased transparency and comparability in the insurance industry. In May 2007, AEGON will publish its full 2006 Embedded Value Report which will provide an important additional set of information about AEGON's financial performance.

OVERVIEW

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

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

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

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

RESULTS

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

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

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

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

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

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

PRODUCTION

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

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

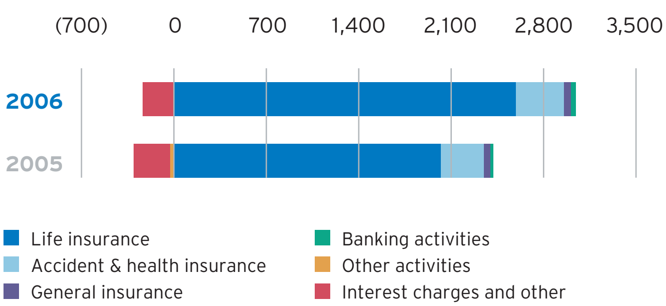
Off balance sheet production for AEGON increased 14 percent, reflecting strong sales of synthetic Guaranteed Investment Contracts (GICs), strong sales in retail mutual funds in the US and the UK, and continued growth of AEGON's pension fund business in Central and Eastern Europe. The increase was partly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

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

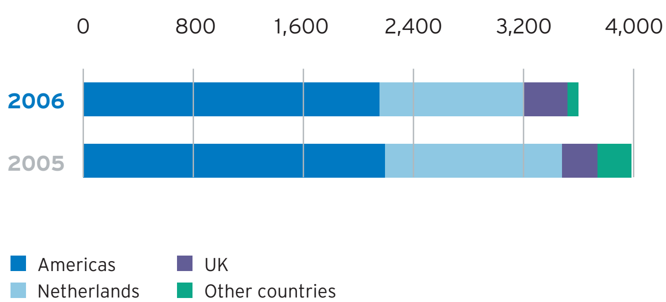
Amounts in EUR million	2006	2005
Operating earnings before tax	**2,828**	**2,147**
Gains on investments	964	1,269
Other income	12	176
Losses on investments	(495)	(112)
Impairment charges	(25)	14
Other charges	(1)	(3)
Policyholder tax	75	104
Share in profit/(loss) of associates	32	20
Income before tax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

This review of operations should be read in conjunction with the financial statements in this annual report.

OPERATING EARNINGS BEFORE TAX BY ACTIVITY
Amounts in EUR million



INCOME BEFORE TAX GEOGRAPHICALLY
Amounts in EUR million



AMERICAS

Patrick S. Baird

PRESIDENT AND CEO
AEGON USA

"AEGON Americas is tailoring existing products to address a broader range of retirement needs."

AEGON Americas is well-positioned, profitable, and growing. We continue to be disciplined with regard to profitability and risk management, and this discipline has been instrumental in driving our solid financial results and meeting the long-term expectations of our stakeholders – even during changing market conditions.

In 2006, we focused on growing the value of our business and accomplished this growth in three ways – through organic growth domestically, leveraging our capabilities to support AEGON's growth in existing and developing markets in Europe and Asia, and through new acquisitions.

Organic growth initiatives included increasing our penetration of the middle market through the development of new products and accelerated agent recruitment. Targeting the worksite, we launched a new initiative through Transamerica Worksite Marketing that offers employers a state-of-the-art system designed to enroll employees and make premium payments through direct payroll deduction. Through our intense recruiting efforts, World Financial Group has increased its network of licensed agents.

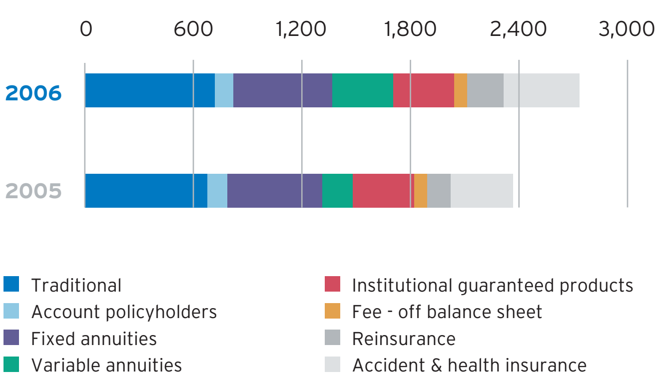
Early in 2006, we created a new business unit called Transamerica Retirement Management. While our industry has done well to encourage retirement savings during employment, we believe that more can be done at the point of retirement.

This unit is devoted to helping the aging baby boomer generation manage its assets as they enter retirement in increasing numbers. This initiative includes tailoring existing AEGON products to address a broader range of retirement needs, while relying on our broad network of distribution channels.

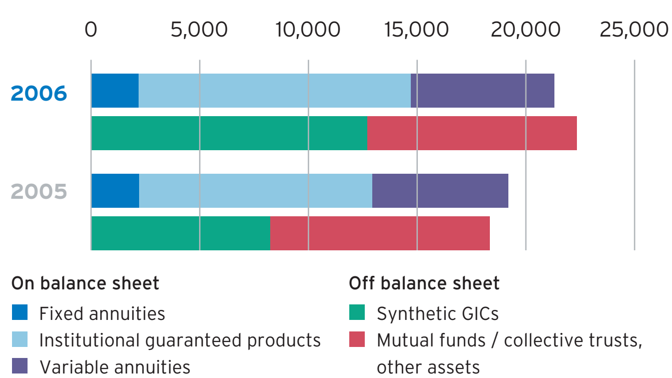
Cost-saving measures introduced in 2006 included consolidating some of our back-office functions, investing in new technology to create efficiencies and improve services, as well as reducing the number of administrative platforms we operate. We anticipate saving between USD 15 million and USD 20 million because of recent consolidation.

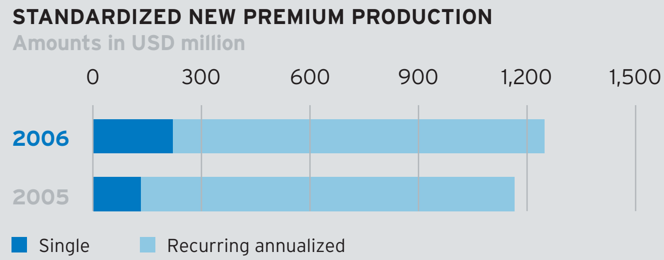
Our companies continue to export their expertise and proven capabilities internationally. AEGON Direct Marketing Services and Transamerica Reinsurance are examples of businesses that have successfully transferred their capabilities into markets outside the Americas. Increasingly, this approach of sharing knowledge and

OPERATING EARNINGS BEFORE TAX
Amounts in USD million



GROSS DEPOSITS / OFF BALANCE SHEET PRODUCTION
Amounts in USD million





experience and leveraging skills is proving a distinct competitive advantage as AEGON pursues its growth opportunities.

Acquisitions in 2006 included the purchase of a 49 percent interest in Seguros Argos S.A. de C.V., a Mexican life insurance company that distributes term life products through the worksite. The Mexican insurance and savings market offers significant opportunities for growth. We also announced our agreement to acquire Clark Inc., a US company with a strong presence in the bank- and corporate-owned life insurance (BOLI/COLI) market.

In 2006, we announced for the first time a value of new business growth target. Over the next five years, we are projecting a 13 percent growth in the value of new business. We expect our business mix during this period to move toward more individual savings and pensions.

Our businesses are strong and they are growing. We will continue to support international expansion, while identifying ways to reduce costs and acquisition opportunities that will further boost our growth.

AMERICAS (includes AEGON USA and AEGON Canada)	2006 in million USD	2005 in million USD	%	2006 in million EUR	2005 in million EUR	%
Income by product segment						
Traditional life	716	674	6	570	541	5
Life for account of policyholders	109	108	1	87	87	0
Fixed annuities	545	529	3	434	425	2
Variable annuities	327	162	102	260	130	100
Institutional guaranteed products	346	349	(1)	275	280	(2)
Fee – off balance sheet products	68	67	1	54	54	0
Reinsurance	205	131	56	163	105	55
Accident and health insurance	416	345	21	331	277	19
Operating earnings before tax	**2,732**	**2,365**	**16**	**2,174**	**1,899**	**14**
Gains/(losses) on investments	(28)	299		(22)	240	
Impairment charges	(15)	53		(12)	42	
Income before tax	**2,689**	**2,717**	**(1)**	**2,140**	**2,181**	**(2)**
Income tax	(738)	(705)	5	(587)	(566)	4
Minority interest	0	2		0	2	
NET INCOME	**1,951**	**2,014**	**(3)**	**1,553**	**1,617**	**(4)**

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

AEGON Americas

CONTINUATION

OPERATING EARNINGS BEFORE TAX

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

TRADITIONAL LIFE

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

LIFE FOR ACCOUNT OF POLICYHOLDERS

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

FIXED ANNUITIES

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

Product spreads on the largest segment of the fixed annuity book were 247 basis points in 2006 on a pre-tax operating basis compared to 230 basis points in 2005. Product spreads in 2006 include 40 basis points from the impact of valuation of certain financial assets carried at fair value compared to 21 basis points in 2005.

On a normalized basis, the expected contribution to product spreads from the valuation of these assets is approximately 17 basis points.

VARIABLE ANNUITIES

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

INSTITUTIONAL GUARANTEED PRODUCTS

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

FEE – OFF BALANCE SHEET PRODUCTS

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

REINSURANCE

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

ACCIDENT AND HEALTH INSURANCE

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

LONG-TERM RETURN EXPECTATIONS FOR FAIR-VALUED ASSETS IN OPERATING EARNINGS

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

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

NET INCOME

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

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

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

REVENUES

Revenues of USD 20.6 billion increased 11 percent in 2006 compared to those in 2005. Life insurance gross premiums of USD 9.7 billion increased 17 percent. Life general account premiums increased by 5 percent compared to 2005, reflecting a 7 percent increase in single premiums and a 5 percent increase in recurring premiums, primarily in the reinsurance business. Life for account of policyholders premiums increased by 62 percent compared to 2005, a result of a large single premium BOLI/COLI case in 2006. The 2006 figure includes USD 95 million of premiums from the acquisition of a block of credit life insurance.

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

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

COMMISSIONS AND EXPENSES

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

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

AEGON Americas

CONTINUATION

AEGON USA'S PRINCIPAL OFFICES

- 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
- St Petersburg, Florida

PRODUCTION

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

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

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

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

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

GENERAL HISTORY

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

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

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.

AGENCY GROUP

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

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

- Life Investors Insurance Company of America
- Monumental Life Insurance Company
- Peoples Benefit Life Insurance Company
- Stonebridge Casualty Insurance Company
- Stonebridge Life Insurance Company
- Transamerica Financial Life Insurance Company
- Transamerica Life Insurance Company
- Transamerica Occidental Life Insurance Company
- Veterans Life Insurance Company
- Western Reserve Life Assurance Co. of Ohio

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

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

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 whom it serves by providing various tax and estate planning products.

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

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

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

Monumental targets the lower and middle-income markets, selling individual traditional life and supplemental health insurance through three distinct distribution systems: Career Agency, IMO, and Pre-Need. In the Career Agency channel, 2,483 agents in 22 states provide face-to-face sales and services to policyholders, and reflect the diversity found in the communities they serve. In the IMO channel, approximately 500 general agents market to military families on or near military installations in the United States and abroad.

AEGON Americas

CONTINUATION

The typical agent is a former military officer. In 2006, the division expanded its IMO focus to provide final expense coverage for middle-income customers in the rapidly growing senior market, with simplified products and face values up to USD 25,000. The Pre-Need unit sells life insurance products to pre-fund funerals through funeral directors and their agents.

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

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

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

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

AEGON DIRECT MARKETING SERVICES

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

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

FINANCIAL MARKETS GROUP

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

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

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

INSTITUTIONAL PRODUCTS AND SERVICES GROUP

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

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

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

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

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

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

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

PENSION GROUP

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

AEGON Americas

CONTINUATION

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

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

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

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

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

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

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.

OPERATING COMPANIES AEGON CANADA

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

SEGMENTS OF AEGON CANADA'S OPERATIONS

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

It has experienced no material reinsurance recoverability problems in recent years. Where deemed appropriate, additional protection is arranged through letters of credit or trust arrangements, and, for certain arrangements, funds are withheld for investment by the ceding company. AEGON USA's insurance subsidiaries also enter into reinsurance contracts with affiliated domestic and offshore companies. These have been eliminated in the consolidated statements, except for certain arrangements that involve producer profit-sharing arrangements.

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.

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 offers a diverse spectrum of planning products and services to investors. With 54 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 principal means of distribution include various networks that are almost exclusively supported by independent advisors. The key channels of distribution are:

- Independently managed general agencies
- TLC-owned and operated Profit Center Agencies
- Bank-owned national broker-dealers
- World Financial Group
- Other national, regional and local niche broker-dealers

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 corporates 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 honor their obligations could result in losses to AEGON Canada. Consequently, AEGON Canada evaluates the financial condition of its reinsurers and monitors their credit risk to minimize its exposure to losses from reinsurer insolvency. AEGON Canada only contracts business with reinsurers who are registered with the Office of the Superintendent of Financial Institutions Canada.

THE NETHERLANDS

Johan G. van der Werf

CEO
AEGON
THE NETHERLANDS

"We are clearly benefiting from the restructuring in 2003."

As expected, 2006 marked an improvement in fortunes for AEGON The Netherlands. Past efforts to create a new, more responsive organization for the business began to yield positive results. While strong competition in the Dutch market showed no signs of abating, production and value of new business improved markedly, compared with 2005.

In 2003, AEGON The Netherlands decided to combine its various business units into a more centralized structure. This has benefited the company, bringing product knowledge, administration and IT infrastructure under one roof and creating a more efficient and better organized sales force.

As part of its policy of reducing state benefits, the Dutch government ended an official pre-retirement savings plan, known as VUT, at the end of 2005 and replaced it with 'Levensloop'. Levensloop allows savers to put aside a certain amount each year, free of tax, either to fund their retirement, take early retirement or, in some cases, finance a break in their careers. Many companies in the Netherlands decided to support Levensloop as a way of enhancing their overall employee benefits packages. Over the past year, AEGON The Netherlands has succeeded in establishing itself as the largest insurer providing Levensloop products.

In 2006, new legislation was introduced that reduced state sickness benefits and further extended company obligations toward employees who become sick and are unable to work. Under the legislation, companies in the Netherlands must assume greater responsibility for meeting the costs of an employee's illness and take steps to enable employees to return as quickly as possible to the workforce. Such legislation can prove costly, especially for small and medium-sized companies. AEGON The Netherlands therefore introduced a new product providing additional disability coverage. This product was extremely successful and generated sales in 2006 of approximately EUR 39 million.

Pensions and individual life insurance continue to be our core products. In 2006, AEGON The Netherlands' corporate and institutional sales force, and its TKP Pensioen unit, posted improved sales. AEGON is now the second largest pensions provider in the Dutch market with 24 percent of the market in 2005, and continues to make progress in its ambition to become the market leader.

As the post-war 'baby boomer' generation heads into retirement, an increasingly large pool of assets is entering the life insurance market in the Netherlands and elsewhere. In such circumstances, it is incumbent on companies like AEGON to help individuals identify the most suitable products and services for their long-term retirement needs. Over the years, AEGON The Netherlands has established a successful track record in doing this. In particular, the company saw a 40 percent increase in 2006 in its sales of immediate annuity products and is well positioned for further growth in the years ahead.

In 2006, AEGON The Netherlands decided to strengthen its position in the highly competitive Dutch mortgage market. The company redesigned its leading products and, thanks to its solid financial base, was able to offer borrowers competitive long-term interest rates. These measures enabled AEGON The Netherlands to triple its share of the market, as homebuyers took advantage of historically favorable interest rates available during the year.

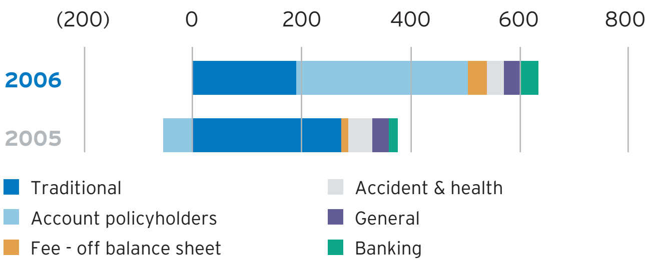
AEGON The Netherlands also strengthened its distribution network in 2006, with the acquisition of Unirobe, a company that mainly provides independent financial advice to large companies. Together with Meeùs, AEGON is now the largest distribution company in the Netherlands. AEGON The Netherlands also continued its extensive education program for smaller, independent insurance agencies, in order to develop their capacity to provide effective and successful financial advice. AEGON The Netherlands believes that the advisory business will remain a critical one in the market.

With its tax and legal advice unit, Adfis, AEGON The Netherlands is a noted center of knowledge and expertise for the pensions industry. In April 2006 a group of Dutch parliamentarians visited AEGON's head office in The Hague to discuss the impact of recent legislation on the pensions market in the Netherlands.

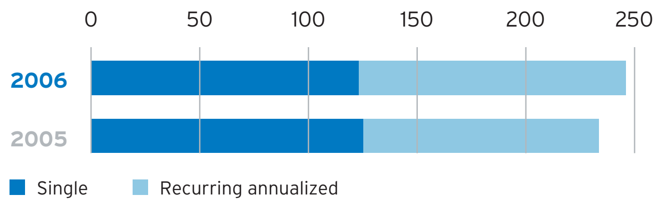
The Dutch pensions and insurance market is a mature one. It is becoming ever more competitive. Despite that, AEGON The Netherlands believes it is well positioned to become the leading, recognizable, quality brand in the market. For that reason, the company invested heavily in 2006 to expand its general staff and its sales teams, as well as improve its administration systems. At the same time, AEGON The Netherlands took action to lower its operating costs, enhancing the company's ability to provide high quality, competitive pensions and insurance products.

AEGON The Netherlands believes the Dutch market will continue to grow in the coming years. However, only companies that are able to offer the highest quality and tailored, integrated solutions and services will be able to maximize the opportunities. We believe AEGON The Netherlands is well positioned for further growth in 2007 and beyond.

OPERATING EARNINGS BEFORE TAX
Amounts in EUR million



STANDARDIZED NEW PREMIUM PRODUCTION
Amounts in EUR million



AEGON THE NETHERLANDS

Amounts in EUR million	2006	2005	%
Income by product segment			
Traditional life	189	270	(30)
Life for account of policyholders	315	(53)	
Fee – off balance sheet products	35	15	133
Accident and health insurance	34	45	(24)
General insurance	26	30	(13)
Banking activities	35	15	133
Operating earnings before tax	**634**	**322**	**97**
Gains/(losses) on investments	413	985	(58)
Impairment charges	(12)	(25)	52
Share in profit/(loss) of associates	7	4	75
Income before tax	**1,042**	**1,286**	**(19)**
Income tax	(2)	(272)	(99)
NET INCOME	**1,040**	**1,014**	**3**

AEGON
The Netherlands

CONTINUATION

OPERATING EARNINGS BEFORE TAX

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

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

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

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

TRADITIONAL LIFE

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

LIFE FOR ACCOUNT OF POLICYHOLDERS

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

FEE - OFF BALANCE SHEET PRODUCTS

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

ACCIDENT AND HEALTH

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

GENERAL INSURANCE

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

BANKING ACTIVITIES

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

LONG-TERM RETURN EXPECTATIONS FOR FAIR-VALUED ASSETS IN OPERATING EARNINGS

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

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

NET INCOME

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

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

REVENUES

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

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

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

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

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

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

AEGON
The Netherlands

CONTINUATION

COMMISSIONS AND EXPENSES

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

PRODUCTION

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

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

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

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

SERVICE CENTERS	SALES ORGANIZATIONS
▪ SC Pensions ▪ SC Life insurance ▪ SC Non-life insurance ▪ SC Banking ▪ SC Asset management	▪ Corporate & Institutional Clients ▪ AEGON Intermediary ▪ AEGON Spaarbeleg

GENERAL HISTORY

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

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

AEGON The Netherlands' primary operational subsidiaries are:

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

The business organization of AEGON The Netherlands is based on five service centers (SC's) and three sales organizations (SO's). The service centers are responsible for all 'back office' activities. The three sales organizations have been structured to serve different sales channels. Corporate & Institutional Clients (C&IC) focuses on large companies and institutional clients such as company pension funds and industry pension funds. AEGON Intermediary focuses on independent agents and AEGON Spaarbeleg works with tied agents as well as making direct sales.

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

PRODUCTS AND DISTRIBUTION

The product lines of AEGON The Netherlands are pensions, life insurance (including mortgages), non-life insurance, banking and asset management. Pension products are mainly sold through the sales organizations C&IC and AEGON Intermediary. Pension products are offered to company and industry pension funds, large companies, small and medium-sized enterprises and individuals. For the majority of the company/industry pensions funds and some large companies, AEGON The Netherlands provides full service pension solutions and also provides administration-only services via TKP Pensioen. The full service pension products for account of policyholders are separate account group contracts with or without guarantees. Profit sharing is based on the return of a pool of investments. The assets are owned by AEGON The Netherlands but earmarked to form the basis for profit sharing for these contracts. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premium tariffs are fixed over this period. Separate account guaranteed group contracts provide a guarantee on the benefits paid. The longevity risk therefore lies with AEGON The Netherlands. Non-guaranteed separate account group contracts do provide little guarantee on the benefits. AEGON The Netherlands has the option not to renew a contract at the end of the contract period.

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

For small and medium-sized enterprises, AEGON The Netherlands provides pensions that are defined contribution products with single and recurring premiums.

AEGON
The Netherlands

CONTINUATION

Profit sharing is based on investment returns on specified funds. Premium tariffs are not fixed over the contract period. Minimum interest guarantees are given for nominal benefits, based on 0 percent or 3 percent actuarial interest (4 percent on policies sold before the end of 1999).

LIFE INSURANCE AND MORTGAGE SAVINGS PRODUCTS

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

UNIVERSAL LIFE PRODUCTS

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

MORTGAGE SAVINGS PRODUCTS

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

TERM LIFE AND FUNERAL INSURANCE PRODUCTS

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

NON-LIFE PRODUCTS

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

BANKING

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

ASSET MANAGEMENT

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

OTHER ACTIVITIES

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

REINSURANCE CEDED

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

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

LIFE

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

NON-LIFE

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

UNITED KINGDOM

Otto Thoresen

CEO
AEGON UK

" AEGON UKbrought new propositions to the market designed to meet the changing demands of its customers."

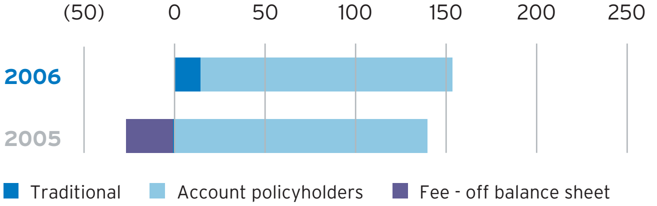
Last year was a highly successful one for AEGON in the United Kingdom. Our business performance was stronger than ever. At the same time, we put in place strategic initiatives that will help us deliver our future growth objectives.

New business volumes in our corporate and individual life and pensions businesses reached higher levels than ever before, while our value of new business increased significantly, highlighting the profitable nature of our growth. New legislation simplifying rules on pensions came into effect in April 2006. These changes, collectively referred to as 'Pension A-Day', prompted many people and businesses to restructure their existing pension arrangements, leading to a high level of activity across the market. AEGON UK benefited from the impact of 'Pension A-Day' as a net winner in terms of new business. Our advisory units, Origen and Positive Solutions, also saw increased business as a result. Both continued to make good progress, with Positive Solutions posting particularly strong results. Asset Management also saw impressive increased new business in the retail funds market, driven by our fixed income team's continued high level of performance.

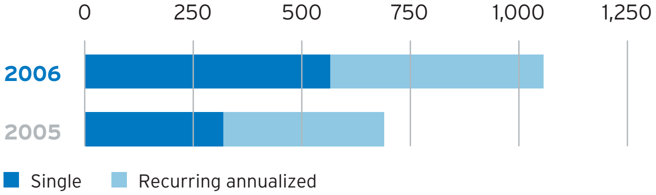
We have been delighted with the progress we have made toward realizing our medium-term plans. We have moved to underline our global strength by giving the AEGON name a higher profile and repositioning the established Scottish Equitable brand as AEGON Scottish Equitable. This has been well received by our target markets of intermediary distributors and corporate customers.

We have also put in place a number of strategic initiatives, which will further strengthen the company's position as we look to the future. The customer focus we have developed since we formed our Individual and Corporate businesses in late 2005 is already having a positive impact in the market. Last year also saw AEGON UK bring new propositions to the market designed to meet the changing demands of its corporate and individual customers as people live longer and need to fund longer retirements.

OPERATING EARNINGS BEFORE TAX
Amounts in GBP million

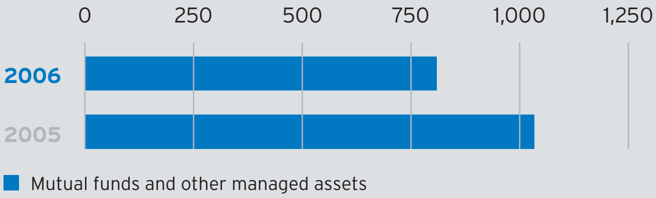


STANDARDIZED NEW PREMIUM PRODUCTION
Amounts in GBP million



OFF BALANCE SHEET PRODUCTION

Amounts in GBP million



Building on its established position in the crucial 'at retirement' market, AEGON UK is using its financial strength and global position to offer new solutions to its UK customers. Our recent move into the individual annuity market gathered momentum over the year and we have already attained a strong position in that market well ahead of our original schedule. In September, the launch of the '5 for Life' product in the United Kingdom, based on what is an already successful product in the United States, made AEGON UK the first operator to bring the variable annuity, living benefit concept to the UK market. On the corporate side, our bulk annuity proposition launched in November offered new flexibility to small and medium sized businesses.

We believe AEGON UK is well positioned to build on the considerable advances made in 2006 and achieve further success in 2007.

AEGON UK	2006 in million GBP	2005 in million GBP	%	2006 in million EUR	2005 in million EUR	%
Income by product segment						
Traditional life	14	(1)		21	(1)	
Life for account of policyholders	139	139	0	204	203	0
Fee – off balance sheet products	0	(27)		0	(40)	
Operating earnings before tax	**153**	**111**	**38**	**225**	**162**	**39**
Gains/(losses) on investments	11	6	83	16	9	78
Impairment charges	(1)	(2)	50	(1)	(3)	67
Other non-operating income/(charges)[1]	61	71	(14)	90	104	(13)
Share in profit/(loss) of associates	1	0		1	0	
Income before tax	**225**	**186**	**21**	**331**	**272**	**22**
Income tax attributable to policyholder return	(51)	(71)	(28)	(75)	(104)	(28)
Income before income tax on shareholders return	**174**	**115**	**51**	**256**	**168**	**52**
Income tax on shareholders return	(16)	(17)	(6)	(24)	(24)	0
NET INCOME	**158**	**98**	**61**	**232**	**144**	**61**

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

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

AEGON UK

CONTINUATION

OPERATING EARNINGS BEFORE TAX

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

TRADITIONAL LIFE

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

LIFE FOR ACCOUNT OF POLICYHOLDERS

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

FEE - OFF BALANCE SHEET PRODUCTS

In AEGON's owned-distribution businesses in the UK, Positive Solutions' income increased in 2006, driven by higher adviser productivity. Operating earnings before tax from the fee – off balance sheet products amounted to nil, compared to a negative contribution of GBP 27 million in 2005. Excluding the charges of GBP 14 million for the incentive plan related to Positive Solutions in 2006 and GBP 34 million in 2005, earnings of the fee businesses increased from GBP 7 million in 2005 to GBP 14 million in 2006.

NET INCOME

Net income, which includes net gains/losses on investments and impairment charges, increased to GBP 158 million from GBP 98 million in 2005. Other non-operating income includes a gain of GBP 11 million in the first quarter of 2006 related to the sale of the Luxembourg-based subsidiary Scottish Equitable International to La Mondiale Participations. In the consolidated earnings for the AEGON Group, 35 percent of this gain has been eliminated to reflect AEGON's 35 percent share in La Mondiale Participations. The effective tax rate in 2006 decreased from 15 percent to 9 percent. This primarily reflects the tax-exempt disposal of the Luxembourg subsidiary and the mix of earnings.

REVENUES

Revenues of GBP 8,106 million were up 57 percent from 2005. In comparison to 2005, life general account premiums increased by 94 percent to GBP 1,085 million reflecting continued strong growth in immediate annuity production and the maturing of the individual protection business. Life policyholders for account of premiums increased by 75 percent reflecting higher pension production primarily reflecting 'Pension A-Day' activity. Investment income increased by 11 percent compared to 2005 reflecting the increase in investments from the growth in business. Fees and commission income in 2006 increased by GBP 36 million due to strong growth in Positive Solutions and commission income on onshore and offshore bonds.

COMMISSIONS AND EXPENSES

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

PRODUCTION

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

OPERATING SUBSIDIARIES OF AEGON UK

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

PRINCIPAL OFFICES OF AEGON UK

- Edinburgh (Scotland)
- London (England)
- Lytham (England)
- Dublin (Ireland)

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

GENERAL HISTORY

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

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

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.

FOUR DISTINCT BUSINESSES

AEGON INDIVIDUAL

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

AEGON CORPORATE

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

AEGON ASSET MANAGEMENT

Investment management operations.

AEGON UK DISTRIBUTION

Intermediary distribution and advice businesses.

PENSIONS

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

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

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

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

INDIVIDUAL PENSIONS

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

For the high-net-worth market AEGON Individual Pensions offers a SIPP that allows the policyholder to invest in a wide range of investments, including insured funds, a fund supermarket and property.

AEGON UK

CONTINUATION

This SIPP includes facilities for investing for retirement and the full range of post-retirement facilities (USP, ASP, phased retirement). It is also supported by a good range of technological support, including a risk profiling tool and on-line viewing facilities.

GROUP PENSIONS

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

INDIVIDUAL ANNUITIES

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

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

INVESTMENT PRODUCTS

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

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

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

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

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

INDIVIDUAL PROTECTION

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

GROUP RISK

AEGON Corporate offers a range of group risk products exclusively through financial advisors. These products are provided to employers who use them as part of their wider employee benefits and remuneration strategy.

Products in general are sold on a standard employer paid basis, however there is increasing interest in placing these products as part of the flexible benefit offering, allowing an element of employee choice over product selection as well as benefit levels.

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

BENEFIT SOLUTIONS

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

MUTUAL FUNDS

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

FINANCIAL ADVICE

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

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

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

REINSURANCE CEDED

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

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

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

OTHER COUNTRIES

Alexander R. Wynaendts

MEMBER
EXECUTIVE BOARD

"In nearly every market, the need for a broader range of protection and retirement products and services is significant."

In recent years, AEGON has made significant progress in expanding its global footprint beyond its traditional markets, to include developing countries throughout Asia, Central and Eastern Europe, as well as other European countries such as Spain and France.

During 2006, and in the first few months of 2007, we enhanced AEGON's position in Other countries, entering new markets that offer long-term growth opportunity for our core products and services. In nearly every market, the need for a broader range of protection and retirement products and services is significant. The progress achieved during 2006 strengthened AEGON's position as we claim a sizable share of new business that will emerge in the coming years.

CENTRAL AND EASTERN EUROPE

The economies of Central and Eastern European countries, in particular, continue to develop at a rapid pace and life insurance penetration levels are still relatively low. The governments in this region continue to shift pension responsibility to the private sector, creating a growing opportunity for providers, such as AEGON. It is for these reasons that AEGON has pursued expansion beyond its strong base in Hungary, to include Slovakia, the Czech Republic, Poland, and more recently Romania. During 2006, membership of AEGON Hungary's pension fund grew by a substantial 8 percent. Similarly, in Slovakia, more than 200,000 individuals have now joined AEGON's pension fund, begun in 2005. AEGON's acquisition of PTE Ergo Hestia in Poland in November 2006 and the partnership with Banca Transilvania in January 2007 to form a mandatory pension fund company in Romania further strengthened our pension position in the region.

SPAIN

Elsewhere in Europe, AEGON has continued to develop its presence in the important bank channel in Spain. The majority of life insurance products are distributed through banks in Spain. AEGON's two new joint ventures with Caja de Badajoz and Caja Navarra became operational mid-way through the year. Together with our strong partnership with Caja de Ahorros del Mediterráneo, AEGON's products are now sold in over 1,500 bank branches across the country. We will be looking to further expand AEGON's presence in Spain through savings banks in the months ahead.

AEGON PENSION NETWORK

During the year, we made further progress in strengthening the AEGON Pension Network, developed to provide local pensions solutions in an international framework for multi-national corporate clients and their employees. With the addition of Germany's HDI Pensionsmanagement, the AEGON Pension Network now covers Germany, France, the Netherlands, Luxembourg, Spain, Hungary, Slovakia, the Czech Republic, Poland, the United Kingdom, and the United States.

ASIA

AEGON strengthened its position in Asia during 2006 with new operations in the coastal province of Shandong in China and with the fulfillment of our intention to enter India through our new partnership with the Ranbaxy Promoter Group. India has long been identified as one of AEGON's target markets given its sizable population and rapidly developing economy, the relatively low penetration level of insurance in the country, and the continued strong growth rates projected for the insurance sector in coming years. AEGON's entry into Japan in early 2007 is also a notable accomplishment. We very much look forward to combining AEGON's product expertise and skills with the highly-respected brand and distribution strength of Sony Life given the importance and growth potential of the Japanese market in the coming years.

Finally, in Taiwan our efforts to transition from traditional whole and term life products to higher margin unit-linked insurance products is proving successful. While sales have been lower during this transitional phase, the profitability of sales continues to be considerably higher.

Approximately 50 percent of new sales in 2006 came from unit-linked products and we expect this to increase in the coming years.

VALUE OF NEW BUSINESS

The new target of doubling AEGON's value of new business by 2010 reflects our confidence that a larger portion of new business will come from Europe. Continued strong growth in Central and Eastern Europe and a very substantial increase in VNB from AEGON's operations in Other European countries such as France and Spain will be the drivers behind this. Based on current business plans, it is estimated that between 25 to 30 percent of AEGON's total VNB will come from our Other countries in 2010. However, given the continued potential presented by the pension opportunity in the Central and Eastern Europe region, our plans to establish more joint ventures in Spain, and AEGON's pipeline for new business in other parts of Europe and Asia, it is our view that the Other country VNB contribution could approximate as much as 30 to 35 percent of the AEGON's total.

CONCLUSION

We have been pleased by the progress made to expand AEGON's presence internationally, an important growth initiative formally identified by the Executive Board in 2006, along with the opportunity for pensions and distribution through banks globally. Going forward, we will continue to identify opportunities in emerging markets that offer growth potential consistent with AEGON's requirements of long-term profitability and the creation of shareholder value.

OTHER COUNTRIES

Amounts in EUR million
(includes AEGON Hungary, AEGON Czech Republic,
AEGON Poland, AEGON Slovakia, AEGON Spain, AEGON Taiwan and AEGON-CNOOC)

	2006	2005	%
Income by product segment			
Traditional life	10	13	(23)
Life for account of policyholders	8	6	33
Fixed annuities	(1)	0	
Variable annuities	1	0	
Fee – off balance sheet products	(14)	4	
Accident and health insurance	4	2	100
General insurance	29	25	16
Other	0	(6)	
Operating earnings before tax	**37**	**44**	**(16)**
Gains/(losses) on investments	20	12	67
Other non-operating income/(charges)	0	176	
Share in profit/(loss) of associates	24	16	50
Income before tax	**81**	**248**	**(67)**
Income tax	(45)	(37)	22
NET INCOME	**36**	**211**	**(83)**

Other countries

CONTINUATION

OPERATING EARNINGS BEFORE TAX

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

TRADITIONAL LIFE

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

LIFE FOR ACCOUNT OF POLICYHOLDERS

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

FEE - OFF BALANCE SHEET PRODUCTS

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

ACCIDENT AND HEALTH INSURANCE

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

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

NET INCOME

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

REVENUES

Total revenues increased by 36 percent to EUR 2.2 billion and primarily reflects the full year of revenues from AEGON Poland, the inclusion of the joint ventures with Caja de Badajoz and Caja Navarra and growth in the other markets. AEGON Poland's revenues increased from EUR 88 million in 2005 (only fourth quarter) to EUR 485 million in 2006.

COMMISSIONS AND EXPENSES

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

PRODUCTION

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

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

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

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

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

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

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

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.

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

Other countries

Central and Eastern Europe

AEGON CEE'S PRIMARY OPERATIONAL UNITS

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

GENERAL HISTORY AEGON CEE

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

AEGON CEE is involved in both the life and non-life insurance businesses and provides a range of financial, pension fund and asset management services.

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

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

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

PRODUCTS AND DISTRIBUTION

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

PENSION PRODUCTS

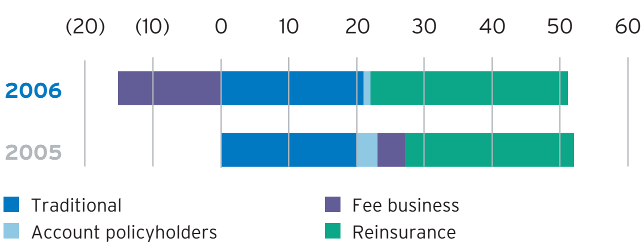
Pension insurance is a core business product of AEGON Hungary and AEGON Slovakia. Pension fund administration services are also offered. The mandatory pension funds in Hungary and Slovakia, and the voluntary pension fund of AEGON Hungary, are among the largest in their countries in terms of the number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

TRADITIONAL GENERAL ACCOUNT PRODUCTS

Traditional general account products are marginal in all countries apart from Hungary. These products include individual life policies that were issued before AEGON Hungary was privatized and became part of AEGON. Traditional general account products also include indexed life products that are not unit-linked but have guaranteed interest. AEGON Hungary no longer offers these products. In addition, traditional general account products include group life products and the preferred life product.

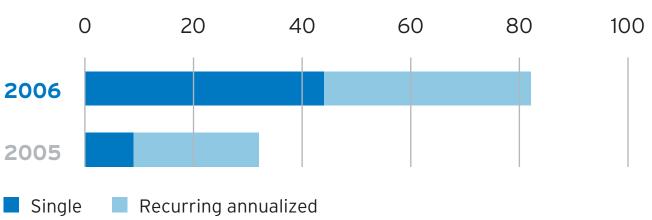
OPERATING EARNINGS BEFORE TAX

CEE, amounts in EUR million



STANDARDIZED NEW PREMIUM PRODUCTION

CEE, amounts in EUR million



Group life products are yearly renewable term products with optional accident and health coverage. Savings products for employee benefit programs are mainly traditional products with interest guarantee.

In 2005, AEGON Hungary was the first to launch a preferred life product in the CEE region. This product is a term insurance with different competitive premium rates for four pre-determined risk categories.

UNIT-LINKED PRODUCTS

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

MORTGAGE LOANS

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

ASSET MANAGEMENT

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

DISTRIBUTION CHANNELS

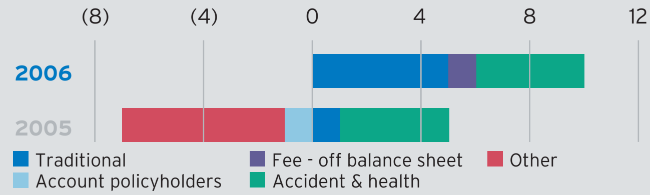
AEGON CEE's main distribution channels are tied network, brokers and, especially in Poland, banks. Through the tied network, brokers and call centers, AEGON CEE sells life, pension, and non-life products. Through banks, it sells life products and, through the loan centers, mortgages.

REINSURANCE CEDED

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

Spain

OPERATING EARNINGS BEFORE TAX
Spain, amounts in EUR million



GENERAL HISTORY

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

AEGON first entered the Spanish market in 1980 by acquiring Seguros Galicia. This was followed by the acquisition of Union Levantina in 1987, Union Previsora in 1988, Labor Medica in 1996, La Sanitaria in 1997, Caja de Prevision y Socorro in 1997, and Covadonga at the end of 1999. In 2004, AEGON Spain set up a strategic partnership with Caja de Ahorros del Mediterráneo (CAM). This partnership combines CAM's significant customer reach through its banking network with AEGON's expertise in life insurance and pensions. In July 2005, AEGON Spain entered into a strategic partnership agreement with Caja de Badajoz (CB) aimed at setting up a new insurance company to sell AEGON Spain's life insurance, accident and pension products through the CB network. AEGON Spain provides back office services for this joint venture company. In May 2006, the new company, Caja de Badajoz Vida y Pensiones, started operations, having obtained regulatory approval. In November 2005, AEGON Spain signed a strategic partnership agreement with the Spanish savings bank Caja de Ahorros de Navarra (CN), under which AEGON acquired a 50 percent stake in CN's life insurance and pensions subsidiary, Seguros Navarra S.A. The acquisition of 50 percent of Seguros Navarra S.A. took place in two tranches. In the fourth quarter of 2005, 15 percent was acquired, followed by another 35 percent in the first quarter of 2006. AEGON Spain will continue to expand its life insurance business by strengthening its own agent distribution capabilities, by enhancing its existing bancassurance partnerships with CAM, CB and CN as well as pursuing new distribution opportunities.

PRODUCTS AND DISTRIBUTION

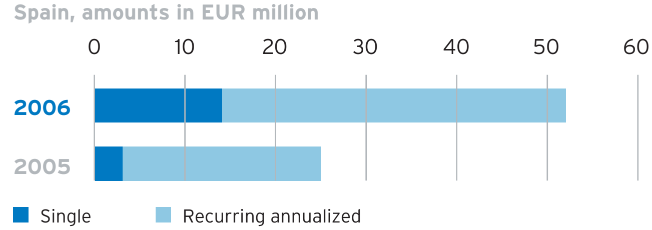
Over the past several years, AEGON Spain has focused on its life insurance business for portfolio growth. By marketing unit-linked variable life products through multiple distribution channels significant inroads have been made into a market traditionally dominated by banks. AEGON Spain focuses on the individual consumer segment. AEGON Spain's principal lines of business are traditional life and unit-linked insurance products. These products are distributed on the one hand through the agency channel, using a network of agents and brokers and on the other hand, in the case of joint ventures with the before mentioned saving banks, through their networks. Individual life products are sold by specialized agents and brokers in urban centers and by the saving banks branch networks both in urban centers and rural areas. Group life products are distributed through banks and financial institutions as well as through brokers and specialized agents.

REINSURANCE CEDED

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

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

STANDARDIZED NEW PREMIUM PRODUCTION
Spain, amounts in EUR million



Asia

TAIWAN, CHINA

AEGON TAIWAN

GENERAL HISTORY

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

PRODUCTS AND DISTRIBUTION

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

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

REINSURANCE CEDED

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

AEGON-CNOOC

GENERAL HISTORY

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

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

PRODUCTS AND DISTRIBUTION

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

The agency channel portfolio consists primarily of universal life and traditional life products, including level whole life, coupon whole life, endowment life, term life as well as short-term accident and long-term health products. The most important product for the bank channel is a single premium whole-life universal life product.

Asia

TAIWAN, CHINA

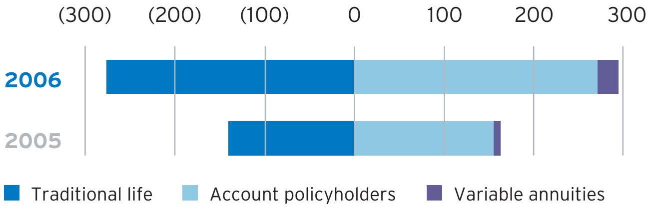
Regular premium products, such as Juvenile Endowment, also became a major source of business through the bank channel. The major product for the telemarketing channel is a yearly-renewable personal accident product. The primary products sold through the brokerage channel are universal life and traditional life products as well as short-term accident and long-term health products.

REINSURANCE CEDED

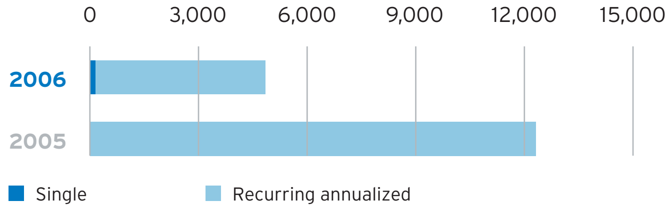
According to the CIRC regulations, AEGON-CNOOC cedes a quota share of accident and health business to the China Reinsurance Company. The quota share for the business written in 2003, 2004 and 2005 was 15 percent, 10 percent and 5 percent respectively and decreased to 0 percent for the business written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

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

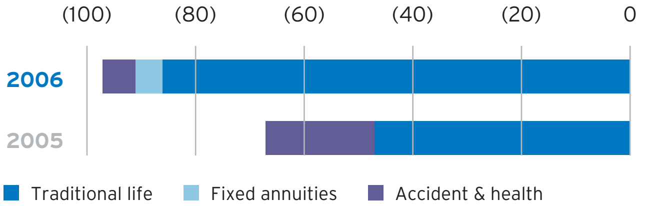
OPERATING EARNINGS BEFORE TAX
Taiwan, amounts in NTD million



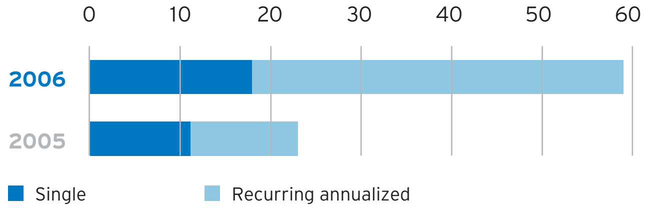
STANDARDIZED NEW PREMIUM PRODUCTION
Taiwan, amounts in NTD million



OPERATING EARNINGS BEFORE TAX
China, amounts in CNY million



STANDARDIZED NEW PREMIUM PRODUCTION
China, amounts in CNY million



PRODUCT LINE OVERVIEW

AEGON COMPANIES AROUND THE WORLD OFFER PRODUCTS TAILORED TO THE SPECIFIC NEEDS OF LOCAL CUSTOMERS

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. More details on the specific products sold in each country unit are given in the country sections of this Report of the Executive Board and in the financial statements information about products is also included.

EARNINGS CONTRIBUTION

Amounts in EUR million	2006	2005
Traditional life	790	823
Life for account of policyholders	614	243
Fixed annuities	433	425
Variable annuities	261	130
Institutional guaranteed products	275	280
Fee – off balance sheet products	75	33
Reinsurance	163	105
Accident and health insurance	369	324
General insurance	55	55
Banking	35	15
Other	0	(6)
Interest charges and other	(242)	(280)
OPERATING EARNINGS BEFORE TAX	**2,828**	**2,147**

	United States	Canada	Netherlands	United Kingdom	Hungary	Czech Republic	Poland	Slovakia	Spain	Taiwan	China
GENERAL ACCOUNT											
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

RISK AND CAPITAL MANAGEMENT

RISK MANAGEMENT FUNCTIONS ARE APPLIED LOCALLY, WHILE CORPORATE OVERSIGHT REMAINS INDEPENDENT FROM THE BUSINESS TO PROVIDE OVERSIGHT AND PEER REVIEW

GENERAL

A description of AEGON's risk management and control systems is given on the basis of significant identified 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 AEGON's risk position. In addition, this integrated framework facilitates the sharing of best practices and the latest research on methodologies. The risk management functions are applied locally and are tied to the speed of business, while corporate oversight remains independent from the business activity to provide oversight and peer review.

AEGON ACTIVELY MANAGES ITS CREDIT RISK EXPOSURE BY INDIVIDUAL COUNTERPARTY, SECTOR AND ASSET CLASS

To manage its risk exposure, AEGON employs risk management programs including asset liability management (ALM) processes and models, hedging programs (which are largely conducted via the use of derivatives) and insurance programs (which are largely conducted through the use of reinsurance). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but also for the Group. Derivative and reinsurance usage by the company are governed by derivative and reinsurance usage policies. These policies establish the control, authorization, execution and monitoring requirements of the usage of such instruments. In addition, these policies stipulate necessary mitigation of credit risk created through these derivatives and reinsurance risk management tools. For derivatives, credit risk is often mitigated by requirements to post collateral via credit support annex agreements. For reinsurance, credit risk is often mitigated through funds withheld by treaties (when AEGON owns the assets) or through assets held in trust for the benefit of AEGON (in the event of reinsurer insolvency).

As part of these risk management programs, AEGON takes inventory of its current risk position across risk categories. 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 AEGON's risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated as necessary.

Results of AEGON's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios. These sensitivity analyses are presented according to IFRS. These scenario results do not consider the actions that might be taken to mitigate losses inherent in 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 AEGON's equity holdings are invested in an internationally diversified portfolio, rather than solely in Dutch equities. Equity held in subsidiaries is kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and self-imposed capital requirements.

Therefore, currency exchange rate fluctuations may affect the level of shareholders' equity as a result of translation into euro. 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 AEGON's country units. This balancing mitigates currency translation impacts on equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles.

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 United States and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. AEGON may experience significant changes in net income and shareholders' equity because of these fluctuations.

AEGON's 3-year historical income before tax and capital in units on an IFRS basis are shown in table 1.

Table 1

Income before tax	2004	2005	2006
AEGON Americas (USD million)	2,112	2,717	2,689
AEGON The Netherlands (EUR million)	1,097	1,286	1,042
United Kingdom (GBP million)	150	186	225
Other countries (EUR million)	135	248	81
Capital in country units			
AEGON Americas (USD million)	18,215	19,149	19,796
AEGON The Netherlands (EUR million)	4,038	5,011	4,769
United Kingdom (GBP million)	2,004	2,124	2,285
Other countries (EUR million)	1,002	1,155	1,335

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

Table 2

Closing rates	2002	2003	2004	2005	2006
USD	1.05	1.26	1.36	1.18	1.32
GBP	0.65	0.70	0.71	0.69	0.67

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 a complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

Table 3

Sensitivity analysis of net income and shareholders' equity to currency exchange rate markets [1, 2]

Movement of markets	Estimated effects on net income	Estimated effects on shareholders' equity
Increase by 15% of non-euro currencies relative to the euro	increases between 11% and 12%	increases between12% and 13%
Decrease by 15% of non-euro currencies relative to the euro	decreases between 11% and 12%	decreases between 12% and 13%

[1] Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All percentage changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.
[2] The effect of currency exchange rate movements is reflected as a one-time shift up or down in the value of the non-euro currencies relative to the euro on December 31, 2006.

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 being equal. Therefore, rising interest rates are not considered a long-term risk to the company.

The general account fixed income portfolios of AEGON Americas and AEGON The Netherlands accounted for 93 percent of the total general account fixed income portfolio of AEGON on December 31, 2006. AEGON USA and AEGON The Netherlands manage – within limits – their duration mismatch on the basis of their expectations for the future level of interest rates. Presently, other AEGON country units target the duration of their assets to equal approximately the duration of their liabilities where possible. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at the group level.

For AEGON USA's business, the average duration of assets is approximately 3.8 years. This relatively low duration, as compared to the long-term nature of most of AEGON USA's businesses, is driven by the asset and liability management process applied to the institutional markets business in the United States (GICs and funding agreements). Both the assets and the liabilities for this business are managed on a floating rate basis, with extensive use of interest rate swaps. As a result, the asset duration is short for this business. In the Netherlands, the average duration of assets is approximately 6.9 years. AEGON The Netherlands actively uses derivatives to manage its interest rate risk. During 2006, AEGON The Netherlands significantly increased its derivative positions to reduce the interest rate mismatch with its liabilities. The combined effective duration mismatch of AEGON USA and AEGON The Netherlands was minus 0.1 years on December 31, 2006. This duration mismatch is an indication of the degree of interest rate risk on a fair value basis. As cash flows emerge and interest rates change, the actual impact from interest rate exposure could be higher or lower than what this static duration measure implies.

Table 4 shows the year-end interest rates for the period from 2002 through 2006.

Table 4

Interest rates	2002	2003	2004	2005	2006
3 month US LIBOR	1.38%	1.15%	2.56%	4.54%	5.36%
3 month EURIBOR	2.87%	2.12%	2.16%	2.49%	3.73%
10-year US Treasury	3.82%	4.25%	4.22%	4.39%	4.70%
10-year Dutch Government	4.24%	4.29%	3.68%	3.29%	3.97%

Table 5

Sensitivity analysis of net income and shareholders' equity to interest rates [1, 2]

Amounts in EUR million

Parallel movement of yield curve	Estimated effects on net income	Estimated effects on shareholders' equity
Shift up 100 basis points	(1,345)	(2,277)
Shift up 200 basis points	(2,524)	(4,277)
Shift down 100 basis points	1,635	2,398
Shift down 200 basis points	3,559	4,947

[1] Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

[2] Interest rate movements are applied as a one-time parallel shift either up or down of all relevant yield curves on December 31, 2006.

The sensitivity analysis in table 5 on page 58 shows an estimate of the effect 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 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 AEGON's assets are currently shorter in duration than AEGON's liabilities and as a result of minimum guarantees present in some products. Similarly when interest rates rise, the company is currently better off since AEGON's assets are currently shorter in duration than AEGON's 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 2006, a reversion to excessive defaults, or other reductions in the value of these securities and loans, could have a material adverse effect on AEGON's business, results of operations and financial condition.

COUNTRY UNITS APPLY SPECIFIC GUIDELINES FOR ACCEPTABLE LEVELS OF CREDIT RISK

AEGON actively manages its credit risk exposure by individual counterparty, sector and asset class. AEGON 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.

Table 6

General account investments and reinsurance assets

Amounts in EUR million **Rating category**	Americas	The Netherlands	United Kingdom	Other countries	**Total[1] 2006**	Total 2005
AAA	17,022	1,464	160	273	18,923	18,598
AA	8,424	921	887	502	10,734	9,241
A	19,088	1,849	2,478	946	24,361	29,327
BBB	16,630	633	680	83	18,025	20,101
BB	1,836	155	-	11	2,003	2,244
B	1,522	161	5	2	1,691	1,609
CCC or lower	318	17	-	-	335	341
Sovereign exposure	6,035	9,611	359	2,220	18,242	20,501
Assets not rated	30,213	13,391	262	295	44,462	47,349
TOTAL	**101,088**	**28,202**	**4,831**	**4,332**	**138,776**	**149,311**

[1] Includes investments of holding and other activities.

For the resulting net credit risk exposure, AEGON employs deterministic and stochastic credit risk modeling in order to assess its 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 59 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 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 table 7.

Table 7

AEGON group-wide counterparty exposure limits [1]

Amounts in EUR million **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. General economic conditions, as well as significant events – like terrorist actions – have led to and may again result in significant decreases in the value of 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.

Table 8

Equity, real estate and non-fixed income exposure in general account assets

Amounts in million	AEGON Americas (in USD)	AEGON The Netherlands (in EUR)	AEGON UK (in GBP)	Other countries (in EUR)	Holdings and eliminations (in EUR)	**Total 2006 (in EUR)**
Equity funds	1,267	1,925	-	77	-	2,964
Common shares [1]	1,521	3,350	49	12	(20)	4,571
Preferred shares	393	176	-	-	-	474
Investments in real estate [1]	1,399	1,967	-	37	14	3,080
Hedge funds	1,990	-	-	16	-	1,527
Credit investment strategies	240	-	-	-	-	182
TOTAL EQUITY, REAL ESTATE AND NON-FIXED INCOME EXPOSURE	**6,810**	**7,418**	**49**	**142**	**(6)**	**12,798**

[1] Of AEGON The Netherlands common shares EUR 485 million are invested in a property company and are therefore internally viewed as real estate exposure. For the purpose of sensitivities, this exposure is included in the real estate section.

AEGON is also at risk if returns are not sufficient to allow amortization of DPAC and VOBA. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC and VOBA and to establish additional provisions for minimum guaranteed benefits, which would reduce net income and shareholders' equity. Volatile or poor market conditions may also significantly reduce the popularity of some of AEGON's savings and investment products, which could lead to lower sales and lower net income. AEGON's general account equity and certain other investment holdings are shown in table 8 on page 60.

The general account equity, real estate and other non-fixed income portfolio of AEGON USA and AEGON The Netherlands accounted for 92 percent of the total general account equity, real estate and other non-fixed income portfolio of AEGON. 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 percent equity holdings in Dutch companies, which include non-redeemable preferred shares.

Table 9 shows the year-end closing levels of certain major indices.

Table 9

Year-end	**2002**	**2003**	**2004**	**2005**	**2006**
S&P 500	880	1,112	1,212	1,248	1,418
Nasdaq	1,336	2,003	2,175	2,205	2,415
FTSE 100	3,940	4,477	4,814	5,619	6,221
AEX	323	338	348	437	495

AEGON's shareholders' equity is directly exposed to, among other things, movements in the equity and real estate markets and to movements in interest rates. With the implementation of IFRS, income and shareholders' equity are expected to be more volatile and subject to increased sensitivity to movements in equity and real estate markets and to movements in interest rates. In addition, net income is sensitive to the fees earned on equity investments held for the account of policyholders as well as the amortization of DPAC and provisioning for minimum product guarantees.

The sensitivity analysis of net income and shareholders' equity to equity and real estate markets is presented in table 10.

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.

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.

Table 10

Sensitivity analysis of net income and shareholders' equity to equity and real estate markets [1, 2]

Amounts in EUR million **Immediate change in**	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Equity increase 10%	129	348
Equity decrease 10%	(183)	(392)
Equity decrease 20%	(453)	(837)
Real estate increase 10%	198	202
Real estate decrease 10%	(212)	(202)
Real estate decrease 20%	(423)	(404)

[1] Basic assumptions: no correlation between markets and risks, unchanged conditions for all other assets and liabilities and limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.

[2] The effect of movements in equity and real estate markets is reflected as a one-time increase or decrease of worldwide equity and real estate markets on December 31, 2006.

AEGON may not be able to manage the risks associated with these activities successfully through the use of derivatives. In addition, counterparty may fail to honor the terms of its derivatives contracts with us. AEGON's inability to manage risks successfully through derivatives or 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 to 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 or in a timely manner, or both. Illiquid assets amounted to EUR 35 billion or 25 percent of general account investments at the end of 2006 (EUR 39 billion, or 26 percent in 2005).

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 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 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 units also perform 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.

The sensitivity analysis of net income and shareholders' equity to various underwriting risks is shown in table 11.

Table 11

Sensitivity of net income and total equity to changes in various underwriting risks[1,2]

Amounts in EUR million **Parallel movement of yield curve**	Estimated approximate effect on net income/equity **2006**
20% increase in lapse rates	(44)
20% decrease in lapse rates	44
10% increase in mortality rates	(88)
10% decrease in mortality rates	88
10% increase in morbidity rates	(61)
10% decrease in morbidity rates	61

1 Basic assumptions: no correlation between markets and risks, unchanged conditions for all other assets and liabilities and limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.
2 The mortality/morbidity sensitivities assume that increases or decreases are for all products regardless of whether a product produces a gain or a loss on the direction of the change.

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 US Congress has, from time to time, considered possible legislation that would eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the US 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 similar 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 general economic conditions, such as levels of employment, consumer lending or inflation in the countries in which AEGON operates.

OTHER RISKS

RATINGS

A downgrade in AEGON's ratings may increase policy surrenders and withdrawals, adversely affect relationships with distributors and negatively affect its results.

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

AEGON IS SUBJECT TO COMPREHENSIVE REGULATION AND SUPERVISION

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 its ability to compete and thereby have a material adverse effect on AEGON's business, results of operations and financial condition.

The current S&P, Moody's and Fitch insurance financial strength ratings and ratings outlook of AEGON's primary life insurance companies in AEGON's major country units are shown in table 12.

Table 12

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

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

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, AEGON may not be able to rely on accurate information for product pricing, risk management 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, terrorism, riots, fires and explosions. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. 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 loss to AEGON's business. 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 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 AEGON conducts 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 (SOX) 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 SOX, 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 the subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities concerning common industry practices such as the disclosure of contingent commissions and the accounting treatment of finite reinsurance or other non-traditional insurance products. AEGON cannot predict at this time the effect this current trend towards litigation and investigation will have on the insurance industry or its 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 POLICIES

Since 2005, AEGON's financial statements have been prepared and presented in accordance with IFRS as adopted by the European Union. Any future change in these accounting principles may have a significant impact on 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 us. In addition, such a failure could impact future product sales as a potential result of 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 US courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Dutch courts. Therefore, AEGON's shareholders that obtain a judgment against AEGON in the United States may not be able to require the company to pay the amount of the judgment unless a competent court in the Netherlands gives binding effect to the judgment. It may, however, be possible for a US investor to bring an original action in a Dutch court to enforce liabilities against AEGON, its affiliates, directors, officers or any expert named therein who reside outside the United States, based upon the US federal securities laws.

IN CONTROL STATEMENT

THE GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE IS RESPONSIBLE FOR ENSURING THAT RISKS ARE WELL MANAGED AND MEASURED

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 exposure as well as making recommendations and overseeing remedial action where these 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 Supervisory Board.

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. Within this context the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) are applied.

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

- The risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies.
- The risk management and control systems have worked properly in 2006.
- There are no indications that the risk management and control systems will not work properly in 2007.

The risk management and control systems provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published financial statements; however, cannot provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

LIQUIDITY AND CAPITAL RESOURCES

AEGON'S FUNDING STRATEGY CONTINUES TO BE BASED ON ASSURING EXCELLENT ACCESS TO INTERNATIONAL CAPITAL MARKETS AT LOW COSTS

GENERAL

AEGON conducts its capital management processes at various levels in the organization. The main goal of AEGON's capital management is to manage the capital adequacy of its operating companies to high standards within leveraged 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 percent of the relevant local Standard & Poor's capital adequacy models or internally imposed requirements. During 2006, the capital adequacy of AEGON's operating units continued to be strong. All of AEGON's units were capitalized within these tolerances. In the United States, at December 31, 2006, AEGON held approximately 365 percent of the minimum capital required by the National Association of Insurance Commissioners.

CAPITAL BASE

AEGON applies leverage tolerances to its capital base. The capital base reflects the capital employed in core activities and consists of shareholders' equity, capital securities, and dated subordinated and senior debt. AEGON targets its capital base (excluding revaluation reserve) to comprise at least 70 percent shareholders' equity (excluding revaluation reserve), 25 percent capital securities and a maximum of 5 percent dated subordinated and senior debt.

At December 31, 2006, AEGON's capital base was within these prescribed tolerances: shareholders' equity capital represented 77 percent of its total capital base, while perpetual capital securities comprised 16 percent of its total capital base. Senior and dated subordinated debt accounted for the remaining 7 percent. The ratio of shareholders' equity to total capital (excluding revaluation reserve) improved, and capital leverage decreased, mainly due to a strong operating cashflow. In June 2006, AEGON N.V. successfully issued USD 500 million of junior perpetual securities, which was subsequently increased by USD 50 million in July 2006. Additionally, in July 2006, AEGON N.V. issued EUR 200 million of junior perpetual capital securities. This further improved the quality of the capital base and reduced refinancing risk.

SHAREHOLDERS' EQUITY

Shareholders' equity was EUR 19,137 million at December 31, 2006, compared to EUR 19,276 million at December 31, 2005. Net income of EUR 2,789 million was offset mainly by a decrease in the foreign currency translation reserve of EUR 1,325 million (largely due to a lower US dollar), a decrease in the revaluation reserve of EUR 645 million, dividend payments, and coupon payments on perpetual capital securities.

DEBT FUNDING AND LIQUIDITY

AEGON's funding strategy continues to be based on assuring excellent access to international capital markets at low costs. As part of this strategy, AEGON aims to offer institutionally targeted debt securities and to maintain excellent access to retail investors, as witnessed by the successful issuance of junior perpetual capital securities during recent years.

AEGON's focus on the fixed income investor base continues to be supported by an active investor relations program to keep investors well informed on AEGON's strategy and results. Most of AEGON's external debt is issued by the parent company, AEGON N.V., as well as a limited number of other AEGON companies whose securities are guaranteed by AEGON N.V. AEGON N.V. has employed its regular access to the capital markets through transactions issued under its USD 6 billion Euro Medium Term Notes Program. AEGON N.V. also has access to US markets through a separate US shelf registration. AEGON N.V.'s and AEGON Funding Corp.'s (guaranteed by AEGON N.V.) combined USD 4.5 billion Euro and US Commercial Paper Program facilitates access to domestic and international money markets, when required.

AEGON maintains back-up credit facilities to support outstanding amounts under its Commercial Paper Programs. The principal arrangement is a USD 5 billion syndicated facility maturing in 2011 and extendable until 2013, of which USD 3 billion acts as a back-up facility. At December 31, 2006, AEGON N.V. had EUR 2.0 billion outstanding under its Medium Term Notes Program and no amounts under its Commercial Paper Programs. In order to further optimize AEGON N.V.'s capital structure, Transamerica Corporation successfully redeemed USD 381 million outstanding trust pass-through securities in November and December 2006.

Operating leverage is not part of the capital base. At December 31, 2006, operating leverage was EUR 1.6 billion (2005: EUR 1.6 billion). Operating debt activities primarily relate to mortgage warehousing and the funding of US regulation XXX and Guideline AXXX redundant reserves.

Internal sources of liquidity include distributions from operating subsidiaries on the basis of excess capital or cash and cash equivalents. During 2006, internal distributions from units were sufficient to cover interest expense, other holding company expenses, and dividend payments. Internal distributions may be subject to (local) regulatory requirements. Each business unit further controls its liquidity by closely managing the liquidity of its investment portfolio. The duration profile of AEGON's capital leverage is managed in line with the duration of surplus assets related to investments in its subsidiaries, subject to liquidity needs, capital, and other requirements.

Of AEGON's total capital leverage at December 31, 2006, approximately EUR 0.6 billion matures within three years and EUR 5.0 billion is perpetual or matures after five years. AEGON considers its working capital, backed by the external funding programs and facilities, to be amply sufficient for the group's present requirements.

CORPORATE GOVERNANCE AND REMUNERATION

For detailed information about AEGON's corporate governance and compliance with the Dutch Corporate Governance Code, please refer to pages 85 to 92. The Remuneration Policy and Report can be found on pages 76 to 81.

The Hague, March 7, 2007
THE EXECUTIVE BOARD

Chapter four

GOVERNANCE AND COMPLIANCE

ULTIMATELY IT IS ABOUT TRANSPARENCY

REPORT OF THE SUPERVISORY BOARD

WE WISH TO EXPRESS OUR APPRECIATION TO THE EXECUTIVE BOARD AND ALL MEMBERS OF THE WORLDWIDE AEGON COMMUNITY

AEGON's Supervisory Board currently has nine non-executive members. The Supervisory Board's primary duty consists of supervising the Executive Board's management.

The Supervisory Board makes recommendations regarding appointments, reappointments and dismissals of Executive Board members when appropriate and it deliberates and decides on compensation levels for Executive Board members and reviews AEGON's business strategy. The Supervisory Board also makes recommendations to shareholders regarding the appointment, reappointment or dismissal 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 2006, with an attendance average of approximately 90 percent. Meetings were typically preceded or followed by meetings of its various committees or by exclusive meetings that did not include Executive Board members.

CORPORATE GOVERNANCE

Please refer to pages 82 to 92 for AEGON's full report on corporate governance and its compliance with the Dutch Corporate Governance Code. In 2006, the Supervisory Board again discussed the Dutch Corporate Governance Code and its implications for AEGON's corporate governance.

SUPERVISORY BOARD MEETINGS

In accordance with AEGON's Supervisory Board Rules, the regular meetings in 2006 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 March, May, June, August, November, and December. In December, the Supervisory Board reviewed its own composition and performance and those of the Executive Board, without Executive Board members present. The outcome of this review was subsequently discussed in March 2007.

The conversion to International Financial Reporting Standards (IFRS) was examined along with the process initiated by AEGON to ensure compliance with IFRS beginning with the 2005 financial year. The director Group Finance & Information attended the meetings during which the Supervisory Board discussed the annual results for 2005, the quarterly results and value of new business figures in 2006; the dividend policy and the interim and final dividends; and the press releases. Representatives from Ernst & Young, AEGON's independent auditor, attended the discussion regarding the annual results for 2005.

The Supervisory Board approved the Executive Board's proposal to discontinue the secondary listings of the AEGON N.V. shares in Frankfurt and Zurich as well as the abolition of bearer shares (K and CF certificates) and their replacement with registered shares, which can be traded in the Dutch giro-system. The latter required an amendment to the Articles of Incorporation and shareholders approved this amendment during the AGM on April 25, 2006.

The June 2006 Supervisory Board meeting was devoted to AEGON's corporate strategy and the risks of the business activities, and to the Group Management Overview and management development. This meeting was preceded and prepared by the Strategy Committee. It was hosted by AEGON Hungary and took place in Budapest. The occasion provided a good opportunity for AEGON's management in Central and Eastern Europe to exchange a broad range of information about AEGON in general and AEGON's activities in the Central and Eastern European region in particular. The Supervisory Board will pursue further opportunities to engage with AEGON's international senior management.

Recognizing the increasing importance of economic capital, capital management and effective risk management, the Audit Committee discussed these issues, reviewed the measures that AEGON has implemented, and reported on these to the Supervisory Board during its meeting in December. The Supervisory Board subsequently discussed the results of the Executive Board's assessment of the structure and operation of the internal risk management and control systems. During this December meeting, the budget for 2007, the budgeted Capital Plan for 2007 and the targets for the value of new business (VNB) until 2010 were also discussed. The Supervisory Board followed the recommendation of the Audit Committee to approve the budget and the budgeted Capital Plan for 2007 and to authorize the Executive Board to fill AEGON's funding needs as budgeted for 2007. In March 2007, the Supervisory Board approved an increase of this autorization. The Supervisory Board also approved a long-term incentive plan for AEGON staff worldwide to be implemented in 2007, by which stock option rights will be granted to AEGON staff worldwide in March 2007. The Supervisory Board also approved the hedging of these stock option rights.

The Supervisory Board discussed AEGON's embedded value (EV) and value of new business (VNB), as previously discussed by the Audit Committee. The Supervisory Board supported the disclosure of AEGON's 2005 embedded value and value of new business report, in May 2006. The Supervisory Board also discussed and supported the decision of the Executive Board to disclose AEGON's VNB on a quarterly basis, beginning in 2006. The Supervisory Board subsequently discussed and supported each quarterly disclosure of AEGON's VNB in 2006.

TOGETHER WITH THE EXECUTIVE BOARD, THE SUPERVISORY BOARD REGULARLY REVIEWS AEGON'S BUSINESS STRATEGY

Attention was also paid to partnerships and acquisitions during 2006. The Supervisory Board discussed and approved the partnerships with Seguros Argos in Mexico; with the Ranbaxy Promoter Group (Religare) in India and with Banca Transilvania in Romania; the acquisitions of the pension fund management company PTE Ergo Hestia S.A. in Poland and Clark, Inc. in the USA, as well as the acquisition of the remaining 55 percent stake in Unirobe in the Netherlands. The Supervisory Board also revised its internal control procedure for acquisitions, divestitures and joint ventures, which will be reflected in the Executive Board Charter.

The Supervisory Board paid special attention to compliance in general, which included equity-linked insurance policies in the Netherlands, as well as regulatory and other legal issues in Europe, the USA and Asia. The Supervisory Board was also kept up to date with developments regarding E-learning and the Code of Conduct. In accordance with the Sarbanes-Oxley Act (SOX), the Supervisory Board further followed the advice of the Audit Committee, in accordance with the Sarbanes-Oxley Act (SOX) to adopt the Pre-approval Policy for 2006 that relates to the services of AEGON's independent auditor, Ernst & Young.

In accordance with the Dutch Corporate Governance Code, the Supervisory Board held an educational meeting in December. During this meeting AEGON's Group Treasurer, Chief Risk Officer and Group Actuarial Officer gave presentations on AEGON's capital management, economic framework (including economic capital) and embedded value, which were followed by discussion. The Supervisory Board regarded this opportunity as very valuable.

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 Supervisory Board. In accordance with its Charter, each Committee reports its findings to the Supervisory Board during a subsequent Supervisory Board meeting.

AUDIT COMMITTEE

The Audit Committee held seven regular meetings during 2006, which also were attended by the CFO and, if required or appropriate, other members of the Executive Board, the director of Group Finance & Information, and representatives of Ernst & Young, AEGON's independent auditor. The Group Internal Auditor, the Chief Risk Officer and the Group Actuarial Officer also periodically attended Audit Committee meetings. Discussions regarding the following dominated the meetings permanent agenda: the quarterly results, the annual accounts and the auditing of those by Ernst & Young, actuarial analyses, accounting principles according to IFRS and US-GAAP, financial reports as filed with the SEC, AEGON's Capital Plan, reports on currency exposure, internal control systems, as well as risk management and Ernst & Young's engagement letter for 2006 and its report on independence, the firm's fee structure and the integrated Audit Plan for 2006. The Audit Committee advised the Supervisory Board to recommend to shareholders that Ernst & Young be reappointed as the independent auditor for the financial year 2006. The Committee also discussed the consequences of SOX and the Dutch Corporate Governance Code, as well as the role of the independent auditors. The Committee confirmed that Mr. Levy qualifies as financial expert within the meaning of the relevant provisions of SOX and the Dutch Corporate Governance Code. In accordance with legal requirements, the Audit Committee approved and recommended to the Supervisory Board the adoption of the Pre-approval Policy for 2006. Two meetings, in March and September, were devoted to AEGON's filings with the SEC, the annual report 2005 (Form 20-F), and the results for the first six months 2006 (Form 6-K).

The Audit Committee was updated each quarter on the activities of the Group Internal Auditor and on AEGON's worldwide compliance with SOX 404, as well as on fraud and general compliance issues. During these meetings, the Audit Committee held separate sessions with the internal auditor as well as with the external auditors, in order to discuss their findings outside the presence of the Executive Board. During its meeting in December, the Audit Committee engaged in a discussion on AEGON's Risk Management Report as presented by the Chief Risk Officer. It also conducted a review and discussion of the budget for 2007, the budgeted Capital Plan for 2007 and the VNB targets for later years until 2010 and advised the Supervisory Board accordingly. The Audit Committee also advised the Supervisory Board to authorize the Executive Board to fill AEGON's funding needs as budgeted for 2007.

As required by the Audit Committee Charter, the proceedings of the meetings of the Audit Committee were reported to the Supervisory Board, and the minutes of these meetings were a regular item on the agenda of the Supervisory Board meetings.

THE PURPOSE OF THE STRATEGY COMMITTEE IS TO REVIEW THE MAJOR FEATURES OF AEGON'S STRATEGY

STRATEGY COMMITTEE

The Strategy Committee held two meetings in 2006, which were also attended by the Executive Board members. The purpose of the Strategy Committee is to review the major features of AEGON's business strategy, in addition to considering alternative strategies and material aspects relating to the implementation of the strategy. The Strategy Committee discussed AEGON's business strategy and prepared a framework for the agenda for the Supervisory Board meeting held in Budapest, in May 2006. As required by the Strategy Committee Charter, the proceedings of the meetings of the Strategy Committee were reported to the Supervisory Board, and the minutes of these meetings were a regular item on the agenda of the Supervisory Board meetings.

NOMINATING COMMITTEE

The Nominating Committee held two meetings in 2006. The Executive Board's chairman attended these meetings. The Nominating Committee discussed the composition of the Supervisory Board and its committees as well as existing and forthcoming vacancies and it advised the Supervisory Board on nominations for two appointments and one reappointment in 2007. In addition, the Nominating Committee evaluated the composition of the Executive Board and the institution of a Management Board and subsequently advised the Supervisory Board on the nomination for reappointment of Mr. Wynaendts to the Executive Board in 2007. The proceedings of the Nominating Committee meetings were reported during subsequent Supervisory Board meetings.

COMPENSATION COMMITTEE

The Compensation Committee held four meetings in 2006, which were from time to time also attended by the chairman or the CFO of the Executive Board. The Compensation Committee discussed the Executive Board's Short-term and Long-term Incentive Plans and advised the Supervisory Board on those incentives payable in 2006. The main item of discussion during the meetings in 2006 concerned the preparation of a new Remuneration Policy for the Executive Board. This new Remuneration Policy will be put to shareholders for adoption during the 2007 Annual General Meeting of Shareholders (AGM) and, if adopted, will be retroactively effective as from January 1, 2007. The Committee also discussed the worldwide stock option plans within AEGON and reconfirmed that exercise prices will not be changed once they have been set at the date of grant of stock options, except in case of dilution of the AEGON share price as expressly stated in the rules of the Option Plans. The proceedings of the Compensation Committee meetings were reported during subsequent Supervisory Board meetings.

REMUNERATION POLICY

Please refer to pages 76 to 81 for the full text of the Compensation Committee Remuneration Report and the Remuneration Policy, and to pages 219 to 221 for financial details. During the AGM on April 25, 2006, it was decided to extend the application of the current Short-term and Long-term Incentive Plans to the date of the AGM in 2007 with the understanding that shareholders will then be able to adopt a new Remuneration Policy, to be retroactively effective as from January 1, 2007. After an assessment by the Compensation Committee, the remuneration of the Supervisory Board members was not changed in 2006 nor were the base salaries for the Executive Board members except for an increase of the base salaries of the Dutch Executive Board members, in line with the 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 Code. Mr. Storm is not considered to be independent within the meaning of the Code due to the fact that he served as chairman of AEGON's Executive Board prior to his retirement in April 2002. Mr. Storm joined the Supervisory Board in July 2002.

Mr. Storm's four-year term of office expired in 2006. The Supervisory Board nominated him for reappointment for another term, and he was subsequently reappointed by shareholders during the AGM in 2006.

Mr. Sobel, as nominated by the Supervisory Board, was appointed by shareholders during the AGM in April 2006 as a member of the Supervisory Board. However, he was required to submit his resignation as a Supervisory Board member in July 2006, following his appointment as the United States ambassador to Brazil. His resignation also left a vacancy in the Audit Committee. The Supervisory Board, following the recommendation of the Nominating Committee, appointed Mr. Bailey as a member of the Audit Committee, effective per August 1, 2006.

Following the advice of the Nominating Committee, the Supervisory Board has decided to nominate Mrs. Peijs and Mr. Burgmans for appointment by shareholders during the AGM on April 25, 2007. Their biographies will be provided together with the agenda for the 2007 AGM.

Mr. Van Wijk's four-year term of office will expire in 2007. He is eligible for reappointment and the Supervisory Board, following the advice of the Nominating Committee, has decided to nominate him for reappointment for another term by shareholders during the AGM in 2007.

EXECUTIVE BOARD

In compliance with the Dutch Corporate Governance Code, the members of the Executive Board are appointed by shareholders for a term of four years, with the possibility of being reappointed for additional four-year terms. According to the schedule (which is included in the Executive Board Rules and has been posted on AEGON's corporate website), the term of office for Mr. van der Werf expired in 2006. Although he was reappointed by shareholders during the 2006 AGM, Mr. Van der Werf submitted his resignation as an Executive Board member, effective December 31, 2006, because he was appointed at the Management Board of AEGON N.V., effective January 1, 2007.

In 2007, Mr. Wynaendts' four-year term will expire. His performance was discussed in the Nominating Committee and the Supervisory Board. Following the recommendation of the Nominating Committee, the Supervisory Board has decided to nominate Mr. Wynaendts for reappointment to the Executive Board for another four-year term. This nomination will be proposed to shareholders during the AGM in 2007.

In 2006, the Supervisory Board decided, on a proposal from the Executive Board and recommended by the Nominating Committee, to establish a Management Board in order to enhance the coordination and management of AEGON's business activities worldwide. The Management Board became effective on January 1, 2007. In this new management structure the Executive Board continues to be the statutory executive body and legal representative of AEGON N.V. entrusted with the management of the company, while the Management Board will oversee a broad range of management issues that impact AEGON's business and growth objectives internationally. The Management Board consists of the Executive Board members, Messrs. Shepard, Streppel and Wynaendts, and the CEO's of AEGON USA, AEGON The Netherlands and AEGON UK, respectively Messrs. Baird, Van der Werf and Thoresen. The chairman of the Executive Board serves as chairman of the Management Board.

ANNUAL ACCOUNTS AND DIVIDEND

This annual report includes the annual accounts for 2006, which were deliberated 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 annual accounts and approve the proposal to pay a total dividend for the financial year 2006 of EUR 0.55 per common share. This would entail a final dividend payment of EUR 0.31 per common share since an interim dividend payment of EUR 0.24 per common share was made in September 2006.

ACKNOWLEDGEMENT

The Supervisory Board members would like to congratulate the Executive Board and all members of the worldwide AEGON community for their ongoing commitment to growing AEGON's business profitably. The Supervisory Board members further wish to express their appreciation for the dedication and professionalism demonstrated in responding to the ever-changing regulatory environment, market conditions and opportunities for AEGON's businesses.

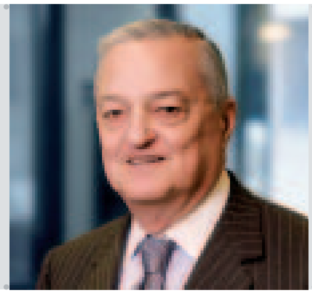
The Hague, March 7, 2007

Dudley G. Eustace,
CHAIRMAN OF THE SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

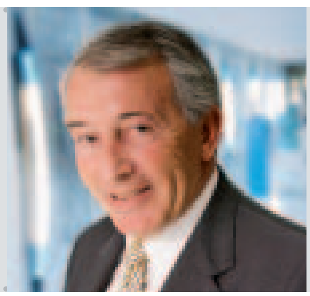
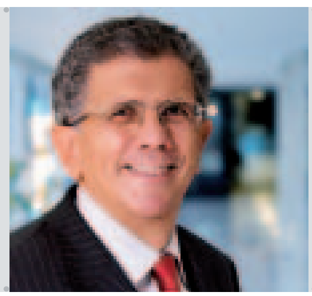
The Supervisory
Board members
From left to right

Dudley G. Eustace
O. John Olcay
Irving W. Bailey II

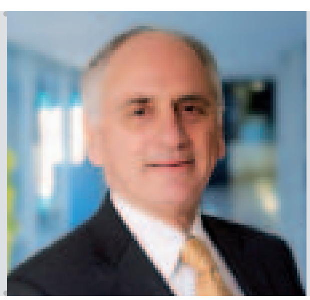
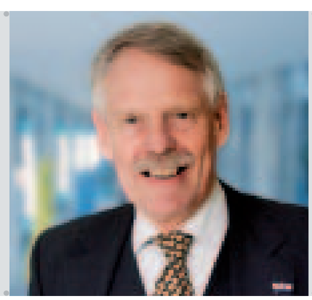

The Supervisory
Board members
From left to right

René Dahan
Shemaya Levy
Toni Rembe


The Supervisory
Board members
From left to right

Willem F.C. Stevens
Kees J. Storm
Leo M. van Wijk


SUPERVISORY BOARD COMMITTEES

AUDIT COMMITTEE
Shemaya Levy, chairman
Toni Rembe, member
Willem F.C. Stevens, member
Irving W. Bailey II, member

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

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

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

DUDLEY G. EUSTACE, CHAIRMAN

(1936, dual citizenship British and Canadian) is a retired chairman of Smith & Nephew PLC (London, UK) and a retired vice-chairman of Royal Philips Electronics N.V. He was appointed to AEGON's Supervisory Board in 1997 and his current term will end in 2009. He is also a member of the Supervisory Board of Royal KPN N.V, the Supervisory Board of Hagemeyer N.V., the European Advisory Council for Rothschilds, the Council of the University of Surrey and chairman of the Supervisory Board of VNU N.V. He is currently chairman of the Supervisory Board Nominating and Strategy Committees.

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.

IRVING (IRV) W. BAILEY II

(1941, American nationality) is a senior advisor to Chrysalis Ventures. He is a retired chairman and CEO of Providian Corp., a former managing director of Chrysalis Ventures, and a former chairman of the Board of Directors of AEGON USA Inc. He was appointed to AEGON's Supervisory Board in 2004 and his current term will end in 2008. He is also a member of the Board of Directors of Computer Sciences Corp. and Hospira, Inc. He is currently a member of the Supervisory Board Audit and Strategy Committees.

RENÉ DAHAN

(1941, Dutch nationality) is a retired executive vice-president and director of Exxon Corporation. He was appointed to AEGON's Supervisory Board in 2004 and his current term will end in 2008. He is also chairman of the Supervisory Board of Royal Ahold N.V., a member of the Supervisory Board of TNT N.V. and a member of the International Advisory Board of the Guggenheim Group. He is currently chairman of the Supervisory Board Compensation Committee and a member of the Nominating Committee.

SHEMAYA LEVY

(1947, French nationality) is a retired executive vice-president and CFO of the Renault Group. He was appointed to AEGON's Supervisory Board in 2005 and his current term will end in 2009. He is also a non-executive director of Nissan Motor Cy, Renault Spain and the Safran Group, and a member of the Supervisory Boards of the Segula Technologies Group and TNT N.V. He is currently chairman of the Supervisory Board Audit Committee.

TONI REMBE

(1936, American nationality) is a retired partner/senior advisor of Pillsbury Winthrop LLP (San Francisco, USA). She was appointed to AEGON's Supervisory Board in 2000 and her current term will end in 2008. She is also a member of the Board of Directors of AT&T, Inc. (USA). She is currently a member of the Supervisory Board Audit Committee.

WILLEM F.C. STEVENS

(1938, Dutch nationality) is a retired partner of Baker & McKenzie and was a senator in the Dutch Parliament until June 2003. He was appointed to AEGON's Supervisory Board in 1997 and his current term will end in 2009. He is also a member of the Supervisory Boards of N.V. Luchthaven Schiphol, TBI Holdings B.V., AZL N.V., Goedland N.V., and Ermenegildo Zegna International N.V. He is currently a member of the Supervisory Board Audit and Compensation Committees.

KORNELIS (KEES) J. STORM

(1942, Dutch nationality) is a former chairman of the Executive Board of AEGON N.V. He was appointed to AEGON's Supervisory Board in 2002 and his current term will end in 2010. He is also chairman of the Supervisory Board of KLM Royal Dutch Airlines N.V., a non-executive director of Unilever N.V. of Rotterdam and Unilever PLC of London, a member of the Supervisory Board of Pon Holdings B.V. and a member of the Board of Directors of InBev S.A. (Leuven, Belgium) and Baxter International Inc. (USA). He is currently a member of the Supervisory Board Strategy Committee.

LEO M. VAN WIJK

(1946, Dutch nationality) is president and CEO of KLM Royal Dutch Airlines N.V. and vice-chairman of Air France-KLM S.A. He was appointed to AEGON's Supervisory Board in 2003 and his current term will end in 2007. He is also a member of the Supervisory Boards of Randstad Holding N.V. and Martinair, and a member of the Board of Directors of Northwest Airlines. He is currently a member of the Supervisory Board Compensation Committee.

REMUNERATION POLICY AND REPORT

The Compensation Committee, one of the Supervisory Board's four committees, is responsible for the design, development, implementation, and review of the Remuneration Policy. This policy outlines the terms and conditions of Executive Board member employment and remuneration of Supervisory Board members. The Compensation Committee comprises three members: Messrs. Dahan (chairman), Stevens and Van Wijk.

Each year, the Compensation Committee reviews the adequacy of the Remuneration Policy, based on information from an independent external advisor (Towers Perrin). Subsequently, it makes recommendations to the Supervisory Board. Any material changes to the Remuneration Policy are submitted to the General Meeting of Shareholders (AGM) for adoption.

This section details the Remuneration Policy for the period 2004- 2006 and the Executive and Supervisory Board Remuneration Report for the year ended December 31, 2006.

REMUNERATION POLICY

SUPERVISORY BOARD REMUNERATION

The remuneration of the members of the Supervisory Board is made up of three separate components, each of fixed amounts.

Base fee	
per annum, for membership of the Supervisory Board, in EUR	
Chairman	60,000
Vice-chairman	50,000
Member	40,000

Fee	
per annum, for membership of a committee, in EUR	
Audit Committee chairman	10,000
Member	8,000
Other Committees chairman	7,000
Member	5,000

Attendance fee	
per meeting, in EUR, for face-to-face meetings of the committees (i.e. committee members have attended the meeting in person)	
Audit Committee	3,000
Other Committees	1,250 [1]

[1] In case of intercontinental travel this fee will be EUR 2,500 per face-to-face meeting.

Supervisory Board members do not receive any performance or equity related compensation and do not accrue any pension rights with AEGON.

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 %

EXECUTIVE BOARD REMUNERATION

AIMS AND OBJECTIVES

This policy aims at enhancing simplicity, transparency and credibility of Executive Board remuneration. The objectives of this Remuneration Policy may be summarized as follows:

- The remuneration structure should enable the company to attract and retain highly qualified, expert members for its Executive Board by providing well-balanced and performance-related remuneration.
- The structure should ensure the interests of Executive Board members are closely aligned with those of shareholders by linking Executive Board remuneration directly to company performance.
- Target Total Compensation for Executive Board members should be based on market standards for executives from selected peer companies and should consist of a fixed component and a variable component. Actual Variable Compensation will be based on company performance.

POLICY TERM

This Remuneration Policy took effect on January 1, 2004, for a three-year term. The AGM approved an extension of the existing Remuneration Policy until the AGM in 2007. A proposal for a new policy will be submitted to shareholders for adoption at the 2007 AGM and will, upon adoption, take effect retrospectively as from January 1, 2007.

TERM OF APPOINTMENT

New members of the Executive Board will be appointed for a period of four years and may then be reappointed for successive periods of four years.

REMUNERATION COMPONENTS

The remuneration of Executive Board members comprises the following components: (1) fixed compensation (base salary) and variable compensation in the form of (2) a short-term incentive and (3) a long-term incentive compensation; (4) pension arrangements; (5) perquisites and (6) termination arrangements.

FIXED COMPENSATION

Levels for fixed compensation (base salary) reflect the requirements and responsibilities of an Executive Board position. The Compensation Committee ensures that these levels are realistic and competitive, taking into account individual roles and responsibilities of Executive Board members and benchmark information provided by independent external advisors.

Each year, the Compensation Committee reviews remuneration levels, taking into account circumstances that might justify any adjustment, such as fundamental changes in the business environment or in the individual's responsibilities.

VARIABLE COMPENSATION

The variable part of the remuneration is designed to strengthen the Executive Board members' commitment to the company and its objectives. The greater part of the total remuneration consists of variable compensation linked to previously determined and measurable performance targets.

SHORT-TERM INCENTIVE PLAN

Members of the Executive Board participate in the Short-term Incentive (STI) Plan, which provides for an annual cash bonus for the achievement of previously determined performance targets. The achievable STI bonus levels relate to the fixed compensation and vary among the members of the Executive Board, reflecting the differences in responsibilities.

Under the STI Plan, a bonus is paid only if a positive value of new business (VNB), as publicly disclosed, is realized. Each member of the Executive Board has been assigned a specific area of responsibility of which the related VNB will be taken into account when determining individual bonus levels.

The amount of the STI Plan bonus will then be determined by the level of achieved operating earnings (OE) relative to the OE target. The STI Plan bonus increases as the actual OE exceeds the target OE; in the event that the actual OE is equal to or higher than 150 percent of the target OE, the STI Plan bonus will be regarded as having reached its maximum value. The OE target is calculated as the rolling three-year average OE, increased by 2.5 percent to reflect inflation.

Provided the VNB of the AEGON Group in the plan year is positive, the members of the Executive Board are eligible for an STI Plan bonus.

VESTING SCHEDULE

Ranking	Vesting as % of the grant	Ranking	Vesting as % of the grant
1	200	7	75
2	180	8	50
3	160	9	0
4	140	10	0
5	120	11	0
6	100	12	0

If the VNB of the AEGON Group is positive, Messrs. Shepard and Streppel are eligible for 100 percent of their STI Plan bonus, while Messrs. Van der Werf and Wynaendts are eligible for 40 percent of their STI Plan bonus. In the event that the VNB in the areas of their respective responsibilities is also positive, Messrs. Van der Werf and Wynaendts become eligible for the remaining 60 percent of their STI Plan bonus.

Each year, the Compensation Committee reviews the agreed parameters to ensure that they continue to provide the best reference. Independent external advisors, Tillinghast and Ernst & Young, review and confirm relevant data.

Additionally, Mr. Shepard is entitled to a cash bonus equal to 0.1 percent of AEGON's net income for the corresponding year.

LONG-TERM INCENTIVE PLAN

The Long-term Incentive (LTI) Plan is designed to focus members of the Executive Board on achieving long-term growth of sustainable value for the company's shareholders. For this purpose, the Plan aims to reward Executive Board members for AEGON's relative total shareholders return (TSR) performance over a three-year period. TSR is defined as the return, in terms of share price appreciation and dividends, to shareholders.

Each year, an LTI grant is determined to serve as a basis for the calculation of the achievable bonus under the LTI Plan. The LTI grant is calculated as a percentage of the compensation of the Executive Board members. The grant is a 50/50 combination of the value of performance shares and performance options. For each year, the value (amount) of the grant is determined, as is the related number of shares and options granted. After three financial years, starting with the grant year, vesting of the granted shares and options is subject to AEGON's TSR performance relative to that of a select peer group. This peer group comprises companies that are comparable in type of business, size, geographical presence, and that are generally recognized as the most appropriate reference group. The reference group consists of Allianz, Aviva, AXA, Fortis, Generali, ING, Financial Services, Prudential Financial, Lincoln National, Metlife, Nationwide, and Prudential PLC. Should AEGON rank nine through twelve within this group (after three years), the granted shares and options will not vest.

The granted shares and options will only vest if AEGON achieves a number eight position or better, with an increasing percentage according to the vesting schedule.

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 220 to 221 for more information on the shares and share options granted under the LTI Plan.

During the three-year grant period, the TSR data are compiled by the Compensation Committee based on independent external advice. After the grant period, the Compensation Committee will advise the Supervisory Board on the percentage of the LTI grant to be vested. The Compensation Committee will also ensure that the peer group composition and the performance incentive zone continue to provide an appropriate reference.

PENSION ARRANGEMENTS

The Remuneration Policy aims to offer Executive Board members pension arrangements that are in line with local practices in their countries of residence and retirement benefits that are consistent with those provided to executive directors of other multinational companies in those countries. Pension arrangements are based on a retirement age of 62, with optional early retirement for the Dutch members at reaching the age of 60.

Mr. Shepard's benefits would be based on 55 percent 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 would be 70 percent of their final salary, provided they have completed 37 years of service. In addition, the arrangements include entitlements to a pension in the event of disability and a pension for spouse or dependent in the event of the participant's death. Please refer to page 219 for more information on the costs of the pension arrangements.

PERQUISITES

Members of the Executive Board receive other benefits, based on their contractual agreements, local practices, and customary arrangements for executives of multinational companies. Moreover, it is the company's policy not to grant Executive Board members any personal loans, guarantees or the like, unless in the normal course of business and on terms applicable to the personnel as a whole, and only after Supervisory Board approval. No remission of loans shall be granted.

TERMINATION OF EMPLOYMENT

Termination of the employment contracts requires a three-month notice period for the current members of the Executive Board. In the event of contract termination by AEGON, the company must adhere to a notice period of six months and, unless terminated for urgent cause, the members of the Executive Board would be entitled to a severance arrangement.

Under his employment agreement, Mr. Shepard will be entitled to a specified amount of severance upon termination of his employment for reasons specified in the employment agreement. Under his employment agreement, Mr. Shepard shall be entitled to severance in the amount of three years' base salary and the aggregate short-term incentive compensation he received during the three years prior to the termination in the event that Mr. Shepard's employment is terminated (a) by AEGON other than for urgent cause, death, disability, voluntary resignation or retirement, (b) by AEGON in connection with a merger, take-over or fundamental changes of policy and related organizational amendments, or (c) by Mr. Shepard in the event that his responsibilities or position are diminished by such circumstances. Any such severance payments received by Mr. Shepard shall be taken into account in determining the amounts payable to him under his AEGON USA Supplemental Executive Retirement Plan (SERP). In addition, three additional years of service will be credited for the purpose of calculating his benefits under the SERP.

Mr. Streppel would be entitled to compensation according to the 'Zwartkruis formula', which means that the severance payment would be calculated on the basis of and depending on age, years of service, functional level, and the probability of finding an equivalent position.

Messrs. Van der Werf and Wynaendts would be entitled to three years' fixed salary, only in the case of termination in connection with a merger or take-over.

Employment contracts for any new members of the Executive Board would contain a notice period of three months for the Executive Board member, six months for the company, and termination arrangements would be in line with the Dutch Corporate Governance Code.

REMUNERATION REPORT 2006

SUPERVISORY BOARD REMUNERATION

The compensation arrangement of the Supervisory Board members is reviewed every three years. The last review took place in 2005. The compensation arrangement remained unchanged in 2006.

EXECUTIVE BOARD REMUNERATION

TERMS OF APPOINTMENT

Messrs. Shepard (2005), Streppel (2005) and Van der Werf (2006) have been reappointed for a four-year term. Mr. Van der Werf however, resigned from the Executive Board as of January 1, 2007, upon his appointment as a member of the Management Board as of that date. Mr. Wynaendts is eligible for reappointment in 2007.

TOTAL COMPENSATION

As explained in the plans which are posted on AEGON's website, when performance is at target level, for Mr. Shepard approximately 75 percent of his total compensation is based on variable reward components, while for the other members the variable portion is approximately 50 percent.

Please refer to page 219 for information on the remuneration of members of the Executive Board.

FIXED COMPENSATION

Base salaries of the Executive Board members in 2006 are as follows:

BASE SALARY	2006[1]
Shepard	USD 1,000,000
Streppel	EUR 679,409
Van der Werf	EUR 575,086
Wynaendts	EUR 575,086

[1] For Dutch members the amounts include an increase due to Dutch Central Labor Agreement, the customary employee profit sharing bonus as well as a tax deferred employee savings plan.

SHORT-TERM INCENTIVE, 2005 PLAN

In line with the regulations of the STI Plan, it was established that the 2005 VNB of the AEGON Group and of the relevant country units was positive, as stated in the 2005 Embedded Value Report. Subsequently, operating earnings (OE) have been compared to the relevant target OE. On this basis and after adoption of the 2005 annual accounts by shareholders, this translated into the following STI bonuses for the 2005 Plan as paid in 2006.

STI BONUSES FOR THE 2005 PLAN[1,2]	OE per area of responsibility (results as % of target)	STI bonus (as % of base pay)	STI amount (in EUR)
Shepard	133	165	1,327,098
Streppel	133	70	474,639
Van der Werf	174	122	697,392
Wynaendts	121	105	602,415

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

Mr. Shepard also received EUR 2,732,000 in 2006 as an additional bonus related to AEGON's net income over the financial year 2005.

SHORT-TERM INCENTIVE, 2006 PLAN

The bonuses for the 2006 Plan, as well as Mr. Shepard's additional STI bonus related to AEGON's net income over the financial year 2006, will be calculated and paid in 2007, after adoption of the 2006 annual accounts by shareholders, and be reported in the 2007 Annual Report.

LONG-TERM INCENTIVE, 2006 PLAN

The LTI grant is determined as a percentage of the fixed compensation of the Executive Board members.

In accordance with the 2006 LTI Plan, non-vested (conditional) AEGON common shares and options have been granted to each of the Executive Board members. Vesting of these rights is conditional upon AEGON's TSR performance relative to that of the peer group over a three-year period. The date of grant for the 2006 LTI Plan was April 26, 2006 and the closing share price of that day was EUR 14.55. The grant is a 50/50 combination of the value of the performance shares and performance options. Vesting of these rights will take place after three years, in accordance with the aforementioned LTI vesting schedule.

LTI BONUSES FOR THE 2006 PLAN[1]		Target LTI value (% of base pay) in EUR	Number of shares	Number of options
Shepard[2]	95%	762,807	26,213	150,989
Streppel	60%	407,747	13,909	80,115
Van der Werf	60%	342,478	11,769	67,789
Wynaendts	60%	342,478	11,769	67,789

1 LTI target bonus amounts have been calculated from base salaries as per January 1, 2006.
2 Calculation example Mr. Shepard:
EUR 762,807 : 2 = 381,403.50 : EUR 14.55 = 26,213 shares.

PENSION ARRANGEMENTS

Mr. Shepard's benefits are based on 55 percent 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 percent of their final salary, provided they have completed 37 years of service.

The pension plan for Dutch Executive Board members was reconciled with new regulations in the Netherlands (the so-called VPL law; Wet Vut Prepensioen en Levensloop) as from January 2006.

OTHER ARRANGEMENTS

Mr. Wynaendts was seconded to AEGON USA for the period from August 2005 to September 2006. In determining the specific provisions of the secondment, AEGON engaged independent external advisors to ensure that the arrangements were in line with customary practices. The Compensation Committee reviewed and approved these provisions.

CORPORATE GOVERNANCE

AEGON HAS LONG BEEN COMMITTED TO THE PRINCIPLES OF SOUND AND EFFECTIVE CORPORATE RESPONSIBILITY AND 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. For a discussion of the significant ways in which AEGON's corporate governance practices differ from those required by U.S. companies under NYSE standards, please see the Corporate Governance section at www.aegon.com.

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 items to the agenda of a General Meeting of Shareholders when supported by shareholders representing at least 0.1 percent 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 a 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 25/12 votes per preferred share in the event that Vereniging AEGON, in its sole discretion, has determined that a 'special cause' (as defined in the Preferred Shares Voting Rights Agreement which is published on AEGON's website) has occurred. Each 'special cause' is then limited to a period of six months. Please refer to page 238 of this annual report's financial statements for more information on Vereniging AEGON.

At the General Meeting of Shareholders, an absolute majority of the valid votes can adopt 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 Executive 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.

Pension arrangements of the Members of the Executive Board are based on a retirement age of 62 with optional early retirement for the Dutch members at reaching the age of 60. The Articles of Incorporation require the Executive Board to obtain the prior approval of the Supervisory Board for a number of defined resolutions. Additionally, the Supervisory Board may subject other resolutions of the Executive Board to its prior approval.

SUPERVISORY BOARD

The supervision of the management of the Executive Board and of the company's business and general course of affairs is entrusted to the Supervisory Board, acting as a body with collective responsibility and accountability. The Supervisory Board also assists the Executive Board by giving advice. In performing their duties, the Supervisory Board members shall act in accordance with the interests of the company and its business.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board. The Supervisory Board currently consists of nine non-executive members, one of whom is a former member of the Executive Board. Specific issues are prepared and dealt with in committees comprising members of the Supervisory Board. In view of a balanced composition of the Supervisory Board a profile has been drawn up outlining the required qualifications of its members. Upon reaching the age of 70, a member of the Supervisory Board is no longer eligible for reappointment, except with the approval of the Supervisory Board. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders.

SPECIFIC INFORMATION WITH REGARD TO EXERCISE OF CONTROL

As a publicly listed company, AEGON N.V. is required to explicitly provide the following detailed information regarding structures and measures that could hinder the acquisition and exercise of control over the company by an offeror. To the extent necessary, an explanation is given with each item below.

AUTHORIZED CAPITAL

The authorized capital of the company amounts to EUR 610,000,000, divided into 3,000,000,000 common shares with par value of EUR 0.12 each and 1,000,000,000 class A and class B preferred shares with par value of EUR 0.25 each. At December 31, 2006, 1,622,927,058 common shares and 240,970,000 preferred shares were issued. Common shares and preferred shares represent 76.4 percent respectively 23.6 percent of the total issued and fully paid up capital. The capital contribution made on the preferred shares class A is reflective of the market value of AEGON's common shares at the time the capital contribution was made. Preferred shares are entitled to receive a preferred dividend on the paid in amount. No other dividend is paid on the preferred shares. Upon liquidation of the company the paid in amount on the preferred shares is reimbursed before any payment will be made on the common shares. Each share confers the right to cast one vote. However, the holder of preferred shares is entitled to cast 25/12 (= approximately 2.08) votes per preferred share in line with the higher par value of the preferred shares.

TRANSFER

There are no restrictions on the transfer of common shares. As regards the transferability of the preferred shares reference is made to the arrangements of clause 10.5 of the Amendment of the 1983 Merger Agreement, as published on AEGON's website.

VERENIGING AEGON

Vereniging AEGON holds 171,974,055 common shares and all 240,970,000 issued preferred shares, together representing 32.3 percent of the voting capital, however, in the absence of a 'special cause', this holding represents 22.6 percent of the voting capital. The 1983 Merger Agreement (as amended) provides that additional preferred shares class B are to be issued by AEGON to Vereniging AEGON at the option of Vereniging AEGON in order to prevent Vereniging AEGON's voting power from being diluted as a result of issuances of common shares.

PREFERRED SHARES VOTING RIGHTS AGREEMENT

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 percent interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a 'special cause' has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a period of six months. Based on its current aggregate holdings of common and preferred shares, Vereniging AEGON would in that case command 32.3 percent of the votes at a General Meeting of Shareholders. As a result of the foregoing and certain qualified majorities specified in AEGON's Articles of Incorporation, in the event of a 'special cause' and for a period of six months, Vereniging AEGON may effectively be in a position to temporarily block unfriendly actions by a hostile bidder or others.

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. In this regard reference is made to page 204 of the financial statements. Under the outstanding option plans it is up to the executive/employee to exercise its option rights under the conditions of the plan. The company cannot influence the exercise of granted option rights.

EXERCISE OF VOTING RIGHTS

There are no restrictions on the exercise of voting rights, neither in number of votes nor in terms of time limitations (apart from the limitation in time mentioned under (d) above as to the exercise of full voting rights on preferred shares). Depositary receipts for shares are not issued with the company's cooperation.

SHAREHOLDER AGREEMENTS

The company has no knowledge of any agreement between shareholders with regard to the restriction of share transfers or of voting rights pertaining to shares.

ARTICLES OF INCORPORATION AND BOARD APPOINTMENTS

The General Meeting of Shareholders may, with an absolute majority of votes, pass a resolution to amend the Articles of Incorporation or to dissolve the company upon a proposal of the Executive Board as approved by the Supervisory Board.

The members of the Executive and Supervisory Boards are appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board. This nomination will be binding if at least two candidates are nominated. However, the General Meeting of Shareholders may cancel the binding character of such nominations with a majority of two-thirds of the votes cast representing at least one-half of the issued capital. A resolution of the General Meeting of Shareholders to appoint a person other than in accordance with a nomination by the Supervisory Board requires a majority of two-thirds of the votes cast representing at least one-half of the issued capital. In addition, members of the Executive and Supervisory Board can only be dismissed by the General Meeting of Shareholders with the same qualified majority, except if proposed by the Supervisory Board.

The provisions on appointing board members were included at the time of the overall review of AEGON's corporate governance and were adopted at the extraordinary General Meeting of Shareholders on May 9, 2003. The qualified majority requirement was included in order to give AEGON a temporary protection against unfriendly actions by a hostile bidder, for example. Effectively, Vereniging AEGON may for a period of six months block unfriendly attempts to replace the Supervisory Board and the Executive Board.

New shares may be issued pursuant to a resolution of the General Meeting of Shareholders up to the maximum of the authorized capital. Shares may also be issued following a resolution of the Executive Board, if and to the extent that the Board is authorized to do so by the General Meeting of Shareholders. An authorization to that end is usually proposed to the annual General Meeting of Shareholders.

ACQUIREMENTS OF SHARES

The company is entitled to acquire its own fully paid-up shares for consideration within the limits set by the applicable legal requirements. The annual General Meeting of Shareholders usually authorizes the Executive Board to acquire shares of the company on conditions set by the General Meeting of Shareholders.

CHANGE OF CONTROL

The company is not a party to significant agreements, which take effect, alter or terminate conditional upon a change of control of the company following a public offer on the outstanding shares of the company, other than customary in the market (e.g. financial arrangements, loan agreements, joint venture agreements).

EMPLOYMENT AGREEMENT

The employment agreements of the company with the members of the Executive Board, as published on AEGON's website, contain provisions which entitle the members to severance payments in case of termination of employment in connection with a merger or take-over.

DUTCH CORPORATE GOVERNANCE CODE

AEGON CLOSELY PAYS ATTENTION TO RISK MANAGEMENT AND RISK FACTORS IN EACH OF ITS COUNTRY AND GROUP UNITS

In December 2003, the Dutch Corporate Governance Code was adopted. The code came into effect on January 1, 2004. AEGON endorses the code and the principles of good corporate governance included therein. AEGON has welcomed the guidance given by the Monitoring Committee Corporate Governance.

This chapter is intended to outline AEGON's compliance with the code as of the end of 2006. The circumstances in which AEGON does not fully comply with the code are explained. The information set forth below closely follows the structure of the Dutch Corporate Governance Code. Where appropriate, the headings of the Code's chapters and paragraphs have been included for easy reference.

COMPLIANCE WITH AND ENFORCEMENT OF THE CODE

The Executive Board and the Supervisory Board accept full responsibility of AEGON's corporate governance structure. Whenever a substantial change in the company's corporate governance structure is proposed, AEGON will submit the proposal for debate as a separate agenda item at the General Meeting of Shareholders.

EXECUTIVE BOARD

The Supervisory Board has agreed with the Executive Board and its individual members on a reappointment and retirement schedule for Executive Board members, which is available on the company's website www.aegon.com.

In accordance with this schedule, the 2006 annual General Meeting of Shareholders reappointed Mr. J.G. van der Werf as a member of the Executive Board for a term of four years. The Supervisory Board intends to propose to the annual General Meeting of Shareholders in 2007 that Mr. A.R. Wynaendts be reappointed as a member of the Executive Board for a four-year term. The principle of appointments to the Executive Board for a four-year term with possible reappointment is duly reflected in the Articles of Incorporation.

In accordance with AEGON past practice, the Executive Board will submit the company's operational and financial objectives along with the strategy to achieve stated goals to the Supervisory Board for its consideration and approval. The outlined objectives and strategy include detailed parameters to be applied in relation to the strategy, such as the company's financial ratios and capital adequacy levels. A summary of these plans will continue to form part of AEGON's annual reports.

AEGON closely pays attention to risk management and risk factors in each of its country and group units. For detailed information about AEGON's risk management and the 'in control' statement please refer to page 66.

AEGON's annual report includes information about the most important external factors and variables influencing the company's performance. These analyses include AEGON's long-term market projections and company sensitivity to interest rate fluctuations and to changes in equity, real estate, and currency markets. The Executive and Supervisory Boards will consider the publication of additional analyses if or when appropriate.

AEGON has adopted a Code of Conduct at group level. The Code of Conduct is implemented and monitored by a taskforce that reports directly to the Executive Board. This is in addition to the Codes of Conduct adopted earlier by the majority of AEGON's country units. The Code of Conduct includes whistleblower provisions that give employees the ability to report on suspected irregularities without jeopardizing their employment. Within the framework of the Financial Controls Complaints Procedure more detailed rules and regulations have been implemented regarding the reporting of finance-related complaints. Serious violations of the Code of Conduct, as well as any alleged irregularities concerning the functioning of Executive Board members, are reported directly to the chairman of the Supervisory Board. The Code of Conduct and the Financial Controls Complaints Procedure of AEGON N.V. are available on AEGON's website.

None of the members of AEGON's Executive Board is a member of the Supervisory Board of more than two listed companies nor is a chairman of the Supervisory Board of a listed company. The Executive Board Rules, as posted on AEGON's website, provide that any prospective appointment of an AEGON Executive Board member to a supervisory or non-executive director role in another Dutch-listed company is subject to prior approval from AEGON's Supervisory Board. Moreover, the Executive Board Rules state that Executive Board members intending to accept any other significant professional position will notify the Supervisory Board prior to accepting such position.

REMUNERATION

AEGON's Remuneration Policy was adopted by the General Meeting of Shareholders on April 22, 2004 for a period of three years (2004-2006). The annual General Meeting of Shareholders of April 25, 2006, resolved to extend the duration of this Remuneration Policy until the annual General Meeting of Shareholders of April 25, 2007. At that meeting a new Remuneration Policy will be proposed. Please refer to AEGON's website for the new Remuneration Policy.

AEGON places a high importance on attracting and retaining qualified directors and personnel, while at the same time safeguarding and promoting the company's medium and long-term interests. The Remuneration Policy currently in force for members of the Executive Board is reflective of these objectives. It was designed to support AEGON's strategy of value creation and shareholder alignment, in addition to establishing standards for evaluating performance and business results. The Remuneration Policy also offers an incentive for Board members with performance-linked pay, reflecting both individual member and collective Executive Board performance. Moreover, the Remuneration Policy takes into consideration corporate governance guidelines and compensation levels in relevant reference markets.

The Remuneration Policy 2004-2006 for Executive Board members includes fixed and variable components. With respect to the variable components, the Supervisory Board has set clear and measurable criteria including measures relating to the value of new business and total shareholders return. For more details on the compensation of the Executive Board members, please refer to the chapter on remuneration on page 76 to 81 of this annual report. The current Remuneration Policy also sets out a plan for Executive Board members to be remunerated partly in share options (performance options) and performance shares. If Executive Board members are entitled to share options, the strike price of these options corresponds to the AEGON share price on Euronext Amsterdam at the close of trading on the date the options are granted. The terms under which share options and performance shares are issued shall not be altered during the reference period, except for technical alterations in accordance with market practice in events such as share splits, mergers and acquisitions, share issuances, and (super) dividends. Any performance shares granted must be retained for a period of at least five years from the date of the grant or at least until the end of employment, if the latter period is shorter.

The Supervisory Board has decided that it will amend the Remuneration Policy with regard to severance payments owed to new members of the Executive Board. Changes will include setting a maximum severance payment in the event of termination, limited to the fixed component of the particular member's salary for one year, or two years in cases where a maximum of one year's salary would be manifestly unreasonable for a Executive Board member who is dismissed in his or her first term of office. The Supervisory Board has agreed with the current members of the Executive Board not to amend the existing severance payment arrangements that apply to them in order to respect the existing employment agreements and in consideration of varying employment conditions in the United States and the Netherlands. The employment agreements of the members of the Executive Board can be found on AEGON's website.

As consistently disclosed in AEGON's annual reports, members of the Executive Board of AEGON are entitled to mortgage loans provided by AEGON in the normal course of its business and under the terms applicable to employees in the Netherlands. Such loans to Executive Board members are subject to the prior approval of the Supervisory Board.

AEGON PLACES A HIGH IMPORTANCE ON ATTRACTING AND RETAINING QUALIFIED DIRECTORS AND PERSONNEL

AEGON has detailed regulations applicable to members of the Executive Board concerning the ownership of and transactions in securities, other than AEGON shares. These regulations are in line with the regulations prescribed by the Dutch regulators and have been further refined in light of the more detailed best practice provisions of the Dutch Corporate Governance Code. Compliance with these regulations is supervised by the Group Compliance Officer, who acts alongside compliance officers appointed by country units and the business units. The regulations applicable to members of the Executive Board are posted on AEGON's website.

DETERMINATION AND DISCLOSURE OF REMUNERATION

The Remuneration Report of the Supervisory Board, as included in this annual report (pages 76 to 81) and available on the company's website, explains the manner in which the Remuneration Policy pertaining to the members of the Executive Board has been applied in the year under review. The principal points of the Remuneration Report are also dealt with in the Report of the Supervisory Board (page 72). In addition, the annual report presents an overview of the current Remuneration Policy (pages 76 to 81), as adopted previously by the annual General Meeting of Shareholders and in force until the annual General Meeting of Shareholders of April 25, 2007. At that meeting a new Remuneration Policy will be proposed.

The remuneration of the individual members of the Executive Board is determined by the Supervisory Board within the scope of the prevailing Remuneration Policy. Upon conclusion of a contract with a new member of the Executive Board, the main elements of the member's employment contract shall be made public forthwith. Any particular payment to a (former) member of the Executive Board is recorded and explained in the Remuneration Report.

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

CONFLICTS OF INTEREST

The Code of Conduct addresses conflicts of interest that may occur between AEGON and its employees, including the members of the Executive Board. More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Executive Board Rules. Both documents are available on AEGON's website. Any transactions in which there are conflicts of interest shall be agreed on terms customary in the industry and are published in the annual report.

Under the provisions of the Dutch Corporate Governance Code, the membership of Messrs. Shepard and Streppel on the Executive Committee of Vereniging AEGON may give rise to deemed conflicts of interest. The Articles of Association of Vereniging AEGON provide that Messrs. Shepard and Streppel are excluded from voting on certain issues relating directly to AEGON (including the adoption of annual accounts, discharge of members of the Executive Board and appointments to the Executive Board and Supervisory Board of AEGON).

The Supervisory and Executive Boards have drawn up a protocol that provides that the members of the Executive Board who also serve on the Executive committee of Vereniging AEGON shall continue to participate in discussions and decision-making relating to possible transactions with Vereniging AEGON. The Supervisory Board is confident that by adhering to this protocol the deemed conflict of interests with Vereniging AEGON are adequately dealt with and that the best practice provisions of the Code have been complied with in all material respects. The protocol is posted on AEGON's website.

SUPERVISORY BOARD ROLE AND PROCEDURE

The supervision of the management of the Executive Board and of the company's business and general course of affairs is entrusted to the Supervisory Board, acting as a body with collective responsibility and accountability. The Supervisory Board also assists the Executive Board by giving advice. In performing their duties, the members of the Supervisory Board are required to act in accordance with the interests of the company and its business. The Supervisory Board is responsible for decisions relating to the resolution of conflicts of interest between members of the Executive Board, members of the Supervisory Board, major shareholders, and the independent auditor on the one hand, and AEGON on the other.

Annually the Supervisory Board evaluates its own performance and that of its individual members, as well as the performance of the Executive Board and that of the individual Executive Board members. Such meetings take place without Executive Board participation. Moreover, the Supervisory Board Rules provide that a member of the Supervisory Board shall resign if the Supervisory Board has determined that this member is no longer fit to function due to inadequate performance, fundamental differences of opinion, or other impeding circumstances.

Pursuant to AEGON's Articles of Incorporation and the Supervisory Board Rules, the Supervisory Board members are empowered to obtain all information they deem necessary for the performance of their duties, including the right to acquire information from company officers and external experts. The Supervisory Board Rules contain provisions regarding the division of duties within the Supervisory Board, its internal procedures and its interactions with the Executive Board and with the General Meeting of Shareholders. These regulations are posted on AEGON's website www.aegon.com. The Supervisory Board consistently provides a detailed report of its activities during the financial year in each annual report. The activity report includes the information prescribed in the Dutch Corporate Governance Code and addresses the topics discussed within the Supervisory Board meetings during the year.

INDEPENDENCE

The current composition of the Supervisory Board is in compliance with the best practice provisions of the Dutch Corporate Governance Code that relate to the independence of supervisory board members. The sole member that does not qualify as 'independent' within the meaning of these provisions is Mr. Storm who served as chairman of the Executive Board immediately prior to his appointment as a member of the Supervisory Board in 2002.

EXPERTISE AND COMPOSITION

The members of the Supervisory Board are appointed by the General Meeting of Shareholders. For the purpose of making nominations to the Supervisory Board, including any nominations for reappointment, the Supervisory Board has drawn up a profile that specifies requirements for individual members as well as the desired composition and competences of the Supervisory Board as a whole. This profile also reflects the detailed composition requirements of the Dutch Corporate Governance Code.

Under the Code's composition profile, each member of the Supervisory Board is expected to be capable of assessing the broad outline of the overall policy, in addition to having the specific expertise required to fulfill his or her designated role. The profile also takes into account the nature of AEGON's business, the activities of the Supervisory Board, and the background of the Supervisory Board members. It is designed to ensure that the Supervisory Board as a whole is capable of the proper performance of its duties. The composition profile is available on AEGON's website, as is the prescribed information about each member of the Supervisory Board and the applicable retirement schedule.

AEGON offers its newly appointed members of the Supervisory Board an orientation program that provides general information about AEGON's financial affairs and facts regarding the insurance industry, AEGON's business within the industry, and general legal affairs of the Group. The Supervisory Board regularly discusses whether there are any areas in which its members require further training.

AEGON PLACES A HIGH LEVEL OF IMPORTANCE ON DIALOGUE WITH ITS SHAREHOLDERS

Several members of the Supervisory Board also serve as members of Supervisory Boards of other Dutch-listed companies. The Supervisory Board has concluded that none of these memberships unduly or negatively impacts the respective individual's performance of his or her duties as a member of AEGON's Supervisory Board.

In accordance with the Dutch Corporate Governance Code, the Supervisory Board Rules state that no member can serve on AEGON's Supervisory Board for more than three four-year terms. However, in 2005 in the interest of continuity, the Supervisory Board requested Mr. Olcay to complete his current term in office ending in 2008, despite the fact that he had served the maximum term allowed by the Code in 2005.

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

According to the Supervisory Board Rules, the chairman is responsible for overseeing the day-to-day functions of the Supervisory Board and its committees, for keeping close track of the flow of information to the Supervisory Board, and for overseeing the consultation and decision-making processes within the Supervisory Board. The chairman is also responsible for initiating the performance evaluation of the individual members of the Supervisory and Executive Boards and for maintaining appropriate contact with the Executive Board and the Dutch Central Works Council.

The duties of the company secretary include assisting the Supervisory Board. In particular, the company secretary is responsible for the correct application of the statutory obligations under the Articles of Incorporation and the Supervisory Board Rules. The appointment of the company secretary is subject to the approval of the Supervisory Board.

COMPOSITION AND ROLE OF THE KEY COMMITTEES OF THE SUPERVISORY BOARD

In compliance with the applicable provisions of the United States' Sarbanes-Oxley Act 2002 and the Dutch Corporate Governance Code, the Supervisory Board maintains four standing committees that are comprised of its members. These committees are: the Audit Committee, the Compensation Committee, the Nominating Committee, and the Strategy Committee.

Each Committee reports its findings to the Supervisory Board and these findings are discussed in the plenary meetings of the Supervisory Board. Each of the Committees of the Supervisory Board has a charter in which the composition, duties, and internal procedures are defined. The Committee Charters are available on AEGON's website.

The Supervisory Board's yearly report, which is included in this annual report, provides information on the activities of each its Committees. This report also lists the members of each Committee.

AUDIT COMMITTEE

The Audit Committee is appointed by the Supervisory Board to assist the Supervisory Board in monitoring (1) the integrity of AEGON's financial statements, (2) the independent auditor's qualifications and independence, (3) the performance of AEGON's internal audit performance and that of the independent auditor, (4) AEGON's compliance with legal and regulatory requirements, and (5) AEGON's finances and the company's finance related strategies. The Audit Committee is chaired by Mr. Levy. The Audit Committee has determined that its group, which includes one financial expert, satisfies the criteria of independence specified by the New York Stock Exchange, the provisions of the Dutch Corporate Governance Code, and the United States Sarbanes-Oxley Act. The Executive Board members, the director of Group Finance, the Internal Auditor and the independent auditor periodically attend the meetings of the Audit Committee. In addition, at least once a year, or more often if necessary, the Audit Committee meets with the independent auditor without the presence of the Executive Board members.

COMPENSATION COMMITTEE

The purpose of the Compensation Committee is to design, develop, implement, and review the Executive Board members' compensation and terms of employment and the Supervisory Board members' compensation to be adopted by the General Meeting of Shareholders. The Compensation Committee makes its recommendations to the Supervisory Board. The Compensation Committee is chaired by Mr. Dahan.

NOMINATING COMMITTEE

The purpose of the Nominating Committee is to advise the Supervisory Board on first-appointment candidates to fill Supervisory Board vacancies and member reappointments after each four-year term. The advice of the Nominating Committee shall be based on the profile for the Supervisory Board. In addition, the Nominating Committee advises on and proposes to the Supervisory Board candidates to be nominated for appointments as members or as chairman of the Executive Board. The Nominating Committee on a regular basis reviews the individual performance of Executive Board and Supervisory Board members, as well as the selection criteria for senior management within the AEGON Group. The Nominating Committee is chaired by Mr. Eustace.

STRATEGY COMMITTEE

The Strategy Committee is responsible for reviewing the major features of the strategy proposed by the Executive Board and preparing the presentation of the strategy for the Supervisory Board. The Strategy Committee also considers strategy options and alternatives in addition to considering the material aspects related to the implementation of the agreed strategy. Finally, the Strategy Committee acts as a consultative body for the Executive Board with its strategy development. The Strategy Committee is chaired by Mr. Eustace.

CONFLICTS OF INTEREST

Rules regarding conflicts of interest applicable to members of the Supervisory Board are included in the Supervisory Board Rules. These Rules are compliant with the relevant provisions of the Dutch Corporate Governance Code and have been posted on AEGON's website.

REMUNERATION MEMBERS SUPERVISORY BOARD

The remuneration of Supervisory Board members is determined by the General Meeting of Shareholders and is not dependent on AEGON's profit. The members of the Supervisory Board do not receive any shares or rights to shares by way of remuneration.

Members of the Supervisory Board are not eligible to receive any personal loans, guarantees, or similar benefits.

AEGON has detailed regulations applicable to members of the Supervisory Board concerning the ownership of and transactions in securities, other than AEGON shares. These regulations are in compliance with the regulations prescribed by the Dutch regulators and have been further refined in light of the more detailed best practice provisions of the Dutch Corporate Governance Code. Compliance with these regulations is supervised by the Group Compliance Officer, who acts alongside compliance officers appointed by country units and the business units. The regulations applicable to members of the Supervisory Board are posted on AEGON's website.

THE SHAREHOLDERS' AND GENERAL MEETING OF SHAREHOLDERS' POWERS

AEGON places a high level of importance on dialogue with its shareholders. For this purpose, AEGON has an active department on Group level: Group Corporate Affairs & Investor Relations. One of the key opportunities for dialogue with its shareholders is the General Meeting of Shareholders. AEGON has traditionally made an effort to maximize shareholder participation by allowing proxy voting, both in the United States (where AEGON has a significant shareholder base) and in the Netherlands through Stichting Communicatiekanaal Aandeelhouders. The Supervisory Board and the Executive Board welcome increased shareholder participation. According to the Articles of Incorporation resolutions of the Executive Board entailing significant changes to the identity or character of AEGON or its business are subject to approval of the General Meeting of Shareholders.

AEGON has preferred shares class A and preferred shares class B, all of which are held by Vereniging AEGON. The capital contribution made on the outstanding 211,680,000 preferred shares class A is reflective of the market value of AEGON's common shares at the time the capital contribution was made.

Currently, Vereniging AEGON holds 29,290,000 preferred shares class B, representing approximately 1.6 percent of voting shares under normal circumstances.

The 1983 Merger Agreement (as amended) provides that additional preferred shares class B are to be issued by AEGON to Vereniging AEGON at the option of Vereniging AEGON in order to prevent Vereniging AEGON's voting power from being diluted as a result of issuances of common shares. In addition, AEGON and Vereniging AEGON have entered into a preferred shares voting rights agreement. Pursuant to this agreement, voting power attached to the preferred shares classes A and B is, under normal circumstances, limited to one vote per share. The preferred shares voting rights agreement allows Vereniging AEGON to exercise the full voting power on its preferred shares (25/12 votes per preferred share) in the event of a special cause (as defined in the preferred shares voting rights agreement) for up to six months. As a result of the foregoing and certain qualified majorities specified in AEGON's Articles of Incorporation, in the event of a special cause (as referred to above), for a period of six months Vereniging AEGON may effectively be in a position to temporarily block unfriendly actions by a hostile bidder or others. The Supervisory and Executive Board take the view that this arrangement is appropriate in the context of the 1983 Merger Agreement.

AEGON's Articles of Incorporation provide that the General Meeting of Shareholders may cancel the binding character of nominations for the appointment of new members to the Supervisory Board and the Executive Board with a majority of two-thirds of the votes cast representing at least one-half of the issued capital. In addition, members of the Executive Board and members of the Supervisory Board can only be dismissed by the General Meeting of Shareholders with the same qualified majority, except if proposed by the Supervisory Board. These provisions were included at the time of the overall review of AEGON's corporate governance and were adopted at the extraordinary General Meeting of Shareholders on May 9, 2003. The qualified majority requirement was included in order to give AEGON a temporary protection against unfriendly actions by a hostile bidder, for example. Effectively, Vereniging AEGON may for a period of six months block unfriendly attempts to replace the Supervisory Board and the Executive Board.

The Supervisory Board and the Executive Board have evaluated the provisions in AEGON's Articles of Incorporation containing the qualified majority requirements in light of the provisions of the Dutch Corporate Governance Code. Given the absence of anti-takeover protection, they concluded that the qualified majority requirements (in light of the voting rights of Vereniging AEGON) are an integral part of AEGON's protection against unfriendly actions. Taken together, the qualified majority requirements and the voting rights of Vereniging AEGON constitute the only protection AEGON currently has in place. The protection thus accorded is in line with accepted market practice.

For the purpose of further mitigating the possible negative effects of the qualified majority requirements in the ordinary course of business, the Supervisory Board has decided that, absent unfriendly actions, it shall make nominations to the Executive Board and the Supervisory Board only on a non-binding basis. This will provide the shareholders the opportunity to decide on the nomination with a simple majority. Thus, for all practical purposes, AEGON complies with the relevant principle and the relevant best practice provision. The preferred shares voting rights agreement entered into between AEGON and Vereniging AEGON, as further described before and published on AEGON's website, clearly sets out those circumstances in which the protection may be invoked and a special cause may be declared.

In the event of a serious private bid for a business unit or a participating interest in excess of the threshold as referred to in article 2:107a.1 under c of the Netherlands Civil Code, the Executive Board will make public its position on the bid and its reasons for its position.

Changes to AEGON's policy on profit appropriation (additions to reserves and on dividends) shall be discussed and accounted for as a separate item on the agenda of the annual General Meeting of Shareholders. Also, a resolution to pay a final dividend shall be dealt with as a separate item.

Release from liability of the members of the Executive Board for their management and of the members of the Supervisory Board for their supervision is separately voted upon in the annual General Meeting of Shareholders.

AEGON intends to continue its practice of providing for the determination of a registration date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders.

PROVISION OF INFORMATION TO AND LOGISTICS OF THE GENERAL MEETING OF SHAREHOLDERS

AEGON attaches high importance to fair disclosure of information to its stakeholders and the financial markets in all relevant jurisdictions. The company applies the rules and regulations dealing with disclosure set by the various regulators and the stock exchanges on which AEGON is listed. Meetings with analysts, presentations to analysts, presentations to investors and press conferences shall be announced in advance on the company's website and by means of press releases. All presentations made on these occasions are posted on AEGON's website. In accordance with market practice, the company uses various press information services to distribute its press releases.

All communications and filings are supervised by the Disclosure Committee instituted by AEGON in compliance with the United States' Sarbanes-Oxley legislation. These communications and filings are made available on AEGON's website. AEGON refrains from any actions that may jeopardize the independence of analysts in relation to the company. Other than factually, analysts' reports and valuations (including earnings estimates) are not assessed, commented upon or corrected by AEGON in advance of their publication and AEGON pays no remuneration of any kind to analysts in the context of preparing such reports or their publication.

AEGON ATTACHES HIGH IMPORTANCE TO FAIR DISCLOSURE OF INFORMATION TO ITS STAKEHOLDERS AND THE FINANCIAL MARKETS

The Executive Board and the Supervisory Board will provide the General Meeting of Shareholders with all requested information, unless overriding interests of AEGON are better served by not providing the requested information. If such overriding interests are invoked, those reasons will be substantiated. AEGON uses shareholders' circulars to inform the shareholders about the facts and circumstances relevant to upcoming proposals. Shareholders' circulars may take the form of an appropriate written explanation in the agenda of the General Meeting of Shareholders. Shareholders' circulars are published in those instances where shareholders' approval is prescribed (including delegations or authorizations requested from the General Meeting of Shareholders). As a general rule, the report of the General Meeting of Shareholders shall be made available, upon request, to the shareholders no later than three months after the meeting. Shareholders are given three months to react to the report prior to its adoption in accordance with the Articles of Incorporation. Such reaction is channeled through the chairman of the General Meeting of Shareholders and the secretary appointed by the chairman for that purpose. The report is posted on AEGON's website.

RESPONSIBILITY OF INSTITUTIONAL INVESTORS

In addition to AEGON's responsibility to its shareholders and other stakeholders, the company also is an institutional investor. As such, in deciding whether to exercise its rights as a shareholder of other listed companies, AEGON acts primarily in the interest of its policyholders and other ultimate beneficiaries of its products while also honoring the responsibility to the ultimate beneficiaries and investors in the companies in which it has invested. In compliance with local Codes of Conduct applicable to institutional investors, AEGON's country units in the United States and the United Kingdom have detailed policies in place in relation to their exercise of the voting rights attaching to the shares held by them. AEGON Nederland N.V. has published on its Dutch website, www.aegon.nl, its existing policies regarding the exercise of the voting rights attaching to the shares held by AEGON Nederland N.V. in Dutch-listed companies. In addition, a report on how this policy was implemented in 2006 is published on the website of AEGON Nederland N.V. A record of whether, and if so, how AEGON Nederland N.V. has voted as shareholder in General Meetings of Shareholders of Dutch listed companies is also published on its website. At a minimum, this record is updated on a quarterly basis.

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 his activities to the Executive Board and the Supervisory Board, raising issues in relation to his audit that require the attention of management. Pursuant to the Audit Committee Charter such issues include significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the quality of earnings, significant deviations between planned and actual performance, the selection or application of accounting principles (including any significant changes with respect thereto), any major issues as to the adequacy of its internal controls, and any special steps adopted in light of material control deficiencies.

SUMMARY

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.

CONCLUSIONS

II.2.7

This best practice provision provides that the maximum remuneration in the event of dismissal is one-year's salary. AEGON will apply this best practice provision to any future appointments to the Executive Board. The existing employment agreements with the current members of the Executive Board, and more in particular the severance arrangements to which current members of the Executive Board are entitled, are not in line with this best practice provision.

II.3.3

This best practice provision provides that a member of the Executive Board may not take part in discussions and decision making that involves a subject or transaction in relation to which he or she has a conflict of interest. Given the position of AEGON's CEO and CFO on the Executive Committee of AEGON's largest shareholder, Vereniging AEGON, this could technically give rise to a deemed conflict of interest. The Supervisory Board has determined that, also given the historic relationship with Vereniging AEGON, it is not in the best interests of AEGON to preclude the CEO and CFO from participating in discussions and decision-making relating to Vereniging AEGON. For this reason a protocol was drafted authorizing the CEO and CFO to continue the existing practice in dealing with Vereniging AEGON.

III.3.5

This best practice provision provides that a person may be appointed to the Supervisory Board for a maximum of three four-year terms. The Supervisory Board has asked Mr. Olcay to complete his current term, thus exceeding the maximum stated in the code.

IV.1.1

This best practice provision provides that the General Meeting of Shareholders may pass a resolution canceling the binding nature of a nomination for appointment of a member of the Executive Board or the Supervisory Board by an absolute majority and a limited quorum. AEGON's current Articles of Incorporation provide for a larger majority and a higher quorum than prescribed by the Code. As indicated before, the Supervisory Board takes the view that in light of the absence of any anti-takeover measures, the current text of the Articles of Incorporation is appropriate in the context of the 1983 Merger Agreement. For the purpose of further mitigating the possible negative effects of these provisions, the Supervisory Board has decided that, absent unfriendly actions, it shall make nominations to the Executive Board and the Supervisory Board only on a non-binding basis.

AEGON HAS LONG-TERM RESPONSIBILITIES TO THE COMMUNITIES IT SERVES

As a company that provides long-term financial protection and services to individuals, families and institutions in diverse international markets, AEGON also has long-term responsibilities to the communities it serves.

AEGON's 2006 Corporate Responsibility Report, which can be found on www.aegon.com, details the specific steps AEGON has been taking to ensure that these principles become an integral part of the way AEGON conducts its business around the world.

AEGON's Code of Conduct provides both management and employees with clear and consistent guidelines to responsible business practices. It defines the company's core values and underlying principles and sets out how AEGON expects its managers, employees and business partners to carry out their work with respect to local laws, customs and industry standards. AEGON believes it is critical the Code of Conduct become a vital and indispensable part of the daily operations of all AEGON's country units. The company also expects employee to come to understand and abide by these basic principles and to put them into practice in their everyday customer and business relationships. To heighten awareness of the Code of Conduct and to ensure it is implemented as effectively as possible, AEGON has put in place an intranet-based training program which was rolled out last year across its business and country units. This additional resource complements existing employee training programs that have long been a part of AEGON's corporate culture.

AEGON's structure, which emphasizes the importance of local businesses within a global framework, is also reflected in the company's approach to issues of corporate responsibility. While AEGON provides the guiding principles for this approach and sets out a Code of Conduct applicable to all company employees, each country and local business unit is empowered to identify and focus on issues specific to their local situations with respect to corporate responsibility.

All country units, however, share common objectives. These include a commitment to providing sound and transparent financial products that add value for customers, working with employees who are both committed and knowledgeable, and managing the company's businesses to the highest possible standards of integrity and in the best interests of all stakeholders.

Central to AEGON's growth objectives and its efforts to improve its record on corporate responsibility is the firm commitment to transparent products and services. As the comany's business evolves in response to changing needs, AEGON welcomes suggestions from its many stakeholders as to how the company can continue to maintain the highest ethical standards in all its activities. For AEGON, the only target that truly matters is the continued confidence and trust of its customers, business partners, employees and shareholders.

AEGON'S CODE OF CONDUCT PROVIDES BOTH MANAGEMENT AND EMPLOYEES WITH CLEAR AND CONSISTENT GUIDELINES TO RESPONSIBLE BUSINESS PRACTICES

All of AEGON's country units are committed to supporting initiatives to improve consumer awareness on savings, retirement, and protection products.

AEGON UK is heavily involved in the National Strategy for Financial Capability launched by the Financial Services Authority, while AEGON USA is a major contributor to the Life and Health Insurance Foundation for Education (LIFE). Both projects are designed to address the growing need for instruction about life, health, disability, pensions, and long-term care insurance. In the Netherlands, AEGON also has an extensive training program aimed at better preparing salesmen and intermediaries to advise customers on their insurance and savings requirements.

AEGON'S CORE VALUES

RESPECT
We treat all our stakeholders as we would 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.

AEGON and its employees are active members of the communities in which they work and live. AEGON companies make a range of charitable donations and its employees often volunteer time and expertise to a wide variety of local causes. AEGON also donates funds to larger causes. In particular, AEGON is supporting the international fight against cancer, helping fund a program of research into prostate, breast and colon cancer. As part of these programs, money has been donated to the VU Medical Center in Amsterdam, the Erasmus Medical Center in Rotterdam, the Utrecht University Medical Center, the Johns Hopkins Oncology Center in Baltimore, and the Nanjing University in China.

AEGON is determined to build on the achievements of 2006 and further improve its corporate responsibility record in the coming year. Already in 2007, AEGON has signed up to the Carbon Disclosure Project, which encourages companies around the world to be more open about their greenhouse gas emissions. Going forward, AEGON will pursue new, globally coordinated initiatives to reduce energy consumption, set out guidelines for responsible investment and establish minimum corporate responsibility standards for suppliers in all its major procurement centers.

AEGON continues to receive external recognition for its performance in matters of Corporate Responsibility. The company is included in both the Dow Jones Sustainability and FTSE4Good indices, which rank companies according to their ability to manage a variety of economic, social and environmental risks. AEGON's continued inclusion in these indices is tangible evidence of the company's commitment to its core principles of corporate responsibility and a further indication that AEGON may legitimately take its place among the world's leading insurance companies, not only in terms of its size and financial performance but also in terms of sound and responsible management of its businesses.

AEGON'S STAKEHOLDERS

CUSTOMERS
AEGON builds long-term relationships with all its customers by delivering products and services designed to improve their financial security, both now and in the future. The company ensures its customers have clear, accurate and timely information, allowing them to choose the right products and services for their evolving needs. AEGON shows its customers respect by honoring its commitments to them, by soliciting their views and, where appropriate, acting upon them.

SHAREHOLDERS
AEGON works hard to create sustainable financial returns for its shareholders, while making sure the company also respects its core values and the concerns of all its other stakeholders. Open, accurate and timely financial communication allows shareholders to make informed decisions regarding their investments in the company.

EMPLOYEES
AEGON provides its employees with the incentives they need to translate the company's core values of respect, quality, transparency and trust into practice. AEGON encourages a culture in which employees are committed to working together. Training is a high priority for AEGON and the company provides formal skills and development training for employees at all levels.

BUSINESS PARTNERS
AEGON builds lasting relationships with business partners who share its basic core values. Together, AEGON and its partners work to provide quality products and services. At all times, AEGON strives to communicate openly and accurately and expects its business partners to do the same.

COMMUNITIES
AEGON endeavors to establish long-term relationships within the communities in which it operates. Through employment and the opportunities AEGON provides for personal development, as well as through respect for the local environment, AEGON hopes to enrich the communities in which its employees live and work.

Chapter five

FINANCIAL INFORMATION

AEGON'S DISCIPLINED FINANCIAL MANAGEMENT AIMS TO ENSURE THE CREATION OF LONG-TERM VALUE FOR ALL STAKEHOLDERS

Financial information

CONTENTS

Consolidated financial statements of AEGON Group 2006

Notes to the consolidated financial statements of AEGON Group 2006

Financial statements of AEGON N.V. 2006

Notes to the financial statements of AEGON N.V. 2006

Other information

EXCHANGE RATES

Exchange rates at December 31, 2006

		EUR	USD	GBP	CAD	PLN	CNY	HUF	NTD	CZK	SKK
1	EUR	–	1.3170	0.6715	1.5281	3.8310	10.2793	251.770	42.835	27.485	34.435
1	USD	0.759	–	0.510	1.160	2.909	7.805	191.169	32.525	20.869	26.147
1	GBP	1.489	1.961	–	2.276	5.705	15.308	374.937	63.791	40.931	51.281
1	CAD	0.654	0.862	0.439	–	2.507	6.727	164.760	28.032	17.986	22.535
1	PLN	0.261	0.344	0.175	0.399	–	2.683	65.719	11.181	7.174	8.989
1	CNY	0.097	0.128	0.065	0.149	0.373	–	24.493	4.167	2.674	3.350
100	HUF	0.397	0.523	0.267	0.607	1.522	4.083	–	17.014	10.917	13.677
100	NTD	2.335	3.075	1.568	3.567	8.944	23.997	587.762	–	64.164	80.389
100	CZK	3.638	4.792	2.443	5.560	13.939	37.400	916.027	155.850	–	125.287
100	SKK	2.904	3.825	1.950	4.438	11.125	29.851	731.146	124.395	79.817	–

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 2006

		EUR	USD	GBP	CAD	PLN	CNY	HUF	NTD	CZK	SKK
1	EUR	–	1.2566	0.6809	1.42360	3.8960	10.0080	264.268	41.250	28.259	37.005
1	USD	0.796	–	0.542	1.133	3.100	7.964	210.304	32.827	22.488	29.449
1	GBP	1.469	1.845	–	2.091	5.722	14.698	388.116	60.582	41.502	54.347
1	CAD	0.702	0.883	0.478	–	2.737	7.030	185.634	28.976	19.850	25.994
1	PLN	0.257	0.323	0.175	0.365	–	2.569	67.831	10.588	7.253	9.498
1	CNY	0.100	0.126	0.068	0.142	0.389	–	26.406	4.122	2.824	3.698
100	HUF	0.378	0.476	0.258	0.539	1.474	3.787	–	15.609	10.693	14.003
100	NTD	2.424	3.046	1.651	3.451	9.445	24.262	640.650	–	68.507	89.709
100	CZK	3.539	4.447	2.409	5.038	13.787	35.415	935.164	145.971	–	130.949
100	SKK	2.702	3.396	1.840	3.847	10.528	27.045	714.141	111.471	76.365	–

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	–

CONSOLIDATED BALANCE SHEET OF AEGON GROUP AS AT DECEMBER 31, 2006

Amounts in EUR million	Note	2006	2005
ASSETS			
Intangible assets	6	4,338	4,678
Investments	7	136,131	146,075
Investments for account of policyholders	8	135,537	127,547
Derivatives	9	1,883	2,295
Investments in associates	10	478	542
Reinsurance assets	11	3,970	4,125
Defined benefit assets	25	398	409
Deferred tax assets	27	3	83
Deferred expenses and rebates	12	11,458	11,348
Other assets and receivables	13	7,473	6,806
Cash and cash equivalents	14	13,144	7,307
TOTAL ASSETS		**314,813**	**311,215**
EQUITY AND LIABILITIES			
Shareholders' equity	15	19,137	19,276
Other equity instruments	16	4,032	3,379
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF AEGON N.V.		**23,169**	**22,655**
Minority interest		16	15
GROUP EQUITY		**23,185**	**22,670**
Trust pass-through securities	17	123	437
Subordinated borrowings	18	34	284
Insurance contracts	19	88,428	95,690
Insurance contracts for account of policyholders	20	72,194	70,280
Investment contracts	21	36,618	38,842
Investment contracts for account of policyholders	22	64,097	58,724
Derivatives	9	1,788	2,202
Borrowings	23	4,991	5,532
Provisions	24	262	253
Defined benefit liabilities	25	2,040	2,015
Deferred revenue liabilities	26	43	84
Deferred tax liabilities	27	2,843	2,911
Other liabilities	28	17,734	10,733
Accruals	29	433	558
TOTAL LIABILITIES		**291,628**	**288,545**
TOTAL EQUITY AND LIABILITIES		**314,813**	**311,215**

CONSOLIDATED INCOME STATEMENT OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts in EUR million (except per share data)	Note	2006	2005	2004
Income				
Premium income	30	24,570	18,882	18,329
Investment income	31	10,376	9,937	9,337
Fee and commission income	32	1,665	1,444	1,303
Other revenues	33	4	73	331
Total revenues		**36,615**	**30,336**	**29,300**
Income from reinsurance ceded		1,468	1,691	1,548
Net fair value and foreign exchange gains	34	937	698	206
Net gains on investments for account of policyholders	35	9,313	11,340	5,873
Net gains on investments	36	965	1,269	1,290
Other income	37	11	176	138
TOTAL INCOME		**49,309**	**45,510**	**38,355**
Charges				
Premiums to reinsurers	30	1,671	1,554	1,563
Policyholder claims and benefits	38	35,848	33,807	26,984
Profit sharing and rebates	39	133	171	156
Commissions and expenses	40	6,085	5,522	5,784
Net fair value and foreign exchange losses	34	127	385	199
Net losses on investments for account of policyholders	35	1,174	2	13
Net losses on investments	36	526	112	87
Impairment charges/(reversals)	41	24	(14)	183
Interest charges and related fees	42	362	373	398
Other charges	43	1	3	218
TOTAL CHARGES		**45,951**	**41,915**	**35,585**
Income before share in profit/(loss) of associates and tax		**3,358**	**3,595**	**2,770**
Share in profit/(loss) of associates		32	20	25
Income before tax		**3,390**	**3,615**	**2,795**
Income tax	44	(601)	(885)	(537)
Income after tax		**2,789**	**2,730**	**2,258**
Attributable to minority interest		–	2	(2)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF AEGON N.V.		**2,789**	**2,732**	**2,256**
Earnings and dividends per share				
Basic earnings per share (EUR per share) [1]	45	1.63	1.63	1.38
Diluted earnings per share (EUR per share) [1]	45	1.62	1.63	1.38
Dividend per share (EUR per share)	46	0.55	0.45	0.42

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

CONSOLIDATED CASH FLOW STATEMENT OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts in EUR million	2006	2005 [1]	2004 [1]
Income before tax	**3,390**	**3,615**	**2,795**
Gains and losses on investments (including foreign exchange differences)	(9,397)	(12,820)	(7,166)
Amortization and depreciation	1,916	1,792	1,957
Impairment losses	33	(2)	279
Income from associates	(32)	(20)	(25)
Other	7	334	(139)
Adjustments of non-cash items	**(7,473)**	**(10,716)**	**(5,094)**
Insurance and investment liabilities	1,993	3,512	4,206
Insurance and investment liabilities for account of policyholders	12,028	13,964	9,447
Accrued income and prepayments	(3,119)	(1,937)	(1,274)
Accrued expenses and other liabilities	2,729	(3,309)	(1,114)
Release of cash flow hedging reserve	(130)	63	(23)
Changes in accruals	**13,501**	**12,293**	**11,242**
Purchase of investments (other than money market investments)	(63,989)	(64,310)	(70,078)
Purchase of derivatives	(1,009)	(76)	(528)
Disposal of investments (other than money market investments)	64,046	61,943	62,819
Disposal of derivatives	855	35	384
Net purchase of investments for account of policyholders	(5,361)	(1,628)	(751)
Net change in cash collateral	5,774	(822)	2,783
Net purchase of money market investments	(1,623)	(57)	(2,386)
Cash flow movements on operating items not reflected in income	**(1,307)**	**(4,915)**	**(7,757)**
Tax paid	(442)	(680)	(296)
Other	185	(683)	(94)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**7,854**	**(1,086)**	**796**

Continuation ›

CONSOLIDATED CASH FLOW STATEMENT OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2006

› Continuation

Amounts in EUR million	Note	2006	2005[1]	2004[1]
Purchase of individual intangible assets (other than VOBA and future servicing rights)		(10)	(17)	(16)
Purchase of equipment and other material assets		(62)	(80)	(258)
Acquisition of subsidiaries and associates		(143)	(174)	(336)
Disposal of individual intangible assets (other than VOBA and future servicing rights)		1	–	–
Disposal of equipment and other material assets		19	9	29
Disposal of subsidiaries and associates		11	319	5,590
Dividend received from associates		4	3	–
Other		(19)	–	–
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(199)**	**60**	**5,009**
Issuance of share capital		2	2	1
Issuance of perpetuals		638	1,457	1,352
Issuance and purchase of treasury shares		(262)	74	22
Proceeds from TRUPS, subordinated loans and borrowings		1,554	1,038	571
Repayment of perpetuals		–	(950)	–
Repayment of TRUPS, subordinated loans and borrowings		(2,109)	(1,573)	(3,586)
Dividends paid		(471)	(272)	(351)
Coupon on perpetuals		(204)	(192)	(129)
Other		(22)	(2)	1
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(874)**	**(418)**	**(2,119)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS[2]		**6,781**	**(1,444)**	**3,686**
Net cash and cash equivalents at the beginning of the year		6,068	6,804	3,563
Effects of changes in exchange rate		(458)	708	(445)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**12,391**	**6,068**	**6,804**

[1] In 2006, AEGON changed its presentation of cash flows from purchases and disposals of financial assets (excluding derivatives and financial assets through profit or loss), investments in real estate and real estate held for own use. The 2005 and 2004 comparatives have been adjusted accordingly. Refer to note 2.2 for more details.

[2] Included in net increase in cash and cash equivalents are interest received (EUR 9,458 million; 2005: EUR 9,099 million and 2004: EUR 8,180 million), dividends received (EUR 1,192 million; 2005: EUR 870 million and 2004: EUR 796 million) and interest paid (EUR 123 million; 2005: EUR 50 million and 2004: EUR 189 million).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
At January 1		6,812	9,318	2,293	853	3,379	22,655	15	22,670
Revaluations		–	–	(660)	–	–	(660)	–	(660)
Transfers between revaluation reserves and retained earnings		–	–	–	–	–	–	–	–
(Gains)/losses transferred to income statement on disposal and impairment		–	–	(130)	–	–	(130)	–	(130)
Equity movements of associates		–	–	–	(66)	–	(66)	–	(66)
Foreign currency translation differences		–	–	(77)	–	–	(77)	–	(77)
Movements in foreign currency translation and net foreign investment hedging reserves		–	–	–	(1,325)	–	(1,325)	–	(1,325)
Aggregate tax effect of items recognized directly in equity		–	–	134	–	2	136	–	136
Other		–	(15)	88	–	–	73	1	74
NET INCOME RECOGNIZED DIRECTLY IN EQUITY		**–**	**(15)**	**(645)**	**(1,391)**	**2**	**(2,049)**	**1**	**(2,048)**
Net income recognized in the income statement		–	2,789	–	–	–	2,789	–	2,789
TOTAL RECOGNIZED NET INCOME FOR 2006		**–**	**2,774**	**(645)**	**(1,391)**	**2**	**740**	**1**	**741**
Shares issued		2	–	–	–	–	2	–	2
Treasury shares		(242)	(20)	–	–	–	(262)	–	(262)
Other equity instruments issued		–	–	–	–	638	638	–	638
Dividends paid on ordinary shares		–	(391)	–	–	–	(391)	–	(391)
Preferred dividend		–	(80)	–	–	–	(80)	–	(80)
Coupons on perpetuals		–	(143)	–	–	–	(143)	–	(143)
Share options		–	–	–	–	13	13	–	13
Other		–	(3)	–	–	–	(3)	–	(3)
AT DECEMBER 31, 2006	**15, 16**	**6,572**	**11,455**	**1,648**	**(538)**	**4,032**	**23,169**	**16**	**23,185**

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

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

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
At January 1		6,590	6,825	2,141	(681)	2,869	17,744	15	17,759
Revaluations		–	–	(293)	–	–	(293)	–	(293)
Transfers between revaluation reserves and retained earnings		–	4	(4)	–	–	–	–	–
(Gains)/losses transferred to income statement on disposal and impairment		–	–	54	–	–	54	–	54
Equity movements of associates		–	–	–	19	–	19	–	19
Foreign currency translation differences		–	–	142	–	–	142	–	142
Movements in foreign currency translation and net foreign investment hedging reserves		–	–	–	1,515	–	1,515	–	1,515
Aggregate tax effect of items recognized directly in equity		–	–	242	–	–	242	–	242
Other		–	(55)	11	–	–	(44)	2	(42)
NET INCOME RECOGNIZED DIRECTLY IN EQUITY		**–**	**(51)**	**152**	**1,534**	**–**	**1,635**	**2**	**1,637**
Net income recognized in the income statement		–	2,732	–	–	–	2,732	(2)	2,730
TOTAL RECOGNIZED NET INCOME FOR 2005		**–**	**2,681**	**152**	**1,534**	**–**	**4,367**	**–**	**4,367**
Shares issued		2	–	–	–	–	2	–	2
Treasury shares		220	(146)	–	–	–	74	–	74
Other equity instruments issued		–	–	–	–	1,457	1,457	–	1,457
Other equity instruments redeemed		–	–	–	–	(950)	(950)	–	(950)
Dividends paid on ordinary shares		–	(193)	–	–	–	(193)	–	(193)
Preferred dividend		–	(79)	–	–	–	(79)	–	(79)
Coupons on perpetuals		–	(132)	–	–	–	(132)	–	(132)
Share options		–	–	–	–	3	3	–	3
Other		–	362	–	–	–	362	–	362
AT DECEMBER 31, 2005	**15, 16**	**6,812**	**9,318**	**2,293**	**853**	**3,379**	**22,655**	**15**	**22,670**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF AEGON GROUP FOR THE YEAR ENDED DECEMBER 31, 2004

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1]	Minority interest	Total
At January 1		6,353	5,269	1,660	15	1,517	14,814	29	14,843
Revaluations		–	–	921	–	–	921	–	921
(Gains)/losses transferred to income statement on disposal and impairment		–	–	(23)	–	–	(23)	–	(23)
Equity movements of associates		–	–	–	59	–	59	–	59
Foreign currency translation differences		–	–	(77)	–	–	(77)	–	(77)
Movements in foreign currency translation and net foreign investment hedging reserves		–	–	–	(755)	–	(755)	–	(755)
Aggregate tax effect of items recognized directly in equity		–	(29)	(329)	–	–	(358)	–	(358)
Other		–	5	(11)	–	–	(6)	(16)	(22)
NET INCOME RECOGNIZED DIRECTLY IN EQUITY		**–**	**(24)**	**481**	**(696)**	**–**	**(239)**	**(16)**	**(255)**
Net income recognized in the income statement		–	2,256	–	–	–	2,256	2	2,258
TOTAL RECOGNIZED NET INCOME FOR 2004		**–**	**2,232**	**481**	**(696)**	**–**	**2,017**	**(14)**	**2,003**
Shares issued		1	–	–	–	–	1	–	1
Treasury shares		236	(214)	–	–	–	22	–	22
Other equity instruments issued		–	–	–	–	1,352	1,352	–	1,352
Dividends paid on ordinary shares		–	(256)	–	–	–	(256)	–	(256)
Preferred dividend		–	(95)	–	–	–	(95)	–	(95)
Coupons on perpetuals		–	(84)	–	–	–	(84)	–	(84)
Other		–	(27)	–	–	–	(27)	–	(27)
AT DECEMBER 31, 2004	**15, 16**	**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF AEGON GROUP

Amounts in EUR million, unless otherwise stated

1 GENERAL INFORMATION

AEGON N.V., incorporated and domiciled in the Netherlands, is a limited liability share company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at AEGONplein 50, 2591 TV The Hague. AEGON N.V. serves as the holding company for the AEGON Group and has listings of its common shares in Amsterdam, New York, London and Tokyo.

AEGON N.V. and its subsidiaries and joint ventures (AEGON or 'the Group') have life insurance and pensions operations in over ten countries in Europe, the Americas and Asia and are also active in savings and investment operations, accident and health insurance, general insurance and limited banking operations in a number of these countries. The largest operations are in the United States. Headquarters are located in The Hague, the Netherlands. The Group employs approximately 29,000 people worldwide.

2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), which for AEGON is equal to IFRS as published by the International Accounting Standard Board (IASB). AEGON therefore also complies with IFRS as published by the IASB.

With regard to the income statement of AEGON N.V., article 402, Part 9 of Book 2 of the Netherlands Civil Code has been applied, allowing a simplified format. Certain amounts in prior years have been reclassified to conform to the current year presentation.

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2006, the Group has adopted the following relevant standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC):

- The amendments to International Accounting Standard (IAS) 21 *Net investments in foreign operations* – required date of adoption January 1, 2006;
- IFRIC 4 *Determining whether an arrangement contains a lease* – required adoption date January 1, 2006.

The amendments to IAS 21 broadens the definition of net investment so that monetary items no longer need to be denominated in either the functional currency of the parent company or the functional currency of the foreign operation. Also, the new standard clarifies that monetary items resulting from transactions between subsidiaries may also qualify.

IFRIC 4 addresses how to determine whether an arrangement is, or contains, a lease as defined in IAS 17 Leases, when the assessment or reassessment of the arrangement would be made and, if applicable, how the payments for the lease should be separated from payments for any other elements in the arrangement.

The adoption of these standards and interpretations did not have an impact on equity or net income. The Group has not opted to early adopt any standards or interpretations in 2006.

The following standards and interpretations will be implemented in the coming years:

- IFRS 7 *Financial Instruments: Disclosures* – required adoption date January 1, 2007;
- The amendments to IAS 1 *Capital Disclosures* – required adoption date January 1, 2007;
- The amendments to the guidance on implementation of IFRS 4 *Insurance Contracts* – required adoption date January 1, 2007;
- IFRS 8 *Operating segments* – required adoption date January 1, 2009;
- IFRIC 8 Scope IFRS 2 *Share-based payment* – required adoption date January 1, 2007;
- IFRIC 9 *Reassessment of embedded derivatives* – required adoption date January 1, 2007;
- IFRIC 10 *Interim financial reporting and impairment* – required adoption date January 1, 2007;
- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* – required adoption date January 1, 2007.

The Group intends to apply these standards and interpretations as of the required dates of adoption, subject to EU endorsement, with the exception of IFRS 8 which will be early adopted in 2007.

IFRS 7, the related amendments to IAS 1 and the implementation guidance to IFRS 4 will affect the disclosures on financial instruments, insurance contracts and capital provided in the Group's consolidated financial statements. The standards are not expected to have an impact on equity or net income.

The IASB issued IFRS 8 as part of the convergence project with the US Financial Accounting Standards Board. This new standard replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting as required in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. AEGON intends to early adopt IFRS 8 as it allows for a better portrayal of the Group's operating segments' performance as the information reported is consistent with that used internally for management purposes.

IFRIC 8 clarifies that IFRS 2 *Share-based Payment* applies to all transactions in which an entity receives non-financial assets or services as consideration for the issue of its equity instruments, even where nil consideration appears to be received.

The interpretation is not expected to have an impact on equity or net income.

IFRIC 9 provides additional guidance to the principle in IAS 39 to assess whether a contract contains embedded derivatives that require bifurcation when the company first becomes a party to the contract. IFRIC 9 requires an additional assessment to be performed when there is a change in the terms of the contract that significantly modifies the contract's cash flows.

The interpretation prohibits subsequent reassessments to be performed in other instances, with the exception of business combinations for which a scope exclusion is made. IFRIC 9 is consistent with the Group's current policy on the reassessment of embedded derivatives. Therefore, no impact on equity or net income is expected.

IFRIC 10 prohibits entities from reversing impairment losses recognized in previous interim periods in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The interpretation is not expected to have an impact on equity or net income.

As allowed by IFRS 4 *Insurance Contracts*, the Group values its insurance contracts in accordance with the accounting principles that were applied prior to the transition to IFRS. The assets and liabilities relating to insurance contracts issued in the United States and Canada are accounted for in accordance with United Stated Generally Accepted Accounting Principles (US GAAP). On September 19, 2005, the American Institute of Certified Public Accountants (AICPA) released SOP 05-1 *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*. This SOP provides guidance on the accounting for replacements of one contract by another. Depending on whether certain conditions are met, the replacement is accounted for as either an extinguishment or as a continuation of the replaced contract. The classification will affect the accounting for unamortized deferred policy acquisition costs (DPAC), unearned revenue liabilities and deferred sales inducement assets from the replaced contract.

The Group will adopt SOP 05-1 for insurance contracts issued in the United States and Canada effective January 1, 2007. As a result of adopting SOP 05-1, AEGON expects to report a cumulative effect of a change in accounting principle resulting in a noncash decrease to retained earnings of an immaterial amount. The adoption of SOP 05-1 is also expected to result in an immaterial increase in DAC amortization in 2007 and future years. The actual impact will depend on policy modification activity as well as any possible exchange programs implemented in the future.

2.2 CHANGES IN ACCOUNTING AND PRESENTATION POLICIES

In 2006 AEGON changed its presentation of cash flows from purchases and sales of financial assets (excluding derivatives and financial assets at fair value through profit and loss), investments in real estate and real estate held for own use. These cash flows were previously reported as cash flows from investing activities and are now reported as cash flows from operating activities.

AEGON believes it is more relevant to group together all cash flows from transactions related to policyholders and contractholders, including premiums and deposits, claims and other benefits, and the associated purchase and sale of investments related to the cash flows from transactions with policyholders and contractholders, as cash flows from operating activities because all of these activities relate to AEGON's principal revenue producing activity of entering into insurance and investment contracts with policyholders and contractholders and subsequently investing the premiums and deposits received to meet the obligations resulting from these contracts. Furthermore, AEGON has refined its definition of investing activities to include only those investing activities not related to transactions with policyholders and contractholders, as well as the definition of financing activities to include only those items that AEGON views as part of the financing of the Group's activities. The 2005 and 2004 comparatives have been reclassified accordingly.

2.3 BASIS OF CONSOLIDATION

Business combinations that occurred before the adoption date of IFRS (1 January 2004) have not been restated. No operations have been identified as assets held for sale or disposal unit.

A. Subsidiaries

The consolidated financial statements include the financial statements of AEGON N.V. and its subsidiaries. Subsidiaries are entities over which AEGON has direct or indirect power to govern the financial and operating policies so as to obtain benefits from its activities ('control'). The assessment of control is based on the substance of the relationship between the Group and the entity and, among other things, considers existing and potential voting rights that are currently exercisable and convertible.

Special purpose entities are consolidated if, in substance, the activities of the entity are conducted on behalf of the Group, the Group has the decision-power to obtain control of the entity or has delegated these powers through an autopilot, the Group can obtain the majority of the entity's benefits or the Group retains the majority of the residual risks related to the entity or its assets.

The subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the Group's accounting principles and reporting year. Intra-group transactions, including AEGON N.V. shares held by subsidiaries, which are recognized as treasury shares in equity, are eliminated. Intra-group losses are eliminated, except to the extent that the underlying asset is impaired. Minority interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the minority's share in changes in the subsidiary's equity.

The excess of the cost of acquisition, comprising the consideration paid to acquire the interest and the directly related costs, over the Group's share in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized directly in the income statement. If the fair value of the assets, liabilities and contingent liabilities acquired in the business combination has been determined provisionally, adjustments to these values resulting from the emergence of new evidence within twelve months after the acquisition date are made against goodwill. Also, goodwill is adjusted for changes in the estimated value of contingent considerations given in the business combination when they arise. Contingent consideration is discounted and the unwinding is recognized in the income statement as an interest expense.

When control is obtained in successive share purchases, each significant transaction is accounted for separately. The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds and the carrying amount of the subsidiary is recognized in the income statement.

Investment funds

Investment funds managed by the Group in which the Group holds an interest are consolidated in the financial statements if the Group can govern the financial and operating policies of the fund. In assessing control all interests held by the Group in the fund are considered, regardless of whether the financial risk related to the investment is borne by the Group or by the policyholders.

On consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. Where this is not the case, other participations held by third parties are presented as minority interests in equity. The assets allocated to participations held by third parties or by the Group on behalf of policyholders are presented in the consolidated financial statements as investments for account of policyholders.

Equity instruments issued by the Group that are held by the investment funds are eliminated on consolidation. However, the elimination is reflected in equity and not in the measurement of the related financial liabilities towards policyholders or other third parties.

B. Jointly controlled entities

Joint ventures are contractual agreements whereby the Group undertakes with other parties an economic activity that is subject to joint control.

Interests in joint ventures are recognized using proportionate consolidation, combining items on a line by line basis from the date the jointly controlled interest commences. Gains and losses on transactions between the Group and the joint venture are recognized to the extent that they are attributable to the interests of other venturers, with the exception of losses that are evidence of impairment and that are recognized immediately.

The acquisition of an interest in a joint venture may result in goodwill, which is accounted for consistently with the goodwill recognized on the purchase of a subsidiary.

The use of proportionate consolidation is discontinued from the date on which the Group ceases to have joint control.

2.4 FOREIGN EXCHANGE TRANSLATION

A. Translation of foreign currency transactions

A group entity prepares its financial statements in the currency of the primary environment in which it operates. Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing at the date of the transaction.

At the balance sheet date monetary assets and monetary liabilities are translated at the closing rate. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in equity as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items are recognized in equity or the income statement, consistently with other gains and losses on these items.

B. Translation of foreign currency operations

On consolidation, the financial statements of group entities with a foreign functional currency are translated to euro, the currency in which the consolidated financial statements are presented. Assets and liabilities are translated at the closing rates on the balance sheet date. Income, expenses and capital transactions (such as dividends) are translated at average exchange rates or at the prevailing rates on the transaction date, if more appropriate. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated at the closing rates on the balance sheet date.

The resulting exchange differences are recognized in the 'foreign currency translation reserve', which is part of shareholders' equity.

On disposal of a foreign entity the related cumulative exchange differences included in the reserve are recognized in the income statement.
On transition to IFRS on January 1, 2004, the foreign currency translation reserve was reset to nil.

2.5 SEGMENT REPORTING

As the Group's risks and rates of return are predominantly affected by the fact that it operates in different countries, the primary basis for segment reporting is geographical segments. Geographical segments are defined based on the location of assets. Secondary segment information is reported for groups of related products.
The Group uses operating earnings before tax in its segment reporting as an important indicator of its financial performance. Included in operating earnings are segment revenues and segment expenses. Segment revenues consists of premium income, investment income, fee and commission income, income from banking activities and other revenues. Segment expenses consist of premiums to reinsurers, policyholder claims and benefits (excluding the effect of charges to policyholders in respect of income tax), profit sharing and rebates and commissions and expenses. In addition to segment revenues, the following income items are also included in the calculation of operating earnings: reinsurance claims and benefits, fair value and foreign exchange gains and gains on investments for account of policyholders. Similarly, in addition to segment expenses, the following expense items are also included in the calculation of operating earnings: fair value and foreign exchange losses, losses on investments for account of policyholders and interest and related charges.
Operating earnings before tax excludes the effect from net gains and losses on investments, impairment charges and non-recurring income and expense items. Net gains/losses on investments includes net realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss, and net gains and losses on investments in real estate. Net gains/losses also includes fair value changes for derivatives for which no hedge accounting is applied and the economically hedged underlying assets or liabilities are not valued at fair value through profit or loss. Derivatives included in gains and losses on investments are considered economic hedges of certain exposures related to an existing asset or liability and are part of the Group's asset liability management. Gains and losses on investments also include the ineffective portions of hedge transactions. DPAC and VOBA offsetting charges for realized gains and losses and impairments on investments are included in other income/other charges and excluded from operating earnings.

2.6 OFFSETTING OF ASSETS AND LIABILITIES

Financial assets and liabilities are offset in the balance sheet when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

2.7 INTANGIBLE ASSETS

A. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and joint ventures acquired after January 1, 2004 and is measured as the positive difference between the acquisition cost and the Group's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary or joint venture is disposed of.

B. Value of business acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA). The Group also recognizes VOBA when it acquires a portfolio of investment contracts with discretionary participation features.
VOBA is amortized over the useful life of the acquired contracts, based on either the expected future premiums or the expected gross profit margins. For products sold in the United States and Canada, with amortization based on expected gross profit margins, the amortization period and pattern are reviewed at each reporting date. Any change in estimates is recorded in the income statement. For all products, VOBA is assessed for recoverability at least annually on a country-by-country basis and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test for each reporting period.
When unrealized gains or losses arise on available-for-sale assets, VOBA is adjusted to equal the effect that the realization of the gains or losses would have had on VOBA. The adjustment is recognized directly in shareholders' equity. VOBA is derecognized when the related contracts are settled or disposed of.

C. Future servicing rights

On the acquisition of a portfolio of investment contracts without discretionary participation features under which AEGON will render investment management services, the present value of future servicing rights is recognized as an intangible asset. Future servicing rights can also be recognized on the sale of a loan portfolio or the acquisition of insurance agency activities.

The present value of the future servicing rights is amortized over the servicing period as the fees from services emerge and is subject to impairment testing. It is derecognized when the related contracts are settled or disposed of.

D. Other intangible assets

Other intangible assets are recognized to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

The intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in the income statement.

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.8 INVESTMENTS

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

A. Financial assets

Financial assets are recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the Group's risk management and investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances the Group designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near future are accounted for as loans. To the extent that the Group has the intention and ability to hold a quoted financial asset with fixed payments to the maturity date, it is classified as held-to-maturity.

All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized directly in shareholders' equity. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Measurement > *Amortized cost*

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Measurement > *Fair value*

The consolidated financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the values are provided in the notes to the financial statements.

The fair value of an asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied the discount rate is based on current market rates applicable to financial instruments with similar characteristics. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset's cash flows expire, when the Group has transferred the asset and substantially all the risks and rewards of ownership, or when the Group has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. Financial assets, in respect of which the Group has neither transferred nor retained all the risks and rewards, are recognized to the extent of the Group's continuing involvement. If significantly all risks are retained, the assets are not derecognized.
On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders' equity is also recognized in the income statement.

Security lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash collateral received, on which interest is accrued.
A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash collateral paid by AEGON. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and measured at fair value.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure is foreclosed. When cash collateral is recognized, a liability is recorded for the same amount.

B. Real estate

Property that is occupied by the Group and that is not intended to be sold in the near future is classified as real estate held for own use. Investments in real estate is property held to earn rentals or for capital appreciation, or both. Considering the Group's asset liability management policies, under which both categories of property can be allocated to liabilities resulting from insurance and investment contracts, both are presented as investments.

All property is initially recognized at cost. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognized in the related revaluation reserve in shareholders' equity and are released to retained earnings over the remaining useful life of the property.
Valuations of both investments in real estate and real estate held for own use are conducted with sufficient regularity to ensure the value correctly reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties. For property held for own use, valuers may also consider the present value of the future rental income cash flows that could be achieved had the real estate been let out.
On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

Property under construction

The Group develops property itself with the intention to hold it as investments in real estate. During the construction phase both the land and the building are presented as real estate held for own use, are held at cost, including directly attributable borrowing costs, and are not depreciated. When the construction phase is completed, the property is transferred to investments in real estate and revalued at fair value. Any resulting gain or loss is recognized in the income statement.

Maintenance costs and other subsequent expenditure

Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

2.9 INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS

Investments held for account of policyholders consist of investments in financial assets, excluding derivatives, as well as investments in real estate and real estate held for own use. Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. The accounting principles are the same as those applicable to general account investments, as described in note 2.8.

2.10 DERIVATIVES

A. Definition

Derivatives are financial instruments of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Group considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. Derivatives for which the contractual obligation can only be settled by exchanging a fixed amount of cash for a fixed amount of AEGON N.V. equity instruments are accounted for in shareholders' equity and are therefore discussed in the notes on equity.

B. Measurement

All derivatives are recognized on the balance sheet at fair value. All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net foreign investment.

The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available.

C. Hedge accounting

As part of its asset liability management, the Group enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the actual results of the hedge are within a ratio of 80% to 125%.

For hedge accounting purposes, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Fair value hedges are hedges of a change in the fair value of an unrecognized firm commitment or an asset or liability that is not held at fair value through profit or loss. The hedged item is remeasured to fair value in respect of the hedged risk and the resulting adjustment is recorded in the income statement.

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecasted transaction or a recognized asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognized in the related revaluation reserve in shareholders' equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in shareholders' equity is released to the income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in shareholders' equity is included in the initial cost of the asset or liability.

Net investment hedges are hedges of currency exposures on a net investment in a foreign operation. To the extent that the hedge is effective, the change in the fair value of the hedging instrument is recognized in shareholders' equity. Any ineffectiveness is recognized in the income statement. The amount in shareholders' equity is released to the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a fair value hedge, the derivative continues to be carried on the balance sheet with changes in its fair value recognized in the income statement. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders' equity is recognized immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders' equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

2.11 INVESTMENTS IN ASSOCIATES

Entities over which the Group has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary or joint venture, are accounted for using the equity method. Interests held by venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by the Group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Interests in associates are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group's share in the net assets of the associate and is subject to impairment testing. The net assets are determined based on the Group's accounting policies. Any gains and losses recorded directly in shareholders' equity by the associate are reflected in other reserves in shareholders' equity, while the share in the associate's net income is recognized as a separate line item in the consolidated income statement. The Group's share in losses is recognized until the investment in the associate's equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of AEGON N.V. that are held by the associate are not eliminated.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in shareholders' equity are reversed and recorded through the income statement.

2.12 REINSURANCE ASSETS

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for losses on contracts written by the Group (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.13 DEFERRED EXPENSES AND REBATES

A. Deferred policy acquisition costs

DPAC relates to insurance contracts and investment contracts with discretionary participation features and represents the variable costs that are related to the acquisition or renewal of these contracts.

Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on either the expected future premiums or the expected gross profit margins. For products sold in the United States and Canada with amortization based on expected gross profit margins, the amortization period and pattern are reviewed at each reporting date and any change in estimates is recognized in the income statement. Estimates include, but are not limited to: an economic perspective in terms of future returns on bond and equity instruments, mortality, disability and lapse assumptions, maintenance expenses and expected inflation rates. For all products, DPAC is assessed for recoverability at least annually on a country-by-country basis and is considered in the liability adequacy test for each reporting period. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. The portion of DPAC that is determined not to be recoverable is charged to the income statement.

When unrealized gains or losses arise on available-for-sale assets, DPAC is adjusted to equal the effect that the realization of the gains or losses would have had on its measurement. This is recognized directly in the related revaluation reserve in shareholders' equity.

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

B. Deferred transaction costs

Deferred transaction costs relate to investment contracts without discretionary participation features under which AEGON will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the carrying amount of the financial liability.

The deferred transaction costs are amortized in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. Deferred transaction costs are subject to impairment testing at least annually.

C. Deferred interest rebates

An interest rebate is a form of profit sharing whereby the Group gives a discount on the premium payable (usually single premium) based on the expected surplus interest that will be earned on the contract. The expected surplus interest is calculated with reference to a portfolio of government bonds. The rebate can be subject to additional conditions concerning actual returns or the continuation of the policy for a specified number of years.

Interest rebates that are expected to be recovered in future periods are deferred and amortized as the surplus interest is realized. They are considered in the liability adequacy test for insurance liabilities.

2.14 OTHER ASSETS AND RECEIVABLES

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

2.15 CASH AND CASH EQUIVALENTS

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investment for account of policyholders.

2.16 IMPAIRMENT OF ASSETS

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinitive useful life that are not amortized, are tested at least annually.

A. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects all its known inherent risks and uncertainties.

Impairment losses are charged to shareholders' equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

With the exception of goodwill, impairment losses are reversed when there is objective evidence that there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets' recoverable amounts. With the exception of goodwill, impairment losses on non-financial assets can be reversed.

B. Impairment of debt instruments

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account.

The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.
For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized gain or loss previously recognized in shareholders' equity is taken to the in the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.
Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be related objectively to a credit related event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed its amortized cost at the reversal date.

C. Impairment of equity instruments

For equity instruments, a significant or prolonged decline in fair value below initial cost is considered objective evidence of impairment and always results in a loss being recognized in the income statement. Equity investments are impaired to the asset's fair value and any unrealized gain or loss previously recognized in shareholders' equity is taken to the in the income statement in the impairment loss. The amount exceeding the balance of previously recognized unrealized gains or loss is recognized in the income statement.
Impairment losses on equity instruments cannot be reversed.

D. Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured. Impairment losses are recognized in the income statement.

2.17 EQUITY

Financial instruments that are issued by the Group are classified as equity if they represent a residual interest in the assets of the Group after deducting all of its liabilities. In addition to common shares and preferred shares, the Group has issued perpetual securities that are classified as equity, rather than as debt, as these securities have no final maturity date, repayment is at the discretion of AEGON and AEGON has the option to defer coupon payments at its discretion. These securities are measured at par and those that are denominated in US dollars are translated using historical exchange rates.
Incremental external costs that are directly attributable to the issuing or buying back of own equity instruments are recognized in equity, net of tax.
Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.
Treasury shares are own equity instruments reacquired by the Group. They are deducted from shareholders' equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders' equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per share.

2.18 TRUST PASS-THROUGH SECURITIES, SUBORDINATED BORROWINGS AND OTHER BORROWINGS

A financial instrument issued by the Group is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the Group.
Trust pass-through securities, subordinated loans and other borrowings are initially recognized at their fair value and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through the profit and loss as part of a fair value hedge relationship. The liability is derecognized when the Group's obligation under the contract expires or is discharged or cancelled.

2.19 INSURANCE CONTRACTS

Insurance contracts are contracts under which the Group accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged or is cancelled.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by the Group prior to the transition to IFRS, as further described in the following paragraphs. In order to reflect the specific nature of the products written, subsidiaries are allowed to apply local accounting principles to the measurement of insurance contracts. All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

A. Life insurance contracts

Life insurance contracts are insurance contracts with guaranteed life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

Some products, such as traditional life insurance products in continental Europe and products in the United States, for which account terms are fixed and guaranteed, are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance comprises reserves for unearned premiums and unexpired risks as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Other products with account terms that are not fixed or guaranteed are generally measured at the policyholder's account balance. Depending on local accounting principles, the liability may include amounts for future services on contracts where the policy administration charges are higher in the initial years than in subsequent years. In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in 2.19c or, if bifurcated from the host contract, as described in 2.10.

One insurance product in the United States is carried at fair value through profit or loss as it contains an embedded derivative that could not be reliably bifurcated. The fair value of the contract is measured using market consistent valuation techniques.

B. Life insurance contracts for account of policyholders

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders.

The liability for the insurance contracts for account of policyholders is measured at the policyholder account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. If applicable, the liability representing the nominal value of the policyholder unit account is amortized over the term of the contract so that interest on actuarial funding is at an expected rate of return.

C. Embedded derivatives and participation features

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives. If the embedded derivative cannot be reliably bifurcated, the entire insurance contract is carried at fair value through profit or loss.

Other terms and conditions, such as participation features and expected lapse rates are considered when establishing the insurance liabilities. Where the Group has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

Guaranteed minimum benefits

The Group issues life insurance contracts, which, as a rule, do not expose the Group to interest risk as the account terms are not fixed or guaranteed or because the return on the investments held is passed on to the policyholder. However, in some cases these contracts may contain guaranteed minimum benefits. An additional liability for life insurance is established for guaranteed minimum benefits that are not bifurcated. Bifurcated guaranteed minimum benefits are classified as derivatives.

In the United States the additional liability for guaranteed minimum benefits that are not bifurcated is determined each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement.

The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

In the Netherlands, an additional liability is established for guaranteed minimum benefits that are not bifurcated on group pension plans, based on stochastic modeling. The liability is measured by applying the accrual method based on market assumptions less actual claims incurred. A corridor for the provision is determined regularly based on stochastic modeling methods. If the provision develops outside the corridor, a charge or credit is recognized in the income statement. Due to the nature of the product, these guarantees have a long-term horizon of 30 to 60 years.

D. Shadow accounting

Shadow accounting ensures that all gains and losses on investments affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of VOBA or DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized in shareholders' equity in the revaluation reserve, together with the unrealized gain or loss.

Some profit sharing schemes issued by the Group entitle the policyholder to a bonus which is based on the actual total return on specific assets held. To the extent that the bonus relates to gains on available-for-sale investments for which the unrealized gains are recognized in the revaluation reserve in equity, shadow accounting is applied. This means that the increase in the liability is also charged to equity to offset the unrealized gains rather than to the income statement.

E. Liability adequacy testing

At each reporting date the adequacy of the life insurance liabilities, net of VOBA and DPAC, is assessed using the existing liability adequacy test that is acceptable under local accounting principles. Additional recoverability tests for policies written in the last year may also result in loss recognition.

Life insurance contracts for account of policyholders and any related VOBA and DPAC are considered in the liability adequacy test performed on insurance contracts. To the extent that the account balances are insufficient to meet future benefits and expenses, additional liabilities are established and included in the liability for life insurance.

All tests performed within the Group are based on current estimates of all contractual future cash flows, including related cash flows and policyholder options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling. Aggregation levels and the level of prudence applied in the test are consistent with local requirements. To the extent that the tests involve discounting of future cash flows, the interest rate applied may be prescribed by the local regulator or may be based on management's expectation of the future return on investments. In the Netherlands, the discount rate is the lower of the tariff rate and management's prudent assumption based on current market interest rates.

Any resulting deficiency is recognized in the income statement, initially by impairing the DPAC and VOBA and subsequently by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of loss recognition. The assumptions do not include a margin for adverse deviation, unless required under local accounting policies. Impairment losses resulting from liability adequacy testing can only be reversed if allowed by local accounting principles.

F. Non-life insurance contracts

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities. Discounting of liabilities is generally applied when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

The adequacy of the non-life insurance liability is tested at each reporting date. Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

2.20 INVESTMENT CONTRACTS

Contracts issued by the Group that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Group are accounted for as investment contracts. Depending on whether the Group or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is cancelled.

A. Investment contracts with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investment contracts, specific investments held by the Group or on the issuer's net income. If the Group has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Some unitized investment contracts provide policyholders with the option to switch between funds with and without discretionary participation features. The entire contract is accounted for as an investment contract with discretionary participation features if there is evidence of actual switching resulting in discretionary participation benefits that are a significant part of the total contractual benefits.

B. Investment contracts without discretionary participation features

At inception investment contracts without discretionary features are designated as at fair value through profit or loss if by doing so a potential accounting mismatch is eliminated or significantly reduced or if the contract is managed on a fair value basis. Some investment contracts with embedded derivatives that have not been bifurcated are also carried at fair value through profit or loss. All other contracts are carried at amortized cost.

The contracts are initially recognized at transaction price less, in the case of investment contracts not carried at fair value through profit or loss, any transaction costs directly attributable to the issue of the contract. Fees and commissions incurred with the recognition of a contract held at fair value through profit or loss and that are not related to investment management services provided under the contract are recognized immediately in the income statement.

Subsequently, contracts designated as at fair value through profit or loss are measured at fair value, which generally equals the contractholder's account value. All changes in the fair value are recognized in the income statement as incurred. Other investment contracts without discretionary participation features are carried at amortized cost based on the expected cash flows and using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognized in the income statement.

The consolidated financial statements provide information on the fair value of all financial liabilities, including those carried at amortized cost. As these contracts are not quoted in active markets, their value is determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. For investment contracts that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

C. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholder. Also included are participations held by third parties in consolidated investment funds that meet the definition of a financial liability.

Investment contracts for account of policyholders are designated as at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Group recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortized over the life of the contract or a shorter period, if appropriate.

2.21 PROVISIONS

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

Onerous contracts

With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligations exceed the expected future economic benefits.

2.22 ASSETS AND LIABILITIES RELATING TO EMPLOYEE BENEFITS

A. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee absences expected to be paid within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

B. Post-employment benefits

The Group has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when the Group has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset is recognized to the extent that the contribution paid exceeds the amount due for services provided.

Defined benefit plans

The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. Plan improvements are charged directly to the income statement, unless they are conditional on the continuation of employment. In this case the related cost is deducted from the liability as past service cost and amortized over the vesting period. In measuring the defined benefit obligation the Group uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables. The benefits are discounted using an interest rate based on the market yields for high-quality corporate bonds on the balance sheet date.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the Group's creditors. They are measured at fair value and are deducted in determining the amount recognized on the balance sheet.

The cost of the plans is determined at the beginning of the year, based on the prevalent actuarial assumptions, discount rate and expected return on plan assets. Changes in assumptions, discount rate and experience adjustments are not charged to the income statement in the period in which they occur, but are deferred.

The unrecognized actuarial gains and losses are amortized in a straight line over the average remaining working life of the employees covered by the plan, to the extent that the gains or losses exceed the corridor limits. The corridor is defined as ten percent of the greater of the defined benefit obligation or the plan assets. The amortization charge is reassessed at the beginning of each year. The corridor approach described above was not applied retrospectively to periods prior to the transition to IFRS (January 1, 2004).

C. Share-based payments

The Group has issued share-based plans that entitle employees to receive equity instruments issued by the Group or cash payments based on the price of AEGON N.V. common shares. Some plans provide employees of the Group with the choice of settlement.

For share option plans that are equity-settled, the expense recognized is based on the fair value on the grant date of the share options, which does not reflect any performance conditions other than conditions linked to the price of the Group's shares. The cost is recognized in the income statement, together with a corresponding increase in shareholders' equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management's best estimate of the number of shares expected to vest ultimately.

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.

2.23 DEFERRED REVENUE LIABILITY

Initial fees and front-end loadings paid by policyholders and other clients for future investment management services related to investment contracts without discretionary participation features are deferred and recognized as revenue when the related services are rendered.

2.24 TAX ASSETS AND LIABILITIES

A. Current tax assets and liabilities

Tax assets and liabilities for current and prior periods are measured at the amount that is expected to be received from or paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the reporting date.

B. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognized for tax loss carryforwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. The carrying amount is not discounted and reflects the Group's expectations concerning the manner of recovery or settlement.

2.25 CONTINGENT ASSETS AND LIABILITIES

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.26 PREMIUM INCOME

Gross premiums, including recurring and single premiums, from life and non-life insurance and investment contracts with discretionary participation features are recognized as revenue when they become receivable. Not reflected as premium income are deposits from certain products that are sold only in the United States and Canada, such as deferred annuities. For these products the surrender charges and charges assessed have been included in gross premiums.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognized as an expense. Depending on the applicable local accounting principles, bonuses that are used to increase the insured benefits may be recognized as gross premiums.

2.27 INVESTMENT INCOME

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends accrued and rental income due, as well as fees received for security lending.

2.28 FEE AND COMMISSION INCOME

Fees and commissions from investment management services and mutual funds, and from sales activities are recognized as revenue over the period in which the services are performed or the sales have been closed.

2.29 POLICYHOLDER CLAIMS AND BENEFITS

Policyholder claims and benefits consists of claims and benefits paid to policyholders, including benefit claims in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

2.30 NET FAIR VALUE AND NET FOREIGN EXCHANGE GAINS AND LOSSES

Net fair value and net foreign exchange gains and losses include fair value changes of general account financial assets and liabilities carried at fair value through profit or loss, foreign exchange results and fair value changes of derivatives for which hedge accounting is applied, excluding the ineffective portion. It also includes fair value changes for hedging derivatives for which no hedge accounting is applied but the economically hedged underlying assets or liabilities are valued at fair value through profit or loss. Fair value and foreign exchange gains and losses are aggregated to net gains or net losses by country, per type of instrument.

2.31 NET GAINS AND LOSSES ON INVESTMENTS

Gains and losses on investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss, and gains and losses on investments in real estate. It also includes fair value changes for hedging derivatives for which no hedge accounting is applied and the economically hedged underlying assets or liabilities are not valued at fair value through profit or loss. Derivatives included in gains and losses on investments are considered economic hedges of certain exposures related to an existing asset or liability and are part of the Group's asset liability management. Gains and losses on investments also include the ineffective portions of hedge transactions.
The gains and losses on investments are aggregated to net gains or net losses by country, per category of financial assets and, in the case of available-for-sale financial assets, per type of instrument included in the category as reported in note 7 of the consolidated financial statements.

2.32 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.

2.33 LEASES

Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.
Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases.
Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.
Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the balance sheet according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.34 EVENTS AFTER THE BALANCE SHEET DATE

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.
Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT IN APPLYING ACCOUNTING POLICIES

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

Valuation of assets and liabilities arising from life insurance contracts

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognized in the income statement. In the event that the failure relates to unrealized gains and losses on available for sale investments, the additional liability is recognized in the revaluation reserve in equity.
Some insurance contracts without a guaranteed or fixed account term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability

in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

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

Actuarial assumptions

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

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

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

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

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

Fair value of investment contracts

Investment contracts issued by AEGON are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments. Changes in own credit risk are not considered when determining the fair value of insurance and investment liabilities as these contractholders have precedent over other creditors in case of default. Own credit risk is considered in measuring the fair value of borrowings and other liabilities.

Fair value of investments and derivatives determined using valuation techniques

Financial instruments

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

Financial derivatives

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

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

Derivatives embedded in insurance and investment contracts

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

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

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

Impairment of financial assets

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

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

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

Valuation of defined benefit plans

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

Recognition of deferred tax assets

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

Valuation of share appreciation rights and share options

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

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

Recognition of provisions

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

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.

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.

4.1.1 TRADITIONAL LIFE

Traditional life products are sold in the United States, Canada, the Netherlands, the United Kingdom, Hungary, Slovakia, Czech Republic, Spain, Taiwan and China.

A key risk for all countries selling traditional life business is mortality risk. The most significant factors that could increase the overall frequency or timing of claims are epidemics, natural or man made disasters, or a general deterioration in population mortality due to lifestyle changes.

Insured mortality risk can usually be reasonably predicted under normal circumstances with thorough underwriting and with a large number of insureds. The level of underwriting employed by the company depends on the materiality of the mortality risk relative to other product attributes, the size of the sum assured and the cost-benefit analysis for each product.

In addition to the mortality risk as described above, the pension and annuity business of specifically AEGON The Netherlands and AEGON UK that are reported as part of traditional life also carry significant longevity risk. Longevity risk arises from enhanced medical treatment and improved life circumstances, although this is not easy to predict.

The timing and extent of policyholder lapses is another risk of these products. Early policyholder lapsation before acquisition costs have been fully recovered and without sufficient commission claw back clauses can cause a loss. In some products, lapses significantly below expectations can result in more future claims than anticipated in the premium pricing and contribute to losses.

Investment of future recurring premiums and reinvestment of premiums already received at prevailing market interest rates lower than priced for are also risks. In addition, some products provide minimum interest rate guarantees, exposing AEGON to interest rate risk in a prolonged low interest rate environment. In a rapidly rising interest rate environment, the company is exposed to lapse risk, although this risk is mitigated by surrender charges in early policy years.

AEGON's underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and level of benefits. AEGON also uses third party reinsurers to spread mortality risk. Furthermore, AEGON's risk policy dictates a maximum insured benefit on a country basis it will retain on any one life, reinsuring the excess.

UNITED STATES

In the United States traditional life products consist largely of permanent life, universal life and term life insurance.

United States > *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.

United States > *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%.

United States > *Term life insurance*

Term life insurance provides protection for a certain period of time and allows the customer to select the duration of coverage and the amount of protection. The policy pays death benefits only if the customer dies during the specified term. Most term life policies do not accumulate a cash value. The policies can usually be renewed upon expiration and premiums normally increase upon renewal. Certain term life insurance products sold in the United States, such as mortgage insurance and credit life insurance, provide a death benefit that decreases over the term period, based on a stated method. The rate of decrease usually corresponds with the decrease in the principal balance of the loan. Some term life insurance products include a cash value feature designed to return premiums after a specified number of years.

United States > *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.

Canada > *Term life insurance*

The terms and conditions of AEGON Canada's term life insurance product are consistent with those described for the operations of the United States.

Canada > *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.

Canada > *Universal life*

Universal life insurance is another form of permanent life insurance and has features similar to those described for the United States.

These products provide policyholders with a wide range of choices in determining the credited interest rate that will be applicable to the account values of their policies. Policyholder investment options include a fixed rate investment for a guaranteed interest rate for a guarantee period running between five and 25 years, a floating daily rate, a rate that is tied to the movement of various share and bond market indices, or a rate that is tied to the movement of various mutual funds. Similar to the operations in the United States, there are minimum interest rate guarantees on fixed rate investments, which vary from 0% to 4% depending on when the policy was issued, and what term of investment was chosen. There is no minimum interest rate guarantee on returns tied to market indices or to mutual funds. Policyholders can allocate their account values such that the credited interest rate for various portions is tied to different investment options. Policyholders can switch among these various options as they desire.

Canada > *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.

The Netherlands > *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.

The Netherlands > *Term and whole life insurance*

Term life insurance pays out death benefits when the insured dies during the term of the contract. Whole life insurance pays out death benefits when the insured dies, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the insured. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profitsharing features, which are based on external indices or return of related assets.

The Netherlands > *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 LIFE FOR ACCOUNT OF POLICYHOLDERS

Life for account of policyholder products are sold in the United States, the Netherlands, the United Kingdom, Hungary, Slovakia, Czech Republic, Poland, Spain, Taiwan and China.

Life for account of policyholder products include several forms of life insurance and pension products whereby death benefits and cash values vary with the performance of a portfolio of investments. Premiums can be allocated among a variety of investments that offer different degrees of risk and reward, including shares, bonds, combinations of both, or investment products that guarantee interest and principal. The customer retains the investment risk and AEGON earns a return from investment management fees, mortality-based cost of insurance charges, other guarantee charges and expense charges. The contract account balance varies with the performance of the investments chosen by the policyholder

These products include:

- Variable universal life in the United States;
- Tontine plans in the Netherlands;
- Separate account group contracts in the Netherlands;
- Unit-linked contracts in the Netherlands, the United Kingdom, Hungary, Spain, Taiwan, Poland, Slovakia and Czech Republic; and
- With-profit business in the United Kingdom.

UNITED STATES

Variable universal life products in the United States are similar to universal life products reported as part of the traditional life line of business, but include investment options and maintenance of investments for the account of policyholders. Some products contain minimum death benefit guarantees and the risk is that poor market performance may erode the policyholder account value to the extent that available cost of insurance charges prove inadequate. The fixed account has a minimum guaranteed interest rate of either 3% or 4% depending on the product. Newer products have a 2% guarantee. This product also contains a no lapse guarantee, which is an equity option. Under the no lapse guarantee, the contract is guaranteed to remain in force regardless of the level of underlying account value, provided the policyholder continues to meet minimum premium requirements. The value of this guarantee increases with higher cost of insurance charges and with lower minimum required premiums. This product is not sensitive to equity returns until the no lapse guarantee threshold is breached.

THE NETHERLANDS

Tontine plans in the Netherlands are linked endowment savings contracts with a specific bonus structure. Policyholders can choose from several AEGON funds to invest premiums paid. The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder's estate, but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. In general, a new series starts at the beginning of each calendar year, but there are also open ended tontine plans in the portfolio. When the policyholder dies before maturity, AEGON The Netherlands pays a death benefit equal to the premiums paid accumulated at a 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term.

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

In the Netherlands, variable unit linked products are sold. These products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years. The 10-year period may be reset at the policyholder's option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio (MER) charged to the funds is not guaranteed and can be increased at management's discretion.

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 AEGON's 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.

Guarantees > *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.

Guarantees > *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 another part of AEGON UK on terms reflective of prevailing market rates; this helps avoid a tontine effect building up in the fund, as the number of with profit policyholders decline.

OTHER COUNTRIES

In Hungary a small part of the current new business provides a minimum interest guarantee of 2%. In Poland an insurance fund with minimum rate reset quarterly and annually is offered on unit-linked products.

4.1.3 FIXED ANNUITIES

Fixed annuities are sold to individuals and pension funds in the United States and Canada.

UNITED STATES

Fixed annuities include both deferred annuities and immediate annuities. A fixed deferred annuity exposes AEGON to interest rate risk and lapse risk. The insurer interest rate risk can be mitigated through asset liability matching and hedging, though policyholder behavior can never be fully matched. Surrender charges in early policy years serve as a deterrent to early duration lapses. Fixed annuities sold in the United States contain a significant longevity risk created by guaranteed annuity options and may also offer waiver of account value surrender charges upon the death of the insured. Immediate annuities contain interest rate risk and also longevity risk if annuity payments are life contingent.

In the United States, AEGON sells group and individual fixed annuities and retirement plan contracts to small and medium-sized institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services which are provided by AEGON after the annuities are sold.

An immediate annuity is purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. The benefit payment period can be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Immediate annuities and payout options under deferred annuities may also offer riders, which provide the owner or beneficiaries with the option to surrender the annuity to have access to the account value if needed for unexpected events.

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed interest crediting method or indexed basis. The customer can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed deferred annuities have a specified crediting rate that can be reset periodically by AEGON. Fixed deferred annuity contracts in the United States also offer discretionary crediting rates, as well as guaranteed minimum surrender values and payout options. Upon maturity of the annuity, the customer can select payout options, including a lump sum payment or income for life, as well as payment for a specified period of time. Should the customer die prior to receiving the benefits of the policy, the beneficiary receives either an accumulated cash value death benefit or an enhanced death benefit in the event there are benefit riders attached to the base contract. A discontinued multi-strategy annuity allows a customer a choice of investment strategies to allocate funds and provides a cumulative minimum guaranteed interest rate. Early withdrawal by the customer of the cash value of the annuity is subject to surrender charges.

Terminal funding is a single premium non-participating group annuity product. This product is usually used for an insurance company takeover of a terminating defined benefit pension plan. The company receives a single deposit from the contractholder and in return guarantees the payment of benefits to participants. Usually these annuity payments are paid monthly for the life of the participant or participant and spouse, commencing immediately for retired participants or at some date in the future for deferred participants.

A structured settlement is a form of an immediate annuity previously issued by AEGON USA. These contracts were typically purchased by customers as a result of a lawsuit or a claim and the customer receives special tax treatment. Rather than paying the injured party a lump sum, the payments were structured as a lifetime annuity with mortality risk, a period certain annuity, or a combination of both.

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. On average, minimum interest guarantees are at around 3%, with new products at 1.5%. Equity indexed annuities offer additional returns that are indexed to S&P 500, with a minimum cash value equal to a percentage of the premium increased at a minimum rate that varies, and a cap on the return. The cap is reset periodically and is currently at 7.0%.

Besides the minimum interest rate guarantee, certain fixed deferred annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders can surrender their contracts without incurring any surrender charges. The bailout provision serves as an additional insurance to the customers during the surrender charge period.

CANADA

Fixed annuity contracts in Canada have fixed rates for specified terms and contracts are sold as redeemable or non-redeemable. Most redeemable contracts are sold on the basis that a market value adjustment will apply for surrenders prior to maturity, while a small number use a fixed surrender charge. Contracts sold on a redeemable basis provide a lower rate of interest than the non-redeemable contracts. There are no minimum interest rate guarantees on these products.

4.1.4 VARIABLE ANNUITIES

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

Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance with a degree of downside protection. Variable annuities allow a customer to select payout options that meet the customer's need for income upon maturity, including lump sum payment or income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds offered by AEGON USA and other third party providers, including bond and equity funds. A fixed account may also be available on most products. In most products, the investment options are selected by a client based on the client's preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company. These separate accounts are classified as investments for the account of policyholders. Various riders are available on variable annuity contracts, providing guaranteed minimum death, maturity, withdrawal or income benefits.

The account value of variable annuities reflects the performance of the funds. AEGON USA earns mortality and expense charges as well as various types of rider fees for providing various guarantees and benefits. This category includes segregated fund products offered by AEGON Canada. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup any acquisition costs paid or to write down any remaining deferred acquisition cost.

UNITED STATES

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

Certain variable insurance contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature provides for minimum payments if the contractholder elects to convert to an immediate payout annuity.

The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value. These benefits subject the company to equity market risk, since poor market performance can cause the guaranteed benefits to exceed the policyholder account value.

AEGON USA undertakes to address equity market risk by using hedging strategies. Variable products also contain a degree of interest rate risk and policyholder behavior risk, which are handled similarly to those in fixed annuities.

CANADA

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

4.1.5 INSTITUTIONAL GUARANTEED PRODUCTS

This line of business primarily includes the issuance of Guaranteed investment contracts (GICs). Funding agreements (FAs) and notes which are marketed to institutional investors, such as pension funds, retirement plans, college savings plans, money market funds, municipalities United States investors and non-US investors. GICs are generally issued to tax qualified plans, while FAs and notes are typically issued to non-tax qualified institutional investors. These products are marketed through an internal sales force in the United States and Ireland.

These spread-based products are issued on a fixed-rate or floating-rate basis and provide the customer a guarantee of principal and a specified rate of return. Practically all of the fixed-rate contracts are swapped to floating-rate via swap agreements and contracts issued in foreign currencies are swapped to US dollars to eliminate currency risk at issuance. Credited interest on floating-rate contracts predominately resets on a monthly basis to various market indices. The term of the contract can be fixed, generally from six months up to ten years, or it can have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a designated index, such as the S&P 500. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate. Indeterminate-maturity contracts allow the customer to withdraw funds without a withdrawal penalty by providing the customer with a put option whereby the contract may be terminated with advance written notice. Historically, this advance notice period would range from three to twelve months: however, a recent decision was made to eliminate practically all contracts with advance notice periods prior to twelve months. Other contracts offer benefit-responsive withdrawal rights to the customer, but these withdrawals cannot be for economic reasons. The account balances at December 31, 2006 consisted of fixed-rate, fixed-maturity contracts (48%); floating-rate, fixed-maturity contracts (35%); indeterminate-maturity contracts (16%); and market-indexed, fixed-maturity contracts (1%).

AEGON utilizes consolidated special purpose entities to issue medium-term notes that are backed by funding agreements. The proceeds of each note series are used to purchase a FA from an AEGON insurance company, which is used to secure that particular series of notes. The payment terms of any particular series substantially match the payment terms of the FA that secures that series. AEGON also sells fixed-rate AAA-wrapped municipal debt securities to consolidated special purpose entities, which issue floating-rate notes. AEGON receives residual income from these entities and provides certain guarantees to the noteholders in the event of early termination. These are reflected in 'FAs and notes issued to institutional investors' in the table that follows.

In addition, AEGON utilizes consolidated special purpose entities to issue commercial paper, that is backed by the issuance of certain FAs. These are reflected in 'Other FAs' in the table that follows.

AEGON Global Institutional Markets plc (AGIM) is domiciled in Ireland for the purpose of issuing medium term notes to non-US investors and investing in a diversified portfolio of eligible assets with the proceeds of the issued notes. AEGON Financial Assurance Ireland limited (AFA), another AEGON Ireland entity, provides a financial guarantee for the medium term notes issued by AGIM.

Major product components are summarized in the following table. The balances reflected are equal to the contract values.

Institutional guaranteed product liabilities	2006	2005
GICs issued to defined contribution/benefit plans	2,743	3,203
FAs and notes issued to institutional investors	10,207	9,492
Cash market funding agreements	4,350	5,733
Municipal/governmental FAs/investment contracts	4,218	4,673
Other FAs	3,013	3,247
TOTAL INSTITUTIONAL GUARANTEED PRODUCTS	**24,531**	**26,348**

The following table presents Institutional guaranteed product liabilities by withdrawal regulation:

	2006	2005
Book value out [1]		
Puttable:		
90 days put	49	1,348
180 days put	–	681
364 days + put	3,183	3,331
TOTAL PUTTABLE	**3,232**	**5,360**
Market value out [2]		
90 days notice	110	326
180 days notice	–	–
TOTAL MARKET VALUE OUT	**110**	**326**
Not puttable or surrenderable	**21,189**	**20,662**
TOTAL INSTITUTIONAL GUARANTEED PRODUCTS	**24,531**	**26,348**

1 Book value out: the amount equal to the sum of deposits less withdrawals with interest accrued at the contractual interest rate.
2 Market value out: the amount equal to the book value out plus a market value adjustment to adjust for changes in interest rates.

The municipal/governmental funding agreements generally include downgrade language pursuant to which, should various downgrade events be triggered, one of the following four decisions must be followed at AEGON's option:

- Transfer contract to a higher-rated party;
- Purchase a credit enhancement;
- Collateralize the underlying position; or
- Pay the contract out at book value.

These options are negotiated with the customer at contract issuance, but AEGON unilaterally retains the ultimate decision-making capability in the event of a downgrade. Available collateral is monitored to ensure AEGON would be able to utilize this option at its discretion.

As at December 31, 2006, the contractual maturities (based on nominal amounts) for all contracts with defined maturities were:

- 2007 – EUR 5,506 million;
- 2008 – EUR 2,892 million;
- 2009 – EUR 4,103 million;
- 2010 – EUR 2,105 million;
- 2011 – EUR 1,906 million and
- Thereafter – EUR 3,961 million.

4.1.6 FEE – OFF BALANCE SHEET PRODUCTS

Products are sold in the United States, Canada, the Netherlands, the United Kingdom, Hungary, Slovakia and Spain. AEGON's fee business comprises products that generate fee income by providing management, administrative or risk services related to off balance sheet assets (i.e. equity or bond funds, third party managed assets and collective investment trusts). Fee income is mainly sensitive to policyholder withdrawals and equity market decreases.

UNITED STATES

AEGON's operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation (retirement planning) services.

Bundled retirement plans are sold to mid-sized and large employers. A 'manager of managers' investment approach is generally used specifically for the retirement plans market, which allows clients access to institutional investment managers across the major asset classes. These funds are generally available in a 'core-and-feeder' structure, in which the core is similar to a mutual fund and the feeder provides an institutional customer with a choice of products that are directly linked to the performance of the mutual fund, such as a registered or non-registered variable annuity, a collective investment trust (off balance sheet) or mutual funds (off balance sheet). Clients also have the flexibility to supplement institutionally managed funds with funds from retail fund families.

The operations in the United States provide the fund manager oversight for the Transamerica/IDEX Mutual Funds, the Premier Funds, and Diversified Investors Funds Group family of mutual funds. AEGON USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance. The manager remains with the investment company and acts as a sub-advisor for AEGON USA's mutual funds. AEGON USA earns investment management fees on these investment products. AEGON USA also earns direct investment management fees through affiliated managers acting as sub-advisors.

In the United States, synthetic GICs are sold primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans, as well as college savings plans. AEGON provides a synthetic GIC 'wrapper' around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager. A synthetic GIC is typically issued with an evergreen maturity and is cancelable by the plan sponsor under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan cash flows. In certain contracts, AEGON agrees to make advances to meet benefit payment needs and earns a market interest rate on these advances. The periodically adjusted contract crediting rate is the means by which investment and benefit responsive experience is passed through to participants.

CANADA

In Canada, fees are earned through several special service and fund management companies, by providing administrative back office services that facilitate the sale of mutual funds and segregated fund products. In addition, a national network of financial planning franchises and representatives earn fees when products of non-affiliated companies are sold. Investment management fees are also earned by providing portfolio management and investment advisory services.

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.

4.1.7 REINSURANCE

AEGON USA provides an array of life and annuity reinsurance solutions in the United States, Asia, and Latin America.

The core life reinsurance offering, mortality risk transfer, is sold primarily through coinsurance, as well as yearly renewable term arrangements. Under a coinsurance arrangement, reinsurance is ceded and assumed in the same form as the direct policy and the reinsurer shares proportionately in the product risks, including mortality, morbidity, persistency, investment, and capital requirements. Yearly renewable term reinsurance has premium rates that are not related to the original plan of insurance and the ceding company only reinsures the mortality or morbidity risk.

AEGON USA also assumes fixed annuity business on a coinsurance basis. Under a coinsurance arrangement, reinsurance is ceded in the same form as the direct policy and the client company typically pays the reinsurer premiums equal to its share of the premiums that the client company receives on the underlying policies. The reinsurer will pay the client death or surrender benefits upon death or surrender of the policyholder and will reimburse the client specific allowances which cover its share of expenses.

AEGON USA also reinsures fixed and variable annuity business on a modified coinsurance basis. Like coinsurance, modified coinsurance is ceded and assumed in the same form as the direct policy however, the reserves and assets backing the transaction remain with the ceding company in its accounts. AEGON USA typically finances variable annuity acquisition costs in exchange for a fixed fee reinsurance premium that is based upon the account value. Lapse risk is a significant risk assumed by the reinsurer.

AEGON USA assumes certain guaranteed minimum withdrawal, death and income benefits associated with variable annuity policies in exchange for a fee typically expressed as a fixed percentage of the account value. AEGON USA pays a portion of the guaranteed benefits that cannot be funded from the underlying policyholder's account value.

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 (LTC) products offered by AEGON USA provide benefits to customers who, because of their advanced age or a serious illness, require continuous care. These products protect the insured's income and retirement savings from the costs of long-term care. Sales of long-term care insurance by AEGON USA were temporarily discontinued in 2005. The LTC division is currently re-evaluating the LTC marketplace and intends to begin selling new LTC products in 2007.

CANADA

In Canada, AEGON offers accidental death, critical illness and out-of-the-country medical expense coverage.

THE NETHERLANDS

AEGON The Netherlands offers sick leave products that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk.

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. Equity held in subsidiaries is kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of shareholders' equity as a result of translation into euro. The remainder of the capital base (perpetual capital securities, perpetual cumulative subordinated bonds, subordinated and senior debt) is held in, or swapped to, the various currencies in amounts that are targeted to correspond proportionally to the book value of its country units. This balancing mitigates currency translation impacts to equity and leverage ratios. Currency risk in the investment portfolios is managed using asset liability matching principles. In the Netherlands, the majority of AEGON's equity holdings are invested in an internationally diversified portfolio rather than solely in euro denominated equities.

AEGON does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As AEGON has significant business segments in the United States and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. AEGON may experience significant changes in net income and shareholders' equity because of these fluctuations.

B. Interest rate risk

AEGON bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the liabilities can mitigate this risk. For some of the businesses capital markets are not well developed which prevents the complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates. In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates; this may result in realized investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also require accelerated amortization of DPAC, which in turn reduces net income.

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

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, when interest rates rise, corresponding unrealized gains do not affect income in the shorter term. Over time, the short-term reduction in income due to rising interest rates would be offset by higher income in later years all else equal. Therefore, rising interest rates are not considered a long-term risk to the company.

The general account fixed-income portfolios of AEGON Americas and AEGON The Netherlands accounted for 93% of the total general account fixed-income portfolio of the Group on December 31, 2006. AEGON USA and AEGON The Netherlands manage their duration mismatch on the basis of their expectations for the future level of interest rates within limits. Presently, other AEGON country units target the duration of their assets to equal approximately the duration of their liabilities where possible. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at group level. The table that follows shows each of the last five year-end interest rates for the period from 2002 through 2006.

Interest rates

	2002	2003	2004	2005	2006
3-month US LIBOR	1.38%	1.15%	2.56%	4.54%	5.36%
3-month EURIBOR	2.87%	2.12%	2.16%	2.49%	3.73%
10-year US Treasury	3.82%	4.25%	4.22%	4.39%	4.70%
10-year Dutch government	4.24%	4.29%	3.68%	3.29%	3.97%

The tables that follow show the effective interest rates and the earliest of contractual repricing or maturity dates for general account financial assets and borrowings.

General account bonds, money market investments, mortgage loans and private loans

2006

	< 1 yr		1 < 5 yrs		5 < 10 yrs		> 10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Bonds, money market and other short-term investments	9,472	5.40%	29,033	5.43%	28,176	5.52%	35,298	5.90%
Mortgage loans	2,023	5.69%	3,843	5.96%	5,650	5.79%	4,655	6.09%
Private loans	60	5.79%	98	5.89%	123	5.04%	26	6.28%

2005

	< 1 yr		1 < 5 yrs		5 < 10 yrs		> 10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Bonds, money market and other short-term investments	7,992	6.03%	30,895	4.92%	37,680	5.42%	34,581	5.85%
Mortgage loans	2,840	4.86%	4,118	6.02%	5,508	5.94%	4,765	6.35%
Private loans	240	4.35%	176	5.96%	171	5.08%	22	5.71%

Financial liabilities relating to trust pass-through securities and borrowings
2006

	< 1 yr		1 < 5 yrs		5 < 10 yrs		> 10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Trust pass-through securities	–	–	–	–	–	–	123	7.64%
Subordinated borrowings	–	–	34	6.51%	–	–	–	–
Borrowings	935	4.30%	1,397	6.17%	1,173	5.12%	1,486	5.89%

2005

	< 1 yr		1 < 5 yrs		5 < 10 yrs		> 10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Trust pass-through securities	–	–	–	–	–	–	437	7.67%
Subordinated borrowings	251	8.02%	33	6.51%	–	–	–	–
Borrowings	1,357	6.61%	1,689	6.11%	1,549	5.53%	937	6.27%

The tables that follow show the expected cash flows for insurance and investment contracts.

Financial liabilities relating to insurance and investment contracts
2006

	< 1 yr Amount	1 < 5 yrs Amount	5 < 10 yrs Amount	> 10 yrs Amount
Insurance contracts [1]	7,698	21,901	16,943	110,137
Insurance contracts for account of policyholders [1]	5,169	21,504	19,833	74,481
Investment contracts [2]	12,528	16,211	5,908	9,750
Investment contracts for account of policyholders [1, 2]	4,214	19,290	21,940	83,098

1 The projected cash benefit payments are based on managements' best estimates of the expected gross benefits and expenses partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with AEGON's historical experience, modified for recent observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.
The liability amount in our consolidated financial statement reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 19, 20 and 22. More details on the products, terms and conditions are included in note 4.1.

2 The cash flows included in the table are consistent with those included in the fair value measurement of the liabilities. More details on the products, and terms and conditions are included in notes 4.1 and 22.

C. Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, AEGON typically bears the risk for investment performance equaling the return of principal and interest. AEGON is exposed to credit risk on its general account fixed-income portfolio (bonds, mortgages and private placements), OTC derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in AEGON's major markets resulted in significant investment impairments on AEGON's investment assets due to defaults and overall declines in the securities markets. Credit default rates have been benign in 2005 and 2006. However, a return to excessive defaults or other reductions in the value of these securities and loans could have a material adverse effect on AEGON's business, results of operations and financial condition. AEGON manages credit risk exposure by individual counterparty, sector and asset class. It may mitigate credit risk in derivative contracts by entering in collateral agreements where practical and in International Swaps and Derivatives Association (ISDA) master netting agreements for each of AEGON's legal entities to facilitate AEGON's right to offset credit risk exposure. The credit risk associated with financial assets subject to a master netting arrangement, is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realized. The extent to which the exposure to credit risk is reduced through a master netting agreement may change substantially within a short period of time, because the exposure is affected by each transaction subject to the arrangement. AEGON may also mitigate credit risk in reinsurance contracts where possible by retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, AEGON employs deterministic and stochastic credit risk modeling in order to assess the Group's credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

The ratings distribution of general account portfolios of AEGON's major country units are presented in the table that follows, organized by rating category.

Rating category	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
AAA	17,022	1,464	160	273	18,923	18,598
AA	8,424	921	887	502	10,734	9,242
A	19,088	1,849	2,478	946	24,361	29,327
BBB	16,630	633	680	83	18,025	20,102
BB	1,836	155	–	11	2,003	2,244
B	1,522	161	5	2	1,691	1,609
CCC or lower	318	17	–	–	335	341
Sovereign exposure	6,035	9,611	359	2,220	18,242	20,501
Assets not rated	30,213	13,391	262	295	44,462	47,348
	101,088	**28,202**	**4,831**	**4,332**	**138,776**	**149,312**

[1] Includes investments of Holding and other activities.

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

General account reinsurance assets	Carrying value 2006	Carrying value 2005
AAA	7	1,141
AA	1,865	1,297
A	1,057	378
Below A	28	122
Not rated	734	867
	3,691	**3,805**

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.

General account and off balance sheet exposures	Exposure 2006	Exposure 2005
Shares	7,745	7,896
Bonds	97,554	107,947
Money market and other short-term investments	4,425	3,201
Mortgage loans	16,171	17,231
Private loans	307	609
Other loans	4,127	3,945
Other financial assets	3,246	2,823
Derivatives with positive values	1,510	1,855
Reinsurance assets	3,691	3,805
	138,776	**149,312**

Refer to note 49 and note 50 for further information on capital commitments and contingencies and on collateral given, which may expose the Group to credit risk.
Country units apply specific guidelines for the acceptable levels of credit risk. AEGON monitors its aggregate exposure to credit counterparties at group level. For this purpose, AEGON aggregates exposures from its country units to assess overall credit risk. To manage its credit risk, AEGON has a single credit counterparty limit policy to be applied to all forms of credit risk. All forms of credit risk are required to be aggregated by counterparty and measured for compliance against country unit credit limits and group-wide credit limits. The group-wide limits are shown in the table that follows.

AEGON group-wide counterparty exposure limits [1]

Credit rating	Limit
AAA	1,000
AA	1,000
A	750
BBB	500
BB	250
B	125

[1] The fixed-income issuer rating is used when applying the credit counterparty limit exposure policy.

If an exposure exceeds the stated limit as a result of a downgrade, the exposure must be readjusted to the limit for that rating category as soon as possible. The limits vary with the asset quality of the security as can be seen in the above table. Exceptions to these limits can only be made after explicit approval from AEGON's Group Risk and Capital Committee.

The tables that follow present specific credit risk concentration information for general account financial assets.

Credit risk concentrations - shares	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
Communication	56	55	–	12	122	83
Consumer cyclical	94	105	–	2	201	158
Consumer non-cyclical	29	407	–	–	436	431
Financials	1,042	1,792	2	5	2,821	2,700
Funds	681	1,337	71	21	2,110	2,200
Industries	20	465	–	5	490	706
Resources	–	287	–	–	287	261
Services cyclical	–	242	–	–	242	499
Services non-cyclical	–	374	–	–	374	165
Technology	81	215	–	–	296	302
Transport	2	38	–	–	40	5
Other	130	134	–	61	325	386
	2,135	**5,451**	**73**	**106**	**7,745**	**7,896**

[1] Includes investments of Holding and other activities.

Credit risk concentrations - bonds and money market investments	Americas	The Netherlands	United Kingdom	Other countries	Total [1] 2006	Total [1] 2005
Asset backed securities (ABSs) - Aircraft	195	–	–	–	195	303
ABSs - Collateralized Bond Obligations (CBOs)	926	–	–	31	957	1,197
ABSs - Housing related	3,314	14	–	13	3,341	3,808
ABSs - Credit cards	2,557	–	–	–	2,557	2,995
ABSs - Other	3,027	–	–	42	3,068	2,921
Collateralized mortgage backed securities	9,992	889	12	58	10,951	10,069
Financial	20,870	2,769	2,527	782	26,951	27,233
Industrial	26,082	1,232	1,283	431	29,030	34,152
Utility	6,013	306	154	194	6,667	7,887
Sovereign exposure	6,006	9,601	359	2,277	18,262	20,583
	78,982	**14,811**	**4,335**	**3,828**	**101,979**	**111,148**

[1] Includes investments of Holding and other activities.

Credit risk concentrations – mortgages	Americas	The Netherlands	United Kingdom	Other countries	Total 2006	Total 2005
Agricultural	444	39	–	–	483	477
Apartment	2,004	434	–	–	2,438	2,734
Industrial	2,349	–	–	–	2,349	2,443
Office	4,076	29	–	–	4,105	4,520
Retail	2,348	2	–	2	2,352	2,606
Other commercial	487	18	–	2	507	575
Residential	107	3,830	–	–	3,937	3,876
	11,815	4,352	–	4	16,171	17,231

D. Equity market and other investment risks

Fluctuations in the equity, real estate and capital markets have adversely affected AEGON's profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where AEGON bears all or most of the volatility in returns and investment performance risk. Significant terrorist actions, as well as general economic conditions, have led to and may again result in significant decreases in the value of AEGON's equity investments.

Equity market exposure is present in equity-linked products whereby policyholder funds are invested in equities at the discretion of the policyholder; here most of the risk remains with the policyholder. Examples of these products include variable annuities, variable universal life, unit-linked products and mutual funds. AEGON typically earns a fee on the asset balance in these products and therefore has a risk related to the investment performance. In addition, some of this business has minimum return or accumulation guarantees, which are often life contingent or contingent upon policyholder persistency. AEGON is at risk if equity market returns do not exceed these guarantee levels and the company may need to set up additional reserves to fund these future guaranteed benefits. AEGON is also at risk if returns are not sufficient to allow amortization of DPAC and deferred transaction costs. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC and deferred transaction costs and to establish additional reserves for minimum guaranteed benefits, which would reduce net income and shareholders' equity. Volatile or poor market conditions may also significantly reduce the popularity of some of AEGON's savings and investment products, which could lead to lower sales and lower net income.

The general account equity, real estate and other non-fixed-income portfolio of AEGON USA and AEGON The Netherlands accounted for 99% of the total general account equity, real estate and other non-fixed-income portfolio of the Group at December 31, 2006. Of AEGON's country units, AEGON The Netherlands holds the largest amount of equities, both in absolute terms and expressed as a percentage of total general account investments. The largest part of the equity portfolio of AEGON The Netherlands consists of a diversified portfolio of global equities and 5% equity holdings in Dutch companies, which include non-redeemable preferred shares.

The table that follows sets forth the year end closing levels of certain major indices.

Year-end	2002	2003	2004	2005	2006
S&P 500	880	1,112	1,212	1,248	1,418
Nasdaq	1,336	2,003	2,175	2,205	2,415
FTSE 100	3,940	4,477	4,814	5,619	6,221
AEX	323	338	348	437	495

AEGON's shareholders' equity is directly exposed to, among other things, movements in the equity and real estate markets and to movements in interest rates. In addition, net income is sensitive to the fees earned on equity investments held for the account of policyholders as well as the amortization of DPAC and deferred transaction costs and provisioning for minimum product guarantees.

E. Underwriting risk

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

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.

Sensitivity analysis of net income and shareholders' equity to various underwriting risks[1,2].	**Estimated approximate effects on net income/equity 2006**
20% increase in lapse rates	(44)
20% decrease in lapse rates	44
10% increase in mortality rates	(88)
10% decrease in mortality rates	88
10% increase in morbidity rates	(61)
10% decrease in morbidity rates	61

1 Basic assumptions: no correlation between markets and risks, unchanged conditions for all other assets and liabilities and limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decrease.

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

5 SEGMENT INFORMATION

Income statement – Operating earnings 2006 Amounts in EUR million	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	Total
Traditional life	570	189	21	10	–	–	790
Life for account of policyholders	87	315	204	8	–	–	614
Fixed annuities	434	–	–	(1)	–	–	433
Variable annuities	260	–	–	1	–	–	261
Institutional guaranteed products	275	–	–	–	–	–	275
Fee - off balance sheet products	54	35	–	(14)	–	–	75
Reinsurance	163	–	–	–	–	–	163
Accident and health insurance	331	34	–	4	–	–	369
General insurance	–	26	–	29	–	–	55
Banking activities	–	35	–	–	–	–	35
Other	–	–	–	–	–	–	–
Interest charges and other	–	–	–	–	(238)	(4)	(242)
Operating earnings before tax	**2,174**	**634**	**225**	**37**	**(238)**	**(4)**	**2,828**
Gains/(losses) on investments	(22)	413	16	20	42	–	469
Impairment charges	(115)	(27)	(1)	–	–	–	(143)
Impairment reversals	103	15	–	–	–	–	118
Other non-operating income/(charges)	–	–	90	–	–	(4)	86
Income before share in profit/loss of associates and tax	**2,140**	**1,035**	**330**	**57**	**(196)**	**(8)**	**3,358**
Share in profit/(loss) of associates	–	7	1	24	–	–	32
Income before tax	**2,140**	**1,042**	**331**	**81**	**(196)**	**(8)**	**3,390**
Income tax	(587)	(2)	(99)	(45)	132	–	(601)
Income after tax	**1,553**	**1,040**	**232**	**36**	**(64)**	**(8)**	**2,789**
Attributable to minority interest	–	–	–	–	–	–	–
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF AEGON N.V.	**1,553**	**1,040**	**232**	**36**	**(64)**	**(8)**	**2,789**

Income statement – Operating earnings 2005 Amounts in EUR million	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	**1,899**	**322**	**162**	**44**	**(260)**	**(20)**	**2,147**
Gains/(losses) on investments	240	985	9	12	(89)	–	1,157
Impairment charges	(100)	(44)	(3)	–	–	–	(147)
Impairment reversals	142	19	–	–	–	–	161
Other non-operating income/(charges)	–	–	104	176	(3)	–	277
Income before share in profit/loss of associates and tax	**2,181**	**1,282**	**272**	**232**	**(352)**	**(20)**	**3,595**
Share in profit/(loss) of associates	–	4	–	16	–	–	20
Income before tax	**2,181**	**1,286**	**272**	**248**	**(352)**	**(20)**	**3,615**
Income tax	(566)	(272)	(128)	(37)	118	–	(885)
Income after tax	**1,615**	**1,014**	**144**	**211**	**(234)**	**(20)**	**2,730**
Attributable to minority interest	2	–	–	–	–	–	2
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF AEGON N.V.	**1,617**	**1,014**	**144**	**211**	**(234)**	**(20)**	**2,732**

Income statement – Operating earnings 2004 Amounts in EUR million	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
Interest charges and other	–	–	–	–	(328)	1	(327)
Operating earnings before tax	**1,629**	**196**	**161**	**113**	**(328)**	**1**	**1,772**
Gains/(losses) on investments	225	907	4	15	52	–	1,203
Impairment charges	(237)	(19)	(3)	(2)	–	–	(261)
Impairment reversals	78	–	–	–	–	–	78
Other non-operating income/(charges)	–	–	58	–	(80)	–	(22)
Income before share in profit/loss of associates and tax	**1,695**	**1,084**	**220**	**126**	**(356)**	**1**	**2,770**
Share in profit/(loss) of associates	3	13	–	9	–	–	25
Income before tax	**1,698**	**1,097**	**220**	**135**	**(356)**	**1**	**2,795**
Income tax	(353)	(177)	(99)	(34)	126	–	(537)
Income after tax	**1,345**	**920**	**121**	**101**	**(230)**	**1**	**2,258**
Attributable to minority interest	(2)	–	–	–	–	–	(2)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF AEGON N.V.	**1,343**	**920**	**121**	**101**	**(230)**	**1**	**2,256**

Income statement – Segment revenues 2006

Amounts in EUR million

	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	Total
Traditional life	4,962	2,683	1,824	1,247	–	–	10,716
Life for account of policyholders	1,923	2,123	9,865	759	–	–	14,670
Fixed annuities	2,546	–	–	–	–	–	2,546
Variable annuities	832	–	–	1	–	–	833
Institutional guaranteed products	1,550	–	–	–	–	–	1,550
Fee – off balance sheet products	538	316	216	27	–	–	1,097
Reinsurance	1,719	–	–	–	–	–	1,719
Accident and health insurance	2,309	214	–	74	–	–	2,597
General insurance	–	471	–	139	–	–	610
Banking activities	–	227	–	–	–	–	227
Holding and other activities	–	–	–	–	895	(845)	50
Total revenues	**16,379**	**6,034**	**11,905**	**2,247**	**895**	**(845)**	**36,615**
Income from reinsurance ceded	1,342	1	115	10	–	–	1,468
Net fair value and foreign exchange gains	612	264	15	5	45	(4)	937
Net gains on investments for account of policyholders	4,963	528	3,668	156	–	(2)	9,313
Segment expenses [1]	(20,962)	(5,984)	(14,449)	(2,355)	(92)	–	(43,842)
Net fair value and foreign exchange losses	(59)	–	–	(23)	(45)	–	(127)
Net losses on investments for account of policyholders	(1)	(156)	(1,014)	(3)	–	–	(1,174)
Interest charges and related fees	(100)	(53)	(15)	–	(1,041)	847	(362)
OPERATING EARNINGS BEFORE TAX	**2,174**	**634**	**225**	**37**	**(238)**	**(4)**	**2,828**

[1] Charges to policyholders in respect of income tax in AEGON UK to the amount of EUR 75 million are excluded from segment expenses and included in other non-operating income/(charges).

Income statement - Segment revenues 2005 Amounts in EUR million	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	Total
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
Total revenues	**14,855**	**6,164**	**7,540**	**1,656**	**741**	**(620)**	**30,336**
Income from reinsurance ceded	1,407	–	278	6	–	–	1,691
Net fair value and foreign exchange gains	270	303	13	2	117	(7)	698
Net gains on investments for account of policyholders	3,061	1,751	6,477	62	–	(11)	11,340
Segment expenses [1]	(17,578)	(7,644)	(14,144)	(1,668)	(124)	–	(41,158)
Net fair value and foreign exchange losses	(58)	(202)	–	(12)	(113)	–	(385)
Net losses on investments for account of policyholders	–	–	–	(2)	–	–	(2)
Interest charges and related fees	(58)	(50)	(2)	–	(881)	618	(373)
OPERATING EARNINGS BEFORE TAX	**1,899**	**322**	**162**	**44**	**(260)**	**(20)**	**2,147**

[1] Charges to policyholders in respect of income tax in AEGON UK to the amount of EUR 104 million are excluded from segment expenses and included in other non-operating income/(charges).

Income statement – Segment revenues 2004 Amounts in EUR million	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	**Total**
Traditional life	4,991	1,976	609	856	–	–	8,432
Life for account of policyholders	1,168	2,720	6,476	130	–	–	10,494
Fixed annuities	2,710	–	–	–	–	–	2,710
Variable annuities	692	–	–	1	–	–	693
Institutional guaranteed products	802	–	–	–	–	–	802
Fee – off balance sheet products	417	257	113	15	–	–	802
Reinsurance	1,277	–	–	–	–	–	1,277
Accident and health insurance	2,305	211	–	92	–	–	2,608
General insurance	–	485	–	394	–	–	879
Banking activities	–	284	–	–	–	–	284
Other	–	–	–	–	–	–	–
Holding and other activities	–	–	–	–	837	(518)	319
Total revenues	**14,362**	**5,933**	**7,198**	**1,488**	**837**	**(518)**	**29,300**
Income from reinsurance ceded	1,400	(62)	193	17	–	–	1,548
Net fair value and foreign exchange gains	189	6	2	1	7	1	206
Net gains on investments for account of policyholders	3,424	50	2,359	39	–	1	5,873
Segment expenses [1]	(17,603)	(5,592)	(9,590)	(1,417)	(343)	–	(34,545)
Net fair value and foreign exchange losses	(114)	(79)	–	(2)	(4)	–	(199)
Net losses on investments for account of policyholders	–	–	–	(13)	–	–	(13)
Interest charges and related fees	(29)	(60)	(1)	–	(825)	517	(398)
OPERATING EARNINGS BEFORE TAX	**1,629**	**196**	**161**	**113**	**(328)**	**1**	**1,772**

[1] Charges to policyholders in respect of income tax in AEGON UK to the amount of EUR 58 million are excluded from segment expenses and included in other non-operating income/(charges).

Other selected income statement items 2006	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Total
Amortization of deferred expenses, VOBA and future servicing rights	999	199	276	83	–	1,557
Depreciation	47	13	40	10	2	112
Impairment charges/(reversals) on financial assets, excluding receivables	12	12	1	–	–	25
Impairment charges/(reversals) on non-financial assets and receivables	9	–	–	–	–	9
2005						
Amortization of deferred expenses, VOBA and future servicing rights	832	157	187	66	–	1,242
Depreciation	45	12	46	9	13	125
Impairment charges/(reversals) on financial assets, excluding receivables	(42)	25	3	–	–	(14)
Impairment charges/(reversals) on non-financial assets and receivables	3	–	–	2	7	12
2004						
Amortization of deferred expenses, VOBA and future servicing rights	1,004	242	176	54	–	1,476
Depreciation	46	11	49	9	149	264
Impairment charges/(reversals) on financial assets, excluding receivables	159	19	3	2	–	183
Impairment charges/(reversals) on non-financial assets and receivables	95	–	–	1	–	96

Number of employees 2006	Americas	The Netherlands	United Kingdom	United Kingdom	Holding and other activities	Total
Employees - excluding agents	11,753	5,048	4,489	2,113	173	23,576
Agent-employees	2,483	1,356	150	1,161	–	5,150
	14,236	**6,404**	**4,639**	**3,274**	**173**	**28,726**
2005						
Employees - excluding agents	11,361	4,211	4,378	1,794	186	21,930
Agent-employees	2,654	1,487	161	927	–	5,229
	14,015	**5,698**	**4,539**	**2,721**	**186**	**27,159**
2004						
Employees - excluding agents	11,275	4,337	4,354	1,929	326	22,221
Agent-employees	2,754	1,473	159	839	–	5,225
	14,029	**5,810**	**4,513**	**2,768**	**326**	**27,446**

Revenue from transactions between reporting segments were not material during the financial period, with the exception of the interest income on intercompany loans issued by a holding company in the Holdings and other activities segment amounting to EUR 845 million (2005: EUR 620 million and 2004: EUR 518 million). All intercompany loans transactions are done on at arms' length basis, based on readily available information.

Analysis of operating earnings before tax from non-life business 2006

	Accident and health insurance	General insurance	Total
Premium income	2,241	561	2,802
Investment income	240	49	289
Fee and commission income	116	–	116
Income from reinsurance ceded	336	3	339
Fair value and foreign exchange gains	16	1	17
Premiums to reinsurers	(318)	(20)	(338)
Policyholder claims and benefits	(1,420)	(348)	(1,768)
Commissions and expenses	(840)	(199)	(1,039)
Fair value and foreign exchange losses	(2)	8	6
	369	**55**	**424**

Analysis of operating earnings before tax from non-life business 2005

	Accident and health insurance	General insurance	Total
Premium income	2,230	573	2,803
Investment income	225	54	279
Fee and commission income	134	–	134
Income from reinsurance ceded	390	–	390
Fair value and foreign exchange gains	21	15	36
Premiums to reinsurers	(326)	(20)	(346)
Policyholder claims and benefits	(1,478)	(359)	(1,837)
Commissions and expenses	(866)	(200)	(1,066)
Fair value and foreign exchange losses	(6)	(8)	(14)
	324	**55**	**379**

Analysis of operating earnings before tax from non-life business 2004

	Accident and health insurance	General insurance	Total
Premium income	2,241	813	3,054
Investment income	201	66	267
Fee and commission income	166	–	166
Income from reinsurance ceded	351	15	366
Fair value and foreign exchange gains	15	–	15
Premiums to reinsurers	(361)	(39)	(400)
Policyholder claims and benefits	(1,402)	(495)	(1,897)
Commissions and expenses	(884)	(255)	(1,139)
Fair value and foreign exchange losses	(2)	(1)	(3)
	325	**104**	**429**

Summarized assets and liabilities per geographical segment	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi-nations	Total
2006							
Assets							
VOBA and future servicing rights	2,800	117	1,120	41	–	–	4,078
Investments general account	97,973	29,382	4,408	4,352	36	(20)	136,131
Investments for account of policyholders	48,187	20,725	64,999	1,646	–	(20)	135,537
Investments in associates	24	32	17	404	5	(4)	478
Deferred expenses	6,801	686	3,286	446	–	–	11,219
Other assets	13,458	8,286	2,207	666	8,120	(5,367)	27,370
TOTAL ASSETS	**169,243**	**59,228**	**76,037**	**7,555**	**8,161**	**(5,411)**	**314,813**
Liabilities							
Insurance contracts general account	61,159	18,151	5,043	4,075	–	–	88,428
Insurance contracts for account of policyholders	36,986	20,383	13,201	1,624	–	–	72,194
Investment contracts general account	30,380	5,492	591	155	–	–	36,618
Investment contracts for account of policyholders	11,201	798	52,075	23	–	–	64,097
Other liabilities	14,486	9,635	1,724	343	7,770	(3,667)	30,291
TOTAL LIABILITIES	**154,212**	**54,459**	**72,634**	**6,220**	**7,770**	**(3,667)**	**291,628**
2005							
Assets							
VOBA and future servicing rights	3,359	12	1,135	41	–	–	4,547
Investments general account	108,618	30,407	3,652	3,313	113	(28)	146,075
Investments for account of policyholders	47,448	19,782	59,379	974	–	(36)	127,547
Investments in associates	3	67	16	451	5	–	542
Deferred expenses	6,911	778	2,965	422	–	–	11,076
Other assets	12,061	4,428	1,902	519	6,761	(4,243)	21,428
TOTAL ASSETS	**178,400**	**55,474**	**69,049**	**5,720**	**6,879**	**(4,307)**	**311,215**
Liabilities							
Insurance contracts general account	70,720	18,033	3,632	3,305	–	–	95,690
Insurance contracts for account of policyholders	36,331	19,536	13,456	957	–	–	70,280
Investment contracts general account	32,983	5,157	702	–	–	–	38,842
Investment contracts for account of policyholders	11,118	1,217	46,372	17	–	–	58,724
Other liabilities	11,017	6,520	1,787	285	6,968	(1,568)	25,009
TOTAL LIABILITIES	**162,169**	**50,463**	**65,949**	**4,564**	**6,968**	**(1,568)**	**288,545**

Segment assets by line of business [1] **2006**	Americas	The Netherlands	United Kingdom	Other countries	Holding and other activities	Elimi- nations	**Total**
Traditional life	31,190	25,240	5,755	5,076	–	–	67,261
Life for account of policyholders	7,547	25,712	70,010	1,994	–	–	105,263
Fixed annuities	41,442	–	–	–	–	–	41,442
Variable annuities	45,324	–	–	21	–	–	45,345
Institutional guaranteed products	30,776	–	–	–	–	–	30,776
Fee - off balance sheet products	578	423	142	61	–	–	1,204
Reinsurance	5,795	–	–	–	–	–	5,795
Accident and health insurance	6,166	692	–	199	–	–	7,057
General insurance	–	939	–	201	30	–	1,170
Banking activities	–	6,223	–	–	–	–	6,223
Other	–	–	–	–	8,429	(5,411)	3,018
	168,818	**59,229**	**75,907**	**7,552**	**8,459**	**(5,411)**	**314,554**
2005							
Traditional life	33,857	24,311	4,600	4,207	–	–	66,975
Life for account of policyholders	6,084	23,634	64,204	1,136	–	–	95,058
Fixed annuities	47,766	–	–	–	–	–	47,766
Variable annuities	46,072	–	–	17	–	–	46,089
Institutional guaranteed products	31,620	–	–	–	–	–	31,620
Fee - off balance sheet products	516	172	170	56	–	–	914
Reinsurance	5,956	–	–	–	–	–	5,956
Accident and health insurance	6,331	621	–	68	–	–	7,020
General insurance	–	858	–	199	–	–	1,057
Banking activities	–	5,879	–	–	1	–	5,880
Other	–	–	–	–	6,912	(4,308)	2,604
	178,202	**55,475**	**68,974**	**5,683**	**6,913**	**(4,308)**	**310,939**

[1] Segment assets include all assets, except income tax receivables.

Cost to acquire investments in real estate, software and equipment were not material during the financial period.

6 INTANGIBLE ASSETS

	Goodwill	VOBA	Future servicing rights	Software	Other	Total
Net book value						
At January 1, 2005	13	3,950	133	80	7	4,183
At December 31, 2005	65	4,396	151	60	6	4,678
AT DECEMBER 31, 2006	**221**	**3,959**	**119**	**34**	**5**	**4,338**
Cost						
At January 1, 2005	13	6,654	186	237	8	7,098
Additions	–	4	–	17	–	21
Acquisitions through business combinations	50	88	25	–	–	163
Net exchange differences	2	905	18	10	–	935
Other	–	(6)	–	–	–	(6)
AT DECEMBER 31, 2005	**65**	**7,645**	**229**	**264**	**8**	**8,211**
Accumulated amortization, depreciation and impairment losses						
At January 1, 2005	–	2,704	53	157	1	2,915
Amortization / depreciation through income statement	–	308	22	41	1	372
Shadow accounting adjustments	–	(187)	–	–	–	(187)
Impairment losses	–	1	–	–	–	1
Net exchange differences	–	418	3	6	–	427
Other	–	5	–	–	–	5
AT DECEMBER 31, 2005	**–**	**3,249**	**78**	**204**	**2**	**3,533**
Cost						
At January 1, 2006	65	7,645	229	264	8	8,211
Additions	–	11	–	10	–	21
Acquisitions through business combinations	160	114	–	–	–	274
Disposals	–	(29)	–	(7)	–	(36)
Deferred tax	(1)	–	–	–	–	(1)
Net exchange differences	(3)	(635)	(12)	1	–	(649)
AT DECEMBER 31, 2006	**221**	**7,106**	**217**	**268**	**8**	**7,820**
Accumulated amortization, depreciation and impairment losses						
At January 1, 2006	–	3,249	78	204	2	3,533
Amortization / depreciation through income statement	–	246	22	35	1	304
Shadow accounting adjustments	–	(20)	1	–	–	(19)
Disposals	–	–	–	(7)	–	(7)
Net exchange differences	–	(328)	(3)	2	–	(329)
AT DECEMBER 31, 2006	**–**	**3,147**	**98**	**234**	**3**	**3,482**

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 'Net gains and losses on investments'.

None of the intangible assets have titles that are restricted or have been pledged as security for liabilities.

Please refer to note 51 for information on the business combinations entered into by AEGON in 2005 and 2006. The deferred tax in 2006 relates to an adjustment to goodwill resulting from the subsequent recognition of a deferred tax asset for the acquisition of Nationwide Poland, completed in the last quarter of 2005. The initial allocation of goodwill has not been completed for all business combinations included in the financial statements of 2006.

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. VOBA and Future Servicing Rights are amortized over the term of the related insurance contracts, which can vary significantly depending on the maturity of the acquired portfolio. Software is generally amortized over a period of three to five years.

VOBA per line of business	2006	2005
Traditional life	1,659	1,961
Life for account of policyholders	1,101	1,121
Fixed annuities	91	140
Variable annuities	96	115
Institutional guaranteed products	8	23
Fee – off balance sheet products	122	4
Reinsurance	710	814
Accident and health insurance	172	218
AT DECEMBER 31	**3,959**	**4,396**

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.

Investments for general account	Note	2006	2005
Available-for-sale (AFS)	7.1	101,895	109,926
Loans	7.2	20,605	21,785
Held-to-maturity (HTM)	7.3	1,527	1,202
Financial assets at fair value through profit or loss (FVTPL) [1]	7.4	9,548	10,739
Total financial assets, excluding derivatives		**133,575**	**143,652**
Investments in real estate	7.5	2,243	2,068
Real estate held for own use	7.6	313	355
TOTAL INVESTMENTS FOR GENERAL ACCOUNT		**136,131**	**146,075**

[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	2006					2005				
	AFS	Loans	HTM	FVTPL	Total	AFS	Loans	HTM	FVTPL	Total
Shares	4,963	–	–	2,782	7,745	5,201	–	–	2,695	7,896
Bonds	91,637	–	1,502	4,415	97,554	100,866	–	1,166	5,915	107,947
Money market and other short-term investments	4,387	–	–	38	4,425	3,151	–	–	50	3,201
Mortgages	–	16,171	–	–	16,171	–	17,231	–	–	17,231
Private loans	–	307	–	–	307	–	609	–	–	609
Deposits with financial institutions	–	1,995	–	–	1,995	–	1,342	–	–	1,342
Policy loans	–	1,557	–	–	1,557	–	1,543	–	–	1,543
Receivables out of share lease agreements	–	373	–	–	373	–	772	–	–	772
Other	908	202	25	2,313	3,448	708	288	36	2,079	3,111
AT DECEMBER 31	**101,895**	**20,605**	**1,527**	**9,548**	**133,575**	**109,926**	**21,785**	**1,202**	**10,739**	**143,652**

Terms and conditions

Refer to the analysis of credit risk concentrations for bonds and money market investments in 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.

Actual maturities are generally expected to differ from contractual maturities for mortgage loans, as borrowers may have the right to call or apply for earlier redemptions, with or without call or prepayment penalties.

Included in debt securities at fair value through profit or loss are convertible bonds and preferred shares of EUR 881 million (2005: EUR 505 million). At the end of 2006 approximately 99% of these convertible options are exercisable within the next year and the remaining 1% are exercisable after five years, all at various exchange ratios. In addition, AEGON also holds EUR 623 million (2005: EUR 818 million) of convertible bonds and preferred shares backing a fixed annuity product considered to contain an embedded derivative. This entire liability is also measured at fair value, with changes reported through the income statement.

Derecognition

As part of the AEGON Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. At December 31, 2006 a total of six publicly placed and one privately placed securitization contracts were outstanding with a total value of EUR 5.8 billion.

In 2006, AEGON Levensverzekering N.V. has terminated one of the two privately placed securitization transactions reported in prior years. Also, it completed one publically placed securitization transaction in 2006, whereby the economic ownership of EUR 2.1 billion of aggregate mortgage receivables was conveyed to a special purpose company. The special purpose company funded this purchase with the issuance of mortgage-backed securities. The transfer of ownership title will take place upon notification of the borrowers by the special purpose company. The special purpose company has the right to notify the borrowers upon the occurrence of certain pre-defined 'notification events'. At the same time AEGON entered into a fixed-to-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). After a period of seven years, the interest of the notes issued by the special purpose company in respect of this transaction will step-up, together with a similar step-up in the fixed-to-floating swap agreement. At that same time, the special purpose company has the right to call the notes. A deferred purchase arrangement forming part of the contract to sell the mortgage loans to the special purpose company entitles AEGON Levensverzekering N.V. to any residual positive value of the special purpose entity at maturity. The value of this arrangement is included in the valuation of the interest rate swap as it is viewed as a correction on the assumptions underlying the cash flow forecasts. In 2005, AEGON Levensverzekering N.V. completed one mortgage-related publicly placed securitization contract for EUR 1.2 billion that was structured similarly to the 2006 securitization described above. A portion of securitized mortgage loans amounting to EUR 24 million (2005: EUR 28 million) continues to be recognized as a financial asset on balance, representing the interest rate risk retained by AEGON in respect of the fourth publicly placed securitization contract.

For the year ending December 31, 2006, AEGON USA sold approximately EUR 105 million (2005: EUR 21 million) of AAA-wrapped municipal debt securities to qualifying SPEs (QSPEs). Due to AEGON's continuing involvement with the assets in these QSPEs, it consolidates these entities. The fair value of all such debt securities reflected in investments and also measured at fair value through profit or loss is EUR 678 million as of December 31, 2006 (2005: EUR 866 million). The acquisition of these securities was financed by the QSPEs through issuance of floating rate notes at par value to third parties and issuance of a de minimus residual investment to AEGON. Upon early termination of a QSPE, up to 10% of the excess of the fair value of the securities over the notes value may be shared with the noteholders, with residual flowing to AEGON. In the event that the fair value of the securities is less than the notes value at early termination and the securities have maintained their investment grade rating, AEGON will reimburse the QSPE liquidity provider for this shortfall. AEGON must pledge collateral to support these shortfall agreements. At December 31, 2006, the fair value of the bonds was in excess of the par value of the floating rate notes and no collateral was pledged. The maximum exposure to loss resulting from AEGON's involvement is the December 31, 2006 unpaid principal and accrued interest on the notes of EUR 649 million (2005: EUR 840 million) reflected in financial liabilities-investment contracts. Management does not anticipate any future funding requirements with respect to these guarantees that would have a material effect on reported financial results.

Measurement

AEGON owns EUR 113 million (2005: EUR 126 million) of shares in the Federal Home Loan Bank of Des Moines, Iowa, that are measured at par. The bank has implicit financial support from the United States government. The redemption value of the shares is fixed at par and can only be redeemed by the bank.

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

Refer to note 50 for a discussion of collateral received and paid.

No financial assets were reclassified during the financial year.

7.1 AVAILABLE-FOR-SALE

Listed and unlisted shares and bonds	2006	2005
Listed shares	4,270	4,223
Unlisted shares	693	978
Listed bonds	82,035	89,342
Unlisted bonds	9,602	11,524
	96,600	**106,067**

Proceeds, realized gains and realized losses from sales of available-for-sale instruments	2006	2005
Proceeds	55,573	48,874
Realized gains	732	665
Realized losses	196	–

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

Unrealized gains and losses 2006	(Amortized) cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Shares	4,017	973	(27)	4,963	4,530	433
Bonds						
- United States government	3,192	86	(37)	3,241	1,415	1,826
- Dutch government	2,301	52	(27)	2,326	1,100	1,226
- Other government	10,442	545	(66)	10,921	7,114	3,807
- Mortgage backed	10,519	79	(73)	10,525	6,127	4,398
- Asset backed	9,985	57	(72)	9,970	5,855	4,115
- Corporate	53,652	1,643	(643)	54,652	30,022	24,630
Money market investments	4,387	–	–	4,387	4,387	–
Other	844	88	(24)	908	660	248
	99,339	**3,523**	**(969)**	**101,893**	**61,210**	**40,683**

Unrealized gains and losses 2005	(Amortized) cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Shares	4,016	1,221	(36)	5,201	4,804	397
Bonds						
- United States government	3,374	60	(41)	3,393	1,289	2,104
- Dutch government	2,227	133	–	2,360	2,360	–
- Other government	10,673	912	(8)	11,577	10,943	634
- Mortgage backed	10,142	112	(121)	10,133	3,761	6,372
- Asset backed	11,063	76	(130)	11,009	6,221	4,788
- Corporate	60,339	2,612	(557)	62,394	41,540	20,854
Money market investments	3,151	–	–	3,151	3,151	–
Other	668	83	(43)	708	513	195
	105,653	**5,209**	**(936)**	**109,926**	**74,582**	**35,344**

Unrealized losses - shares	2006 Carrying value of instruments with unrealized losses	2006 Gross unrealized losses	2005 Carrying value of instruments with unrealized losses	2005 Gross unrealized losses
Communication	11	(1)	3	(1)
Consumer cyclical	9	(1)	40	(3)
Consumer non-cyclical	25	(2)	31	(6)
Financials	219	(9)	76	(4)
Funds	19	(1)	31	(1)
Industries	36	(3)	36	(5)
Resources	7	(1)	1	(1)
Services cyclical	19	(1)	19	(2)
Services non-cyclical	11	(1)	36	(2)
Technology	42	(4)	33	(4)
Transport	5	–	–	–
Other	30	(3)	91	(7)
	433	**(27)**	**397**	**(36)**

Unrealized losses - bonds and money market investments	2006 Carrying value of instruments with unrealized losses	2006 Gross unrealized losses	2005 Carrying value of instruments with unrealized losses	2005 Gross unrealized losses
Asset Backed Securities (ABSs)				
ABSs - Aircraft	63	(7)	113	(25)
ABSs - CBOs	103	(3)	242	(23)
ABSs - Housing related	1,499	(29)	1,658	(32)
ABSs - Credit cards	705	(7)	1,229	(19)
ABSs - Other	1,758	(27)	1,545	(31)
Collateralized mortgage backed securities	4,407	(73)	5,914	(105)
Financial	9,452	(185)	7,463	(159)
Industrial	12,224	(370)	11,211	(354)
Utility	2,936	(87)	2,486	(57)
Sovereign exposure	6,855	(130)	2,891	(52)
	40,002	**(918)**	**34,752**	**(857)**

7.2 LOANS

Unrealized gains and losses 2006	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Mortgages	16,171	399	(108)	16,462	7,959	8,503
Private loans	307	26	(1)	332	324	8
Deposits with financial institutions	1,995	9	–	2,004	2,004	–
Policy loans	1,557	–	–	1,557	1,557	–
Receivables out of share lease agreements	373	–	–	373	352	21
Other	202	–	–	202	202	–
	20,605	**434**	**(109)**	**20,930**	**12,398**	**8,532**

Unrealized gains and losses 2005	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Mortgages	17,231	788	(75)	17,944	14,403	3,541
Private loans	609	42	–	651	651	–
Deposits with financial institutions	1,342	–	–	1,342	1,342	–
Policy loans	1,543	–	–	1,543	1,543	–
Receivables out of share lease agreements	772	4	–	776	776	–
Other	288	–	–	288	288	–
	21,785	**834**	**(75)**	**22,544**	**19,003**	**3,541**

7.3 HELD-TO-MATURITY

Listed and unlisted bonds	2006	2005
Listed bonds	1,487	1,158
Unlisted bonds	15	8
	1,502	**1,166**

Unrealized gains and losses 2006	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
- Other government	1,294	56	(1)	1,349	1,184	165
- Asset backed	8	–	–	8	8	0
- Corporate	200	1	(1)	200	121	79
	1,502	**57**	**(2)**	**1,557**	**1,313**	**244**

Unrealized gains and losses 2005	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
- Other government	1,085	60	(1)	1,144	1,014	130
- Corporate	81	1	–	82	73	9
	1,166	**61**	**(1)**	**1,226**	**1,087**	**139**

7.4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Listed and unlisted shares and bonds	2006	2005
Listed shares	2,627	1,651
Unlisted shares	155	1,044
Listed bonds	3,497	5,859
Unlisted bonds	918	56
	7,197	**8,610**

7.5 INVESTMENTS IN REAL ESTATE

	2006	2005
At January 1	2,068	1,856
Additions	41	73
Subsequent expenditure capitalized	11	5
Transfers from real estate held for own use and mortgage loans	140	134
Disposals	(140)	(268)
Fair value gains/(losses)	166	221
Net exchange differences	(43)	49
Other	–	(2)
	2,243	**2,068**

94% of all properties were last valued in 2006. More than 99% of these valuations were performed by independent external appraisers. AEGON USA has entered into commercial property leases on its investment property portfolio, consisting of office, retail and industrial buildings. These non-cancellable leases have remaining lease terms up to 12 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to either a fixed schedule or prevailing market conditions.

AEGON The Netherlands has entered into long-term residential property leases that can be terminated subject to a short term notice. Under Dutch law, the maximum annual rent increase on residential property rented for less than EUR 615 per month is specified by the Dutch national government and equals to the annual inflation rate plus a small margin. Refer to note 49 for description of non-cancellable lease rights.

Rental income of EUR 90 million (2005: EUR 92 million; 2004: EUR 106 million) is reported as part of investment income in the income statement. Of this amount EUR 2 million (2005: EUR 3 million; 2004: EUR 1 million) is attributable to rent on foreclosed real estate.

Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to EUR 28 million (2005: EUR 33 million; 2004: EUR 25 million). No amounts (2005: EUR 2 million; 2004: EUR 0 million) of direct operating expenses related to investment property that did not generate rental income during the period.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 49 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

7.6 REAL ESTATE HELD FOR OWN USE

Net book value	
At January 1, 2005	328
At December 31, 2005	355
AT DECEMBER 31, 2006	**313**

	2006	2005
Cost		
At January 1	377	347
Additions	90	162
Acquired through business combinations	18	–
Capitalized subsequent expenditure	5	1
Disposals	(3)	(46)
Unrealized gains/(losses) through equity	16	(1)
Realized gains/(losses) through income statement	(5)	1
Transfers to investments in real estate	(136)	(108)
Net exchange differences	(21)	26
Other	–	(5)
AT DECEMBER 31	**341**	**377**
Accumulated depreciation, and impairment losses		
At January 1	22	19
Depreciation through income statement	8	7
Disposals	(1)	–
Net exchange differences	(1)	1
Other	–	(5)
AT DECEMBER 31	**28**	**22**

General account real estate held for own use are mainly held by AEGON USA and AEGON The Netherlands, with relatively smaller holdings in Hungary and Spain and are carried at revalued amounts. The carrying value under a historical cost model amounts to EUR 169 million (2005: EUR 152 million).

61% of the real estate held for own use was last revalued in 2006, based on market value appraisals by qualified internal and external appraisers. Approximately 75% of the appraisals in 2006 were performed by independent external appraisers.

Real estate held for own use has not been pledged as security for liabilities, nor are there any restrictions on title.

Depreciation expenses are charged in ‘Commissions and expenses’ in the income statement. The useful lives of buildings range between 40 and 50 years.

Refer to note 49 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 details on derivatives for account of policyholders.

	2006	2005
Shares		
- Listed	44,663	39,902
- Unlisted	53	69
Bonds		
- Listed	30,339	31,465
- Unlisted	35	31
Money market and other short-term investments	2,248	2,297
Deposits with financial institutions	2,344	1,288
Separate accounts and unconsolidated investment funds	51,874	48,775
Other	1,504	2,314
Total investments for account of policyholders at fair value through profit or loss, excluding derivatives [1]	**133,060**	**126,141**
Investments in real estate	2,327	1,266
Real estate held for own use	150	140
TOTAL INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS	**135,537**	**127,547**

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

Investments in real estate	2006	2005
At January 1	1,266	530
Additions	814	618
Subsequent expenditure capitalized	36	31
Disposals	(16)	(26)
Fair value gains/(losses)	187	99
Net exchange differences	40	14
AT DECEMBER 31	**2,327**	**1,266**

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

Rental income of EUR 90 million (2005: EUR 10 million; 2004: EUR 10 million) is reported as part of investment income in the income statement. There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

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

9 DERIVATIVES

	Derivative asset		Derivative liability	
	2006	2005	2006	2005
Derivatives for general account				
- Derivatives not designated in a hedge	860	1,058	558	690
- Derivatives designated as fair value hedges	256	335	480	516
- Derivatives designated as cash flow hedges	197	326	133	227
- Net foreign investment hedges	197	136	38	91
	1,510	**1,855**	**1,209**	**1,524**
Derivatives for account of policyholders				
- Derivatives not designated in a hedge	373	440	579	678
	373	**440**	**579**	**678**
TOTAL DERIVATIVES [1]	**1,883**	**2,295**	**1,788**	**2,202**

[1] Refer to note 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 holds financial derivatives for trading purposes. It also utilizes derivative instruments as a part of its asset liability risk management practices. The derivatives held for risk management purposes are classified as 'Derivatives not designated in a hedge' to the extent that they do not qualify for hedge accounting, or that AEGON has elected to not apply hedge accounting. These derivatives are either classified as economic or non-economic hedges. The economic hedges of certain exposures relate to an existing asset or liability. In all cases, these are in accordance with internal risk guidelines and are closely monitored for continuing compliance.

Derivatives are used to add risk by selling protection in the form of single name credit default swaps and tranches of synthetic collateralized debt and commodity obligations. Another strategy used is to synthetically replicate corporate credit exposures with credit derivatives. This involves the purchase of high quality low risk assets and the sale of credit derivatives. The program is designed to purchase asset positions that are already subject to review by management, but may not be available under the same terms and conditions in the cash bond market.

Furthermore synthetic GICs and liquidity agreements and principal protection agreements are sold by AEGON to earn a fee.

In addition to these instruments, embedded derivatives that are not closely related to the host contracts have been bifurcated and recorded at fair value in the balance sheet. These bifurcated embedded derivatives are embedded in various institutional products, modified coinsurance and insurance contracts in the form of guarantees for minimum benefits.

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

	Derivative asset		Derivative liability	
	2006	2005	**2006**	2005
Bifurcated embedded derivatives	30	27	834	1,054

AEGON USA reinsures some business on a modified coinsurance basis or coinsurance with funds withheld basis. These reinsurance arrangements contain embedded derivatives in that the credit risk of the underlying investment is not closely related to the host contracts. These embedded derivatives are bifurcated and carried at fair value. The change in fair value of the embedded derivative, as well as the gains or losses on trading investments supporting these arrangements, flows through the income statement. This embedded derivative is not eligible for hedge accounting treatment.

The following table provides information on the liabilities for guarantees for minimum benefits that are included in the bifurcated embedded derivatives.

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

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

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

Refer to note 4 for a discussion of these guarantees for minimum benefits.

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

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

Derivative instruments designated as fair value hedges

AEGON has entered into interest rate swap agreements that effectively convert certain fixed-rate assets and liabilities to a floating-rate basis (generally to six months or less LIBOR), in order to more closely match the performance of the assets and liabilities within AEGON's portfolio. These agreements involve the payment or receipt of fixed-rate interest amounts in exchange for floating-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts.

AEGON has entered into cross-currency interest rate swap agreements that effectively convert certain foreign currency fixed- and floating-rate assets and liabilities to US dollar floating-rate assets and liabilities. These agreements involve the exchange of the underlying principal amounts.

For the years ended December 31, 2006, 2005 and 2004, AEGON recognized gains and losses related to the ineffective portion of designated fair value hedges of EUR 5 million, EUR 32 million and EUR 37 million respectively. No portion of derivatives was excluded when assessing hedge effectiveness.

Derivative instruments designated as cash flow hedges

AEGON has entered primarily into interest rate swap agreements that effectively convert certain variable-rate assets and liabilities to a fixed-rate basis in order to match the performance of the assets and liabilities within AEGON's portfolio more closely. These agreements involve the payment or receipt of variable rate interest amounts in exchange for fixed-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. AEGON is hedging its exposure to the variability of future cash flows from the interest rate movements for terms up to five and a half years for hedges converting existing floating-rate assets and liabilities to fixed-rate assets.

AEGON uses forward starting interest rate swap agreements to hedge the variability in future cash flows associated with the forecasted purchase of fixed-income assets. These agreements reduce the impact of future interest rate changes on the forecasted transaction. Fair value adjustments for these interest rate swaps are deferred and recorded in equity until the occurrence of the forecasted transaction at which time the interest rate swaps will be terminated. The accumulated gain or loss in equity will be amortized into investment income as the acquired asset affects income. AEGON is hedging its exposure to the variability of future cash flows from interest rate movements for terms up to sixteen and a half years. These transactions will affect the profit and loss for approximately 40 years. For the year ended December 31, 2006, none of AEGON's cash flow hedges has been discontinued, as it was probable that the original forecasted transactions would occur by the end of the originally specified time period documented at inception of the hedging relationship.

In addition, AEGON also makes use of cross currency swaps to convert variable foreign currency cash flows into fixed cash flows in local currencies. The cash flows from these hedging instruments are expected to occur over the next 30 - 35 years. These agreements involve the exchange of the underlying principal amounts.

Immaterial amounts of hedge ineffectiveness were recorded in the income statement during 2006, 2005 and 2004. The amount of deferred gains or losses to be reclassified from equity into net income during the next twelve months is expected to be immaterial. AEGON did not exclude any portion of the derivative when assessing hedge effectiveness.

Derivative instruments designated as net foreign investment hedges

AEGON funds its investments in insurance subsidiaries with a mixture of debt and equity. AEGON aims to denominate debt funding in the same currency as the functional currency of the investment. Investments outside the Eurozone, the United States, the United Kingdom and Canada are funded in euro. When the debt funding of investments is not in the functional currency of the investment, AEGON uses derivatives to swap the currency exposure of the debt instrument to the appropriate functional currency. This policy will ensure that total capital will reflect currency movements without distorting debt to shareholders' equity ratios. AEGON utilizes various financial instruments as designated hedging instruments of its foreign investments. These instruments include subordinated borrowings, long-term and short-term borrowings, short-term debts to credit institutions, cross currency swap contracts and forward foreign exchange contracts.

The following table represents aggregate notional amounts and fair values of derivatives, held for own account as well as for account of policyholders. The notional amounts listed for interest rate contracts will not be exchanged by parties and, thus, do not reflect an exposure of the company. The amounts listed for cross currency swaps, included under 'Foreign exchange contracts' will be exchanged at amounts calculated on the basis of the notional amounts and the terms of the derivatives, which are related to interest rates, exchange rates and/or certain indices.

	2006				2005			
	Notional value	Assets Fair value	Notional value	Liabilities Fair value	Notional value	Assets Fair value	Notional value	Liabilities Fair value
Interest rate contracts								
OTC:								
- Forwards	5,223	97	–	–	–	–	2	–
- Swaps	48,296	1,142	22,538	512	31,062	1,693	24,444	672
- Options	5,577	201	24	–	6,080	270	–	–
Exchange traded contracts:								
- Futures	3,047	17	558	8	145	1	2,238	3
Foreign exchange contracts								
OTC:								
- Forwards	1,402	17	1,393	13	2,498	3	2,339	9
- Swaps	4,153	225	8,140	377	2,507	218	3,376	437
Credit contracts								
OTC:								
- Swaps	832	7	862	5	1,146	8	434	6
Equity contracts								
OTC:								
- Swaps	629	38	1,244	7	547	42	520	9
- Options	1,127	102	1,260	10	34	24	818	–
Exchange traded contracts:								
- Futures	681	6	1,588	22	307	5	632	6
- Options	9	1	–	–	8	4	–	–
Other derivatives								
Embedded derivatives	1,766	30	9,721	834	2	27	9,415	1,054
Synthetic GICs	–	–	37,076	–	–	–	36,076	–
Other contracts	–	–	–	–	–	–	–	6
	72,742	**1,883**	**84,404**	**1,788**	**44,336**	**2,295**	**80,294**	**2,202**

The fair value of the derivatives reflects the estimated amounts that AEGON would receive or pay to terminate the contracts on reporting date. Market quotes are available for many derivatives; for those products without readily available market quotes generally accepted valuation models are used to estimate fair value. The cross currency interest rate swaps are presented as foreign exchange contracts.

Maturity table 2006	< 1 yr Notional value	< 1 yr Fair value	1 < 5 yrs Notional value	1 < 5 yrs Fair value	5 < 10 yrs Notional value	5 < 10 yrs Fair value	> 10 yrs Notional value	> 10 yrs Fair value
Interest rate contracts								
OTC:								
- Forwards	323	–	1,748	29	1,491	32	1,661	36
- Swaps	4,525	(14)	22,337	13	10,692	137	33,280	494
- Options	107	4	3,877	40	580	57	1,037	100
Exchange traded contracts:								
- Futures	3,605	5	–	4	–	–	–	–
Foreign exchange contracts								
OTC:								
- Forwards	2,795	4	–	–	–	–	–	–
- Swaps	5,686	(56)	3,926	46	1,468	(58)	1,213	(84)
Credit contracts								
OTC:								
- Swaps	19	–	832	4	98	(2)	745	–
Equity contracts								
OTC:								
- Swaps	136	–	1,682	30	55	1	–	–
- Options	1,028	22	750	22	575	39	34	9
Exchange traded contracts:								
- Futures	2,269	(16)	–	–	–	–	–	–
- Options	6	–	3	1	–	–	–	–
Other derivatives								
Embedded derivatives	48	(6)	2,741	(300)	1,414	(195)	7,284	(303)
Synthetic GICs	38	–	–	–	–	–	37,038	–
	20,585	**(57)**	**37,896**	**(111)**	**16,373**	**11**	**82,292**	**252**

Maturity table 2005	< 1 yr Notional value	< 1 yr Fair value	1 < 5 yrs Notional value	1 < 5 yrs Fair value	5 < 10 yrs Notional value	5 < 10 yrs Fair value	> 10 yrs Notional value	> 10 yrs 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**

10 INVESTMENTS IN ASSOCIATES

	2006	2005
Investments in associates	**478**	**542**
At January 1	542	484
Additions	26	22
Acquisition of a subsidiary	1	–
Consolidation following acquisition of remaining shares in an associate	(41)	–
Share in net income	32	20
Share in changes in associate's equity (note 15.5)	(68)	20
Dividend	(4)	(3)
Other	(10)	(1)
AT DECEMBER 31	**478**	**542**

All associates are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in associates include interest in insurance companies who are required to maintain a minimum solvency margin based on local directives. While management does not believe that such restrictions will affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, there can be no assurance that these restrictions will not become a limitation in the future. There are also no unrecognized shares of losses of associates.

Summarized financial information of associates	2006	2005
Assets	9,504	8,124
Liabilities	9,181	7,884
Revenue	1,895	1,747
Net income	32	20

The summarized financial information is based on the Group's relative holding and excludes any goodwill included in the measurement of the investment in associates. Refer to note 52 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:	2006	2005
Life insurance general account	2,901	3,001
Life insurance for account of policyholders	279	320
Non-life insurance	785	799
Investment contracts	5	5
TOTAL REINSURANCE ASSETS	**3,970**	**4,125**

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in other assets and receivables (note 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**

	Life insurance general account	Life insurance for account of policyholders	Total life insurance
At January 1, 2006	3,001	320	3,321
Acquisitions through business combinations	–	–	–
Portfolio transfers and acquisitions	(19)	(18)	(37)
Gross premium and deposits – existing and new business	970	103	1,073
Unwind of discount / interest credited	136	11	147
Technical reserves released	(955)	(139)	(1,094)
Changes to valuation of expected future benefits	16	(1)	15
Net exchange differences	(255)	3	(252)
Other movements	7	–	7
AT DECEMBER 31, 2006	**2,901**	**279**	**3,180**

Movements during the year in reinsurance assets relating to non-life insurance	2006	2005
At January 1	799	609
Gross premium and deposits – existing and new business	313	346
Unwind of discount / interest credited	34	23
Technical reserves released	(185)	(179)
Changes to valuation of expected future benefits	3	1
Changes in unearned premiums	(89)	(80)
Changes in unexpired risks	(3)	(3)
Incurred related to current year	106	75
Incurred related to prior years	18	5
Release for claims settled current year	(26)	(11)
Release for claims settled prior years	(109)	(50)
Change in IBNR	13	(9)
Disposals	–	(21)
Net exchange differences	(84)	(93)
Other movements	(5)	–
AT DECEMBER 31	**785**	**799**

12 DEFERRED EXPENSES AND REBATES

	2006	2005
DPAC for insurance contracts and investment contracts with discretionary participation features	10,938	10,789
Deferred transaction costs for investment management services	281	287
Unamortized interest rate rebates	239	272
	11,458	**11,348**

	DPAC	Deferred transaction costs	Unamortized interest rate rebates
At January 1, 2005	8,499	234	325
Costs deferred/rebates granted during the year	1,919	60	3
Amortization through income statement	(936)	(28)	(56)
Shadow accounting adjustments	413	–	–
Disposals	(44)	–	–
Net exchange differences	930	21	–
Other	8	–	–
AT DECEMBER 31, 2005	**10,789**	**287**	**272**

	DPAC	Deferred transaction costs	Unamortized interest rate rebates
At January 1, 2006	10,789	287	272
Costs deferred/rebates granted during the year	1,891	83	16
Amortization through income statement	(1,243)	(45)	(49)
Shadow accounting adjustments	157	–	–
Disposal	–	(29)	–
Net exchange differences	(697)	(12)	–
Other	41	(3)	–
AT DECEMBER 31, 2006	**10,938**	**281**	**239**

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

DPAC and deferred transaction costs per line of business	DPAC 2006	DPAC 2005	Deferred transaction costs 2006	Deferred transaction costs 2005
Traditional life	3,703	3,699	–	–
Life for account of policyholders	4,488	4,257	133	127
Fixed annuities	400	443	19	20
Variable annuities	852	970	73	78
Fee - off balance sheet products	–	–	43	43
Reinsurance	767	685	–	–
Accident and health insurance	726	734	–	–
General insurance	2	1	–	–
Banking	–	–	13	19
	10,938	**10,789**	**281**	**287**

13 OTHER ASSETS AND RECEIVABLES

		2006	2005
Equipment	13.1	236	270
Receivables	13.2	5,414	4,320
Accrued income	13.3	1,823	2,216
		7,473	**6,806**

13.1 EQUIPMENT

Net book value	
At January 1, 2005	390
At December 31, 2005	270
AT DECEMBER 31, 2006	**236**

	2006	2005
Cost		
At January 1	640	1,044
Additions	62	80
Acquisitions through business combinations	9	1
Disposal	(83)	(596)
Net exchange differences	(39)	101
Other	–	10
AT DECEMBER 31	**589**	**640**
Accumulated depreciation and impairment losses		
At January 1	370	654
Depreciation through income statement	68	76
Disposal	(65)	(427)
Net exchange differences	(20)	59
Other	–	8
AT DECEMBER 31	**353**	**370**

Included in the net book amounts of equipment are equipment held for lease of EUR 40 million (2005: EUR 66 million).
Equipment has not been pledged as security for liabilities, nor is there any restrictions on title.

Depreciation expenses have been charged in 'Commissions and expenses' in the income statement. Equipment is generally depreciated over a period of three to five years.

13.2 RECEIVABLES

	2006	2005
Loans to associates	11	8
Finance lease assets	63	108
Receivables from policyholders	3,632	2,170
Receivables from brokers and agents	184	161
Receivables from reinsurers	278	578
Investment income receivable	–	1
Cash outstanding from assets sold	8	15
Trade receivables	527	29
Cash collateral on securities borrowed	34	–
Reverse repurchase agreements	4	23
Income tax receivable	259	275
Other	572	1,100
Provision for impairment	(158)	(148)
	5,414	**4,320**
Current	5,017	4,067
Non-current	397	253
Fair value on non-current receivables	382	244

13.3 ACCRUED INCOME

	2006	2005
Accrued interest	1,821	2,216
Other	2	–
	1,823	**2,216**

All accrued income is current.

14 CASH AND CASH EQUIVALENTS

	2006	2005
Cash at bank and in hand	686	1,032
Short-term deposits	1,884	2,209
Money market investments	5,859	4,066
Short-term collateral	4,715	–
	13,144	**7,307**

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

Included in the balances for short-term deposits, money market investments and short term collateral is cash collateral received of EUR 10.0 billion (2005: EUR 4.6 billion), of which EUR 8.5 billion (2005: EUR 3.9 billion) relates to security lending and repurchase agreements. A corresponding liability to repay the cash is recognized in other liabilities (note 28). Refer to note 50 for a discussion of collateral received and paid. Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. AEGON earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities. Income from security lending programs was approximately EUR 26 million (2005: EUR 21 million; 2004: EUR 13 million).

The weighted effective interest rate on short-term deposits was 4.21% (2005: 2.71%) and these deposits have an average maturity of 4.31 days (2005: 3.39 days).

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

	2006	2005
Cash and cash equivalents	13,144	7,307
Bank overdrafts (note 23)	(753)	(1,239)
NET CASH AND CASH EQUIVALENTS	**12,391**	**6,068**

The majority of cash is not subject to any restrictions. However, the Dutch National Bank (DNB) requires AEGON The Netherlands to hold 2% of its assets relating to banking activities in an account with the DNB. This amount on deposit is reassessed on a monthly basis and carries interest at approximately 2%. The balance at the end of the year was EUR 90 million (2005: EUR 103 million).

Furthermore, AEGON The Netherlands holds required funds related to post-employment benefits for former employees in a bank deposit, amounting to EUR 61 million at year end (2005: EUR 102 million).

The following table provides information on the net (increase)/decrease in operating assets and liabilities, excluding the effect of acquisitions and exchange rate differences on consolidation.

Operating assets and liabilities	2006	2005
Other assets and receivables	(708)	64
Other liabilities	7,146	(3,421)
Accrued interest	(64)	(12)
	6,374	**(3,369)**

15 SHAREHOLDERS' EQUITY

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

	Note	2006	2005	2004
Share capital – par value	15.1	255	251	243
Share premium	15.2	7,104	7,106	7,112
Treasury shares	15.3	(787)	(545)	(765)
Total share capital		**6,572**	**6,812**	**6,590**
Retained earnings		11,455	9,318	6,825
Revaluation reserves	15.4	1,648	2,293	2,141
Other reserves	15.5	(538)	853	(681)
TOTAL SHAREHOLDERS' EQUITY		**19,137**	**19,276**	**14,875**

15.1 SHARE CAPITAL – PAR VALUE

	2006	2005	2004
Common shares	195	192	186
Preferred shares A	53	53	53
Preferred shares B	7	6	4
	255	**251**	**243**

Common shares	2006	2005	2004
Authorized share capital	360	360	360
Par value in cents per share	12	12	12

	Number of shares (thousands)	Total amount
At January 1, 2004	1,514,378	182
Share dividend	38,307	4
At December 31, 2004	**1,552,685**	**186**
Share dividend	46,292	6
At December 31, 2005	**1,598,977**	**192**
Share dividend	23,950	3
AT DECEMBER 31, 2006	**1,622,927**	**195**

Preferred shares	2006	2005	2004
Authorized share capital	250	250	250
Par value in cents per share	25	25	25

	Preferred shares A		Preferred shares B	
	Number of shares (thousands)	Total amount	Number of shares (thousands)	Total amount
At January 1, 2004	211,680	53	11,100	3
Share dividend	–	–	5,800	1
At December 31, 2004	**211,680**	**53**	**16,900**	**4**
Shares issued	–	–	6,950	2
At December 31, 2005	**211,680**	**53**	**23,850**	**6**
Shares issued	–	–	5,440	1
AT DECEMBER 31, 2006	**211,680**	**53**	**29,290**	**7**

All issued common and preferred shares are fully paid. Repayment of capital can only be initiated by the Executive Board, is subject to approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on preferred shares needs approval of the related shareholders.

There are restrictions on the amount of funds that companies within the Group may transfer in the form of cash dividends or otherwise to the parent company. These restrictions stem from solvency and legal requirements. Refer to note 47 for a description of these requirements. Vereniging AEGON, based in The Hague, holds all of the issued preferred shares.

Vereniging AEGON, in case of an issuance of shares by AEGON N.V., may purchase as many class B preferred shares as would enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2005 23,850,000 class B preferred shares were issued under these option rights. In 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances during the year.

AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a 'special cause', such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a 'special cause' has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

In both 2001 and 2002, AEGON N.V. entered into total return swaps with Vereniging AEGON in order to hedge the share option plan for each respective year. On April 15, 2005, these total return swaps were terminated, resulting in a positive impact on shareholders' equity of EUR 115 million. The amount has been added to retained earnings.

With regard to granted share appreciation rights and option rights and their valuation we refer to note 40.

15.2 SHARE PREMIUM

	2006	2005	2004
At January 1	7,106	7,112	7,116
Share dividend	(2)	(6)	(4)
AT DECEMBER 31	**7,104**	**7,106**	**7,112**
Share premium relating to:			
- Common shares	5,052	5,054	5,060
- Preferred shares	2,052	2,052	2,052
	7,104	**7,106**	**7,112**

The share premium account reflects the balance of paid-in amounts above par value at issuance of new shares less the amounts charged for share dividends.

15.3 TREASURY SHARES

On the balance sheet date AEGON N.V. and its subsidiaries held 40,809,710 of its own common shares with a face value of EUR 0.12 each. Movements in the number of repurchased own shares held by AEGON N.V. were as follows:

	2006	2005	2004
	Number of shares (thousands)	Number of shares (thousands)	Number of shares (thousands)
At January 1	18,651	25,233	27,429
Transactions in 2006:			
Purchase: 30 transactions, average price EUR 14.78	19,076	–	–
Sale: 2 transactions, average price EUR 13.46	(3)	–	–
Transactions in 2005:			
Purchase: one transaction on May 17, price EUR 9.85	–	3,821	–
Sale: 31 transactions, average price EUR 10.28	–	(10,403)	–
Transactions in 2004:			
Purchase: two transactions on May 18 and September 24, average price EUR 9.88	–	–	7,467
Sale: three transactions on April 1, April 22 and July 19, average price EUR 10.29	–	–	(9,663)
AT DECEMBER 31	**37,724**	**18,651**	**25,233**

As part of their insurance and investment operations, subsidiaries within the Group also hold AEGON N.V. common shares, both for their own account and for account of policyholders. These shares have been treated as treasury shares and are (de)recognized at the consideration paid or received.

	2006		2005		2004	
	Number of shares (thousands)	Total amount	Number of shares (thousands)	Total amount	Number of shares (thousands)	Total amount
Held by AEGON N.V.	37,724	724	18,651	442	25,233	657
Held by subsidiaries	3,086	63	4,664	103	4,657	108
AT DECEMBER 31	**40,810**	**787**	**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
Gross revaluation	1,266	1	103	1,370
Reversal of gross revaluation	(449)	–	–	(449)
(Gains)/losses transferred to income statement	–	–	(23)	(23)
Foreign currency translation differences	(76)	(1)	–	(77)
Tax effect	(305)	(1)	(23)	(329)
Other	8	–	(19)	(11)
AT DECEMBER 31, 2004	**2,064**	**27**	**50**	**2,141**
At January 1, 2005	2,064	27	50	2,141
Gross revaluation	274	(1)	139	412
Reversal of gross revaluation	(705)	–	–	(705)
Gains/(losses) transferred to income statement	(9)	–	63	54
Foreign currency translation differences	139	3	–	142
Tax effect	304	–	(62)	242
Other	32	(4)	(21)	7
AT DECEMBER 31, 2005	**2,099**	**25**	**169**	**2,293**
At January 1, 2006	2,099	25	169	2,293
Gross revaluation	(131)	15	(17)	(133)
Reversal of gross revaluation	(527)	–	–	(527)
Gains/(losses) transferred to income statement	–	–	(130)	(130)
Foreign currency translation differences	(70)	(3)	(4)	(77)
Tax effect	88	(5)	51	134
Other	77	–	11	88
AT DECEMBER 31, 2006	**1,536**	**32**	**80**	**1,648**

The revaluation accounts for both available-for-sale investments and for real estate held for own use include unrealized gains and losses on these investments, net of tax. Upon sale, the amounts realized are recognized in the income statement or transferred to retained earnings. There are restrictions on the distribution of the balance of the revaluation reserve related to real estate held for own use to shareholders.

The closing balances of the revaluation reserve for available-for-sale investments relate to the following instruments:

	2006	2005	2004
Shares	909	1,097	662
Bonds	612	1,072	1,518
Other	15	(70)	(116)
	1,536	**2,099**	**2,064**

The cash flow hedging reserve is made up of unrealized gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the hedged cash flow. No amounts have been released from equity to be included in the initial measurement of non-financial assets or liabilities.

15.5 OTHER RESERVES

	Foreign currency translation reserve	Net foreign investment hedging reserve	Equity movements of associates	Total
At January 1, 2004	–	–	15	15
Movement in foreign currency translation and net foreign investment hedging reserves	(827)	72	–	(755)
Equity movements of associates	–	–	59	59
AT DECEMBER 31, 2004	**(827)**	**72**	**74**	**(681)**
At January 1, 2005	(827)	72	74	(681)
Movement in foreign currency translation and net foreign investment hedging reserves	2,143	(628)	–	1,515
Equity movements of associates	–	–	19	19
AT DECEMBER 31, 2005	**1,316**	**(556)**	**93**	**853**
At January 1, 2006	1,316	(556)	93	853
Movement in foreign currency translation and net foreign investment hedging reserves	(1,478)	153	–	(1,325)
Disposals	–	–	2	2
Equity movements of associates	–	–	(68)	(68)
AT DECEMBER 31, 2006	**(162)**	**(403)**	**27**	**(538)**

The foreign currency translation reserve includes the currency results from investments in non-euro denominated subsidiaries. The amounts are released to the income statement upon the sale of the subsidiary.

The net foreign investment hedging reserve is made up of unrealized gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the net foreign investment.

The equity movements of associates reflect AEGON's share of changes recognized directly in the associate's equity.

16 OTHER EQUITY INSTRUMENTS

	Junior perpetual capital securities	Perpetual cumulative subordinated bonds	Share options not yet exercised	Total
At January 1, 2004	–	1,517	–	1,517
Instruments issued	1,352	–	–	1,352
AT DECEMBER 31, 2004	**1,352**	**1,517**	**–**	**2,869**
At January 1, 2005	1,352	1,517	–	2,869
Instruments issued	1,457	–	–	1,457
Instruments redeemed	–	(950)	–	(950)
Share options granted	–	–	3	3
AT DECEMBER 31, 2005	**2,809**	**567**	**3**	**3,379**
At January 1, 2006	2,809	567	3	3,379
Instruments issued	638	–	–	638
Share options granted	–	–	13	13
Deferred tax	–	–	2	2
AT DECEMBER 31, 2006	**3,447**	**567**	**18**	**4,032**

Junior perpetual capital securities	Coupon rate	Coupon date: quarterly, as of	Year of first call	**2006**	2005	2004
USD 500 million	6.5%	March 15	2010	424	424	–
USD 250 million	floating LIBOR rate [1]	March 15	2010	212	212	–
USD 550 million	6.875%	March 15	2011	438	–	–
EUR 200 million	6.0%	January 15	2011	200	–	–
EUR 950 million	floating CMT rate [2]	January 15	2014	950	950	950
USD 500 million	floating CMS rate [3]	January 15	2014	402	402	402
USD 1 billion	6.375%	March 15	2015	821	821	–
TOTAL JUNIOR PERPETUAL CAPITAL SECURITIES				**3,447**	**2,809**	**1,352**

1 The coupon of the USD 250 million junior perpetual capital securities, callable in 2010, is based on the yield of three-month LIBOR plus an additional spread of 87.5 basis points. The coupon will be reset each quarter based on the then prevailing three-month LIBOR yield, with a minimum of 4%.

2 The coupon of the EUR 950 million junior perpetual capital securities, callable in 2014, is based on the yield of ten-year Dutch government bonds plus an additional spread of ten basis points. The coupon will be reset each quarter based on the then prevailing ten-year Dutch government bond yield, with a maximum of 8%.

3 The coupon of the USD 500 million junior perpetual capital securities, callable in 2014, is based on the yield of ten-year US dollar interest rate swaps, with an additional spread of ten basis points. The coupon is reset each quarter based on the then prevailing ten-year US dollar interest rate swap yield, with a maximum of 8.5%.

The interest rate exposure on some of these securities has been swapped, using derivatives, to three-month LIBOR yield.

The securities have been issued at par. The securities have subordination provisions and rank junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required coupon payment deferral. Although the securities have no stated maturity, AEGON has the right to call the securities for redemption at par for the first time on the coupon date in the years as specified, or on any coupon payment date thereafter.

Perpetual cumulative subordinated bonds	Coupon rate	Coupon date	Year of first call	2006	2005	2004
EUR 114 million	7.875%	September 29	2005	–	–	114
EUR 136 million	7.75%	December 15	2005	–	–	136
EUR 700 million	6.875%	December 20	2005	–	–	700
EUR 114 million	7.625% [1]	July 10	2008	114	114	114
EUR 136 million	7.25% [2]	October 14	2008	136	136	136
EUR 203 million	7.125% [2]	March 4	2011	203	203	203
EUR 114 million	4.156% [3]	June 8	2015	114	114	114
TOTAL PERPETUAL CUMULATIVE SUBORDINATED BONDS				**567**	**567**	**1,517**

1 The coupon of the EUR 114 million bonds with an interest rate of 7.625% is fixed.
2 The coupon for the EUR 136 million 7.25% bonds is set at 7.25% until October 14, 2008, while the coupon for the EUR 203 million 7.125% bonds is set at 7.125% until March 4, 2011. On these dates, and after every consecutive period of ten years, the coupons will be reset at the then prevailing effective yield of nine- to ten-year Dutch government securities and a spread of 85 basis points.
3 The coupon for the EUR 114 million bonds was set at 8% until June 8, 2005. As of this date, the coupon is set at 4.156% until 2015.

The bonds have the same subordination provisions as dated subordinated debt. In addition, the conditions of the bonds contain provisions for interest deferral and for the availability of principal amounts to meet losses. Although the bonds have no stated maturity, AEGON has the right to call the bonds for redemption at par for the first time on the coupon date in the years as specified.

17 TRUST PASS-THROUGH SECURITIES

	Coupon	Coupon date	Year of issue	Year of maturity	2006	2005
USD 100 million	7.8%	June 1; December 1	1996	2026	–	85
USD 225 million	7.65%	June 1; December 1	1996	2026	85	191
USD 190 million	7.625%	May 15; November 15	1997	2037	38	161
TOTAL TRUST PASS-THROUGH SECURITIES					**123**	**437**

Trust pass-through securities are securities through which the holders participate in a trust. The assets of these trusts consist of junior subordinated deferrable interest debentures issued by Transamerica Corporation. The trust pass-through securities carry provisions with regard to deferral of distributions for extension periods up to a maximum of ten consecutive semi-annual periods. There were no defaults or breaches of conditions during the period.

The USD 100 million 7.8% trust pass-through securities were called in 2006 at a call price of 103.5%. The USD 225 million 7.65% and the USD 190 million 7.625% trust pass-through securities were partially redeemed in 2006 through a cash tender offer.

The trust pass-through securities are subordinated to all other unsubordinated borrowings and liabilities.

The fair value of these loans amounts to EUR 123 million (2005: EUR 574 million).

18 SUBORDINATED BORROWINGS

	2006	2005
USD 264 million 8%	–	224
Other subordinated loans	34	60
TOTAL SUBORDINATED LOANS	**34**	**284**

These loans are subordinated to all other unsubordinated borrowings and liabilities. There were no defaults or breaches of conditions during the period. The effective interest rate on the subordinated loan was 6.51% (2005: 6.51% to 8.18%). The fair value of these loans amounts to EUR 35 million (2005: EUR 309 million).

19 INSURANCE CONTRACTS

	2006	2005
Life insurance	81,015	88,107
Non-life insurance		
- Unearned premiums and unexpired risks	2,632	2,610
- Outstanding claims	1,574	1,892
- Incurred but not reported claims	680	391
Incoming reinsurance	2,527	2,690
	88,428	**95,690**

Certain insurance contracts contain surrender options, so that AEGON has no unconditional right to defer settlement of these liabilities for at least twelve months after balance sheet date. This feature results in the classification of these insurance contract liabilities as current.

	2006	2005
Non-life insurance:		
- Accident and health insurance	4,135	4,160
- General insurance	751	733
	4,886	**4,893**

Movements during the year in life insurance	2006	2005
At January 1	88,107	76,221
Acquisitions through business combinations	96	49
Portfolio transfers and acquisitions	50	864
Gross premium and deposits – existing and new business	8,764	7,806
Unwind of discount / interest credited	3,650	3,627
Technical reserves released	(12,467)	(9,959)
Changes in valuation of expected future benefits	(70)	(76)
Losses recognized as a result of liability adequacy testing	–	151
Shadow accounting adjustments	(639)	503
Net exchange differences	(6,742)	8,960
Other	266	(39)
AT DECEMBER 31	**81,015**	**88,107**

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

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

[1] Guaranteed minimum death benefit in the United States.
[2] Guaranteed minimum income benefit in the United States.
[3] Guaranteed minimum accumulation benefit in the Netherlands.
[4] Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.

Refer to note 4 for a discussion of these guarantees for minimum benefits.

Movements during the year in non-life insurance	2006	2005
At January 1	4,893	4,375
Portfolio transfers and acquisitions	84	3
Gross premiums – existing and new business	2,413	2,684
Unwind of discount / interest credited	174	164
Technical reserves released	(1,334)	(1,680)
Changes in valuation of expected future benefits	(3)	(17)
Change in unearned premiums	(1,009)	(833)
Change in unexpired risks	(8)	(3)
Incurred related to current year	713	682
Incurred related to prior years	191	64
Release for claims settled current year	(249)	(253)
Release for claims settled prior years	(624)	(483)
Change in IBNR	55	23
Disposals	–	(309)
Net exchange differences	(402)	470
Other	(8)	6
AT DECEMBER 31	**4,886**	**4,893**

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

Movements during the year in incoming reinsurance	2006	2005
At January 1	2,690	2,220
Gross premium and deposits – existing and new business	1,441	1,244
Unwind of discount / interest credited	197	168
Technical reserves released	(1,492)	(1,309)
Changes in valuation of expected future benefits	15	32
Net exchange differences	(286)	350
Other	(38)	(15)
AT DECEMBER 31	**2,527**	**2,690**

20 INSURANCE CONTRACTS FOR ACCOUNT OF POLICYHOLDERS

	2006	2005
Insurance contracts for account of policyholders	72,194	70,280

	2006	2005
At January 1	70,280	59,904
Acquisitions through business combinations	15	416
Portfolio transfers and acquisitions	365	(1,826)
Gross premium and deposits – existing and new business	7,387	6,202
Unwind of discount / interest credited	5,766	6,937
Technical reserves released	(6,522)	(5,630)
Fund charges released	(849)	(798)
Changes in valuation of expected future benefits	(71)	(67)
Net exchange differences	(3,717)	5,129
Other	(460)	13
AT DECEMBER 31	**72,194**	**70,280**

21 INVESTMENT CONTRACTS

	2006	2005
Investment contracts [1]	36,618	38,842

	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2005	32,820	810	33,630
Deposits	12,891	–	12,891
Portfolio transfers and acquisitions	237	–	237
Withdrawals	(13,246)	–	(13,246)
Technical reserves released	–	(132)	(132)
Interest credited	1,318	–	1,318
Fund charges released	(4)	–	(4)
Movements related to fair value hedges	(178)	–	(178)
Net exchange differences	4,295	24	4,319
Other	7	–	7
AT DECEMBER 31, 2005	**38,140**	**702**	**38,842**

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

	Without discretionary participation features	With discretionary participation features	**Total**
At January 1, 2006	38,140	702	38,842
Deposits	13,498	–	13,498
Portfolio transfers and acquisitions	374	–	374
Acquisitions through business combinations	114	–	114
Withdrawals	(14,608)	–	(14,608)
Technical reserves released	–	(123)	(123)
Interest credited	1,621	–	1,621
Fund charges released	1	–	1
Movements related to fair value hedges	(77)	–	(77)
Net exchange differences	(3,476)	12	(3,464)
Other	440	–	440
AT DECEMBER 31, 2006	**36,027**	**591**	**36,618**

	2006	2005
Fair value of investment contracts without discretionary participation features	34,611	37,658

Investment contracts consist of the following:

	2006	2005
Institutional guaranteed products	24,531	26,348
Fixed annuities	5,619	6,212
Savings accounts	4,825	5,047
Investment contracts with discretionary participation features	591	702
Other	1,052	533
	36,618	**38,842**

Refer to note 4.1.5 for a description of institutional guaranteed products and an analysis of the contractual maturities for all institutional guaranteed products with defined maturities, based on nominal amounts. On the next page a maturity analysis follows of those contracts with defined maturities, based on carrying amounts. EUR 4,058 million (2005: EUR 5,361 million) of the total balance of institutional guaranteed products have no contractual maturities.

	< 1 yr		1 < 5 yrs		5 < 10 yrs		> 10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Institutional guaranteed products with contractual repricing or maturity terms								
2006	**5,506**	**4.90%**	**11,006**	**4.53%**	**2,815**	**5.10%**	**1,146**	**4.40%**
2005	5,623	4.08%	10,494	4.14%	2,845	4.49%	2,025	4.11%

Included in the total balance for fixed annuities is EUR 4,043 million (2005: EUR 4,351 million) that relates to products without contractual maturity terms. For the remainder of the balance, contractual repricing or maturity information can be analyzed as follows:

	< 1 yr		1 < 5 yrs		5 < 10 yrs		> 10 yrs	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Fixed annuities with contractual repricing or maturity terms								
2006	**130**	**5.71%**	**552**	**5.81%**	**464**	**6.03%**	**430**	**6.43%**
2005	163	5.74%	670	5.99%	528	6.00%	500	6.44%

Savings accounts are part of the banking activities of the Group, as described in note 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

	2006	2005
Investment contracts for account of policyholders [1]	64,097	58,724

	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2005	17,283	29,859	47,142
Gross premium and deposits – existing and new business	4,148	4,119	8,267
Withdrawals	(2,694)	–	(2,694)
Interest credited	1,792	4,837	6,629
Technical reserves released	–	(3,198)	(3,198)
Fund charges released	(26)	–	(26)
Net exchange differences	1,599	849	2,448
Other	156	–	156
AT DECEMBER 31, 2005	**22,258**	**36,466**	**58,724**
At January 1, 2006	22,258	36,466	58,724
Gross premium and deposits – existing and new business	3,996	7,459	11,455
Withdrawals	(2,769)	–	(2,769)
Disposals	(1,097)	–	(1,097)
Interest credited	1,822	3,202	5,024
Technical reserves released	–	(6,600)	(6,600)
Fund charges released	(1)	–	(1)
Net exchange differences	(1,008)	806	(202)
Other	(437)	–	(437)
AT DECEMBER 31, 2006	**22,764**	**41,333**	**64,097**

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

On consolidation of an investment fund, participations held by third parties are classified as liabilities, as opposed to minority interests in equity, if the Group is legally obliged to buy back these participations. A portion of the balance of investment contract liabilities relates to such participations held by third parties, amounting to EUR 910 million (2005: EUR 858 million).

23 BORROWINGS

	2006	2005
Debentures and other loans	4,212	4,293
Bank overdrafts	753	1,239
Short term deposits	26	–
	4,991	**5,532**
Current	935	1,357
Non-current	4,056	4,175
Total fair value of borrowings	5,081	5,743

Bankoverdrafts are largely part of cash pool agreements with banks and matched by cash balances. IFRS do not permit net presentation of these cash balances and bankoverdrafts under the current agreements with these banks.

Debentures and other loans	Coupon rate	Issue / Maturity	Coupon date	2006	2005
USD 200 million Domestic Debentures [1]	6.75%	1996 / 06	Semi-annually	–	170
USD 50 million Zero Coupon Bonds [1]		1982 / 07		35	34
USD 100 million Domestic Debentures [1]	9.375%	1996 / 08	Semi-annually	77	87
EUR 1,000 million Medium-Term Notes	4.625%	2003 / 08	April 16	1,000	1,000
USD 147 million Domestic Debentures [1]	6.4%	1998 / 08	Semi-annually	98	102
USD 133 million Zero Coupon Bonds [1]		1982 / 10		67	65
USD 200 million Zero Coupon Bonds [1]		1982 / 12		72	70
USD 750 million Senior Notes	4.75%	2003 / 13	Semi-annually	569	636
EUR 500 million Medium-Term Notes	4.125%	2004 / 14	December 8	485	512
EUR 75 million Medium-Term Notes	4.625%	2004 / 19	December 9	74	79
USD 500 million Medium-Term Notes [1]	5.75%	2005 / 20	December 15	379	434
GBP 250 million Eurobonds	6.125%	1999 / 31	December 15	372	365
USD 980 million Variable Funding Surplus Note [2]	Floating	2006 / 36	Quarterly	744	–
Other				240	739
				4,212	**4,293**

1 Issued by subsidiaries of, and guaranteed by AEGON N.V.
2 Issued by a subsidiary of AEGON N.V.

Included in debentures and other loans are EUR 938 million (2005: EUR 1,025 million) relating to borrowings measured at fair value. Proceeds have been swapped, using derivatives, to USD floating-rate.

Changes to AEGON's credit spread had no significant impact on the valuation of these borrowings throughout the year.

Undrawn committed borrowing facilities	2006	2005
Floating-rate		
- Expiring within one year	247	254
- Expiring beyond one year	2,316	2,607
	2,563	**2,861**

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

24 PROVISIONS

	2006	2005
Provisions	**262**	**253**
Current	133	230
Non-current	129	23
At January 1	253	280
Additional provisions charged to the income statement	170	161
Acquisition of a subsidiary	15	–
Unused amounts reversed through the income statement	(31)	(13)
Unwinding of discount and change in discount rate	2	–
Used during the year	(134)	(196)
Net exchange differences	(13)	15
Other	–	6
AT DECEMBER 31	**262**	**253**

The provisions include litigation provisions and provisions for contingent consideration relating to business combinations.

25 DEFINED BENEFIT PLANS

	2006	2005
Retirement benefit plans	1,433	1,369
Other post-employment benefit plans	209	237
Total defined benefit plans	**1,642**	**1,606**
Retirement benefit plans in surplus	398	409
Total defined benefit assets	**398**	**409**
Retirement benefit plans in deficit	1,831	1,778
Other post-employment benefit plans in deficit	209	237
TOTAL DEFINED BENEFIT LIABILITIES	**2,040**	**2,015**

	2006			2005		
Movements during the year in defined benefit plans	Retirement benefit plans	Other post-employment benefit plans	Total	Retirement benefit plans	Other post-employment benefit plans	Total
At January 1	1,369	237	1,606	1,398	237	1,635
Acquisitions through business combinations	11	–	11	–	–	–
Defined benefit expenses	147	3	150	126	(8)	118
Contributions paid	(52)	–	(52)	(26)	–	(26)
Benefits paid	(75)	(16)	(91)	(68)	(16)	(84)
Net exchange differences	32	(17)	15	(25)	22	(3)
Other	1	2	3	(36)	2	(34)
AT DECEMBER 31	**1,433**	**209**	**1,642**	**1,369**	**237**	**1,606**

The amounts recognized in the balance sheet are determined as follows:

Retirement benefit plans	2006	2005
Present value of wholly or partly funded obligations	2,487	2,542
Fair value of plan assets	(2,620)	(2,570)
	(133)	**(28)**
Present value of wholly unfunded obligations	1,768	1,817
Unrecognized actuarial gains/(losses)	(201)	(420)
Unrecognized past service cost	(1)	–
TOTAL RETIREMENT BENEFIT PLANS	**1,433**	**1,369**

Other post-employment benefit plans	2006	2005
Present value of wholly or partly funded obligations	4	4
Fair value of plan assets	–	–
	4	**4**
Present value of wholly unfunded obligations	247	254
Unrecognized actuarial gains/(losses)	(42)	(21)
Unrecognized past service cost	–	–
TOTAL OTHER POST-EMPLOYMENT BENEFIT PLANS	**209**	**237**

Defined benefit plans	2006	2005
Present value of wholly or partly funded obligations	2,491	2,546
Fair value of plan assets	(2,620)	(2,570)
	(129)	**(24)**
Present value of wholly unfunded obligations	2,015 [1]	2,071 [1]
Unrecognized actuarial gains/(losses)	(243)	(441)
Unrecognized past service cost	(1)	–
TOTAL DEFINED BENEFIT PLANS	**1,642**	**1,606**

[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.

	2006	2005
Fair value of AEGON's own financial instruments included in plan assets	678	574
Fair value of other assets used by AEGON included in plan assets	–	1

Defined benefit expenses	2006 Retirement benefit plans	2006 Other post-employment benefit plans	2006 Total
Current year service costs	119	4	123
Interest cost	211	12	223
Expected return on plan assets	(190)	–	(190)
Actuarial (gains)/losses recognized on present value of defined benefit obligation	6	–	6
Past service cost	–	(13)	(13)
Losses on curtailment	1	–	1
TOTAL DEFINED BENEFIT EXPENSES	**147**	**3**	**150**

Defined benefit expenses	2005 Retirement benefit plans	2005 Other post-employment benefit plans	2005 Total
Current year service costs	100	6	106
Interest cost	205	14	219
Expected return on plan assets	(184)	–	(184)
Actuarial (gains)/losses recognized on present value of defined benefit obligation	2	(28)	(26)
Actuarial (gains)/losses recognized on plan assets	1	–	1
Past service cost	2	–	2
TOTAL DEFINED BENEFIT EXPENSES	**126**	**(8)**	**118**

Defined benefit expenses	2004 Retirement benefit plans	2004 Other post-employment benefit plans	2004 Total
Current year service costs	92	6	98
Interest cost	194	13	207
Expected return on plan assets	(169)	–	(169)
Actuarial (gains)/losses recognized on present value of defined benefit obligation	–	26	26
Past service cost	5	(1)	4
TOTAL DEFINED BENEFIT EXPENSES	**122**	**44**	**166**

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

Actual return on plan assets and reimbursement rights	2006 Retirement benefit plans	2006 Other post-employment benefit plans	2006 Total	2005 Retirement benefit plans	2005 Other post-employment benefit plans	2005 Total
	302	–	**302**	237	(1)	**236**

Movements during the year of the present value of the defined benefit obligations	2006	2005
At January 1	4,617	3,880

Acquired through business combinations	11	–
Current year service costs	123	106
Interest cost	223	219
Contributions by plan participants	4	3
Actuarial gains and losses	(62)	260
Benefits paid	(193)	(177)
Past service cost	(13)	2
Settlements and curtailments	–	–
Net exchange differences	(195)	280
Other	(9)	44
AT DECEMBER 31	**4,506**	**4,617**

Movements during the year in plan assets for retirement benefit plans	2006	2005
At January 1	2,570	2,125
Expected return on plan assets	190	184
Actuarial gains/(losses)	112	58
Contributions by employer	52	26
Contributions by plan participants	4	3
Benefits paid	(102)	(100)
Settlements	–	–
Net exchange differences	(206)	274
AT DECEMBER 31	**2,620**	**2,570**

All other post-employment benefits plans are unfunded.

Breakdown of plan assets for retirement benefit plans	2006	2005
Equity instruments	1,816	1,839
Debt instruments	686	627
Other	118	104
AT DECEMBER 31	**2,620**	**2,570**

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:

	2006		2005	
	+ 1%	- 1%	+ 1%	- 1%
Aggregate of current service cost and interest cost components of net periodic post-employment medical costs	2	(1)	1	(1)
Accumulated post-employment benefit obligation for medical cost	19	(19)	15	(13)

Experience adjustments arising on	2006	2005	2004
Plan liabilities	(76)	(28)	90
Plan assets	112	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	99

Estimated future benefits	Pension benefits	Other benefits	Total
2007	167	19	186
2008	173	20	193
2009	180	20	200
2010	186	21	207
2011	194	20	214
2012 to 2016	1,068	96	1,164

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.

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 397 million at December 31, 2006.

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 146 million.

Assumptions used to determine benefit obligations at year-end	2006	2005
Discount rate	5.90%	5.65%
Rate of increase in compensation levels	4.50%	4.50%
Assumptions used to determine net periodic benefit cost for the year ended December 31		
Discount rate	5.65%	5.75%
Rates of increase in compensation levels	4.50%	4.50%
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 144 million.

The principal actuarial assumptions that apply for the year ended December 31, 2006 (that is at January 1, 2006) are as follows:

	2006	2005
Assumed health care trend rates		
Health care cost trend rate assumed for next year	8.00%	9.00%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate that it is assumed to remain at	2009	2009
Target allocation of plan assets for retirement benefit plans for the next annual period is		
Equity instruments	53 - 73%	
Debt instruments	15 - 35%	
Other	0 - 15%	

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 2006 or 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 1,436 million at December 31, 2006. 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 61 million at December 31, 2006.

The principal actuarial assumptions that apply for the year ended December 31, 2006 are as follows:

	2006	2005
Discount rate	4.50%	4.00%
Salary increase rate	2.50%	2.50%
Social security increase rate	2.50%	2.50%
Pension increase rate	2.00%	2.00%
Health care cost trend rate assumed for next year	2.00%	5.00%
Rate that the cost trend rate gradually declines to	2.00%	2.50%
Year that the rate reaches the rate it is assumed to remain at	N/A	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. Under IAS 19, the defined benefit plan has a deficit of EUR 234 million at December 31, 2006.

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, 2006 are as follows:

	2006	2005
Discount rate	4.80%	5.30%
Salary increase rate	4.10%	4.10%
Pension increase rate	2.60%	2.60%
Price inflation	2.60%	2.60%
Expected long-term return on assets	6.40%	6.94%
Target allocation of plan assets for retirement benefit plans for the next annual period is		
Equity instruments	65 – 71%	
Debt instruments	29 – 35%	

The target asset allocation is moving over time 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.

26 DEFERRED REVENUE LIABILITIES

	2006	2005
At January 1	84	76
Income deferred	17	19
Disposals	(42)	–
Release to income statement	(17)	(13)
Net exchange differences	1	2
AT DECEMBER 31	**43**	**84**

27 DEFERRED TAX

	2006	2005
Deferred tax assets	3	83
Deferred tax liabilities	2,843	2,911
TOTAL NET DEFERRED TAX	**2,840**	**2,828**

	Real estate	Financial assets	Insurance contracts	Deferred expenses, VOBA and other intangible assets	Defined benefit plans	Losses	Other	Total
At January 1, 2005	479	1,401	(1,224)	2,892	(44)	(590)	489	3,403
Acquisitions 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**
At January 1, 2006	555	1,936	(2,999)	3,774	11	(604)	155	2,828
Acquisitions through business combinations	1	–	–	–	(2)	–	1	–
Disposals	–	–	–	–	–	–	(2)	(2)
Charged to income statement	(10)	(317)	567	445	(1)	46	(407)	323
Charged to equity	66	(374)	121	1	–	(2)	2	(186)
Net exchange differences	(9)	(127)	245	(250)	(15)	21	(11)	(146)
Other	(95)	88	(90)	3	(1)	(96)	214	23
AT DECEMBER 31, 2006	**508**	**1,206**	**(2,156)**	**3,973**	**(8)**	**(635)**	**(48)**	**2,840**

Deferred tax assets comprise temporary differences on	2006	2005
Real estate	(2)	–
Financial assets	(2)	3
Insurance and investment contracts	–	56
Deferred expenses, VOBA and other intangible assets	6	(120)
Defined benefit plans	2	2
Other	(1)	142
AT DECEMBER 31	**3**	**83**

Deferred tax liabilities comprise temporary differences on	2006	2005
Real estate	506	555
Financial assets	1,204	1,939
Insurance and investment contracts	(2,156)	(2,943)
Deferred expenses, VOBA and other intangible assets	3,979	3,654
Defined benefit plans	(6)	13
Losses	(635)	(604)
Other	(49)	297
AT DECEMBER 31	**2,843**	**2,911**

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. The netting is reflected in the tables above. Deferred tax liabilities included in a net deferred tax asset position are presented as negative components of the deferred tax asset breakdown. Similarly, deferred tax assets included in a net deferred tax liability position are presented as negative components in the breakdown of the deferred tax liability.

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. For an amount of EUR 49 million (2005: EUR 10 million) the realization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

AEGON did not recognize deferred income tax assets in respect of losses amounting to EUR 642 million (2005: EUR 474 million) that can be carried forward to future taxable income. Losses amounting to EUR 83 million (2005: EUR 322 million) can be carried forward indefinitely; losses amounting to EUR 517 million (2005: EUR 137 million) will expire within the next five years; losses amounting to EUR 42 million (2005: EUR 11 million) will expire in five to ten years; and no losses (2005: 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 1,810 million (2005: EUR 1,741 million). All deferred taxes are non-current by nature.

28 OTHER LIABILITIES

	2006	2005
Payables due to policyholders	675	324
Payables due to brokers and agents	2,868	1,127
Payables out of reinsurance	1,014	1,460
Social security and taxes payable	63	54
Income tax payable	373	458
Investment creditors	473	255
Cash collateral	9,960	4,616
Repurchase agreements	806	–
Share appreciation rights	79	66
Other creditors	1,423	2,373
	17,734	**10,733**
Current	16,856	9,636
Non-current	878	1,097
Fair value	17,706	9,598

Refer to note 40 for a description of share appreciation rights and related expenses.

29 ACCRUALS

	2006	2005
Accrued interest	292	355
Accrued expenses	141	203
	433	**558**

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

30 PREMIUM INCOME AND PREMIUMS TO REINSURERS

	General account		For account of policyholders		Total	
	Gross	Reinsurance	Gross	Reinsurance	Gross	Reinsurance
2006						
Life insurance						
Recurring	6,437	238	4,380	47	10,817	285
Single	2,782	965	8,169	83	10,951	1,048
Total life insurance premiums	**9,219**	**1,203**	**12,549**	**130**	**21,768**	**1,333**
Non-life					2,802	338
TOTAL					**24,570**	**1,671**
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

	2006	2005	2004
Interest income	9,011	8,967	8,426
Dividend income	1,186	868	796
Rental income	179	102	115
	10,376	**9,937**	**9,337**
Investment income related to general account	7,467	7,031	6,547
Investment income for account of policyholders	2,909	2,906	2,790
	10,376	**9,937**	**9,337**
Investment income from:			
- Shares	1,186	868	796
- Bonds and money market instruments	7,591	7,522	6,894
- Loans	1,231	1,303	1,203
- Real estate	179	102	115
- Other	189	142	329
	10,376	**9,937**	**9,337**

Included in interest income is EUR 28 million (2005: EUR 37 million and 2004: EUR 39 million) in respect of interest income accrued on impaired financial assets.

32 FEE AND COMMISSION INCOME

	2006	2005	2004
Fee income from asset management	686	611	522
Sales commissions	440	386	268
Commissions from intermediary activities	233	197	218
Other	306	250	295
	1,665	**1,444**	**1,303**

33 OTHER REVENUES

	2006	2005	2004
Other revenues	4	73	331

Other revenues relate to non-core activities.

34 NET FAIR VALUE AND FOREIGN EXCHANGE GAINS AND LOSSES

	2006	2005	2004
Net fair value and foreign exchange gains	937	698	206
Net fair value and foreign exchange losses	127	385	199
	810	**313**	**7**

Net 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	817	472	172
Positive fair value changes of derivatives	113	53	25
Positive foreign currency results	7	173	9
	937	**698**	**206**

Net 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	1	27	4
Negative fair value changes of derivatives	87	257	12
Negative foreign currency results	30	89	87
Impairment charges on non-financial assets and receivables	9	12	96
	127	**385**	**199**

35 NET GAINS AND LOSSES ON INVESTMENTS FOR ACCOUNT OF POLICYHOLDERS

	2006	2005	2004
Net gains on investments for account of policyholders	9,313	11,340	5,873
Net losses on investments for account of policyholders	1,174	2	13
	8,139	**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.

Net gains on investments for account of policyholders comprise	2006	2005	2004
Positive fair value changes of for account of policyholder financial assets at fair value through profit or loss	9,126	11,240	5,820
Positive fair value changes of investments in real estate for account of policyholders	187	100	53
	9,313	**11,340**	**5,873**

Net losses on investments for account of policyholders comprise	2006	2005	2004
Negative fair value changes of for account of policyholder financial assets at fair value through profit or loss	1,174	2	13

36 NET GAINS AND LOSSES ON INVESTMENTS

	2006	2005	2004
Net gains on investments	965	1,269	1,290
Net losses on investments	526	112	87
	439	**1,157**	**1,203**
Net gains on investments comprise			
Net gains on investments	942	927	869
Positive ineffective portion of hedge transactions	16	31	39
Fair value gains on economic hedges for which no hedge accounting is applied	7	311	372
Realized gains on repurchased debt	–	–	10
	965	**1,269**	**1,290**
Net losses on investments comprise			
Net losses on investments	201	–	86
Negative ineffective portion of hedge transactions	13	–	–
Realized losses on repurchased debt	12	–	–
Fair value losses on economic hedges for which no hedge accounting is applied	300	112	1
	526	**112**	**87**
Net gains and losses on investments from			
- Shares	623	389	353
- Bonds and money market instruments	(10)	332	352
- Loans	61	115	95
- Real estate	135	222	103
- Other	(68)	(131)	(120)
TOTAL NET GAINS AND LOSSES ON INVESTMENTS	**741**	**927**	**783**

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit or loss during 2006 is immaterial.

37 OTHER INCOME

	2006	2005	2004
Other income	11	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

	2006	2005	2004
Claims and benefits paid to policyholders	21,197	16,025	11,266
Change in valuation of liabilities for insurance and investment contracts	14,651	17,782	15,718
	35,848	**33,807**	**26,984**

39 PROFIT SHARING AND REBATES

	2006	2005	2004
Amortization of interest rate rebates	48	56	59
Surplus interest bonuses	16	21	24
Profit appropriated to policyholders	69	94	73
	133	**171**	**156**

40 COMMISSIONS AND EXPENSES

	2006	2005	2004
Commissions	3,444	3,317	3,051
Employee expenses	1,821	1,662	1,784
Administration expenses	1,236	1,281	1,208
Deferred expenses	(1,973)	(1,980)	(1,735)
Amortization of deferred expenses	1,286	955	1,103
Amortization of VOBA and future servicing rights	271	287	373
	6,085	**5,522**	**5,784**

Included in administration expenses above is depreciation amounting to EUR 112 million (2005: EUR 125 million and 2004: EUR 264 million) that relates to equipment, software and real estate held for own use. The direct operating expenses relating to investments in real estate that generated rental income was EUR 32 million (2005: EUR 33 million and 2004: EUR 25 million). Minimum lease payments recognized as expense amounted to EUR 6 million.

Employee expenses	2006	2005	2004
Salaries	1,206	1,139	1,193
Post-employment benefit costs	178	124	182
Social security charges	140	185	197
Other personnel costs	258	171	198
Share appreciation rights and share options	39	43	14
	1,821	**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 2006, 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 plan for 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. Option plans are settled in equity, whilst stock appreciation rights are settled in cash or provide the employee with the choice of settlement.

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.

Share appreciation rights

The following tables present the movements in number of share appreciation rights outstanding (SARs), as well as the breakdown by year in which they were granted.

	Number of SARs	Weighted average exercise price in EUR	Weighted average remaining contractual term in years	Aggregate intrinsic value in EUR million
Outstanding at January 1, 2005	46,952,150	22.24	3.43	30
Granted	4,575,600	10.86		
Exercised	(3,843,148)	6.33		
Forfeited	(2,822,552)	16.06		
Expired	(10,609,700)	34.50		
OUTSTANDING AT JANUARY 1, 2006	**34,252,350**	**19.22**	**3.62**	**79**
Granted	244,300	14.00		
Exercised	(1,249,899)	6.30		
Forfeited	(2,162,563)	18.86		
Expired	(7,218,300)	34.84		
OUTSTANDING AT DECEMBER 31, 2006	**23,865,888**	**15.15**	**3.55**	**77**
EXERCISABLE AT DECEMBER 31, 2006	**11,416,518**	**19.98**	**2.50**	**31**

The weighted average share price at which the share appreciation rights were exercised in 2006 is EUR 14.51 (2005: EUR 11.06).

SARs	Original number granted	Outstanding January 1, 2006	December 31, 2006	Exercise price in EUR	Exercise period
2001	11,288,800	7,299,700	0	34.84	until March 13, 2006
2002	11,555,700	8,643,200	7,655,067	26.70	until March 12, 2009
2003	11,447,300	5,038,700	3,761,451	6.30	until March 11, 2010
2004	11,574,850	8,994,850	8,212,248	10.56	until March 17, 2011
2005	4,575,600	4,275,900	4,010,322	10.86	until March 8, 2012
2006	244,300	–	226,800	14.00	until March 14, 2013
	50,686,550	**34,252,350**	**23,865,888**		

The following assumptions are used in estimating the fair value of share appreciation rights at December 31:

	2006	2005	2004
Volatility	26.3%	26%	28.7%
Expected dividend yield	3.99%	3.12%	4.19%
Expected term (in years)	5.68	5.22	5.60
Risk-free rate	3.87%	3.36%	3.54%
AEGON share price at year-end	14.44	13.75	10.03

Refer to note 3 for a description of the method used to estimate the fair value and a description of the significant assumptions.
The liability related to share appreciation rights is valued at fair value at each balance sheet date. Refer to note 28 for details. The costs related to the share appreciation rights amount to EUR 26 million (2005: EUR 40 million and 2004: EUR 14 million) and are recognized in the income statement as part of 'Commissions and expenses'.

Share options

The following tables present the movements in number of share options, as well as the breakdown by year in which they were granted.

	Number of share options	Weighted average exercise price in EUR	Weighted average remaining contractual term in years	Aggregate intrinsic value in EUR million
Outstanding at January 1, 2005	1,013,198	17.30	2.33	1
Granted	5,586,160	10.86		
Exercised	(160,150)	9.40		
Forfeited	(410,100)	10.86		
OUTSTANDING AT JANUARY 1, 2006	**6,029,108**	**12.09**	**5.56**	**16**
Granted	9,149,500	14.00		
Exercised	(211,512)	9.84		
Forfeited	(1,047,841)	13.78		
OUTSTANDING AT DECEMBER 31, 2006	**13,919,255**	**13.25**	**5.64**	**21**
EXERCISABLE AT DECEMBER 31, 2006	**491,852**	**23.33**	**1.05**	**0**

The weighted average share price at which the share options were exercised in 2006 is EUR 13.28 (2005: EUR 11.14).

Share options	Original number granted	Outstanding January 1, 2006	December 31, 2006	Exercise price in EUR	Exercise period
Providian	7,204,384	853,048	491,852	23.33 [1]	until August 6, 2008
2005	5,586,160	5,176,060	4,768,060	10.86	until March 8, 2012
2006	9,149,500		8,659,343	14.00	until March 14, 2013
	21,940,044	**6,029,108**	**13,919,255**		

[1] Weighted average exercise price of the outstanding share options in USD calculated at the closing rate.

The following assumptions are used in estimating the fair value of share options at the grant date:

	2006	2005	2004
Volatility	28.0%	26.3%	33.0%
Expected dividend yield	4.23%	4.19%	4.19%
Expected term (in years)	6.46	6.57	6.13
Risk-free rate	3.47%	3.74%	3.64%
Exercise price	14.00	10.86	10.56

The costs related to the share options amount to EUR 13 million (2005: EUR 3 million and 2004: nil) and are recognized in the income statement as part of 'Commissions and expenses'.

Share appreciation rights and share options

The fair value of a share appreciation right or share option at the grant date in 2006 amounted to EUR 3.14 (2005: EUR 2.32 and 2004: EUR 2.73). These amounts are equal to the weighted average fair value for the respective years.

The total intrinsic value of share options exercised and SARs paid during 2006 amounts to EUR 11 million (2005: EUR 17 million and 2004: nil).

At December 31, 2006, the total compensation cost related to non-vested awards not yet recognized is estimated at EUR 27 million. The weighted average period over which it is expected to be recognized is 1.5 years.

No cash is received from exercise of share options during 2006, 2005 and 2004. Cash used to settle share appreciation rights amounts to EUR 10 million in 2006 (2005: EUR 18 million and 2004: nil).

The exposure from the issued share appreciation rights and share options is economically hedged by a position in treasury shares. At December 31, 2006 AEGON N.V. held 26,123,865 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 2006 is as follows: Executive Board nil, other senior executives 4,009,800 and other employees 5,384,000 (2005: nil; 4,711,960 and 5,449,800 and 2004: 200,000; 4,498,250 and 6,876,600).

Refer to note 53 for detailed information about the SARs/share options and the shares and options conditionally granted to the Executive Board.

41 IMPAIRMENT CHARGES/(REVERSALS)

	2006	2005	2004
Impairment charges on financial assets, excluding receivables	142	147	275
Impairment reversals on financial assets, excluding receivables	(118)	(160)	(79)
Impact of impairments on the valuation of insurance assets and liabilities	–	(1)	(13)
	24	**(14)**	**183**
Impairment charges from			
- Shares	36	20	30
- Bonds and money market instruments	80	91	229
- Loans	15	33	9
- Other	11	3	7
TOTAL IMPAIRMENT CHARGES	**142**	**147**	**275**
Impairment reversals from			
- Bonds and money market instruments	103	139	80
- Loans	15	21	(1)
TOTAL IMPAIRMENT REVERSALS	**118**	**160**	**79**

42 INTEREST CHARGES AND RELATED FEES

	2006	2005	2004
Capital securities	29	32	32
Subordinated loans	14	22	31
Borrowings	252	256	335
Other	67	63	–
	362	**373**	**398**

43 OTHER CHARGES

	2006	2005	2004
Other charges	1	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 Labouchère, 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 Labouchère. 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

	Note	2006	2005	2004
Current tax				
- Current year		304	751	437
- Adjustments to prior year		(27)	(5)	(17)
		277	**746**	**420**
Deferred tax				
- Origination / (reversal) of temporary differences	27	444	245	164
- Changes in tax rates/bases		(80)	(48)	(49)
- Recognition of previously unrecognized tax loss/tax credit		(65)	(66)	1
- Write off / (reversal of write off) of deferred tax assets		25	8	1
		601	**885**	**537**

Reconciliation between standard and effective income tax	2006	2005	2004
Income before tax	3,390	3,615	2,795
Income tax calculated using weighted average applicable statutory rates	1,100	1,217	956
Difference due to the effects of:			
- Non-taxable income	(247)	(229)	(373)
- Non-tax deductible expenses	22	8	79
- Changes in tax rate/base	(80)	(48)	(49)
- Different tax rates on overseas earnings	(34)	(15)	(19)
- Tax credits	(122)	(143)	(71)
- Other taxes	94	164	28
- Adjustments to prior years	(90)	(5)	(17)
- Origination and change in contingencies	(40)	–	–
- 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	(12)	(66)	1
- Non-recognition of deferred tax assets	47	2	3
- Tax effect of profit/losses from associates	(2)	1	–
- Other	(35)	(1)	(1)
	601	**885**	**537**

The weighted average applicable tax rate is 32.4% (2005: 33.7% and 2004: 34.2%). The change from 2005 to 2006 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 31.5% in 2005 to 29.6% in 2006 (2004: 34.5%). The rate will decrease to 25.5% in 2007. In Spain, the corporate tax rate of 35% will be reduced in 2007 (to 32.5%) and 2008 (to 30%). In the Czech Republic the corporate tax rate is 24% in 2006 (2005: 26%). In Hungary the so called solidarity tax was introduced at a rate as of 4% as at September 1, 2006 in addition to the already existing corporate tax rate of 16%. The solidarity tax is imposed on the Hungarian accounting profit before tax adjusted for specific items. The general corporate income tax rate of 21% for Canada will be reduced in 2008 to 20.5%, in 2009 to 20% and in 2010 to 19%.

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).

	2006	2005	2004
Net income attributable to equity holders	2,789	2,732	2,256
Dividends on preferred shares	(80)	(79)	(95)
Coupons on perpetuals	(143)	(132)	(84)
NET INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS FOR BASIC EARNINGS PER SHARE CALCULATION	**2,566**	**2,521**	**2,077**
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (THOUSANDS)	**1,578,631**	**1,548,346**	**1,503,127**
BASIC EARNINGS PER SHARE (EUR PER SHARE)	**1.63**	**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 9,151,195 (2005: 853,048 and 2004: 1,013,198). The exercise prices of these share options range from EUR 23.33 to EUR 14.00.

	2006	2005	2004
Net income attributable to equity holders	2,789	2,732	2,256
Dividends on preferred shares	(80)	(79)	(95)
Coupons on perpetuals	(143)	(132)	(84)
NET INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS FOR DILUTED EARNINGS PER SHARE CALCULATION	**2,566**	**2,521**	**2,077**
Weighted average number of ordinary shares (thousands)	1,578,631	1,548,346	1,503,127
Adjustments for:			
- Share options (thousands)	1,072	201	–
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE CALCULATION (THOUSANDS)	**1,579,703**	**1,548,547**	**1,503,127**
DILUTED EARNINGS PER SHARE (EUR PER SHARE)	**1.62**	**1.63**	**1.38**

46 DIVIDEND PER SHARE

The dividend per share paid in 2006 (interim 2006 and final 2005) and 2005 (interim 2005 and final 2004) were EUR 0.47 and EUR 0.43 respectively. A final dividend in respect of bookyear 2006 of EUR 0.31 per share, resulting in a total dividend of EUR 0.55 per share for 2006, is to be proposed at the annual General Meeting of Shareholders on April 25, 2007. These financial statements do not reflect the proposed 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 targets its capital base to comprise at least 70% shareholders equity (excluding the revaluation reserve), 25% perpetual capital securities (consisting of junior perpetual capital securities and perpetual cumulative subordinated bonds) and a maximum of 5% dated subordinated and senior debt related to insurance activities.
The table that follows reconciles total shareholders' equity to the total capital base:

	2006	2005
Total shareholders' equity	19,137	19,276
Junior perpetual capital securities	3,447	2,809
Perpetual cumulative subordinated bonds	567	567
Share options not yet exercised	18	3
Minority interest	16	15
Trust pass-through securities	123	437
Subordinated borrowings	34	284
Borrowings	4,991	5,532
Borrowings not related to capital funding of insurance activities [1]	(3,518)	(3,473)
TOTAL CAPITAL BASE	**24,815**	**25,450**

[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.

Borrowings not related to capital funding of insurance activities mainly include operational funding of US regulation XXX and guideline AXXX redundant reserves, funding of mortgage warehousing activities, short-term funding of cash and collateral management activities, and the proportional amount of other borrowings not immediately deployed for capital management activities. In the ordinary course of business, AEGON N.V. may at times have borrowings, which are offset by cash and cash equivalents available for future capital management activities, such as funding capital contributions in its subsidiaries, redemption of borrowings or payment of dividends to its shareholders. The Total Capital Base is a non-IFRS measure, as IFRS does not permit separate presentation of borrowings based on the deployment of the proceeds.
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, 2006, the combined risk-based capital ratio of AEGON's life insurance subsidiaries in the United States was 365%. 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:

	2006	2005
Liability capital of the Group	23,342	23,391
Required solvency margin	8,503	8,613
Solvency surplus	14,839	14,778
Solvency as a percentage of required solvency margin	275	272

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, 2006, the issued and outstanding capital is EUR 255 million, the reserves required by law amount to EUR 1,521 million and EUR 16,796 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.

	2006		2005	
	Trading	Designated	Trading	Designated
Investments for general account	785	8,763	774	9,965
Investments for account of policyholders	–	133,060	–	126,141
Derivatives with positive values not designated as hedges	1,233	–	1,498	–
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**2,018**	**141,823**	**2,272**	**136,106**
Investment contracts	–	167	–	223
Investment contracts for account of policyholders	–	22,764	–	22,258
Derivatives with negative values not designated as hedges	1,137	–	1,368	–
Borrowings	–	938	–	1,025
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**1,137**	**23,869**	**1,368**	**23,506**

Investments for general account

The Group manages certain portfolios on a total return basis which have been designated as at fair value through profit or loss. This includes portfolio of investments in limited partnerships and limited liability companies (primarily hedge funds) for which the performance is assessed internally on a total return basis. In addition some investment that include an embedded derivative that would otherwise have required bifurcation, such as convertible instruments, preferred shares and credit linked notes, have been designated as at fair value through profit or loss.

Investment for general account backing insurance and investment liabilities that are carried at fair value with changes in the fair value recognized in the income statement are designated as at fair value through profit or loss. Classification of the financial assets as available-for sale would result in accumulation of unrealized gains and losses in a revaluation reserve within equity whilst changes to the liability would be reflected in net income (accounting mismatch). Therefore the Group elected to designate these investments for account of policyholders as at fair value through profit or loss.

Investments for account of policyholders

Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer.

Under the Group's accounting policies these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement. To avoid an accounting mismatch the linked assets have been designated as at fair value through profit or loss.
In addition the investment for account of policyholders include with profit assets, where an insurer manages these assets together with related liabilities on a fair value basis in accordance with a documented policy of asset and liability management. In accordance with Group's accounting policies, these assets have been designated as at fair value through profit or loss.

Investment contracts

Investment contracts that have been designated as at fair value through profit or loss include contracts that are considered to contain an embedded derivative that requires measurement at fair value through profit or loss, such as equity-linked or pass-through investment performance features and total return swaps. For consistency, the underlying portfolio has been designated as at fair value through profit or loss. Also contracts that contain embedded derivatives that can not be reliably bifurcated are carried at fair value, such as a fixed annuity issued by AEGON USA containing an investment performance pass-through feature subject to a cumulative minimum guarantee.

Investment contracts for account of policyholders

With the exception of the financial liabilities with discretionary participating features that are not subject to the classification and measurement requirements for financial instruments, all investment contracts for account of policyholders that are carried at fair value or at the fair value of the linked assets are included in the table on page 211.

Derivatives

With the exception of derivatives designated as a hedging instrument, all derivatives held for general account and held for account of policyholders are included in the table on page 211.

Borrowings

Borrowings designated as at fair value through profit or loss include financial instruments that are managed on a fair value basis together with related financial assets and financial derivatives.
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:

	2006		2005	
	Trading	Designated	Trading	Designated
Net gains	543	9,520	666	11,410
Net losses	401	1,161	267	131

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 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 2007. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the consolidated balance sheet.

	2006		2005	
	Purchase	Sale	Purchase	Sale
Real estate	2	(1)	2	(5)
Mortgage loans	826	–	559	–
Bonds	1	(2)	11	(12)
Private loans	679	–	441	–
Other	1,346	(2)	1,420	–

Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. Other commitments include future purchases of interests in investment funds and limited partnerships.

Other commitments and contingencies

	2006	2005
Guarantees	166	146
Standby letters of credit	105	34
Share of contingent liabilities incurred in relation to interests in joint ventures	615	676
Other collateral and guarantees	70	12
Other commitments and contingent liabilities	57	81

Guarantees include those given on account of asset management commitments and guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States. Standby letters of credit amounts reflected above are the liquidity commitment notional amounts.

In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

AEGON N.V. has entered into a net worth maintenance agreement with its indirect subsidiary AEGON Financial Assurance Ireland Limited (AFA), pursuant to which AEGON N.V. will cause AFA to have a tangible net worth of at least 3% of its total liabilities under financial guaranty policies which it issues up to a maximum of EUR 3 billion.

On November 1, 2006, AEGON entered into an agreement to acquire 100% of the outstanding common shares of Clark Inc. (Clark), a public company specializing in the sale of corporate-owned life insurance, bank-owned life insurance and other benefit programs. The acquisition is expected to be closed in March 2007, after the publication date of the 2006 financial statements. The estimated aggregate purchase price is approximately EUR 273 million, consisting of EUR 208 million cash consideration, EUR 44 million of Clark debt assumed by AEGON, the EUR 21 million cost basis of Clark common stock already owned by AEGON and transaction costs. In addition, a Clark management group will acquire some of Clark's other business segments, not considered core to AEGON, for EUR 41 million. Currently AEGON holds a 13% interest in Clark.

In December 2006, AEGON and Ranbaxy Promoter Group agreed to jointly establish a life insurance and an asset management undertaking in India. The ventures will be incorporated by AEGON and Religare, the financial services division of Ranbaxy Promoter Group. The transactions are expected to be completed in the second half of 2007.

AEGON N.V. has guaranteed and is severally liable for the following:

- Due and punctual payment of payables due under letter of credit agreements applied for by AEGON N.V. as co-applicant with its subsidiary companies AEGON USA, Inc., Commonwealth General Corporation and Transamerica Corporation (EUR 2,528 million). At December 31, 2006, there were no amounts due and payable.
- Due and punctual payment of payables by the consolidated group companies AEGON Funding Corp., Commonwealth General Corporation, Transamerica Corporation and Transamerica Finance Corp. with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 1,025 million), as well as payables with respect to a derivative transaction of Transamerica Corporation (EUR 744 million).
- Due and punctual payment of any amounts owned to third parties by the consolidated group company AEGON Derivatives N.V. in connection with derivative transactions. AEGON Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore minimal as at December 31, 2006.

AEGON is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. In particular, certain current and former customers, and groups representing customers, have initiated litigation and certain groups are encouraging others to bring lawsuits in respect of certain products in the Netherlands. The products involved include securities leasing products and unit linked products (so called 'beleggingsverzekeringen' including the Koersplan product). AEGON has established adequate litigation policies to deal with the claims defending when the claim is without merit and seeking to settle in certain circumstances. This and any other litigation AEGON has been involved in over the last twelve months have not had any significant effects on the financial position or profitability of AEGON N.V. or the Group. However, there can be no assurances that AEGON will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

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.

Future lease payments

	2006			2005		
	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	2	2	–	–	–	–
Operating lease obligations	89	321	363	101	320	286
Operating lease rights	27	84	20	38	87	12

The operating lease obligations relate mainly to office space leased from third parties. The total of future minimum sublease payments expected to be received on non-cancellable subleases is EUR 13 million. The operating lease rights relate to non-cancellable commercial property leases.

50 COLLATERAL

AEGON pledges investment securities that are on its balance sheet related to certain other transactions that it enters into that create liabilities, such as reverse repurchase agreements and other transactions involving funding agreements. The amount of collateral pledged may vary as the fair value of the securities changes since these agreements require certain minimum maintenance levels. AEGON receives collateral related to securities lending transactions. The collateral received is typically in the form of cash and is invested in pre-designated high quality investment strategies. The collateral is typically greater than the market value of the related securities loaned and is recorded on the balance sheet as an asset and an offsetting liability is established for the same amount. AEGON is obligated to return the collateral upon termination of the lending arrangement.

AEGON can receive or pledge collateral relative to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by AEGON or its counterparty. In addition, in order to trade derivatives on the various exchanges, AEGON posts margin as collateral. The amount of collateral will vary with the market value changes of the derivative contracts. Cash is normally received as collateral and a portion of this cash collateral has been rehypothecated to other parties to serve as collateral. Securities that may be received, other than cash that has been rehypothecated, are reported on the consolidated balance sheet at fair value. Cash that is pledged to counterparties is removed from the balance sheet. AEGON is obligated to return the collateral to the original counterparty upon termination of the derivative contract. AEGON has entered into asset lending transactions for which the collateral is held by a third party and will only be released to AEGON on default by the counterparty. This collateral is not recognized in the balance sheet.

Assets pledged as collateral

The following table summarizes the carrying amounts on the balance sheet of financial assets pledged as collateral. Collateral paid as part of share borrowing or reverse repurchase transactions are included in this information.

	2006	2005
Financial assets pledged for liabilities	4,547	3,395
Other financial assets pledged as collateral	121	103

When AEGON pays cash collateral as part of security borrowing or reverse repurchase transactions, an asset is recorded to receive back the cash pledged. The balance of these receivables, as also reflected in note 13, are as follows:

	2006	2005
Cash collateral paid as part of security borrowing	34	–
Cash collateral pledged on reverse repurchase agreements	4	23

AEGON does not account for the receipt of the securities, as the Group does not have economic ownership. When collateral takes the form of non-cash, AEGON does not account for the delivery of instruments as collateral, or for the securities received, as there is no change in economic ownership.

Assets accepted as collateral

Details of collateral accepted that the Group is permitted to sell or repledge in the absence of default by the owner of the collateral are as follows:

	2006	2005
Fair value of financial assets accepted as collateral	9,960	4,616
Repurchase agreements	806	–

As part of security lending and repurchase agreements, AEGON received EUR 23 billion (2005: EUR 22 billion) of cash and non cash collateral. For cash collateral received, AEGON recognized a liability to repay the cash, which is included in other liabilities in note 28, for the following amounts:

	2006	2005
Cash collateral repayable on security lending and repurchase agreements	9,315	3,917

51 BUSINESS COMBINATIONS

Acquisitions

In September 2006 AEGON The Netherlands acquired the remaining 55% of the Unirobe shares. The distribution activities of the Dutch operations are placed under the Unirobe Meeùs Group. No operations have been disposed off as a result of the combination. The cost of acquiring the remaining 55% of the shares was EUR 59 million, which was paid in cash. In total an amount of EUR 96 million was paid to acquire the 100% interest. At the acquisition date assets and liabilities were recognized for EUR 186 million and EUR 134 million respectively which included a cash position of EUR 0 million. Since the acquisition date, Unirobe has contributed EUR 5 million to the net income of AEGON. The acquisition resulted in the recognition of EUR 49 million goodwill, of which EUR 18 million had previously been included in the measurement of the interest held in Unirobe as an associate. Goodwill reflects the commission income that is expected to be generated by Unirobe in future years.

In November 2005, AEGON signed a strategic partnership agreement with the Spanish savings bank Caja de Ahorros de Navarra (CN) under which AEGON acquired a 50% stake in CN's life insurance and pensions subsidiary, Seguros Navarra S.A. The acquisition of 50% of Seguros Navarra S.A. took place in two tranches. In the fourth quarter of 2005, 15% was acquired, followed by another 35% in 2006. The acquisition date was April 30, 2006 when approval was obtained from the Spanish and European regulatory authorities. The final price of the acquisition was EUR 61 million, fully paid in cash. The total assets of the joint venture at the acquisition date amounted to EUR 476 million, of which EUR 2 was cash and cash equivalents. CN is entitled to an contingent earn-out payment, the amount of which is dependent on the business' performance over the coming five years. AEGON has provided for the expected future payment on a discounted basis (EUR 60 million at December 31, 2006). As a consequence of the acquisition goodwill of EUR 91 million was reported.

In October 2005, AEGON and the Spanish savings bank Caja de Badajoz (CB), have reached an agreement to establish a 50/50 joint venture to sell life insurance, accident insurance and pension products through the branch network of CB. The new entity, Caja de Badajoz Vida y Pensiones, Sociedad Anónima de Seguros, has been set up with a capital amounting to EUR 11 million of which 50% has been paid in. The remaining 50% shall be paid in within the next 2 years. At the end of the fifth year of the joint venture, CB is entitled to a contingent earn-out payment. AEGON has provided for the expected future payment on a discounted basis (EUR 21 million at December 31, 2006). As a consequence of the acquisition goodwill of EUR 20 million was reported.

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.

Disposals

During 2006 AEGON sold its interest in Scottish Equitable International S.A. for EUR 29 million, together with an earn-out arrangement. The cash and cash equivalents held at the end of March by Scottish Equitable International S.A. prior to the sale was EUR 20 million. The acquiring company, La Mondiale Participations S.A. is a 35% associate of AEGON. 35% of the gain on the sale was eliminated on consolidation.

52 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 (US)
Commonwealth General Corporation, Wilmington, Delaware (US)
Life Investors Insurance Company of America, Cedar Rapids, Iowa (US)
Monumental Life Insurance Company, Baltimore, Maryland (US)
Peoples Benefit Life Insurance Company, Cedar Rapids, Iowa (US)
Stonebridge Casualty Insurance Company, Columbus, Ohio (US)
Stonebridge Life Insurance Company, Rutland, Vermont (US)
Transamerica Corporation, Wilmington, Delaware (US)
Transamerica Financial Life Insurance Company, Inc., Purchase, New York (US)
Transamerica Life Canada, Toronto, Ontario (Canada)
Transamerica Life Insurance Company, Cedar Rapids, Iowa (US)
Transamerica Occidental Life Insurance Company, Cedar Rapids, Iowa (US)
Veterans Life Insurance Company, Springfield, Illinois (US)
Western Reserve Life Assurance Co. of Ohio, Columbus, Ohio (US)

The Netherlands

AEGON Bank N.V., Utrecht
AEGON Financiële Diensten B.V., The Hague
AEGON International N.V., The Hague
AEGON Derivatives N.V., The Hague
AEGON Investment Management B.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
Spaarbeleg Kas N.V., Utrecht
TKP Pensioen B.V., Groningen
Unirobe Meeùs Groep 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 España S.A., Madrid (Spain) (99.98%)
AEGON Life Insurance (Taiwan) Inc., Taipei (Taiwan)
AEGON Magyarország Általános Biztosító Zrt., Budapest (Hungary)
AEGON Pension Fund Management Company Slovakia, Bratislava (Slovakia)
AEGON Pojistóvna a.s., Prague (Czech Republic)
AEGON Towarzystwo Ubezpieczen na Zycie S.A., Warsaw (Poland)
Transamerica International Reinsurance Ireland Ltd, Dublin (Ireland)
AEGON Global Institutional markets Plc, Dublin (Ireland)
AEGON Financial Assurance Ireland Ltd, Dublin (Ireland)

The legally required list of participations as set forth in articles 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register in The Hague. AEGON N.V. has issued a statement of liability as meant in article 403 of Book 2 of the Dutch Civil Code for its subsidiary company AEGON Derivatives N.V.

AEGON has an investment (EUR 28 million) in Prisma Enhanced Fixed Income Fund (PREFF), a newly created hedge fund formed as a limited partnership. As of 31 December 2006 AEGON is the only limited partner in this fund. As a limited partner, AEGON does not have any direct voting power. However, in addition to its limited partnership interest, AEGON has an equity interest in the general partner of the fund and also has derivative trading responsibilities through a sub-advisory agreement. Based on these facts, AEGON concluded that it controls the limited partnership and has included the entity in its consolidated financial statements.

AEGON has less than half of the voting power of SERVES, an entity whose primary activity is participating in a total return swap based on the performance of a portfolio of bank loans. In addition to its equity interest (EUR 67 million), AEGON is the owner of 100% of the debt issued by the entity and serves as the investment manager of the bank loan portfolio. As a result, AEGON concluded that it controls the entity and should include the entity in its consolidated financial statements.

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., Shanghai (China) (50%)
Caja de Badajoz Vida y Pensiones, Sociedad Anónima de Seguros, Badajoz (Spain) (50%)
Seguros Navarra, Sociedad Anónima de Seguros, Pamplona (Spain) (50%)

Summarized financial information of joint ventures for 2006 accounted for using proportionate consolidation

	Current assets	Long-term assets	Current liabilities	Long-term liabilities	Income	Expenses
AMVEST	51	982	15	631	81	20
AEGON-CNOOC	6	39	3	36	26	36
Caja de Badajoz	4	23	–	22	23	23
Seguros Navarra	24	305	23	245	20	18
	85	**1,349**	**41**	**934**	**150**	**97**

Investments in associates

The principal investments in associates are listed by geographical segment.

The Netherlands

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%)
Seguros Argos, S.A. de C.V., Mexico City (Mexico) (49%)
Afore Argos, S.A. de C.V., Mexico City (Mexico) (49%)

AEGON owns a 60% limited partnership interest in Prisma Capital Partners LP ('Prisma LP') which serves as an investment manager for certain of AEGON's hedge fund investments as well as for other third parties, in exchange for management fees. Two unrelated entities, Prisma Capital Partners I, LP and Prisma Capital Partners EH LLC own 31% and 8% of Prisma LP, respectively. An unrelated entity, 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 appointed collectively by the other six voting members) must approve certain actions, including restructuring transactions, hiring senior management and the annual operating budget. As a result, notwithstanding our 60% economic interest, AEGON can not exercise voting control since we only appoint three out of the seven board members, AEGON cannot remove the majority of the management board members and AEGON does not have other arrangements, contractual or otherwise, that would give AEGON more than half of the voting power of Prisma LP.
Refer to note 10 for further details on investments in associates.

53 RELATED PARTY TRANSACTIONS

Related party transactions for the period under review include transactions between AEGON N.V and Vereniging AEGON, as well as selling a 100% subsidiary to the associate La Mondiale Participations S.A..
On November 24, 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances during the year.
On December 21, 2006, Vereniging AEGON sold at intrinsic value and transferred to AEGON International N.V. all shares of its subsidiary company Albidus B.V. for an immaterial amount.
In both 2001 and 2002, AEGON N.V. entered into total return swaps with Vereniging AEGON in order to hedge the share option plan for each respective year. On April 15, 2005, these total return swaps were terminated, resulting in a positive impact on shareholders' equity of EUR 115 million. The amount has been added to retained earnings.
On May 17, 2005, AEGON N.V. purchased 3,821,645 of its common shares from Vereniging AEGON at a purchase price of EUR 9.847. On December 5, 2005, Vereniging AEGON exercised its option rights to purchase in aggregate 6,950,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances and treasury stock sales during the year.
AEGON provide reinsurance, asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits of AEGON employees. Certain post-employment insurance benefits are provided to employees in the form of insurance policies issued by affiliated insurance subsidiaries.
In 2006, AEGON sold its 100% interest in Scottish Equitable International SA for EUR 29 million to La Mondiale Participations S.A., a 35 % associate. Details of the transaction are provided in note 51.
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: Salary	Short-term benefits: Periodic payments: Other [3]	Short-term benefits: Performance related: Cash [4]	Short-term benefits: Performance related: Shares [5]	Pension premiums	Total
2006						
D.J. Shepard	796 [1]	1,219	4,059 [6]	–	277	6,351
J.B.M. Streppel	679 [2]	16	475	–	220	1,390
J.G. van der Werf	575 [2]	13	697	–	186	1,471
A.R. Wynaendts	575 [2]	164	602	–	186	1,527
TOTAL	**2,625**	**1,412**	**5,833**	**–**	**869**	**10,739**
2005						
D.J. Shepard	803 [1]	223	2,998 [6]	–	270	4,294
J.B.M. Streppel	679 [2]	14	469	–	217	1,379
J.G. van der Werf	575 [2]	11	552	–	184	1,322
A.R. Wynaendts	575 [2]	180	568	–	183	1,506
TOTAL	**2,632**	**428**	**4,587**	**–**	**854**	**8,501**
2004						
D.J. Shepard	804 [1]	458	1,878 [6]	188	226	3,554
J.B.M. Streppel	668 [2]	15	144	144	227	1,198
J.G. van der Werf	566 [2]	11	144	144	192	1,057
A.R. Wynaendts	566 [2]	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 Mr. Shepard earns a salary of USD 1 million.
2 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.
3 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 which are provided in his employment agreement with AEGON. These benefits include compensation to the extent that the total actual annual taxation on his total income exceeds the taxation if he were only subject to U.S. taxes, personal life insurance and tax planning. The 2006 amount is affected by the expiration of a tax ruling as a result of which employer and employee pension contributions are no longer tax deferred in the Netherlands. For Mr. Wynaendts, the amount also includes compensation for relocation and cost of living related to his temporary secondment to AEGON USA in 2005 and 2006.
4 In line with the regulations of the Short-Term Incentive (STI) Plan for the years 2005 and 2004, it was established that in 2005 and 2004 the 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 and 2005 annual accounts by the shareholders, the disclosed STI cash bonuses for the years 2004 and 2005 were paid in 2005 and 2006 respectively. 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.
5 In 2004, all 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.
6 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 amount included in the 2006 table is based on net income over 2005 as reported in accordance with IFRS. The amounts included in the 2005 and 2004 tables are based on 2004 and 2003 net income respectively as reported in accordance with Dutch accounting principles.

In accordance with the 2006 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 total shareholders return performance relative to that of the peer group over a three-year period. The number of shares and options vesting after the three year period is in the range from 0% to 200% of the granted number. The number of shares and options in the table represent a 100% vesting of the grant (target award).

The date of grant for the 2006 LTI Plan was April 26, 2006 and the closing price of that day was EUR 14.55. The grant is a 50/50 combination of the value of the performance shares and performance options. Regarding the granted shares and options of the reference period 2004-2006 the Executive Board members are entitled to 0% vesting of the target award.

Total overview of conditionally granted shares	Grant date	Number of shares per January 1, 2006	Number of shares granted in 2006	Number of shares vested in 2006	Number of shares expired/ forfeited in 2006	Number of shares per December 31, 2006	Reference period
D.J. Shepard	23-Apr-04	35,767				35,767 [1]	2004 – 2006
	22-Apr-05	38,542				38,542	2005 – 2007
	26-Apr-06		26,213			26,213	2006 – 2008
J.B.M. Streppel	23-Apr-04	16,661				16,661 [1]	2004 – 2006
	22-Apr-05	20,169				20,169	2005 – 2007
	26-Apr-06		13,909			13,909	2006 – 2008
J.G. van der Werf	23-Apr-04	14,106				14,106 [1]	2004 – 2006
	22-Apr-05	17,066				17,066	2005 – 2007
	26-Apr-06		11,769			11,769	2006 – 2008
A.R. Wynaendts	23-Apr-04	14,106				14,106 [1]	2004 – 2006
	22-Apr-05	17,066				17,066	2005 – 2007
	26-Apr-06		11,769			11,769	2006 – 2008

[1] These shares have not vested in 2006 and have subsequently expired.

Total overview of conditionally granted options	Grant date	Number of options per January 1, 2006	Number of options granted in 2006	Number of options vested in 2006	Number of options expired/ forfeited in 2006	Number of options per December 31, 2006	Number of exercisable options	Exercise price	Reference period
D.J. Shepard	23-Apr-04	71,534				71,534 [1]		11.74	2004 – 2006
	22-Apr-05	77,084				77,084		9.91	2005 – 2007
	26-Apr-06		150,989			150,989		14.55	2006 – 2008
J.B.M. Streppel	23-Apr-04	33,322				33,322 [1]		11.74	2004 – 2006
	22-Apr-05	40,338				40,338		9.91	2005 – 2007
	26-Apr-06		80,115			80,115		14.55	2006 – 2008
J.G. van der Werf	23-Apr-04	28,212				28,212 [1]		11.74	2004 – 2006
	22-Apr-05	34,132				34,132		9.91	2005 – 2007
	26-Apr-06		67,789			67,789		14.55	2006 – 2008
A.R. Wynaendts	23-Apr-04	28,212				28,212 [1]		11.74	2004 – 2006
	22-Apr-05	34,132				34,132		9.91	2005 – 2007
	26-Apr-06		67,789			67,789		14.55	2006 – 2008

[1] These shares have not vested in 2006 and have subsequently expired.

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.

The fair value information on the conditionally granted shares will be provided when the shares and options vest.

Share options and share appreciation rights and interests in AEGON N.V. held by active members of the Executive Board

	Grant date	Number of options per January 1, 2006	Number of options granted in 2006	Number of options exercised in 2006	Number of options expired/ forfeited in 2006	Number of options per December 31, 2006	Number of exercisable options	Exercise price EUR	Shares held in AEGON at December 31, 2006
D.J. Shepard	12-Mar-01	100,000			100,000				
	10-Mar-02	50,000 [1]				50,000 [1]	50,000	26.70	
	16-Mar-04	50,000 [1]				50,000 [1]		10.56	330,180
J.B.M. Streppel	12-Mar-01	100,000			100,000				
	10-Mar-02	50,000 [1]				50,000 [1]	50,000	26.70	
	16-Mar-04	50,000 [1]				50,000 [1]		10.56	13,595
J.G. van der Werf	12-Mar-01	50,000			50,000				
	10-Mar-02	50,000 [1]				50,000 [1]	50,000	26.70	
	16-Mar-04	50,000 [1]				50,000 [1]		10.56	140,293
A.R. Wynaendts	12-Mar-01	20,000 [1,2]			20,000				
	12-Mar-01	15,000 [2]			15,000				
	10-Mar-02	40,000 [1,2]				40,000 [1]	40,000	26.70	
	10-Mar-03	50,000 [1,2]				50,000 [1]	50,000	6.30	
	16-Mar-04	50,000 [1]				50,000 [1]		10.56	9,546

[1] Share appreciation rights.
[2] The share appreciation rights were granted before becoming a member of the Executive Board.

The above rights have been granted under the LTI plan in force until December 31, 2003. Details of the exercise period is provided in note 40. 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; Mr. Van der Werf had a mortgage loan of EUR 1,240,000, with half of the amount at 3.4% fixed rate and half of the amount at 3.4% floating-rate at year end; and Mr. Wynaendts had two mortgage loans totalling EUR 635,292, with interest rates of 3.9% and 4.1% respectively. In accordance with the terms of the contracts, no principal repayments were received on the loans in 2006. The terms of the board members' loans have not been amended.

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	2006	2005	2004
D.G. Eustace	79,000	82,565	58,904
O.J. Olcay	65,000	66,250	34,034
I.W. Bailey, II (as of April 22, 2004)	56,669	48,750	23,562
R. Dahan (as of April 22, 2004)	59,500	59,500	23,562
S. Levy (as of April 21, 2005)	65,000	46,808	–
T. Rembe	60,000	60,000	51,050
W.F.C. Stevens	73,000	74,750	48,214
K.J. Storm	46,250	47,500	34,034
L.M. van Wijk	47,500	48,750	34,034
TOTAL FOR ACTIVE MEMBERS	**551,919**	**534,873**	**307,394**
P.R. Voser (up to April 25, 2006)	15,138	54,000	34,906
C. Sobel (from April 25, 2006 up to July 17, 2006)	9,231	–	–
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	**576,288**	**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

	Grant date	Number of options per January 1, 2006	Number of options granted in 2006	Number of options vested in 2006	Number of options expired/ forfeited in 2006	Number of options per December 31, 2006	Number of exercisable options	Expiration date	Exercise price EUR
K.J. Storm	12-Mar-01	100,000			100,000	–		12–Mar–06	–

The options have been granted by reason of membership of the Executive Board in the related years.

Common shares held by Supervisory Board members

Shares held in AEGON at December 31

	2006	2005	2004
I.W. Bailey, II	29,759	29,759	29,759
R. Dahan	25,000	25,000	25,000
T. Rembe	6,658	6,658	6,658
K.J. Storm	276,479	276,479	276,479
TOTAL	**337,896**	**337,896**	**337,896**

54 EVENTS AFTER THE BALANCE SHEET DATE

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

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

On January 29, 2007 AEGON announced that it successfully completed a transaction involving a private Value of in-force (ViF) securitization by AEGON UK, enabling AEGON UK to monetize a portion of future profits associated with an existing book of unit-linked business. The securitization will add around EUR 134 million (GBP 90 million) to the total core capital of AEGON. The capital created by the transaction will be used by AEGON UK to return capital to the Group. These transactions provide the company with flexible solutions that help manage reserves and capital in a cost efficient manner. AEGON will continue to explore further opportunities for securitizations and structured financing as part of its ongoing commitment to efficiently manage capital and reserve needs.

On March 7, 2007, AEGON announced the expiration of its tender offer to purchase all the outstanding shares of Clark, Inc. (Clark) common stock at USD 17.21 per share. Based on preliminary information, the shares tendered, together with the shares already owned by AEGON, represent approximately 94% of the outstanding shares of Clark. AEGON intends to complete this transaction as soon as practical. Reference is made to note 49.

The Hague, March 7, 2007

SUPERVISORY BOARD	EXECUTIVE BOARD
D.G. Eustace	D.J. Shepard
O.J. Olcay	J.B.M. Streppel
I.W. Bailey, II	A.R. Wynaendts
R. Dahan	
S. Levy	
T. Rembe	
W.F.C. Stevens	
K.J. Storm	
L.M. van Wijk	

AUDITOR'S REPORT

To: The Supervisory Board and the Executive Board of AEGON N.V.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements for the year 2006 (as set out on pages 98 to 223) which are part of the financial statements of AEGON N.V., The Hague, which comprise the consolidated balance sheet as at December, 31, 2006, the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AEGON N.V. as at December 31, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Executive Board is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, March 7, 2007
FOR ERNST & YOUNG ACCOUNTANTS

was signed by A.F.J. van Overmeire

BALANCE SHEET OF AEGON N.V. AS AT DECEMBER 31, 2006

Before profit appropriation, amounts in EUR million	Note	2006	2005
ASSETS			
Investments			
Shares in group companies	3	18,088	17,525
Loans to group companies	4	7,317	7,259
		25,405	**24,784**
Other loans	5	–	72
		25,405	**24,856**
Receivables			
Receivables from group companies	4	4,091	3,969
Other receivables	4	9	2
		4,100	**3,971**
Other assets			
Cash and cash equivalents		2,428	1,886
Deferred tax assets		425	548
Other	6	312	32
		3,165	**2,466**
Prepayments and accrued income			
Accrued interest and rent		148	211
TOTAL ASSETS		**32,818**	**31,504**
Shareholders' equity			
Share capital	7	255	251
Tax-free paid-in surplus	8	6,317	6,561
Retained earnings	8	8,255	6,359
Revaluation account	8	2,059	2,520
Other reserves	8	(538)	853
Net income	8	2,789	2,732
		19,137	**19,276**
Other equity instruments	9	**4,032**	**3,379**
TOTAL EQUITY		**23,169**	**22,655**
Subordinated borrowings		**34**	**284**
Long-term borrowings	10	**2,559**	**2,626**
Current liabilities			
Amounts owed to credit institutions	11	736	1,444
Loans from group companies	11	2,092	441
Payables to group companies	11	3,711	3,448
Other payables	11	357	409
		6,896	**5,742**
Accruals and deferred income		160	197
TOTAL EQUITY AND LIABILITIES		**32,818**	**31,504**

INCOME STATEMENT OF AEGON N.V. FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts in EUR million	2006	2005	2004
Net income group companies	2,555	2,681	2,346
Other income	234	51	(90)
NET INCOME	**2,789**	**2,732**	**2,256**

NOTES TO THE FINANCIAL STATEMENTS OF AEGON N.V.

Amounts in EUR million, unless otherwise stated

1 GENERAL INFORMATION

AEGON N.V., incorporated and domiciled in the Netherlands, is a limited liability share company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at AEGONplein 50, 2591 TV The Hague. AEGON N.V. serves as the holding company for the AEGON Group and has listings of its common shares in Amsterdam, New York, London, and Tokyo.

AEGON N.V. and its subsidiaries and joint ventures (AEGON or 'the Group') have life insurance and pensions operations in over ten countries in Europe, the Americas and Asia and are also active in savings and investment operations, accident and health insurance, general insurance and limited banking operations in a number of these countries. The largest operations are in the United States. Headquarters are located in The Hague, the Netherlands. The Group employs approximately 29,000 people worldwide.

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.

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.

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, consistently with other gains and losses on these items.

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 consolidated financial statements on page 105 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.

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

	2006	2005
At January 1	17,525	13,502
Capital contribution and acquisitions	999	46
Divestitures	(201)	–
Dividend paid	(1,000)	(250)
Net income for the financial year	2,555	2,681
Revaluations	(1,790)	1,546
AT DECEMBER 31	**18,088**	**17,525**

For a list of names and locations of the most important group companies, refer to note 52 to the consolidated financial statements of the Group, page 216. 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

	2006	2005
Loans to group companies – long-term		
At January 1	4,726	4,397
Additions / repayments	(176)	(129)
Other changes	10	458
AT DECEMBER 31	**4,560**	**4,726**
Loans to group companies – short-term		
At January 1	2,533	1,587
Additions / repayments	252	852
Other changes	(28)	94
AT DECEMBER 31	**2,757**	**2,533**
TOTAL	**7,317**	**7,259**

Receivables from group companies and other receivables have a maturity of less than one year.

5 OTHER LOANS

	2006	2005
At January 1	72	95
Repayments	(72)	(23)
AT DECEMBER 31	**–**	**72**

6 OTHER ASSETS

Other assets include derivatives with positive fair values of EUR 309 million (2005: EUR 29 million).

7 SHARE CAPITAL

Issued and outstanding	2006	2005
Common shares	195	192
Preferred shares A	53	53
Preferred shares B	7	6
	255	**251**

Authorized	2006	2005
Common shares	360	360
Preferred shares A	125	125
Preferred shares B	125	125
	610	**610**

Par value in cents per share	2006	2005
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., may purchase as many class B preferred shares as would enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2005 23,850,000 class B preferred shares were issued under these option rights. In 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances during the year.

AEGON N.V. and Vereniging AEGON have entered into a preferred shares voting rights agreement, pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging AEGON has agreed to exercise one vote only per preferred share, except in the event of a 'special cause', such as the acquisition of a 15% interest in AEGON N.V., a tender offer for AEGON N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If, in its sole discretion, Vereniging AEGON determines that a 'special cause' has occurred, Vereniging AEGON will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

In both 2001 and 2002, AEGON N.V. entered into total return swaps with Vereniging AEGON in order to hedge the share option plan for each respective year. On April 15, 2005, these total return swaps were terminated, resulting in a positive impact on shareholders' equity of EUR 115 million. The amount has been added to retained earnings.

Number of common shares	2006	2005
At January 1	1,598,976,674	1,552,685,053
Share dividend	23,950,384	46,291,621
AT DECEMBER 31	**1,622,927,058**	**1,598,976,674**

The weighted average number of EUR 0.12 common shares for 2006 was 1,578,630,768 (2005: 1,548,346,110).
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 on page 203 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 page 219 of the consolidated financial statements of the Group.

8 SHAREHOLDERS' EQUITY

	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 2005 retained	–	–	2,256	(2,256)	–	–	–
Net income 2006	–	–	–	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**
At January 1, 2006	251	6,561	6,359	2,732	2,520	853	19,276
Net income 2005 retained	–	–	2,732	(2,732)	–	–	–
Net income 2006	–	–	–	2,789	–	–	2,789
TOTAL NET INCOME	**–**	**–**	**2,732**	**57**	**–**	**–**	**2,789**
Changes in foreign currency translation reserve	–	–	–	–	–	(1,325)	(1,325)
Changes in revaluation subsidiaries	–	–	–	–	(645)	–	(645)
Transfer to legal reserve	–	–	(184)	–	184	–	–
Other	–	–	(15)	–	–	(66)	(81)
OTHER COMPREHENSIVE INCOME	**–**	**–**	**(199)**	**–**	**(461)**	**(1,391)**	**(2,051)**
Dividend common shares	–	–	(391)	–	–	–	(391)
Dividend preferred shares	–	–	(80)	–	–	–	(80)
Share dividend	2	(2)	–	–	–	–	–
Issuance of shares	2	–	–	–	–	–	2
Repurchased and sold own shares	–	(242)	(20)	–	–	–	(262)
Coupons on perpetuals, net of tax	–	–	(143)	–	–	–	(143)
Other	–	–	(3)	–	–	–	(3)
CHANGES IN EQUITY FROM RELATION WITH SHAREHOLDERS	**4**	**(244)**	**(637)**	**–**	**–**	**–**	**(877)**
AT DECEMBER 31, 2006	**255**	**6,317**	**8,255**	**2,789**	**2,059**	**(538)**	**19,137**

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 (565) million (2005: EUR 760 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 40,809,710 of its own common shares with a face value of EUR 0.12 each. Most of the shares have been purchased to hedge stock appreciation rights and stock options granted to executives and employees and to neutralize the dilution effect of issued stock dividend. Movements in the number of repurchased own shares held by AEGON N.V. were as follows:

	2006	2005
At January 1, 2006	18,650,865	25,232,494
Transactions in 2006:		
Purchase: 30 transactions, average price EUR 14.78	19,076,000	–
Sale: one transaction on January 13, price EUR 13.71 and one transaction on March 31, price EUR 13.22	(3,000)	–
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)
AT DECEMBER 31	**37,723,865**	**18,650,865**

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.

	2006		2005	
	Number of shares	**Consideration**	Number of shares	Consideration
Held by AEGON N.V.	37,723,865	724	18,650,865	442
Held by subsidiaries	3,085,845	63	4,664,065	103
TOTAL AT DECEMBER 31	**40,809,710**	**787**	**23,314,930**	**545**

The consideration for the related shares is deducted from or added to the paid-in-surplus.

9 OTHER EQUITY INSTRUMENTS

	Junior perpetual capital securities	Perpetual cumulative subordinated bonds	Share options not yet exercised	Total
At January 1, 2005	1,352	1,517	–	2,869
Instruments issued	1,457	–	–	1,457
Instruments redeemed	–	(950)	–	(950)
Share options granted	–	–	3	3
AT DECEMBER 31, 2005	**2,809**	**567**	**3**	**3,379**
At January 1, 2006	2,809	567	3	3,379
Instruments issued	638	–	–	638
Instruments redeemed	–	–	13	13
Deferred tax	–	–	2	2
AT DECEMBER 31, 2006	**3,447**	**567**	**18**	**4,032**

Junior perpetual capital securities	Coupon rate	Coupon date: quarterly, as of	Year of first call	2006	2005
USD 500 million	6.5%	March 15	2010	424	424
USD 250 million	floating LIBOR rate	March 15	2010	212	212
USD 550 million	6.875%	September 15	2011	438	–
EUR 200 million	6%	July 21	2011	200	–
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	821
TOTAL JUNIOR PERPETUAL CAPITAL SECURITIES				**3,447**	**2,809**

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: quarterly, as of	Year of first call	2006	2005
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**	**567**

[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.

10 BORROWINGS

	2006	2005
Remaining terms less than 1 year	26	–
Remaining terms 1 - 5 years	1,034	1,033
Remaining terms 5 - 10 years	1,053	1,148
Remaining terms over 10 years	446	445
TOTAL BORROWINGS	**2,559**	**2,626**

The repayment periods of borrowings vary from in excess of one year up to a maximum of 25 years. The interest rates vary from 2.745 to 9.375% per annum.

The market value of the long-term liabilities amounts to EUR 2,603 million (2005: EUR 2,712 million).

11 CURRENT LIABILITIES

Amounts owed to credit institutions, loans from group companies and payables to group companies have a maturity of less than one year.

Other payables includes derivatives with negative fair values of EUR 186 million (2005: EUR 70 million) and income tax payable for EUR 159 million (2005: EUR 208 million).

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 2,528 million). At December 31, 2006, there were no amounts due and payable.
- Due and punctual payment of payables by the consolidated group companies AEGON Funding Corp., Commonwealth General Corporation, Transamerica Corporation and Transamerica Finance Corp. with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 1,025 million), as well as payables with respect to a derivative transaction of Transamerica Corporation (EUR 744 million).
- Due and punctual payment of any amounts owned to third parties by the consolidated group company AEGON Derivatives N.V. in connection with derivative transactions. AEGON Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore minimal as at December 31, 2006.

12 NUMBER OF EMPLOYEES

Other than the Executive Board, there were no employees employed by AEGON N.V. in either 2006 or 2005.

13 EVENTS AFTER THE BALANCE SHEET DATE

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

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

On January 29, 2007 AEGON announced that it successfully completed a transaction involving a private Value of in-force (ViF) securitization by AEGON UK, enabling AEGON UK to monetize a portion of future profits associated with an existing book of unit-linked business. The securitization will add around EUR 134 million (GBP 90 million) to the total core capital of AEGON. The capital created by the transaction will be used by AEGON UK to return capital to the Group. These transactions provide the company with flexible solutions that help manage reserves and capital in a cost efficient manner. AEGON will continue to explore further opportunities for securitizations and structured financing as part of its ongoing commitment to efficiently manage capital and reserve needs.

On March 7, 2007, AEGON announced the expiration of its tender offer to purchase all the outstanding shares of Clark, Inc. (Clark) common stock at USD 17.21 per share. Based on preliminary information, the shares tendered, together with the shares already owned by AEGON, represent approximately 94% of the outstanding shares of Clark. AEGON intends to complete this transaction as soon as practical. Reference is made to note 49 of the consolidated financial statements of the Group.

The Hague, March 7, 2007

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
L.M. van Wijk

EXECUTIVE BOARD
D.J. Shepard
J.B.M. Streppel
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, 2007, to pay a dividend for the year 2006 of EUR 0.55 per common share of EUR 0.12 par value which, after taking into account the EUR 0.24 interim dividend, leads to a final dividend of EUR 0.31 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 5% lower than 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 16, 2007.

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 16, 2007, after 5:30 p.m., based on the average share price quoted by Euronext Amsterdam in the five trading days from May 10, 2007 up to and including May 16, 2007.

In accordance with article 32, paragraph 3 of the Articles of Incorporation, a cash dividend equal to 4% of the amount paid on the preferred shares will be distributed.

Upon approval of this proposal, profit will be appropriated as follows:

	2006	2005
Dividend on preferred shares	85	79
Interim dividend on common shares (cash portion)	208	102
Final dividend on common shares	491	362
Earnings to be retained	2,005	2,189
NET INCOME	**2,789**	**2,732**

MAJOR SHAREHOLDERS

VERENIGING AEGON

Vereniging AEGON is the continuation of the former mutual insurer AGO. In 1978, AGO demutualized and Vereniging AGO became the only shareholder of AGO Holding N.V., which was the holding company for its insurance operations. In 1983, AGO Holding N.V. and Ennia N.V. merged into AEGON N.V. Vereniging AGO initially received approximately 49% of the common shares (which was reduced gradually to less than 40%) and all of the preferred shares in AEGON N.V., giving it voting majority in AEGON N.V. At that time Vereniging AGO changed its name into Vereniging AEGON.

The objective of Vereniging AEGON is the balanced representation of the interests of AEGON N.V. and all of its stakeholders, including shareholders, AEGON Group companies, insured parties, employees and other relations of the companies.

In accordance with the 1983 Merger Agreement, Vereniging AEGON had certain option rights on preferred shares to prevent dilution of voting power as a result of share issuances by AEGON N.V. This enabled Vereniging AEGON to maintain voting control at the General Meeting of Shareholders of AEGON N.V. In September 2002, AEGON N.V. effected a non-dilutive capital restructuring whereby Vereniging AEGON sold 350,000,000 of its common shares, of which 143,600,000 common shares were sold directly by Vereniging AEGON in a secondary offering outside the United States and 206,400,000 common shares were purchased by AEGON N.V. from Vereniging AEGON. AEGON N.V. subsequently sold these common shares in a global offering. The purchase price for the 206,400,000 common shares sold by Vereniging AEGON to AEGON N.V. was EUR 2,064,000,000, which amount Vereniging AEGON contributed as additional paid-in capital on the existing AEGON N.V. preferred shares, all held by Vereniging AEGON. As a result of these transactions, Vereniging AEGON's beneficial ownership interest in AEGON N.V.'s common shares decreased from approximately 37% to approximately 12% and its beneficial ownership interest in AEGON N.V.'s voting shares (excluding issued common shares held in treasury by AEGON N.V.) decreased from approximately 52% to approximately 33%.

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., may purchase as many class B preferred shares as would enable Vereniging AEGON to prevent or correct dilution to below its actual percentage of voting shares. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2005 23,850,000 class B preferred shares were issued under these option rights. In 2006, Vereniging AEGON exercised its option rights to purchase in aggregate 5,440,000 class B preferred shares at par value to correct dilution caused by AEGON's stock dividend issuances during the year.

Development of shareholding in AEGON N.V.	Common	Preferred A	Preferred B
At January 1, 2006	171,974,055	211,680,000	23,850,000
Exercise option right Preferred B shares	–	–	5,440,000
AT DECEMBER 31, 2006	**171,974,055**	**211,680,000**	**29,290,000**

Accordingly, under normal circumstances the voting power of Vereniging AEGON, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by AEGON N.V.) at December 31, 2006, amounts to approximately 22.61%. In the event of a 'special cause', Vereniging AEGON's voting rights will increase, currently to 32.29%, for up to six months per 'special cause'.

At December 31, 2006, the General Meeting of Members of Vereniging AEGON consisted of eighteen members. The majority of the voting rights is with the sixteen members not being employees or former employees of AEGON N.V. or one of the AEGON group companies, nor current or former members of the Supervisory Board or the Executive Board of AEGON N.V. The two other members are both elected by the General Meeting of Members of Vereniging AEGON from among the members of the Executive Board of AEGON N.V.

Vereniging AEGON has an Executive Committee consisting of seven members, five of whom, including the chairman and the vice-chairman, are not nor have ever been, related to AEGON. The other two members are also members of the Executive Board of AEGON N.V. Resolutions of the Executive Committee, other than with regard to amendment of the Articles of Association, are made with an absolute majority of the votes. When a vote in the Executive Committee results in a tie, the General Meeting of Members has the deciding vote. With regards to the amendment of the Articles of Association of Vereniging AEGON, a special procedure is in place to provide for the need of a unanimous proposal from the Executive Committee, thereby including the consent of the representatives of AEGON N.V. at the Executive Committee. Following the amendment of the Articles of Association as effected on September 13, 2005, this requirement does not apply in the event of a hostile change of control at the General Meeting of Shareholders of AEGON N.V., in which event Vereniging AEGON may amend its Articles of Incorporation without the cooperation of AEGON N.V.

OTHER MAJOR SHAREHOLDERS

Based on publicly available information there are no other major shareholders exceeding 5% participation.

AUDITOR'S REPORT

To: The Supervisory Board and the Executive Board of AEGON N.V.

REPORT ON THE COMPANY FINANCIAL STATEMENTS

We have audited the accompanying company financial statements for the year 2006 (as set out on pages 225 to 239) which are part of the financial statements of AEGON N.V., The Hague, which comprise the balance sheet as at December, 31 2006, the income statement for the year then ended and the notes.

Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the company financial statements and for the preparation of the Report of the Executive Board, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the company financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the company financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the company financial statements give a true and fair view of the financial position of AEGON N.V. as at December, 31 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Executive Board is consistent with the company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, March 7, 2007
FOR ERNST & YOUNG ACCOUNTANTS

was signed by A.F.J. van Overmeire

QUARTERLY RESULTS

2005						2006				
First quarter	Second quarter	Third quarter	Fourth quarter	Total year	Amounts in EUR millions	First quarter	Second quarter	Third quarter	Fourth quarter	Total year
					By product segment					
125	241	233	224	823	Traditional life	156	182	230	222	790
60	14	90	79	243	Life for account of policyholders	320	127	74	93	614
55	113	119	138	425	Fixed annuities	106	125	78	124	433
30	(32)	33	99	130	Variable annuities	82	56	41	82	261
64	62	85	69	280	Institutional guaranteed products	80	58	48	89	275
20	32	(9)	(10)	33	Fee - off balance sheet products	14	14	14	33	75
29	21	30	25	105	Reinsurance	55	42	26	40	163
87	96	74	67	324	Accident and health insurance	79	107	105	78	369
17	18	10	10	55	General insurance	11	23	13	8	55
7	(10)	7	11	15	Banking activities	4	12	14	5	35
0	(1)	1	(6)	(6)	Other	–	(1)	1	–	–
(64)	(79)	(74)	(63)	(280)	Interest charges and other	(80)	(65)	(58)	(39)	(242)
430	**475**	**599**	**643**	**2,147**	**Operating earnings before tax**	**827**	**680**	**586**	**735**	**2,828**
307	508	201	141	1,157	Gains/(losses) on investments	(32)	150	348	3	469
(10)	21	8	(5)	14	Impairment charges	6	(31)	(23)	23	(25)
204	27	22	24	277	Other non-operating income/(charges)	38	(29)	39	38	86
3	11	(2)	8	20	Share in profit/(loss) of associates	6	7	6	13	32
934	**1,042**	**828**	**811**	**3,615**	**Income before tax**	**845**	**777**	**956**	**812**	**3,390**
(256)	(293)	(213)	(123)	(885)	Income tax	(215)	(113)	(277)	4	(601)
(1)	2	2	(1)	2	Minority interest	0	0	0	0	0
677	**751**	**617**	**687**	**2,732**	**NET INCOME [1]**	**630**	**664**	**679**	**816**	**2,789**
					Total revenues by product segment					
6,944	6,020	6,603	7,183	26,750	Life insurance	7,899	7,697	8,744	8,791	33,131
678	634	652	625	2,589	Accident and health insurance	718	655	622	602	2,597
191	165	131	140	627	General insurance	187	160	135	128	610
67	68	58	56	249	Banking activities	56	57	58	56	227
38	21	29	33	121	Other activities	25	4	0	21	50
7,918	**6,908**	**7,473**	**8,037**	**30,336**	**TOTAL REVENUES**	**8,885**	**8,573**	**9,559**	**9,598**	**36,615**
611	732	553	643	2,539	Standardized new premium production insurance (life total recurring plus 1/10 single)	686	737	756	872	3,051
4,830	4,196	5,323	4,543	18,892	Gross deposits	6,416	4,004	4,640	4,283	19,343
(713)	(468)	(1,093)	(1,115)	(3,389)	Net deposits	260	(2,214)	(1,555)	(2,621)	(6,130)
4,626	4,206	4,142	4,451	17,425	Off balance sheet production	4,271	4,410	3,256	7,885	19,822
					AMOUNTS PER COMMON SHARE OF EUR 0.12					
0.43	**0.41**	**0.38**	**0.41**	**1.63**	**NET INCOME [2]**	**0.38**	**0.35**	**0.40**	**0.50**	**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	
8.94	10.53	10.45	10.89		Shareholders' equity [3]	10.67	9.63	10.67	10.76	

[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.

CORPORATE AND SHAREHOLDER INFORMATION

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GLOSSARY

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.

Operating expenses are all expenses associated with selling and administrative activities (excluding commissions) after reallocation of claim handling expenses to benefits paid.

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, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, should, would, is confident, will, and similar expressions as they relate to our company. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We undertake no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking 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.

COLOPHON

Consultancy and design	Dart Design, Amsterdam (NL)
Editing and production	AEGON Group Corporate Affairs and Investor Relations (NL)
Photography	Reinier Gerritsen (NL)
Typesetting	Dart Design, Amsterdam (NL), Habo DaCosta bv (NL)
Printing	Habo DaCosta bv (NL)
Binding	Hexspoor (NL)

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