AEGON NV
Form 20-F
March 30, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 1-10882

AEGON N.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

AEGONplein 50, PO Box 202, 2501 CE The Hague, The Netherlands

(Address of principal executive offices)

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

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

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 1,598,976,674 common shares

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

x Yes No ¨

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

¨ Yes No x

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

x Yes No ¨

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

¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes No x

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PRESENTATION OF CERTAIN INFORMATION

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

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

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FORWARD LOOKING STATEMENTS

The statements contained in this Annual Report that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: *believe, estimate, 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.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

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ITEM 3. KEY INFORMATION

3A Selected financial data

A summary of historical financial data is found in the table below. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), which differ in certain significant respects from accounting principles generally accepted in the United States (US GAAP). A description of the important differences between IFRS and US GAAP along with a reconciliation of shareholders equity and net income based on IFRS to US GAAP is found in Note 18.57 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

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

All per share amounts have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends through December 31, 2005.

Consolidated income statement information

In million EUR (except per share amount)	Years ended December 31, 2005	2004
Amounts based upon IFRS [1]		
Premium income	18,882	18,329
Investment income	9,937	9,337
Total revenues [2]	30,336	29,300
Income before tax	3,615	2,795
Net income	2,732	2,256
Net income per common share [4]		
Basic	1.63	1.38
Diluted	1.63	1.38

	2005	2004	2003	2002	2001
Amounts based upon US GAAP [1]					
Premium income	10,330	10,120	10,141	10,191	10,214
Investment income [3]	19,455	13,120	6,448	8,640	11,001
Total revenues [2]	31,478	25,012	20,123	19,247	21,599
Income (loss) from continuing operations before tax	2,744	2,360	2,286	(841)	1,158
Net income (loss)	2,084	1,430	1,531	(2,328)	632
Net income per common share [4]					
Basic	1.29	0.89	0.97	(1.62)	0.45
Diluted	1.29	0.89	0.97	(1.62)	0.44

For Notes 1 4 see page 6.

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Consolidated balance sheet information

In million EUR (except per share amount)	as at December 31, 2005	2004			
Amounts based upon IFRS [1]					
Total assets	311,215	268,692			
Insurance and investment contracts	263,536	223,492			
Trust pass-through securities and (subordinated) borrowings [5]	5,014	5,295			
Shareholders equity	19,276	14,875			
	2005	**2004**	**2003**	**2002**	**2001**
Amounts based upon US GAAP [1]					
Total assets	317,957	263,751	267,540	268,316	299,603
Insurance and investment contracts	263,832	216,810	212,395	217,022	240,297
Perpetuals and (subordinated) borrowings [5]	8,381	7,742	7,144	7,220	10,462
Trust pass-through securities (TRUPS)			408	491	584
Shareholders equity	22,913	18,316	17,836	17,554	20,831

1 Our consolidated financial statements were prepared in accordance with IFRS, which differs in certain significant respects from US GAAP. See Note 18.57 to our consolidated financial statements in Item 18 of this Annual Report for information concerning the differences between IFRS and US GAAP.

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

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

4 Per share data has been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends and stock splits through December 31, 2005. Diluted per share data gives effect to all dilutive securities.

5 Excludes bank overdrafts.

In thousands	2005	2004	2003	2002	2001
Number of common shares					
Balance at January 1	1,552,685	1,514,378	1,444,579	1,422,253	1,350,524
Issuance of shares					55,000
Stock dividends	46,292	38,307	69,799	22,326	16,484
Exercise of options					245
Balance at end of period	1,598,977	1,552,685	1,514,378	1,444,579	1,422,253

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Dividends

AEGON has declared interim and final dividends for the years 2001 through 2005 in the amounts set forth in the table below. Dividends in US dollars are calculated based on the Midpoint Rate (the rate settled each working day at 14:15 hours by the Dutch Central Bank) on the business day following the announcement of the interim dividend or on the business day following the shareholder meeting approving the relevant final dividend.

	EUR per common share [1, 4]			USD per common share [1, 4]		
Year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
2001	0.36	0.44	0.80	0.32	0.39	0.71
2002	0.36	0.35[2]	0.71[2]	0.35	0.32[2]	0.67[2]
2003	0.20	0.20	0.40	0.22	0.24	0.46
2004	0.21	0.21	0.42	0.26	0.27	0.53
2005	0.22	0.23[3]	0.45	0.27	NA	NA

1 Paid, at each shareholder s option, in cash or in stock, except 2002 final dividend.
2 The final dividend for 2002 was paid entirely in common shares at the rate of one new common share for every 25 common shares held on the record date.
3 Proposed.
4 Dividend per share is adjusted for the 2002 stock dividend.

On August 11, 2005, AEGON declared an interim dividend for 2005 of EUR 0.22 per common share. AEGON has proposed to its annual General Meeting of Shareholders, scheduled to occur on April 25, 2006, that the full year 2005 dividend be set at EUR 0.45 per common share, resulting in a final dividend for 2005 of EUR 0.23 per common share.

Annual dividends on AEGON s preferred shares are calculated as a percentage of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75% (as determined on the first Euronext Amsterdam working day of the financial year to which the dividend relates) resulting in a rate of 3.75% for 2005. Applying this rate to the weighted average paid-in capital of our preferred shares during 2005, the annual dividend on our preferred shares payable for 2005 is EUR 79.5 million. The rate for annual dividends on preferred shares in 2006, as determined on January 2, 2006, is 4% and the annual dividend on preferred shares for 2006, based on the paid-in capital on the preferred shares on January 2, 2006, will be EUR 84.9 million.

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Exchange rates

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

As of March 1, 2006 the USD exchange rate [1] was EUR 1 = USD 1.1899.

The high and low exchange rates [1] for the US dollar per euro for each of the last six months through February 2006 are set forth below:

	Sept. 2005	Oct. 2005	Nov. 2005	Dec. 2005	Jan. 2006	Feb. 2006
High (USD per EUR)	1.2538	1.2148	1.2067	1.2041	1.2287	1.2100
Low (USD per EUR)	1.2011	1.1914	1.1667	1.1699	1.1980	1.1860

The average exchange rates [1] for the US dollar per euro for the five years ended December 31, 2005, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate
2001	0.8909
2002	0.9495
2003	1.1411
2004	1.2478
2005	1.2400

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

3B Capitalization and indebtedness

Not applicable

3C Reasons for the offer and use of proceeds

Not applicable

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3D Risk factors

i Risks relating to our business

Interest rate risk

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

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

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

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

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

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

Credit risk

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

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, we typically bear the risk for investment performance (return of principal and interest). We are exposed to credit risk on our general account fixed income portfolio (bonds, mortgages and private placements), derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy or downturns in real estate values, operational failure and fraud. In the past, poor economic and investment climates in our major markets resulted in significant investment impairments on our investment assets due to defaults and overall declines in the securities markets. Although credit default rates were benign in 2005, a reversion to excessive defaults, or other reductions in the value of these securities and loans, may have a material adverse effect on our business, results of operations and financial condition.

Equity market risk

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

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

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

Underwriting risk

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

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

Currency exchange rate risk

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

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

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

For the Americas segment, which primarily conducts its business in US dollars, total revenues and net income in 2005 amounted to EUR 14.9 billion and EUR 1,617 million, respectively. For the United Kingdom segment, which primarily conducts its business in UK pounds, total revenues and net income in 2005 amounted to EUR 7.5 billion and EUR 144 million, respectively. On a consolidated basis, these two segments represented 74% of the total revenues and 64% of the net income for the year 2005. Additionally, we borrow in various currencies to hedge the currency exposure arising from our operations. On December 31, 2005 we have borrowed amounts in proportion to the currency mix of capital in units, which was denominated approximately 59% in US dollars, 25% in Euro, 12% in UK pounds and 4% in Canadian dollars.

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Liquidity risk

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

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

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

Risk related to general economic conditions

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

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

Other risks

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

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

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

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

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

Negative changes in credit ratings may also increase our cost of funding. During 2005, Standard and Poor s maintained the credit ratings of AEGON N.V. at A+ with a stable outlook. Moody s Investor Service maintained the senior debt rating of AEGON N.V. at A2, with a stable outlook. On January 30, 2006, Fitch Ratings assigned AA- (double A minus) ratings to AEGON NV s senior debt and A+ ratings to subordinated debt and perpetual securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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Competitive factors may adversely affect our market share.

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

AEGON USA ranked seventh in individual term life sales, fifth in individual universal life sales (source: Internal Research for the year ended December 31, 2005) and eleventh in variable life sales (source: Tillinghast-Towers Perrin Variable Life survey for year ended December 31, 2005). AEGON USA ranked fourth in sales of fixed annuities sold through banks, thirteenth in variable annuities sold through banks and sixth overall in annuity sales (source: Kenneth Kehrer report for the year ended December 31, 2005) and first in Synthetic Guaranteed Investment Contracts (source: reports of LIMRA International and Stable Value Investment Association, Stable Value and Funding Agreement Products, 2005 Third Quarter Sales, AEGON USA Institutional Markets Division Research). Our major insurance competitors in the United States include American International Group (AIG), Hartford, ING, Jefferson Pilot, Manulife, Metropolitan, Nationwide and Prudential.

In Canada, AEGON ranks fourth in overall life insurance sales (new business premiums), third in the universal life market, (source: LIMRA International Canadian Individual Life Insurance Sales, Year to Date Reports for the fourth quarter of 2005) and fourth in the segregated funding insurance market based upon net assets (source: Investor Economics Insight October 2005). AEGON s primary competitors in Canada are AIG, Canada Life, Empire Life, Equitable Life, Manulife, London Life, RBC Life, Standard Life, Industrial-Alliance and Sun Life. In the Netherlands, AEGON is the third largest life insurer based on gross life premium income (source: Regulatory Returns 2004). AEGON s major competitors in the Netherlands include Delta Lloyd, Fortis ASR, ING, and Interpolis. In the United Kingdom, AEGON faces strong competition in all its markets from three key sources: life and pension companies, investment management houses and independent financial adviser firms. AEGON s key competitors in the United Kingdom life and pension market include Aviva, AXA, Friends Provident, Legal and General, Prudential UK and Standard Life. AEGON s main competitors in the UK retail investment market are typically the investment management houses (e.g., Fidelity, Henderson, Merrill Lynch etc). The independent financial adviser market is fragmented, with a large number of relatively small firms. In Hungary, AEGON s major competitors include Allianz, Generali-Providencia, ING and OTP-Garancia. AEGON Spain s main competitors are Mapfre, Cidacaixa, BBVA Seguros, Adeslas, Sanitas and Asisa. In Taiwan, AEGON agency channel s major competitors are AIG, ING and Prudential UK. In the bank and broker channels, the major competitors are Allianz, China Life, Taiwan Life and Fubon Life.

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

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

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

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

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

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

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

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

In accordance with industry practices, AEGON reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 44% of AEGON s total direct and assumed (for which AEGON acts as a reinsurer for others) life insurance in force is ceded to other insurers. In the United States, Transamerica Reinsurance retrocedes a significant portion of the risk it assumes. The major reinsurers of AEGON USA are Munich American Reassurance Company, ING Group, US Branch Sunlife Assurance Company of Canada, Manulife Reinsurance Limited, and Metropolitan Group. AEGON Canada s major reinsurers are Munich Re and Swiss Re. The major reinsurers of AEGON UK include GE Frankona and Swiss Re. The major reinsurers for life insurance for AEGON The Netherlands is Swiss Re and for non-life insurance are Munich Re, Partners Re and Swiss Re. The major reinsurers of AEGON Hungary for non-life are Swiss Re and Hannover Re and for life insurance are Munich Re and RGA. AEGON Spain s major reinsurers are General Re, Revios, Muenchener, Nacional and Swiss Re. AEGON Taiwan s major reinsurers are Swiss Re, Hannover Re and the local Central Reinsurance Corporation.

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

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

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

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

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

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

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

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

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

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

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

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ii Risks relating to AEGON s common shares

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

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

- Investor perception of AEGON as a company;
- Actual or anticipated fluctuations in AEGON s revenues or operating results;
- Announcement of intended acquisitions, disposals or financings, speculation about such acquisitions, disposals or financings;
- Changes in AEGON s dividend policy, which could result from changes in AEGON s cash flow and capital position;
- Sales of blocks of AEGON s shares by significant shareholders, including Vereniging AEGON;
- A downgrade or rumored downgrade of AEGON s credit or financial strength ratings, including placement on credit watch;
- Potential litigation involving AEGON or the insurance industry in general;
- Changes in financial estimates and recommendations by securities research analysts;
- Fluctuations in capital markets including foreign exchange rates, interest rates and equity markets;
- The performance of other companies in the insurance sector;
- Regulatory developments in the Netherlands, the United States, Canada, the United Kingdom and Other Countries;
- International political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events and the uncertainty related to these developments;
- News or analyst reports related to markets or industries in which AEGON operates; and

General insurance market conditions.

The high and low prices of AEGON s common shares on Euronext Amsterdam were EUR 12.98 and EUR 8.24 respectively in 2004 and EUR 14.25 and EUR 9.63 respectively in 2005. The high and low sales prices of our common shares on the NYSE were USD 16.12 and USD 10.41 respectively in 2004 and USD 16.78 and USD 12.19 respectively in 2005. All share prices are closing prices.

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

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

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

Prior to September 2002, Vereniging AEGON, beneficially owned approximately 52% of the voting shares and thus held voting control over AEGON. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by AEGON). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, in case of an issuance of shares by AEGON, Vereniging AEGON may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below its actual percentage of the voting shares. The option granted to Vereniging AEGON permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in AEGON s authorized capital if necessary to prevent or correct such dilution. The class B preferred shares would then be issued at par value (euro 0.25), unless a higher price is agreed. In the years 2003/2004 16,900,000 class B preferred shares were issued under these option rights. In 2005, Vereniging AEGON exercised its option rights to purchase in aggregate 6,950,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances and treasury stock sales during the year.

In addition, we have implemented certain changes to our corporate governance structure and the relationship with Vereniging AEGON pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Consequently, under normal circumstances Vereniging AEGON s voting power, based on the current numbers of outstanding and voting shares, is reduced to approximately 22.44% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances at the sole discretion of Vereniging AEGON (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON s voting rights for a limited period of 6 months, will increase to a percentage that currently amounts to 32.0%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

- Adopting amendments to the Articles of Incorporation;

- Adopting the annual accounts;

- Approving a consolidation or liquidation;

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

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

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

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

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

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

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

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

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

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ITEM 4. INFORMATION ON THE COMPANY

Unresolved Staff Comments

Not applicable

4A History and development of the AEGON Group

i General

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

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

AEGON, through its member companies that are collectively referred to as the AEGON Group, is one of the world s leading listed life insurance organizations ranked by market capitalization and assets on December 31, 2005 (source:Bloomberg). AEGON is headquartered in the Netherlands and employs, through its subsidiaries, about 27,000 people worldwide. AEGON s common shares are listed on stock exchanges in Amsterdam (Euronext), New York (NYSE), Frankfurt, London, Tokyo, and Zurich (SWX).

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

AEGON s three major markets are the USA, the Netherlands, and the United Kingdom. In addition, the AEGON Group is present in a number of other countries, including Hungary, Canada, Spain, Taiwan, Poland, China and has smaller operations in other countries such as Slovakia and Czech Republic.

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

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

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

Our headquarters are located at:

AEGONplein 50

P.O. Box 202

2501 CE The Hague

The Netherlands

Telephone number: +31.70.344.3210

Internet site: www.aegon.com

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ii Strategic framework

Commitment to core business

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

Decentralized organization

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

Emphasis on profitability

AEGON aims to achieve a long-term average net income growth rate of 10% per annum. In its pricing of new business and acquisitions, AEGON sets a minimum return on investment targets 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 aims to achieve a leading position in its chosen markets in order to realize the benefits of scale.

International expansion

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

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iii Recent developments and capital expenditures and divestments

On March 24, 2005, AEGON received a license from the Ministry of Finance of the Czech Republic to start life insurance activities in that country. AEGON is entering the life insurance market of the Czech Republic with a green field operation and intends to offer a range of products and services. AEGON aims to open branches in the largest cities in the Czech Republic, and also plans to use the services of tied agents and independent brokers to sell and distribute its products.

On April 28, 2005, AEGON completed the sale of AEGON Seguros Generales, its general insurance subsidiary in Spain, to the Italian mutual insurance company Reale Mutua Group. This sale was originally announced on December 30, 2004.

On May 4, 2005, AEGON announced that it had completed the sale of its European trailer leasing business to Goldman Sachs and Cerberus Capital Management. The agreement and its details were announced on February 16, 2005.

On May 17, 2005, AEGON announced that AEGON-CNOOC Life Insurance Company Ltd., the 50/50 joint venture of AEGON N.V. with the Chinese National Offshore Oil Corporation (CNOOC), opened its Beijing branch. On September 7, 2005, AEGON-CNOOC Life Insurance Company Ltd. opened its Jiangsu branch in Nanjing. On July 21, 2005, AEGON-CNOOC Life Insurance Company Ltd. signed national cooperation agreements with the Industrial and Commercial Bank of China (ICBC) and the Bank of Communications (BoCom), two leading banks in the People s Republic of China. These agreements will give AEGON-CNOOC an opportunity to provide a broad range of life, accident and supplemental health insurance products to the customer bases of both ICBC and BoCom. These national agreements with ICBC and BoCom will support the company s geographic expansion across the People s Republic of China and strengthen AEGON-CNOOC s range of distribution channels which currently includes banks, agents, brokers and direct marketing.

On July 14, 2005, AEGON announced the completion of the sale of its German subsidiary, AEGON Lebensversicherungs-AG, which operates under the name MoneyMaxx, to Deutscher Ring.

On July 25, 2005, AEGON announced an agreement to establish a 50-50 life insurance joint venture with the Spanish savings bank Caja de Badajoz to sell life and accident insurance and pension products through the branch network of Caja de Badajoz. Caja de Badajoz will provide the joint venture exclusive access to its network of 200 branches. AEGON will contribute its insurance expertise. In addition, the joint venture will make use of the back office capabilities of AEGON s existing business in Spain. At the end of the fifth year of the joint venture, AEGON will pay Caja de Badajoz an amount based on 50 percent of the appraised value of the joint venture, which will be determined on the basis of achieved performance and according to a pre-agreed formula The agreement is subject to regulatory approval, and the transaction is expected to be completed in the first quarter of 2006.

On October 4, 2005, AEGON completed the acquisition of Nationwide Towarzystwo Ubezpieczen na Zycie S.A., a Polish subsidiary, from Nationwide Insurance Company. The company was renamed AEGON Towarzystwo Ubezpieczen na Zycie S.A. (AEGON Poland). AEGON Poland ranks number one in the Polish market for single premium unit-linked product (source: Annual Report of KNUiFE Insurance and Pension Funds Supervisory Commission, 2004), with a leading position in the upper-income segment. Based on gross written premiums, the company ranks fifth in the Polish life insurance market (source: Annual Report of KNUiFE Insurance and Pension Funds Supervisory Commission, 2004). AEGON Poland held PLN 968 million (EUR 237 million) in assets and generated gross premiums of PLN 641 million (EUR 157 million) at the end of 2004. The completion of this acquisition reflects AEGON s previously stated strategy of continuing to expand its business in Central and Eastern Europe.

On November 22, 2005, AEGON signed a partnership agreement with the Spanish savings bank Caja de Ahorros y Monte de Piedad de Navarra in which AEGON will acquire a 50% stake in Caja Navarra 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 and in February 2006 another 35% stake has been acquired. The acquisition is subject to approval by the Spanish and European regulatory authorities. AEGON will pay Caja Navarra a total initial consideration of EUR 60 million for the acquisition of 50% of the shares of Seguros Navarra. At the end of year five, Caja Navarra is entitled to receive a further payment, which will be based on the realization of a jointly agreed business plan and in accordance with a pre-agreed formula.

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4B Business overview

i Product line overview

Please refer to Item 18, Note 4 for descriptions of our major products.

ii Supervision

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

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

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The Americas

i General history

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

Total employment of AEGON USA on December 31, 2005 was 13,341, which includes 2,654 agents. Total employment of AEGON Canada was 674 on December 31, 2005.

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

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

AEGON USA

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

AEGON 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 have made the strategic decision to move away from primary health coverage a number of years ago to concentrate health operations in the supplemental coverage sector. Traditional life is AEGON USA s largest 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 more efficiently, to identify business synergies, to pursue cross-selling opportunities, and to improve operating efficiencies. Coordinated support services complement operations by providing expertise in systems technology, investment management, regulatory compliance, and various corporate functions. Products are offered and distributed through one or more of the AEGON USA licensed insurance or brokerage subsidiary companies. The divisions referenced below are part of those subsidiary companies.

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AEGON Canada

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

AEGON Canada s operations are divided into six business segments:

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

The primary operating companies of AEGON Canada are:

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

ii Products and distribution

AEGON USA

Agency Group

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

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

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

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

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Transamerica Insurance & Investment Group (TIIG), the marketing unit for Transamerica Occidental Life Insurance Company (TOLIC) and its affiliates, distributes term, fixed, and variable universal life insurance and fixed annuity products. In the United States, TIIG focuses on the upper-middle and affluent markets, in addition to a number of niche markets that include small to mid-sized businesses and various ethnic groups. TIIG also targets the upper-middle and affluent markets in the Pacific Rim, with particular emphasis on asset management and wealth transfer. TIIG has a branch in Hong Kong and, in 2005, TOLIC became the first outside insurer in 14 years to be granted a license to operate in Singapore as a direct insurer.

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

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

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

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

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

Direct Marketing Services Group

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

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

Financial Markets Group

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

Transamerica Capital Inc. (TCI) works in partnership with many of the largest banks, national and regional broker-dealers, and financial planners in the United States to market fixed and variable annuities, mutual funds, 401(k) plans, and life insurance products. The bank distribution channel is particularly important to FMG. Working closely with its partners, FMG seeks to customize products and support to help banks expand their relationship with their customers.

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

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

Institutional Products and Services Group

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

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

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

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

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

Over the past five years, Transamerica Reinsurance has initiated programs to expand and diversify geographically. Offices have been established in Taiwan, South Korea, Hong Kong, Japan, Mexico, Chile, and Brazil. Transamerica Reinsurance brings value internationally through customized solutions including coinsurance financing, product development and related quota share programs, and traditional life reinsurance.

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

Pension Group

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

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

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

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

AEGON Canada

Transamerica Life Canada (TLC) offers term and tax-sheltered universal life insurance, segregated funds, guaranteed interest accounts, and annuities. Money Concepts (Canada) Limited (MCC) is an independent Canadian financial planning company with an association of franchised planning centers that offer a diverse spectrum of planning products and services to investors. With 57 franchises across Canada, MCC is the only franchised financial planning company in Canada. MCC franchises and representatives benefit from AEGON Dealer Services Inc. (ADSCI), which provides advisors and distributors with mutual fund and segregated fund dealership capability. These services are also provided to TLC s and AEGON Fund Management Inc. (AFM) s advisors across Canada. AEGON Capital Management Inc. (ACM) was created in November 2001 from the spin off of the investment management division of TLC. ACM s mandate is to develop products and services for the institutional, high net-worth individual, pension, and retail markets. AFM is the mutual fund subsidiary of AEGON Canada, which offers the imaxx brand of mutual funds as well as core fund portfolios featuring select investment managers from around the world to Canadian investors seeking customized portfolio solutions.

Investment products

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

Life insurance products

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

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

Independently managed general agencies

TLC-owned and operated Profit Center Agencies

Bank-owned national broker-dealers

World Financial Group

Other national, regional and local niche broker-dealers

iii Asset liability management

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

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

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

iv Reinsurance ceded

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

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.

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v Competition

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

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

TIIG also has branches in Hong Kong and Singapore where the focus is on the upper-middle and affluent markets. However, in Southeast Asia, there are currently fewer carriers and, for the moment, less competition. TIIG believes this increases the opportunities for significant growth in this region.

AEGON USA markets variable universal life, mutual funds, and variable annuities to middle-income clients with equity investment objectives. Its main competitors in this market are Pacific Life, ManuLife, Met Life, and Prudential.

The current low interest rate environment coupled with a flattening of the yield curve makes the sale of a fixed annuity difficult to compete with a certificate of deposit. AEGON USA has built long-term relationships with many institutions, and these relationships have enabled AEGON USA to offer other product lines such as variable annuities, life insurance, mutual funds, and 401(k) products. Lower interest rates have resulted in lower withdrawal and surrender rates. Most fixed annuity sales occur at banks. The primary competitors for fixed annuity sales are AIG, Glenbrook, Jackson National, and Nationwide.

Variable annuity sales have declined due to the removal of the guaranteed minimum income benefit (GMIB) early in 2003. A new product was introduced in late 2004 with living benefit guarantees, which utilizes certain asset allocation portfolios and is the most recent effort to replace sales lost due to the discontinuance of the GMIB. Primary competitors in the variable annuity market are Hartford, Equitable/AXA, Met Life, AIG/Sun America, and Pacific Life.

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

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

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Funding agreement-backed, medium-term notes are marketed by AEGON in the United States and abroad. Monumental Life Insurance Company, the insurance company that issues funding agreements, is among the top ten issuers in this fast-growing segment (source: Standard & Poor s Funding Agreement Backed-Note Issuance totals USD 32.1 billion for 2005 , publication date January 12, 2006). AIG, Allstate, Jackson National, John Hancock, Metropolitan Life, Principal Financial, and Pacific Life also have leading positions.

AEGON USA holds a leadership position among issuers of floating rate funding agreements sold directly to money market funds (source: Edgar Pro/SEC, iMoneynet, IMD Market Research). Other leading competitors in this market are Genworth Financial, ING, Metropolitan Life, New York Life, and Travelers.

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

The life reinsurance market consolidation that took place within the top-tier of the US life reinsurance market in 2002-2004 subsided in 2005. Pricing in the market now reflects the costs of goods sold with tighter terms and conditions. There is adequate capacity to meet the needs of ceding clients, and new entrants have had limited influence on the market. Conditions continue to favor large, financially strong reinsurers such as Transamerica Reinsurance that can gain access to capital markets for reserve credit collateral and provide full-service solutions.

Some top term writers in the United States are evaluating risk concentration concerns and alternatives to traditional reinsurance such as retaining more of their mortality risks and accessing the capital markets through securitization. A few carriers with both the scale and expertise to undertake a securitization process are expected to pursue these alternatives. However, most term writers who are not in this position will continue to use reinsurance. As a result, the demand for term coinsurance, due to regulatory reserve requirements (Guidelines XXX and AXXX) is not expected to change significantly over the next year.

AEGON USA s major competitors vary based upon solutions and geographical markets. Its main competitors in the life reinsurance market in the United States are Reinsurance Group of America, Swiss Re, Munich American Re, and Scottish Re. Transamerica Reinsurance is among the top global life and annuity reinsurers (source: S & P, 2005 Life Insurance Conference) and was ranked fourth in total new US individual life reinsurance business assumed and in force at year-end 2004 (source: 2004 Munich American Re / SOA US individual life reinsurance report).

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

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

Canadian life insurance marketplace

The top ten companies in Canada accounted for 88% of the life insurance sales (source: LIMRA study Fourth Quarter 2005, issued February 2006). AEGON s primary competitors in Canada are; Manulife, Sun Life, Industrial-Alliance, London Life, RBC Life, Canada Life, American International Group (AIG), Empire Life, Standard Life, Empire Life, and Equitable.

AEGON Canada ranks 4th in overall life insurance sales (new business premiums) with a market share of 8.9% down from 9.8% in 2004. AEGON Canada ranks third in universal life sales representing 12.3% of the market and ranks fourth in term life sales representing 8.5% of the market (source: LIMRA study Fourth Quarter 2005, issued February 2006).

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vi Regulation

AEGON USA

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

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

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

U.S. federal and state privacy laws and regulations impose restrictions on financial institutions use and disclosure of customer information. Legislation is pending in the U.S. Congress and in the states from time to time that would either impose additional restrictions on the use and disclosure of customer information or would require financial institutions to enhance the security of personal information and impose new obligations in the event of data security breaches. These laws, regulations and legislation, if enacted, could impact AEGON s ability to market or underwrite its products or otherwise limit the nature or scope of AEGON s insurance and financial services operations in the United States.

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

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

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

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

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The financial services industry, which includes businesses engaged in issuing, administering, and selling variable insurance products, mutual funds, and other securities as well as broker-dealers, has come under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, selling practices, revenue sharing, market timing , late trading , and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. New rules and regulations governing such matters may be implemented in some jurisdictions in the coming months. In addition, certain industry practices in respect of market conduct have been the subject of recent investigations by various state regulators. AEGON USA subsidiaries, like other businesses in the financial services industry, have received inquiries, examinations, and requests for information from regulators and others relating to certain AEGON USA subsidiaries historical and current practices with respect to these and other matters. Some of those inquiries have led to formal investigations which remain open or have resulted in fines, corrective actions or restitution. AEGON USA subsidiaries continue to cooperate with these regulatory agencies.

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

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

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

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

Although the insurance business is regulated on the state level, the US federal tax preferences of life insurance products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax preferences, both in and of themselves and relative to other investment vehicles, are often debated in U.S. Congress. Moreover, recently enacted legislation imposes new restrictions on nonqualified deferred compensation plans and qualified defined benefit plans that are often funded in part by life insurance products. These provisions could adversely affect the sale of life insurance products and their attractiveness relative to other investment products.

Many other federal tax laws affect the business in a variety of ways. Legislative proposals to repeal or substantially reform or permanently repeal the estate tax are pending. In 2001, legislation was enacted that provides for several years of lower rates for and temporarily repeals (in 2011) the federal estate, gift, and generation skipping taxes. AEGON believes the permanent repeal of the federal estate tax would have an adverse impact on sales and surrenders of life insurance in connection with estate planning. Legislation is also pending that would provide for the elimination or a reduction in federal tax on certain savings vehicles. Legislation enacted in 2003 provides for reductions in federal income tax rates on long-term capital gains and qualifying corporate dividends through 2008. These proposals may adversely affect the attractiveness and sale of life insurance products, including annuities, relative to other savings products. The President s Tax Reform Panel recently released its report on tax reform. This report provides several savings proposals intended to replace existing products, including life insurance and annuity products. These savings options limit the amount of investment to be made on a tax deferred basis in any savings products and remove all tax preferences for life insurance and annuity products. Furthermore, the President s Tax Reform Panel also recommends simplification of employment based plans by eliminating the differences among plans and requiring all defined contribution plans to follow 401(k) rules. These proposals may cause some employers to abandon their plans. Finally, proposals to reform Social Security by adding personal accounts may impact the desirability of employment based defined contribution plans as savings vehicles. AEGON USA subsidiaries that administer and provide other services for defined contribution plans will be impacted by these proposals. Management cannot predict what other proposals may be made, what legislation, if any, may be introduced or enacted or what the effect of any such legislation might be.

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AEGON Canada

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

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

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The Netherlands

i General history

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

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

Total employment of AEGON The Netherlands on December 31, 2005 was 5,698, including 1,487 agents.

AEGON The Netherlands primary operational subsidiaries in the Netherlands are:

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON NabestaandenZorg N.V.

AEGON Spaarkas N.V.

AEGON Bank N.V.

Spaarbeleg Kas N.V.

AXENT/AEGON Sparen N.V.

Meeùs Groep B.V.

TKP Pensioen B.V.

Nedasco B.V.

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

As of January 1, 2004, AEGON The Netherlands implemented a new organizational structure with five service centers and three marketing and sales organizations. Prior to this reorganization, a business unit structure was in place. Now, the five service centers focusing on customer service and product administration are:

- Service center pensions;
- Service center life insurance;
- Service center non-life insurance;
- Service center banking;
- Service center asset management.

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

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

The SO s are:

- Corporate & Institutional Clients (C&IC); focusing on large companies, company pension funds, and industry pension funds
- Intermediary, which includes the Meeùs Group since the third quarter of 2005, focuses on retail, institutional clients and independent agents
- AEGON Spaarbeleg; which supports AEGON The Netherlands advisors as well as direct sales

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ii Products and distribution

AEGON The Netherlands offers five product lines:

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

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

Pension products

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

The main pension products are:

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

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

AEGON Garantie Pensioen and medium and small-sized enterprises growth pensions are also defined benefit products with single and recurring premiums. The initial contract period is ten years, with renewals for five-year periods. Profit-sharing is based on excess interest earned on the general account investment portfolio. Premium tariffs are fixed over the contract period and the longevity risk lies with AEGON The Netherlands. Minimum interest guarantees are given for nominal benefits, based on 3% actuarial interest (4% on policies sold before the end of 1999), after employee retirement.

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

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

Life insurance products

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

Fund plan and savings plan products. Fund plan and savings plan products are mainly endowment and savings type products, both single premium and recurring premiums with profit sharing based on the selected fund performance. A customer may choose from a wide variety of AEGON funds. AEGON The Netherlands has issued a guarantee of 3% for investments in the Mix Fund and the Fixed Income Fund (4% on policies sold before the end of 1999) at the maturity date if the policyholder has paid the premium for a consecutive period of at least ten years or on death of the insured.

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

Mortgage savings products. AEGON The Netherlands provides mortgage loans to customers for a period of twenty or thirty years. The loan is repaid in full or in part at the redemption date with the proceeds from a savings policy. If the insured dies within the policy contract period, the benefit payment is used to repay the mortgage loan. The interest paid on the loan is normally tax deductible, and the customer retains the full income tax benefit over the contract period so long as there is no early redemption. The interest paid on the mortgage loan usually equals the interest accumulated on the account balance under the savings policy. In case of surrender, the policyholder loses the tax benefit.

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

Spaarbeleg Kas N.V. and AEGON Spaarkas N.V. sell life products with both single and recurring premiums and profit-sharing based on a specific bonus system (tontine system). The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder s estate, but is distributed at the end of the year to the surviving policyholders of the specific series (a new series starts at the beginning of each calendar year) to which the deceased policyholder belonged. When the policyholder dies before maturity, AEGON The Netherlands pays a death benefit equal to the premiums paid accumulated at a 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term. In addition to the tontine products, Spaarbeleg Kas N.V. sells a number of tax-driven products, and the seller has provided better access to products and services in order to meet consumers requests with respect to pension issues.

Non-life products

Non-life insurance products are mainly sold by the sales organization Intermediary (including Meeùs). Non-life products consist primarily of Accident & Health, Property, and Casualty.

Over the past few years, the Dutch government has gradually withdrawn from the sick leave and workers disability market. In 2005, AEGON developed new disability products for the group employee benefits market to address the changing needs as a result of the new disability system in the Netherlands as outlined in the WIA law. In the Property and Casualty segment, AEGON s strategy is to seek value creation rather than volume.

Banking

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

Asset management

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

Other activities

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

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iii Asset liability management

Most liabilities of AEGON The Netherlands are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived for the fixed income portfolio, based on which scenarios and optimization analyses are conducted with respect to asset classes such as equities, fixed income and real estate, but also for various sub-classes such as private equity, hedge funds and credits. The result is an optimal asset allocation representing different equity risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk determine alternative strategic investment policies.

AEGON The Netherlands investment strategy is determined and monitored by the Risk and Capital Committee AEGON NL. Most of AEGON The Netherlands investments are managed in-house by AEGON Asset Management. For certain specialized investments, such as hedge funds and private equity, AEGON The Netherlands hires external managers.

Portfolio managers are allowed to deviate from the benchmark based on their short-term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio compared to the strategic portfolio.

Securitizations of mortgage portfolios are used to free funds for further business development.

iv Reinsurance ceded

Life

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

Non-life

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

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v Competition

AEGON The Netherlands operates in five markets: Pensions, Life, Non-Life, Banking services, and Asset management. AEGON faces strong competition in all of these markets from insurers, banks, and investment management companies. These competitors are nearly all part of international financial conglomerates.

AEGON The Netherlands has been a key player in the total life market for a long time and is currently ranked 3rd behind ING and the recently merged Achmea/Interpolis combination (source: Regulatory Returns 2004). The life insurance market, comprising both pensions and life insurance, is fairly consolidated. The top 7 companies account for 80% of premium income in The Netherlands (source: Regulatory Returns 2004).

The markets for other products sold by AEGON The Netherlands are more fragmented and AEGON s share and position in these areas is lower.

In recent years, several changes in regulations have limited opportunities in the Dutch life insurance market, especially in the Individual Life market (e.g. company savings plans and tax deductibility of premiums). Furthermore, the low economic growth and volatility of the financial markets have created client uncertainty and reluctance to commit to long-term contracts. These changed legal and market conditions have augmented competition. The result is low pricing, focus on service levels, and product innovation.

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

In the Non-Life segment, opportunities are expected to grow as the Dutch government gradually withdraws from this market.

vi Regulation

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

- Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets) or AFM; and
- De Nederlandsche Bank (the Dutch Central Bank) or DNB.

On October 30, 2004, the PVK (Pensioen- and Verzekeringskamer, the Pension and Insurance Supervisory Authority) merged with the DNB into a single authority for supervising the solvency of all financial institutions. This new institution is called DNB.

The allocation of responsibilities between the AFM and DNB is formalized in a covenant. The AFM is responsible for supervising corporate governance and marketing efforts to consumers (i.e.: the supervision of market conduct) and the DNB oversees the financial strength of the financial system and its institutions. Regulations pertaining to the supervision of financial institutions referred to as Wet Financieel Toezicht (Act on Supervision of the Financial System) were passed in 2005 and will take effect in 2007. The Wet Toezicht Beleggingsinstellingen (Act on Supervision of Investment bodies) has been introduced to further structure the rules of conduct regarding the marketing and sale of investments to both professional and individual investors.

Insurance companies

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

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

Insurance companies in the Netherlands are subject to the supervision of the DNB, pursuant to the Act on the Supervision of Insurance Companies 1993 mandate. Under this mandate, all life and non-life insurance companies that fall under the DNB s supervision must file audited regulatory reports before May 1 each year. These reports are primarily designed to enable the DNB to monitor the solvency of the insurance company involved. The reports include a consolidated balance sheet, a consolidated income statement, extensive actuarial information, and detailed information on investments.

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

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

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON NabestaandenZorg N.V.

AEGON Spaarkas N.V.

Spaarbeleg Kas N.V.

AXENT/AEGON Sparen N.V.

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

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

Credit institutions

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

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United Kingdom

i General history

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

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

Total employment on December 31, 2005, was 4,539 which includes 161 agent-employees.

The primary operating subsidiaries of AEGON UK are:

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

AEGON UK operates four distinct businesses:

- ***AEGON Individual***. all operations relating to the individual investment, protection, and pension markets in the UK. This business primarily operates under the Scottish Equitable brand name.
- ***AEGON Corporate***. all manufacturing and scheme administration operations relating to the corporate pension and employee benefits markets in the United Kingdom
- ***AEGON Asset Management.*** investment management operations
- ***AEGON UK Distribution.*** intermediary distribution businesses

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

ii Products and distribution

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

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

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

Pensions

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

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Changes to many aspects of UK pension legislation and taxation continue to impact the industry. The most significant change relates to the introduction of a simpler and unified tax regime, which will apply to all types of pension arrangements. This will be implemented in April 2006 and will impact all UK pension providers. Reviews of product ranges and supporting infrastructure are underway to ensure that AEGON UK capitalizes on the opportunities presented by these changes.

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

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

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

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

UK and offshore bonds

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

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

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

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

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

Individual protection

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

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

Group risk contracts

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

Mutual funds

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

Advice

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

There are an estimated 60,000 active registered financial advisors in the United Kingdom, many of whom are grouped into networks of advisors that act as large national distributors. This estimate includes financial advisors operating in the Multi-tied, Single-tied, Whole of Market, and Independent channels, reflecting different levels of restriction on the number of providers products that can be sold or advised on. AEGON UK has strong relationships with financial advisors across the market, but is particularly involved with the networks and with large local firms.

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

In 2002 and 2003, AEGON UK acquired six independent financial advisors in the UK. Five of these businesses were merged in 2004 to form a new company called Origen, which became fully operational on March 1, 2005. Origen delivers advice relating to the financial needs of both individual and corporate customers. Origen uses a range of distribution methods, primarily face-to-face contact but also media and worksite marketing, and distribution agreements with closed book life offices. The sixth acquired firm, Positive Solutions, provides management services to self-employed IFAs that use sophisticated technology platforms.

iii Asset liability management

Asset Liability Management (ALM) is overseen by an AEGON UK ALM Committee, which is in place to monitor regulatory capital requirements and ensure close matching of assets and liabilities. The AEGON UK ALM Committee meets monthly to agree on any changes required for close matching.

For its with-profit business, AEGON UK s general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses prevents perfect matching, and the role of the committee then is to monitor on a monthly basis the solvency and capital implications of any mismatching. On an annual basis, detailed reports are produced for the AEGON UK Board and the relevant subsidiary Boards covering the impact of a range of investment scenarios on the solvency of each of the funds. These reports allow a central investment strategy to be agreed and established for the with-profit funds.

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

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

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iv Reinsurance ceded

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

v Competition

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

The life and pension market has been concentrated over the past few years amongst the largest companies and those perceived to be financially strong. Consolidation has been a much less significant factor for product providers in recent years, although significant consolidation continues amongst financial advisors.

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

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

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

vi Regulation

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

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

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

The Scottish Equitable International business includes four corporations: a Dublin-based life insurance company, Scottish Equitable International (Dublin) plc (authorized by the Irish Financial Services Regulatory Authority and regulated by the FSA for conduct of UK business); a Dublin-based service company, Scottish Equitable International Services plc; a Luxembourg-based life insurance company (Scottish Equitable International SA société anonyme); and a Luxembourg-based mutual fund management company, Scottish Equitable Advisers (Luxembourg) SA (in liquidation) société anonyme. These companies are regulated by their respective local authorities.

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Hungary

i General history

AEGON Hungary Composite Insurance Company Limited by Shares (AEGON Hungary) has been a member of the AEGON Group since 1992. The legal predecessor of the company was the state-owned ÁB, which was incorporated in the 1940 s. It operates in Hungary and has its head office in Budapest. AEGON Hungary s main operations are life insurance, general insurance, pensions, and asset management.

AEGON Hungary has three subsidiaries:

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

AEGON Hungary operations are organized by sales channels and functional areas.

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

On December 31, 2005, AEGON Hungary employed a staff of 818 employees.

ii Products and distribution

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

Pension insurance

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

Traditional general account products

These products consist of individual life policies that were issued before AEGON Hungary became part of the AEGON Group. The premium income and the profit margin from these policies are very low. Traditional general account products also include indexed life products that are not unit-linked but have guaranteed interest. AEGON Hungary no longer offers these products.

Unit-linked products

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

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Group life products

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

Asset management

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

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

Distribution channels

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

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

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

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

iii Asset liability management

AEGON Hungary has centralized and outsourced its investment activity to AEGON Hungary Investment Fund Management Company, which manages the general account portfolio and the unit-linked portfolio, as well as the portfolio of six mutual funds and the assets of pension funds.

The majority of AEGON Hungary s investment portfolio consists of government and mortgage bonds. Shares are only a small part of the portfolio. AEGON Hungary s asset liability management model is based on duration management.

iv Reinsurance ceded

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

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v Competition

The Hungarian insurance industry is very concentrated with six major companies comprising 80 % of the market. In 2004, AEGON Hungary was positioned as fourth, based on premium income in the insurance market (source: Annual Report of Hungarian Insurance Association 2005). However, premium share concentration in the market is slowly decreasing as there are currently 28 insurance companies active in Hungary.

vi Regulation

The Hungarian Insurance Act (LX. 2003.) regulates the foundation, operation, and reporting obligations of insurance companies. This act complies with EU regulations. Since 1995, insurance companies can be licensed only for separate businesses; that is, a company can conduct either life insurance or non-life insurance business but not both together. However, insurance companies established before 1995, including AEGON Hungary, are exempted from this rule.

The main supervisory institution is the Hungarian Financial Supervisory Authority (HFSA), which has a department that deals with the insurance sector. The HFSA promotes the protection of clients rights and has the right to investigate prudential activities and conduct, financial position and solvency, and compliance with laws.

In addition to legal regulation, insurance companies are subject to a self-regulatory body called the Hungarian Insurance Association. It is the main forum for discussion amongst insurance companies. Its specialized departments (e.g., actuarial, financial, and legal departments) meet periodically. The Hungarian Insurance Association also engages in lobbying activities.

As one of the largest institutional investors in Hungary, the investment operations of AEGON Hungary are also regulated by the Capital Markets Act. This Act regulates the activity of brokerage houses investment funds, fund managers, custodians, stock exchanges, settlement houses and the HFSA. Its main goal is to ensure the transparent operation of the capital markets, to develop the regulation of market participants, and to increase the safety of investments. The Act is harmonized with EU regulations.

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Slovakia

i General history

There are two AEGON operating units in Slovakia:

AEGON life insurance

The life insurance operations were started on September 2, 2003 as a branch office of AEGON Levensverzekering N.V. At the end of October, 2004, AEGON Life Insurance Slovakia started its own operations. The branch office is in the process of being converted into a local company.

AEGON pension asset management

The pension asset management company is a second pillar mandatory pension fund in Slovakia, which received a license to do business on October 1, 2004. The mandatory pension fund market opened on January 1, 2005.

ii Products and distribution

AEGON Life Insurance Slovakia offers the following products:

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

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

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

iii Asset liability management

Asset management for the Life Insurance and the Pension Asset Management Company is done in cooperation with and supervision by AEGON Hungary Investment Fund Management Company, an affiliated company.

The investment portfolio backing the technical life reserves of the life insurance company consists mainly of government bonds for the universal life products and mutual funds for the unit-linked products.

Based on government regulation and policyholder decision, the Pension Asset Management Company s assets are divided between three funds. The investments of the funds are currently placed in deposits due to their limited volumes.

iv Reinsurance ceded

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

v Competition

The financial industry in the Slovakia is represented by 20 banks including foreign branches, 29 insurance companies including foreign branches and the Slovak insurance agency, 3 building savings societies, 10 asset management companies, 8 pension asset management companies, and 25 leasing companies.

21 insurance companies are active in the life insurance sector, of which only three are pure life insurance companies. In the pension industry, 8 pension asset management companies exist. Pension reform in Slovakia started in January 2005. According to the Financial Market Authority s 2005 semi-annual report, the total assets under management in the second pillar pension asset management market were SKK 1,645 billion.

vi Regulation

The Slovak insurance market is ruled by Insurance Act 95/2002, which was enacted in 2002 and complies with EU regulations and respective notices. The pension market is ruled by the Act 43/2004 on Pension asset management companies and respective notices. The supervisory authority in Slovakia is the Financial Market Authority, which inspects all financial institutions except banks. The local branch office of AEGON Levensverzekering N.V. in Slovakia falls under the supervision of the DNB (the Dutch regulator).

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Czech Republic

i General history

AEGON started insurance operations in the Czech Republic with a locally founded company when it received a license from the Ministry of Finance in April 2005.

ii Products and distribution

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

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

In addition AEGON Czech Republic offered the following five riders:

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

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

iii Asset liability management

The AEGON Czech Republic s investments can be divided into three groups: investments covering unit-linked provisions, that are put into nine mutual funds, investments covering provisions of traditional products, and investments of free capital consisting of state bonds and forward transactions.

The portfolio of assets is managed by KB Asset Management (Member of the KBC group).

iv Reinsurance ceded

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

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v Competition

More than one third of the Czech market is held by the formerly state owned insurance company. AEGON Czech Republic, as a start-up company, is a small player in the market.

vi Regulation

The main law that regulates the Czech insurance market is the Insurance Act, which was amended by Act No. 39/2004. This amendment harmonized the Czech insurance law with European insurance legislation. The Czech Ministry of Finance supervises the insurance industry.

Poland

i General history

AEGON Poland has been a member of the AEGON Group since October 4, 2005. The company was incorporated on December 24, 1999. AEGON Poland is a joint stock company. It operates in Poland and is headquartered in Warsaw. AEGON Poland operates in the life insurance business.

AEGON Poland operations are organized by sales channels and functional areas. On December 31, 2005, AEGON Poland employed a staff of 90 employees.

ii Products and distribution

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

Unit-linked products

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

Distribution channels

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

iii Asset liability management

Poland s risk management is based on the company s investment policy, which allows investment in only the highest graded securities. The investment committee is responsible for portfolio assessment, Guaranteed Fund rates, investment strategy, and fund selection and assessment.

AEGON Poland manages only one internal fund, the Guaranteed Fund. The rate for this fund is reset quarterly with a minimum annual floor higher then zero. The majority of AEGON Poland s investment portfolio consists of government bonds, corporate bonds, and bank deposits. AEGON Poland also keeps a small number of external mutual fund units for current buy and sell operations.

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iv Reinsurance ceded

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

v Competition

The Polish life insurance industry is very concentrated, with four major companies comprising 72% of the market, based on premium income (source: KNUiFE Insurance and Pension Funds Supervisory Commission). However, premium share concentration in the market is slowly decreasing due to the increasing growth of companies out of the first four ranks. Currently AEGON Poland is positioned fifth, based on premium income in 2004 (source: KNUiFE).

vi Regulation

The foundation, operation, and reporting requirements of insurance companies in Poland are regulated by the Insurance Activity Act of May 22, 2003. This act complies with EU regulations. Since 1990, insurance companies can be licensed only for separate businesses; that is, a company can conduct either life insurance or non-life insurance businesses but cannot operate both together. In Addition only two legal forms are possible: joint stock company and mutual company.

The main Polish supervisory institution is the Insurance and Pension Funds Supervisory Commission or KNUiFE, which has a department that deals with the insurance sector. It can investigate insurance companies activities and relationships.

In addition to legal regulation, insurance companies have a self-governing obligatory body called the Polish Chamber of Insurance or PIU. It is the main forum for discussion amongst insurance companies. Its specialized commissions, including life, non-life, financial, and legal, meet periodically. The Polish Chamber of Insurance also engages in lobbying activities.

As one of the joint stock institutional investors in Poland, the investment operations of AEGON Poland are also regulated by the Commercial Code. The Commercial Code affects all commercial activities.

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Spain

i General history

In 2005, AEGON operated in Spain through two insurance companies: AEGON Seguros Salud and AEGON Seguros de Vida, subsidiaries of a holding company, AEGON España S.A.. Administrative and operational services to all companies in Spain, including joint ventures with third parties, are provided by a separate legal entity: AEGON Administración y Servicios A.I.E..

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

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

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

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

In November 2005, AEGON Spain signed a strategic partnership agreement with Spanish savings bank Caja de Ahorros de Navarra (CN), whereby 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 and in the first quarter of 2006 another 35% stake has been acquired.

On December 31, 2005, AEGON Spain employed a staff of 228 employees.

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

ii Products and distribution

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

AEGON Spain focuses on the individual consumer segment. AEGON Spain s principal lines of business are traditional life and unit-linked insurance products. These products are distributed exclusively through the agency channel, using a network of agents and brokers.

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

iii Asset liability management

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

iv Reinsurance ceded

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

v Competition

Competition in Spain is significant. Among AEGON Spain s major competitors are the bank-owned insurance companies for life and pension products, and foreign and local companies for health insurance products.

vi Regulation

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

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

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Taiwan

i General history

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

Total employment of AEGON Taiwan on December 31, 2005 was 967 employees, including 612 tied agents.

ii Products and distribution

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

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

iii Asset liability management

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

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iv Reinsurance ceded

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

v Competition

Taiwan s life insurance market ranks number 9 in the world (source: SwissRe Sigma Report No 2/2005). However, the life insurance industry in Taiwan has been growing significantly in recent years.

Between 1997 and 2004, life insurance premium income in Taiwan grew at an annual growth rate of 17.5% based on statistics released by the Life Insurance Association of the Republic of China. At the end of 2004, there were 29 life insurance companies in Taiwan, 14 of which were domestic companies and 15 of which were foreign company subsidiaries or branches of foreign companies. In 2004, insurance premium totaled NTD 1,309 billion (approximately EUR 31 billion), with the top five companies accounting for around 65%.

The Taiwanese bancassurance channel is forecasted to develop very rapidly with the introduction of new regulations to facilitate the formation of financial holding companies, which allow banks to broaden their activities to include insurance. Among all the foreign companies, AEGON ranked sixth in terms of new business premium production for the full year of 2004 (source: Life Insurance Association of the Republic Of China).

vi Regulation

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

China

i General history

AEGON-CNOOC Insurance Co., Ltd. (AEGON-CNOOC) is a 50/50 joint venture established in Shanghai, People s Republic of China by China National Offshore Oil Corporation and AEGON. After a twelve-month preparatory period, AEGON-CNOOC commenced its operations in Shanghai in May 2003. AEGON-CNOOC is licensed to sell both traditional life insurance products as well as accident and health products in mainland China. The total employment of AEGON-CNOOC on October 31, 2005 was 1,023 including 629 agents.

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

ii Products and distribution

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

The agency channel portfolio consists primarily of universal life and traditional life products including level whole life; coupon whole-life, endowment life, and term life, as well as short-term accident and long-term health products. The most important product for the bancassurance channel is a single premium short-term universal life product. AEGON-CNOOC is also planning to gradually sell more regular premium products through the bancassurance channel. The major product for the telemarketing channel is a yearly-renewable personal accident product. The primary products sold through the brokerage channel are universal life and traditional life products as well as short-term accident and long-term health products.

iii Asset liability management

Being a newly established company, the asset liability management of AEGON-CNOOC is in its early stages. Considering that most insurance liability is derived from 5-year single-premium products, AEGON-CNOOC purchased corporate bond, government bond, and statutory deposits to match this liability while operating funds are invested in the short-term bond, money-market fund, and bond repurchase markets to achieve higher investment returns.

iv Reinsurance ceded

According to the regulations of the China Insurance Regulatory Commission (CIRC), AEGON-CNOOC cedes a quota share of accident and health business to the China Reinsurance Company. The quota share for the business written in 2003 is 15%, 10% for the business written in 2004, and 5% for the business written in 2005.

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

v Competition

China s life insurance sector registered double-digit revenue growth for several consecutive years prior to 2004. After the slowdown in 2004 (as the main life insurance companies gradually shift their emphasis from business scale towards profitability), premium income started to recover in 2005. With the release of restrictions on foreign insurance companies, an increasing number of foreign insurance companies are entering the Chinese market. At the end of 2005, 22 foreign life insurance companies had operations in China. By October 2005, almost all major domestic insurers had set up branches in all major cities in China. Meanwhile, the competition among life insurance companies has been intensifying. This is especially true in cities that have opened to foreign life insurers in the past few years.

vi Regulation

Life insurance joint ventures have been allowed to operate nationally and to enter the group insurance market since December 2004. Previously, a joint venture had to obtain a separate license for each city in which it was operating. Furthermore, the capital requirement for branch expansion has also been eased with the issuance of a new regulation by the CIRC in June 2004. Insurance companies with a minimum registered capital at the level of CNY 200 million (approximately EUR 18 million) are required to inject additional capital of at least CNY 20 million (approximately EUR 2 million) if they are opening a new branch office elsewhere in the country. There was no other new law or regulation issued in 2005 that pertains to the administration of insurance companies. However, the insurance regulator, CIRC, issued orders and notices regulating the marketing and sales activities of insurance companies, notably in areas relating to innovative insurance products. These orders, together with other CIRC efforts, better regulate the Chinese insurance industry and lessen uncertainty regarding pertinent regulations.

In 2005, life insurance company investment restrictions were lightened. Insurance companies are now permitted to hold Corporate Bond investment up to 30% of their total assets, compared to 20% previously. 5% of the assets can be invested in one individual corporate bond as compared to that of 3% before the revision of the regulation. In addition, on September 11, 2005 CIRC enacted detailed execution rules for The Provisional Statute on Insurance Companies Overseas Investment , which was promulgated in 2004. This policy allows insurance institutions with asset bases exceeding CNY 5 billion to invest in overseas fixed income assets or equities.

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4C Organizational structure

AEGON N.V. is a holding company that operates through its subsidiaries. For a list of names and locations of the most important group companies, see Note 53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

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

4D Description of property

In the United States, AEGON owns many of the buildings that the company uses in the normal course of its business, primarily as offices. AEGON owns 17 offices located throughout the United States with a total square footage of 2.3 million. AEGON also leases office space for various offices located throughout the United States under long-term leases with a total square footage of 1.7 million. AEGON s principal offices are located in Baltimore, Maryland; Cedar Rapids, Iowa; Louisville, Kentucky; Los Angeles, California; Frazer, Pennsylvania; St Petersburg, Florida; Plano, Texas; Kansas City, Missouri; Purchase, New York; and Charlotte, North Carolina.

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

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Introduction

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

As of January 1, 2005, all exchange-listed companies in the European Union are required to prepare their financial statements in conformity with International Financial Reporting Standards. Therefore, AEGON has converted from Dutch Accounting Principles (DAP) as its primary accounting framework to International Financial Reporting Standards as adopted by the European Union (IFRS) as of that date.

The information contained in this report is prepared and presented in accordance with SEC release 33-8567 First Time Adoption of International Reporting Standards . The SEC has provided a one-time accommodation permitting foreign private issuers for their first year of reporting under IFRS to file two years rather than three years of statements of income, changes in shareholder s equity and cash flows in accordance with IFRS, with appropriate related disclosure. The 2005 annual financial statements, including 2004 comparative numbers, have been prepared on an IFRS basis as adopted by the European Union. The balance sheet at January 1, 2004, the IFRS Opening Balance Sheet , has been the starting point for AEGON to apply IFRS. The difference between assets and liabilities valued on a DAP basis and assets and liabilities valued on an IFRS basis is reflected as an adjustment in shareholders equity in the Opening Balance Sheet. See Note 18.56 of the notes to the consolidated financial statements of AEGON in Item 18 for a reconciliation from a DAP to an IFRS basis for shareholders equity, as of January 1, 2004 and December 31, 2004, as well as net income for the year 2004.

The key impacts for AEGON are summarized below. It is important to understand that the impact on external reporting does not change the fundamental economic realities of AEGON s business or the way AEGON manages the business.

The conversion from DAP to IFRS especially affected the following items:

Investments, realized gains and losses on debt securities, bond default reserve

Under DAP, all debt securities were valued at amortized cost. Under IFRS, most debt securities, including bonds and certain loan portfolios, have been valued at fair value. Since the fair value of these debt securities exceeded the amortized costs, AEGON has reflected a credit in shareholders equity in the Opening Balance Sheet.

The classification of these securities under IFRS as either available-for-sale (AFS) or at fair value through profit and loss determined how unrealized movements in fair value from period to period have been recognized - either directly in shareholders equity or in the income statement.

Changes in fair value of these securities has created a level of volatility in AEGON s shareholders equity which management believes does not reflect the underlying economics of the business. To mitigate this volatility, which is purely accounting driven, if there is a direct link between the measurement of the invested assets and the measurement of the insurance liabilities or related deferred policy acquisition costs (DPAC) and value of business acquired (VOBA) assets, AEGON has adjusted shareholders equity to the same extent it would be adjusted if these unrealized movements in fair value had actually been realized. This adjustment is generally referred to as shadow accounting .

The default provision that existed under DAP for debt securities has been credited to shareholders equity in the Opening Balance Sheet.

Under DAP, interest related gains and losses on debt securities were deferred and released into earnings over the estimated average remaining term to maturity. Under IFRS, gains and losses have been recognized in the income statement when realized. The deferred gains that existed in the DAP balance sheet have been released to shareholders equity in the Opening Balance Sheet.

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Technical reserves, deferred policy acquisition costs, value of business acquired

The classification of products that AEGON sells determines the accounting treatment of technical reserves, DPAC and VOBA under IFRS. AEGON s products are either classified as insurance contracts , investment contracts with discretionary participation features or investment contracts without discretionary participation features .

For all products classified as insurance contracts or investment contracts with discretionary participation features , AEGON continues to apply those accounting principles that were applied by the Group prior to the transition to IFRS.

IFRS allows products classified as investment contracts without discretionary participation features to be valued at either fair value or at amortized cost. This choice affects the valuation of deferred expenses under IFRS. AEGON has valued certain portfolios at fair value and others at amortized cost. The deferred transaction costs for products classified as investment contracts without discretionary participation features have been reduced in the Opening Balance Sheet and the amount of transaction costs that can be deferred in the future under IFRS will be lower. Under IFRS, only certain costs directly related to the rendering of investment management services can be deferred.

For certain products, DPAC and VOBA balances are amortized based on expected gross profits under both DAP and IFRS. Due to the removal of the deferred interest-related gains and other changes to the underlying basis of the assets under IFRS, expected gross profits under IFRS will change when compared to DAP and consequently the DPAC and VOBA balances were reduced.

Liability valuation changes are mainly caused by the application of shadow accounting, the valuation of embedded derivatives, the recognition of losses from liability adequacy testing and the valuation of a specific liability at fair value.

Shadow accounting is applied when there is a direct relationship between the measurement of the invested assets and the measurement of the insurance liabilities or related DPAC and VOBA. When unrealized gains or losses arise on available-for-sale financial assets, insurance liabilities and related assets are adjusted to the same extent that they would be adjusted if those unrealized gains or losses had been realized.

Some of the products in AEGON USA contain embedded derivatives related to ceded reinsurance under IFRS. These embedded derivatives have to be separated from the host contracts and valued on a stand-alone basis at fair value in the financial statements. The same applies for certain guarantees within the variable annuity business (segregated funds) in AEGON Canada and Fundplans In AEGON the Netherlands.

For some products, primarily the life contingent block of payout annuities, losses were recognized from liability adequacy testing. For DAP, no such adjustment was necessary, because there were excess margins primarily from the amortization of deferred interest-related gains on the DAP balance sheet.

Further changes in liability valuation are caused by a specific product that provides customers with a pass-through of total investment returns, subject to a cumulative minimum guarantee. This product contains an embedded derivative that cannot be separated from the host contract and valued on a stand-alone basis at fair value and, as a result, the entire contract is valued at fair value. The investments backing this product have also been classified as financial assets at fair value through profit or loss. The changes in the fair value of the liabilities and the assets backing the product should generally offset each other. However, changes in the asset values are not always offset with changes in the liabilities during a rising interest rate environment, due to the minimum contractual guarantees.

Defined benefit plans

For defined benefit plans that are in place for AEGON s own employees, IFRS allows the use of the so-called fresh-start approach for the Opening Balance Sheet. Under the fresh-start approach, all cumulative actuarial gains and losses, both realized and unrealized, are effectively recognized in retained earnings on the Opening Balance Sheet, leaving no unrecognized actuarial gains and losses. AEGON elected to make use of this approach and, as a result, additional liabilities for AEGON The Netherlands and AEGON UK were set up and assets relating to AEGON Americas that existed in the DAP balance sheet were charged to shareholders equity in the Opening Balance Sheet.

Deferred tax

DAP required the presentation of deferred tax on a discounted basis. Under IFRS this is no longer allowed and, as a result, the deferred tax balance has been increased in the Opening Balance Sheet, with a corresponding charge to shareholders equity.

Derivatives

Under IFRS, all derivatives have to be valued at fair value, with changes in fair value recognized through profit or loss, unless strict hedge accounting criteria are met and hedge accounting is applied.

Perpetual capital securities

AEGON s perpetual capital securities are classified as equity instruments under IFRS, as opposed to debt instruments under DAP. As a consequence, the coupons paid on these perpetuals have been reflected as a direct charge to equity under IFRS, whereas for DAP it was a charge in the income statement.

Result on sale of Transamerica Finance Corporation businesses

Under IFRS, the gain on the sale of Transamerica Finance Corporation (TFC) businesses in 2004, which was credited to shareholders equity under DAP, has been reflected in the income statement in 2004.

Goodwill

Under DAP, goodwill was not capitalized, but charged directly to equity at the time of acquisition. Under IFRS, goodwill is capitalized as an asset. IFRS allows the prospective application of the standard applicable to business combinations to acquisitions after January 1, 2004. As a result, goodwill written off to equity before this date will not be reinstated on transition to IFRS. The adjustment from DAP equity relates to goodwill from acquisitions during 2004.

Minority shareholders interest

Minority shareholders interest relates to entities that are consolidated under IFRS, but that were not consolidated under DAP, and in which AEGON owns less than a 100% interest.

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Application of Critical Accounting Policies International Financial Reporting Standards

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

i Valuation of assets and liabilities arising from life insurance contracts

General

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

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 and measured in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

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

Actuarial assumptions

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

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

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

considering the net effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

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

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

Reserve for guaranteed minimum benefits

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

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

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

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

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

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The following table provides information on the liabilities for guarantees for minimum benefits that are valued separately from the host contract as bifurcated embedded derivatives:

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

In million EUR, December 31	2005 United States [1]	2005 Canada [1]	2005 The Netherlands [2]	2005 Total	2004 United States [1]	2004 Canada [1]	2004 The Netherlands [2]	2004 Total
Account value	1,465	3,651	5,510	10,626	307	2,951	5,300	8,558
Net amount at risk	1	831	18	850	10	850	173	1,033

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

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

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

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

1 Guaranteed minimum death benefit in the United States
2 Guaranteed minimum income benefit in the United States
3 Guaranteed minimum accumulation benefit in the Netherlands

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

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

The movement in DPAC over 2005 can be summarized and compared to 2004 as follows:

	2005	2004
At January 1	8,499	8,117
Costs deferred/rebates granted during the year	1,919	1,717
Amortization through income statement	(936)	(1,137)
Shadow accounting adjustments	413	137
Disposals	(44)	
Net exchange differences	930	(359)
Other	8	24
At December 31	10,789	8,499

Note: includes EUR 735 million related to non-life products at December 31, 2005

The movement in VOBA over 2005 can be summarized and compared to 2004 as follows:

	2005	2004
At January 1	3,950	4,614
Additions	4	13
Acquisitions through business combination	88	
Amortization / depreciation through income statement	(308)	(393)
Shadow accounting adjustments	187	6
Impairment losses	(1)	(95)
Other movements	(11)	(10)
Net exchange differences	487	(185)
At December 31	4,396	3,950

Note: includes EUR 218 million related to non-life products

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VOBA, DPAC per line of business

DPAC per line of business	2005	2004
Traditional life	3,699	2,688
Life for account of policyholders	4,257	3,941
Fixed annuities	443	
Variable annuities	970	865
Reinsurance	685	404
Accident and health insurance	734	600
General insurance	1	1
	10,789	8,499

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

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ii Fair value of investment contracts

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

iii Fair value of investments and derivatives determined using valuation techniques

Financial instruments

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

Financial derivatives

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

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

Derivatives embedded in insurance and investment contracts

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

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

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

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iv Impairment of financial assets

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

Debt instruments

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

The amortized cost and fair value of bonds, money market investments and Other are as follows as of December 31, 2005 included in our available-for-sale (AFS) and held to maturity portfolios:

	(Amortized) cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
United States government	3,374	60	(41)	3,393	1,289	2,104
Dutch government	2,227	133		2,360	2,360	
Other government	11,758	972	(9)	12,721	11,957	764
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	60,420	2,613	(557)	62,476	41,613	20,863
Money market investments	3,151			3,151	3,151	
Other	668	83	(43)	708	513	195
Total	102,803	4,049	(901)	105,951	70,865	35,086
Of which held by AEGON USA	79,518	2,559	(863)	81,215	48,277	32,938

Unrealized Bond Losses by Sector

The composition by industry categories of bonds and money market investments that are included in our available-for-sale and held to maturity portfolios in an unrealized loss position held by AEGON at December 31, 2005 is presented in the table below.

Unrealized losses bonds and money market investments

In million EUR	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005	Carrying value of instruments with unrealized losses 2004	Gross unrealized losses 2004
Asset Backed Securities (ABSs) Aircraft	113	(25)	177	(89)
ABSs CBOs	242	(23)	280	(39)
ABSs Housing related	1,658	(32)	886	(17)
ABSs Credit cards	1,229	(19)	541	(5)
ABSs Other	1,545	(31)	1,029	(18)
Collateralized mortgage backed securities	5,914	(105)	1,833	(29)
Financial	7,463	(159)	3,500	(75)
Industrial	11,211	(354)	4,595	(164)
Utility	2,495	(57)	1,046	(30)
Sovereign exposure	3,021	(52)	3,654	(45)
Total	34,891	(857)	17,539	(511)
Of which held by AEGON USA	32,749	(821)	15,543	(469)

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

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The composition by industry categories of bonds and money market investments unrealized loss position held by AEGON USA at December 31, 2005 is presented in the table below. The following unrealized loss consists of 1,219 issuers.

Unrealized losses bonds and money market investments (in USD)

In million USD	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005	Carrying value of instruments with unrealized losses 2004	Gross unrealized losses 2004
Asset Backed Securities (ABSs) Aircraft	133	(30)	241	(121)
ABSs CBOs	283	(27)	381	(53)
ABSs Housing related	1,940	(38)	1,195	(23)
ABSs Credit cards	1,421	(22)	734	(7)
ABSs Other	1,811	(36)	1,391	(25)
Collateralized mortgage backed securities	6,901	(122)	2,489	(40)
Financial	7,846	(171)	4,353	(89)
Industrial	12,636	(403)	5,753	(210)
Utility	2,812	(64)	1,289	(30)
Sovereign exposure	2,850	(55)	3,345	(41)
Total	38,633	(968)	21,171	(639)

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

As of December 31, 2005, there are USD 2.921 billion of gross unrealized gains and USD 968 million of gross unrealized losses in the AFS Bonds portfolio. No one issuer represents more than 3% of the total unrealized position. The largest single issuer unrealized loss is USD 24.3 million and relates to a securitized portfolio of commercial mortgage backed securities that contains fixed income positions of investment grade quality.

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

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Asset Backed Securities

ABS Pooled Aircraft Leases

Asset Backed Securities-aircraft are primarily collateralized by the long-term revenue stream generated from leasing a diversified pool of commercial aircraft to a diversified group of aircraft operators around the world. The weak commercial aircraft environment, in part triggered by the events of September 11, 2001 has begun to recover over the past year. Unrealized losses in this sector are primarily attributable to AERCO, Lease Investment Flight Trust and Pegasus Aviation Lease SEC III. These securities have a combined carrying value of USD 103 million and unrealized loss of USD 28 million and have been downgraded by at least one rating agency. While such bonds are not in default by their terms, increased risk premiums associated with the current market has caused prices for such bonds to decline. The current environment for aircraft leasing is improving, and continued cyclical upturns in lease rates will benefit these bonds since they have a very long maturity. AEGON USA evaluates each transaction in a significant unrealized loss position by modeling the expected cash flows with assumptions for defaults and lease rates on the underlying collateral, as well as including actual experience to date. When these models do not indicate full recovery of principal and interest, the securities are impaired to the modeled values. When these models indicate full recovery of principal and interest, AEGON USA does not consider these securities to be impaired.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

ABS-CBO

Asset Backed Securities-Collateralized Bond and Loan Obligations (CBOs) are collateralized by a diversified pool of corporate bonds or loans. While increased defaults in the corporate bond market over the past several years caused a significant increase in CBOs being downgraded by the rating agencies and a reduction in valuations, the improved credit environment has increased secondary market liquidity as well as valuations in the sector. Unrealized losses in this sector are primarily attributable to Mid Ocean CBO Ltd., Bleeker Structured Asset Fund, and MKP Capital CBO. These securities have a combined carrying value of USD 46 million and unrealized loss of USD 16 million and have been downgraded by at least one rating agency. AEGON USA evaluates transactions in significant unrealized loss positions by modeling the expected cash flows assuming certain default rates and recoveries on the underlying bonds or loans as well as including actual experience to date. As cash flow models indicate full recovery of principal and interest, AEGON USA does not consider these securities to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

ABS Housing, ABS - Credit Cards and ABS - Other:

Asset Backed Securities (ABS) housing, credit cards and other asset backed securities have unrealized losses which are primarily interest rate related. Where credit events may be impacting the unrealized losses, cash flows are modeled using assumptions for defaults and recoveries as well as including actual experience to date. When models do not indicate full recovery of principal and interest, the securities are impaired to the modeled fair values. When these models indicate full recovery of principal and interest, AEGON USA does not consider these securities to be impaired.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

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Collateralized Mortgage-Backed Securities

The unrealized loss on collateralized mortgage-backed securities is USD 122 million, of which USD 87 million relates to commercial mortgage-backed securities (CMBS). Aggressive underwriting at the loan level and an unprecedented amount of capital chasing commercial real estate continue to be the themes. Capitalization rates have compressed to historically low levels following the decline in interest rates as well as a compression in risk spread. A spike in interest-only loans coupled with a decrease in the amount of reserves collected highlight the current aggressive state of loan underwriting. The introduction of the 20% and 30% subordinated super senior AAA classes provides offset to these negative fundamentals. Of AEGON USA s entire portfolio, 85% is invested in AAA securities and only 9% of AEGON USA s portfolio is invested in securities rated below AA. Most of the below AA exposure that AEGON USA currently holds is in older vintage, seasoned deals. Over USD 23 million of the unrealized losses in this sector relate to a single issuer, Lehman Brothers/UBS (LBUBS). The security contains fixed income positions of investment grade quality. AEGON USA owns USD 952 million of the issuer s debt of which USD 657 million are AAA rated securities with unrealized losses of USD 16 million. As Management believes, the unrealized losses on AEGON USA s collateralized mortgage-backed securities are attributable to interest rate increases and there are no fundamental credit problems with the issuer or collateral, the unrealized losses are not considered by AEGON USA to be impaired at December 31, 2005.

There are no other individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Financial

Banking and Financial Other

The fundamentals of the banking sector continue to be solid. It is a high credit quality sector and represents a large portion of the corporate debt market. As a result, the absolute exposure to the banking sector in AEGON USA s portfolio is also large and of high quality. Because of the sector s size, the absolute dollar amount of unrealized losses is large, but the market value as a percent of book value on securities in an unrealized loss position is high at 96%. Unrealized losses in the banking sector are not a result of fundamental problems with individual issuers. Banking accounts for the majority of losses in the financial sector. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. Management believes the unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Industrial

Consumer Cyclical

The consumer cyclical sector covers a range of sub-sectors including autos, home construction, lodging, media, and retailers. These sectors include some of the largest credit issuers in the market. As a result AEGON USA s absolute exposure is large, but the overall market to book ratio is 95.7% on securities with losses, and over 100% for all securities.

The automotive sub sector accounts for approximately 45% of the unrealized loss position. The auto sector performed in line with lowered expectations for the second half of 2005. Auto sector fundamentals were pressured as a result of declining Big 3 market share, historically high raw material costs and high labor costs which have clearly impacted suppliers. Both General Motors and Ford Motor Company have announced comprehensive restructuring plans intended to reduce costs by reducing the employment force and closing auto facilities. In addition, both companies are looking to new products to boost revenues and profits. As a result, analysts expect improved sector performance in 2006. Credit profiles improve modestly but labor negotiations (with the potential for a strike) and potential asset sales will have an impact on the year. For autos, the overall market to book ratio is 92.0% on securities with losses, and 96% for all securities. As of December 31, 2005, AEGON USA held USD 18 million A rated and USD 58 million BB+ rated shares of Ford Motor Company which carried unrealized losses of USD 6 million and USD 13 million, respectively. Given the restructuring plans, near term adequate liquidity and recent rises in interest rates, AEGON USA does not consider these investments to be impaired at December 31, 2005.

With respect to the other groups, fundamentals have experienced improvements in line with growth of the broader economy and stronger consumer sentiment (lodging, gaming, homebuilders, media, and retail). AEGON USA expects this to continue in 2006. The gaming and lodging sectors for example continue to perform very well. Gaming companies have seen revenue and operating income grow due to strong consumer spending on entertainment, while lodging is supported by strong business travel and a lack of new hotel construction. At the same time, rising interest rates are one of the primary drivers of those credits with unrealized losses in this sector. This is particularly true in the homebuilding segment. While fundamentals should remain strong there as well, homebuilding credits will come under technical pressure as interest rates rise and order activity slows. In the retail sector, investors have been negatively impacted by increased mergers and acquisitions and leveraged buyout-activity.

The gross unrealized loss on this sector is USD 102 million. The overall market to book ratio is 95.5% on securities with losses, and over 100% for all securities. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. Management believes the unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit-related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Consumer Non-Cyclical

The consumer non-cyclical companies continue to maintain fairly stable credit profiles. Consumer products, food and beverage fundamentals have modestly weakened due to higher input costs and somewhat stagnant pricing. Additionally, shareholder friendly actions and related restructuring have been done at the expense of bondholders. For private placements (which represent 48% of gross unrealized loss position), the vast majority contain covenants that protect the bondholder from these shareholder friendly actions. Supermarkets have improved same store sales, but operating margins continue to be pressured by a very competitive food retail environment. Pharmaceuticals have had some modest sales and operating margin deterioration due to a number of branded products coming off of patent. Healthcare companies have improved with strong Health Maintenance Organization (HMO) trends and a rebound in the drug distribution sectors.

Overall, the sector represents a large portion of the corporate debt market. As a result, AEGON USA s absolute exposure is large and the absolute dollar amount of unrealized losses is also large, but the overall market to book ratio is 97.7% on public securities with losses, and 96% on private securities. Management believes the vast majority of the unrealized losses in the consumer non-cyclical sector are not the result of fundamental problems with individual issuers, but rather depressed prices on low coupon transactions; therefore, AEGON USA does not consider those unrealized losses to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Communications

Throughout 2005, the focus for many companies in the communications sector shifted from deleveraging the balance sheet to returning cash to shareholders. AEGON USA expects the shareholder focus and the resulting event risk to continue in 2006. During 2005, the telecom industry continued to consolidate with SBC Communications Inc. buying AT&T Corp., Verizon Communications Inc. acquiring MCI, Inc., Sprint Corp. purchasing Nextel Communications Inc. and Alltel Corp. acquiring Western Wireless. Wireline telecom companies have generally experienced accelerating line losses due to competition from wireless providers. In addition, the market has been increasingly concerned about the potential loss of customers to cable as the cable industry focuses on rolling out a viable telephony product in 2006 and 2007. After years of consolidation, the trend in the media industry shifted towards deconsolidation. Numerous large conglomerates made spin-offs and sales detrimental to their credit profile, with the resulting cash being used to fund special dividends or share buybacks. Activist shareholders are pressuring others to continue the trend into 2006 with private equity funds willing buyers of assets. Gross losses make up approximately 1% of the USD 5.3 billion of AEGON USA s communication related holdings.

AEGON USA is closely monitoring securities such as Charter Communications Inc. and Adelphia Communications where growth rates and accounting issues have pressured the market values. As necessary, these securities have been impaired, and the combined gross unrealized losses on Charter and Adelphia are less than USD 2 million. The overall market to book ratio on securities in an unrealized loss position is 96.7%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. Management believes the unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. Based on the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss, AEGON USA does not consider the remaining book values to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Basic Industries and Capital Goods

The basic and capital goods industries encompass various sub-sectors ranging from aerospace/defense to packaging. The most significant of these are addressed individually. The packaging sector s performance is dependent on the underlying credits, raw material structure and pricing power. Plastic packaging credits that have resins as their major raw material have struggled, due to the fact that resin prices fluctuate with the price of oil. As the cost of the raw materials has dramatically risen, the companies are trying to offset these costs with price increases. In the short term, this lag between increasing raw material costs and increased pricing has hurt margins and profitability. Additionally, high input costs such as oil, energy, and transportation have hurt results. Continued high input costs will continue to be a drag on the bottom line and margins until the price increases take effect. With a market to book ratio of 100%, AEGON USA is well positioned in the packaging sector. Half of the gross unrealized losses in this sector relate to securities which were purchased at a premium and the current market value approximates or exceeds par.

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

The building products sector is highly correlated to the housing market. While fundamentals should remain strong in the homebuilding sector, building product credits will come under technical pressure as interest rates rise and order activity slows. The construction machinery industry has experienced improving demand due mainly to continued economic expansion. Higher input costs have generally been more than offset by improved pricing and productivity initiatives. Companies within the diversified manufacturing industry have exposure to a wide variety of end-markets. Profitability in this industry tends to track overall industrial production trends which continued to show growth throughout 2005. Management believes the unrealized losses in the aerospace/defense sub sector are primarily interest rate related and there are no fundamental credit issues in the sector.

While the performance of some of the individual credits and sub sectors was somewhat below expectations, overall, valuations remain largely stable. The overall market to book ratio on securities in an unrealized loss position is 97.2%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. Management believes the unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

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Utility

Electric

In the aftermath of 2002 s melt-down, the theme for electric utilities, and energy companies in general turned to a focus on the basics of good business. Companies focused on optimizing their regulated operations, and minimizing the volatility in other areas of their businesses. The industry also focused on strengthening balance sheets through debt-reduction and maximizing cash flows. During 2005 fundamentals continued to improve, and are generally expected to remain stable in to 2006. Looking forward, the most concerning issues on the horizon appear to be an increase in merger and acquisition activity and an increasingly uncertain regulatory environment as rising energy prices look to be passed through to the end users. The overall market to book ratio on securities in an unrealized loss position is 97.7%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. Management believes the unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON USA evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than USD 20 million.

Sovereigns

Sovereigns include government issued securities including US treasury, agency and state bonds, 93% of unrealized losses relate to AAA rated securities. As the unrealized losses on AEGON USA s sovereign holdings are attributable to interest rate increases, the unrealized losses are not considered by AEGON USA to be impaired at December 31, 2005.

There are no individual issuers rated below investment grade in this sector.

Unrealized Loss by Maturity

The table below shows the composition by maturity of all Bonds in an unrealized loss position held by AEGON USA at December 31, 2005.

Maturity Level

In million USD	Carrying value of securities with gross unrealized losses	Gross unrealized losses
One year or less	961	(8)
Over 1 thru 5 years	12,162	(264)
Over 5 thru 10 years	16,769	(446)
Over 10 years	8,741	(250)
Total	38,633	(968)

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Unrealized Loss by Credit Quality

The table below shows the composition by credit quality of Bonds in an unrealized loss position held by AEGON USA at December 31, 2005.

In million USD	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Treasury Agency	2,828	(57)
AAA	10,110	(175)
AA	2,906	(75)
A	10,030	(226)
BBB	10,381	(272)
BB	1,407	(82)
B	821	(75)
Below B	150	(6)
Total	38,633	(968)

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

In million USD	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 -12 months	27,960	1,805	(503)	(82)
> 12 months	8,296	573	(302)	(81) *
Total	36,256	2,378	(805)	(163)

* Of the securities in an unrealized loss position for greater than 12 months, USD 54 million relates to asset backed securities (ABS). AEGON USA monitors individual ABS investments by reviewing monthly or quarterly reports, including cash flows and collateral performance statistics provided by the servicer, external rating agency actions either specific to the security or in general, internal or external research and cash flow modeling. If, based on cash flow modeling, it is determined there is an adverse change in the best estimate of projected cash flow, an impairment is recorded. It is important to note that AEGON USA s determination of fair value does not rely on the current market value of the security. Infrequently traded securities are heavily discounted due to the long duration as well as the uniqueness and illiquidity of the structure. Inefficiencies in the distressed ABS markets often to do not give good indication of ultimate fair values. Given these market inefficiencies, market values on structured securities are highly sensitive to any decrease in collateral performance and are slow to recognize any improvement in collateral until closer to the maturity date; therefore, the duration of the unrealized loss is not, in and of itself, indicative of an impairment.

Realized gains and losses on Bonds of AEGON USA for the twelve months ended December 31, 2005:

in million USD	Gross Realized Gains	Gross Realized Losses
Bonds	646	(398)

Gross realized gains include USD 173 million of bond recoveries and gross realized losses include USD 114 million of bond impairments.

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The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired at December 31, 2004.

in million USD **Time period**	**0 -12 months**	**>12 months**	**Total**
Bonds	(243)	(41)	(284)

The following list describes securities which represented more than 5% of the USD 284 million of realized losses on sales of fixed maturity securities:

Losses were realized on US Government Securities of USD 80 million. These losses are attributable purely to interest rate movements and the timing of when the securities were bought and sold.

Impairment losses and recoveries

The composition of AEGON USA s bond impairments losses and recoveries by issuer, according to IFRS, for the twelve months ended December 31, 2005 are presented in the table below, those above USD 5 million are specifically noted.

in million USD	**Impairment / Recovery**
Issuer Name	
Impairments:	
Pegasus Aviation Lease SEC III	(21)
Delta Airlines	(13)
Uni Boring Inc/ UBI Intl Inc	(9)
Winn-Dixie 1999-1 Pass Thru	(7)
Varick Structured Asset Fund	(7)
Adelphia Communications	(7)
WMTR Delta Air	(6)
MKP Capital CBO	(5)
Other Impairments (41 unique issuers)	(39)
Sub-total	(114)
Recoveries:	
Recoveries from class action	65
Energy Group Overseas	17
Recoveries from litigation	8
Liberty Electric Power PA LLC	8
Hoteloc PLC	8
First Consumers CC MT	7
Other Recoveries (36 unique issuers)	60
Sub-total	173
Net Impairments and Recoveries	59

In 2005, AEGON USA recognized USD 173 million in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

In 2005, during the second quarter, AEGON USA received USD 65 million from a litigation settlement related to a defaulted security that was previously owned. The settlement was recorded as an additional impairment recovery.

In 2005, AEGON USA recorded USD 17 million in recoveries on Energy Group Overseas, a European energy generation and trading business of TXU Corp. The company is now in the hands of UK administrators overseeing its liquidation. The security was originally impaired to fair value in 2003. During 2005, the market price steadily increased due to favorable restructuring and improved asset realization. Based on this information, the security was recovered to market indications during the first and second quarters of 2005.

In 2005, a USD 21 million loss was realized on Pegasus Aviation Lease SEC III. The debt securities were in an unrealized loss position of greater than 24 months before the impairment occurred. The notes represent a beneficial interest in a portfolio of pooled aircraft leases. Cash flows generated from the pooled aircraft leases have declined due to lower lease renewals and increased remarketing periods. AEGON USA runs models based on best estimates of future cash flows. Due to further deterioration in cash flows, AEGON USA realized an impairment loss in the second quarter of 2005. Based on this information, the security was impaired to the present value of cash flows at the market yield.

In 2005, a USD 13 million loss was realized on Delta. The debt securities were in an unrealized loss position of greater than 24 months before the initial impairment occurred. The equipment trust certificate (ETC) and enhanced equipment trust certificate (EETC) notes represent a beneficial interest in leases of individual aircraft directly to Delta. Due to the increasing possibility of near term bankruptcy at Delta, AEGON USA realized impairment losses in the first and third quarters of 2005. The securities were impaired to the current market value of the securities at the time of each impairment.

Equity instruments classified as available for sale

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

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

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

These factors typically require significant management judgment. For equity securities considered to have an other-than-temporary impairment during 2005, a realized loss was recognized. The impairment review process has resulted in EUR 19 million of impairment charges for AEGON The Netherlands and EUR 5 million impairment charges for AEGON USA for the year ended December 31, 2005.

As of December 31, 2005, there are EUR 1,221 million of gross unrealized gains and EUR 36 million of gross unrealized losses in the equity portfolio of AEGON. There are no securities held by AEGON The Netherlands and AEGON USA with an unrealized loss of more than EUR 5 million. The table below represents the unrealized gain and loss share positions held by AEGON the Netherlands and AEGON USA.

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in million EUR	Cost basis	Carrying value	Net unrealized gains/ (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Shares	3,676	4,786	1,110	4,396	1,145	390	(35)

The composition of shares by industry sector in an unrealized loss position held by AEGON the Netherlands and AEGON USA at December 31, 2005 is presented in the table below.

Unrealized losses shares

In million EUR	Carrying value of instruments with unrealized losses 2005	Gross unrealized losses 2005	Carrying value of instruments with unrealized losses 2004	Gross unrealized losses 2004
Communication	2	(1)	1	
Consumer cyclical	40	(3)	33	(5)
Consumer non-cyclical	31	(5)	55	(5)
Financials	76	(4)	113	(7)
Funds	26	(1)	135	(7)
Industries	35	(5)	53	(3)
Resources	1	(1)	20	(2)
Services cyclical	19	(2)	101	(5)
Services non-cyclical	36	(2)	29	(2)
Technology	32	(4)	58	(6)
Other	91	(7)	30	(1)
	389	(35)	628	(43)

The table below provides the unrealized loss on shares at December 31, 2005 broken down by the period of time they have been below cost.

Time Period

in million EUR	0 - 12 months	> 12 months	Total
Shares	(35)	(0)	(35)

Impairment losses on Shares

The table below provides the length of time the shares held by AEGON the Netherlands and AEGON USA were below cost prior to the impairment in 2005.

Time Period

in million EUR	0 - 12 months	> 12 months	Total
Shares	(23)	(1)	(24)

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v Valuation of defined benefit plans

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

Refer to Note 25 of Item 18.

vi Recognition of deferred tax assets

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

vii Valuation of share appreciation rights and share options

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

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

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5.4 Results of Operations 2005 compared to 2004

Results of operations

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

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

[2] Together non-operating earnings before tax

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Revenues geographically 2005

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

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

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

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

Overview

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

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

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

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

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

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

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

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

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

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

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

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

Results

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

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

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

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

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

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AMERICAS

Americas (includes AEGON USA and AEGON Canada)

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

Exchange rates

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

Operating earnings before tax

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

Traditional life

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

Life for account of policyholders

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

Fixed annuities

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

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

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Variable annuities

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

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

Institutional guaranteed products

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

Fee off balance sheet products

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

Reinsurance

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

Accident and health insurance

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

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Impact of volatile items in the Americas

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

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

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

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

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

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

Net income

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

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

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

Revenues

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

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

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

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

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

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

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

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Commissions and operating expenses

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

Production

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

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

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

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

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

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THE NETHERLANDS

AEGON The Netherlands

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

Operating earnings before tax

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

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

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

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

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

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

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

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

Impact of volatile items in the Netherlands

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

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

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

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

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Net income

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

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

Revenues

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

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

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

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

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

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

Commissions and operating expenses

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

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

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

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Production

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

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

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

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

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UNITED KINGDOM

AEGON United Kingdom

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

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

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

Exchange rates

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

Operating earnings before tax

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

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

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

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

Net income

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

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

Revenues

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

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

Commissions and operating expenses

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

Production

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

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

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OTHER COUNTRIES

Other countries

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

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

Exchange rates

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

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

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AEGON Hungary

Operating earnings before tax

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

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

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

Net income

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

Revenues

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

Commissions and operating expenses

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

Production

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

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

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AEGON Slovakia

Operating earnings before tax amounted to a loss of SKK 463 million in 2005 compared to a loss of SKK 325 million in 2004. Premium income increased from SKK 76 million to SKK 105 million. Standardized new premium production decreased from SKK 100 million to SKK 77 million, reflecting the focus on the sale of pension plans, but increased in the second half of 2005 due to new agreements with brokers.

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

AEGON Czech Republic

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

AEGON Poland

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

AEGON Spain

Operating earnings before tax

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

The result of life was break-even compared to a profit of EUR 4 million in 2004. Accident and health showed a profit of EUR 4 million in 2005 compared to a profit of EUR 8 million in 2004. Following the sale of the general insurance activities, accident and health in Spain only include health insurance. Both businesses were negatively impacted by a loss of economies of scale due to the sale of the non-life business.

Net income

Net income for 2005 amounted to EUR 161 million and included the gain on the sale of the general insurance business of EUR 150 million (pre-tax EUR 176 million) and EUR 11 million related to AEGON s share in the net result of the partnership with Caja de Ahorros del Mediterráneo (CAM) (49.99% interest), which became operational in June 2004 (EUR 4 million in 2004).

The effective tax rate for 2005 was 14% compared to 35% for 2004, mainly due to the low tax rate on the gain on the sale of the general insurance business.

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Revenues

Gross premiums of EUR 192 million for 2005 decreased by 59% compared to the same period of 2004, due to the sale of the general insurance business.

Life premiums increased by 3%, partly due to premiums from the acquired Reale Vida portfolio. Life recurring premiums decreased by 3% but single premiums increased by 32%. The cancellation of a distribution agreement with a large agent had a negative effect on life premium growth. Accident & health premiums increased 6% compared to 2004.

Commissions and operating expenses

Operating expenses increased by EUR 11 million due mainly to non-recurring expenses related to the sale of the general insurance business.

Production

Standardized new premium production was 32% lower than in 2004. This reflects the cancellation of a distribution agreement with a large agent and the slow down in sales in the first half of 2005 from general agents as a consequence of the sale of the non-life activities.

Joint ventures

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

A 50/50 partnership agreement was signed in November 2005 with Caja Navarra. The acquisition of 50% of Seguros Navarra S.A. took place in two tranches. In the fourth quarter of 2005 15% was acquired and in the first quarter of 2006 another 35% stake has been acquired. No results have been recognized in the 2005 financial statements as the acquisition is subject to approval by the Insurance authorities and approval was not received by year-end.

Associates

The partnership with CAM continued its strong growth path, generating premium income of EUR 560 million and new life production of EUR 219 million, compared to EUR 177 million in 2004. The partnership has been successful in expanding sales of recurring premium products, which increased by 27% in 2005. The partnership with CAM is not consolidated by AEGON. AEGON includes its share in the results in the partnership in the line share in profit/(loss) of associates.

AEGON Taiwan

Operating earnings before tax

AEGON Taiwan reported operating earnings before tax of NTD 21 million whereas in 2004 an amount of NTD 149 million was reported. The variances are due mainly to NTD 379 million of cost to hedge the exposure on the USD denominated bonds portfolio in 2005, which was NTD 347 million higher than in 2004. The increase is as a result of a widening of the interest differential between the NTD and USD.

Operating earnings before tax of traditional life was NTD (141) million for the year 2005. The decrease compared to the NTD 57 million profit reported for the year 2004 is mainly due to higher hedging cost.

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Net income

Net income decreased from NTD 249 million in 2004 to NTD 176 million in 2005. Net gains on investments were NTD 155 million for the year 2005, lower than the NTD 193 million reported for 2004 mainly attributable to lower realized capital gains on US fixed income instruments in 2005. In 2005 there was no impairment charge versus default losses on convertible bonds of NTD 94 million in 2004.

Revenues

Gross premiums increased by 42% to NTD 35.4 billion mainly coming from growth in recurring premiums in the traditional life business.

Investment income rose from NTD 935 million in 2004 to NTD 1,964 million in 2005, mainly due to an increase in the asset base. Investment assets increased from NTD 41 billion as of December 31, 2004 to NTD 70 billion as of December 31, 2005.

Commissions and operating expenses

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

Production

Standardized new premium production increased from NTD 7.8 billion over 2004 to NTD 12.3 billion over 2005. The production in the second half year of 2005 was negatively affected by a decision to cut commissions and stop selling certain products through the brokerage and bank channels as these products required higher reserves as mandated by the Insurance Bureau.

AEGON China

AEGON s share in operating earnings before tax amounted to a loss of CNY 68 million in 2005 compared to a loss of CNY 41 million in 2004. Gross premiums (AEGON s 50% share) increased from CNY 27 million to CNY 134 million and standardized new premium production increased from CNY 10 million to CNY 23 million in 2005, reflecting the extension of sales channels and the opening of new branches in Beijing and Nanjing in 2005.

Associates

AEGON increased its share in La Mondiale Participations from 20% to 35% on December 31, 2004. AEGON s share in the net result of La Mondiale Participations increased from EUR 5 million in 2004 to EUR 6 million in 2005.

vi Non-consolidated group companies

All Group Companies are consolidated.

vii Application of Critical Accounting Policies US GAAP

Reserve for Guaranteed Minimum Benefits and Amortization of Deferred Policy Acquisition Cost,

including Value of Business Acquired

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

Impairment of debt securities

The same monitoring practices and evaluation process as described in Application of Critical Accounting Principles IFRS is followed. The practices described are those followed by AEGON USA, as 96% of the unrealized loss exposure is in the U.S. portfolio.

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

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

Pension expense

US GAAP Statement of Financial Accounting Standard 87 Employees Accounting for Pensions (SFAS No. 87), is applied to the pension plans of the Group. SFAS No. 87 calculations require several assumptions, including future performance of financial markets, future composition of the work force and best estimates of long-term actuarial assumptions. The expected return on plan assets is calculated using a moving average for the plan assets. In a period of market decline, such as recently experienced, this moving average is higher than the fair value of the assets. The difference between the expected return reflected in the income statement and the actual return on the assets in a certain year is deferred. Deferred gains or losses are amortized to the income statement applying a corridor approach. The corridor is defined as 10% of the greater of the moving average value of the plan assets or the projected benefit obligation. To the extent that the prepaid pension costs at the beginning of the year exceed the moving average asset value less the pension benefit obligation by more than the 10% corridor, the excess is amortized over the employees average future years of service (approximately seven years). The assumptions are reviewed on an annual basis and changes are made for the following year, if required.

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Goodwill

Pursuant to SFAS No. 142, Goodwill and Other Intangible Assets , goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. Impairment testing requires the determination of the fair value for each of our identified reporting units. The reporting units identified for AEGON based upon the SFAS No. 142 rules include: AEGON USA, AEGON Canada, AEGON The Netherlands, AEGON UK insurance companies and AEGON UK distribution companies, other countries and Transamerica Finance Corporation.

The fair value of the insurance operations is determined using valuation techniques consistent with market appraisals for insurance companies, a discounted cash flow model requiring assumptions as to a discount rate, the value of existing business and expectations with respect to future growth rates and term. For our non-insurance operations, fair value was determined using a discounted cash flow analysis. The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the determination of fair value involve significant judgments and estimates. The discount rates used are believed to represent market discount rates, which would be used to value businesses of similar size and nature.

The fair value of the insurance operations in the Americas was determined using discounted cash flow valuations techniques consistent with market appraisals for insurance companies. This model utilized various assumptions, with the most significant and sensitive of those assumptions being a 9% discount rate and 15 years of projected annual new business production increases of 2%. A sensitivity analysis performed using increases in the discount rate of 1% and 2%, resulted in partial goodwill impairments of approximately USD 100 million and USD 800 million, respectively.

viii Certain effects of US GAAP

Net income of EUR 2,084 million was reported in 2005 based on US GAAP, compared to a net income of EUR 1,430 million over the same period in 2004. The US GAAP net income reflects the same financial statement impacts that were previously described on an IFRS basis.

See Note 57 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for a discussion of the main differences for net income and shareholders equity under IFRS and US GAAP.

5B Liquidity and capital resources

General

The AEGON Group conducts its capital management processes at various levels in the organization. The main goal of AEGON s capital management is to manage the capital adequacy of its operating companies to high standards within leverage tolerances consistent with strong capitalization.

Capital adequacy

AEGON manages capital adequacy at the level of its country units and their operating companies. AEGON seeks to support its internal capital adequacy levels at the higher of local regulatory requirements, 165% of the relevant local Standard & Poor s capital adequacy models or internally imposed requirements. During 2005, the capital adequacy of AEGON s operating units continued to be strong. All of AEGON s units were capitalized within these tolerances. In the United States, at December 31, 2005, AEGON USA held approximately 383% of the minimum capital required by the National Association of Insurance Commissioners.

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Capital base

AEGON applies leverage tolerances to its capital base. The capital base reflects the capital employed in core activities and consists of shareholders equity, capital securities, and dated subordinated and senior debt. AEGON targets its capital base to comprise at least 70% shareholders equity, at least 5% capital securities, and a maximum of 25% dated subordinated and senior debt. At December 31, 2005, AEGON s capital base was within these prescribed tolerances: shareholders equity capital represented 76% of its total capital base, while perpetual capital securities comprised 13% of its total capital base. Senior and dated subordinated debt accounted for the remaining 11%.

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

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

Shareholders equity

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

Debt funding and liquidity

AEGON s funding strategy continues to be based on assuring excellent access to international capital markets at low costs. As part of this strategy, AEGON aims to offer institutionally targeted debt securities in amounts that are eligible for benchmark inclusion and to support the maintenance of liquid secondary markets in these securities. AEGON also aims to maintain excellent access to retail investors, as witnessed by the successful issuance of Junior Perpetual Capital Securities in 2004 and 2005. AEGON s focus on the fixed income investor base will continue to be supported by an active investor relations program to keep investors well informed about AEGON s strategy and results. Most of AEGON s external debt is issued by the parent company, AEGON N.V., as well as a limited number of other AEGON Group companies whose securities are guaranteed by AEGON N.V. AEGON N.V. has employed its regular access to the capital markets through private placements issued under its USD 6 billion Euro Medium Term Notes Program and under a separate US shelf registration. AEGON s USD 2 billion Euro Commercial Paper Program and AEGON Funding Corp. s USD 4.5 billion Euro Commercial Paper Program (guaranteed by AEGON N.V.) facilitate access to international and domestic money markets, when required. Additionally, AEGON N.V. utilizes a USD 300 million Euro Commercial Paper Program.

AEGON maintains back-up credit facilities to support outstanding amounts under its Commercial Paper Programs. The principal arrangement is a USD 5 billion syndicated facility maturing in 2010 and extendable until 2012, of which USD 3 billion acts as a back-up facility for AEGON s Commercial Paper Programs. At December 31, 2005, AEGON N.V. had EUR 2.0 billion outstanding under its Medium Term Notes Program and no amounts under its Commercial Paper Programs.

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

Internal sources of liquidity include distributions from operating subsidiaries on the basis of excess capital or cash and cash equivalents. During 2005, internal distributions from units were sufficient to cover interest expense, other holding company expenses, and dividend payments.

Internal distributions may be subject to (local) regulatory requirements. Each business unit further controls its liquidity by closely managing the liquidity of its investment portfolio. The duration profile of AEGON s capital debt and interest rate structure is managed in line with the duration of surplus assets related to its investments in its subsidiaries, subject to liquidity needs, capital, and other requirements. Of AEGON s total capital debt and hybrid securities at December 31, 2005, approximately EUR 1.0 billion matures within three years and EUR 0.4 billion between three and five years. EUR 4.8 billion is perpetual or matures after five years. AEGON believes its working capital, backed by the external funding programs and facilities, is amply sufficient for the Group s present requirements.

5C Research and development, patents and licences

Not applicable

5E Off-Balance Sheet Arrangements

As part of the AEGON Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. At December 31, 2005 a total of five publicly placed and two privately placed securitization contracts were outstanding with a total value of EUR 6.1 billion. In 2005, AEGON Levensverzekering N.V. completed one publicly placed securitization transaction whereby the economic ownership of EUR 1.2 billion of aggregate mortgage receivables was conveyed to a special purpose company. The special purpose company funded this purchase with the issuance of mortgage-backed securities. The transfer of ownership title will take place upon notification of the borrowers by either AEGON or the special purpose company. The special purpose company has the right to notify the borrowers upon the occurrence of certain pre-defined notification events . A first undisclosed right of pledge on the mortgage receivables was given to the special purpose company. At the same time AEGON entered into a fixed-to-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (scheduled yield from the mortgage receivables). After a period of seven years, the interest of the notes issued by the special purpose company in respect of this transaction will step-up, together with a similar step-up in the fixed-to-floating swap agreement. At that same time, the special purpose company has the right to call the notes. A deferred purchase arrangement forming part of the contract to sell the mortgage loans to the special purpose company entitles AEGON Levensverzekering N.V. to any residual positive value of the special purpose entity at maturity. The value of this arrangement is included in the valuation of the interest rate swap as it is viewed as a correction on the assumptions underlying the cashflow forecasts. In 2004, AEGON Levensverzekering N.V. completed one mortgage-related publicly placed securitization contract for EUR 1.1 billion that was structured similarly to the 2005 securitization described above.

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5F Contractual Obligations and Commitments

i Contractual obligations as per December 31, 2005 [1]

In million EUR (payments due by period)	Total	Less than 1 year	1 3 years	4 5 years	More than 5 years
Institutional guaranteed contracts [2]	20,987	5,623	6,279	4,214	4,871
Fixed Annuities [3]	1,861	163	503	167	1,028
Saving accounts [4]	5,047	5,047			
TRUPS, subordinated borrowings and borrowings [5]	6,253	1,608	1,649	72	2,924
Operating leases [6]	707	101	190	130	286

1 The table does not include technical provisions for insurance products of EUR 95.7 billion. The technical provisions represent the present value of future benefits to be paid to policyholders and/or designated beneficiaries, and related expenses, less the present value of the future related premiums to be received from them. The timing of such payments depends on such factors as the mortality and persistency of our policyholder base and the occurrence of insurable loss events. The timing is not known and payments are expected to occur over a very long period of time. AEGON maintains a portfolio of assets backing these obligations following its asset liability management practices. Future premiums and investment income combined with the invested assets currently held are expected to be sufficient to meet the obligations to pay claims and fund contract obligations. The table also does not include insurance contracts for the account of policyholders and investment contracts for the account of policyholders. 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 such products.

2 The table includes Institutional guaranteed products with defined maturities, based on carrying amounts. EUR 5,361 million of the total balance of institutional guaranteed products have no contractual maturities and are excluded from the table. Refer to Note 18.4.1.4 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F 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.

3 The table includes fixed annuities with defined maturities that are classified as investment contracts. EUR 4,351 million of the fixed annuities classified as investment contracts have no contractual maturity and are excluded from the table.

4 Savings accounts are part of the banking activities of the Group, as described in Note 18.4.1.10 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F. Due to the nature of these products, policyholders have the flexibility to withdraw cash from these savings accounts, with limited restrictions.

5 Long-term debt represents principal repayment obligations relating to Trust pass-through securities, subordinated borrowings and borrowings; they are described further in Notes 18.17, 18.18 and 18.23 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

6 Operating leases are primarily related to agency and administration offices.

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ii Investments contracted

In the normal course of business, the Group has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of next year. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the consolidated balance sheet.

	2005		2004	
	Purchase	**Sale**	**Purchase**	**Sale**
Real estate	2	(5)		(15)
Mortgage loans	559		490	
Bonds	11	(12)		
Private loans	441		74	
Other	1,420		1,036	

iii Guarantees given to third parties

	2005	2004
Guarantees	146	69
Standby letters of credit	34	52
Other	12	33

Guarantees include those given on account of asset management commitments and guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States.

Standby letters of credit amounts reflected above are the liquidity commitment notional amounts.

In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

Other commitments include private placement commitments, mortgage loan commitments, and limited partnership commitments.

Certain insurance and investment products have minimum guarantees for which liabilities have been recognized and are therefore not included in the table. These guarantees are discussed in Note 18.4 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

iv Assets pledged as collateral

The following table summarizes the carrying amounts on the balance sheet of financial assets pledged as collateral for liabilities and contingent liabilities respectively. Collateral paid as part of share borrowing or reverse repurchase transactions are included in this information.

	2005	2004
Financial assets pledged for liabilities	3,641	3,392
Other financial assets pledged as collateral	103	106

When AEGON pays cash collateral as part of security borrowing or reverse repurchase transactions, an asset is recorded to receive back the cash pledged. The balance of these receivables, as also reflected in Note 18.13 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F, are as follows:

	2005	2004
Cash collateral pledged on reverse repurchase agreements	23	2

AEGON does not account for the receipt of the securities, as the Group does not have economic ownership. When collateral takes the form of non-cash, AEGON does not account for the delivery of instruments as collateral, or for the securities received, as there is no change in economic ownership.

Subsequent Events

On January 10, 2006, AEGON announced that AEGON-CNOOC Life Insurance Company Ltd., the 50/50 joint venture of AEGON N.V. and the Chinese National Offshore Oil Corporation (CNOOC), received a license from the regulatory authorities to begin life insurance activities in China s Shandong province.

On January 30, 2006, Fitch Ratings assigned AEGON N.V. AA- (double A minus) ratings to AEGON N.V. s senior debt and A+ ratings to subordinated debt and perpetual securities, with a stable outlook . In addition, Fitch affirmed the AA+ (double A plus) insurance financial strength ratings of AEGON USA.

On February 13, 2006, AEGON N.V. and HDI Pensionsmanagement AG announced that HDI Pensionsmanagement joined the AEGON Pension Network. The AEGON Pension Network was created jointly by AEGON and La Mondiale in 2005 as the first international network dedicated to providing specialized cross border group pensions solutions for multinational corporate clients and their employees.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.1 Introduction

AEGON N.V. is a public company under Dutch law and it is governed by three corporate bodies: the General Meeting of Shareholders, the Executive Board and the Supervisory Board.

6.2 General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year to discuss and resolve on subjects, which include the adoption of the annual accounts, the approval of dividends and any appointments to the Executive Board and the Supervisory Board. Meetings are convened by public notice.

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

Every shareholder is entitled to attend the General Meeting of Shareholders and to speak and vote in the meeting, either in person or by proxy granted in writing (including electronically embedded proxies), provided the shareholder complies with the applicable statutory provisions for providing of evidence of shareholders status or notification of the intention to attend the meeting. When convening General Meeting of Shareholders, the Executive Board can set a record date for determining the entitlement of shareholders to attend and vote at the General Meeting of Shareholders.

As a participant of Stichting Communicatiekanaal Aandeelhouders (a Dutch foundation with the purpose of enhancing communication with and participation of shareholders at General Meetings) AEGON welcomes the possibility of voting by proxy. Moreover, proxies are solicited from the New York Registry shareholders in accordance with US practice.

At the General Meeting of Shareholders each share is entitled to one vote; however, the holder of preferred shares, Vereniging AEGON, is entitled to cast 2.08 votes per preferred share in the event Vereniging AEGON, in its sole discretion, has determined that a special cause has occurred and then only limited to a period of six months per special cause . In this respect reference is made to the section on Vereniging AEGON in Note 18.15 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

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

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6.3 Executive Board

The Executive Board, as a body, is charged with the management of the Company, each member having specific areas of interest within an allocation of duties. The number of the Executive Board members and the terms of employment of these members are determined by the Supervisory Board. The members of the Executive Board are appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board.

Members of the Executive Board are eligible for retirement upon reaching the age of 60. Retirement is mandatory at the age of 62. The Articles of Incorporation require the Executive Board to obtain the prior approval of the Supervisory Board for a number of resolutions. The Supervisory Board may subject further resolutions of the Executive Board to its prior approval.

6.4 Supervisory Board

The supervision of the management of the Executive Board and the general course of affairs of the Company and the business connected with it 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 the nomination of the Supervisory Board. The Supervisory Board currently consists of ten non-executive members, one of whom is a former member of the Executive Board. Specific issues are dealt with and prepared in committees from among the members of the Supervisory Board. With a view to 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 fixed by the General Meeting of Shareholders.

6.5 Dutch Corporate Governance Code

i General

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

This chapter is intended to outline AEGON s compliance with the code as of the end of 2005. The circumstances in which AEGON does not fully comply with the code are explained. The information set forth below closely follows the structure of the Dutch Corporate Governance Code. Where appropriate, the headings of the Code s chapters and paragraphs have been included for easy reference.

ii Implementing the corporate governance code

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

iii Executive Board

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

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

AEGON closely pays attention to risk management and risk factors in each of its country and group units.

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

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

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

iv Remuneration

AEGON s Remuneration Policy was adopted by the General Meeting of Shareholders on April 22, 2004 and will be in place for a period of three years (2004-2006). The Supervisory Board will propose to extend the duration of the existing Remuneration Policy until the annual General Meeting of Shareholders in 2007. AEGON places a high importance on attracting and retaining qualified directors and personnel, while at the same time safeguarding and promoting the company s medium and long-term interests. The Remuneration Policy for members of the Executive Board is reflective of these objectives. It was designed to support AEGON s strategy of value creation and shareholder alignment, in addition to establishing standards for evaluating performance and business results. The Remuneration Policy also offers an incentive for Board members with performance-linked pay, reflecting both individual member and collective Executive Board performance. Moreover, the Remuneration Policy takes into consideration corporate governance guidelines and compensation levels in relevant reference markets.

The Remuneration Policy for Executive Board members includes fixed and variable components. With respect to the variable components, the Supervisory Board has set clear and measurable criteria including measures relating to the value of new business and total shareholders return. For more details on the compensation of the Executive Board members, please refer to the chapter on remuneration in Note 18.54 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The Remuneration Policy also sets out a plan for Executive Board members to be remunerated partly in share options (performance options) and performance shares. If Executive Board members are entitled to share options, the strike price of these options correspond to AEGON share price on Euronext Amsterdam at the close of trading on the date the options are granted. The terms under which share options and performance shares are issued shall not be altered during the reference period, except for technical alterations in accordance with market practice in events such as share splits, mergers and acquisitions, share issuances, and (super) dividends.

Any performance shares granted must be retained for a period of at least five years from the date of the grant or at least until the end of employment, if the latter period is shorter.

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

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

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v Determination and disclosure of remuneration

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

The Supervisory Board explains in its Remuneration Report found in Item 6.9 of this annual report the manner in which the Remuneration Policy pertaining to the members of the Executive Board has been applied. In addition, each year the annual report presents an overview of the current Remuneration Policy. For example, an overview of the Remuneration Policy for years 2004-2006 (proposed to be extended until 2007) is included in this Annual Report on Form 20-F. The Remuneration Report is also included in this Annual Report on Form 20-F. The principal points in the Remuneration Report are mentioned in the Report of the Supervisory Board.

The remuneration of the individual members of the Executive Board is determined by the Supervisory Board within the scope of the adopted Remuneration Policy. Upon conclusion of a contract with a new member of the Executive Board, the main elements of the member s employment contract shall be made public.

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

vi Conflicts of interest

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

More detailed regulations regarding conflicts of interest between members of the Executive Board and AEGON are included in the Executive Board Rules. Any transactions in which there are conflicts of interest shall be agreed on terms customary in the industry and are published in the annual report.

Under the provisions of the Dutch Corporate Governance Code, the membership of Messrs. Shepard and Streppel on the Executive Committee of Vereniging AEGON may give rise to deemed conflicts of interest. The Articles of Association of Vereniging AEGON provide that Messrs. Shepard and Streppel are excluded from voting on certain issues relating directly to AEGON (including the adoption of annual accounts, discharge of members of the Executive Board and appointments to the Executive Board and Supervisory Board of AEGON). The Supervisory and Executive Boards have drawn up a protocol that provides that the members of the Executive Board who also serve on the Executive Committee of Vereniging AEGON shall continue to participate in discussions and decision-making relating to possible transactions with Vereniging AEGON. The Supervisory Board is confident that by adhering to this protocol the deemed conflict of interests with Vereniging AEGON are adequately dealt with and that the best practice provisions of the Code have been complied with in all material respects. The protocol is posted on AEGON s website - www.aegon.com.

vii Compliance

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

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viii Supervisory Board

Role and procedure

The Supervisory Board is responsible for decisions relating to the resolution of conflicts of interest between members of the Executive Board, members of the Supervisory Board, major shareholders, and the independent auditor on the one hand, and AEGON. The Supervisory Board assists the Executive Board by giving advice. In performing their duties, the members of the Supervisory Board are required to act in accordance with the interests of AEGON and its affiliated enterprises. Pursuant to AEGON s Articles of Incorporation and the Supervisory Board Rules, the Supervisory Board members are empowered to obtain all information they deem necessary for the performance of their duties, including the right to acquire information from company officers and external experts.

The Supervisory Board Rules contain provisions regarding the division of duties within the Supervisory Board; its internal procedures; and its interactions with the Executive Board and with the General Meeting of Shareholders. These regulations are posted on AEGON s website www.aegon.com.

The Supervisory Board shall continue its existing practice of including a detailed account of its activities during the financial year in each annual report. The activity report includes the information prescribed in the Dutch Corporate Governance Code. It also makes reference to the topics discussed within the Supervisory Board meetings during the year.

Independence

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

Expertise and composition

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

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

Every year the Supervisory Board convenes to discuss its own performance and that of its individual members, as well as the performance of the Executive Board and that of the individual Executive Board members. Such meetings take place without Executive Board participation.

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

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

In accordance with the Dutch Corporate Governance Code, the Supervisory Board Rules state that no member can serve on AEGON s Supervisory Board for more than three four-year terms. However, in 2005, the Supervisory Board decided to request that Mr. Olcay complete his current term in office despite the fact that he has served more than the maximum terms allowed by the Code. The Supervisory Board has determined that in the interest of continuity given the high number of vacancies recently filled and yet to be filled, it was prudent to request Mr. Olcay to serve on the Supervisory Board until the end of his current term in office. Moreover, the Supervisory Board Rules provide that a member of the Supervisory Board shall resign if the Supervisory Board has determined that this member is no longer fit to function due to inadequate performance, fundamental differences of opinion, or other impeding circumstances.

Role of the chairman of the Supervisory Board and the company secretary

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

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

Composition and role of the key committees of the Supervisory Board

In compliance with the applicable provisions of the United States Sarbanes-Oxley Act 2002 and the Dutch Corporate Governance Code, the Supervisory Board maintains four standing committees that are comprised of its members. These committees are: the Audit Committee, the Compensation Committee, the Nominating Committee, and the Strategy Committee. Each Committee reports its findings to the Supervisory Board and these findings are discussed in the plenary meetings of the Supervisory Board.

Each of the Committees of the Supervisory Board has a charter in which the board s composition, duties, and internal procedures are defined. The Committee Charters are available on AEGON s website www.aegon.com. The Supervisory Board s yearly report, which is included in this annual report in Form 20-F, provides information on the activities of each its Committees. This report also lists the members of each Committee.

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

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

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

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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 on 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 - www.aegon.com.

Remuneration of the members of the Supervisory Board

The remuneration of Supervisory Board members is determined by the General Meeting of Shareholders and is not dependent on AEGON s profit. The members of the Supervisory Board do not receive any shares or rights to shares by way of remuneration. Members of the Supervisory Board are not eligible to receive any personal loans, guarantees, or similar benefits.

ix The shareholders and General Meeting of Shareholders

Powers

AEGON places a high level of importance on dialogue with its shareholders. For this purpose, AEGON has an active department on Group level called Group Corporate Affairs & Investor Relations. One of the key opportunities for dialogue with its shareholders is the General Meeting of Shareholders.

AEGON has traditionally made an effort to maximize shareholder participation by allowing proxy voting, both in the United States (where AEGON has a significant shareholder base) and in the Netherlands through Stichting Communicatiekanaal Aandeelhouders.

The Supervisory Board and Executive Board welcome increased shareholder participation. At the 2005 annual General Meeting of Shareholders an amendment to the Articles of Incorporation was adopted which requires certain Executive Board resolutions to be subject to the approval of the General Meeting of Shareholders, namely those entailing significant changes to the identity or character of AEGON or its business.

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

Currently, Vereniging AEGON holds 23,850,000 preferred shares class B, representing approximately 1.3% of voting shares under normal circumstances. The 1983 Merger Agreement (as amended) provides that additional preferred shares class B are to be issued by AEGON to Vereniging AEGON at the option of Vereniging AEGON in order to prevent Vereniging AEGON s voting power from being diluted as a result of issuances of common shares. In addition, AEGON and Vereniging AEGON have entered into a preferred shares voting rights agreement. Pursuant to this agreement, voting power attached to the preferred shares classes A and B is, under normal circumstances, limited to one vote per share. The preferred shares voting rights agreement allows Vereniging AEGON to exercise the full voting power on its preferred shares (approximately 2.08 votes per preferred share) in the event of a special cause (as defined in the preferred shares voting rights agreement) for up to six months.

As a result of the foregoing and certain qualified majorities specified in AEGON s Articles of Incorporation, in the event of a special cause (as referred to above), for a period of six months Vereniging AEGON may effectively be in a position to temporarily block any unfriendly actions by a hostile bidder or others. The Supervisory and Executive Boards take the view that this arrangement is in accordance with the principles that the Dutch Corporate Governance Committee has recommended to the legislature and which should be taken into consideration when drafting a law on anti-takeover measures.

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

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

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

In the event of a serious private bid for a business unit or a participating interest in excess of the threshold expected to be set in the Netherlands Civil Code, the Executive Board will make public its position on the bid and its reasons for its position.

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

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

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

Provision of information to and logistics of the general meeting of shareholders

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

All communications and filings are supervised by the Disclosure Committee instituted by AEGON in compliance with the United States Sarbanes-Oxley legislation. These communications and filings are made available on AEGON s website - www.aegon.com.

AEGON refrains from any actions that may jeopardize the independence of analysts in relation to the company. Other than factually, analysts reports and valuations (including earnings estimates) are not assessed, commented upon or corrected by AEGON in advance of their publication and AEGON pays no remuneration of any kind to analysts in the context of preparing such reports or publications.

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.

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AEGON uses shareholders circulars to inform the shareholders about the facts and circumstances relevant to upcoming proposals. Shareholders circulars may take the form of an appropriate written explanation in the agenda of the General Meeting of Shareholders. Shareholders circulars are published in those instances where shareholders approval is prescribed (including delegations or authorizations requested from the General Meeting of Shareholders).

As a general rule, the report of the General Meeting of Shareholders shall be made available, upon request, to the shareholders no later than three months after the meeting. Shareholders are given three months to react to the report prior to its adoption in accordance with the Articles of Incorporation. Such reaction is channeled through the chairman of the General Meeting of Shareholders and the secretary appointed by the chairman for that purpose. The report is posted on AEGON s website - www.aegon.com.

Responsibility of institutional investors

In addition to AEGON s responsibility to its shareholders and other stakeholders, the company is also an institutional investor. As such, in deciding whether to exercise its rights as a shareholder of other listed companies, AEGON acts primarily in the interest of its policyholders and other ultimate beneficiaries of its products while also honoring the responsibility to the ultimate beneficiaries and investors in the companies in which it has invested.

In compliance with local Codes of Conduct applicable to institutional investors, AEGON s country units in the United States and the United Kingdom have detailed policies in place in relation to their exercise of the voting rights attaching to the shares held by them. AEGON Nederland N.V. has published on its Dutch website, www.aegon.nl, its existing policies regarding the exercise of the voting rights attaching to the shares held by AEGON Nederland N.V. in Dutch-listed companies. In addition, a report on how this policy was implemented in 2005 is published on the website of AEGON Nederland N.V. A record of whether, and if so, how AEGON Nederland N.V. has voted as shareholder in General Meetings of Shareholders of Dutch listed companies is also published on its website. At a minimum, this record is updated on a quarterly basis.

x 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, particula