The sensitivity analysis in table 3 shows the effect on net income and shareholders' equity of movements in the exchange rates of AEGON's most important currencies relative to the euro.

INTEREST RATE RISK

AEGON bears interest rate risk in many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the liabilities can mitigate this risk – a method that AEGON employs. However, in some products, liability cash flows are less predictable. The uncertainty arises from policyholder actions that can be affected by the level of interest rates.

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

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

The general account fixed income portfolios of AEGON USA and AEGON The Netherlands accounted for 96% of the total general account fixed income portfolio of the AEGON Group at December 31, 2003. AEGON USA and AEGON The Netherlands manage their duration mismatch on the basis of their expectations for the future level of interest rates. Presently, the other country units target the duration of their assets to equal approximately the duration of their liabilities. In addition to point in time duration measurement, deterministic and stochastic scenarios are used to measure and manage interest rate risk. In these models, policyholder behavior changes are anticipated. These models are used by all country units and aggregated at group level.

For AEGON USA's businesses, the average duration of assets is approximately 4.5 years. This relatively low duration, as compared to the long-term nature of most AEGON USA's businesses, is driven by the asset and liability management process applied to the institutional markets business in the United States (guaranteed investment contracts and funding agreements). Both the assets and the liabilities for this business are managed on a floating rate basis, with extensive use of interest rate swaps. As a result, these assets and liabilities, which represent a little over a quarter of the total general account assets and liabilities of AEGON USA, have an effective duration of close to three months. The maximum allowed duration mismatch between the assets and liabilities of AEGON USA and AEGON The Netherlands is plus or minus one year. For AEGON The Netherlands, the average duration of assets is approximately 4.7 years. The combined market value weighted duration mismatch of AEGON USA and AEGON The Netherlands was around minus 1.0 years at December 31, 2003. Table 4 on the next page shows each of the last five year-end interest rates for the period from 1999 through 2003.

Table 3

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

Movement of markets	Effects on net income	Effects on shareholders' equity
Increase versus the euro of USD, GBP and other currencies of 15%	increase between 12.5% and 13.5%	increase between 15% and 16%
Decrease versus the euro of USD, GBP and other currencies of 15%	decrease between 12.5% and 13.5%	decrease between 15% and 16%

1 Basic assumptions: no correlation between markets and risks; unchanged conditions for all other assets and liabilities; limited management actions taken. All percentage changes are relative to net income and shareholders' equity. Effects do not tend to be linear and therefore cannot be extrapolated for larger increases or decreases.
2 The effect of currency exchange rate movements is reflected as a one-time shift up or down in the value of the US dollar, the UK pound and other currencies on January 1, 2004.