

## IFRS: ITS MEANING AND IMPACT

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

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

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

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

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

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

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