RISK AND CAPITAL MANAGEMENT

GENERAL

As an insurance company, AEGON is in the 'risk' business and as a result is exposed to a variety of risks. Below a description of the risk management and control systems is given on the basis of the identified important risks for AEGON. Some risks, such as currency translation risk, are related to the international nature of AEGON's business. Other risks include insurance related risks, such as changes in mortality and morbidity. However, AEGON's largest exposures are to changes in financial markets (e.g. interest rate, credit and equity market risks) that affect the value of the investments, liabilities from products that AEGON sells, deferred expenses and value of business acquired.

AEGON manages risk at the local level where business is transacted, based on principles and policies established at Group level. AEGON's integrated approach to risk management involves common measurement of risk and scope of risk coverage to allow for aggregation of the Group's risk position. In addition, this integrated framework facilitates the sharing of best practices and the latest research on methodologies. The risk management functions are applied locally and are tied to the speed of business with corporate oversight, while remaining independent of the business activity providing oversight and peer review.

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

As part of these risk management programs, AEGON takes inventory of its current risk position across risk categories. AEGON also measures the sensitivity of net income and shareholders' equity to stochastic and deterministic scenarios. Management uses the insight gained through these 'what if?' scenario's to manage the Group's risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated if necessary.

IFRS-BASED SENSITIVITY ANALYSES

Results of AEGON's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios. These sensitivity analyses are presented according to IFRS. These scenario results do not consider the actions that might be taken to mitigate losses inherent in AEGON's risk management processes. As financial markets fluctuate, these actions may involve selling investments, changing investment portfolio allocation and adjusting interest rates or bonuses credited to policyholders. Also, the results do not take into account correlation between factors and assume unchanged conditions for all other assets and liabilities. Results of the analyses also cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

CURRENCY EXCHANGE RATE RISK

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

AEGON does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As AEGON has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. AEGON may experience significant changes in net income and shareholders' equity because of these fluctuations.

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

Table 1

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

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

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

Table 2

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

The sensitivity analysis in table 3 shows the estimated approximate effects on net income and shareholders' equity of movements in the exchange rates of AEGON's non-euro currencies relative to the euro.

INTEREST RATE RISK

AEGON bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the liabilities can mitigate this risk. For some AEGON country units local capital markets are not well developed, which prevents the complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

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

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

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

Table 3

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

Movement of markets	Estimated approximate effects on net income	Estimated approximate effects on shareholders' equity
Increase versus the euro of non-euro currencies of 15%	increase between 12% and 13%	increase between 14% and 15%
Decrease versus the euro of non-euro currencies of 15%	decrease between 12% and 13%	decrease between 14% and 15%

1 Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All percentage changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.
2 The effect of currency exchange rate movements is reflected as a one-time shift up or down in the value of the non-euro currencies versus the euro on December 31, 2005.

The general account fixed income portfolios of AEGON Americas and AEGON The Netherlands accounted for 95% of the total general account fixed income portfolio of the AEGON Group on December 31, 2005. AEGON USA and AEGON The Netherlands manage their duration mismatch (which is the difference between the average life of liabilities and the average life of assets) on the basis of their expectations for the future level of interest rates within limits. Presently, other AEGON country units target the duration of their assets to equal approximately the duration of their liabilities where possible. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at group level.

For AEGON USA's business, the average duration of assets is approximately 4.2 years. This relatively low duration, as compared to the long-term nature of most of AEGON USA's businesses, is driven by the asset and liability management process applied to the institutional markets business in the United States (guaranteed investment contracts and funding agreements). Both the assets and the liabilities for this business are managed on a floating rate basis, with extensive use of interest rate swaps. As a result, the asset duration is short for this business. In the Netherlands, the average duration of assets is approximately 8.0 years. The combined market value weighted duration mismatch of AEGON USA and AEGON The Netherlands was around minus 1.0 years on December 31, 2005. This duration mismatch is an indication of the degree of interest rate risk on a fair value basis. As cash flows emerge and interest rates change, the actual impact of interest rate exposure could be higher or lower than what this static duration measure implies.

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

Table 4

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

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

Under IFRS, income and shareholders' equity are adversely affected when interest rates rise and favorably affected when interest rates fall. When interest rates shift up, there would be unrealized losses on certain assets that adversely affect net income and shareholders' equity. However when rates shift up, IFRS does not recognize the unrealized gains in corresponding liabilities in net income and shareholders' equity. Similarly, when rates shift down, there would be unrealized gains on certain assets that favorably affect net income and shareholders' equity. However when rates shift down, IFRS also does not recognize the unrealized losses in corresponding liabilities in net income and

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Table 5

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

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

[1] Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.
[2] The effect of interest rate movements is reflected as the effect of a one-time parallel shift up or down of all relevant yield curves on December 31, 2005.

Table 6

GENERAL ACCOUNT INVESTMENTS AND REINSURANCE ASSETS
(in EUR millions)

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

[1] Includes investments of holding and other activities.

shareholders' equity. As a result under IFRS, the impact of interest rate changes on net income and shareholders' equity can give an incomplete and even incorrect impression of the true risk exposure of the company. In fact, the company is at risk if rates decline as the investments are currently shorter in duration than the liabilities and as a result of minimum guarantees present in some products. Similarly when interest rates rise, the company is currently better off since the investments are currently shorter in duration than the liabilities. When interest rates rise sharply, this benefit would be partially offset in the short term due to a likely sudden rise in lapse rates on fixed annuity products in AEGON USA.

CREDIT RISK

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

AEGON actively manages its credit risk exposure by individual counterparty, sector and asset class. It may mitigates credit risk in derivative contracts by entering in collateral agreements where practical and in International Swaps and Derivatives Association (ISDA) master netting agreements for each of AEGON's legal entities to facilitate AEGON's right to offset credit risk exposure. AEGON may also mitigates credit risk in reinsurance contracts where possible by retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, AEGON employs deterministic and stochastic credit risk modeling in order to assess AEGON's credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

The ratings distribution of general account portfolios of AEGON's major country units are presented in table 6 on page 57 and are organized by rating category.

Country units apply specific guidelines for the acceptable levels of credit risk. AEGON monitors its aggregate exposure to credit counterparties at group level. For this purpose, AEGON aggregates exposures from its country units to assess overall credit risk. To manage its credit risk, AEGON has a single credit counterparty limit policy to be applied to all forms of credit risk. All forms of credit risk are aggregated by counterparty and measured for compliance against country unit credit limits and group wide credit limits. The group wide limits are shown in table 7.

Table 7

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

CREDIT RATING	LIMIT
AAA	1,000
AA	1,000
A	750
BBB	500
BB	250
B	125
CCC or lower	50

[1] The fixed income issuer rating is used when applying the credit counterparty limit exposure policy.

If an exposure exceeds the stated limit as a result of a downgrade, the exposure must be readjusted to the limit for that rating category as soon as practicable. The limits vary with the asset quality of the security as can be seen in table 7. Exceptions to these limits can only be made after explicit approval from AEGON's Group Risk and Capital Committee.

EQUITY MARKET AND OTHER INVESTMENT RISKS

Fluctuations in the equity, real estate and capital markets have adversely affected AEGON's profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where AEGON bears all or most of the volatility in returns and investment performance risk. Significant terrorist actions, as well as general economic conditions, have led to and may again result in significant decreases in the value of AEGON's equity investments.

Equity market exposure is present in equity-linked products whereby policyholder funds are invested in equities at the discretion of the policyholder; here most of the risk remains with the policyholder. Examples of these products include variable annuities, variable universal life, unit-linked products and mutual funds. AEGON typically earns a fee on the asset balance in these products and therefore has a risk related to the investment performance. In addition, some of this business has minimum return or accumulation guarantees, which are often life contingent or contingent upon policyholder persistency. AEGON is at risk if equity market returns do not exceed these guarantee levels and the company may need to set up additional reserves to fund these future guaranteed benefits. AEGON is also at risk if returns are not sufficient to allow amortization of DPAC. It is possible under certain circumstances that AEGON would need to accelerate amortization of DPAC and to establish additional provisions for minimum guaranteed benefits, which would reduce net income and shareholders' equity. Volatile or poor market conditions may also significantly reduce the popularity of some of AEGON's savings and investment products, which could lead to lower sales and net income. AEGON's general account equity and certain other investment holdings are shown in table 8.

The general account equity, real estate and other non-fixed-income portfolio of AEGON USA and AEGON The Netherlands accounted for 98% of the total general account equity, real estate and other non-fixed income portfolio of the AEGON Group. Of AEGON's country units, AEGON The Netherlands holds the largest amount of equities, both in absolute terms and expressed as a percentage of total general account investments. The largest part of the equity portfolio of AEGON The Netherlands consists of a diversified portfolio of global equities and 5% equity holdings in Dutch companies, which include non-redeemable preferred shares.

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

Table 9

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

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

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

The sensitivity of shareholders' equity and net income to changes in equity and real estate markets reflects changes in the market value of AEGON's portfolio, changes in DPAC amortization, contributions to pension plans for AEGON's employees and the strengthening of the guaranteed minimum benefits, when applicable. The main reason for the non-linearity of results in the equity portion of the sensitivity is that more severe scenarios could cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not.

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Table 8

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

ASSETS	AEGON AMERICAS (IN USD)	AEGON THE NETHERLANDS (IN EUR)	AEGON UK (IN GBP)	OTHER COUNTRIES (IN EUR)	HOLDINGS AND ELIMINATIONS (IN EUR)	TOTAL (IN EUR)
Equity funds	488	1,472	64	-	-	1,980
Common shares[1]	501	3,417	4	20	(29)	3,838
Preferred shares	294	562	-	31	-	842
Real estate	677	1,798	-	35	16	2,423
Hedge funds	1,038	269	-	-	-	1,149
Credit investment strategies	103	-	-	-	-	87
Total equity, real estate and other non-fixed income exposure	3,101	7,518	68	86	(13)	10,319

[1] Of AEGON The Netherlands' common shares, EUR 338 million are invested in a property company and are therefore internally viewed as real estate exposure. For the purpose of the sensitivities, this exposure is included in the real estate section.

DERIVATIVES RISK

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

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

LIQUIDITY RISK

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

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

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

UNDERWRITING RISK

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

Sources of underwriting risk include policy lapses and policy claims such as mortality, morbidity and expenses. In general, AEGON is at risk if policy lapses increase as sometimes AEGON is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, AEGON sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accidental insurance, and sells certain types of policies that are at risk if mortality decreases, such as annuity products. AEGON is also at risk if expenses are higher than assumed by management.

AEGON monitors and manages its underwriting risk by each underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. AEGON's units also perform experience studies for underwriting risk assumptions, comparing AEGON's experience to

Table 10

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

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

[1] Basic assumptions: no correlation between markets and risks, unchanged conditions for all other assets and liabilities and limited management actions taken. All changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.
[2] The effect of movements in equity and real estate markets is reflected as a one-time increase or decrease of worldwide equity and real estate markets on December 31, 2005.

industry experience as well as combining AEGON's experience and industry experience based on the depth of the history of each source to AEGON's underwriting assumptions. Where policy charges are flexible in products, AEGON uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. AEGON also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

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

NEW PRODUCTS

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

TAX CHANGES

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

GENERAL ECONOMIC CONDITIONS

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

OTHER RISKS

RATINGS

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

Table 11

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

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

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

Table 12

RATINGS
as per January 31, 2006

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

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

Negative changes in credit ratings may also increase AEGON's cost of funding. During 2005, Standard and Poor's maintained the credit ratings of AEGON N.V. at A+ with a stable outlook. Moody's Investor Service maintained the senior debt rating of AEGON N.V. at A2 with a stable outlook. On January 30, 2006, Fitch assigned AEGON N.V. an AA– (double A minus) rating to AEGON N.V.'s senior debt with a stable outlook and A+ ratings to subordinated debt and perpetual securities. The current S&P, Moody's and Fitch credit and insurance financial strength ratings and ratings outlook are shown in table 12 on page 61.

INFORMATION TECHNOLOGY

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

CATASTROPHIC EVENTS

AEGON's operating results and financial position can be adversely affected by volatile natural and man-made disasters such as hurricanes, windstorms, earthquakes, riots, fires and explosions. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. AEGON generally seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, such events could lead to considerable financial losses.

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

GOVERNMENT REGULATIONS

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

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

LITIGATION

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

CHANGES IN ACCOUNTING PRINCIPLES

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

DEFAULT OF A MAJOR MARKET PARTICIPANT

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

JUDGMENTS OF COURTS IN THE UNITED STATES

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

IN CONTROL STATEMENT

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

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

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

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

RISK AND CAPITAL MANAGEMENT

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

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

CAPITAL ADEQUACY

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

CAPITAL BASE

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

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

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

SHAREHOLDERS' EQUITY

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

DEBT FUNDING AND LIQUIDITY

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

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

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

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

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

CORPORATE GOVERNANCE AND REMUNERATION

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

The Hague, March 8, 2006
The Executive Board