AEGON NV
Form 20-F
March 30, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

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

OR

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

Commission file number 1-10882

AEGON N.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

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

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

x Yes No ¨

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

¨ Yes No x

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

x Yes No ¨

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

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

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

¨ Item 17 x Item 18

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

¨ Yes No x

Table of Contents

TABLE OF CONTENTS

PRESENTATION OF CERTAIN INFORMATION

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

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

2

Table of Contents

FORWARD LOOKING STATEMENTS

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

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

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

Customer responsiveness to both new products and distribution channels;

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

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable

ITEM 2. OFFER STATISTICS AN D EXPECTED TIMETABLE

Not applicable

Table of Contents

ITE M 3. KEY INFORMATION

3A Selected financial data

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

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

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

Consolidated income statement information

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

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

For Notes 1 4 see page 6.

Table of Contents

Consolidated balance sheet information

In million EUR (except per share amount)	as at December 31, 2006	2005	2004
Amounts based upon IFRS [1]			
Total assets	314,813	311,215	268,692
Insurance and investment contracts	261,337	263,536	223,492
Trust pass-through securities and (subordinated) borrowings [5]	4,395	5,014	5,295
Shareholders equity	19,137	19,276	14,875

	2006	2005	2004	2003	2002
Amounts based upon US GAAP [1]					
Total assets	321,014	317,957	263,751	267,540	268,316
Insurance and investment contracts	267,569	263,832	216,810	212,395	217,022
Perpetuals and (subordinated) borrowings [5]	8,171	8,381	7,742	7,144	7,220
Trust pass-through securities (TRUPS)				408	491
Shareholders equity	20,994	22,913	18,316	17,836	17,554

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

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

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

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

5 Excludes bank overdrafts.

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

Table of Contents

Dividends

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

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

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

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

3 Proposed.

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

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

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

Exchange rates

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

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

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

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

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

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

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

3B Capitalization and indebtedness

Not applicable

3C Reasons for the offer and use of proceeds

Not applicable

Table of Contents

3D Risk factors

i Risks relating to our business

Interest rate risk

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

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

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

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

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

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

Credit risk

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

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

Table of Contents

Equity market risk

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

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

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

Underwriting risk

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

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

Currency exchange rate risk

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

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

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

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

Liquidity risk

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

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

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

Risk related to general economic conditions

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

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

Other risks

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

Competitive factors may adversely affect our market share.

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

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

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

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

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

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

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

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

13

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

ii Risks relating to AEGON s common shares

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

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

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

General insurance market conditions.

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

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

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

Table of Contents

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

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

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

- Adopting amendments to the Articles of Incorporation;
- Adopting the annual accounts;
- Approving a consolidation or liquidation;
- Approving a tender offer, merger, sale of all or substantially all of the assets or other business combination;

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

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

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

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

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

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

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

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

Table of Contents

ITEM 4. INF ORMATION ON THE COMPANY

4A History and development of the AEGON Group

i General

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

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

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

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

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

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

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

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

Our headquarters are located at:

AEGONplein 50

P.O. Box 85

2501 CB The Hague

The Netherlands

Telephone number: +31.70.344.3210

Internet site: www.aegon.com

Table of Contents

ii Strategic framework

Commitment to core business

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

Serving local needs with global capabilities

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

Emphasis on profitability

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

Market position

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

International expansion

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

iii Recent developments and capital expenditures and divestments

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

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

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

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

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

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

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

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

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

On March 15, 2007 AEGON announced an agreement to acquire OPTAS N.V., a Dutch life insurance company specializing in employee benefit products and services within the Dutch group pension market. The net consideration for AEGON of this transaction is approximately EUR 100 million. OPTAS N.V., the successor of Stichting Pensioenfonds voor de Vervoer- en Havenbedrijven (a pension fund for companies active in the transport and port industries) was converted into a public company in 1997. At the end of 2005, OPTAS had 60,000 policyholders and reported total gross written premiums of EUR 92 million, with total assets of EUR 4.3 billion. AEGON will acquire OPTAS N.V. for a gross amount of approximately EUR 1.3 billion. Taking into account the excess capital of OPTAS, the net consideration is estimated to be approximately EUR 100 million. A portion of the shareholders equity of OPTAS is subject to restrictions as set out in the articles of association of the company. These restrictions assure continued fulfillment of existing policy obligations and will remain in force after the acquisition. The combination of OPTAS and AEGON s existing pension activities will lead to a more efficient platform to serve the group pension market. The transaction will have a slightly positive effect on AEGON N.V. s earnings per share. This acquisition agreement is subject to the consultation of the Works Councils of both OPTAS and AEGON The Netherlands, in addition to the approvals of the relevant regulatory authorities.

4B Business overview

i Product line overview

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

ii Supervision

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

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

Table of Contents

The Americas

i General history

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

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

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

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

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

AEGON USA

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

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

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

Transamerica Occidental Life Insurance Company

Veterans Life Insurance Company

Western Reserve Life Assurance Co. of Ohio

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

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

Table of Contents

AEGON Canada

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

AEGON Canada s operations are divided into six business segments:

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

The primary operating companies of AEGON Canada are:

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

ii Products and distribution

AEGON USA

Agency Group

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

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

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

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

Table of Contents

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

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

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

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

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

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

AEGON Direct Marketing Services Group

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

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

Financial Markets Group

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

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

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

Institutional Products and Services Group

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

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

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

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

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

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

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

Pension Group

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

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

25

Table of Contents

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

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

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

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

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

AEGON Canada

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

Investment products

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

Life insurance products

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

26

Table of Contents

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

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

iii Asset liability management

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

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

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

iv Reinsurance ceded

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

Table of Contents

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

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

v Competition

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Canadian life insurance marketplace

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

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

Table of Contents

vi Regulation

AEGON USA

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

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

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

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

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

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

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

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

30

[Table of Contents](#)

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

AEGON Canada

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

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

Table of Contents

The Netherlands

i General history

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

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

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

AEGON The Netherlands primary operational subsidiaries are:

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

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

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

- SC Pensions;

SC Life insurance;

SC Non-life insurance;

SC Banking;

SC Asset management.

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

Corporate & Institutional Clients (C&IC) focuses on large companies and institutional clients such as company pension funds and industry pension funds;

AEGON Intermediary focuses on independent agents;

AEGON Spaarbeleg works with tied agents as well as making direct sales.

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

ii Products and distribution

AEGON The Netherlands offers five product lines:

Pensions

Life insurance (including mortgages)

Non-life insurance

Banking

Asset management

Table of Contents

Pension products

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

The main pension products are:

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

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

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

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

Life insurance and mortgage savings products

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

Universal life products

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

Mortgage savings products

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

Term life and funeral insurance products.

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

Table of Contents

Non-life products

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

Banking

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

Asset management

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

Other activities

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

iii Asset liability management

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

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

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

iv Reinsurance ceded

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

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

Life

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

Non-life

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

v Competition

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

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

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

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

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

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

Table of Contents

vi Regulation

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

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

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

Insurance companies

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

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

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

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

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

- AEGON Levensverzekering N.V.
- AEGON Schadeverzekering N.V.
- AEGON NabestaandenZorg N.V.
- AEGON Spaarkas N.V.

Spaarbeleg Kas N.V.

AXENT/AEGON Sparen N.V.

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

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

Banking institutions

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

Table of Contents

United Kingdom

i General history

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

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

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

The primary operating subsidiaries of AEGON UK are:

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

AEGON UK is operationally structured into four distinct businesses:

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

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

AEGON Asset Management investment management operations.

AEGON UK Distribution intermediary distribution and advice businesses.

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

ii Products and distribution

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

Pensions

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

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

Table of Contents

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

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

Individual Pensions

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

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

Group Pensions

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

Individual Annuities

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

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

Investment Products

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

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

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

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

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

Individual protection

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

Group Risk

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

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

Benefit solutions

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

Mutual funds

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

Financial Advice

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

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

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

Table of Contents

iii Asset liability management

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

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

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

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

iv Reinsurance ceded

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

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

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

Table of Contents

v Competition

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

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

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

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

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

vi Regulation

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

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

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

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

Table of Contents

Central Eastern European Region

i General history

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

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

AEGON CEE s primary operational units are as follows:

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

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

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

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

ii Products and distribution

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

Pension products

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

Table of Contents

Traditional general account products

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

Unit-linked products

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

Mortgage loans

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

Asset management

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

Distribution channels

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

Table of Contents

iii Asset liability management

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

iv Reinsurance ceded

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

v Competition

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

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

Table of Contents

vi Regulation

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

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

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

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

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

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

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

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

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

This activity is also supervised by the HFSA.

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

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

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

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

Table of Contents

Spain

i General history

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

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

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

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

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

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

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

ii Products and distribution

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

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

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

iii Asset liability management

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

iv Reinsurance ceded

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

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

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

v Competition

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

vi Regulation

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

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

Taiwan

i General history

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

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

ii Products and distribution

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

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

iii Asset liability management

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

iv Reinsurance ceded

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

Table of Contents

v Competition

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

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

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

vi Regulation

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

China

i General history

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

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

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

ii Products and distribution

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

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

iii Asset liability management

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

Table of Contents

iv Reinsurance ceded

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

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

v Competition

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

vi Regulation

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

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

Table of Contents

4C Organizational structure

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

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

4D Description of property

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable

Table of Contents

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.1 Introduction

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

5.2 Application of Critical Accounting Policies IFRS Accounting Policies

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

i Valuation of assets and liabilities arising from life insurance contracts

General

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

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

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

Actuarial assumptions

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

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

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

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

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

Reserve for guaranteed minimum benefits

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

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

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

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

Table of Contents

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

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

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

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

1 Guaranteed minimum accumulation and withdrawal benefits

2 Fund plan and unit-linked guarantees

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

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

Table of Contents

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

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

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

1 Guaranteed minimum death benefit in the United States.

2 Guaranteed minimum income benefit in the United States.

3 Guaranteed minimum accumulation benefit in the Netherlands.

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

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

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

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

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

57

Table of Contents

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

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

VOBA, DPAC per line of business

DPAC per line of business

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

VOBA per line of business

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

Table of Contents

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.

Table of Contents

iv Impairment of financial assets

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

Debt instruments

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

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

In million EUR	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Bonds						
United States government	3,192	86	(37)	3,241	1,415	1,826
Dutch government	2,301	52	(27)	2,326	1,100	1,226
Other government	11,736	601	(67)	12,270	8,298	3,972
Mortgage backed	10,519	79	(73)	10,525	6,127	4,398
Asset backed	9,993	57	(72)	9,978	5,863	4,115
Corporate	53,852	1,644	(644)	54,852	30,143	24,709
Money market investments	4,387	0				