



Embedded Value Report 2010



Embedded Value Report

2010

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1 Highlights

1.1 Highlights of 2010 embedded value

Embedded Value	Total		Continental	
	Insurance	Belgium	Europe	Asia
Embedded Value Year-end 2009	4.898	3.638	852	408
Divestiture	1	-	1	-
Other opening adjustments	337	74	35	228
Previous EV restated	5.236	3.712	888	636
Expected return	192	112	66	14
Experience variance and assumption changes	294	274	61	(41)
Value added by New Business	66	43	0	23
Operating EV Earnings	552	429	127	(4)
Operating return on EV	10,5 %	11,6 %	14,3 %	(0,6%)
Variance on Investment income	(924)	(742)	(193)	11
Changes in Interest rates and markets conditions	(41)	(39)	(8)	6
Embedded Value Year-end 2010	4.823	3.360	814	649
Total return on EV	(7,9%)	(9,5%)	(8,4%)	2,0 %

At year-end the Embedded Value amounted to EUR 4,823 million, a decrease of EUR 413 million. This is explained by the following elements:

- ◆ The variance on investment income of EUR 924 million negative, which is predominantly due to the increased spread on several sovereign debts.
- ◆ The expected return and the Value Added by New Business (VANB) for EUR 258 million.
- ◆ Changes in assumption setting reflecting the results of changes in the experience regarding mortality, lapses and inflation. In addition changes were made to the Target Asset Mix and the re-allocation of Required Equity between products.

1.2 Highlights of opening adjustments

The opening adjustments include the effect of the change in applied discount rate on the liabilities, the so-called reference rate, for all segments in scope, resulting in a positive change of EUR 167 million. Change in expected profit sharing in the Asian activities resulted in an additional positive adjustment of EUR 145 million. After the restatements, the 2009 embedded value amounted to EUR 5,236 million.

1.3 High level developments VANB

Value added by New Business

	2010	2009	Change
Total Insurance			
Value Added by New Business	66	69	(4,4%)
Present value New business premiums	5.675	5.471	3,7%
Margin	1,2 %	1,3 %	
Belgium			
Value Added by New Business	43	49	(11,8%)
Present value New business premiums	3.470	3.249	6,8 %
Margin	1,3 %	1,5 %	
Continental Europe			
Value Added by New Business	0	14	(97,3%)
Present value New business premiums	1.817	1.914	(5,1%)
Margin	0,0 %	0,7 %	
Asia			
Value Added by New Business	23	6	281,6 %
Present value New business premiums	388	308	25,8 %
Margin	5,8 %	1,9 %	

VANB decreased from EUR 69 million to EUR 66 million in 2010. The increase in VANB Asia could not offset the lower VANB in Belgium and Continental Europe. VANB is calculated using year-end assumptions.

The VANB at AG Insurance decreased slightly compared to 2009. Lower margins could not be compensated by higher volumes.

The VANB for Continental Europe mainly suffered from the depressed economic environment and increased spreads in Portugal, leading to reduced margins on savings business and lower volumes.

The VANB for Asia has been positively impacted by a change for expected profit sharing.

KPMG has performed a limited assurance engagement on this Embedded Value Report. Their report is included in Chapter 7.

2 Embedded Value at Ageas

2.1 Principles

Ageas's Embedded Value Report complies with the following guidance issued by the CFO Forum:

- European Embedded Value Principles, issued 5 May 2004
- Additional Guidance on European Embedded Value Disclosures, issued 31 October 2005

In addition to these principles, Ageas has already applied principles 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17.1 – 17.3.4, 17.3.7 – 17.3.36, 17.3.46 – 17.3.47, 17.4 – 17.8.8 from the Market Consistent Embedded Value Principles issued in October 2009.

The applied principles have not changed compared to 2009.

Ageas's Embedded Value reporting is a supplementary reporting to the primary financial statements and represents a measure of the shareholders' interest in Ageas's Life insurance businesses, comprising the market value of the Shareholder's Equity plus the value of the operating business. The components of the Embedded Value are:

Embedded Value (EV)	=	Value of Shareholder's Equity (VSE)	+	Value of In-Force Business (VIF)
Value of Shareholder's Equity (VSE)	=	Free Surplus (FS)	+	Required Equity (RE)
Value of In-Force Business (VIF)	=	Certainty Equivalent Value (PVFP)	-	Cost of Financial Options and Guarantees (CFOG)
			-	Cost of Non-Hedgeable Risks (CNHR)
			-	Frictional Costs of Capital (CoC)

The Annex gives a detailed description of these elements.

2.2 Value Added by New Business (VANB)

The VANB represents the value added by new business written in the period, and is calculated in a similar way to the embedded value. It is calculated as the value of the new business written in 2010 and in-force at 31 December 2010 plus the first year losses (New Business Strain).

The Value Added by New Business includes only premiums arising from contracts sold during 2010 and does not include future new business.

VANB is calculated using year-end assumptions.

3 Scope

3.1 General

All amounts in the tables of this Embedded Value Report are denominated in millions of euros, unless stated otherwise.

The Embedded Value of Life insurance operations provides additional information on the value of existing contracts and acquired new business and is based on a market consistent approach.

Ageas announced in September 2009 a new organisational structure based on a lean Executive Committee and a Management Committee consisting of the ExCo, the CEO's of the four geographical regions and the CFO. This structure is operational from 1 January 2010 on.

Ageas is now organised into four operating segments:

- ◆ Belgium;
- ◆ United Kingdom (UK);
- ◆ Continental Europe; and
- ◆ Asia;

In addition, the non-insurance and reinsurance activities are included in the General Account.

To align the reporting structure with the management structure Ageas has adapted the reporting structure.

Where comparisons are made with 2009 results, these results have been restated for the change in segments in 2010.

3.2 Covered business

The scope of this Embedded Value Report covers value that arises from major Life insurance activities sold through Ageas's Insurance entities. It does not include any the Non-Life activities, such as Property & Casualty Insurance, the General Account and the non-consolidated Asian partnerships. These activities are considered non-covered businesses.

The Ageas's Life entities included in the scope of Embedded Value are:

- ◆ AG Insurance in Belgium, with Ageas's share of 75%
- ◆ Continental Europe, which includes
 - Ageas France in France
 - Fortis Luxembourg Vie in Luxembourg, with Ageas's share of 50%
 - Millenniumbcp Ageas in Portugal, with Ageas's share of 51%
- ◆ Ageas Asia Holdings in Hong Kong, which includes Ageas Insurance Company (Asia) (with Ageas's share of 100%)

The business under scope includes Life business, such as traditional life, term, annuities, unit-linked, universal life and group business. Accident and health products sold through the relevant entities are considered Non-Life products and are therefore treated as not covered business. Only in the event these types of products appear as a policy rider to Life business, their value is included in the Embedded Value calculations.

In our IFRS Financial Statements, AG Insurance, Millenniumbcp Ageas and Fortis Luxembourg Vie have been consolidated for 100%, creating a non-controlling interest in equity. For embedded value reporting purposes, these businesses are included for the share Ageas holds in them, as mentioned above.

3.3 Economic assumptions

3.3.1 Reference rates

For 2009 reporting purposes, Ageas used the swap curves including a liquidity premium for the relevant currencies as a basis for the reference rate. For 2010, Ageas has adjusted its approach for the reference rates to be in line with the recommendations set out by the CFO/CRO forum to EIOPA under Solvency II and QIS5. The approach taken by Ageas consists mainly applying the liquidity premium on the risk free forward curve, the methods used to determine the risk free rates and liquidity premiums are described below. Ageas uses these reference rates to extract forward reinvestment yields that are used for all asset classes.

The positive impact of this change in reference rates amounts to EUR 167 million and is included in the restatements of the embedded value.

Ageas uses a stochastic economic scenario generator to produce 1,000 arbitrage free scenarios of future investment returns on each asset class, based on the reference rate mentioned above and the volatilities given in section 3.3.2.

Risk free

The risk free rate is derived from the forward zero coupon yield curve with 10 bps deduction¹ across the entire curve. The forward zero coupon yield curve is derived from the swap curves at 31 December 2010 for the relevant currencies and these are sourced from market sources for rates up to 30 years for the EUR and up to 15 years for the HKD. For rates beyond these maturities, the CFO/CRO² extrapolation method is used to converge from the last observed liquid market data point to an unconditional ultimate long term forward zero coupon rate. Samples of the risk free rates up to year 30 are plotted in the graph below.

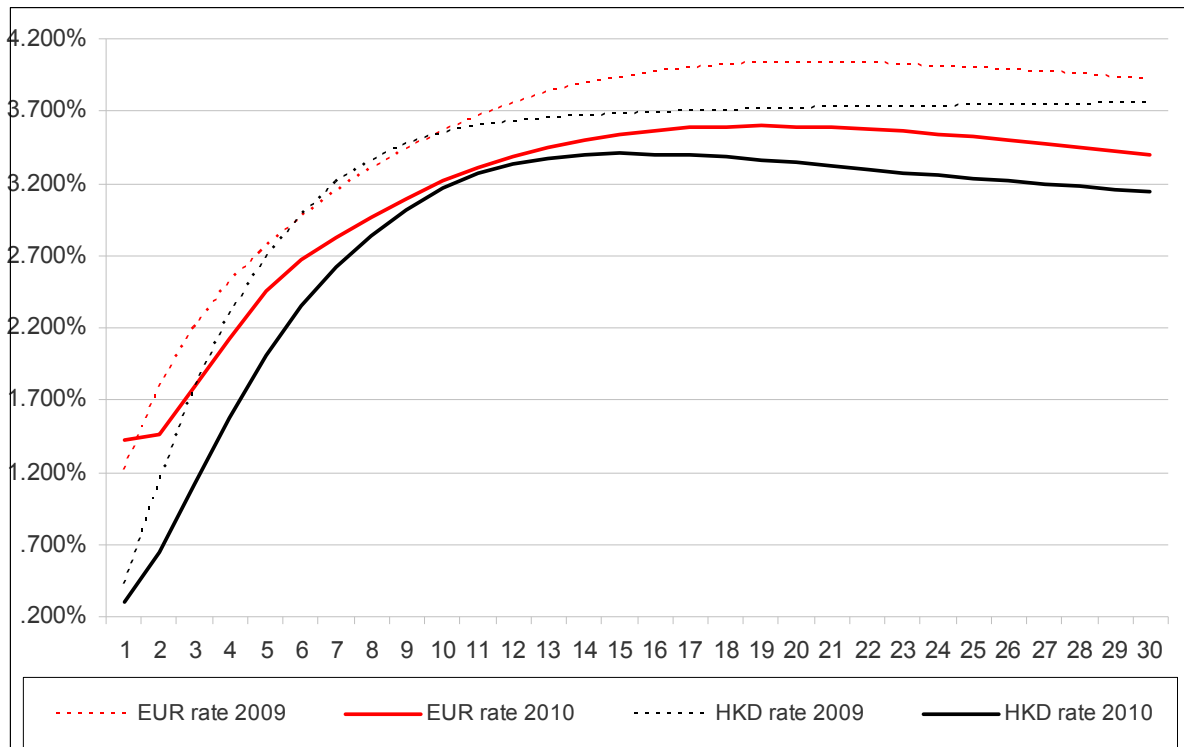
Table 1a – Risk free rates⁽¹⁾

	2010		2009	
	Euro	HKD	Euro	HKD
1 yr	1,4 %	0,3 %	1,2 %	0,4 %
5 yr	2,5 %	2,0 %	2,8 %	2,7 %
10 yr	3,2 %	3,2 %	3,6 %	3,6 %
20 yr	3,6 %	3,3 %	4,0 %	3,7 %



¹ The 10 bps correspond to the historical average of inter-bank credit spreads over the last ten years.

² CRO Forum, QIS5 Technical Specification, Risk-free interest rates.



Liquidity premium

The liquidity premium is calibrated using the method that is widely used in the insurance industry and has been recommended by the CFO/CRO forum to EIOPA. Depending on the illiquidity of the liabilities, a weight is assigned to the liability buckets (100%, 75% and 50%) per entity and currency. Ageas uses a weighted average liquidity premium for each insurance company based on their liability mix. The liquidity premia used are:

Table 1b – Liquidity premia

(in basispoints)	2010	2009
EUR	23 - 34	20
HKD	28 - 35	50
USD	46 - 50	50

3.3.2 Volatilities

Volatilities for fixed interest assets are based on a selection of at-the-money swaptions quotes as at 31 December 2010. Volatility for equities is based on an observed implied volatility of a range of ten year at-the money equity index options at 31 December 2010. Volatility for real estate is based on historical market data.

Table 2 - Implied Volatilities

			2010	2009
10 yr Sample swaption quote	5yr option / 10yr option	EUR	16.3% / 14.0%	16.4% / 14.4%
		HKD	21.0% / 22.5%	23.8% / 24.7%
15 yr Sample swaption quote	5yr option / 10yr option	EUR	16.6% / 14.7%	16.6% / 14.7%
		HKD	21.0% / 22.5%	23.8% / 24.7%
Real Estate	BEREAL Index	EUR		45.5%
	Imo APFIPP Index	EUR	1.6 %	1.4%
	REBE Funds	EUR	11.3 %	11.3%
	REBE Offices	EUR	5.6 %	6.6%
	SX86E Index	EUR	30.1 %	29.6%
	HSP Index	HKD	28.0 %	28.5%
Equity	CAC 40	EUR	22.4 %	22.6%
	EONIA TR	EUR	0.0 %	0.9%
	MSCI EMU	EUR	18.8 %	26.3%
	MSCI US	USD	17.1 %	23.9%
	MSCI Europe Ex EMU	EUR	21.9 %	26.3%
	MSCI Japan	JPY	19.2 %	22.2%
	MSCI Hong Kong	HKD	18.6 %	26.9%
	PSI 20	EUR	17.8 %	26.9%
	MSCI World Free	USD	16,8 %	22.2%
	MSCI Far east ex Japan	USD	17,1 %	30.2%
	Hang Seng	HKD	20,9 %	26.9%
	MSCI Daily TR World Net	EUR	16,8 %	22.2%

Source: Bloomberg and BNP Paribas Fortis

3.3.3 Actual and Target asset mix

Table 3 provides information on the asset mix.

The Actual asset mix is the investment portfolio in the balance sheet as at 31 December 2010. It excludes assets held in funds for which the policyholder bears the investment risks and assets backing shareholder's equity which do not impact the Cost of Financial Options and Guarantees (CFOG). In table 3, the assets are classified according to their economical characteristic, e.g. equities in fixed income funds are classified as fixed income.

The long-term target asset mix represents the investment mix used in the projections to which the actual investment portfolio is gradually rebalanced to. The Target Asset Mix is measured on a market value basis for assets backing policyholder liabilities. The change in investment portfolio from the actual to the target asset mix has an impact on CFOG and hence the Embedded Value.

The economic scenarios have been generated taking into account target correlations between the major asset classes, being equities, real estate and fixed income.

Table 3 - Asset mix -
operating business

2010

	Total		Continental					
	Insurance		Belgium		Europe		Asia	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	90,3%	88,4%	89,4%	87,8%	93,9%	92,8%	99,4%	85,0%
Equities	2,4%	2,6%	2,5%	2,4%	2,3%	2,5%	0,5%	10,0%
Real Estate	7,4%	9,0%	8,2%	9,8%	3,8%	4,6%	0,1%	5,0%

2009

	Total		Continental					
	Insurance		Belgium		Europe		Asia	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	91,2%	85,0%	90,8%	85,2%	95,4%	86,7%	82,9%	71,0%
Equities	1,4%	6,6%	1,4%	6,3%	1,4%	7,3%	1,2%	15,0%
Real Estate	7,3%	8,3%	7,8%	8,5%	3,1%	6,1%	15,9%	14,0%

3.3.4 Real world investment return assumptions

The assumed investment returns include future investment risk premiums that are used to generate the expected return in the Movement Analysis. The real world investment return assumptions used in this report are:

- ◆ **Equities**

The Equity Risk Premium has been assumed to be 300bp above the reference rate.

- ◆ **Real Estate**

The real estate risk premium has been assumed to be 200bp above the reference rate.

- ◆ **Debt Securities**

The investment return on debt securities real world projections are based on the actual cash flows (coupons and principles).

Any deviation as a result of defaults or spread changes is included in the "Variance on investment return in the analysis of change".

Note that these assumptions do not influence the final valuation, since higher expected returns, will have an equal opposite effect on the variance, representing the difference between actual and Expected Return.

3.4 Operating assumptions

3.4.1 Expenses

Modelled expenses start at the actual 2010 expense level and are modelled taking into account the assumed inflation rate over the projection period. Future commission payments follow the schemes agreed with the parties entitled to the payments. No account is taken of the effect of future expense reduction programs, productivity gains or integration synergies and no material non-recurring expenses have been identified. In total, an amount of 8 million one-off expenses are excluded from the projections.

Outside the scope of Embedded Value, there are no companies of Ageas that provide services related to the life business, such as distribution channels.

The total unallocated central overheads in 2010 were EUR 60 million (2009: EUR 140 million). The share for the Life insurance activities of these expenses or any recurrence of these has not been included in the year-end Embedded Value or Value Added by New Business.

3.4.2 Expense inflation

The expense inflation assumption is used to increase future expenses and is based on observed price inflation index as well as wage inflation.

3.4.3 Operating assumptions

Each entity sets operating assumptions such as mortality and lapse rates at best-estimate level, based on its knowledge of the local markets and experience studies. All assumptions are reviewed each year and revised if required.

The risks related to the dynamics of insurance business reflecting either policyholder behaviour or flexibility of management actions that create asymmetric movements of cash flows around the best-estimate levels are not captured in the models. This includes dynamic lapsing (i.e. lapses that vary according to economic conditions) and the ability of management to change guarantees on future premiums on certain products. Therefore, the Cost of Non-Hedgeable Risks (CNHR) is an allowance for the uncertainty of shareholder profits around the best-estimate level not currently allowed for in the models.

3.4.4 Tax

Both local corporate tax and local taxes e.g. dividend taxes have been incorporated in the calculation of the Embedded Value based on the local tax position and local applicable tax rates. If this leads to deferred tax assets, an assessment has been made to determine that appropriate tax rates have been applied to direct and indirect returns on equities, real estate and fixed income. In all other cases the appropriate local corporate tax rate is applied.

3.4.5 Premium persistency

Each entity sets premium persistency rates at best-estimate level, based on its knowledge of the local markets and experience studies. All assumptions are reviewed each year and revised if required.

3.4.6 Profit sharing

Based on contractual obligations and management actions, profit sharing dividends have been calculated at local level and included in the Embedded Value calculations as a future outgoing cashflow.

3.5 Required equity

The required equity has been calculated using a deduction approach. This means that the amount of free surplus that has been calculated under local Solvency requirements is deducted from the market consistent equity to calculate a market consistent required equity. The embedded value is calculated with the highest of the local Solvency required equity or the market consistent required equity.

4 2010 Embedded Value results

4.1 Restatement 2009 Embedded Value

Table 4 - Restatement of EV

	Value						
	Free Surplus+	Required Equity+	of In-force business=	Embedded Value	Continental		Asia
					Belgium	Europe	
Year-end 2009	600	2.340	1.957	4.897	3.638	852	408
Divestiture	6	(3)	(2)	1	-	1	-
Other Opening Adjustments	(58)	0	395	337	74	35	228
Year-end 2009 restated	548	2.337	2.350	5.235	3.712	888	636

The opening adjustments include the impact of the change in applied discount rate on the liabilities for all segments in scope, resulting in a positive change of EUR 167 million. Change in expected profit sharing in the Asian activities resulted in an additional positive adjustment of EUR 145 million. After the restatements, the 2009 embedded value amounted to EUR 5,236 million.

4.2 2010 Embedded Value

The outcome of the Embedded Value as calculated at 2010 year-end is presented in Table 5. The Movement Analysis is explained further in section 4.4.

Table 5 - Embedded Value 2010

	Total	Continental		
	Insurance	Belgium	Europe	Asia
Total Shareholder's Equity	3.114	2.418	603	93
Value of In-force Business	1.709	942	211	557
EV 2010 year end	4.823	3.360	814	649
Total Shareholder's Equity	3.114	2.418	603	93
Required Equity	2.515	1.923	508	84
Free Surplus	599	495	95	9
Value of In-force Business	1.709	942	211	557
Certainty Equivalent Value	2.749	1.808	305	637
Cost of Financial Options and Guarantees	(549)	(430)	(49)	(70)
Cost of Non-hedgeable risks	(153)	(128)	(18)	(7)
Cost of Capital	(338)	(308)	(27)	(3)
Value of In-force Business 2009 Year-end (restated)	2.350	1.344	343	585
Value of In-force Business 2010 Year-end	1.709	942	211	557
% Change	(27,3%)	(29,9%)	(38,5%)	(4,8%)
Modelled Technical Provisions 2009 Year-end	50.892	33.760	15.901	1.231
Modelled Technical Provisions 2010 Year-end	54.212	36.081	16.719	1.413
% Change	6,5 %	6,9 %	5,1 %	14,8 %
Ratio VIF/Modelled Tech. prov. 2009 Year-End (restated)	4,6 %	4,0 %	2,2 %	47,5 %
Ratio VIF/Modelled Tech. prov. 2010 Year-end	3,2 %	2,6 %	1,3 %	39,4 %

4.3 Value Added by New Business

Table 6 gives a breakdown of the VANB for the various Life insurance entities, including the key indicators for sales and Margins. The reported IRR is calculated based on a traditional deterministic projection using real-world assumptions.

Table 6 - Value Added by New Business

	Total	Continental		
	Insurance	Belgium	Europe	Asia
Value of In-force business	153	53	20	80
New Business Strain	(86)	(10)	(20)	(57)
Value Added by New Business	66	43	0	23
Value of In-force business	153	53	20	80
Certainty Equivalent Value	216	100	29	87
Cost of Financial Options and Guarantees	(31)	(22)	(3)	(6)
Cost of Non-hedgeable risks	(10)	(7)	(2)	(1)
Cost of Capital	(22)	(18)	(4)	(0)
Value Added by New Business Evolution	(4,4%)	(11,8%)	(97,3%)	281,6 %
VANB 2010	66	43	0	23
VANB 2009	69	49	14	6
Present Value New Business Premiums (PVNBP)	3,7%	6,8 %	(5,1%)	25,8 %
PVNBP 2010	5.675	3.470	1.817	388
PVNBP 2009	5.471	3.249	1.914	308
Sales & Margins PVNBP basis				
VANB/PVNBP 2010	1,2 %	1,3 %	0,0 %	5,8 %
VANB/PVNBP2009	1,3 %	1,5 %	0,7 %	1,9 %
Annualised premium Equivalent (APE)	4,4 %	8,3 %	(6,9%)	25,6 %
APE 2010	602	348	191	64
APE 2009	577	321	205	51
Sales & Margins APE basis				
VANB/APE 2010	11,0 %	12,5 %	0,2 %	35,4 %
VANB/APE 2009	12,0 %	15,3 %	7,0 %	11,6 %
IRR				
IRR 2010	12,0%	14,0%	8,7%	10,5%
IRR 2009	13,0%	12,3%	12,8%	17,1%

VANB decreased from EUR 69 million to EUR 66 million in 2010. The increase in VANB Asia could not offset the lower VANB in Belgium and Continental Europe. VANB is calculated using year-end assumptions.

The VANB at AG Insurance decreased slightly compared to 2009. Lower margins could not be compensated by higher volumes.

The VANB for Continental Europe mainly suffered from the depressed economic environment and increased spreads in Portugal, leading to reduced margins on savings business and lower volumes.

The VANB for Asia has been impacted positively by a change for expected profit sharing.

4.4 Movement Analysis

The Movement Analysis explains the movement in Embedded Value at 2010 year-start to the value at year-end by showing the different underlying components. Background on Value Added by New Business is covered in Section 4.3

The total drop of value of EUR 413 million is dominated by the “Variance in Investment Income” of EUR 924 million which is mainly due to the decrease in value of government bonds.

Table 7 - Embedded Value

	2010				2009			
	Total Insurance	Belgium	Continental Europe	Asia	Total Insurance	Belgium	Continental Europe	Asia
Embedded Value Previous Year	4.898	3.638	852	408	4.923	3.817	747	359
Divestiture	1	-	1	-	(954)	(954)	-	-
Other opening adjustments	337	74	35	228	302	345	4	(47)
Previous EV restated	5.236	3.712	888	636	4.271	3.208	751	312
Expected return	192	112	66	14	252	196	41	15
Experience variance and assumption changes	294	274	61	(41)	(64)	(23)	(13)	(29)
Value added by New Business	66	43	0	23	69	49	14	6
Operating EV Earnings	552	429	127	(4)	257	222	42	(8)
Operating return on EV	10,5 %	11,6 %	14,3 %	(0,6%)	6,0 %	6,9 %	5,6 %	(2,6%)
Variance on Investment income	(924)	(742)	(193)	11	5	(69)	24	51
Changes in Interest rates and markets conditions	(41)	(39)	(8)	6	364	277	34	54
Embedded Value Year-end	4.823	3.360	814	649	4.898	3.638	852	408
Total return on EV	(7,9%)	(9,5%)	(8,4%)	2,0 %	14,7 %	13,4 %	13,3 %	30,8 %

The experience variance and assumption changes include the results of further fine-tuning on the assumptions underlying the calculation. The most important parts of these changes are:

- ◆ Recalibration on mortality experience rating in Belgium resulting in an increase of EUR 62 million;
- ◆ Replacing equities in the Target Asset Mix by Fixed Income and Real Estate at AG Insurance has led to an increase of EUR 58 million; and
- ◆ Decrease in the expected inflation rate from 2.8% to, on average, 2.2% in Belgium (increase of EUR 65 million).

Table 8 - Movement in Embedded Value

	Value of						
	Free	Required	In-force	Embedded	Continental		
	Surplus+	Equity+	business=	Value	Belgium	Europe	Asia
2009 Restated	548	2.337	2.350	5.236	3.712	888	636
Expected return	510	(98)	(218)	194	112	67	14
<i>reference rate</i>	5	38	54	97	72	19	6
<i>in excess of reference rate</i>	3	16	77	96	40	48	8
<i>transfer to shareholder's equity</i>	502	(152)	(349)	1	-	(0)	(0)
Experience variance and assumption changes	36	66	192	294	274	61	(41)
Value added by new business	(274)	188	152	66	43	0	23
Variance on Investment income	(324)	(4)	(596)	(924)	(742)	(193)	11
Changes in Interest rates and markets conditions	108	20	(197)	(69)	(39)	(8)	(23)
Exchange rate differences	(3)	7	26	30	-	-	29
Year-end 2010	599	2.515	1.709	4.823	3.360	814	649

Expected return is the after-tax return on the opening embedded value resulting from projections of the assets and liabilities over the year based on expected "real world" returns. The Expected Return is split between the reference rate and the additionally expected return above the reference rate from investing in more risky assets, such as equities, real estate and corporate bonds. It includes the release of risks charges as captured by the CFOG and CFHR. In total, the expected return contributed EUR 194 million.

Table 9 - Detail on experience variances and assumption changes

	Value of						
	Free	Required	In-force	Embedded	Continental		
	Surplus+	Equity+	business=	Value	Belgium	Europe	Asia
Mortality/Morbidity	(0)	0	135	135	121	12	2
Lapse / persistency / renewals	1	(0)	(14)	(13)	21	16	(50)
Tax	-	-	(5)	(5)	6	(10)	-
Premium Persistency	-	-	(31)	(31)	(31)	(0)	-
Level of Required Equity	(45)	45	59	59	66	(8)	2
Change in target asset mix/asset investment rules	-	-	74	74	58	20	(3)
Profit sharing	-	-	(26)	(26)	(26)	-	-
Expenses (including inflation)	-	-	76	76	61	15	-
Change in assumptions	(44)	45	268	269	276	45	(49)
Experience variance	80	21	(76)	25	(1)	17	9
Experience variance and assumption changes	36	66	192	294	274	61	(41)

4.5 Equity Reconciliation

Table 10 provides an overview of the adjustments made to the IFRS group Shareholder Equity to arrive at the Embedded Value for reporting year 2010.

Table 10 - Equity Reconciliation

	2010			2009		
	Life	Non-Life	Other ³	Life	Non-Life	Other
Total IFRS shareholder's equity	4.616	1.004	2.626	4.754	815	2.862
Activities not included in embedded value	(1.028)	(1.004)	(2.626)	(958)	(815)	(2.862)
IFRS shareholder's equity of activities included in embedded value	3.588	0	0	3.796	0	0
Adjustments from IFRS to EEV						
Derecognition Deferred Acquisition Costs	(206)			(155)		
Derecognition of Other Intangible Assets (Goodwill/VOBA)	(448)			(491)		
Valuation adjustment of technical provisions	353			406		
Market value adjustments (predominantly Real Estate)	608			536		
Reallocation of Unrealised Capital Gains to assets backing provisions	(661)			(1.180)		
Other	(120)			28		
Value of Shareholder's Equity	3.114			2.941		
Value of In-Force Business	1.709			1.957		
Embedded Value	4.823			4.898		

To arrive at the Value of Shareholder's Equity for Embedded Value an adjustment is made to reallocate Unrealised Capital Gains. Under IFRS, all Unrealised Capital Gains, including those on assets backing technical provisions are accounted for as Shareholder Equity. For Embedded Value these assets, including their Unrealised Capital Gains/Losses, are projected and valued as part of the Value of In-Force business and therefore need to be excluded from the EEV Shareholder Equity.

◆◆◆

³ Consists of the General Account and the investments in associates.

5 Sensitivity analysis

The Embedded Value calculations are based on the current market conditions and Ageas's view on best estimate assumptions. The following sensitivities are disclosed in order to understand the impact of on the Embedded Value and Value Added by New Business.

Each of the sensitivity analysis is calculated by changing the relevant assumption in isolation. It does not take into account second order effects this may have on other assumptions underlying the projections.

The Sensitivity analyses include:

- ◆ Reference rate +100 bp – This sensitivity assumes an upward parallel shift of 100 bp in the reference rate.
- ◆ Reference rate -100 bp – This sensitivity assumes a downward parallel shift of 100 bp in the reference rate.
- ◆ Asset values of equities and real estate -10% – This sensitivity assumes a decrease of the asset values of both equities and real estate by 10%.
- ◆ Volatilities equities and properties +25% – This sensitivity assumes a 25% increase of both the equity and real estate volatility by multiplying the base assumption by a factor of 125%.
- ◆ Volatilities risk-free yields +25% – This sensitivity assumes a 25% increase of the volatility of the risk free yields by multiplying the base assumption by a factor of 125%.
- ◆ Liquidity Premium 0 bp – This sensitivity assumes the Liquidity Premium set at 0 for all currencies, or in other words, a reference rate equal to the swap curve.
- ◆ Liquidity Premium +10 bp – This sensitivity assumes the Liquidity Premium includes 10bp on the existing Liquidity Premia for Euro, Hong Kong Dollar and US Dollar.
- ◆ Costs -10% – all maintenance costs excluding commissions and acquisition expenses decrease by 10%. Cost inflation remains unchanged.
- ◆ Lapse -10% – This sensitivity assumes that the lapse rates used in the base scenario are multiplied by a factor of 90%.
- ◆ Mortality -5% – This sensitivity assumes that the mortality rates used in the base scenario are multiplied by a factor of 95%. This has been applied on both annuity and life assurance business.
- ◆ Required Capital on the local regulatory minimum level – This sensitivity assumes that the Required Capital to hold is only to meet the minimum local regulatory requirements. This sensitivity is assumed to only impact the Frictional Cost of Capital resulting from a lower level of Shareholders Equity needed to meet the minimum level of Required Capital.

Sensitivities - Embedded Value

2010

	Total		Continental	
	Insurance	Belgium	Europe	Asia
Embedded Value	4.823	3.360	814	649
Reference rate +100bp	4,6 %	4,7 %	2,0 %	7,2 %
Reference rate -100bp	(15,2%)	(17,7%)	(5,9%)	(14,1%)
Asset values equities and real estate -10%	(6,6%)	(8,6%)	(2,9%)	(1,2%)
Volatilities equities and properties +25%	(4,6%)	(6,4%)	(0,4%)	(0,7%)
Volatilities risk-free yields +25%	(1,4%)	(1,0%)	(2,1%)	(2,7%)
Liquidity Premium 0 bp	(8,3%)	(9,8%)	(4,1%)	(5,7%)
Liquidity Premium +10 bp	2,2 %	2,6 %	1,4 %	1,3 %
Required Equity (minimum regulatory level)	2,7 %	3,2 %	2,3 %	0,5 %
Costs -10%	3,1 %	3,3 %	3,3 %	2,1 %
Mortality rates -5%	0,6 %	0,3 %	(0,6%)	3,6 %
Lapse rates -10%	0,9 %	0,7 %	2,1 %	0,9 %

Sensitivities - Value Added by New Business

2010

	Total		Continental	
	Insurance	Belgium	Europe	Asia
Value Added by New Business	66	43	0	23
Reference rate +100bp	29,2 %	29,9 %	391,9 %	21,7 %
Reference rate -100bp	(69,3%)	(76,7%)	(765,3%)	(43,3%)
Volatilities equities and properties +25%	(21,6%)	(31,7%)	(102,5%)	(0,6%)
Volatilities risk-free yields +25%	(9,7%)	(8,6%)	(328,5%)	(6,4%)
Liquidity Premium 0 bp	(30,9%)	(33,0%)	(883,5%)	(12,6%)
Liquidity Premium +10 bp	7,9 %	7,2 %	393,6 %	2,8 %
Required Equity (minimum regulatory level)	14,4 %	14,4 %	785,8 %	1,4 %
Costs -10%	17,9 %	18,2 %	634,5 %	6,7 %
Mortality rates -5%	10,8 %	4,2 %	66,8 %	22,4 %
Lapse rates -10%	9,7 %	4,9 %	527,1 %	10,3 %

The sensitivity in changing the reference rates with 100bp does not reflect repricing of redesigning of the products in the Value New Business.

6 Cautionary statements

This report is intended to provide investors with additional financial information. The figures are provided for information purposes only and are subject to the conditions and restrictions mentioned hereafter.

Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Future actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in Ageas's core markets, (ii) performance of financial markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) interest rate levels, (vii) currency exchange rates, (viii) increasing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the Economic and Monetary Union, (x) changes in the policies of central banks and/or foreign governments and (xi) general competitive factors, in each case on a global, regional and/or national basis.

In addition, the financial information contained in this presentation, including the pro forma information contained herein, is unaudited and is provided for illustrative purposes only. It does not purport to be indicative of what the actual results of operations or financial condition of Ageas and its subsidiaries would have been had these events occurred or transactions been consummated on or as of the dates indicated, nor does it purport to be indicative of the results of operations or financial condition that may be achieved in the future.

No warranty can be given by Ageas, either explicitly or implicitly, regarding the reasonableness, correctness or completeness of the information, forecasts and assumptions contained in these pages. The information here provided could be subject to changes. This report and the information contained herein in no way replace any formal reporting. Investment considerations should continue to be based on periodical reporting and other information Ageas is required to disclose by law or stock exchange regulations.

7 Limited Assurance report

Limited Assurance report on the Ageas 2010 Embedded Value Report

Introduction

We have performed a limited assurance engagement on page 1 to page 18 of the Ageas 2010 Embedded Value Report hereafter “Embedded Value Report” reporting for the life insurance business as at 1 January 2010, 31 December 2010 and the 2010 movements in embedded value (including restatements and operating embedded value earnings).

Ageas calculates its embedded value in accordance with:

- ♦ the European Embedded Value Principles and Guidance as developed by the CFO Forum and published on 5 May 2004.
- ♦ Additional Guidance on European Embedded Value Disclosures, issued 31 October 2005.
- ♦ Principles 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17.1 – 17.3.4, 17.3.7 – 17.3.36, 17.3.46 – 17.3.47, 17.4 – 17.8.8 from the Market Consistent Embedded Value Principles issued in October 2009.

These principles are called the “EEV Principles” and are described on page 5 of the Ageas 2010 Embedded Value Report.

The Board of Directors is responsible for the preparation of the Embedded Value Report, including the applied methodology and the assumptions used. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Embedded Value Report that is free from material misstatement, whether due to fraud or error; selecting and applying the appropriate methodology; and using assumptions that are reasonable in the circumstances.

Our responsibility is to express a conclusion as to whether nothing material came to our attention that causes us to believe that the methodology and the assumptions used for the Embedded Value Report for the life insurance business of Ageas as at 1 January 2010, 31 December 2010 and the 2010 movements (including restatements and embedded value earnings) do not comply with the EEV Principles.

Work performed

We conducted our limited assurance engagement of the Embedded Value Reporting in accordance with the International Standard on Assurance Engagements (3000): “Assurance engagements other than audits or reviews of historical financial information”, issued by the International Auditing and Assurance Standards Board.

This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain limited assurance on the subject matter of the review. In our limited assurance engagement, we performed procedures to assess whether the methodology as applied by Ageas is, in all material respects, in accordance with the EEV principles and the assumptions used are reasonable. In this context we performed procedures to assess the consistent application of the methodology across Ageas and to assess whether results of the calculations of the embedded value as at 1 January 2010, 31 December 2010 and the 2010 movements are reasonable. We did not perform procedures to assess the reliability of the models involved, including the completeness and correctness of the calculations in those models underlying the Embedded Value Report.

Procedures performed to obtain a limited level of assurance are less extensive than those for a reasonable level of assurance. We did not carry out an audit or review of the Embedded Value Report or of the models or of the underlying processes or data. We believe that our limited assurance engagement provides a reasonable basis for our conclusion.

Conclusion

Based on our procedures performed, we conclude that in all material respects nothing has come to our attention that causes us to believe that the methodology and the assumptions used for the Embedded Value Report for the life insurance business of Ageas as at 1 January 2010, 31 December 2010 and the 2010 movements (including restatements and embedded value earnings) do not comply with the EEV principles.

Other matters

We draw attention to chapter 6 of the Embedded Value Report which indicates that the calculations underlying the Embedded Value Report are necessarily based on numerous assumptions with respect to economic conditions, operating conditions, political conditions and other matters with respect to future cashflows. Many of these are beyond the control of Ageas and actual cash flows in the future are likely to be different from those assumed in the calculation and such variation may be material.

Amstelveen/Brussels, 8 March 2011

KPMG Accountants N.V.
Represented by

KPMG Réviseurs d'entreprises/Bedrijfsrevisoren
Represented by

S.J. Kroon

M. Lange

O. Macq

Annex: Components of Embedded Value

The components of the Embedded Value are:

Embedded Value (EV)	=	Value of Shareholder's Equity (VSE)	+	Value of In-Force Business (VIF)
Value of Shareholder's Equity (VSE)	=	Free Surplus (FS)	+	Required Equity (RE)
Value of In-Force Business (VIF)	=	Certainty Equivalent Value (PVFP)	-	Cost of Financial Options and Guarantees (CFOG)
			-	Cost of Non-Hedgeable Risks (CNHR)
			-	Frictional Costs of Capital (CoC)

1 Value of Shareholder's Equity (VSE)

The Value of Shareholder's Equity equals the market value of the tangible assets backing Ageas's Life Equity including adjustments to ensure consistency with the calculation of the Value of In-Force Business. For example, unrealised capital gains that originate from assets backing the customer liabilities but appear on the IFRS balance sheet within shareholder equity are modelled within the Value of In-Force Business and therefore are deducted from the value of shareholder equity. Intangible assets such as VOBA and DAC are given no value because the embedded value they represent is valued explicitly within the Value of In Force.

See Section 4.5 for an overview of the reconciliation from IFRS to the Value of Shareholder's Equity.

The Value of Shareholder's Equity breaks down into two components, the Required Equity and Free Surplus.

1.1 Required Equity (RE)

The operating business cannot exist without Ageas meeting a number of solvency capital requirements including local regulatory, rating agency and economic capital. Meeting these requirements necessitates locking in of a portion of the Shareholder Equity. This Required Equity represents the amount of Shareholder Equity that, in combination with other admissible assets that are allowed to fund the overall capital needs, is required to meet the targeted solvency capital level.

The level of Required Equity for Embedded Value reporting is set to meet the target level of capital above the minimum local regulatory solvency requirements for the life insurance activities under scope and is expressed as a percentage of the Required Minimum Margin (RMM) under Solvency I.

The value of Required Equity is the market value of assets backing the amount of required shareholders equity needed to meet the target solvency capital level.

1.2 Free Surplus (FS)

Free Surplus is the market value of assets allocated to the operating business over and above the amount required to support the operating business (i.e. the Required Equity).

2 Value of In-Force business (VIF)

The Value of In-Force business represents the value of assets and liabilities based on a market-consistent valuation approach. It reflects the risk-adjusted value of the expected cash flows emerging from the in-force policies and is valued by deducting the market consistent value of liabilities from the market value of assets. The Value In force represents the value of the life insurance activities in force at the valuation date and excludes any value of business that is expected to be sold in the future.

2.1 Certainty Equivalent Value (PVFP)

Certainty Equivalent Value (Present Value of Future Profits) corresponds to the value of the business without taking credit for any future investment risk premiums and represents the value as if all cash flows are fixed and certain and all investment assets earn a return equal to the reference rate (risk free return), with the cash flows discounted at the same reference rate. This value captures the intrinsic value (or in-the-money value) of the financial options and guarantees. The reference rate is defined in section 3.3.1.

2.2 Cost of Financial Options and Guarantees (CFOG)

Cost of Financial Options and Guarantees (CFOG) represents the time value of financial options and guarantees. The CFOG places a value on the asymmetry of shareholder profits around the expected cost of financial options and guarantees embedded in the insurance cash flows. It is determined based on stochastic techniques. Due to the complex nature of options in insurance contracts, a range of economic scenarios are simulated to project cash-flows. The CFOG is then calculated as the difference between the Certainty Equivalent Value and the value resulting from the cash flows under the different economic scenarios.

The contractual financial options and guarantees include guaranteed interest rates, profit sharing arrangements and minimum surrender and maturity benefits. Stochastic scenarios include management decisions that may vary under different scenarios, such as portfolio rebalancing and discretionary profit sharing. All material financial options and guarantees in the portfolio are accounted for in the Embedded Value.

2.3 Cost of Non-Hedgeable Risks (CNHR)

The Cost of Non-Hedgeable Risks is an allowance for risks that are currently not allowed for in the Cost of Financial Options and Guarantees, including those which cannot be hedged as a result of the absence of liquid and well developed markets for these risks.

While within a market consistent framework the financial risks arising from options and guarantees are addressed through the CFOG, an additional separate adjustment is necessary for all other risks. The CNHR is an explicit deduction to the Certainty Equivalent value to place a value on the uncertainty of shareholder profits around the expected insurance and non-hedgeable risks embedded in the insurance cash flows.

The CNHR is calculated based on an annual charge on a part of the solvency capital required to be held for these specific risks. This is structurally in-line with our understanding of the approach proposed for calculating the Market Value Margin under Solvency II.

The annual charge on the solvency capital held for these risks is calculated by a 0.5% post-tax charge of the projected total Required Equity each year.

2.4 Frictional Cost of Capital (CoC)

The Required Equity is the part of shareholders equity needed to support the life insurance activities. Since this part of Shareholders Equity is locked in and can only be released to the shareholder over time in line with the run-off of the business, the shareholder can only benefit via the investment yield earned on the investment assets backing the required equity and therefore pays both the tax costs on this investment yield as well as any investment expenses. The Frictional Cost of Capital represents the value lost through incurring these tax and investment expenses on the Required Equity.

The remaining part of Shareholder Equity, the Free Surplus, is assumed not to incur a cost of capital because it could in principle be released without constraint and therefore avoid the additional tax and investment expenses.

Erratum to 2010 Embedded Value Report

The page of the 2010 Embedded Value Report mentioned below should be read in conjunction with the modifications contained in this Erratum, which forms an integral part of the 2010 Embedded Value Report.

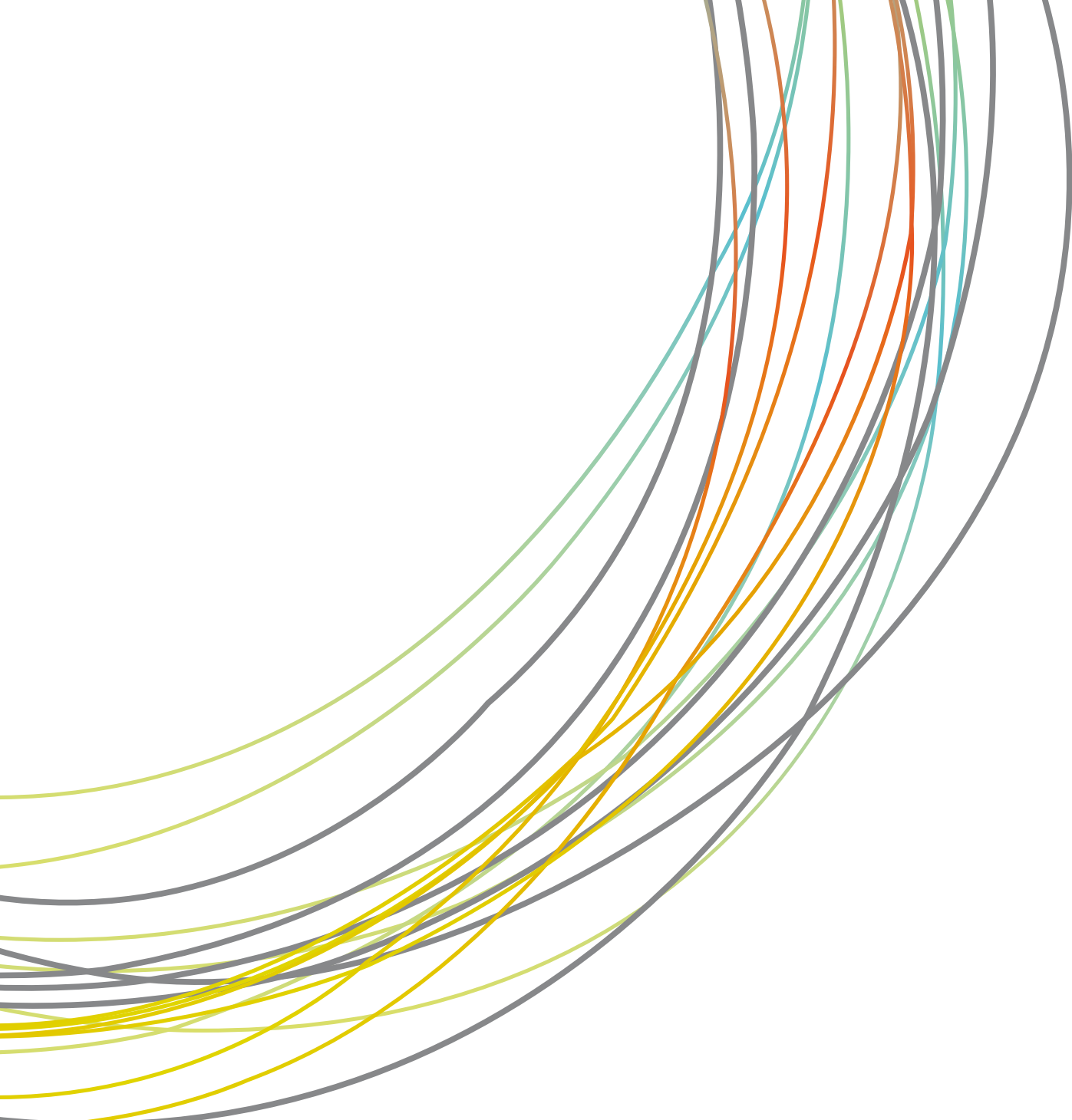
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The table should read:

Table 6 - Value Added by New Business

	Total	Continental		
	Insurance	Belgium	Europe	Asia
Value of In-force business	153	53	20	80
New Business Strain	(86)	(10)	(20)	(57)
Value Added by New Business	66	43	0	23
Value of In-force business	153	53	20	80
Certainty Equivalent Value	216	100	29	87
Cost of Financial Options and Guarantees	(31)	(22)	(3)	(6)
Cost of Non-hedgeable risks	(10)	(7)	(2)	(1)
Cost of Capital	(22)	(18)	(4)	(0)
Value Added by New Business Evolution	(4,4%)	(11,8%)	(97,3%)	281,6 %
VANB 2010	66	43	0	23
VANB 2009	69	49	14	6
Present Value New Business Premiums (PVNBP)	3,7%	6,8 %	(5,1%)	25,8 %
PVNBP 2010	5.675	3.470	1.817	388
PVNBP 2009	5.471	3.249	1.914	308
Sales & Margins PVNBP basis				
VANB/PVNBP 2010	1,2 %	1,3 %	0,0 %	5,8 %
VANB/PVNBP2009	1,3 %	1,5 %	0,7 %	1,9 %
Annualised premium Equivalent (APE)	4,4 %	8,3 %	(6,9%)	25,6 %
APE 2010	602	348	191	64
APE 2009	577	321	205	51
Sales & Margins APE basis				
VANB/APE 2010	11,0 %	12,5 %	0,2 %	35,4 %
VANB/APE 2009	12,0 %	15,3 %	7,0 %	11,6 %
IRR				
IRR 2010	10,1%	10,4%	8,7%	10,5%
IRR 2009	13,0%	12,3%	12,8%	17,1%

Brussels/Utrecht, 27 May 2011



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