AEGON NV
Form 20-F
March 28, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

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

OR

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

Ruurd A. van den Berg

Executive Vice-President Group Finance & Information

AEGON N.V.

Bezuidenhoutseweg 273, 2594 AN The Hague, The Netherlands

+31-70-3448306

ruurd.vandenberg@aegon.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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: 1,636,544,530 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 checkmark which basis of accounting the registrant has used to prepare the financial statements included in this filing

¨ U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 ¨ Item 18

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

¨ Yes No x

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PRESENTATION OF CERTAIN INFORMATION

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

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

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FORWARD LOOKING STATEMENTS

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

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

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

Customer responsiveness to both new products and distribution channels;

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

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ITEM 3. KEY INFORMATION

3A Selected financial data

A summary of historical financial data is found in the table below. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). Financial data for 2003 has been omitted due to the unavailability of IFRS data for that period.

It is important to read this summary in conjunction with the consolidated financial statements and related notes included elsewhere in this Report.

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, 2007.

Consolidated income statement information

	Years ended December 31,			
In million EUR (except per share amount)	**2007**	**2006[4]**	**2005[4]**	**2004[4]**
Amounts based upon IFRS [1]				
Premium income	26,900	24,570	18,882	18,329
Investment income	10,457	10,376	9,937	9,339
Total revenues [2]	39,271	36,615	30,336	29,300
Income before tax	3,077	3,971	2,796	2,441
Net income	2,551	3,169	2,147	2,010
Net income per common share [3]				
Basic	1.47	1.87	1.25	1.22
Diluted	1.47	1.86	1.25	1.22

1 Our consolidated financial statements are prepared in accordance with IFRS.

2 Excluded from the income statements prepared in accordance with IFRS are receipts related to investment-type annuity products and investment contracts.

3 Per share data has been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends, stock splits and share repurchases through December 31, 2007. Diluted per share data gives effect to all dilutive securities.

4 Information for 2006, 2005 and 2004 have been adjusted to reflect a change in accounting principles. Please refer to Note 18.2 of the notes to our consolidated financial statements in Item 18 of this Annual Report for further information.

Consolidated balance sheet information

	as at December 31,			
In million EUR (except per share amount)	**2007**	**2006[3]**	**2005[3]**	**2004[3]**
Amounts based upon IFRS [1]				
Total assets	314,120	314,813	311,215	286,692
Insurance and investment contracts	266,735	262,052	264,334	223,969
Trust pass-through securities and (subordinated) borrowings [2]	5,152	4,395	5,014	5,295
Shareholders equity	15,151	18,605	18,715	14,458

1 Our consolidated financial statements are prepared in accordance with IFRS.

2 Excludes bank overdrafts.

[3] Information for 2006, 2005 and 2004 have been adjusted to reflect a change in accounting principles. Please refer to Note 18.2 of the notes to our consolidated financial statements in Item 18 of this Annual Report for further information.

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In thousand	2007	2006	2005	2004	2003
Number of common shares					
Balance at January 1	1,622,927	1,598,977	1,552,685	1,514,378	1,444,579
Stock dividends	25,218	23,950	46,292	38,307	69,799
Share withdrawal	(11,600)				
Balance at end of period	1,636,545	1,622,927	1,598,977	1,552,685	1,514,378

Dividends

AEGON has declared interim and final dividends for the years 2003 through 2007 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]			USD per common share [1]		
Year	Interim	Final	Total	Interim	Final	Total
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	0.55	0.31	0.42	0.73
2007	0.30	0.32[2]	0.62[2]	0.41	NA	NA

1 Paid, at each shareholder s option, in cash or in stock.

2 Proposed.

On August 10, 2007, AEGON declared an interim dividend for 2007 of EUR 0.30 per common share. AEGON repurchased 13.6 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 23, 2008, that the full year 2007 dividend be set at EUR 0.62 per common share, resulting in a final dividend for 2007 of EUR 0.32 per common share. To the extent shareholders elect to receive their final dividend in the form of new shares rather than cash, AEGON will purchase an equivalent amount of shares on the open market to neutralize the effect of the 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 5.25% for 2007. Applying this rate to the weighted average paid-in capital of our preferred shares during 2007, the annual dividend on our preferred shares payable for 2007 is EUR 112 million. The rate for annual dividends on preferred shares in 2008, as determined on January 2, 2008, is 5.75% and the annual dividend on preferred shares for 2008, based on the paid-in capital on the preferred shares on January 2, 2008, will be EUR 122 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

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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 February 29, 2008 the USD exchange rate [1] was EUR 1 = USD 1.5187

The high and low exchange rates [1] for the US dollar per euro for each of the last six months through February 2008 are set forth below:

	Sept. 2007	Oct. 2007	Nov. 2007	Dec. 2007	Jan. 2008	Feb. 2008
High (USD per EUR)	1.4219	1.4468	1.4862	1.4759	1.4877	1.5187
Low (USD per EUR)	1.3606	1.4092	1.4435	1.4344	1.4574	1.4495

The average exchange rates[1] for the US dollar per euro for the five years ended December 31, 2007, 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
2003	1.1411
2004	1.2478
2005	1.2400
2006	1.2661
2007	1.3797

1 The US dollar exchange rates are the noon buying rates in New York City for cable transfers in euros 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

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 by us 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.

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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 are likely to 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 returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

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 2005, 2006 and 2007 was EUR 6.6 billion, EUR 7.0 billion and EUR 7.1 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2005, 2006 and 2007 was EUR 136 billion, EUR 126 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, 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. Impairments on bonds held by us were low in 2005, 2006 and 2007. However, a return to excessive defaults or other reductions in the value of these securities and loans could have a materially adverse effect on our business, results of operations and financial condition.

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 2005, 2006 and 2007, declines in the value of equity securities held in the general account resulted in the recognition of impairment losses of EUR 20 million, EUR 36 million and EUR 45 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.

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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 materially 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. Capital 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 2007 amounted to EUR 16.3 billion and EUR 1,596 million, respectively. For the United Kingdom segment, which primarily conducts its business in UK pounds, total revenues and net income in 2007 amounted to EUR 13.7 billion and EUR 267 million, respectively. On a consolidated basis, these two segments represented 76% of the total revenues and 73% of the net income for the year 2007. Additionally, we borrow in various currencies to hedge the currency exposure arising from our operations. On December 31, 2007 we have borrowed or swapped amounts in proportion to the currency mix of capital in units, which was denominated approximately 59% in US dollars, 22% in Euro, 14% in UK pounds and 5% 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. The latter half of 2007 was characterized by adverse market conditions generally affecting the value and liquidity of assets and in particular asset-backed securities. Due to the current reduced liquidity in capital markets, we may be unable to sell or buy significant volumes of assets at quoted prices. In addition, any securities we issue of significant volume may be issued at higher financing costs due to these current impaired liquidity conditions. Although AEGON manages its liquidity position for extreme events including greatly reduced liquidity in capital markets, if these conditions were to persist for an extended period of time, we may need to sell assets to meet our insurance obligations while still in this impaired liquidity market.

Approximately 30% of our general account investments are less liquid.

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.

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Other risks

US Regulations XXX and AXXX may have an adverse effect on our financial condition and results of operations by requiring us to increase our statutory reserves for term and universal life insurance or incur higher operating costs.

The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers in the United States to establish additional statutory reserves for term life insurance policies with long-term premium guarantees. In addition, Valuation of Life Insurance Policies Regulation , commonly known as Regulation AXXX requires insurers to establish additional statutory reserves for certain universal life insurance policies with secondary guarantees. Virtually all of our newly issued term and universal life insurance products are now affected by Regulations XXX and AXXX, respectively.

In response to this regulation, AEGON has implemented reinsurance and capital management actions to mitigate the impact of Regulations XXX and AXXX. However, AEGON may not be able to implement actions to mitigate the impact of Regulation XXX and AXXX on future sales of term or universal life insurance products, potentially resulting in an adverse impact on these products and our market position in the life insurance market. Additionally, any change to or repeal of Regulation XXX or AXXX could also reduce the effectiveness of our reinsurance and capital management actions, adversely affecting our life insurance operations.

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 would 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. This would have a materially 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	Not rated
Moody s outlook	Stable	Not rated	Not rated
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 2007, 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. Fitch Ratings assigned AA- (double A minus) ratings to AEGON NV s senior debt. On June 22, 2007, Moody s Investors Service withdrew the A1 insurance financial strength rating (stable outlook) of AEGON Scottish Equitable for business reasons.

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.

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. 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 materially adverse effect on our business, results of operations and financial condition.

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AEGON may be unable to manage our 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 materially 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 and with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 our profitability, as well as 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 on this inside build-up of earnings may not be payable at all and, if payable, generally are due only when the earnings are actually paid.

The US Congress has, from time to time, considered possible legislation that could make our products less attractive to consumers, including legislation that would reduce or 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.

The US Government, as well as state and local governments, also considers from time to time tax law changes that could increase the amount of taxes that we pay. For example, the US Treasury Department and the Internal Revenue Service are expected to propose new regulations regarding the methodology to determine the dividends received deduction (DRD) related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between our effective tax rate and the federal statutory tax rate of 35%. A change in the DRD, including the possible elimination of this deduction, could reduce our consolidated net income.

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 materially 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.

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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, 2007) and tenth in variable life sales (source: Tillinghast survey for nine months ended September 30, 2007). AEGON USA ranked fifth in sales of fixed annuities sold through banks, fifteenth in variable annuities sold through banks and tenth overall in annuity sales through banks (source: internal research for the nine months ended September 30, 2007) and first in Synthetic Guaranteed Investment Contracts (source: internal research for the nine months ended September 30, 2007). 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 fifth in overall individual life insurance sales (new business premiums), fourth in the universal life market, (source: LIMRA study Fourth Quarter 2007, issued February 2008) and fifth in the segregated funding insurance market based on net assets (source: Investor Economics Insight December 2007). AEGON s primary competitors in Canada are: Manulife, Sun Life, Industrial-Alliance, RBC Life, Canada Life, AIG Life, Empire Life and Equitable.

In the Netherlands, AEGON is the fifth largest life insurer. AEGON is the largest pension insurer and sixth largest individual life insurer based on gross life premium income (source: Regulatory Returns 2006). AEGON also owns the largest insurance broker in the Netherlands (source: Yearly Report Assurantie Magazine 2007). AEGON s major competitors in the Netherlands include Delta Lloyd, Eureko, Fortis, ING and SNS Reaal (which includes Zwitserleven and AXA NL). 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 advisor 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, Ibercaja, Vidacaixa, 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.

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 2005, 2006 and 2007. See also Item 18, Financial Statements , Note 18.10 of this Annual Report for the amount of reinsurance assets at each balance sheet date for reinsurance ceded.

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In accordance with industry practices, AEGON reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 31% 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, RGA Reinsurance Company, Swiss Re and US Branch Sunlife Assurance Company of Canada. AEGON Canada s major reinsurers are Munich Re, RGA 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, Nacional de Reaseguros, Scor Life, 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.

Reinsurance may not be available, affordable or adequate to protect us against losses.

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

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 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. Generally, we 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 well 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 materially 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.

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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 materially 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 and practices. 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. Our risk management activities cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. We may incur losses from time to time due to these types of risks.

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ii Risks relating to AEGON s common shares

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

The price at which our common shares 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 15.56 and EUR 12.17 respectively in 2006 and EUR 16.06 and EUR 11.46 respectively in 2007. The high and low sales prices of our common shares on the NYSE were USD 18.97 and USD 15.24 respectively in 2006 and USD 21.90 and USD 16.75 respectively in 2007. 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, 2007, 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.

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, unless Vereniging AEGON as a result of exercising these option rights would increase its voting power to more than 33%. 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 2006 29,290,000 class B preferred shares were issued under these option rights. In 2007, Vereniging AEGON exercised its option rights to purchase in aggregate 5,880,000 class B preferred shares at par value to correct dilution caused by AEGON s stock dividend issuances during the year.

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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 23.94% 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 34.02%. 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 euros and our common shares listed on the New York Stock Exchange (NYSE) are quoted in US dollars, fluctuations in exchange rates between the euro and the US dollar may affect the value of AEGON shares. In addition, we declare cash dividends in euros, but pay cash dividends, if any, on our New York Shares in US dollars based on an exchange rate set the business day following the shareholder meeting approving the dividend. As a result, fluctuations in exchange rates may affect the value of any cash dividends paid.

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

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

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ITEM 4. INFORMATION ON THE COMPANY

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, 2007 (source: Bloomberg). AEGON is headquartered in the Netherlands and employs, through its subsidiaries, about 30,000 people worldwide. AEGON s common shares are listed on stock exchanges in Amsterdam (Euronext), New York (NYSE), London and Tokyo.

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 includes Hungary, Spain, Taiwan, China, Poland, India and a number of other countries with smaller operations.

For information on our business segments, see Note 18.4 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

PO Box 85

2501 CB The Hague

The Netherlands

Telephone number: +31.70.344.3210

Internet site: www.aegon.com

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ii Strategic framework

Commitment to core business

AEGON believes that by focusing on what it does best it can provide lasting value for customers and shareholders alike. AEGON remains focused on three core markets: life insurance, pensions and other long-term savings and investment products.

Serving local needs with global resources

AEGON stresses the importance of combining local management and local decision-making with the expanding resources of one of the world s leading life insurance and pension companies.

Pursuing sustainable, profitable growth

AEGON believes its core markets will deliver significant growth in the years ahead. But it wants that growth to be sustainable and profitable. AEGON s aim is to achieve long-term average earnings growth of 10 percent a year.

Aiming to be a market leader

Whatever business it is in and wherever that business is located, AEGON strives always to be a market leader. This is essential to realize benefits of scale and to attract and retain talented managers and strong local business partners.

Expand into new, high-growth markets

AEGON wants to strengthen its international presence by expanding into new markets that offer prospects for profitable, above-average, long-term growth. To achieve this, the Group seeks out opportunities both to grow existing businesses and branch out into new areas through carefully selected acquisitions and partnerships.

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iii Recent developments and capital expenditures and divestments

Taishin Financial Holding Co. Ltd. (Taishin) and AEGON N.V. (AEGON) have finalized a joint venture agreement to develop and distribute life insurance and pension products in Taiwan. The joint venture is expected to be operational by mid-2008, subject to final approval by regulatory authorities. Under the terms of a memorandum of understanding signed earlier this year, Taishin will hold 51% of the joint venture and AEGON the remaining 49%. The joint venture will distribute life insurance and pension products through Taishin s nationwide distribution network of 200 business locations, belonging to Taishin Bank, Taiwan Securities, Taishin Insurance Agency and Taishin Insurance Brokers. AEGON has also acquired an interest of approximately 2.5% in Taiwan s Chang Hwa Bank from Taishin.

In December 2007, AEGON USA acquired 100% of the shares of Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York, companies that sell non-participation life insurance and annuity products such as variable life insurance, variable annuities, market value adjusted annuities and immediate annuities. The total purchase price amounted to EUR 849 million cash consideration. The opening balance sheet of the acquired business was recorded provisionally at December 31, 2007, as the acquisition occurred within a few days of year end. The provisionally determined opening balance sheet includes total assets of EUR 10.8 billion, including EUR 8.3 billion separate account assets, EUR 1.8 billion general account investments and EUR 149 million cash and cash equivalents. Total liabilities are EUR 9.9 billion and comprise separate account liabilities of EUR 8.3 billion and insurance contract liabilities of EUR 1.7 billion. Goodwill amounts to EUR 111 million reflecting the expected profitability of new business. The carrying amount of the assets and liabilities of the acquired companies amounted to EUR 10.8 billion and EUR 9.9 billion respectively, the estimated fair values are subject to adjustment at the initial allocation for a one year period as more information relative to the fair values as of the acquisition date become available. As the acquisition was completed at the end of December, the net income of the acquired operations was not material to the AEGON s consolidated net income. Had the acquisition taken place on 1 January 2007, the contribution of these companies to the Group s net income is estimated at EUR 75 million; contribution to revenues would have been approximately EUR 271 million.

In November 2007 AEGON announced that, in line with the share repurchase program announced on August 9, 2007, the EUR 1 billion program had been completed. The total number of common shares repurchased under the EUR 1 billion program was 74,569,902 shares. This represented 4.6% of AEGON s issued and outstanding common shares and 4.0% of AEGON s total issued and outstanding share capital. The common shares were repurchased at an average price of EUR 13.4102

In July 2007 AEGON announced an agreement to establish a jointly owned bancassurance partnership with the Spanish savings bank Caja de Ahorros de Santander y Cantabria (CAJA CANTABRIA). The new partnership will sell AEGON life insurance and pension products through CAJA CANTABRIA s network of branches, located primarily in the northern Spanish province of Cantabria (Santander). The agreement will further strengthen AEGON s bancassurance capabilities in Spain s rapidly growing life insurance and pension markets, and will allow CAJA CANTABRIA to extend the range of products it is able to offer its customers. The agreement will complement AEGON s existing partnerships in Spain with Caja de Ahorros del Mediterráneo, Caja de Ahorros y Monte de Piedad de Navarra and Caja de Badajoz. With this latest agreement, AEGON now has access to almost 1,800 bank branches across Spain.

In June 2007 AEGON-CNOOC Life Insurance Company Ltd., AEGON N.V. s 50/50 joint venture with the Chinese National Offshore Oil Corporation (CNOOC), has received a license from the China Insurance Regulatory Commission (CIRC) to begin life insurance activities in the country s eastern Zhejiang province.

In June 2007 AEGON acquired OPTAS N.V., a Dutch life insurance company specializing in employee benefit products and services within the Dutch group pension market for EUR 1.5 billion 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 2006, OPTAS had 60,000 policyholders and reported total gross written premiums of EUR 86 million, with total assets of EUR 4.5 billion. Assets held as investment amounted to EUR 3.4 billion, the insurance liabilities were EUR 2.9 billion. 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. Since the acquisition, OPTAS has contributed EUR 11 million to AEGON s income before tax. Had the acquisition taken place on 1 January 2007, OPTAS contribution to the Group s net income is estimated at EUR 22 million, contribution to revenues would have been approximately EUR 251 million.

In May 2007 AEGON and China s Industrial Securities agreed to establish an asset management joint venture. Under the agreement, AEGON will acquire a 49% interest in Industrial Fund Management Company (IFMC), a Chinese mutual fund manager with approximately EUR 1.7 billion in assets under management. Industrial Securities, one of China s leading securities companies, will retain the remaining 51% of IFMC. The transaction will be submitted to the China Securities Regulatory Commission for approval and is subject to normal closing requirements. The new partnership with Industrial Securities and the stake in IFMC represent an excellent opportunity for AEGON in entering the asset management market in China. The joint venture also offers Industrial Fund Management Company the possibility to extend its activities into the pension market.

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In May 2007 AEGON signed an agreement to merge its Polish pension fund management company PTE Ergo Hestia SA with BRE Bank s PTE Skarbiec-Emerytura SA. Under the agreement, BRE Bank has granted AEGON an option to acquire BRE Bank s shareholding in the combined pension fund, once the merger process is complete. The purchase price shall be approximately EUR 100 million, increased by the net current asset value of PTE Skarbiec-Emerytura, the exact amount of which shall have been determined at the time of the merger of the companies. Together, PTE Ergo Hestia and PTE Skarbiec-Emerytura will become the fifth largest pension fund management company in Poland, with a market share of approximately 5 percent. Combined, the two funds have more than 800,000 members and nearly EUR 1.7 billion assets under management. The agreement between AEGON and BRE Bank is subject to approval from the Polish regulators.

In March 2007, AEGON USA completed the acquisition of 100% of the shares of Clark Inc., a public company specializing in the sale of corporate-owned life insurance, bank-owned life insurance and other benefit programs. The total purchase price was EUR 263 million, consisting of EUR 207 million cash consideration, EUR 36 million of Clark debt assumed by AEGON and EUR 20 million cost basis of Clark common stock already owned by AEGON and transaction costs. Since the acquisition date, Clark has contributed EUR 4.6 million to the net income of AEGON. If the acquisition had taken place as of January 1, 2007, Clark would have contributed an amount of EUR 90 million to total revenues and EUR 4.7 million to net income of AEGON USA. AEGON has disposed operations for an amount of EUR 42 million regarding Clark business, not considered to be core to AEGON, to Clark s former management after the acquisition. As a result of the acquisition, assets and liabilities were recognized for EUR 549 million and EUR 325 million respectively, which included a cash position of EUR 14 million. Goodwill was recognized for an amount of EUR 84 million, reflecting the future commission revenue from inforce contracts. In addition an intangible asset was established for the present value of future commission receivables in the amount of EUR 365 million.

In March 2007, AEGON has completed the acquisition of the Polish pension fund management company PTE Ergo Hestia S.A. The company was renamed to PTE AEGON Poland. The cost of the acquisition amounted to EUR 72 million, which was paid in cash. Since the acquisition date, the company has contributed EUR 2 million to net income. If the acquisition had been as of January 1, 2007, contribution to net income and total revenues would amount to respectively EUR 3 million and EUR 12 million. Assets of EUR 81 million and liabilities of EUR 9 million were recognized due to the acquisition. Goodwill amounting to EUR 23 million reflects the future new business to be generated and potential synergies with existing businesses. By December 31, 2007 the accounting for PTE Ergo Hestia S.A. was not yet finalized.

4B Business overview

i Supervision

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

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

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The Americas

1.1 Background

AEGON Americas comprises AEGON USA, AEGON Canada as well as the Group s operations in Mexico.

AEGON USA

AEGON USA[1] is one of the leading life insurance organizations in the United States and the largest of AEGON s country units. AEGON USA has more than twenty million customers and employs over 13,000 people. AEGON USA companies can trace their roots back as far as the mid-nineteenth century. AEGON USA includes some of the best known names in the US insurance business, including Transamerica and Monumental Life. AEGON USA s main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland, but with many associate companies offices located throughout the United States.

Through these subsidiaries and associate companies, AEGON USA provides a wide range of life insurance, pensions, long-term savings, investment and reinsurance products. In addition, AEGON USA has a significant asset management business, with almost USD 129 billion invested in bonds, equities, home loans, cash and treasuries.

Like other AEGON companies around the world, AEGON USA uses a variety of distribution channels to ensure customers can access the group s products in a way that best suits them. For many years, AEGON USA has had close relations with banks across the United States, but the group also distributes products and services via agents, brokers, dealers and specialized financial advisors, online as well as through direct and worksite marketing.

AEGON Canada

Based in Toronto, AEGON Canada offers a range of insurance products and financial services, primarily through its Transamerica Life Canada subsidiary, first established in 1927. Total employment of AEGON Canada on December 31, 2007 was 720.

AEGON Mexico

In 2006, AEGON acquired a 49 percent interest in Seguros Argos, one of Mexico s life insurance companies. As part of their joint venture, AEGON and Seguros Argos set up a jointly owned pension fund management company, Afore Argos.

1.2 Organizational structure

AEGON USA

AEGON USA, Inc., is a principal holding company of AEGON USA. AEGON USA was founded in 1989 when AEGON decided to bring all its operating companies in the United States under a single financial services holding company. Business is conducted through subsidiaries of two holding companies AEGON USA, Inc. and Commonwealth General. AEGON has operating licenses in every US state, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

AEGON USA s primary insurance subsidiaries are:

- Transamerica Life Insurance Company
- Transamerica Occidental Life Insurance Company
- Transamerica Financial Life Insurance Company

- Life Investors Insurance Company of America
- Monumental Life Insurance Company
- Stonebridge Life Insurance Company
- Stonebridge Casualty Insurance Company
- Western Reserve Life Assurance Co. of Ohio.

AEGON s subsidiary companies in the United States contain four operating groups acting through one or more of the AEGON USA life insurance companies: Agency, Direct to Consumer, Institutional, and Pension and Asset Management.

AEGON USA companies are present in five main lines of business:

- Life and protection
- Individual savings and retirement
- Pensions and asset management
- Institutional
- Reinsurance

These lines of business, which are described in further detail below, represent groups of products that are sold through our operating groups to the various distributions and sales channels. The group structure is designed to enable 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 functional support 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.

[1] Throughout this report, AEGON USA refers to AEGON companies managed from the United States. Similarly, AEGON Canada refers to all AEGON companies operating in Canada. AEGON s operations in North America the United States, Canada and Mexico are referred to collectively as AEGON Americas.

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AEGON Canada

AEGON Canada s main operating subsidiaries are:

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

AEGON Mexico

In Mexico, AEGON has a 49 percent interest in:

- Seguros Argos S.A. de C.V.
- Afore Argos S.A. de C.V.

1.3 Overview sales and distribution channels

1.3.1 AEGON USA

As in other countries, AEGON uses a variety of sales and distribution channels in the United States. These include:

- independent and career agents
- financial planners
- registered representatives
- independent marketing organizations
- banks

- regional and independent broker-dealers
- benefit consulting firms
- wirehouses
- affinity groups
- institutional partners

In addition, AEGON USA provides a range of products and services online and uses direct and worksite marketing. This approach allows AEGON USA customers to access products and services in a way that best suits them. Generally, AEGON USA companies are focused on particular products or market segments, ranging from lower income to high net worth individuals and large corporations.

AEGON USA has distribution agreements in place with a network of banks across the United States, giving the company access to millions of potential customers, particularly for individual savings, pension and retirement products as well as some institutional products. AEGON USA works closely with banks across the country to ensure its products are tailored to the individual and changing needs of the company s customers.

1.3.2 AEGON Canada

AEGON Canada uses a variety of sales channels to distribute its products and services, including, most notably, independent financial advisors. Other channels are:

- independent general agencies
- agencies owned by Transamerica Life Canada and operated as separate profit centers
- bank-owned national broker-dealers
- World Financial Group (WFG), part of AEGON Americas
- other national, regional or local niche broker-dealers

1.4 Overview lines of business

1.4.1 United States

1.4.1.1 Life and protection

General description

AEGON USA provides permanent life, universal life, term life and variable universal life insurance and protection products. A number of subsidiaries offer life insurance products tailored to a specific segment of the US market. In 2007, Life and Protection accounted for more than 46 percent of AEGON USA s overall pre-tax operating earnings, making it the company s single most important line of business.

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Products

Permanent life

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with implicit minimum interest rate guarantees prescribed by statutory requirements of between 4% and 5%. A customer may either withdraw the cash value, subject to withdrawal charges, or receive the benefit upon a predetermined event, such as the death of the insured.

Permanent life insurance is also known as whole life insurance in the United States. It can be participating or non-participating. Premiums are generally fixed and are payable over the life of the policy or for a limited time period. Participating policies allow the policyholder to receive policy dividends, as declared by the insurer s board of directors. These dividends are not guaranteed and are based on the insurer s experience for a given class of policies.

Universal life

Universal life insurance has either a flexible or single premium. The contract has a feature that allows the customer greater flexibility as to when to pay premiums and with regard to the amount of the premiums, subject to a minimum and a maximum. The interest rate at which the cash value accumulates is adjusted periodically.

Minimum interest rate guarantees exist in all generations of fixed universal life products, as they are required by non-forfeiture regulations. These are mostly at 4%, with newer products at 3%. No lapse guarantees were introduced in recent universal life products. The no lapse guarantee feature provides a policyholder the guarantee that the universal life policy will stay in force, even if the cash value becomes zero or less than zero, provided that a specified minimum premium payment is made when due or a shadow account remains positive. The guarantee period can vary from five years to the entire contract term.

Equity indexed universal life products have both interest rate guarantees of between 1 and 2% and equity index return guarantees, with a cap currently around 12%.

Term life insurance

Term life insurance provides protection for a certain period of time and allows the customer to select the duration of coverage and the amount of protection. The policy pays death benefits only if the customer dies during the specified term. Most term life policies do not accumulate a cash value. The policies can usually be renewed upon expiration and premiums normally increase upon renewal. Certain term life insurance products sold in the United States, such as mortgage insurance and credit life insurance, provide a death benefit that decreases over the term period, based on a stated method. The rate of decrease usually corresponds with the decrease in the principal balance of the loan. Some term life insurance products include a cash value feature designed to return premiums after a specified number of years.

Variable universal life

Variable universal life products in the United States are similar to universal life products, but include investment options and maintenance of investments for the account of policyholders. Some products contain minimum death benefit guarantees and the risk is that poor market performance may erode the policyholder account value to the extent that available cost of insurance charges prove inadequate. The fixed account has a minimum guaranteed interest rate of either 3% or 4% depending on the product. Newer products have a 2% guarantee. This product also contains a no lapse guarantee, which is an equity option. Under the no lapse guarantee, the contract is guaranteed to remain in force regardless of the level of underlying account value, provided the policyholder continues to meet minimum premium requirements. The value of this guarantee increases with higher cost of insurance charges and with lower minimum required premiums. This product is not sensitive to equity returns until the no lapse guarantee threshold is breached.

Other life

Life products also include life insurance sold as part of defined benefit pension plans, endowment policies, post-retirement annuity products and group risk products.

Health

AEGON USA offers accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Others pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts not covered by other health insurance.

Long Term Care (LTC) insurance products offered through the Long Term Care Division provide benefits to policyholders who require care due to chronic illness or cognitive impairment. Unexpected expenses associated with long term care may create an emotional and/or financial burden to individuals and families. LTC insurance may help to protect the insured s income and retirement savings and help a family better manage health, safety and financial issues associated with the need for LTC.

Sales and distribution

Monumental Life Division targets chiefly the lower and middle-income market, essentially through three sales channels: independent marketing organizations (IMOs), Career Agency and Pre-Need[2]. In 2006, Monumental Life Division expanded its final expense and funeral costs coverage for middle-income customers to the growing seniors markets, providing a range of simplified products with face values of up to USD 25,000. During 2007, Monumental Life Division added Humana Marketpoint as an IMO with over 1,000 licensed agents bringing the total IMO Final Expense licensed agents count to more than 2,500.

Independent Marketing Organizations have experienced strong growth in recent years, both in terms of their sales and their recruitment. IMOs focus on developing and strengthening relations between Monumental Life Division and the company s general agents throughout the United States. As part of the IMO sales channel, Monumental Life Division has approximately 500 general agents selling products and services predominantly life insurance to military families living on or near US armed forces bases both in the United States and abroad. Typically, agents have served in the US military.

Career Agency, part of Monumental Life Division, has almost 2,400 agents (including 400 managers) across 22 states, providing direct face-to-face sales and other services to policyholders.

Acting through marketing unit Transamerica Insurance and Investment Group, Transamerica Occidental Life Insurance Company (TOLIC) focuses on the upper-middle and affluent markets. In addition, TOLIC has a number of products and services designed for more specific niche markets, including small and mid-sized companies.

Similarly, Life Investors career agents sell primarily interest-sensitive and ordinary life insurance to the middle to upper income segments of the US market.

World Financial Group (WFG) targets the middle-income market in the United States. WFG has a fully owned broker-dealer, World Group Securities Inc. In recent years, the US middle income market has offered substantial growth opportunities. Typically, middle-income households earn between USD 25,000 and USD 100,000 a year. Approximately 40 percent of such households do not currently have life insurance cover. This is largely because, over the past several years, insurance brokers have focused on higher net worth individuals while many US companies have switched money out of employee life insurance contributions and into healthcare to meet rapidly climbing medical bills.

Western Reserve Life has been part of AEGON Group since 1991. Western Reserve Life provides a range of life insurance products and variable annuities, chiefly to individual savers and investors.

Through Transamerica Worksite Marketing, AEGON offers voluntary payroll deduction life and supplemental health insurance for companies ranging in size from just five employees to more than 100,000. Products and services are marketed to employees at their place of work and are designed to supplement employees existing benefit plans.

AEGON Direct Marketing Services (ADMS) develops direct response campaigns for life, supplemental health, and specialty insurance products and fee-based programs to serve people who prefer to buy through alternative marketing channels. ADMS makes extensive use of database technology, develops niche markets and designs products to meet specific customer requirements. Using a variety of direct response techniques such as direct mail, point-of-sale, statement inserts and the internet, ADMS offers customers convenient alternatives for purchasing insurance.

ADMS uses the endorsements of business partners such as leading financial institutions, educational institutions, credit unions, associations, retailers, travel agents, dealerships, and employer groups through brokers, agents, and third party administrators responding to each partner s unique needs and developing customized programs for that partner.

ADMS is also active in a number of markets outside the United States, with operations in Europe, Asia Pacific, and Latin America. In these regions, ADMS has established strong relations with various business partners, using their endorsement to market products via telemarketing and direct mail.

AEGON USA offers different products and services aimed at meeting the long-term healthcare needs of its customers, an increasingly important area as life expectancy rates in the United States continue to rise. AEGON USA primarily provides coverage for the cost of care either at home, in assisted living facilities or nursing homes. Sales of long-term care insurance were temporarily discontinued in 2005, but new sales efforts began in 2007.

1.4.1.2 Individual savings and retirement

General description

AEGON USA offers a wide range of savings and retirement products, including mutual funds, investment advice as well as fixed and variable annuities. In 2007, the company s individual savings and retirement line of business accounted for 25% of AEGON USA s total pre-tax operating profit.

In 2007, AEGON acquired Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York and finalized an agreement to form a strategic business relationship with Merrill Lynch in the areas of insurance and investment products. The inclusion of the Merrill Lynch insurance companies more than doubled AEGON s sales efforts in the wire channel, from USD 478 million to USD 1,038 million.

[2] Pre-Need sells life insurance policies designed to meet funeral costs. Pre-Need markets its products and services mainly through funeral directors and their agents.

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Products

Fixed annuities

Fixed annuities include both deferred annuities and immediate annuities. A fixed deferred annuity exposes AEGON to interest rate risk and lapse risk. The insurer interest rate risk can be mitigated through product design, close asset/liability management and hedging, though the effects of policyholder behavior can never be fully mitigated. Surrender charges in early policy years serve as a deterrent to early duration lapses. Fixed annuities sold in the United States contain significant interest rate and longevity risks created by guaranteed annuity options and most also offer waiver of account value surrender charges upon the death of the insured. Immediate annuities contain interest rate risk and also longevity risk if annuity payments are life contingent.

In the United States, AEGON sells group and individual fixed annuities and retirement plan contracts to large financial institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services which are provided by AEGON after the annuities are sold.

An immediate annuity is purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. The benefit payment period can be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Some immediate annuities and payout options under deferred annuities may also offer the owner or beneficiaries the option to surrender the annuity to have access to the account value if needed for unexpected events.

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed interest crediting method or indexed basis. The customer can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed deferred annuities have a specified crediting rate that can be reset periodically at the company s discretion after an initial guarantee period. Fixed deferred annuity contracts in the United States also offer guaranteed minimum surrender values and payout options. Upon maturity of the annuity, the customer can select payout options, including a lump sum payment or income for life, as well as payment for a specified period of time. Should the customer die prior to receiving the benefits of the policy, the beneficiary receives either an accumulated cash value death benefit or an enhanced death benefit in the event there are benefit riders attached to the base contract. A discontinued multi-strategy annuity allows a customer a choice of investment strategies to allocate funds and provides a cumulative minimum guaranteed interest rate. Early withdrawal by the customer of the cash value of the annuity is subject to surrender charges. These surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. The majority of the in-force business has minimum interest rate guarantees of 3%. In general, products issued in 2003 and after offer 1.5% minimum interest rate guarantees. Equity indexed annuities offer additional returns that are indexed to S&P 500, with a minimum cash value equal to a percentage of the premium increased at a minimum rate that varies, and a cap on the return. The cap is reset periodically based on the cost of hedging instruments and is currently between 6.5% and 8%.

Besides the minimum interest rate guarantee, certain fixed deferred annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders can surrender their contracts without incurring any surrender charges. The bailout provision serves as additional insurance to the customers during the surrender charge period.

A structured settlement is a form of an immediate annuity. AEGON USA no longer issues these contracts, but continues to administer the closed block of business. These contracts were typically purchased as a result of a lawsuit or a claim and the injured party receives special tax treatment. Rather than paying the injured party a lump sum, the payments were structured as a lifetime annuity with mortality risk, a period certain annuity, or a combination of both.

Variable annuities

Variable annuities are sold to individuals and pension funds in the United States.

Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a customer to select payout options designed to help meet the customer s need for income upon maturity, including lump sum payment or income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds, including bond and equity funds. A fixed account may also be available on most products. In most products, the investment options are selected by a client based on the client s preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company. These separate accounts are classified as investments for the account of policyholders. Various riders are available on variable annuity contracts, providing guaranteed minimum death, maturity, withdrawal or income benefits.

The account value of variable annuities reflects the performance of the funds. AEGON USA earns mortality and expense charges as well as various types of rider fees for providing various guarantees and benefits. This category includes segregated fund products offered by AEGON Canada. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

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

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

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AEGON USA undertakes to address equity market risk through product design and by using hedging strategies. Variable products also contain a degree of interest rate risk and policyholder behavior risk, which are handled similarly to those in fixed annuities.

Retail mutual funds

AEGON s fee business comprises products that generate fee income by providing management, administrative or risk services related to off balance sheet assets (i.e., equity or bond funds, third party managed assets and collective investment trusts). Fee income is mainly sensitive to shareholder withdrawals and equity market movements.

AEGON s operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation (retirement planning) services.

The operations in the United States provide the fund manager oversight for the Transamerica Funds. AEGON USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance. The manager remains with the investment company and acts as a sub-adviser for AEGON USA s mutual funds. AEGON USA earns investment management fees on these investment products. AEGON USA also earns direct investment management fees through affiliated managers acting as sub-advisers, which are reported in the pensions and asset management line of business.

Sales and distribution

AEGON USA underwrites fixed and variable annuities through its various life insurance companies. Transamerica Capital Inc., (TCI), an affiliated broker-dealer, distributes fixed and variable annuities, mutual funds and single premium life products through major wirehouse firms, regional broker dealers, independent financial planners and the large bank network. TCI serves these distribution channels through company owned and external wholesalers.

InterSecurities Inc., part of AEGON USA, provides a range of financial and investment products, operating as a broker-dealer. These products include mutual funds, fixed and variable life insurance annuities and other securities.

1.4.1.3 Pensions and asset management

General description

AEGON USA offers pensions and related products and services through a number of different outlets:

- Diversified Investment Advisors
- Transamerica Retirement Services
- Transamerica Retirement Management
- Transamerica Investment Management

Through these subsidiaries, AEGON USA provides a variety of individual and group pensions, as well as retirement planning, investment, administration and technical services.

In addition, AEGON USA covers a range of different pension plans, including:

- 401 (k)
- 403 (b)
- 457 (b)
- Non-qualified deferred compensation
- Money purchase
- Defined benefit
- Defined contribution
- Profit-sharing
- Single premium group annuity contracts

As elsewhere in the developed world, people in the United States are, generally, living longer, healthier lives. As a result, more people are having to manage their pension assets for longer periods of time. As the baby boomer generation those people born at the end or shortly after the Second World War enters retirement, this is leading to a fundamental shift in the US pension market. Previously, people focused on asset accumulation . Now, with more people over the age of 65, there is a dual focus on both asset accumulation and on dissaving , in other words managing those assets productively and efficiently during retirement. Transamerica Retirement Management provides its customers with comprehensive life and retirement planning. Its services also include the retirement management account , a one-stop shop that allows customers easy and effective management of their investments, income needs and asset growth opportunities.

The USD 22 trillion asset management industry in the United States is considered by many to be in a state of significant change. Asset managers are facing increased pressure to provide products addressing the evolving needs of both institutional and retail investors ranging from increased pension liabilities and other risk-management strategies to the search for higher and more consistent returns. Transamerica Investment Management (TIM) offers a wide range of investment products and strategies to meet these changing needs. Investment products include growth and value equity, fixed income securities, balanced portfolios, convertible securities and alternative investments. Through various investment vehicles including mutual funds for both retail and institutional clients, separate accounts for foundations/endowments, corporate clients, public funds and union/Taft Hartley clients, and investment vehicles for the separately managed account and broker-dealer industry, TIM offers a wide base of products both inside and outside the pension community.

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Products

Pensions include individual pension business, 401(k) and similar products, typically sponsored by or obtained through an employer. It comprises products in the accumulation phase as well as in the pay-out phase. In addition, asset management includes products and services provided to third parties.

Bundled retirement plans are sold to mid-sized and large employers. A manager of managers investment approach can be used for the retirement plans market, which allows clients access to institutional investment managers across the major asset classes. These funds are generally available in a core-and-feeder structure, in which the core is similar to a mutual fund and the feeder provides an institutional customer with a choice of products that are directly linked to the performance of the mutual fund, such as a registered or non-registered variable annuity, a collective investment trust (off balance sheet) or mutual funds (off balance sheet). Clients also have the flexibility to use funds from mutual fund families.

Transamerica Retirement Services offers fully bundled and partially bundled retirement plan solutions to small and medium size employers. These plans are predominantly supported by a group variable annuity product, where plan assets are invested primarily in separate account funds offered, including bond and equity funds. A fixed account fund may also be available on most plans. The investment options are selected by the client or by the client s financial advisor.

Single premium group annuities (Terminal Funding) are a non-participating group annuity product. This product is usually used for an insurance company takeover of a terminating defined benefit pension plan. The company receives a single deposit from the contractholder and in return guarantees the payment of benefits to participants. Usually these annuity payments are paid monthly for the life of the participant or participant and spouse, commencing immediately for retired participants or at some date in the future for deferred participants.

TIM s products include growth and value equity, fixed income securities, balanced portfolios, convertible securities and alternative investment products.

Sales and distribution

Diversified Investment Advisors provides a comprehensive and customized approach to retirement plan management, catering to the mid- to large-sized defined contribution, defined benefit and non qualified deferred compensation retirement plans market. Diversified Investment Advisors clients are generally organizations with 250 to 100,000 employees and between USD 5 million and USD 2 billion in retirement assets.

Transamerica Retirement Services, meanwhile, serves more than 14,500 small to mid-sized companies across the United States. Transamerica Retirement Services offers a number of specialized services, including innovative plan design, wide investment choice, personal finance education programs and advice in the US Employee Retirement Income Security Act.

Transamerica Retirement Services is also a leading provider of single premium group annuities (Terminal Funding) in the United States, which is used by companies to defease the liability of their defined benefit plans. This is a growing market segment as more employers look to reduce the cost and complexity of their pension liabilities, often driven by widespread economic and sector restructuring.

In 2006, AEGON USA created Transamerica Retirement Management, a subsidiary specifically dedicated to helping millions of baby-boomers now entering retirement. Transamerica Retirement Management, which adopted the consumer-facing brand known as SecurePath by Transamerica, became fully operational in the second quarter of 2007 with a dedicated staff of trained financial advisors and a website.

TIM offers its extensive range of investment management services through multiple channels including retail mutual funds, investment consultants for institutional clients such as foundations/endowments, public funds, union and corporate organizations; separately managed account platforms for many of the major broker-dealers and high-net-worth private client wealth management. TIM manages approximately USD 24 billion in assets in mutual funds, fund of funds, retirement plans, separately managed accounts, institutional accounts, pension funds and variable insurance accounts.

1.4.1.4 Institutional

General description

AEGON USA has a significant position in the highly competitive and relatively mature US market for institutional products and offers a range of sophisticated, and highly specialized financial products for leading institutions such as banks and pension and investment funds. AEGON

USA first entered this market in the early 1980s, with a distinctive floating rate guaranteed investment contract. Since then, the company s institutional guaranteed products business has expanded significantly. AEGON USA now offers traditional fixed rate guarantee investment contracts (GICs), funding agreements (FAs) and medium-term notes as well as fee-based products such as synthetic GICs, in which AEGON USA has a leading market position.

In addition, AEGON USA enters into structured product transactions, such as credit default swaps, synthetic collateralized debt obligations, affordable housing tax credit guarantees and hedge fund principal protection. New sales for AEGON USA s settlement annuity business were discontinued in 2003.

AEGON USA also offers through the Extraordinary Markets division both fixed and variable products to the rapidly growing bank and corporate owned life insurance (BOLI-COLI) market in the United States. In early 2007, AEGON USA completed its acquisition of Clark Inc., a company specializing in the sale of bank and corporate owned life insurance. BOLI-COLI is marketed to institutional customers to help them fund long-term employee benefits such as executive compensation and post-retirement medical plans. AEGON has provided insurance products to the BOLI-COLI market for more than a decade.

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Products

GICs and FAs

GICs are generally issued to tax qualified plans, while FAs and medium-term notes are typically issued to non-tax qualified institutional investors. These products are marketed through an internal sales force in the United States and Ireland.

These spread-based products are issued on a fixed-rate or floating-rate basis and provide the customer a guarantee of principal and a specified rate of return. Practically all of the fixed-rate contracts are swapped to floating-rate via swap agreements and contracts issued in foreign currencies are swapped at issuance to US dollars to eliminate currency risk. Credited interest on floating-rate contracts predominately resets on a monthly basis to various market indices. The term of the contract can be fixed, generally from six months up to ten years, or it can have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a designated index, such as the S&P 500. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate. Indeterminate-maturity contracts allow the customer to withdraw funds without a withdrawal penalty by providing the customer with a put option whereby the contract may be terminated with advance written notice. Historically, this advance notice period would range from 3 to 12 months, however, a decision was made to eliminate practically all contracts with advance notice periods shorter than 12 months. Other contracts offer benefit-responsive withdrawal rights to the customer, but these withdrawals cannot be for economic reasons. The account balances at December 31, 2007 consisted of fixed-rate, fixed-maturity contracts (45%); floating-rate, fixed-maturity contracts (40%) and indeterminate-maturity contracts (15%).

Medium-term notes

AEGON USA utilizes consolidated special purpose entities to issue medium-term notes that are backed by FAs. The proceeds of each note series are used to purchase a FA from an AEGON insurance company, which is used to secure that particular series of notes. The payment terms of any particular series substantially match the payment terms of the FA that secures that series. AEGON also sells fixed-rate AAA-wrapped municipal debt securities to consolidated special purpose entities, which issue floating-rate notes. AEGON receives residual income from these entities and provides certain guarantees to the noteholders in the event of early termination. In addition, AEGON utilizes consolidated special purpose entities to issue commercial paper, that is backed by the issuance of certain FAs.

AEGON Global Institutional Markets plc (AGIM) is domiciled in Ireland for the purpose of issuing medium-term notes to non-US investors and investing in a diversified portfolio of eligible assets with the proceeds of the issued notes. AEGON Financial Assurance Ireland Limited (AFA), another AEGON Ireland entity, provides a financial guarantee for the medium-term notes issued by AGIM.

Synthetic GICs

Synthetic GICs are sold in the United States primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans, as well as college savings plans. AEGON provides a synthetic GIC wrapper around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager. A synthetic GIC is typically issued with an evergreen maturity and is cancelable by the plan sponsor under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan cash flows. The periodically adjusted contract crediting rate is the means by which investment and benefit responsive experience is passed through to participants. In certain contracts, AEGON agrees to make advances to meet benefit payment needs and earns a market interest rate on these advances.

Structured products

AEGON USA s Structured Products group leverages existing strengths in investments, product structuring and risk management, as well as strong institutional relationships. Structured products are generally synthetic transactions that exist to provide guarantees for the client. In these transactions, AEGON USA undertakes contingent purchases/payments in return for a premium.

BOLI/COLI

BOLI/COLI is sold to corporations as a method of funding employee benefit liabilities. The corporation insures key employees and is the owner and beneficiary of the policies.

Sales and distribution

Issuances of GICs, FAs and medium-term notes are marketed to institutional investors, such as pension funds, retirement plans, college savings plans, money market funds, municipalities, United States investors and non-US investors.

AEGON USA distributes these institutional products through a multi-channel strategy involving consultants, investment bankers, bidding agents, and its own internal sales force.

1.4.1.5 Reinsurance

General description

The Transamerica Reinsurance Division, a unit of Transamerica Occidental Life Insurance Company, has provided reinsurance products and solutions to life insurance and financial services companies for over thirty years.

In the United States, Transamerica Reinsurance Division provides traditional reinsurance solutions for term, universal, variable universal and whole life mortality and morbidity risks. Reinsurance products include coinsurance as well as yearly renewable term and modified coinsurance agreements. As well as individual life, Transamerica Reinsurance Division also offers traditional and modified coinsurance programs for the annuity market, as well as reinsurance of general account guarantees on variable annuity products.

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Transamerica Reinsurance Division also provides reinsurance solutions in Europe, Asia Pacific and Latin America and offers risk and capital management solutions on a similar basis to those in the United States.

Products

The core life reinsurance offering, mortality risk transfer, is sold primarily through coinsurance and yearly renewable term arrangements. Under a coinsurance arrangement, reinsurance is ceded and assumed in the same form as the direct policy and the reinsurer shares proportionately in the product risks, including mortality, morbidity, persistency, investment, and capital requirements. Yearly renewable term reinsurance has premium rates that are not related to the original insurance product type and the ceding company only reinsures the mortality or morbidity risk.

Transamerica Reinsurance Division also assumes fixed annuity business on a coinsurance basis. Under a coinsurance arrangement, risk is ceded in the same form as the direct policy and the client company typically pays the reinsurer premiums equal to its share of the premiums that the client company receives on the underlying policies. The reinsurer will pay the client death or surrender benefits upon death or surrender of the policyholder and will reimburse the client specific allowances which are generally intended to cover its share of expenses.

Transamerica Reinsurance Division also reinsures fixed and variable annuity business on a modified coinsurance basis. Like coinsurance, modified coinsurance is ceded and assumed in the same form as the direct policy however, the reserves and assets backing the transaction remain with the ceding company in its accounts. Transamerica Reinsurance Division typically finances variable annuity acquisition costs in exchange for a fixed fee reinsurance premium that is based upon the account value. Lapse risk is a significant risk assumed by the reinsurer.

Transamerica Reinsurance Division assumes certain guaranteed minimum withdrawal, death and income benefits associated with variable annuity policies in exchange for a fee, typically expressed as a fixed percentage of the account value. With this type of cover, the reinsurer pays its share of the minimum benefits the policyholder s account value is unable to fund due to its underlying performance. Minimum underlying fund performance is a primary risk assumed by the reinsurer.

Furthermore, Transamerica Reinsurance Division also works with customers to develop, underwrite and administer specifically tailored products, as well as provide back-office services for life insurers, such as product development and private label creation.

Outside of the United States, Transamerica Reinsurance Division offers risk and capital management solutions on a similar basis to those in the United States. Primarily, this consists of risk premium (yearly renewable term) cover for mortality, accidental death, critical illness and group life and disability. Additionally, coinsurance structures are used to help finance acquisition costs as well as transferring other underwriting risks.

Sales and distribution

Transamerica Reinsurance Division writes business through various AEGON companies in the United States and through its own affiliates in Bermuda and Ireland:

- Transamerica International Reinsurance Bermuda Ltd.
- Transamerica International Reinsurance Ireland Ltd.

Additionally Transamerica Reinsurance Division writes some of its European business through AEGON Levensverzekering N.V.

Outside the United States, Transamerica Reinsurance Division has established local offices in a number of different countries, including France, Spain, Taiwan, South Korea, Hong Kong, Mexico, Chile and Brazil. In these countries, and many proximate countries Transamerica Reinsurance Division offers customized solutions, including coinsurance financing, product development with related quota share programs as well as traditional life reinsurance.

1.4.2 Overview Canada

1.4.2.1 Life and protection

Transamerica Life Canada (TLC) is AEGON Canada s principal operating unit. It offers a variety of universal and traditional life insurance products, predominantly term and permanent life insurance, as well as accidental death and out-of-the-country medical cover, serving both individual and corporate customers.

1.4.2.2 Individual savings and retirement

General description

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

Transamerica Life Canada offers term and tax-sheltered universal life insurance, segregated funds, guaranteed investment accounts, and single premium immediate 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) advisors

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across Canada, choosing to deal through an ADSCI branch of the dealer. 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.

Products

Fixed annuity contracts in Canada have fixed rates for specified terms and contracts are sold as redeemable or non-redeemable. Most redeemable contracts are sold on the basis that a market value adjustment will apply for surrenders prior to maturity, while a small number use a fixed surrender charge. Contracts sold on a redeemable basis provide a lower rate of interest than the non-redeemable contracts. There are no minimum interest rate guarantees on these products.

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).

In Canada, fees are earned through several special service and fund management companies, by providing administrative back office services that facilitate the sale of mutual funds and segregated fund products. In addition, a national network of financial planning franchises and representatives earn fees when products of non-affiliated companies are sold. Investment management fees are also earned by providing portfolio management and investment advisory services.

1.5 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 Life, 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 Financial, John Hancock, Pacific Life, Metropolitan 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; Putnam; and Fidelity.

AEGON USA has built long-term relationships with many institutions, and these relationships have enabled AEGON USA to offer many product lines such as fixed annuities, 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, Hartford Financial, and Symetra.

Variable annuity sales have demonstrated solid growth over the past year. This sales growth is a result of both greater penetration in the market place by increasing the size of the wholesaling force and increased competitiveness of the product offerings. The market has shown a strong interest in guaranteed lifetime withdrawal products. AEGON USA expects continued growth in this product line through continued product development efforts, seasoned wholesaling support, and the strategic business relationship with Merrill Lynch. AEGON USA s primary competitors in the variable annuity market are Hartford Financial, AXA/Equitable, Metropolitan Life, John Hancock, Prudential/American Skandia, Lincoln National, ING, and Pacific Life.

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, US 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 the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2007 Third Quarter Sales, Landmark Strategies 2006 Stable Value Wrap Issuance Survey; AEGON USA s Market Research). AEGON USA 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. AEGON USA is also among the top 10 traditional GIC providers (source: reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding

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Agreement Products, 2007 Third Quarter Sales; AEGON USA s Market Research). 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 the Stable Value Investment Association, Stable Value and Funding Agreement Products, 2007 Third Quarter Sales, AEGON USA s 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 the funding agreements backing these notes, is among the top ten issuers in this fast-growing segment (source: Standard & Poor s Funding Agreement Backed-Note Issuance totals USD 27 billion for the first three quarters of 2007 , publication date October 18, 2007). 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 the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2007 Third Quarter Sales; company SEC filings; Money Fund Intelligence; AEGON USA s Market Research). Other leading competitors in this market are Genworth Financial, ING, Metropolitan Life, and New York Life.

AEGON USA manages a book of approximately USD 6.0 billion (book value) in funding agreements/investment contracts issued to municipalities, and is a top 10 provider in this segment. The leading competitors in the municipal GIC market are AIG, Bayerische Landesbank, Citibank, FSA, MBIA and Trinity Funding (source: reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products, 2007 Third Quarter Sales; company SEC filings; AEGON USA s Market Research).

Transamerica Reinsurance Division s major life reinsurance competitors vary based upon solutions and geographical markets. The main competitors are Reinsurance Group of America, Swiss Re, and Munich Re.

Within the United States, conditions continue to favor large, financially strong reinsurers such as Transamerica Reinsurance Division 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, Hartford Financial, Fidelity, and ING. In the single premium group annuity market, AEGON USA s main competitors are Hartford Financial, John Hancock, Metropolitan Life, and Principal Financial.

Canadian life insurance marketplace

The top ten companies in Canada account for 89% of the life insurance sales (source: LIMRA study Third Quarter 2007, issued November 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 fifth in overall individual life insurance sales (new business premiums) with a market share of 8.9% as of September 2007, down from 9.7% at December 31, 2006. AEGON Canada ranks fourth in universal life sales representing 12.0% of the market and fifth in term life sales representing 8.2% of the market (source: LIMRA study Third Quarter 2007, issued November 2007).

1.6 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). The Risk-Based Capital (RBC) Model Act (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.

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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. States are also considering and the US Congress may again consider 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. Additional proposals to make the Do-Not-Call list permanent and to place restrictions on direct mail have been introduced in the US Congress and in the states. 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 from time to time 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. Mutual Funds managed, issued and distributed by AEGON USA companies 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 and are exempt from registration under both acts.

Some of AEGON USA s subsidiaries are registered as broker-dealers with the Securities Exchange Commission (SEC) under the Securities Exchange Act of 1934, referred to as the Securities Exchange Act and are associated with the Financial Industry Regulatory Authority (FINRA , formerly known as 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 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 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.

Transamerica Reinsurance Division 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. AEGON Levensverzekering N.V. is subject to the laws and regulations governing insurance in The Netherlands as overseen by the Dutch Central Bank.

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 as the US 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.

There are also a number of proposals that target foreign owned companies, including a proposal that would deny US shareholders of the preferential tax rate on dividends in certain circumstances. To the extent that any of these proposals would directly impact AEGON, they could adversely impact either US shareholders or investment in the US.

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. 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.

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. The Department of Labor s failure to include certain life insurance products, such as stable value products, as acceptable default investments will likely 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 is considering legislative proposals to increase the disclosure and transparency of such fees. In addition, the Department of Labor is expected to soon promulgate regulations on fee disclosure. Any proposals that seek to either restrict such fees and services or change the manner in which AEGON USA subsidiaries may charge for such services inconsistent with business practices will adversely impact AEGON subsidiaries that provide administration and investment services and products to employment based 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 2008. 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 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.

1.7 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

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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.

1.8 Reinsurance ceded

1.8.1 United States

AEGON USA reinsures part of its life insurance exposure with third-party reinsurers under traditional indemnity, quota share reinsurance treaties, as well as, less frequently, excess-of-loss contracts. AEGON USA s reinsurance strategy is in line with typical industry practice.

These reinsurance contracts are designed to diversify AEGON USA s overall risk and limit the maximum loss on risks that exceed policy retention levels. The maximum retention limits vary by product and class of risk, but generally fluctuate between USD 3,000 and USD 3 million per life insured.

AEGON USA remains contingently liable with respect to the amounts ceded should the reinsurance company fail to meet its obligations. To minimize its exposure to such defaults, AEGON USA regularly monitors the creditworthiness of its reinsurers. AEGON USA has experienced no material reinsurance recoverability problems in recent years. Where appropriate, the company arranges additional cover through letters of credit or trust agreements. For certain agreements, funds are withheld for investment by the ceding company.

AEGON USA s insurance subsidiaries also enter into contracts with company-affiliated reinsurers, both within the United States and overseas, including Transamerica Reinsurance Division, a unit of Transamerica Occidental Life Insurance Company. These contracts have been excluded from the company s consolidated financial statements, except in certain circumstances that include profit-sharing arrangements.

1.8.2 Canada

In the normal course of business, AEGON Canada reinsures part of its mortality and morbidity risk with outside reinsurance companies. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

Ceding reinsurance does not remove AEGON Canada s liability as the primary insurer. AEGON Canada could incur losses should reinsurance companies fail to meet their obligations. To minimize its exposure to the risk of such defaults, AEGON Canada regularly monitors the creditworthiness of its reinsurers. AEGON Canada only contracts business with reinsurance companies that are registered with Canada s Office of the Superintendent of Financial Institutions.

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2. The Netherlands

2.1. Background

AEGON was created by the merger of two Dutch insurance companies AGO and Ennia in 1983. AEGON s history in the Netherlands, however, goes back more than 150 years. Today, AEGON The Netherlands[3] is one of the country s leading providers of life insurance and pensions, with millions of customers and more than 6,400 employees. The fully owned Unirobe Meeùs Group is one of the largest intermediaries in the Netherlands. AEGON The Netherlands has its headquarters in The Hague, but also has offices in Leeuwarden, Groningen and Nieuwegein.

2.2. Organizational structure

AEGON The Netherlands operates through a number of well-known brands, including TKP Pensioen, OPTAS, Meeùs and Unirobe. In addition, AEGON itself is one of the most widely recognized brand names in the Dutch financial services sector (source Tracking Report Motivaction).

AEGON The Netherlands primary subsidiaries are:

- AEGON Levensverzekering N.V.
- AEGON Schadeverzekering N.V.
- AEGON NabestaandenZorg N.V.
- AEGON Spaarkas N.V.
- AEGON Bank N.V.
- Unirobe Meeùs Groep B.V.
- TKP Pensioen B.V.
- Nedasco B.V.
- OPTAS N.V.
- OPTAS Pensioenen N.V.
- OPTAS Leven N.V.
- OPTAS Schade N.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

In recent years, AEGON The Netherlands has taken significant steps to reorganize its businesses as part of broader efforts to improve overall efficiency and customer service. In 2003, the company combined its various business units into a single, more centralized structure. By bringing product knowledge, administration, IT and other back office support under one roof, AEGON The Netherlands has created a more effective and better structured organization. Since 2006 a process of centralizing staff functions including HRM, Marketing and Finance has been effected in order to standardize processes and improve efficiency.

AEGON The Netherlands is present in five lines of business:

- Life and protection
- Individual savings and retirement products
- Pensions and asset management
- Distribution
- General insurance

2.3. Overview sales and distribution channels

AEGON The Netherlands operates through three sales organizations, each focusing on a separate segment of the Dutch market. Corporate & Institutional Clients serves large corporations and financial institutions such as company and industry pension funds. AEGON Bank sells mainly to individuals both directly and through tied agents. Lastly, AEGON Intermediary focuses on independent agents and retail sales organizations in the Netherlands.

In the first half of 2007, AEGON The Netherlands launched AEGON Bank, grouping together four previously separate brands Spaarbeleg, SpaarAdvies, AXENT/AEGON and AEGON Spaarbeleg Op t Werk. In this manner products are clearly branded as AEGON services, enhancing brand recognition and sales power, and the solid reputation of AEGON Bank is promoted.

[3] Throughout this report, AEGON The Netherlands refers to all AEGON companies operating in the Netherlands.

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2.4. Overview lines of business

2.4.1 Life and protection

General description

AEGON The Netherlands provides a range of life insurance and personal protection products and services, including traditional, universal and term life, funeral insurance as well as accident and health cover. Life and protection is AEGON The Netherlands most important line of business, accounting for 63 percent of the company s overall operating earnings before tax in 2007.

Products

The life products of AEGON The Netherlands consist largely of endowment insurance and annuity insurance.

Endowment insurance

This category includes various products that accumulate a cash value. Premiums are paid at inception or over the term of the contract.

The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product.

Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in recent years the guarantee has decreased to 3%.

There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in pension business, as discussed in the following section) or used to increase the sum assured. For one common form of profit sharing, the bonus levels are set by reference to external indices that are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolio have different remaining durations and interest rates and together are considered an approximation of the long-term rate of return on Dutch high quality financial investments. Another common form of profit sharing is via interest rebates, whereby policyholders receive a discount on single premium business which reflects the expectation that the actual rate of return on the contract will exceed the minimum interest guarantee used to determine the premiums and sums assured. Here too, the expected actual rate of return is based on a portfolio of Dutch government bonds.

Term and whole life insurance

Term life insurance pays out death benefits when the insured dies during the term of the contract. Whole life insurance pays out death benefits when the insured dies, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the insured. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profit-sharing features, which are based on external indices or return of related assets.

Annuity insurance

This category includes products in accumulation phase and in payout phase. Payout commences at a date determined in the policy and usually continues until death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%.

Interest rebates are given on both single and regular premium annuity insurance and may be based on a portfolio of Dutch government bonds, although other calculation bases are also applied. There are also profit sharing schemes set by reference to external indices that are based on predefined portfolios of Dutch government bonds.

Tontine plans

Tontine plans in the Netherlands are linked endowment savings contracts with a specific bonus structure. Policyholders can choose from several AEGON funds to invest premiums paid. The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder s estate, but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. In general, a new series starts at the beginning of each calendar year, but there are also open ended tontine plans in the portfolio. When the policyholder dies before maturity, AEGON The Netherlands pays a death benefit equal to the premiums paid accumulated at a 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term.

Variable unit linked products

In the Netherlands, variable unit linked products are sold. These products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years. The 10-year period may be reset at the policyholder s option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio (MER) charged to the funds is not guaranteed and can be increased at management s discretion.

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Accident and health insurance

AEGON The Netherlands offers sick leave products to employers that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk. Over the past several years, the Dutch government has gradually shifted responsibility for sick leave and workers disability from the state to the private sector. This has helped stimulate demand for private health insurance. In 2006, AEGON The Netherlands introduced a new product providing companies with additional employee disability cover.

Sales and distribution

AEGON s traditional life insurance is sold primarily by AEGON Intermediary and AEGON Bank. The vast majority are standardized financial products.

Accident and health products are sold mainly through AEGON Intermediary, though Corporate & Institutional Clients also provides products for larger corporations in the Netherlands.

2.4.2 Individual savings and retirement products

General description

In addition to life insurance and pensions, AEGON The Netherlands also provides a variety of individual savings and retirement products. In 2007, these products did not contribute to AEGON The Netherlands overall pre-tax operating earnings.

AEGON discontinued selling security lease products in early 2003. At the end of 2005, the Dutch government decided to reform its retirement legislation. As part of a wider policy of reducing state benefits, the government ended a pre-retirement savings plan, known as VUT, and replaced it with Levensloop or Life cycle .

Products

Saving products are only sold by AEGON The Netherlands and include savings accounts and investment contracts. Both products generate investment-spread income for AEGON. Savings accounts retain flexibility to withdraw cash with limited restrictions. Banking products also include investment products that offer index-linked returns and generate fee income on the performance of the investments.

Levensloop allows savers to put aside a certain amount each year, tax free, either to fund their retirement, retire early, or even finance a break in their careers. Many companies in the Netherlands have decided to include Levensloop in their overall employee benefit packages. Since its introduction, Levensloop has grown rapidly and AEGON is now one of the leading providers of Levensloop products in the Netherlands.

Sales and distribution

Individual savings and retirement products are sold through all three sales organizations. AEGON Intermediary and AEGON Bank sell the majority of the contracts. The Levensloop contracts that large organizations can offer to their employees are sold through our Corporate & Institutional Clients sales organization.

2.4.3 Pensions and asset management

General description

Pensions and asset management is one of AEGON The Netherlands most important lines of business. In 2007, it accounted for 30 percent of the AEGON The Netherlands total operating earnings before tax.

Products

For the majority of the company/industry pensions funds and some large companies, AEGON The Netherlands provides full service pension solutions and also administration-only services.

The full service pension products for account of policyholders are separate account group contracts with or without guarantees.

Separate account group contracts of AEGON The Netherlands are large group contracts that have an individually determined asset investment underlying the pension contract. The contracts are written with and without a guarantee. The guarantee given is that the profit sharing is the minimum of the technical interest of either 3% or 4% or the realized return (on an amortized cost basis). If there is a negative profit sharing, the minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. 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 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).

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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).

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 fiduciary 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.

Sales and distribution

Most of AEGON The Netherlands pensions are sold through two sales organizations: Corporate and Institutional Clients and AEGON Intermediary. Customers vary from individuals to company and industry pension funds and large, medium-sized and small corporations. AEGON The Netherlands is one of the country s leading providers of pensions.

For the majority of company and industry customers, AEGON The Netherlands provides a full range of pension products and services. In addition, TKP Pensioen specializes in pension administration.

Most of AEGON The Netherlands asset management products are channeled through the Corporate & Institutional Clients sales organization.

2.4.4 Distribution

AEGON The Netherlands offers financial advice and is involved in intercession activities in real estate. The financial advice activities include selling insurance, pensions, mortgages, financing, savings and investment products. The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business.

2.4.5 General insurance

AEGON The Netherlands offers a limited range of non-life insurance products through AEGON Intermediary. These are aimed at both the corporate and retail markets. They include house, car and fire insurance. In 2007, general insurance accounted for approximately 2 percent of AEGON The Netherlands overall operating earnings before tax.

2.5 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, Eureko (Achmea), 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 84% of premium income in The Netherlands (source: DNB Regulatory Returns 2006). In the pensions market AEGON The Netherlands ranks first, whereas in the individual life insurance market AEGON The Netherlands takes sixth place behind ING, SNS Reaal, Eureko, Fortis and Delta Lloyd (based on premium income, source: DNB Regulatory Returns 2006).

AEGON The Netherlands is one of the smaller players on the non-life market. Achmea, Fortis, Delta Lloyd and ING have substantial market shares, whereas the rest of the market is very fragmented. The P&C market share of AEGON The Netherlands is around 3.4% (source: DNB Regulatory Returns 2006).

In recent years, several changes in regulations have limited opportunities in the Dutch 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). 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.

2.6. 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.

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The AFM supervises the conduct of and the provision of information by all parties on the financial markets in the Netherlands. The objective of the AFM is to promote an orderly and transparent market process on the financial markets, the integrity of relations between market players and the protection of the consumer. DNB is responsible for safeguarding financial stability and supervises financial institutions and the financial sector.

New regulations pertaining to the supervision of financial institutions referred to as Wet Financieel Toezicht (Act on Supervision of the Financial System) took effect in January 2007. The new law pertains equally to banking and insurance operations and introduces a greater degree of consistency in both requirements and supervision.

2.6.1 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. The relevant legal requirements are now comprised in the Wet Financieel Toezicht whereas previously supervision was pursuant to the Act on the Supervision of Insurance Companies 1993. Each and every life and non-life insurance company licensed by and falling under the supervision of DNB must file audited regulatory reports at least annually. These reports, primarily designed to enable DNB to monitor the solvency of the insurance company, include a (consolidated) balance sheet, a (consolidated) income statement, extensive actuarial information, and detailed information on the investments. As part of the process of modernization brought about by the introduction of IFRS in 2005 and the new supervisory legislation in 2006, DNB has revised the format of regulatory reporting. The new reporting with a single entity focus is designed to highlight risk assessment and risk management, and will take effect in 2008.

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.

OPTAS Leven N.V.

OPTAS Pensioenen N.V.

OPTAS Schade N.V.

In 2007 the three legal entities Spaarbeleg Kas N.V., AXENT/AEGON Sparen N.V. and AEGON Spaarkas N.V. were merged together, resulting in the single licensed entity AEGON Spaarkas NV.

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.

2.6.2. Banking institutions

AEGON Bank N.V. falls under the supervision of the DNB, pursuant to the Wet Financieel Toezicht, and must file monthly regulatory reports and an annual report. The annual report and one of the monthly reports must be audited.

Banking institutions are required to maintain solvency and liquidity ratios in line with the requirements of the Wet Financieel Toezicht, which incorporate the requirements of the relevant EU directives.

2.7. 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 combined real estate investments. Furthermore, Amvest Vastgoed B.V. manages a separate real estate portfolio of AEGON The Netherlands.

2.8. Reinsurance ceded

Like other AEGON companies around the world, AEGON The Netherlands reinsures part of its insurance exposure with third-party reinsurers under traditional indemnity, quota share, and, in some instances, excess of loss contracts. This is in line with standard practices within the global insurance industry. Reinsurance helps AEGON manage, mitigate and diversify its insurance risks and limit the maximum loss it may incur on risks that exceed policy retention limits.

AEGON The Netherlands remains contingently liable with respect to the amounts ceded, should the reinsurance company fail to meet the obligations it has. To minimize its exposure to such defaults, AEGON The Netherlands regularly monitors the creditworthiness of its primary reinsurers. AEGON The Netherlands has experienced no material reinsurance recoverability problems in recent years. Where appropriate, additional reinsurance protection is contracted either through letters of credit or, alternatively, through trust arrangements. Under certain of these arrangements, funds are withheld for investment by the ceding company.

AEGON The Netherlands reinsures its life exposure through a profit-sharing contract between its subsidiary AEGON Levensverzekering N.V. and Swiss Re, one of the world s leading reinsurance companies. Under this arrangement, AEGON retains exposure of up to a maximum of EUR 900,000 per insured person with respect to death risk and EUR 25,000 a year for disability risk. Any amount in excess of this is transferred to the reinsurer.

For its fire insurance business, AEGON The Netherlands has in place an excess of loss contract with a retention level of EUR 3 million for each separate risk and EUR 20 million for each event. AEGON The Netherlands has reinsured its motor liability business on a similar basis with a retention level of EUR 2.5 million for each event.

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The United Kingdom

3.1. Background

AEGON UK is a leading provider of life insurance and pensions and also has a strong presence in both the asset management and financial advice markets. With offices located in the United Kingdom and Ireland, AEGON UK has some two million customers, more than 4,500 employees and nearly GBP 53 billion in revenue-generating assets under management. AEGON UK s main offices are in four locations: Edinburgh, London, Lytham St. Anne s and Dublin.

3.2. Organizational structure

AEGON UK plc. (AEGON UK) is AEGON UK s principal holding company. It was registered as a public limited company at the beginning of December 1998.

AEGON UK s leading operating subsidiaries are:

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

The company is organized into four distinct businesses:

- AEGON Individual, which provides individual customers with pensions, protection, investments and annuities.
- AEGON Corporate, which offers a range of products and services for companies and their employees, including pension and protection products, pension scheme administration, trustee support and worksite communication software.
- AEGON Asset Management, which provides investment management services for AEGON UK itself, other institutional customers and private investors.
- AEGON UK Distribution, which consists of intermediary distribution and advice businesses.

3.3. Overview sales and distribution channels

AEGON UK s principal means of distribution is through the intermediated financial advice channel, which is the main sales route for long-term savings and retirement products in the United Kingdom. These advisors provide their customers with access to various types of products depending on their regulatory status. They also advise them on the best solution to suit their financial needs.

In all, there are an estimated 35,000 registered financial advisors in the United Kingdom. These advisors may be classified as single-tied , multi-tied , whole of market or independent , depending on whether they are either restricted in the number of providers they deal with or are free to advise on all available products. AEGON UK maintains strong links with financial advisors in all segments of the market. Single-tie relationships have also been established with some advisors who have selected AEGON UK to be the sole provider of a particular product type.

AEGON UK is currently exploring new distribution opportunities including agreements with banks and affinity partnerships with other potential distributors.

3.4. Overview lines of business

AEGON UK has three lines of business:

- Life and protection
- Pensions and asset management
- Distribution

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3.4.1. Life and protection

General description

The AEGON UK life business comprises primarily individual and group protection (group risk), as well as individual and bulk annuities. The protection business provides insurance on individual or groups of lives for major life events such as death, critical illness and total or permanent disability. Annuities are used to convert savings accumulated as part of a pension plan into a regular income throughout retirement. In 2007, the Life and protection line of business accounted for approximately 30 percent of AEGON UK s overall operating earnings before tax.

Products

Individual protection

AEGON UK offers a range of products for individual customers, including life cover, critical illness and income protection. In addition, it also provides products for companies wishing to insure key personnel. In 2007, the company also launched a simplified life-only product to take advantage of new distribution opportunities opening up in the UK market. AEGON UK is now established as one of the United Kingdom s five leading providers of individual financial protection, according to 2007 figures from the Association of British Insurers.

Group risk

Group risk products enable companies to insure benefits they provide employees. These benefits include life cover, critical illness and income protection. Usually, group risk products are sold on a standard basis. Employers are free to select the type of cover they wish. Recently, there has been growth in flexible benefits packages, which are designed to give employees more choice over their benefits packages. AEGON UK has established itself as a recognized specialist in this area.

Immediate annuity

In the United Kingdom, most of the funds in a pension plan must be converted into a source of income by the time the planholder reaches 75, usually through the purchase of an immediate annuity. Recently, the UK market for immediate annuities has become increasingly competitive. Many customers are no longer content simply to buy their annuities from the company that provided their pension. AEGON UK s aim is to ensure its annuity rates are consistently near the top of published rates tables.

Bulk annuities

AEGON UK entered the bulk annuity market in 2007, building on the company s established expertise in administering defined benefit plans. The group annuity market is growing rapidly as an increasing number of defined benefits plans in the United Kingdom are closed (see Corporate Pensions, below). Bulk annuities are designed specifically for trustees who wish to wind up already closed defined benefit plans. The contract includes a secured benefit product, under which all deferred and immediate pensions are bought out via a trustee policy prior to the plan being wound up. Once the winding-up process is complete, individual deferred and immediate annuity policies are then assigned to the plan s members.

Sales and distribution

Protection and annuity products are distributed predominantly through intermediated advice channels. Group risk, however, is distributed primarily through a small number of specialist employee benefit consultancies.

3.4.2. Pensions and asset management

General description

Pensions and asset management constitute AEGON UK s most important lines of business. In 2007, they accounted for more than 75 percent of the AEGON UK s overall operating earnings before tax.

Recent years have seen considerable change in the United Kingdom s pension market. In 2006, the UK government introduced a simpler and more unified tax regime for pensions. This new regime was part of a broader reform of pensions in the United Kingdom. AEGON UK has successfully adapted its products and services to meet the challenges posed by this changing environment. As a result, the company s pension business has enjoyed a period of sustained sales growth.

Recent reform has also allowed AEGON UK to sell more specialized pensions. In particular, demand has been growing for phased retirement products that allow customers flexible access to pension income when they retire, without having to convert their savings into an annuity until they reach the age of 75.

Self-invested pensions are also becoming more popular in the United Kingdom, helped by changes to legislation and an increasing desire among many people to retain direct control over their investments and personal finances as they save for retirement. These products allow planholders to invest in a wider range of investment vehicles than was possible before.

Products

Individual pensions

AEGON UK provides a wide range of personal pensions as well as associated products and services. These include:

Flexible personal pensions

Self-invested personal pensions (SIPPs), which provide a range of pre- and post-retirement investment options for high net worth customers, including insured funds and real estate

Transfers from other retirement plans

Phased retirement options and income drawdown

Stakeholder pensions (a type of personal pension specific to the United Kingdom which has a maximum limit on charges and low minimum contributions)

According to figures from the Association of British Insurers, AEGON UK is one of leading providers of SIPPs and specialist phased income pensions.

Corporate pensions

One of AEGON UK s largest businesses is providing pension plans for companies. In recent years, there has been a pronounced trend away from defined benefit (DB) arrangements, which provide a guaranteed percentage of salary on retirement, toward defined contribution (DC) plans. DC plans are similar to personal pensions with contributions being paid into a plan owned by individual employees and then invested. Generally, at retirement, employees can choose to take a predetermined percentage of tax-free cash from their pension plan, using the remainder either to purchase an annuity or else to invest in a separate drawdown policy until they reach the age of 75.

As a result of this trend, the market for new DB plans has shrunk dramatically in recent years, largely because of concerns over long-term liabilities. There are, however, opportunities for AEGON UK to take on the administration and management of existing plans.

AEGON UK has also recently launched a group self-invested personal pension designed to extend to group pension customers the benefits associated with individual SIPPs, such as greater investment choice.

Investment products

AEGON UK offers two types of investment bonds designed for customers residing in the United Kingdom: the onshore bond and offshore contracts[4].

The onshore bond is a type of life contract, aimed primarily at pre- and post-retirement customers looking for either a source of income or a way of growing their savings. The bond offers a wide range of investment options and funds, managed by some of the world s leading asset managers.

While the onshore bond is aimed at a mass affluent market, AEGON UK s offshore contracts have traditionally been marketed to high net worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options. These contracts tend to form part of a broader retirement strategy, primarily because there are fewer restrictions on how and when benefits may be taken.

Through an offshore contract, AEGON UK also offers customers in the United Kingdom the Group s 5 for Life product. 5 for Life is an innovative variable annuity-style product that carries a guaranteed income for life. 5 for Life was first developed in the United States before being adapted for the UK market and launched there in 2006.

AEGON UK also offers a range of trusts designed to support inheritance tax planning. This is an area of growing demand as recent economic growth and rising wealth means more estates are falling under UK Inheritance Tax. Trusts help individuals manage and alleviate potential tax liabilities.

Asset management

With some GBP 53 billion in revenue generating investments, AEGON UK is one of the United Kingdom s leading institutional investors. AEGON Asset Management offers:

Institutional funds

- A diverse range of pooled and segregated investment solutions

Retail funds

- A range of fixed income solutions, including corporate bond funds
- Equity investments with global market coverage, including a range of UK funds
- Ethical funds investing in bonds and equities

Life and pensions

- An extensive range of life and pension funds on behalf of AEGON UK

Sales and distribution

Investment products as well as individual and corporate pensions are distributed widely through independent financial advisors, tied distribution and, more recently, through partnerships with banks. In addition, AEGON UK also maintains close relations with a number of specialist advisors in these markets. For benefit solutions software, AEGON UK works with a select number of distributors in the corporate market.

[4] The onshore bond is provided by AEGON Scottish Equitable. The offshore contracts are offered by AEGON Scottish Equitable International.

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AEGON Asset Management focuses on large employee consultancies that advise institutional clients, on fund supermarkets and on specialist discretionary investment advisors for retail clients.

3.4.3. Distribution

Through the company s Origen and Positive Solutions businesses, AEGON UK also provides financial advice directly to both individuals and companies.

Origen is a leading financial adviser firm, with strong positions in both the corporate and high net worth individual markets. It promotes its services through a variety of different sales channels, including face-to-face, media and worksite marketing, as well as accessing customers through professional contacts with accountants and lawyers.

Positive Solutions, meanwhile, is one of the largest and fastest-growing adviser networks in the United Kingdom.

3.5. Competition

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

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

The market for investment management services is more fragmented, but very competitive in certain specific segments and activities.

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

3.6. Regulation

All relevant AEGON UK companies are regulated by the Financial Services Authority under the United Kingdom s Financial Services and Markets Act 2000.

The Financial Services Authority acts both as 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) have responsibilities to the Financial Services Authority as Approved Persons . As such, they are subject to rigorous pre-appointment checks on their integrity and competence, and are subject to ongoing supervision throughout their mandate as Approved Persons and for a limited period afterwards.

The AEGON 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.

3.7. Asset liability management

Asset liability management (ALM) is overseen by the AEGON UK ALM Committee, which meets each month 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 therefore 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 possible investment scenarios on the solvency of each of the funds. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the Board of AEGON UK. During 2006, the investment strategies of the funds were reviewed using economic capital measures and some refinements were made as a result. This work continued in 2007 and further reviews will be carried out in the future.

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 each months to monitor the performance of the investment managers against fund benchmarks and, as appropriate, sets benchmarks/risk profiles for funds.

In addition to monitoring risk exposures in compliance with AEGON N.V. s worldwide Risk Management strategies, investment exposure to any single counterparty is limited by an internal framework that reflects the limits set by the appropriate regulatory regime. This applies both within asset classes (equities, bonds and cash) and across all investments.

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With-profit funds

The invested assets, insurance and investment contract liabilities of AEGON UK s with-profit funds are included in for account of policyholder assets and liabilities . Assets and liabilities are always equal as any excess of assets over liabilities in respect of guaranteed benefits and constructive obligations are classified as an insurance or investment contract liability. The Scottish Equitable with-profit fund is a 100:0 fund, where all benefits are held for participating policyholders. The Guardian Assurance plc with-profit fund is a 90:10 fund where AEGON UK receives 10% of the surpluses distributed to policyholders. The amount of profit AEGON UK derives from the Guardian fund is driven by the level of declared bonuses.

The operation of with-profit funds is complex. What is set out below is a brief summary of our overall approach:

Guarantees

With the exception of 5 for Life , which is written in Dublin, all AEGON UK contracts with investment guarantees have been written in policyholder-owned funds (otherwise called with-profit funds). These funds contain free assets , which, as yet, have not been distributed to individual policyholders. Free assets help meet the cost of guarantees and provide a buffer to protect the fund from the impact of adverse events. AEGON UK has an exposure only once these assets have been exhausted. As outlined below, AEGON believes this exposure to be low.

In previous years, Scottish Equitable and Guardian Assurance sold guaranteed annuity products in the United Kingdom. Certain policies also have a guaranteed minimum rate of return or guaranteed death or other benefits. Any guaranteed rates of return only apply if the policy is kept in force to the dates specified, or on the events described in the policy conditions. The costs of all guarantees are borne by the with-profit funds and therefore impact the payouts to with-profit policyholders. AEGON UK s main with-profit classes are summarized in the following sections.

Scottish Equitable plc.

As part of its demutualization process before being acquired by AEGON N.V., on December 31, 1993, the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc. AEGON UK has no financial interest in Scottish Equitable plc. s with-profit fund, apart from routine yearly fund management charges, as well as costs and expenses that the company agreed to accept at the time of demutualization.

Guaranteed rates of return on with-profit policies are typically in the range of 0% to 5.5% a year, with the highest rates closed to new premiums in 1999 and all funds closed to new business with investment guarantees from October 2002, except for a low level of increments.

Under a number of contracts written mainly in the 1970s and 1980s, Scottish Equitable also offered minimum pension guarantees (including guaranteed annuity options). As life expectancy rates have improved and interest rates have fallen over time, these minimum guarantees are now often valuable.

Guardian Assurance plc

The AEGON UK interest in Guardian Assurance plc s with-profit fund is 10% of profits in the fund, with the remaining 90% going to with-profit policyholders. In 1998, prior to Guardian Assurance s acquisition by AEGON UK, the with-profit fund was restructured and closed to new business, except for a low level of increments.

Guaranteed returns on policies without guaranteed cash options or annuity payments are typically 0% to 3.5% a year. On policies with guaranteed cash options or annuity payments, guaranteed returns depend on the value of the options at retirement.

Management of the with-profit funds

It has been AEGON UK s practice to have an investment strategy for each of its with-profit funds that reflects the nature of the underlying guarantees. Funds can invest in a variety of different asset types. The main categories are United Kingdom and overseas equities, United Kingdom fixed interest securities, property and cash. Each with-profit fund has a target range for the percentage of its assets that are invested in a combination of equities and property. These ranges may be varied. Within the target ranges, there is a policy of holding an appropriate mix of asset classes to reduce risk.

The results of the with-profit funds investment performance is distributed to policyholders through a system of bonuses which depend on:

The guarantees under the policy, including previous annual bonus additions.

The investment returns on the underlying assets, with an allowance for smoothing to reduce volatility. Although smoothing means that investment profits are spread from one year to the next, the aim is to pay out all of the investment profits earned by the fund over the long term. On early withdrawals there are other measures to ensure that a fair share of total fund growth has been received. Indeed, a market value reduction may be applied under certain funds when, for cohorts of similar contracts, the face value of the benefits is greater than the value of the underlying assets. Policy conditions may state specific points at which a market value reduction will not apply.

As mentioned above, the free assets (i.e. assets which, as yet, have not been distributed to policyholders) help meet the cost of guarantees and provide a buffer to deal with adverse events. AEGON UK has an exposure only once these free assets have been exhausted. This has been assessed by AEGON UK to be immaterial (by applying the risk-based capital approach now required for solvency reporting in the United Kingdom).

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As all of AEGON UK s with-profit funds are now closed to new business with investment guarantees, the process has begun of gradually distributing free assets to with-profit policyholders through the bonus system outlined above. Part of the management of this process involves endeavoring to ensure that any surpluses in the with-profit fund from other (historic) business lines can be distributed to existing with-profit policyholders at a suitable rate. In particular, Guardian Assurance plc has reinsured blocks of immediate annuity business to another part of AEGON UK on terms that reflect prevailing market rates. This helps avoid a tontine effect building up in the fund, as the number of with-profit policyholders declines.

3.8 Reinsurance ceded

AEGON UK s reinsurance strategy is aimed at limiting overall mortality and morbidity volatility and maximizing any tax benefits that reinsurance can bring. The actual percentage of business which is reinsured of course varies, depending chiefly on the availability and price of reinsurance on the market.

Prior to 2002, AEGON UK adopted a similar approach to longevity risk. Since then, however, AEGON UK has considered the terms available in the reinsurance market for longevity risk to be relatively unattractive compared to the margins expected from this business and the diversification benefits available to the company by retaining this risk.

AEGON UK prefers to work only with reinsurance companies that have a credit rating of AA or above. Using a reinsurer with a lower credit rating would require the approval of AEGON UK s local risk and capital committee as well as prior discussion with AEGON s Group Risk division in The Hague. Over the past few years, AEGON UK has maintained its approach despite reinsurance companies suffering periodical downgrades.

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OTHER COUNTRIES

4.1. Background

In the past few years, AEGON has significantly expanded its international presence outside its three main established markets of the United States, the Netherlands and the United Kingdom. AEGON is now present in more than twenty markets in total in Europe, the Americas and in Asia.

In particular, AEGON has seen strong growth in its businesses in Central and Eastern Europe, as well as in other new, emerging markets such as China and Taiwan.

4.1.1 Central and Eastern Europe

AEGON first entered the Central and Eastern European market in 1992 when the Group bought a majority stake in Hungary s former state-owned insurance company, Állami Biztosító. Hungary remains AEGON s leading business in the region and a springboard for further expansion. Today, AEGON has operations in five Central and Eastern European countries: Hungary, Poland, the Czech Republic, Slovakia and Romania.

4.1.2. Asia

AEGON opened its first business in Asia in 1993 in Taiwan. Since then, the Group has expanded its operations in the region. AEGON today has businesses in China, India, Japan and Taiwan [5].

AEGON Taiwan began operations in 1994 as a branch of Life Investors, part of AEGON USA. Over the following years, AEGON Taiwan rapidly expanded its activities, including the acquisition of the AFLAC and AXA portfolios in Taiwan, and the merger with Transamerica Taiwan. In December 2007, AEGON entered a joint venture agreement with Taishin Financial Holding Co., one of the leading private banks in Taiwan with a four million customer base, to extend bancassurance businesses.

In 2002, AEGON signed a joint venture with China National Offshore Oil Corporation (CNOOC), China s leading offshore oil and gas producer. AEGON-CNOOC began operations in May 2003. The joint venture is licensed to sell both life insurance and accident and health cover in mainland China.

Since 2003, AEGON-CNOOC has been steadily extending its network of offices and businesses in China. It now has licenses in six different locations Shanghai, Beijing, Jiangsu, Shandong, Zhejiang and Guangdong. These locations give the joint venture access to a potential market of some 200 million people, most of them in the booming coastal provinces of eastern China.

In May 2007, AEGON agreed to form an asset management joint venture with China s Industrial Securities, one of the country s leading securities companies. Under the agreement, AEGON will take a 49 percent interest in Industrial Fund Management Company, a mutual fund manager with approximately EUR 1.7 billion in assets under management. The joint venture with Industrial Securities marked an important step for AEGON, further strengthening its commitment to the Chinese market and extending the Group s range of businesses in the country.

In addition to Taiwan and China, AEGON is also present in India and Japan. In 2006, AEGON agreed to form a new life insurance and asset management partnership in India with the Ranbaxy Promoter Group for which operations are expected to start in 2008. In early 2007, AEGON announced it had signed a new joint venture with Sony Life, one of Japan s leading insurance companies. This joint venture will initially focus on variable annuities, but the agreement also provides a platform for further cooperation between AEGON and Sony Life.

4.1.3. Western Europe (Spain and France)

In addition to the United Kingdom and the Netherlands, AEGON has a presence in two other western European countries: Spain and France.

AEGON first entered the Spanish market in 1980 when it bought local insurer, Seguros Galicia. In recent years, AEGON s activities in Spain have grown rapidly, mainly due to distribution partnerships with some of the country s leading savings banks. AEGON Spain operates through two subsidiaries: AEGON Seguros Salud and AEGON Seguros de Vida. Administration and operational services to all companies in Spain, including joint ventures with third parties, are provided by AEGON Administracion y Servicos A.I.E., a separate legal entity. In addition AEGON operates through partnerships with Caja Mediterraneo (CAM), Caja Navarra, and Caja Badajoz.

In July 2007, AEGON signed a partnership agreement with Caja Cantabria, one of the largest savings banks in northern Spain. AEGON s share in the new company will be 10% in the first year of its operation. After this period, AEGON has the option to acquire another 40% of Cantabria Vida, the new life insurance and pensions joint company. The transaction is subject to regulatory approval.

At the end of 2002, AEGON also agreed a partnership with mutual insurer La Mondiale, one of France s leading insurance and pension companies. AEGON has a 35 percent interest in La Mondiale s subsidiary company La Mondiale Participations. La Mondiale Participations offers a wide range of life insurance, pension, savings, investment, asset management and accident and health products to both corporations and individual retail customers.

[5] This refers only to AEGON-owned operations and joint ventures. It does not include AEGON Direct Marketing Services or Transamerica Re.

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4.2. Organizational structure

AEGON s other international businesses operate through a number of subsidiaries and joint venture partnerships. These international businesses are referred to collectively as Other Countries .

AEGON s main subsidiaries and affiliates are:

Central and Eastern Europe

AEGON Hungary Composite Insurance Company Limited by Shares

AEGON Hungary Investment Fund Management Company Limited by Shares

AEGON Hungary Pension Fund Management Company Limited by Shares

AEGON Hungary Mortgage Company Limited by Shares

AEGON Hungary Real Estate Limited Company

AEGON Poland Life Insurance Company

AEGON Pension Fund Management Company (Poland)

AEGON Slovakia Life Insurance Company

AEGON Partner Company (Slovakia)

AEGON Pension Fund Management Company (Slovakia)

AEGON Voluntary Pension Fund Management Company (Slovakia)

AEGON Life Insurance Company (Czech Republic)

AEGON Voluntary Pension Fund Company (Czech Republic)

BT-AEGON Pension Fund Management Company, 50% (Romania)

Asia

AEGON Life Insurance (Taiwan) Inc.

AEGON-CNOOC Life Insurance Co. Ltd.

Western Europe (Spain and France)

AEGON Seguros Salud

AEGON Seguros de Vida

AEGON Administracion y Servicos A.I.E

Mediterraneo Vida, 49.99%

Caja Badajoz Vida y Pensiones, 50%

CAN Vida y Pensiones, 50%

Cantabria Vida y Pensiones, 10%

La Mondiale Participations, 35%

4.3. Central and Eastern Europe

AEGON s activities in Central and Eastern Europe operate through a number of different sales channels. These include tied agents, insurance brokers and, particularly in Poland and Romania, retail banks. Through tied agents, brokers and call centers, AEGON sells primarily life and non-life insurance and pensions. Banks and loan centers are used to sell mainly life insurance, mortgages pensions and household.

4.3.1 Life and protection

AEGON companies in Central and Eastern Europe offer a range of life insurance and personal protection products. This range includes traditional life as well as unit-linked products. Sales of unit-linked products in the region have shown a considerably higher rate of growth than traditional general account products in recent years. Unit-linked products cover all types of life insurance, including pension, endowment and savings. In Poland, AEGON is the leading provider of single premium life insurance via its unit-linked products, offering a range of more than 100 different investment funds.

Traditional general account life insurance is a marginal product for most of the region s businesses. The exception is Hungary. Traditional general account includes mainly index life products that are not unit-linked but guaranteed rates of interest. AEGON Hungary no longer offers these products.

Group life and preferred life are also part of traditional general account life. Group life contracts are renewable each year. They also carry optional accident and health cover. AEGON offers savings products in Central and Eastern Europe as part of employee benefit programs. These products include guaranteed interest rate returns.

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Traditional non-profit share products have 5.5% technical interest rates, but this is a declining block of business. Profit share products mainly have a 3.5% technical interest rate and 85% participation in excess interest. The average minimum interest guarantee is about 3.4%.

In Hungary, a small part of the current new business provides a minimum interest guarantee of 2%. In Poland, an insurance fund with minimum rate reset quarterly and annually is offered on unit-linked products. In Slovakia the current minimum interest rate on universal life products is 3%. Universal life products in the Czech Republic have a guaranteed interest rate of 2.4%.

From 2006, AEGON Hungary has been offering mortgages to retail customers. Home loans are Swiss franc denominated and provided by AEGON Mortgage Co., a subsidiary of AEGON Hungary Composite Insurance Company. AEGON is targeting a share of between 5 and 10 percent of the Hungarian mortgage market in terms of new sales.

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4.3.2 Individual savings and retirement products

AEGON companies in Central and Eastern Europe offer a variety of individual savings and retirement products. AEGON Hungary Investment Fund Management Company, a subsidiary of AEGON Hungary Composite Insurance Company, offers a range of mutual funds to retail investors. Besides this AEGON Life Insurance offers unit-linked investment products in the Czech Republic.

4.3.3 Pensions and asset management

Pensions

AEGON s pension business in Central and Eastern Europe has experienced considerable growth in recent years. This is due mainly to the region s strong economic growth and widespread reform of the pension system in many countries. In four of the five countries in which AEGON has businesses, AEGON has introduced mandatory pension plans: in Hungary, Slovakia, Poland and Romania. Additionally in three countries, AEGON has launched voluntary pension plans: in Hungary, Slovakia and the Czech Republic.

The mandatory pension fund in Romania was launched in 2007, following a partnership agreement signed with Banca Transilvania, to set up a joint pension company ahead of the introduction of the country s new mandatory retirement system in early 2008. AEGON voluntary pension funds in Slovakia and in the Czech Republic also started to operate in 2007. In Hungary, Slovakia, Poland and Romania, AEGON now has a total of 1.3 million pension fund members.

AEGON s mandatory pension funds in Hungary and Slovakia, as well as the voluntary pension fund managed by AEGON Hungary, are among the largest in their countries in terms of both membership and assets under management[6].

AEGON s ambition is to continue expanding its pension operations in Central and Eastern Europe both by growing its existing businesses and by searching out opportunities to extend its activities into new countries and new markets. By 2010, AEGON wants to attain a 10 percent share of Central and Eastern Europe s mandatory pension market and increase the overall membership of its pension funds in the region to at least 2 million.

At the same time, AEGON remains alert for possible acquisition opportunities, both in the Group s existing markets and in new countries. In particular, AEGON has made it clear it is looking to enter the Ukrainian market in the near future.

In 2007, AEGON purchased PTE Ergo Hestia, one of Poland s pension fund management companies. The company was renamed as AEGON PTE. Currently, AEGON is planning to merge with PTE Skarbiec-Emerytura, a pension fund management company belonging to Poland s BRE Bank. PTE Skarbiec-Emerytura manages the accounts of over 440,000 members. If successful, this transaction would increase the number of AEGON pension fund members in Central and Eastern Europe to 1.8 million.

Asset management

AEGON provides a range of asset management services through AEGON Hungary Investment Fund Management Company. Thus AEGON Hungary Investment Fund Management Company:

- manages the general account assets, unit-linked portfolio and pension plans of AEGON Hungary;
- manages the guaranteed fund and the special bearish fund of AEGON Poland;
- provides asset management services to third parties in Hungary;
- provides asset management services to AEGON Voluntary Pension Fund Company in the Czech Republic;

manages the assets of 15 AEGON mutual funds; and

oversees all AEGON investment activities in the Central and Eastern European region.

4.3.4 General insurance

In addition to life insurance and pensions, AEGON Hungary offers non-life cover (household, car insurance and some wealth industrial risk). Generally, these are products and services inherited from Állami Biztosító, the former state-owned insurance company acquired by AEGON in 1992. In recent years, margins on household insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for cross-selling life insurance. Property and car insurance are also included in AEGON Hungary s portfolio but neither are considered core businesses.

4.3.5 Competition

AEGON is among the biggest players on the life insurance markets in both Poland and Hungary. Based on 2006 premium income, it is the third largest in Poland and the fourth largest in Hungary (source: www.knf.gov.pl and Annual Report of Hungarian Insurance Association 2007). On the non life insurance market, AEGON is the fourth largest in Hungary based on premium income (source: Annual Report of Hungarian Insurance Association 2007). 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 and third in terms of its managed assets at the 2006 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 2006. (Source: www.pszaf.hu). Slovakia started a reform of its pensions system in January 2005. 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).

[6] Source: the Association of Pension Fund Management Companies, Slovakia (www.adss.sk) and Hungarian Financial Supervisory Authority (www.pszaf.hu).

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4.3.6 Regulation

In Central and Eastern Europe insurance 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. All of the acts regulating the foundation, operation, and reporting obligations of insurance companies in this region comply with EU regulations.

State supervision and oversight of the insurance industry 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;
- the Czech National Bank; and
- the Polish Financial Supervisory Authority (PFSA).

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. 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. Slovakia s pensions market is regulated by Act 43/2004 on pension asset management companies and respective notices. In Romania the private pension system is regulated and supervised by the Private Pension System Supervisory Commission (PPSSC) and is subject to Act 411/2004 on Privately Administered Pension Funds. In Poland this activity is supervised by the Polish Financial Supervisory Authority (PFSA) and is governed by Act as of 28 August 1997 on Organization and Operation of Pension Funds. In the Czech Republic the voluntary pension funds fall under the supervision of the Czech National Bank and are regulated by Act 42/1994 on State-Contributory Supplementary Pension Insurance.

In Hungary, the 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.

4.3.7 Asset liability management

Asset liability management is overseen by the Regional Risk and Capital 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.

4.3.8 Reinsurance ceded

AEGON takes out reinsurance for both its life and its non-life businesses in Central and Eastern Europe. As elsewhere, this strategy is aimed at mitigating insurance risk. AEGON s companies in the region work only through large reinsurers active in the European market with a Standard & Poor s rating of at least A .

The three most important reinsurance programs currently in force are (with retention levels indicated in parentheses):

- Property catastrophe excess of loss treaty (EUR 5.9 million);
- Motor third party liability excess of loss treaty (EUR 0.4 million);
- Property per risk excess of loss treaty (EUR 1.2 million).

The majority of treaties in force for AEGON s operations in Central and Eastern Europe are non-proportional excess of loss programs.

4.4. Asia

As elsewhere around the world, AEGON operates through a number of different sales channels in Asia. In Taiwan, AEGON has a network of more than 700 professional agents. In addition, AEGON Taiwan works through independent brokers and banks, and uses group, worksite and direct marketing to ensure customers are able to receive the financial products they want in a way that suits them best. Each of these channels provides products tailored to customers requirements and the market segments they serve.

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In December 2007, AEGON signed an agreement with Taishin Financial Holding Co. to establish a life insurance and pension joint venture in Taiwan. Taishin, one of Taiwan s leading financial institutions, will hold 51 percent of the joint venture and AEGON the remaining 49 percent. The joint venture will distribute AEGON products through the extensive Taishin network, which includes Taishin Bank, Taishin Securities, Taishin Insurance Agency and Taishin Insurance Brokers and has a customer base of four million. The joint venture is expected to be operational by mid-2008, subject to final agreement, licensing and regulatory approval.

Similarly, in China, AEGON works through agents, independent brokers, banks and direct marketing to sell the products. Agents and brokers in China distribute mainly life insurance. With the booming of China s stock market, variable life products have been the most important product for AEGON s bank partners. Personal accidental products are the main products sold through the direct marketing channel.

Banks are becoming increasingly important in Asia as a means for distributing pensions, life insurance and other long-term savings and investment products. For this reason, AEGON has been striving in recent years to extend its bank distribution agreements in the region. AEGON now has partnerships in place with many of China s national banks, including:

- Industrial and Commercial Bank of China
- Agricultural Bank of China
- Communications Bank
- China Merchants Bank
- China Post
- Bank of China
- China CITIC Bank
- China Construction Bank
- Industrial Bank

AEGON s bancassurance network in China now totals 800 outlets.

In June 2007, AEGON signed a memorandum of understanding with Taishin Financial Holding Co. Ltd. to establish a life insurance and pension joint venture in Taiwan. Taishin, one of Taiwan s leading financial institutions, will hold 51 percent of the joint venture and AEGON the remaining 49 percent. The joint venture will distribute AEGON products through the extensive Taishin network, which includes Taishin Bank, Taishin Securities, Taishin Insurance Agency and Taishin Insurance Brokers and has a customer base of 4 million. The joint venture is expected to be operational by mid-2008, subject to final agreement, licensing and regulatory approval.

4.4.1 Life and protection

AEGON provides a broad range of life insurance products through its businesses in both Taiwan and China. These include unit-linked and traditional life products, as well as endowment, term, health, group life, accident and annuities.

Unit-linked products are now AEGON Taiwan s top-selling product lines after efforts were made in 2005 to improve the products and better adapt them to the needs of customers. These unit-linked products offer a wide variety of investment options, including access to AEGON s innovative stable value fund. AEGON Taiwan ranks number seven in the market in 2007 in terms of APE of unit-linked products.

The most significant guarantees in Taiwan relate to individual life products with fixed premiums. These products carry interest guarantees at various levels. The current new business provides interest guarantees mostly at 2%. The average in force guarantee rate is approximately 3.3%. Business issued in 2003 and prior also carries the Ministry of Finance Dividend that requires the insurance company to pay to the policyholder a dividend referring to industry mortality experience and the average two-year term deposit rates.

AEGON-CNOOC launched its first variable life product in April of 2007. In some cities like Shandong and Jiangsu AEGON-CNOOC was the first insurer providing variable life product through bank partners. Due to the bull stock market, the share of variable life product increased very quickly and it has been the top product with around 60% share of new business in 2007. The above mentioned variable life products do not offer any interest guarantee. The main products through the agency and broker channel are still universal life products with 2.5% minimum interest guarantee and participating life products with a 2.5% technical interest guarantee rate. With the coming variable life products sold through agents and independent brokers, the share of universal and traditional life products are expected to decline. The core products sold via the direct marketing channel are one year renewable personal accidental products and traditional endowment products with 2.5% technical interest rate.

4.4.2 Competition

Taiwan

Taiwan s life insurance market ranks number 9 in the world and number 4 in Asia in terms of total premiums in 2006 (Source: SwissRe Sigma Report No 4/2007). Between 2000 and 2006, life insurance premium income in Taiwan grew at an average 16.7% a year according to statistics released by the Life Insurance Association of the Republic of China. At the end of 2007, there were 29 life insurance companies in Taiwan, 13 of which were domestic companies and 16 of which were foreign company subsidiaries or branches of foreign companies. In 2007, up to November, insurance premiums totaled NTD 1,690 billion, with the top five companies accounting for around 63%.

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.

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Among all the foreign companies, AEGON ranked sixth in terms of new business premium income for the year of 2007 up to November (Source: Life Insurance Association of the Republic Of China).

China

Since 1990, with the reform of China s economic system, China s insurance market is developing very quickly. At the end of 2007, there were 51 life insurers having business in China, among which 24 were foreign companies. China s life insurers collected premium of RMB 413.2 billion in 2006, a growth of 11.67% comparing to 2005. Foreign insurers accounted around 6% of total premium income, while in the cities where foreign insurers entered earliest like Beijing and Shanghai their shares are 21% and 19%.

Tied agents are still the main channel in selling life insurance. In 2006, more than 50% of the premiums were derived from tied agents. The bank channel is growing very quickly and in 2006 the premium income was RMB 8 billion, a growth of 30% comparing to the year before. With the introduction of new regulations to encourage the brokerage channel, this channel is also growing rapidly with a growth of 38% in 2006.

4.4.3 Regulation

Taiwan

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 risk-based capital requirements.

China

China Insurance Regulatory Commission (CIRC) is the entity in regulating and supervising all insurance companies in China. CIRC promotes consumer protection, sets the regulation of premium rates and reserve requirements, and has the right to investigate the financial position and solvency of the life insurers.

4.4.4 Asset liability management

Taiwan

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.

China

A monthly asset liability management meeting is held to discuss duration and liquidity management. The duration of liabilities and assets are calculated separately by block and the duration-gap is analyzed. Considering that most insurance liability is derived from 5-year and whole life single-premium products, AEGON-CNOOC purchased corporate bonds, government bonds, 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.

The respective Risk and Capital Committees of AEGON Taiwan and AEGON-CNOOC meet every quarter to manage and monitor asset and liability matching using the result of stress-test scenarios based on Economic Capital Model, liquidity tests and duration mismatch tests.

4.4.5 Reinsurance ceded

Taiwan

AEGON Taiwan uses both local and international reinsurers to help cover its mortality and morbidity risks. All of the company s leading reinsurers have a credit rating of AA- or above, except for Central Reinsurance Company, or CRC. CRC is a formerly state-owned company that was recently successfully privatized. CRC s credit rating was upgraded in October 2006 from BBB+ to A- . AEGON Taiwan s reinsurance contracts cover quota share reinsurance, excess surplus risks and catastrophe concentration risks. The retention limit on any one individual life is currently NTD 5,000,000 (approximately EUR 111,000) for mortality risk.

AEGON Taiwan 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 Taiwan monitors the creditworthiness of its reinsurers.

China

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 RMB 200,000.

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4.5. Western Europe (Spain and France)

AEGON Spain focuses primarily on retail customers. It offers both life insurance and accident and health cover. In particular, AEGON Spain offers pensions as well as both traditional life and unit-linked variable life products, a market traditionally dominated by the country s retail banks. In France, AEGON has a partnership with La Mondiale since 2002 and works together with La Mondiale in a number of areas including pensions, asset management and distribution.

4.5.1. Spain

In Spain, some 70 percent of life insurance policies a high proportion are sold through the country s retail banks. For this reason, Spain in recent years has been an important part of AEGON s efforts to expand its web of bank distribution partnerships. AEGON now has partnerships in place with four of Spain s leading savings banks, giving the Group access to nearly 1,800 branches across the country:

Caja de Ahorros del Mediterráneo

Caja Navarra

Caja de Badajoz

Caja Cantabria

AEGON s partnership with Caja de Ahorros del Mediterraneo (CAM) goes back to 2004. CAM is Spain s sixth largest savings bank by profit and by number of branches. CAM has a network of more than 1,000 branches across the Valencia, Murcia and Catalonia provinces, as well as in Madrid and on the Balearic and Canary Islands. AEGON and CAM have a 49.99 respectively 50.01 percent interest in Mediterraneo Vida, the life insurance and pensions company that has exclusive access to CAM s branch network.

AEGON s partnership with Caja Navarra was signed in November 2005. Caja Navarra has a total of 276 branches in the north of Spain, close to the border with France. Under the agreement, AEGON has acquired a 50 percent interest in Caja Navarra s pension and life insurance business. AEGON and Caja Navarra are also exploring other areas of possible cooperation, including health insurance.

Caja de Badajoz has a network of some 200 branches, chiefly in the western region of Extremadura, which adjoins Spain s border with Portugal. Under the partnership, also agreed in 2005, AEGON and Caja de Badajoz have set up a 50/50 joint company to sell life insurance and pensions.

AEGON signed its partnership with Caja Cantabria in July 2007. One of the largest savings banks in northern Spain, Caja Cantabria has a total of 170 branches, located primarily in its home province of Cantabria. AEGON s share in the new company will be 10% in the first year of its operation. After this period, AEGON has the option to acquire another 40% of Cantabria Vida, the new life insurance and pensions joint company. The transaction is subject to regulatory approval.

AEGON remains committed to further expanding its distribution network in Spain. The Group s current partnerships distribute a combination of life insurance and pension products. AEGON also uses specialized agents and brokers to distribute its products, particularly individual life insurance, throughout both urban and rural areas.

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.

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.

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.

Reinsurance ceded

AEGON Spain has proportional reinsurance protection in place for its individual risk policies and non-proportional protection for its group risk policies. This strategy is in line with standard practice within the insurance industry. With this approach, AEGON is seeking to diversify its insurance risk and limit the maximum possible losses on risks that exceed policy retention levels. Maximum retention levels vary by product and the nature of the risk being reinsured. Generally, however, the retention limit is between EUR 45,000 and EUR 60,000 per life insured. AEGON Spain remains contingently liable with respect to the amount ceded should the reinsurance company fail to meet its obligations.

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AEGON Spain, generally, works only with reinsurance companies that have a credit rating from Standard & Poor s of at least A . To lessen its exposure to defaults, AEGON Spain regularly monitors the creditworthiness of its reinsurers. Where appropriate, additional protection is taken out through funds that are withheld for investment by the ceding company.

4.5.2. France

In 2002, AEGON signed a partnership with mutual insurer La Mondiale, one of France s largest providers of life insurance and pensions. AEGON and La Mondiale work together in a number of areas, including pensions, asset management and distribution. In 2005, the AEGON Pension Network was launched in collaboration with La Mondiale. As part of the partnership, AEGON took a 20 percent stake in La Mondiale s subsidiary La Mondiale Participations, increasing it later to 35 percent.

AEGON s partnership with La Mondiale gives the Group a foothold in Europe s second largest insurance market. As in Spain, most life insurance in France more than 60 percent is sold via retail banks or La Poste, France s post office.

In July 2007, La Mondiale and fellow insurer AG2R announced a merger. The merger which won t affect AEGON s partnership with La Mondiale will create the country s eighth largest life insurer, serving some 5.6 million customers. The new group will become operational at the start of 2008.

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 18.49 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 B.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 2.3 million. AEGON also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1.8 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; 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

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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 . 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 this 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. To the extent 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 contract 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.

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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.

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

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

In million EUR	2007 United States[1]	2007 Canada[1]	2007 The Netherlands[2]	2007 Total	2006 United States[1]	2006 Canada[1]	2006 The Netherlands[2]	2006 Total
At January 1	(28)	492	275	739	(14)	586	378	950
Acquired through business combinations	13			13				
Incurred guarantee benefits	(5)	75	102	172	(17)	(37)	(103)	(157)
Paid guarantee benefits		(2)		(2)				
Net exchange differences	2	30		32	3	(57)		(54)
At December 31	(18)	595	377	954	(28)	492	275	739

	2007 United States[1]	2007 Canada[1]	2007 The Netherlands[2]	2007 Total	2006 United States[1]	2006 Canada[1]	2006 The Netherlands[2]	2006 Total
Account value	3,623	3,423	6,675	13,721	2,393	3,446	6,171	12,010
Net amount at risk	11	619	62	692	1	602	45	648

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, 2007, the reinsured account value was EUR 6.9 billion (2006: EUR 8.4 billion) and the guaranteed remaining balance was EUR 4.5 billion (2006: EUR 5.5 billion).

The reinsurance contract is accounted for as a derivative and is carried in AEGON s balance sheet at fair value. At December 31, 2007, the contract had a value of EUR 1 million (2006: EUR 15 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.

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

	2007				2006			
In million EUR	GMDB[1]	GMIB[2]	GMAB[3]	Total	GMDB[1]	GMIB[2]	GMAB[3]	Total
At January 1	117	123	768	1,008	126	121	1,407	1,654
Acquired through business combinations	56	1		57				
Incurred guarantee benefits	48	16	(332)	(268)	34	23	(639)	(582)
Paid guarantee benefits	(29)	(14)		(43)	(30)	(7)		(37)
Net exchange differences	(4)	(5)		(9)	(13)	(14)		(27)
At December 31	188	121	436	745	117	123	768	1,008

	2007				2006			
	GMDB[1]	GMIB[2]	GMAB[3]	Total[4]	GMDB[1]	GMIB[2]	GMAB[3]	Total[4]
Account value	26,646	8,798	13,089	48,533	23,814	8,562	11,508	43,884
Net amount at risk	1,833	229	54	2,116	1,614	296	40	1,950
Average attained age of contractholders	65	63			65	64		

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, 2007, 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% (2006: 9%); gross short-term growth rate of 6% (2006: 4.75 %); gross short- and long-term fixed security growth rate of 6% (2006: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2006: 3.5%). For Canada these assumptions, at December 31, 2007, were as follows: gross long-term equity growth rate of 9% (2006: 9%); and gross short-term growth rate of 10.75% (2006: 9%). For both countries the reversion period for the short-term rate is five years.

Sensitivity of DPAC and VOBA to Changes in Key Assumptions

A 1% decrease in the expected long-term equity growth rate with regards to our variable annuities and variable life insurance products in the United States and Canada would result in a decrease in DPAC and VOBA balances of approximately EUR 40 million after tax. A change in this assumption has the most significant impact on our DPAC and VOBA balances. A change in the short-term equity growth rate by 1% (increase or decrease) or a change in both the long-term and short-term equity growth rates to 8% would impact DPAC and VOBA balances by less than EUR 30 million after tax. The DPAC and VOBA balances for these products in the United States and Canada amounted to EUR 2.1 billion at December 31, 2007.

For the fixed annuities and fixed universal life insurance products, the EGP calculations include a net interest rate margin, which we assume will remain practically stable under any reasonably likely interest-rate scenario.

The impact of a 5% change in the mortality assumption would impact DPAC and VOBA balances by approximately EUR 50 million after tax. The impact of a 20% change in the lapse assumption would impact DPAC and VOBA balances by approximately EUR 40 million after tax.

The impact of any reasonably likely changes in the other assumptions we use to determine EGP margins (i.e. maintenance expenses, inflation and disability) would impact DPAC and VOBA balances by less than EUR 20 million after tax per assumption change.

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The movements in DPAC over 2007 compared to 2006 can be summarized and compared as follows:

In million EUR	2007	2006
At January 1	10,938	10,789
Costs deferred/rebates granted during the year	1,803	1,891
Amortization through income statement	(998)	(1,243)
Shadow accounting adjustments		157
Disposals	117	
Net exchange differences	(922)	(697)
Other	19	41
At December 31	10,957	10,938

The movement in VOBA over 2007 can be summarized and compared to 2006 as follows:

In million EUR	2007	2006
At January 1	3,959	4,396
Additions	7	11
Acquisitions through business combinations	526	114
Disposals		(29)
Amortization / depreciation through income statement	(210)	(246)
Shadow accounting adjustments	86	20
Net exchange differences	(333)	(307)
Other	(108)	
At December 31	3,927	3,959

VOBA, DPAC per line of business

DPAC per line of business

	Americas	The Netherlands	United Kingdom	Other countries	Total
2007					
Life and protection	4,519	535	231	474	5,759
Individual savings and retirement products	1,197				1,197
Pensions and asset management		77	2,916	1	2,994
Institutional products	219				219
Reinsurance	786				786
General insurance				2	2
At December 31	**6,721**	**612**	**3,147**	**477**	**10,957**
2006					
Life and protection	4,461	596	224	443	5,724
Individual savings and retirement products	1,268				1,268
Pensions and asset management		77	2,928		3,005
Institutional products	172				172
Reinsurance	767				767
General insurance				2	2

At December 31	**6,668**	**673**	**3,152**	**445**	**10,938**

VOBA per line of business

	Americas	The Netherlands	United Kingdom	Other countries	Total
2007					
Life and protection	1,739	5	2	22	1,768
Individual savings and retirement products	317				317
Pensions and asset management	46	65	953	15	1,079
Institutional products	54				54
Reinsurance	607				607
Distribution		102			102
Total VOBA	**2,763**	**172**	**955**	**37**	**3,927**
2006					
Life and protection	1,786	6	2	30	1,824
Individual savings and retirement products	152				152
Pensions and asset management	35		1,074	11	1,120
Institutional products	42				42
Reinsurance	710				710
Distribution	0	111			111
Total VOBA	**2,725**	**117**	**1,076**	**41**	**3,959**

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 or in relation to the unit price of the underlying assets. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments. Changes in own credit risk are not considered when determining the fair value of insurance and investment liabilities as these contractholders have precedent over other creditors in case of default. Own credit risk is considered in measuring the fair value of borrowings and other liabilities.

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 measurement of interests held in non-quoted investments funds is based on the fair value of the underlying assets. The fair value of non-quoted fixed interest debt instruments is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics. For mortgage and other loans originated by the Group s 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

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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.

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, 2007 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	2,339	119	(19)	2,439	1,834	605
Dutch government	1,881	10	(43)	1,848	700	1,148
Other government	16,201	385	(236)	16,350	8,799	7,551
Mortgage backed	10,303	70	(307)	10,066	3,250	6,816
Asset backed	9,939	34	(607)	9,366	1,698	7,668
Corporate	52,541	957	(1,785)	51,713	20,167	31,546
Money market investments	5,280			5,280	5,280	
Other	820	74	(27)	867	710	157
Total	99,304	1,649	(3,024)	97,929	42,438	55,941

Of which held by AEGON Americas, NL and UK	95,240	1,604	(2,910)	93,934	41,011	52,923

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Unrealized Bond Losses by Sector

The composition by industry categories of bonds and money market investments that are included in our available-for-sale and held to maturity portfolios in an unrealized loss position held by AEGON at December 31, 2007 is presented in the table below.

Unrealized losses bonds and money market investments

In million EUR	Carrying value of instruments with unrealized losses 2007	Gross unrealized losses 2007	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006
Asset Backed Securities (ABSs) Aircraft	97	(9)	63	(7)
ABSs CBOs	645	(40)	103	(3)
ABSs Housing related	2,529	(351)	1,499	(29)
ABSs Credit cards	2,407	(117)	705	(7)
ABSs Other	1,990	(90)	1,758	(27)
Residential mortgage backed securities	3,377	(179)	1,684	(19)
Commercial mortgage backed securities	3,439	(128)	2,723	(54)
Financial	14,929	(994)	9,485	(186)
Industrial	13,621	(679)	12,259	(371)
Utility	2,996	(112)	2,948	(87)
Sovereign exposure	9,304	(298)	7,019	(130)
Total	55,334	(2,997)	40,246	(920)
Of which held by AEGON Americas, NL and UK	52,773	(2,883)	39,046	(890)

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

The composition by industry categories of bonds and money market investments in an unrealized loss position held by AEGON Americas, AEGON the Netherlands and AEGON UK at December 31, 2007 is presented in the table below. The following unrealized loss consists of 2,409 issuers.

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Unrealized losses bonds and money market investments held by AEGON Americas, AEGON the Netherlands and AEGON UK

In million EUR	Carrying value of instruments with unrealized losses 2007	Gross unrealized losses 2007	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006
Asset Backed Securities (ABSs) Aircraft	97	(9)	63	(7)
ABSs CBOs	645	(40)	103	(3)
ABSs Housing related	2,491	(348)	1,499	(29)
ABSs Credit cards	2,407	(117)	705	(7)
ABSs Other	1,990	(90)	1,716	(25)
Residential mortgage backed securities	3,345	(177)	1,649	(18)
Commercial mortgage backed securities	3,349	(129)	2,723	(54)
Financial	14,396	(954)	9,085	(174)
Industrial	13,324	(665)	12,171	(364)
Utility	2,923	(108)	2,691	(83)
Sovereign exposure	7,716	(246)	6,640	(129)
Total AEGON Americas, NL and UK	52,773	(2,883)	39,046	(890)

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

As of December 31, 2007, there are EUR 1,531 million of gross unrealized gains and EUR 2,883 million of gross unrealized losses in the AFS bonds portfolio of AEGON Americas, AEGON The Netherlands and AEGON UK. No one issuer represents more than 4% of the total unrealized position.

AEGON generally has the intent and ability to hold all other securities in unrealized loss positions to full recovery or maturity. When AEGON has made the decision to sell a security in a loss position as of the balance sheet date, an impairment loss has been recognized to write the book value of the security down to fair value.

The multi-year period of credit and financial market complacency ended in 2007. The yield premium for credit risk rose dramatically for all borrowers, regardless of rating. The spark was the sub-prime mortgage market collapse, which served as the catalyst for the unwinding of excess leverage throughout the financial system in the U.S. and globally. Large segments of the structured finance market became severely stressed and illiquid, with new issuance becoming almost non-existent. Banks were forced to retain assets on their balance sheets that had previously been securitized, and at the same time they were forced to write down certain mortgage-related assets, placing great strain on their capital bases. These events triggered a rapid tightening of lending standards. Despite the market turmoil, corporate defaults remained low, except for those companies affected most directly by the sub-prime crisis. In the U.S., real economic growth slowed, in part due to the growing credit crunch, but also from slowing housing activity, and rising energy prices. Globally, long-term government bond yields fell somewhat, while short-term rates were mixed, reflecting differing economic momentum. Volatility rose in all markets and for all financial instruments.

Asset Backed Securities

ABS-Collateralized Bond Obligations:

ABS-Collateralized Bond Obligations are primarily secured by pools of corporate bonds and leveraged bank loans. The unrealized loss is a function of decreased liquidity and increased credit spreads in the market for structured finance and monoline guaranteed securities. Where there have been rating downgrades to below investment grade, the individual bonds have been modeled to determine if an impairment was warranted and resulting impairments have been taken. Impairments on the CBO portfolio were immaterial in 2007.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

ABS   Housing related

ABS Housing securities are secured by pools of residential mortgage loans primarily those which are categorized as sub prime. The unrealized loss is primarily due to decreased liquidity and increased credit spreads in the market combined with significant increases in expected losses on loans within the underlying pools. Expected losses within the underlying pools are generally higher than original expectations, primarily in certain later-vintage adjustable rate mortgage loan pools, which has led to some rating downgrades in these securities.

ABS   Sub prime Mortgage Exposure

AEGON USA does not currently invest in or originate whole loan residential mortgages. AEGON USA categorizes asset backed securities issued by a securitization trust as having sub prime mortgage exposure when the average credit score of the underlying mortgage borrowers in a securitization trust is below 660. AEGON USA also categorizes asset backed securities issued by a securitization trust with second lien mortgages as sub prime mortgage exposure, even though a significant percentage of second lien mortgage borrowers may not necessarily have credit scores below 660.

As of December 31, 2007, the amortized cost of investments backed by subprime mortgage loans was EUR 2,866 million and the market value was EUR 2,524 million.

The following table provides the market values of the sub prime mortgage exposure by rating.

	Market Value by Quality					
In EUR million	**AAA**	**AA**	**A**	**BBB**	**< BBB**	**Total**
Sub-prime Mortgages - Fixed Rate	1,016	66	0			1,082
Sub-prime Mortgages - Floating Rate	314	528	9	1		852
Second Lien Mortgages (1)	539	32	13	3	4	590
Total	1,869	626	22	3	4	2,524
	74.0%	24.8%	0.9%	0.1%	0.2%	100.0%

(1) Second lien collateral primarily composed of loans to prime and Alt-A borrowers

The following table provides the market values of the sub prime mortgage exposure by vintage.

	Market Value by Vintage					
In EUR million	**Pre-2004**	**2004**	**2005**	**2006**	**2007**	**Total**
Sub-prime Mortgages - Fixed Rate	455	145	149	131	201	1,082
Sub-prime Mortgages - Floating Rate	69	26	232	295	230	852
Second Lien Mortgages (1)	122	42	66	147	213	590
Total	646	214	447	573	644	2,524
	25.6%	8.5%	17.7%	22.7%	25.5%	100.0%

(1) Second lien collateral primarily composed of loans to prime and Alt-A borrowers

Additionally, AEGON USA has exposure to asset backed securities collateralized by manufactured housing loans. The market value of these securities is EUR 200 million with an amortized cost balance of EUR 193 million. All but one position have vintages of 2003 or prior. These amounts are not included in our sub prime mortgage exposure tables above.

Where credit events may be impacting the unrealized losses, cash flows are modeled using effective interest rates. In cases where models indicate full recovery of principal and interest, AEGON does not consider those securities to be other-than-temporarily impaired. There are no individual issuers rated below investment grade in the ABS-housing sector which have unrealized loss positions greater than EUR 15 million.

ABS Credit cards

ABS- credit cards are bonds secured by pools of consumer credit card receivables, primarily originated by the largest U.S. financial institution issuers. The unrealized loss in the ABS credit card sector is a function of decreased liquidity and increased credit spreads in the structured finance and financial institution market. While the credit card ABS portfolios with large subprime segments may be negatively impacted by the slowing domestic economy and housing market, there has been no rating migration of any of the bonds held by AEGON USA. All of the ABS credit cards bonds held by AEGON USA are rated investment grade, and the overall market value as a percent of book value on those securities in an unrealized loss position is 95%.

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ABS - Other

ABS-other includes debt issued by securitization trusts collateralized by various other assets including auto loans, student loans, loans to small businesses and other asset categories. The unrealized losses are a function of decreased liquidity and increased credit spreads in the market. Over 99% of the securities in an unrealized loss in this section are rated investment grade. The overall market value as a percent of book value on those securities in an unrealized loss position is 96%. Where ratings have declined to below investment grade, the individual bonds have been modeled to determine if an other-than-temporary impairment was warranted and resulting impairments have been taken.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Residential mortgage backed securities

AEGON USA holds EUR 5,039 million of residential mortgage backed securities (RMBS).

RMBS are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit ratings and are pooled together and sold in tranches. The Company s RMBS includes collateralized mortgage obligations (CMOs), government sponsored enterprise (GSE) guaranteed passthroughs, whole loan passthroughs, Alt-A MBS and negative amortization MBS.

The unrealized loss on residential mortgage-backed securities is EUR 177 million. Of the RMBS unrealized losses, EUR 55 million is attributed to the generic shelf name, SASCO (Structured Asset Securities Corporation). When SASCO holdings in the RMBS sector are combined with SASCO holdings in the ABS - Housing sector, AEGON holds EUR 700 million of the issuer s securities with unrealized losses of EUR 70 million, all of which are rated A or above. AEGON owns several securities under the SASCO name, with each deal containing its own unique pool of collateral and representing a separate and distinct trust. The combination of low reset margin, slower prepayment speeds, illiquidity in the market, and general level of credit spread widening have pushed the overall market value as a percent of cost price on those RMBS bonds in an unrealized loss position to 92%. The unrealized loss on SASCO is not credit driven but rather a reflection of the move in interest rates and credit spreads relative to where these deals were originally priced.

For all securities in an unrealized loss position, the market to cost ratio is 95%. As the unrealized losses on AEGON s residential mortgage-backed securities are attributable to credit spread widening and not fundamental credit problems with the issuer or collateral, AEGON does not consider the underlying investments to be impaired as of December 31, 2007.

Alt-A Mortgage Exposure

AEGON USA s RMBS exposure includes exposure to securitized home equity loans (Alt-A positions). This portfolio totals EUR 844 million at December 31, 2007, with virtually all such securities rated AAA. Unrealized losses amount to EUR 18 million at December 31, 2007. Alt-A loans are made to borrowers whose qualifying mortgage characteristics do not meet the standard underwriting criteria established by the GSEs (Government-Sponsored Enterprises). The typical Alt-A borrower has a credit score high enough to obtain an A standing, which is especially important since the score must compensate for the lack of other necessary documentation related to borrower income and/or assets.

AEGON s investments in Alt-A mortgages are in the form of mortgage backed securities. AEGON s Alt-A investments are all backed by loans with fixed interest rates for the entire term of the loan. Additionally, one-third of the Alt-A portfolio is invested in super-senior tranches. Mortgage-backed securities classified as super-senior are those that substantially exceed the subordination requirements of AAA-rated securities. The tables below summarize the credit quality of the underlying loans backing the securities and the vintage year.

in EUR million

Rating	**Market Value**	**%**
AAA	842	99.8%
AA		0.0%
A	2	0.2%
Grand Total	844	100.0%

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in EUR million

VINTAGE	Market Value	%
Prior 2002		0.0%
2002	2	0.2%
2003	7	0.8%
2004	84	10.0%
2005	262	31.1%
2006	341	40.4%
2007	148	17.5%
Grand Total	844	100.0%

Negative Amortization (Option ARMs) Mortgage Exposure

As part of AEGON USA s RMBS Exposure, AEGON USA holds EUR 1.5 billion of Neg-Am mortgages, unrealized losses on this portfolio amount to EUR 73 million. Negative amortization mortgages (also known as option ARMs) are loans whereby the payment made by the borrower is less than the accrued interest due and the difference is added to the loan balance. When the accrued balance of the loan reaches the negative amortization limit (typically 110% to 125% of the original loan amount), the loan recalibrates to a fully amortizing level and a new minimum payment amount is determined. The homeowner s new minimum payment amount can be significantly higher than the original minimum payment amount. The timing of when these loans reach their negative amortization cap will vary, and is a function of the accrual rate on each loan, the minimum payment rate on each loan and the negative amortization limit itself. Typically, these loans are estimated to reach their negative amortization limit between 3 and 5 years from the date of origination.

AEGON s exposure to negative amortization mortgages is primarily AAA rated, with virtually all of these positions being super-senior AAA rated securities. The following table provides the market values of the Negative Amortization (Option ARMs) exposure by rating and by vintage.

in EUR million

Rating	Market Value	%
AAA	1,484	99.7%
AA	5	0.3%
A		0.0%
Grand Total	1,489	100.0%

in EUR million

VINTAGE	Market Value	%
2004 & Prior	50	3.3%
2005	488	32.8%
2006	643	43.2%
2007	308	20.7%
Grand Total	1,489	100.0%

Commercial mortgage backed securities

AEGON USA holds EUR 4,544 million of commercial mortgage backed securities (CMBS). The unrealized loss on CMBS is EUR 89 million. The fundamentals of the CMBS market are, on average, strong but are starting to show some signs of deterioration in some markets. The lending market remains virtually frozen as lenders continue to tighten their lending standards. A lack of liquidity in the market combined with a broad re-pricing of risk has led to increased credit spreads across the credit classes. The introduction of the 20% and 30% credit enhanced, super senior AAA classes provides an offset to these negative fundamentals. Of the CMBS unrealized loss, 16% is attributed to the Lehman Brothers and UBS origination platform (LBUBS) deal shelf which is collateralized by diversified mortgages. The unrealized losses are a function of the absolute size of our LBUBS holdings, EUR 613 million, and not due to credit related concerns. AEGON believes that the underlying investments are well underwritten and have performed relatively better than other comparable CMBS structures. The unrealized loss on LBUBS is not credit driven but rather a reflection of the move in interest rates and credit spreads relative to where these deals were originally priced. For all securities in an unrealized loss position, the market to cost ratio is 97%. As the unrealized losses on AEGON s CMBS are attributable to credit spread widening and not fundamental credit problems with the issuer or collateral, AEGON does not consider the underlying investments to be impaired as of December 31, 2007.

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Financial

The financial sector can be further divided in the Banking, Brokerage, Insurance, REIT s and Financial-Other sub-sectors. For all these sub-sectors, the fundamentals are weakening, but remain solid overall. These are high credit quality sectors and represent a large portion of the corporate debt market. The most significant of these sub-sectors from an unrealized loss perspective is Banking.

Banking

The absolute exposure to the banking sub-sector in AEGON s portfolio is large and of high quality. Because of the sub-sector s size, the absolute dollar amount of unrealized losses is large, but the overall market value as a percent of book value on all securities in an unrealized loss position is 93%. While the sector has some exposure to the sub prime market, the issuers are highly diversified and any impact is not expected to be material to their credit profile.

There is one individual issuer rated below investment grade in this sub-sector which has an unrealized loss position greater than EUR 15 million. AEGON s exposure to Northern Rock PLC bonds has an amortized cost of EUR 133 million as of December 31, 2007. The securities were rated B3 as of December 31, 2007 and have unrealized losses of EUR 73 million. Northern Rock PLC, a British mortgage bank, suffered a run on the bank in the fall of 2007. The Bank of England provided guarantees and liquidity support to stabilize this UK mortgage lender, and its support is expected to continue. Given the support provided by the Bank of England, AEGON does not consider Northern Rock PLC to be impaired as of December 31, 2007. Subsequent to year end, Northern Rock PLC, failed to find bids that suited the Bank of England s loan repayment requirements. As a result, Northern Rock PLC has been taken into temporary public ownership. One holding, with amortised cost of EUR 14 million and unrealized losses of EUR 9 million, is linked to preference shares that are subject to the Northern Rock plc Transfer Order 2008 and as a result this holding has been downgraded to C since the year end. This will result in either substitution of security or repayment of the proceeds as a result of the Northern Rock plc Compensation Scheme Order 2008, at this point there is no objective evidence of impairment of this holding. The rest of AEGON s bonds continue to remain as listed securities even under public ownership, and no impairment is warranted.

The overall market to book ratio on all the financial sector securities in an unrealized loss position is 94%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit-related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2007.

There are no other individual issuers rated below investment grade in this sub-sector which have unrealized loss positions greater than EUR 15 million.

Industrial

The Industrial sector is further sub divided in the Basic Industries/Capital Goods, Consumer Cyclical, Consumer Non-Cyclical, Energy, Technology, Transportation, Communications and Industrial other. For Technology, Transportation and Industrial other, the overall market value as a percent of book value on those securities in an unrealized loss position is 95%.

Basic Industries and Capital Goods

The Basic and Capital Goods industries encompass various sub-sectors ranging from aerospace/defense to packaging. The more significant of these sub-sectors from an unrealized loss perspective are building materials and chemicals. Building materials continue to be impacted by the slowdown in the U.S. housing market. Chemicals have been impacted by concerns of a slowing domestic economy and high cost feedstocks.

While the performance of some of the individual credits and sub-sectors was somewhat below expectations, overall, valuations remain largely stable. The overall market to book ratio on securities in an unrealized loss position is 96%. Since the securities with unrealized losses are trading close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2007.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

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Consumer Cyclical

The consumer cyclical sub-sector covers a range of industries including autos, home construction, lodging, media, and retailers. These industries include some of the largest credit issuers in the market. As a result, AEGON s absolute exposure is large. In addition, many of the consumer sectors have been the target of leveraged buyouts and merger and acquisition activity, which has led to credit deterioration. The more significant of these sub-sectors from an unrealized loss perspective are Retailers, Automotive and Home Construction.

The slowing domestic economy combined with the impact of the housing market and moderating consumer sentiment have negatively affected the consumer spending.

The underlying fundamentals driving sales and earnings performance continue to be pressured as a result of a secular shift away from more profitable SUVs and pickups towards more fuel-efficient cars and crossovers. In addition, the combination of weak consumer confidence, tighter credit standards and growing unemployment has negatively impacted auto sales. On a positive side, the 2007 UAW labor contracts go a long way towards improving fundamental cost disadvantages and liquidity remains adequate across the sector.

Fundamentals in the home construction industry have weakened due to oversupply and tighter lending practices which have led to a decrease in order activity and high cancellation rates. Additionally, the sub-prime issues have had a dramatic effect on the home construction fundamentals, and have impacted the homebuyer s ability to finance a home purchase.

The overall market to book ratio on all securities in an unrealized loss position is 95%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit-related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2007.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Consumer Non-Cyclical

The Consumer Non-Cyclical industry encompasses various sub-sectors ranging from consumer products to supermarkets. The more significant of these sub-sectors from an unrealized loss perspective are food and beverages and consumer products. Food and beverages and consumer products fundamentals have modestly weakened due to higher input costs and the industries limited ability to pass along these higher costs to the customer. Additionally, shareholder friendly actions and related restructurings have been done at the expense of bondholders.

Overall, the sector represents a large portion of the corporate debt market. As a result, AEGON s absolute exposure is large and the absolute dollar amount of unrealized losses is also large, but the overall market to book ratio is 96% on all securities in an unrealized loss position. The vast majority of the unrealized losses in the consumer non-cyclical sector is not the result of fundamental problems with individual issuers, but is primarily due to increases in interest rates and credit spread widening; therefore, AEGON does not consider those investments to be impaired as of December 31, 2007.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Energy

The energy sector includes independent oil and natural gas exploration and production companies, refiners, integrated energy companies active in both exploration/production and refining, and oil field service companies. Underlying fundamentals remain strong in the sector, bolstered by continued high commodity prices. Strong cash flow has largely been directed to increasing capital expenditure budgets and share repurchase programs. However, escalating costs are putting pressure on some companies ability to find and produce oil and natural gas. Consolidation continues in the sector, although most transactions are funded conservatively.

The overall market to book ratio on all securities in an unrealized loss position is 97%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2007.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Communications

The Communications sector can be further divided in the Media Cable, Media Non-Cable, Wireless and Wirelines sub-sectors. Many companies in the communications sector continue to focus on increasing shareholder returns. This has escalated event risk within the sector and caused many companies to increase financial leverage. The most significant of these sub-sectors from an unrealized loss perspective is non-cable media.

All media companies, but especially newspaper companies, are suffering from a tepid advertising environment, with advertising dollars shifting to new forms of media. This has led to lower returns on equity, historically low equity multiples, and poor stock performance. In some cases activist shareholders and private equity firms have forced management to respond by increasing financial leverage, consolidation or asset divestitures. The net effect is a weaker credit profile for many companies.

There is one individual issuer in this sub-sector which has an unrealized loss position greater than EUR 15 million. AEGON Canada owns, on an amortized cost basis, EUR 142 million of Bell Canada Enterprises Inc. (BCE) bonds which are under review for possible downgrade, and have unrealized losses of EUR 57 million. Most of these holdings are either 0% coupon strip bonds or 0% coupon residual bonds with a maturity date ranging from 2017 to 2054. The relatively large unrealized loss is impacted by the widening of credit spreads and the long maturity of the bonds, as well as the increase in leverage due to a potential LBO.

BCE announced on June 30th, 2007 that it had reached an agreement to sell all of the outstanding shares to a consortium headed by the Ontario Teachers Pension Plan. In so doing, the purchaser intends to substantially increase the debt level in the balance sheet of the company and, as a result, significantly increase the probability of a rating agency downgrade. The market value of the holdings of Bell Canada declined significantly over the course of 2007. The Plan of Arrangement was put before the Quebec Superior Court by BCE and the purchasers. The trustee for the bondholders brought legal action before the court claiming the transaction required their consent under the terms of the bond indentures and was also not a fair and reasonable transaction. The trial began on December 3, 2007 and concluded January 31, 2008. A Quebec Superior Court judge ruled on March 7, 2008 that the sale can continue dismissing the legal challenge brought forward by BCE s bondholders. The completion of the proposed privatization transaction is subject to a number of terms and conditions including regulatory approval and the resolution of any appeal filed by the debenture holders. Based on a review of the company at this time, the estimated future cash flows appear adequate to meet the payments under the terms of the debt instruments AEGON owns. AEGON will continue to closely monitor and re-evaluate the debt structure as it is established under the pending leverage buy out transaction.

Excluding Bell Canada, the overall market to book ratio on all securities in the communications sub-sector in an unrealized loss position is 95%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration rather than credit related concerns.

Based on the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss, AEGON does not consider the remaining book values to be impaired as of December 31, 2007.

There are no other individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Utility

The utility sector is further sub divided in the Electric, Natural gas and Other. Electric is the most significant of these sub-sectors from an unrealized loss perspective.

Electric

Issues negatively impacting the sector include growing capital expenditures programs, the possibility of CO^2 legislation, a renewed interest in expanding riskier unregulated generation projects, and an increasingly uncertain state regulatory environment driven by rising energy prices. The overall market to book ratio on all securities in an unrealized loss position is 97%. Since the securities with unrealized losses are trading so close to par, the market is indicating there is little or no risk of default. The unrealized losses are more a reflection of interest rate movements, general market volatility and duration than credit related concerns. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2007.

There are no individual issuers rated below investment grade in this sector which have unrealized loss positions greater than EUR 15 million.

Sovereign exposure

Sovereigns include government issued securities including Dutch government bonds, US Treasury, agency and state bonds; substantially all of the unrealized losses relate to A or higher rated securities. As the unrealized losses on AEGON s sovereign holdings are attributable to interest rate increases, the unrealized losses are not considered by AEGON to be impaired at December 31, 2007.

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Unrealized Loss by Maturity

The table below shows the composition by maturity of all bonds in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at December 31, 2007.

Maturity Level

In million EUR	Carrying value of securities with gross unrealized losses	Gross unrealized losses
One year or less	2,224	(24)
Over 1 thru 5 years	15,681	(690)
Over 5 thru 10 years	17,602	(996)
Over 10 years	17,266	(1,173)
Total	52,773	(2,883)

Unrealized Loss by Credit Quality

The table below shows the composition by credit quality of bonds in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at December 31, 2007.

In million EUR	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Treasury Agency	6,423	(203)
AAA	13,044	(548)
AA	6,113	(466)
A	11,967	(757)
BBB	12,598	(672)
BB	1,444	(85)
B	959	(111)
Below B	225	(41)
Total	52,773	(2,883)

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

In million EUR	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 -12 months	33,261	2,227	(1,698)	(185)
> 12 months	16,884	401	(948)	(52)
Total	50,145	2,628	(2,646)	(237)

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Realized gains and losses on bonds of AEGON Americas, AEGON The Netherlands and AEGON UK for the twelve months ended December 31, 2007:

In million EUR	Gross Realized Gains	Gross Realized Losses
Bonds	489	(413)

Gross realized gains include EUR 51 million of bond recoveries and gross realized losses include EUR 64 million of bond impairments.

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired at December 31, 2007.

Time period			
In million EUR	**0-12 months**	**>12 months**	**Total**
Bonds	(245)	(104)	(349)

There are no securities which represented more than 5% of the EUR (349) million of realized losses on sales of fixed maturity securities, except for EUR 55 million losses on US Government Securities.

Impairment losses and recoveries

The composition of AEGON s bond impairment losses and recoveries by issuer for the twelve months ended December 31, 2007 is presented in the table below. Those issuers with impairments or recoveries above EUR 7 million are specifically noted.

In million EUR	(Impairment)/Recovery
Issuer Name	
Impairments:	
Residential Capital Corp.	(20)
Aerco	(11)
Lease Investment Flight Trust	(7)
Other Impairments (32 unique issuers)	(26)
Sub-total	(64)
Recoveries:	
Hoteloc	9
Litigation Recovery	9
Other Recoveries (58 unique issuers)	33
Sub-total	51
Net (Impairments) and Recoveries	(13)

In 2007, AEGON USA recognized EUR 51 million in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

A EUR 20 million loss was realized on Residential Capital Corp. (ResCap) in 2007. The troubled housing and mortgage market environment resulted in severe constraints to market access for the funding of ResCap s operations, particularly new origination activity. AEGON made the decision to sell ResCap which resulted in an impairment loss in the third quarter of 2007.

In 2007, a EUR 11 million loss was realized on Aerco. The debt represents a beneficial interest in a portfolio of pooled aircraft leases. Cash flows were negatively impacted by a reduction in revenues, an increase in expenses, and a sizable reduction in reserve funds to cover minimum payments within the capital structure (in part due to a sale of aircraft in December). Due to an adverse change in discounted cash flows, AEGON USA realized an impairment loss in the first, second and fourth quarters of 2007.

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In the first and second quarters of 2007, AEGON USA recorded EUR 9 million in recoveries on Hoteloc. The underlying collateral (hotels) was sold and the notes paid out at par.

In the fourth quarter of 2007, AEGON USA received a cash settlement on a previously impaired debt holding. The settlement exceeded the book value of AEGON s debt holding by EUR 9 million which was recorded as an impairment recovery.

In 2007, an EUR 7 million loss was realized on Lease Investment Flight Trust (LIFT). The debt represents a beneficial interest in a portfolio of pooled aircraft leases. Cash flows were not sufficient to meet interest payments in May, but the Notes were brought current in June. Rising aircraft maintenance expenses and a devaluation in the annual appraised value of the airplanes has caused all remaining Trust cash flows to be directed to pay the Class A Notes. Due to intent to sell status, AEGON USA realized an impairment loss in the first, second, and third quarters of 2007.

Impairment losses and recoveries Commercial Paper

The composition of AEGON s commercial paper impairment losses and recoveries by issuer for the twelve months ended December 31, 2007 is presented in the table below. Those issuers with impairments above EUR 7 million are specifically noted.

In million EUR	**Recovery**
Issuer Name	
Impairments:	
Axon Financial	(10)
Other Impairments (1 unique issuer)	(2)
Sub-total	(12)
Recoveries:	0
Net (Impairments) and Recoveries	(12)

In 2007, AEGON USA did not recognize any recoveries on previously impaired commercial paper securities.

A EUR 10 million impairment was realized on Axon Financial in 2007. In late 2007 the commercial paper market essentially froze and Axon Financial was unable to access the capital markets along with the remainder of the SIV market. The securitized bond market continued to deteriorate and the market value of the underlying portfolio continued to decrease. The security defaulted on its November 2007 maturity date and AEGON USA realized an impairment loss in the fourth quarter of 2007.

Equity instruments classified as available for sale

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

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

These factors typically require significant management judgment. The impairment review process has resulted in EUR 45 million (2006: EUR 36 million; 2005: EUR 20 million) of impairment charges for the year ended December 31, 2007.

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As of December 31, 2007, there are EUR 461 million of gross unrealized gains and EUR 72 million of gross unrealized losses in the equity portfolio of AEGON. There are no securities held by AEGON with an unrealized loss of more than EUR 5 million. The table below represents the unrealized gains and losses on share positions held by AEGON Americas, AEGON The Netherlands and AEGON UK.

In million EUR	Cost basis	Carrying value	Net unrealized gains/ (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Shares	1,319	1,704	385	1,373	443	331	(58)

The composition of shares by industry sector in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at December 31, 2007 is presented in the table below.

Unrealized losses shares

In million EUR	Carrying value of instruments with unrealized losses 2007	Gross unrealized losses 2007	Carrying value of instruments with unrealized losses 2006	Gross unrealized losses 2006
Communication	1		9	(1)
Consumer cyclical	2		9	(1)
Consumer non-cyclical	2		25	(2)
Financials	195	(25)	218	(9)
Funds	103	(26)	20	(1)
Industries	22	(5)	36	(3)
Resources			7	(1)
Services cyclical	1		19	(1)
Services non-cyclical			10	(1)
Technology	2		42	(4)
Transport	2	(1)	5	
Other	1	(1)	30	(3)
	331	(58)	430	(27)

The table below provides the unrealized loss on shares at December 31, 2007 broken down by the period of time they have been below cost.

Time Period

In million EUR	0 - 12 months	> 12 months	Total
Shares	(53)	(5)	(58)

Impairment losses on Shares

The table below provides the length of time the shares held by AEGON The Netherlands, AEGON USA, AEGON Canada and AEGON UK were below cost prior to the impairment in 2007.

Time Period

In million EUR	0 - 12 months	> 12 months	Total

Shares	(21)	(23)	(44)

v Valuation of defined benefit plans

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

Refer to Note 18.24 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for more details on assumptions.

vi Recognition of deferred tax assets

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

vii Valuation of share appreciation rights and share options

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

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

viii Recognition of provisions

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

ix Non-consolidated group companies

All Group Companies are consolidated.

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5.4 Results of Operations 2007 compared to 2006

	2007 in million EUR	2006 Adjusted * in million EUR	% to adjusted
By product segment			
Life and protection	1,332	1,284	4
Individual savings and retirement	524	630	(17)
Pensions and asset management	458	1,024	(55)
Institutional products	339	383	(11)
Reinsurance	135	163	(17)
Distribution	6	12	(50)
General insurance	47	55	(15)
Interest charges and other	(185)	(242)	(24)
Share in net results of associates	36	32	13
Operating earnings before tax	**2,692**	**3,341**	**(19)**
Gains/(losses) on investments [1]	421	569	(26)
Impairment charges [1]	(76)	(25)	
Other non-operating income/(charges) [1]	40	86	(53)
Income before tax	**3,077**	**3,971**	**(23)**
Income tax	(526)	(802)	(34)
Net income [2]	**2,551**	**3,169**	**(20)**
Net operating earnings	**2,047**	**2,570**	**(20)**
Operating earnings geographically			
Americas	2,102	2,174	(3)
The Netherlands	362	1,122	(68)
United Kingdom	271	226	20
Other countries	142	61	133
Holding and other activities	(195)	(238)	(18)
Eliminations	10	(4)	
Operating earnings before tax	**2,692**	**3,341**	**(19)**

1 Together non-operating earnings before tax

2 Net income refers to net income attributable to equity holders of AEGON N.V.

*) Information for 2006 has been adjusted to reflect a change in accounting principles relating to guarantees in the Netherlands, the inclusion of net results from associate companies in operating earnings and AEGON s new lines of business format. Please refer to Note 18.2 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for further information.

Revenues geographically 2007

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Holdings, other activities and eliminations	Total
Total life insurance gross premiums	7,955	3,175	10,811	2,269	0	24,210
Accident and health insurance premiums	1,848	203	0	71	0	2,122
General insurance premiums	0	432	0	136	0	568
Total gross premiums	9,803	3,810	10,811	2,476	0	26,900
Investment income	5,471	2,120	2,560	241	65	10,457
Fees and commission income	1,056	443	321	80	0	1,900
Other revenues	10	0	0	1	3	14
Total revenues	**16,340**	**6,373**	**13,692**	**2,798**	**68**	**39,271**
Number of employees, including agent-employees	15,157	6,200	4,990	3,876	191	30,414

This report includes two non-GAAP financial measures: operating earnings before tax and net operating earnings. The reconciliation of these measures to the most comparable GAAP measure is shown in the table below in accordance with Regulation G. AEGON believes the two non-GAAP measures, together with the GAAP information, provide sufficient information for both investors and potential investors to assess the Group s business and financial performance relative to its peers.

In million EUR	2007	2006 Adjusted
Net operating earnings	**2,047**	**2,570**
Income tax on operating earnings	645	771
Operating earnings before tax	**2,692**	**3,341**
Net gains and losses on investments	421	569
Other income	32	11
Impairment charges	(76)	(25)
Policyholder tax	8	75
Income before tax	**3,077**	**3,971**

This review of operations should be read in conjunction with the consolidated financial statements and related notes in Item 18 of this Annual Report.

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Overview

AEGON s businesses delivered a solid performance in 2007, as demonstrated by increased sales and deposits. In addition, AEGON continues to maintain its strong financial position.

Despite turbulence in world financial markets, AEGON experienced no material impairments to its investment portfolio during the year. AEGON s subprime portfolio, valued at EUR 2.9 billion, continues to be very high quality, with more than 99% rated either AA or AAA .

AEGON s net operating earnings declined as a result of a weaker US dollar and the impact of significant one-time tax benefits which had lifted earnings for 2006. Net income was down 20%, mainly due to the impact of exceptional gains in the Netherlands in 2006. During the year, revenue generating investments grew by 2% (or 11% at constant currency exchange rates), reflecting a continued overall expansion of the Group s businesses.

The completion of a EUR 1 billion share repurchase plan in November 2007 and a proposed 13% increase in the Group s full year dividend are further evidence of AEGON s continued strong cash flows and solid capital position. AEGON continues to have sufficient capital to support the organic growth of its businesses while at the same time pursuing acquisition opportunities consistent with the Group s disciplined approach to pricing.

During the year, AEGON took steps to further strengthen its distribution network, agreeing new partnerships with Barclays Bank in the United Kingdom, Taishin in Taiwan, Industrial Securities in China and the regional savings bank Caja Cantabria in Spain. In addition, AEGON s new partnership with Merrill Lynch in the United States will further enhance the Group s position as a leading provider of life insurance and variable annuity products to US brokers.

Investment portfolio AEGON USA

AEGON has a culture of strong and effective risk management. There are robust processes and controls in place throughout the asset management organization. Credit risks are mainly concentrated in AEGON USA s general account portfolio. Over the last few years AEGON has repositioned investments for its general account insurance portfolio, structuring them defensively in order to weather a stressed credit environment. The relative low level of impairments in the fourth quarter demonstrates the high quality of AEGON s investment portfolio and the limited impact the current stressed credit environment is having on expected cash flows from AEGON s fixed income assets.

Net impairments on investments for the Americas amounted to EUR 48 million. The current dislocation of credit markets, however, is characterized by price and/or spread volatility, low liquidity and, for certain segments of the market, may result in changes to credit ratings. Most assets contained in AEGON s general account portfolio are accounted for as Available for Sale under IFRS, and thus are held at fair value on the balance sheet. Any changes to the fair value of these assets are recorded on an after tax-basis in shareholders equity.

AEGON USA s subprime mortgage-backed securities (subprime ABS) portfolio of EUR 2.9 billion experienced no impairments. The portfolio is currently valued at approximately 88%, or a fair value of EUR 2.5 billion. The total negative pre-tax revaluation of this portfolio amounts to EUR 348 million at the end of the year. Pricing of certain parts of the portfolio, such as AA-rated floating rate 2006 and 2007 securities, reflects price developments in the subprime ABS indices (ABX). The subprime ABS portfolio consists of 70% AAA-rated securities and 29% AA-rated securities. AEGON does not originate subprime mortgages.

AEGON USA s residential mortgage-backed securities (RMBS) portfolio includes securities of near prime residential mortgage loans, such as so-called Alt-A and negative amortization floaters. AEGON s EUR 862 million of Alt-A holdings are backed by fixed-rate loans and 99% of these securities are AAA. At the end of 2007 the Alt-A portfolio had total negative pre-tax revaluations of EUR 18 million, bringing the fair value of this portfolio to EUR 844 million, or approximately 98%. The negative amortization, or Option ARM floaters, is collateralized by affordability-type loan structures that allow for flexible monthly repayments. This EUR 1.6 billion portfolio is entirely AAA rated and consists of super-senior triple-A exposure. This means that subordination levels in the securitizations are 4 to 5 times what is typically required by rating agencies for a AAA rating. The total negative pre-tax revaluation of this portfolio was EUR 73 million bringing the fair value of the portfolio to EUR 1.5 billion, or approximately 95%.

AEGON s collateralized debt obligations (CDO) portfolio totals EUR 1.0 billion. Total negative pre-tax revaluations on AEGON s CDO portfolio amounted to EUR 48 million at the end of the year, with a fair value of approximately 95%. The majority of these investments is backed by leveraged bank loans, of which 92% was rated AAA and AA at the end of 2007. The portfolio includes an investment of EUR 21 million in CDOs backed by subprime mortgages assets purchased before 2002.

At the end of 2007, total negative pre-tax revaluations on subprime ABS, Alt-A RMBS, negative amortization floaters and CDOs totaled EUR 487 million, bringing the fair value of the portfolio to approximately 92%. For a fee, AEGON USA takes on credit exposure on a credit index, i.e. super-senior tranches of the CDX index, via a synthetic collateralized debt obligation program (synthetic CDO). This index is composed of a reference portfolio of 125 investment grade corporate credits. 84% of the exposure is to the most senior of the super-senior tranches, i.e. the 30%-100% tranche. This means that losses to AEGON occur only if cumulative net losses on the CDX index exceed 30%, where cumulative net loss is defined as bond defaults net of recoveries. The average duration of the outstanding transactions is 4.7 years. AEGON considers the probability of losses at these levels to be extremely remote and hence does not expect any cash losses to occur from these synthetic CDO positions. As these derivatives are marked to market through earnings, they may however cause substantial operating earnings volatility prior to maturity due to credit spread volatility. Assuming there are no cash losses from these positions, any mark to market effect on operating earnings will be reversed by maturity. At December 31, 2007, the notional amount of this program was EUR 4.5 billion with a negative market value of EUR 30 million.

Results

AEGON s operating earnings before tax amounted to EUR 2,692 million in 2007, down 19% from operating earnings before tax of EUR 3,341 million for the previous year (a decease of 15% at constant currency rates). Lower operating earnings from the Americas and the Netherlands in 2007 more than offset increases in the United Kingdom and from Other countries . AEGON Americas saw its operating earnings before tax fall 3% to EUR 2,102 million (or increase of 5% at constant currency rates).

AEGON Netherlands operating earnings decreased by EUR 760 million or 68% to EUR 362 million. In 2006 EUR 648 million of guarantee provisions were released as a result of the positive impact of rising interest rates in the Netherlands. In 2007 the fair value movements of guarantees did not have an impact on operating earnings; the difference between fair value movements of certain guarantees and the fair value changes of derivatives that hedge certain risks of these guarantees are included in gains/losses on investment which are excluded from operating earnings. Excluding the effect of the guarantees on operating earnings for 2006, the 2007 operating earnings before tax were virtually unchanged (or 6% increase at constant currency rates).

Operating earnings can be significantly affected by movements in the value of financial assets carried at fair value, as well as total return annuity products and segregated fund guarantees. Earnings from these items exceeded expected returns by EUR 110 million in 2007, less than half the EUR 243 million seen in 2006. The decrease in operating earnings from AEGON The Netherlands was primarily due to movements in guarantee provisions and in fair value items. AEGON UK s operating earnings before tax rose as a result of a growth in profits from annuity products and increases in fund-related fees on pension business. The rise in operating earnings from Other countries mainly reflected continued growth in AEGON s businesses in both Central and Eastern Europe and Asia.

AEGON s net operating earnings declined to EUR 2,047 million in 2007, down from a figure of EUR 2,570 million the previous year, due mainly to the impact of the guarantee reserves discussed above and an increase in the Group s effective tax rate. In addition, net operating earnings in 2006 included significant one-off gains relating to tax payments in the Netherlands. In 2007, AEGON s effective tax rate on operating earnings decreased to 24%, down from 30% in 2006. The Group s effective tax rate was higher in the Other countries (primarily as a result of an increase in Taiwan), while it decreased in the Americas, the Netherlands and the United Kingdom.

Gains/(losses) on investments and impairment charges, totaled EUR 345 million in 2007, down from EUR 544 million the previous year. This decline was primarily the result of a decrease in the fair value of derivatives used to hedge guarantee provisions in the Netherlands, partly offset by a rise in net gains from the sale of bonds and shares in the Americas and the Netherlands.

Other non-operating income/(charges) amounted to EUR 40 million in 2007, compared to EUR 86 million in 2006. In 2007, this figure includes a one time gain related to the acquisition of the Dutch life insurer OPTAS, as well as the negative effect of a decision to refine the method for calculating unit-linked guarantees. As part of its acquisition of OPTAS, completed during the second quarter of 2007, AEGON gained net assets amounted to EUR 1.7 billion. This was higher than the original acquisition price of EUR 1.5 billion resulting in a one-off gain for the Group of EUR 212 million.

At the beginning of the second quarter of 2007, AEGON refined its method of calculating the fair value of the guarantees included in its unit-linked products to align them with the existing group pension contracts and traditional products. The impact of this change on net income before tax (recognized in the second quarter of 2007) was a negative EUR 181 million.

AEGON s net income decreased by 20% in 2007 to EUR 2,551 million as a result primarily of lower gains from investments and hedging operations. The Group s effective tax rate declined to 17% in 2007, down from 20% the previous year. Net income per share is EUR 1.47, down from EUR 1.87.

Commissions and expenses, fell 2% to EUR 5,939 million (an increase of 3% at constant currency exchange rates), reflecting a change in AEGON s overall business mix and lower DPAC amortization, offset partly by the underlying growth in the Group s businesses.

At the end of December 2007, total revenue generating investments stood at EUR 371 billion, up from EUR 363 billion twelve months previously. On a constant currency basis, the increase was 11%, reflecting net growth in AEGON s in-force portfolio (both deposits and premium business), improved market performance and the inclusion for the first time of OPTAS and two former Merrill Lynch life insurance companies in the United States, acquired in 2007.

Sales

AEGON s overall new life sales increased 7% in 2007 to EUR 3,274 million (an increase of 11% at constant currency rates).

In the Americas, new life sales rose 2% to USD 1,276 million. Figures for 2006 had been lifted by USD 56 million from sales of investor-owned life insurance and a further USD 50 million from an assumed block of retail credit life insurance. In the course of 2006, sales of investor-owned life insurance were discontinued.

In the Netherlands, total new life sales increased by 5% in 2007, driven by a growth in pension sales, particularly via corporate and other financial institutions.

New life sales in the United Kingdom, rose 12% to GBP 1,183 million, following exceptionally strong sales in 2006 as a result of Pension A-Day .

New life sales in Other countries totaled EUR 353 million in 2007, an increase of 37% due mainly to continued strong growth in Central and Eastern Europe and higher sales of unit-linked products in Taiwan.

Deposits rose 14% in 2007. In the Americas, deposits from the Group s pension business were 28% higher than in 2006, while deposits from both fixed and variable annuities and mutual funds increased 8%. An overall increase in sales of institutional guaranteed products was driven by USD 6.6 billion in sales of synthetic CDOs, a new product in 2007.

In Central and Eastern Europe, deposits of pensions and asset management products, as well as retail mutual funds, showed continued strong growth. In the United Kingdom, sales of both retail and institutional asset management products increased, as did savings deposits in the Netherlands.

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AMERICAS

Americas (includes AEGON USA and AEGON Canada)

	2007 in million USD	2006 in million USD	%	2007 in million EUR	2006 in million EUR	%
Income by product segment						
Life and protection						
Life	883	741	19	645	589	10
Accident and health	443	417	6	324	331	(2)
Individual savings and retirement						
Fixed annuities	486	477	2	355	380	(7)
Variable annuities	205	266	(23)	150	213	(30)
Retail mutual funds	22	5		16	4	
Pensions and asset management	188	139	35	138	111	24
Institutional products						
Institutional guaranteed products	379	408	(7)	277	325	(15)
BOLI/COLI	85	74	15	62	58	7
Reinsurance	185	205	(10)	135	163	(17)
Operating earnings before tax	**2,876**	**2,732**	**5**	**2,102**	**2,174**	**(3)**
Gains/(losses) on investments	376	(28)		275	(22)	
Impairment charges	(65)	(15)		(48)	(12)	
Income before tax	**3,187**	**2,689**	**19**	**2,329**	**2,140**	**9**
Income tax	(1,003)	(738)	36	(733)	(587)	25
Net income	**2,184**	**1,951**	**12**	**1,596**	**1,553**	**3**
Net operating earnings	**2,098**	**1,978**	**6**	**1,533**	**1,574**	**(3)**
Revenues						
Total life insurance gross premiums	10,885	9,687	12	7,955	7,709	3
Accident and health insurance	2,529	2,490	2	1,848	1,981	(7)
Total gross premiums	13,414	12,177	10	9,803	9,690	1
Investment income	7,486	7,185	4	5,471	5,718	(4)
Fee and commission income	1,445	1,220	18	1,056	971	9
Other Revenue	13			10		
Total revenues	**22,358**	**20,582**	**9**	**16,340**	**16,379**	**(0)**
Commissions and expenses	**4,569**	**4,614**	**(1)**	**3,339**	**3,672**	**(9)**
Of which operating expenses	**2,124**	**1,956**	**9**	**1,552**	**1,557**	**(0)**
New life sales						
Life	742	733	1	542	583	(7)
BOLI/COLI	207	201	3	151	160	(6)
Reinsurance	327	315	4	329	251	31
Total life production	**1,276**	**1,249**	**2**	**932**	**994**	**(6)**
New premium production accident and health	**898**	**954**	**(6)**	**656**	**759**	**(14)**
Gross deposits (on and off balance sheet)						

Fixed annuities	1,567	1,366	15	1,145	1,087	5
Variable annuities	3,723	3,395	10	2,721	2,702	1
Pensions	11,862	9,299	28	8,669	7,400	17
Institutional guaranteed products	32,097	25,128	28	23,458	19,997	17
Reinsurance	3	4	(25)	2	3	(33)
Retail mutual funds	2,865	2,776	3	2,094	2,209	(5)
Managed assets	1,813	1,642	10	1,325	1,307	1
Total gross deposits	**53,930**	**43,610**	**24**	**39,414**	**34,705**	**14**

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Exchange rates

	Weighted average		Year-end	
Per 1 EUR	**2007**	**2006**	**2007**	**2006**
USD	1.3683	1.2566	1.4721	1.3170
CAD	1.4681	1.4236	1.4449	1.5281

Operating earnings before tax

AEGON Americas reported operating earnings before tax of USD 2,876 million in 2007, an increase of 5% compared with the previous year, as a result of continued growth from most lines of business. Higher returns from hedge funds, as well as limited partnerships and convertible bond assets, also contributed significantly to the overall growth in earnings. There was, however, a decline in earnings from segregated funds in Canada and a significant decrease in the value of certain structured products.

Life and protection

Operating earnings before tax from AEGON America s life and protection business rose 15% in 2007 to USD 1,326 million. This increase was due mainly to the continued growth of existing in-force business, an update of mortality assumptions and reserve adjustments in Canada. Assets held at fair value through profit or loss (hedge funds and limited partnerships) again exceeded long-term performance expectations in 2007, contributing USD 51 million, unchanged from 2006.

Individual savings and retirement

Operating earnings before tax from AEGON Americas individual savings and retirement business declined by 5% in 2007 to USD 713 million mainly due to fluctuations in fair value items during the year. Excluding the effect of fair value items, operating earnings increased 7% in 2007 to USD 674 million. Earnings from variable annuities fell by USD 61 million as a result of lower returns from segregated funds in Canada.

Pensions and asset management

AEGON Americas pensions and asset management business reported operating earnings before tax of USD 188 million in 2007, an increase of 35%, due mainly to positive net cash flows and favorable equity markets during the year.

Institutional products

Operating earnings before tax from institutional products decreased by 4% in 2007 to USD 464 million. During the year, the decrease in the value of certain structured products more than offset the solid underlying growth of the business and the inclusion for the first time of Clark Inc., a distributor of bank-owned and corporate-owned life insurance. Overall earnings in both 2007 and 2006 reflect the strong outperformance of AEGON hedge fund and other fair value investments.

Reinsurance

Operating earnings before tax from AEGON Americas reinsurance business fell by 10% in 2007 to USD 185 million. This decrease was primarily the result of a decision to strengthen reserves on a closed book of variable annuity guarantees by USD 25 million, combined with less favorable mortality results.

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Long term return expectations for fair-valued assets in operating earnings

AEGON Americas holds certain fair value assets, which can have a notable impact on operating earnings. These assets, valued at approximately USD 4.5 billion, include certain hedge funds, real estate limited partnerships and convertible bonds. The valuation of these assets contributed USD 571 million to AEGON Americas operating earnings before tax in 2007, an increase from USD 524 million in 2006. The expected return before tax totaled USD 364 million, up from USD 260 million. The impact of these assets is particularly significant for the life, fixed annuity and institutional guaranteed products lines of business.

Net operating earnings

AEGON Americas net operating earnings totaled USD 2,098 million in 2007, an increase of 6% compared with the previous year. The effective tax rate on operating earnings declined from 28% in 2006 to 27% in 2007.

Net income

Net income, which includes both impairment charges and net gains or losses on investments, rose 12% in 2007 to USD 2,184 million. Net gains on investments amounted to USD 376 million, compared with losses in 2006 of USD 28 million.

Net impairment charges, which totaled USD 66 million in 2007, continue to run well below long-term expectations, but were less favorable than the USD 15 million reported for 2006. The effective tax rate on net income rose to 31% in 2007, up from 27% the previous year.

Revenues

AEGON Americas reported revenues in 2007 of USD 22.4 billion, an increase of 9% compared with 2006. Life insurance gross premiums rose 12% to USD 10.9 billion. Recurring premiums were up 5%, due mainly to growth in the reinsurance business. Single premiums, meanwhile, grew by 30% compared with 2006, as a result of higher terminal funding sales. At USD 2.5 billion, accident and health premiums were stable compared with 2006. Investment income rose 4%, thanks to an increase in short-term rates and changes in AEGON Americas asset mix, while fees and commissions were 18% higher, due principally to the inclusion for the first time of Clark Inc.

Commissions and expenses

AEGON Americas commissions and expenses decreased by 1% in 2007 to USD 4,569 million. Operating expenses were 9% higher at USD 2,124 million a result of extra costs associated with the acquisition of Clark Inc. and the restructuring of AEGON Americas Kansas City-based life insurance operations.

Production

New life sales increased 1% in 2007 to USD 742 million. Production in 2006 included USD 50 million from an assumed block of retail credit life insurance and USD 56 million in sales of investor-owned life insurance, discontinued in the third quarter. Excluding these items, retail life sales improved 18% in 2007.

Sales of accident and health cover fell USD 56 million in 2007, largely because of lower international sales from AEGON Americas direct marketing business.

Fixed annuity sales, meanwhile, were 15% higher at USD 1,567 million, as a result of a steepening in the yield curve that helped make annuity credit rates more attractive towards the end of the year. Variable annuity sales also rose, up 10% at USD 3,723 million thanks to an increase towards the end of the year in overall wholesale capacity and the launch of a new product Income Select for Life .

Pension deposits totaled USD 11,862 million in 2007, 28% higher than the previous year. The increase was due primarily to higher single premium group annuities production, growth in terminal funding sales and the inclusion of significant takeover amounts received in 2007 against sales made in 2006. Managed assets were 10% higher in 2007 at USD 1,813 million.

Sales of institutional guaranteed spread-based products totaled USD 13,892 million in 2007, an increase of 11% compared with the previous year. This increase was the result mainly of higher medium-term note sales. Production of synthetic GICs and other off-balance sheet items grew 44%, due to the inclusion of synthetic CDOs. BOLI-COLI standardized production was 3% higher in 2007 at USD 207 million. Reinsurance standardized life production was 4% higher in 2007 at USD 327 million.

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THE NETHERLANDS

AEGON The Netherlands

	2007 in million EUR	2006 Adjusted * in million EUR	% to adjusted
Income by product segment			
Life and protection			
Life	189	282	(33)
Accident and health	39	34	15
Individual savings and retirement			
Saving products	0	35	
Pensions and asset management	107	720	(85)
Distribution	16	18	(11)
General insurance	8	26	(69)
Share in net results of associates	3	7	(57)
Operating earnings before tax	**362**	**1,122**	**(68)**
Gains/(losses) on investments	140	513	(73)
Impairment charges	(24)	(12)	(100)
Other Income / (charges)	30		
Income before tax	**508**	**1,623**	**(69)**
Income tax	98	(203)	
Net income	**606**	**1,420**	**(57)**
Net operating earnings	**283**	**868**	**(67)**
Revenues			
Total life insurance gross premiums	3,175	3,028	5
Accident and health insurance	203	191	6
General insurance	432	434	(0)
Total gross premiums	3,810	3,653	4
Investment income	2,120	2,006	6
Fee and commission income	443	375	18
Total revenues	**6,373**	**6,034**	**6**
Commissions and expenses	**1,188**	**1,087**	**9**
Of which operating expenses	**843**	**708**	**19**
New life sales			
Life	94	97	(3)
Pensions	166	151	10
Total life production	**260**	**248**	**5**
New premium production accident and health insurance	**18**	**46**	**(61)**
New premium production general insurance	**26**	**33**	**(21)**
Gross deposits (on and off balance sheet)			
Saving deposits	2,648	2,401	10
Mutual funds and other managed assets	390	408	(4)

Total gross deposits	**3,038**	**2,809**	**8**

*) Information for 2006 has been adjusted to reflect a change in accounting principles relating to guarantees in the Netherlands, the inclusion of net results from associate companies in operating earnings and AEGON s new lines of business format. Please refer to Note 18.2 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for further information.

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Operating earnings before tax

AEGON The Netherlands operating earnings before tax decreased to EUR 362 million in 2007, compared with operating earnings of EUR 1,122 million 2006. 2006 included EUR 648 million of release of provisions related to the guarantees. Excluding the effect of the guarantees, operating earnings decreased by EUR 112 million. This decrease was due mainly to losses of EUR 40 million from financial assets carried at fair value (with no offsetting changes in the fair value of liabilities). In 2006, these fair value items had generated a gain of EUR 39 million. In addition, higher investment income was offset by losses on derivatives.

Operating earnings in 2007 also included a one-off charge of EUR 27 million related to two separate non-recurring items. Meanwhile, OPTAS, acquired at the end of June 2007, contributed EUR 11 million to operating earnings before tax. Earnings in 2006 included EUR 17 million in depreciation costs related to AEGON The Netherlands group pension business the result of a change in Dutch pension law no longer allowing surrender charges.

Life and protection

Operating earnings before tax from AEGON The Netherlands life and protection business amounted to EUR 189 million in 2007, down from EUR 282 million the previous year due to EUR 125 million of fair value profits related to the guarantees. Excluding the effect of the guarantees, operating earnings increased thanks to higher investment income. Accident and health operating earnings totaled EUR 39 million, up from EUR 34 million the result of an improved claim experience and lower expenses.

Individual savings and retirement products

AEGON The Netherlands individual savings business reported operating earnings before tax of zero in 2007, compared with a profit of EUR 35 million the previous year. This decline was due primarily to a one-off charge of EUR 15 million related to the accelerated amortization of deferred expenses, as well as higher spending costs and lower interest margins. The increase in expenses related to the repositioning of AEGON Bank, increased sales activity and a higher allocation of distribution expenses.

Pensions and asset management

Operating earnings before tax from AEGON The Netherlands pensions and asset management operations totaled EUR 107 million in 2007, down from operating earnings of EUR 720 million the previous year. 2006 included EUR 523 million of fair value profits related to the guarantees. Excluding the effect of the guarantees, operating earnings decreased by 46%. This decline can be attributed to fluctuations in fair value items during the year. The acquisition of OPTAS contributed EUR 11 million to overall operating earnings before tax from the pensions and asset management business line.

Distribution

Operating earnings before tax from AEGON The Netherlands distribution business amounted to EUR 16 million in 2007, compared with EUR 18 million the year before. Increased operating earnings stemmed from the acquisition of Unirobe in the fourth quarter of 2006, offset by a EUR 12 million charge from the harmonization of clawback provisions at AEGON The Netherlands Unirobe and Meeùs units.

General insurance

Operating earnings before tax from AEGON The Netherlands general insurance operations fell to EUR 8 million in 2007, down from EUR 26 million the year before. The decrease was due mainly to additional provisioning following severe storms in the Netherlands during the first quarter of 2007.

Net operating earnings

AEGON The Netherlands net operating earnings totaled EUR 283 million in 2007, a decrease from EUR 868 million the year before. The effective tax rate on operating earnings before tax decreased slightly to 22% in 2007, from 23% in 2006.

Net income

AEGON The Netherlands net income, which includes impairment charges and net gains/losses on investments, decreased by EUR 814 million to EUR 606 million. The fair value movements of guarantee provisions contributed EUR 648 million to earnings in 2006. In 2007, net gains on investments (before tax) amounted to EUR 140 million compared to EUR 513 million in 2006. The 2007 net gains on investments included EUR 325 million of losses on fair value movements in guarantees net of related swaps. Realized gains and losses on shares, bonds and real estate contributed EUR 794 million in 2007 (EUR 766 million in 2006). The gains and losses on investments (before tax) included a negative EUR 329 million from the decrease in market value of derivatives used for asset and liability management purposes in 2007, compared to a negative contribution of EUR 253 million in 2006.

Other income/(charges) of EUR 30 million included a one-time gain related to the acquisition of OPTAS and the effect of a refinement of the calculation of unit-linked guarantees. The acquisition of OPTAS was completed in the second quarter of 2007. The acquired net assets amounted to EUR 1.7 billion, EUR 212 million higher than the acquisition price of EUR 1.5 billion resulting in a one-time gain at acquisition. Starting with the second quarter of 2007, AEGON refined its method of calculating the fair value of guarantees included in its unit-linked products in order to align these calculations with the calculations currently used for group pension contracts and traditional products. This change in estimate has been applied prospectively. The cumulative impact on income before tax recognized in the second quarter of 2007 amounted to a loss of EUR 181 million.

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Revenues

Revenues of EUR 6,373 million increased by 6% in 2007 compared to 2006. Pension premiums increased by 4% reflecting the inclusion of OPTAS and increased recurring premiums. Life premiums increased by 6% to EUR 1,394 million. Accident & health premium income increased by EUR 12 million to EUR 203 million reflecting a full year of premiums from the disability product WIA. General insurance premiums remained stable. Investment income, which includes direct investment income of both general account and account of policyholder investments, increased by 6% compared to 2006. The increase reflects the inclusion of OPTAS.

Fees and commission income was 18% higher than in 2006 primarily reflecting the full-year impact of the consolidation of Unirobe in the fourth quarter of 2006.

Commissions and expenses

Commissions and expenses increased 9% to EUR 1,188 million in 2007. Operating expenses amounted to EUR 843 million in 2007 compared with EUR 708 million in 2006. The increase was mainly caused by the inclusion of Unirobe.

Production

New life sales in the Netherlands increased 5% to EUR 260 million, driven by a growth in pensions sales through the corporate and institutional sales channels. New life sales decreased primarily because of lower unit-linked sales.

Accident & health sales decreased by EUR 28 million to EUR 18 million reflecting lower sales of the WIA disability product that was successfully introduced in 2006. General insurance sales decreased by 21% to EUR 26 million reflecting AEGON s continued focus on writing profitable business in a competitive market.

Off balance sheet product sales amounted to EUR 390 million compared with EUR 408 million in 2006.

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UNITED KINGDOM

AEGON United Kingdom

	2007 in million GBP	2006 in million GBP	%	2007 in million EUR	2006 in million EUR	%
Income by product segment						
Life and protection	54	12		78	20	
Pensions and asset management	138	145	(5)	202	211	(4)
Distribution	(7)	(4)	(75)	(10)	(6)	(67)
Share in net results of associates	1	1		1	1	
Operating earnings before tax	**186**	**154**	**21**	**271**	**226**	**20**
Gains/(losses) on investments	(5)	11	(145)	(8)	16	(150)
Impairment charges	(3)	(1)		(4)	(1)	
Other non-operating income/(charges) [1]	5	61	(92)	8	90	(91)
Income before tax	**183**	**225**	**(19)**	**267**	**331**	**(19)**
Income tax attributable to policyholder return	(5)	(51)	90	(7)	(75)	91
Income before income tax on shareholders return	**178**	**174**	**2**	**260**	**256**	**2**
Income tax on shareholders return	5	(16)	131	7	(24)	129
Net income	**183**	**158**	**16**	**267**	**232**	**15**
Net operating earnings	**188**	**141**	**33**	**275**	**206**	**33**
Revenues						
Total gross premiums	7,393	6,274	18	10,811	9,214	17
Investment income	1,751	1,643	7	2,560	2,413	6
Fee and commission income	219	189	16	321	278	15
Total revenues	**9,363**	**8,106**	**16**	**13,692**	**11,905**	**15**
Commissions and expenses	**647**	**607**	**7**	**946**	**892**	**6**
Of which operating expenses	**391**	**375**	**4**	**571**	**551**	**4**
New life sales [2]						
Life	210	159	32	307	234	31
Pensions	973	897	8	1,423	1,317	8
Total life production	**1,183**	**1,056**	**12**	**1,730**	**1,551**	**12**
Gross deposits (on and off balance sheet)						
Pensions and asset management	903	808	12	1,321	1,186	11
Total gross deposits	**903**	**808**	**12**	**1,321**	**1,186**	**11**

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

2

Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.

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Exchange rates

	Weighted average		Year-end	
Per 1 EUR	**2007**	**2006**	**2007**	**2006**
GBP	0.6838	0.6809	0.7334	0.6715

Operating earnings before tax

AEGON UK s operating earnings rose 21% in 2007 to GBP 186 million as a result of higher earnings from new business, particularly annuities, and an increase in fund related charges.

Life and protection

Operating earnings for the life and protection business totaled GBP 54 million in 2007, up from GBP 12 million the previous year. This significant increase was primarily the result of growth in AEGON UK s annuity business, which included a one-off gain of GBP 21 million resulting from a single block of inforce annuities during the year.

Pensions and asset management

AEGON UK s pensions and asset management business reported operating earnings of GBP 138 million in 2007, a decrease of 4% compared with 2006. Higher fund-related charges were offset by an increase in expenses during the year. The rise in expenses stemmed from the underlying growth of the business as well as additional investment and project costs.

Distribution

In 2007, AEGON s distribution business in the United Kingdom reported an operating loss of GBP 7 million, compared with a loss of GBP 4 million the year before. Earnings in 2007 included GBP 5 million in one-off additional incentive payments related to Positive Solutions.

Net operating earnings

Net operating earnings totaled GBP 188 million in 2007, an increase of 6% compared with the previous year after adjustment for one-time tax credit. From April 2008, UK corporation tax will be lowered to 28% from 30%. As a result, deferred tax liabilities have been reduced, resulting in a one-time tax credit in the second quarter of 2007 of GBP 38 million.

Revenues

Life insurance gross premiums amounted to GBP 7,393 million in 2007, up 18% compared with the previous year. Pension and asset management premiums increased by 15% to GBP 5,971 million, reflecting continued strong growth in pension sales, especially AEGON UK s Retirement Control product. Life and protection premiums rose 31% to GBP 1,422 million due to an increase in sales of protection products and continued strong sales of single premium annuities.

Commissions and expenses

Total commissions and expenses rose 7% in 2007 to GBP 647 million. This increase reflected growth in operating expenses and higher commissions from AEGON UK s distribution businesses. Operating expenses rose, meanwhile, by 4% to GBP 391 million. The increase in operating expenses was mainly the result of growth in the underlying business as well as additional project and investment costs.

Sales

AEGON UK s total new life sales increased by 12% to GBP 1,183 million - a result of continued strong sales of pensions and annuities. Sales of annuities, protection products and investment bonds represented 30% of total new life sales in 2007, a reflection of AEGON UK s strategy of diversification.

Sales of life and protection products totaled GBP 210 million, an increase of 32% from 2006. The increase was due to continued strong sales of annuities and a rise in sales of protection products.

Sales of pensions increased by 8% in 2007 to GBP 973 million, driven by strong sales of individual pensions. Sales of retail mutual funds and managed assets increased by 12% compared with 2007, thanks mainly to strong sales of both retail funds and institutional business.

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OTHER COUNTRIES

	2007 in million EUR	2006 Adjusted in million EUR	%
Income by product segment			
Life and protection			
Life	53	24	121
Accident and health	4	4	0
Individual savings and retirement products			
Variable annuities	0	1	
Savings products	(1)	(5)	80
Mutual funds	4	2	100
Pensions and asset management	11	(18)	
General insurance	39	29	34
Share in net results of associates	32	24	33
Operating earnings before tax	**142**	**61**	**133**
Gains/(losses) on investments	14	20	(30)
Income before tax	**156**	**81**	**93**
Income tax	(83)	(45)	(84)
Net income	**73**	**36**	**103**
Net operating earnings	**60**	**20**	
Revenues			
Life single premiums	985	566	74
Life recurring premiums	1,284	1,251	3
Total life insurance gross premiums	**2,269**	**1,817**	**25**
Accident and health insurance	71	69	3
General insurance	136	127	7
Total gross premiums	**2,476**	**2,013**	**23**
Investment income	241	192	26
Fee and commission income	80	41	95
Other revenues	1	1	0
Total revenues	**2,798**	**2,247**	**25**
Commissions and expenses	**372**	**342**	**9**
Of which operating expenses	**177**	**149**	**19**
New life sales [1]			
Life	352	251	40
Pensions	1	7	
Total life production	**353**	**258**	**37**
New premium production accident and health	**6**	**6**	**0**
New premium production general insurance	**32**	**23**	**39**
Gross deposits (on and off balance sheet)			
Variable annuities	22	6	

Retail mutual funds	154	98	57
Other managed assets	61	83	(27)
Pensions	518	278	86
Total gross deposits	**755**	**405**	**62**

[1] Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.

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Exchange rates

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

Per 1 EUR	2007	2006
Czech Republic Krona (CZK)	27.5710	28.259
Hungarian Forint (HUF)	251.231	264.268
New Taiwan Dollar (NTD)	45.420	41.250
Polish Zloty (PLN)	3.7900	3.8960
Rin Min Bi Yuan (CNY)	10.4610	10.0080
Slovakian Koruna (SKK)	33.6890	37.005

Please note that AEGON s Other Countries segment is accounted for in the financial statements in euros, but that the operating results for individual country units are accounted for, and discussed, in local currency terms.

Operating earnings before tax

Operating earnings before tax from Other countries totaled EUR 142 million in 2007, an increase of EUR 81 million compared with 2006, primarily due to higher operating earnings from AEGON s businesses in Central and Eastern Europe. Earnings from all regions, Central and Eastern Europe, Spain, Asia and AEGON s 35% stake in French insurer La Mondiale Participations contributed to the increase.

Life and protection

Total operating earnings from life amounted to EUR 53 million in 2007, up from EUR 24 million the previous year. This increase was mainly the result of higher earnings from both Central and Eastern Europe and Taiwan. In Taiwan, the improvement in operating earnings reflects strong investment performance and higher sales volumes.

Pensions and asset management

AEGON Other countries operating earnings from pensions and asset management increased significantly in 2007, primarily as a result of the expenses related to the expansion of the Group s pension business in Slovakia in 2006. Results in Poland also improved but were offset by start-up expenses of EUR 6 million related to AEGON s new mandatory pension fund in Romania and the launch of new voluntary pension funds in the Czech Republic and Slovakia.

General insurance

AEGON Hungary, the only unit within Other countries to sell general insurance, reported favorable technical results in both household and motor insurance in 2007. Earnings in 2006 included a strengthening in claim reserves. Combined, these two factors resulted in an increase in operating earnings of EUR 10 million for the general insurance business in 2007.

Associates

AEGON s share in the profit of associate companies increased by EUR 8 million (after tax) in 2007, split equally between the Group s partnership with Spanish regional savings bank Caja de Ahorros del Mediterráneo (in which AEGON holds a 49.99% interest) and its 35% stake in La Mondiale Participations in France.

Net operating earnings

Net operating earnings from Other countries totaled EUR 60 million in 2007, a sharp increase from EUR 20 million the year before. Earnings for both 2006 and 2007 were impacted by a reduction in deferred tax assets in Taiwan.

Net income

Net income amounted to EUR 73 million, compared with EUR 36 million in 2006, due mainly to the increase in net operating earnings. The effective tax rate was 53% in 2007 down from 56% in 2006.

Revenues

Total revenues rose 25% to EUR 2.8 billion - a reflection of the growth in single premium sales and higher income from fees and commissions in Poland, as well as higher single premiums at Caja Navarra in Spain and higher premium and investment income in Taiwan.

Commissions and expenses

Commissions and expenses increased 9% to EUR 372 million. This increase was driven largely by growth in the underlying business, resulting in higher commissions and expenses.

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Production

Life and protection

New life sales in Other countries totaled EUR 353 million in 2007, an increase of 37% compared with the previous year.

In Asia, new life sales in Taiwan rose 34% in 2007 to EUR 157 million, driven by strong sales of unit-linked products, which accounted for 58% of total new life sales. New life sales in China increased by EUR 5 million, driven mainly by unit-linked single premium sales through the bank channel.

In Central and Eastern Europe, new life sales totaled EUR 126 million in 2007, a 54% increase from 2006. Sales of single premium life insurance increased by EUR 248 to EUR 687 million in 2007 compared to the previous year, thanks mainly to higher sales from bank partnerships in Poland, supported by strong equity markets. Recurring premium sales increased 51% to EUR 58 million, a result of various successful distribution initiatives in the broker channel and the tied agent network across the region, particularly in Poland.

In 2007, new life sales in Spain increased to EUR 59 million, up from EUR 52 million in 2006, a year which included a large single premium group policy, which was more than offset in 2007 by exceptionally high single premium bancassurance sales through AEGON s joint venture with Caja Navarra.

The partnership with Caja de Ahorros del Mediterráneo (CAM) saw a decrease of 31% in new life sales to EUR 116 million (on a 100% basis), while premium income from the partnership with CAM amounted to EUR 404 million (on a 100% basis) in 2007. The partnership with CAM is not consolidated in AEGON s accounts. AEGON includes its share in the earnings from CAM in the line share in net results of associates .

Pensions and asset management

Pensions and asset management sales in Other countries amounted to EUR 579 million in 2007, up from EUR 361 million the previous year. This increase reflects the launch of a new variable annuity product in Taiwan, strong mutual fund sales in Hungary and the inclusion of the newly acquired Polish pension fund management company PTE AEGON Poland. By the end of 2007, the total number of pension fund participants in Central and Eastern Europe had increased to 1.3 million.

General insurance

General insurance new premium production increased by EUR 9 million to EUR 32 million in 2007, mainly the result of successful sales campaigns for motor and household insurance in Hungary.

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5.5 Results of Operations 2006 compared to 2005

Information on 2006 and 2005 has been adjusted to reflect the change in accounting principles related to the guarantees in the Netherlands as announced on July 24, 2007 and explained more fully our Report on Form 6-K filed with the SEC on July 26, 2007.

	2006 Adjusted in million EUR	2005 Adjusted in million EUR	%
By product segment			
Life and protection	1,283	895	43
Individual savings and retirement	631	472	34
Pensions and asset management	1,025	(251)	
Institutional products	382	373	