

Consolidated Financial Report for the Second-half year of 2009

Brussels/Utrecht, 10 March 2010

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All amounts reported in this Consolidated Financial Report for the Second-half year are denominated in millions of euros, unless stated otherwise.

Report of the Board of Directors of Fortis

Report of the Board of Directors of Fortis

General

Fortis SA/NV and Fortis N.V. are the two parent companies of Fortis. They head Fortis, which in turn comprises a number of subsidiary companies engaged in Insurance.

Developments

The year 2009 was marked by renewed negotiations and the subsequent approval and closing of the transactions with BNP Paribas, Fortis Bank and the Belgian State's company SFPI/FPIM. The renewed negotiations involved the sale of Fortis Bank and part of the Belgian insurance activities as well as the establishment of Royal Park Investments SA/NV (RPI), a special purpose vehicle which has acquired a portion of the structured credits portfolio of Fortis Bank and in which Fortis made an equity investment of EUR 760 million, representing a stake of 44.7%.

The original agreement, dating from 5 and 6 October 2008, to sell Fortis Bank and the Belgian insurance activities was renegotiated following a court ruling on 12 December 2008 and the publication of a report by a panel of Belgium experts. The revised transaction, announced on 31 January 2009, was rejected by the shareholders' meeting of Fortis SA/NV on 11 February 2009. On 6 March 2009, an agreement was reached on revised terms for the transaction. On 28 April and 29 April 2009, the general meetings of respectively Fortis SA/NV in Ghent, Belgium, and Fortis N.V. in Utrecht, the Netherlands, approved the transactions, which were then closed on 12 May 2009. Based on the approval of the shareholders on 28 April and 29 April 2009 the doubt on Fortis' ability to continue on a going concern basis does not exist any longer in Fortis' view.

As a result of the agreement finalised on 12 May 2009 related to the funding of Royal Park Investments and the purchase of part of the structured credit portfolio of Fortis Bank, the risk to Fortis relating to the fall back provision, which Fortis was not able to value at the end of 2008, in the Share Purchase Agreement with the SFPI/FPIM of 10 October 2008 (as amended) regard to the financing of the SPV has since that date ceased to exist. The total exposure for Fortis is limited to equity investment of EUR 760 million in Royal Park Investments, representing a stake of 44.7%.

For further details of the transactions, please refer to the shareholder circular published on 16 March 2009 and press release published on 13 May 2009 on www.fortis.com.

Since 12 May 2009, Fortis consists of:

- 75% - 1 share of AG Insurance (previously Fortis Insurance Belgium);
- Fortis Insurance International which consists of a number of Life and Non-Life insurance activities in Europe and Asia, some of which are fully owned by Fortis, while others are in the form of subsidiaries and affiliates with local partners;
- General Account comprises: (i) the holding companies and various financing vehicles that have been used to issue debt to finance Fortis' (former) banking and insurance activities; (ii) the equity stake in Royal Park Investments SA/NV (RPI) mentioned above; (iii) the liability related to the quarterly interest payments on the relative performance note (RPN(I)) related to the CASHES, and (iv) the value of the call option linked to the BNP Paribas shares, granted by SFPI/FPIM.

Fortis is fully aware of the uncertainties it faces with regard to the legal proceedings started as a result of the events and developments occurred between May 2007 and October 2008 and the approval of the transactions agreed with BNP Paribas and SFPI/FPIM by the shareholders. We draw your attention to note 25 Contingent liabilities for a detailed explanation.

Results

Fortis' full year 2009 net profit amounted to EUR 1,192 million. The net profit of the insurance operations improved sharply on last year and reached EUR 456 million. The General Account contributed EUR 736 million, driven by a number of exceptional items such as the capital gain on the sale of 25%+1 share of AG Insurance to Fortis Bank and other items related to the transaction with BNP Paribas, the Belgian State and Fortis Bank, closed on the 12th of May 2009.

The Insurance net profit amounted to EUR 456 million in 2009 compared to EUR 6 million in 2008. On a segment basis, net profit of AG Insurance attributable to shareholders amounted to EUR 366 million. Minority interests amounted to EUR 69 million and are mainly related to the 25% stake acquired by Fortis Bank in May 2009. Net profit attributable to shareholders of Fortis Insurance International (FI) after minority interests was EUR 90 million compared to a break-even result in 2008. Minority interests amounted to EUR 51 million, essentially driven by the net profit in Portugal.

Fortis' General Account reported a net profit of EUR 736 million. This mainly reflects the capital gain of EUR 697 million related to the sale of 25% + 1 share of AG Insurance to Fortis Bank in May 2009. In addition, the General Account net result includes a number of items, related to certain financial instruments and to the transactions with BNP Paribas, the Belgian State and Fortis Bank, which nearly compensated each other: The charge of EUR 301 million (net-of-tax) related to the write down of the claim on Fortis Bank Nederland and Fortis Capital Company Ltd (FCC), a EUR 581 million positive net-of-tax amount for the value of the call option on the BNP Paribas shares held by SFPI/FPIM, and the negative fair value of EUR 316 million related to RPN(I). The recurring elements of the General Account mainly relate to net interest income and corporate expenses (EUR 91 million). The latter relates to staff expenses and corporate costs but also include a material amount of one-off separation related costs and legal costs.

Amendments to the Articles of Association of Fortis SA/NV

Fortis SA/NV had end 2008 carried forward losses of EUR 22,507 million. These losses resulted from an impairment of the participating interests of Fortis SA/NV. As a consequence, the company's net assets fell below the sum of the subscribed capital and the non distributable reserves, prohibiting the payment of any dividend. Moreover, as the par value of the Fortis SA/NV share was fixed at EUR 4.284, i.e. substantially higher than the market value of the Fortis share at that time, the Board of Directors of Fortis SA/NV was barred from using the authorised capital pursuant to article 606 2° of the Belgian Companies' Code, which prohibits the use of authorised capital for issuing shares at a value below their par value.

In order to restore Fortis SA/NV' capacity to pay dividends in the future and to re-allow the Board to make use of the authorised capital, it was proposed to reduce the par value of the Fortis SA/NV shares to EUR 0.42 to the General meeting of shareholders of 28 April 2009. The shareholders of Fortis SA/NV voted in favour of reducing the par value of the shares.

Due to the reduction of the par value the share capital and share premium reserve of Fortis SA/NV were reduced with respectively EUR 9,724 million and EUR 9,240 million.

Dividend

Fortis' Board of Directors proposes a gross dividend of 8 eurocent per share subject to approval by the shareholders at the Annual Shareholders' meetings of 28 and 29 April 2010. This equals an expected payout ratio of 41% of insurance profits, in line with the announced dividend policy end of September 2009.

Fortis Board of Directors and Executive Committee

On 1 February 2009, Fortis announced that Louis Cheung Chi Yan would resign from the Board of Directors with immediate effect.

On 11 and 13 February 2009, the General Meetings of Shareholders of Fortis SA/NV and Fortis N.V. elected Jozef De Mey, Georges Ugeux and Jan Zegering Hadders as non-executive members of the Board of Directors until the close of the Annual General Meeting in 2011. Jozef De Mey was appointed Chairman. Georges Ugeux decided to step down the same day. All incumbent Board members, with the exception of Karel De Boeck, stepped down on 13 February 2009: Jan-Michiel Hessels, Philippe Bodson, Richard Delbridge, Clara Furse, Reiner Hagemann, Jacques Manardo, Aloïs Michielsens, Ronald Sandler, Rana Talwar and Klaas Westdijk.

On 28 and 29 April 2009, the General Meetings of Shareholders of Fortis SA/NV and Fortis N.V. elected Frank Arts, Guy de Selliers de Moranville, Roel Nieuwdorp, Lionel Perl and Jin Shaoliang as non-executive members of the Board of Directors until the close of the Annual General Meeting in 2011.

On 8 May 2009, the Board of Directors announced the appointment of Mr Guy de Selliers de Moranville as Vice-Chairman. At the same time the Board announced the composition of three Board committees, the Audit Committee, the Remuneration Committee and a Governance Committee.

On 15 June 2009, Fortis announced its intention to appoint Bart De Smet as Chief Executive Officer with effect from 1 July 2009. Karel De Boeck, who was elected CEO by the Shareholders' Meetings of 1 and 2 December 2008, stepped down as CEO on 1 July 2009 and resigned from the Board. Bart De Smet was co-opted by the Board of Directors of Fortis SA/NV in Belgium with effect from 1 July 2009. A proposal to elect Bart De Smet as executive member of the Board of Directors of Fortis SA/NV for a period of three years will be submitted to the next General Meeting of Shareholders of Fortis SA/NV. An Extraordinary General Meeting of Shareholders of Fortis N.V. was convened in Utrecht on 18 September 2009 to elect Bart De Smet as executive member of the Board of Fortis N.V. with effect from 1 July 2009 until the close of the Annual General Meeting of Shareholders in 2013. The shareholders of Fortis N.V. approved the election of Bart De Smet. Fortis also announced the step down of Peer van Harten, CEO Insurance.

In order to allow Bart De Smet to concentrate his energies on managing the insurance business and developing strategies for future growth, two internal task forces are created to deal with the legacy issues of the old Fortis. One task force covers financial aspects, the other task force covers legal aspects. Both task forces involve members of the Board and report directly to the Board. Their work is co-ordinated by Jozef De Mey, Chairman of the Group.

On 12 August, Fortis announced the appointment of Bruno Colmant as Deputy Chief Executive Officer. His appointment took effect as of 1 September 2009. Bruno Colmant is responsible for Finance, Legal and the management of the legacy issues of the former Fortis.

Fortis announced on 27 August the appointment of Kurt De Schepper as Chief Risk Officer (CRO) and member of the Executive Committee. He is responsible for Risk, Compliance, Support Functions and Separation issues.

Outlook

2010 will be another important year for Fortis. We must maintain business momentum and meet the expectations of our customers, while simultaneously managing our legacy issues. Any decisions taken will always be in the interests of the long term future of our company.

Although the markets are beginning to show modest signs of recovery, we are under no illusion, this will be a challenging year. We are nevertheless determined to reinforce the fortunes and reputation of Fortis.

Brussels/Utrecht, 9 March 2010.

Board of Directors

Consolidated Financial Report for the Second-half year of 2009

Consolidated statement of financial position

	<i>Note</i>	<i>31 December</i> <i>2009</i>	<i>31 December</i> <i>2008</i>
Assets			
Cash and cash equivalents	5	5,636	5,933
Financial investments	6	53,070	45,132
Investment property		1,653	1,290
Loans	7	4,132	16,404
Investments related to unit-linked contracts		20,695	18,040
Investments in associates		1,322	431
Reinsurance and other receivables	8	1,264	1,154
Current tax assets		103	73
Deferred tax assets		53	117
Call option BNP Paribas shares	9	880	
Accrued interest and other assets		1,848	1,795
Property, plant and equipment		1,108	1,135
Goodwill and other intangible assets		1,376	1,366
Assets held for sale		103	
Total assets		93,243	92,870
Liabilities			
Liabilities arising from life insurance contracts	10	22,931	21,855
Liabilities arising from life investment contracts	11	24,333	21,607
Liabilities related to unit-linked contracts	12	20,773	18,078
Liabilities arising from non-life insurance contracts	13	4,934	4,289
Debt certificates	14	915	4,670
Subordinated liabilities	15	2,850	2,908
Borrowings	16	2,774	9,086
Current tax liabilities		106	75
Deferred tax liabilities		1,025	609
RPN(I)	17	316	
Accrued interest and other liabilities		2,209	2,312
Provisions		34	71
Liabilities related to assets held for sale		39	
Total liabilities		83,239	85,560
Shareholders' equity	3	8,350	6,795
Non-controlling interests		1,654	515
Total equity		10,004	7,310
Total liabilities and equity		93,243	92,870

Consolidated income statement

	Note	2009	2008	Second half-year 2009	Second half-year 2008
Income					
- Gross premium income		9,248	8,461	4,516	3,996
- Change in unearned premiums		(32)	(13)	65	61
- Ceded earned premiums ¹⁾		(193)	(197)	(93)	(91)
Net earned premiums	18	9,023	8,251	4,488	3,966
Interest, dividend and other investment income	19	3,123	3,660	1,474	1,960
Unrealised gain (loss) on Call option BNP Paribas shares		880		150	
Unrealised gain (loss) on RPN(I)		(316)		28	
Realised and unrealised gains and losses	20	953	(508)	88	(406)
Investment income related to unit-linked contracts		2,307	(3,191)	1,595	(1,984)
Share of result of associates		63	27	50	(3)
Fee and commission income		375	432	198	218
Other income		322	233	228	137
Total income		16,730	8,904	8,299	3,888
Expenses					
- Insurance claims and benefits, gross		(9,290)	(8,221)	(4,594)	(3,876)
- Insurance claims and benefits, ceded		65	121	26	53
Insurance claims and benefits, net	21	(9,225)	(8,100)	(4,568)	(3,823)
Charges related to unit-linked contracts		(2,325)	3,219	(1,620)	2,022
Finance costs	22	(498)	(1,343)	(159)	(772)
Change in impairments	23	(467)	(558)	(14)	(475)
Change in provisions		42	(49)	29	(45)
Fee and commission expense		(972)	(912)	(510)	(456)
Staff expenses		(640)	(644)	(319)	(322)
Other expenses		(1,015)	(994)	(590)	(543)
Total expenses		(15,100)	(9,381)	(7,751)	(4,414)
Profit before taxation		1,630	(477)	548	(526)
Income tax expenses		(318)	(108)	(157)	(115)
Net profit before result of discontinued operations		1,312	(585)	391	(641)
- Attributable to non-controlling interests		120	25	85	(6)
- Attributable to shareholders		1,192	(610)	306	(635)
Net result of discontinued operations			(27,412)		(29,025)
Net profit attributable to shareholders		1,192	(28,022)	306	(29,660)
Per share data (EUR)					
Basic earnings per share		0.48	(12.21)		
Basic earnings per share before net result of discontinued operations		0.48	(0.27)		
Diluted earnings per share		0.48	(12.21)		
Diluted earnings per share before net result of discontinued operations		0.48	(0.27)		

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

	2009	2008	Second half-year 2009	Second half-year 2008
Gross premium income	9,248	8,461	4,516	3,995
Inflow deposit accounting ((see note 18: directly recognised as liability)	2,770	3,123	1,581	1,295
Gross inflow	12,018	11,584	6,097	5,290

Comprehensive income can be shown as follows:

	Note	2009	2008	Second half-year 2009	Second half-year 2008
Net profit attributable to shareholders		1,192	(28,022)	306	(29,660)
Other comprehensive income					
Change in revaluation of investments available for sale, gross	859	90	901	2,398	2,398
Related tax	(256)	(346)	(256)	(752)	(752)
Change in revaluation of investments available for sale, net		603	(256)	645	1,646
Change in foreign exchange differences, gross			(50)	(45)	
Related tax					
Change in foreign exchange differences, net			(50)	(45)	
Share of other comprehensive income of associates, gross			46	3	99
Related tax					
Share of other comprehensive income of associates, net			46	3	99
Other changes		(108)	1,919	(108)	5,584
Other comprehensive income for the period, net of tax		495	1,659	495	7,329
- Attributable to non-controlling interests		147	11	148	64
- Attributable to shareholders		348	1,648	347	7,265
Total comprehensive income for the period, attributable to shareholders		1,540	(26,374)	653	(22,395)

Consolidated statement of changes in equity

	Share Capital	Share Premium reserve	Other reserves	Currency Translation Reserve	Net profit attributable to Shareholders	Unrealised gains and losses	Share holders' Equity	Minority Interests	Total equity
Balance at 1 January 2008	11,132	22,723	(5,240)	(164)	3,994	602	33,047	1,147	34,194
Net profit for the period					(28,022)		(28,022)	25	(27,997)
Revaluation of investments						(242)	(242)	11	(231)
Reclassified to income statement									
due to sale of group companies				140		140	280		280
Foreign exchange differences				(49)		(1)	(50)		(50)
Change in equity eliminations due to									
sale of group companies			1,714			(76)	1,638		1,638
Other non-owner changes in equity			22				22		22
<i>Total non-owner changes in equity</i>			<i>1,736</i>	<i>91</i>	<i>(28,022)</i>	<i>(179)</i>	<i>(26,374)</i>	<i>36</i>	<i>(26,338)</i>
Transfer			3,994		(3,994)				
Dividend			(1,371)				(1,371)	(1)	(1,372)
Increase in capital, net	706	785					1,491		1,491
Treasury shares			11				11		11
Decrease in minority interest due to									
sale of group companies								(667)	(667)
Other changes in equity			(9)				(9)		(9)
Balance at 31 December 2008	11,838	23,508	(879)	(73)	(28,022)	423	6,795	515	7,310
Balance at 1 January 2009	11,838	23,508	(879)	(73)	(28,022)	423	6,795	515	7,310
Net profit for the period					1,192		1,192	120	1,312
Revaluation of investments						456	456	147	603
Transfer to income statement due to									
sale of (part) of group companies						(108)	(108)		(108)
Foreign exchange differences									
Other non-owner changes in equity									
<i>Total non-owner changes in equity</i>					<i>1,192</i>	<i>348</i>	<i>1,540</i>	<i>267</i>	<i>1,807</i>
Transfer			(28,022)		28,022				
Dividend								(1)	(1)
Reorganisation of capital	(9,724)	(9,230)	18,954						
Treasury shares									
Other changes in equity			15				15	873	888
Balance at 31 December 2009	2,114	14,278	(9,932)	(73)	1,192	771	8,350	1,654	10,004

Consolidated cash flow statement

	2009	2008
Profit before taxation	1,630	(477)
<i>Adjustments to non-cash items included in profit before taxation:</i>		
Call option BNP Paribas shares	(880)	
RPN(I)	316	
(Un)realised gains (losses)	(952)	508
Share of profits in associates	(63)	(27)
Depreciation, amortisation and accretion	575	375
Impairments	467	562
Provisions	(42)	49
Share-based compensation expense	8	14
<i>Changes in operating assets and liabilities:</i>		
Derivatives held for trading (assets and liabilities)	35	(350)
Loans	12,290	(9,323)
Reinsurance and other receivables	(386)	122
Investments related to unit-linked contracts	(2,664)	3,107
Borrowings	(6,387)	4,864
Liabilities arising from insurance and investment contracts	3,823	2,271
Liabilities related to unit-linked contracts	2,724	(3,070)
Net changes in all other operational assets and liabilities	(746)	(1,984)
Dividend received from associates	19	4
Income tax paid	(99)	(46)
Cash flow from operating activities	9,668	(3,401)
Purchases of financial investments	(14,755)	(13,918)
Proceeds from sales and redemptions of financial investments	8,323	13,648
Purchases of investment property	(124)	(22)
Purchases of property, plant and equipment	(68)	(54)
Proceeds from sales of property, plant and equipment	1	20
Acquisition of subsidiaries and associates	(971)	(55)
Divestments of subsidiaries and associates	1,410	(14,654)
Purchases of intangible assets	(12)	(26)
Proceeds from sales of intangible assets	1	
Cash flow from investing activities	(6,195)	(15,061)
Proceeds from the issuance of debt certificates		2,221
Payment of debt certificates	(3,760)	(5,335)
Proceeds from the issuance of subordinated liabilities		1,118
Payment of subordinated liabilities	(41)	(69)
Proceeds from the issuance of other borrowings	53	18
Payment of other borrowings	(21)	(31)
Proceeds from the issuance of shares		1,491
Purchases of treasury shares		(6)
Proceeds from sales of treasury shares		33
Dividends paid to shareholders of the parent company	(7)	(1,378)
Dividends paid to non-controlling interests	(1)	(1)
Cash flow from financing activities	(3,777)	(1,939)
Effect of exchange rate differences on cash and cash equivalents	7	(26)
Net increase (decrease) of cash and cash equivalents	(297)	(20,427)
Cash and cash equivalents as at 1 January	5,933	26,360
Cash and cash equivalents as at 31 December	5,636	5,933
Supplementary disclosure of operating cash flow information		
Interest received	2,568	2,947
Dividend received from financial investments	37	119
Interest paid	(653)	(1,288)

General Notes

1 Summary accounting policies and principles of consolidation

1.1 Basis of accounting

The Fortis Consolidated Financial Report for the Second-half year of 2009, including the 2008 comparative figures, has been prepared in accordance with IAS 34, Interim Financial Reporting, and includes condensed financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement) and selected explanatory notes. Fortis applies International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). The Fortis Consolidated Financial Report for the Second-half year should be read in conjunction with the audited Fortis Consolidated Financial Statements 2008 (including the accounting policies) which are available at http://www.fortis.com/index_en.asp.

As a result of the agreement finalised on 12 May 2009 related to the funding of Royal Park Investments and the purchase of part of the structured credit portfolio of Fortis Bank, the risk to Fortis relating to the fall back provision, which Fortis was not able to value, in the Share Purchase Agreement with the SFPI/FPIM of 10 October 2008 (as amended) regard to the financing of the SPV has since that date ceased to exist. The total exposure for Fortis is limited to equity investment of EUR 760 million in Royal Park Investments, representing a stake of 44.7%.

1.2 Changes in accounting policies

The accounting policies used to prepare the Consolidated Financial Report for the Second-half year of 2009 are consistent with those applied in the Fortis Consolidated Financial Statements for the year ended 31 December 2008. A more extensive description of the accounting policies, including the policies that are applicable as from 1 January 2009, is included in the Fortis Consolidated Financial Statements 2008.

On 29 January 2009, IFRIC issued Interpretation 18 Transfers of Assets from Customers, to be applied prospectively to transfers of assets from customers received on or after 1 July 2009. IFRIC 18 is particularly relevant for the utility sector, but not for Fortis.

On 5 March 2009, the IASB issued Improving Disclosures about Financial Instruments, amendments to IFRS 7 *Financial Instrument: Disclosures*. The amendments expand the disclosures required in respect of fair value measurements recognised in the statement of financial position. Therefore a three-level hierarchy has been introduced, which has only relevance for disclosures, not for measurement (still based on the fair value measurement hierarchy in IAS 39 *Financial Instruments: Recognition and Measurement*).

Amendments have also been made to the liquidity risk disclosures required under IFRS 7.39. Liquidity risk now only includes financial liabilities that are settled by delivering cash or another financial asset. Financial liabilities that are settled by the entity delivering its own equity instruments or non-financial instruments are excluded. The revised disclosure requirements are applicable for annual periods beginning on or after 1 January 2009.

On 12 March 2009, the IASB issued Embedded Derivatives, amendments to IFRIC 9 and IAS 39. The amendments clarify the accounting for embedded derivatives when a financial asset is reclassified out of the Fair Value through Profit or Loss category as permitted by the October 2008 amendments to IAS 39 *Financial Instruments: Recognition and Measurements*. The amendments are effective for annual periods ending on or after 30 June 2009 and must be applied retrospectively. Fortis did not reclassify any financial assets based on these amendments to IAS 39.

On 16 April 2009, the IASB issued Improvements to IFRS 2009, incorporating amendments to 12 International Financial Reporting Standards (IFRSs). Effective dates vary. Most of the improvements deal with matters of detail and will not have a significant impact in practice. For some amendments Fortis is evaluating the effect of the changes.

1.3 Accounting estimates

The preparation of the Consolidated Financial Report for the Second-half year in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying these accounting policies. Actual results may differ from these estimates and judgemental decisions. Interim results are not necessarily indicative of full-year results.

Judgements and estimates are principally made in the following areas:

- estimation of the recoverable amount of impaired assets
- determination of fair values of non-quoted financial instruments
- determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets
- measurement of liabilities for insurance contracts
- actuarial assumptions related to the measurement of pension obligations and assets
- estimation of present obligations resulting from past events in the recognition of provisions.

In respect of recognition of provisions Fortis will make provisions if and when, in the opinion of management, who will consult with advisors if deemed necessary, it is more likely than not that a payment will have to be made by Fortis, and when the amount can be reasonably estimated.

1.4 Determination of accounting policies

IFRS allows in certain cases the application of different options. The following options were chosen by Fortis:

- **Trade date accounting:** all purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, which is the date when Fortis becomes a party to the contractual provisions of the financial assets.
- **Investment property, real estate held for own use, fixed assets and intangible fixed assets** are measured at cost less accumulated depreciation and any accumulated impairment losses.
- **Investments in joint ventures** are accounted for using the equity method.
- Fortis uses three types of **hedges**: fair value hedges, cash flow hedges and net investment hedges. Fair value hedge accounting is applied as from 1 January 2005 for portfolio hedges of interest rate risk ('macro hedging'). In this context, the difference between the fair value and the carrying value of the hedged item at designation of the hedging relationship is amortised over the remaining life of the hedged item. For macro hedges, Fortis uses the 'carved out' version of IAS 39 adopted by the European Union which removes some of the limitations on fair value hedges and the strict requirements on the effectiveness of those hedges. Under this version, the impact of the changes in the estimates of the repricing dates is only considered ineffective if it leads to underhedging.
- At initial recognition or first-time adoption of IFRS, Fortis has irrevocably designated some **financial assets and liabilities as held at fair value through profit or loss**, because:
 - the host contract includes an embedded derivative that would otherwise require separation, or
 - it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch'), or
 - it relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis.
- Fortis applies '**shadow accounting**' to the changes in fair value of the available for sale investments and of assets and liabilities held for trading that are linked to and therefore affect the measurement of the insurance liabilities. These changes in fair value will therefore not be part of equity or net profit.
- The whole of the remaining unrealised changes in fair value of the available-for-sale portfolio – after application of 'shadow accounting' – that are subject to **discretionary participation features** are classified as a component of equity.

- The adequacy of insurance liabilities (**'liability adequacy test'**) is tested on the level of homogeneous product groups at each reporting date.
- **Borrowing costs** are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed as part of the cost of that asset.
- **Pensions:** under IFRS, Fortis uses the corridor approach, i.e. not recording actuarial differences within defined limits.

1.5 Segment reporting

Operating segments

The primary format for reporting segment information is based on operating segments in accordance with IFRS 8 as adopted by Fortis on 1 January 2009. Fortis' reportable operating segments represent groups of assets and operations engaged in providing financial products or services, which are subject to different risks and returns.

Fortis' current core activity is Insurance with the following operating segments:

- AG Insurance
- Fortis Insurance International

Activities not related to Insurance and elimination differences are reported separately from the Insurance activities in the third operating segment, General Account. The discontinued operations in 2008 (Fortis Bank, Fortis Insurance Netherlands and Fortis Corporate Insurance) and the capital gain on the sale of 25% + 1 share of AG Insurance to Fortis Bank are also included in the segment General.

Transactions or transfers between the operating segments are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

Geographical segments

A geographical segment is engaged in providing products or services within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

Fortis' geographical segments for reporting purposes are as follows:

- Benelux (Belgium, the Netherlands, Luxembourg)
- Other European Countries
- Asia

1.6 Scope of consolidation

The Consolidated Financial Report for the Second-half year includes Fortis SA/NV and Fortis N.V. (the 'Parent Companies') and their subsidiaries. In combining the financial statements of Fortis SA/NV and Fortis N.V., Fortis applies consortium accounting in order to reflect its activities in the most reliable manner in accordance with the EU 7th Directive, dated 13 June 1983 (83/349/EEC).

Investments in associates – investments whereby Fortis has significant influence, but which it does not control – are accounted for using the equity method.

1.7 Presentation and disclosures

The Consolidated Financial Report for the Second-half year is stated in euros, which is the functional currency of the Parent Companies of Fortis.

Where IFRS allows a choice or is not descriptive in presentation or disclosures, Fortis opted for the following:

- **Interest on assets and liabilities held for trading and derivatives** are reported in the interest margin.
- **Dividends received** are included in investment income.
- **Realised and unrealised results on assets and liabilities held for trading** are included in 'Other realised and unrealised gains and losses'.
- **Changes in the clean fair value** (i.e. excluding the interest accruals) of derivatives are also reported under 'Other realised and unrealised gains and losses'.
- **Cash flow statement:** Fortis reports cash flows from operating activities using the indirect method. Interest received and interest paid, are presented as cash flows from operating activities. Dividends paid are classified as cash flows from financing activities; dividends received are classified as cash flow from operating activities.

2 Acquisitions and disposals

The following major acquisitions and disposals were made in 2008 and 2009. Details on acquisitions and disposals, if any, which took place after the date of the statement of financial position are included in the note Events after the date of the statement of financial position.

2.1 Acquisitions in 2009

2.1.1 Royal Park Investments SA/NV

As a result of the transactions closed on 12 May 2009, Fortis acquired, for the total sum of EUR 760 million, a 44.7% stake in Royal Park Investments (RPI), a special purpose vehicle that acquired part of the structured credit portfolio of Fortis Bank. This stake has been accounted for using the equity method.

RPI acquired from Fortis Bank on the closing date a portfolio of structured credits for an agreed purchase price of EUR 11.7 billion. The corresponding face value of the portfolio amounted to EUR 20.5 billion at 12 May 2009. This purchase was funded by EUR 1.7 billion equity, EUR 5 billion super senior debt and EUR 5 billion senior debt; the senior debt includes a loss absorption mechanism. The senior debt was provided by BNP Paribas and by Fortis Bank. The funding provided by Fortis Bank is guaranteed by the Belgian government. Any cash generated by RPI will first be used to repay the super senior debt. As at 31 December 2009, after taking into account redemptions and exchange rate fluctuations between 12 May and 31 December, the face value of the portfolio amounted to EUR 17.9 billion, and the fair market value (level 3) to EUR 7.2 billion. Interest and principal collections in the portfolio since its acquisition amounted to respectively EUR 1.1 million and EUR 141 million.

The initial recognition of the investment under the equity accounting method is at cost, followed by an impairment test of the carrying amount. Fortis has requested RPI to draw up financial information based on Fortis IFRS accounting policies. RPI has recorded the acquisition of the portfolio, related funding and people and processes as a business combination under IFRS. At acquisition the asset portfolio is recorded at market value (EUR 8.2 billion) and the difference between the purchase price (EUR 11.8 billion) and the market value amounting to EUR 3.5 billion was recorded in the IFRS statement of financial position of RPI as a deferred tax asset (EUR 1.2 billion: 33,9% of 3.5 billion) and goodwill EUR 2.3 billion.

RPI manages the portfolio to maximise the value for its shareholders as defined in the management guidelines drawn up by the RPI Board. In the current circumstances, this implies a run off scenario. In such case IFRS requires Amortised cost as subsequent measurement of the asset portfolio. IFRS requires for variable rate instruments, an instrument by instrument re-computation of the amortised cost based on actualised cash flow information per asset. However, RPI does not have such information available and to produce this information would require undue cost and efforts. In the absence of such information and taking into consideration that management is also using fair value information in the context of periodic monitoring the asset portfolio, Fortis decided to use for subsequent measurement of the asset portfolio the fair value through profit or loss valuation.

Using the above Fortis accounting principles, RPI made a profit of EUR 0.6 billion, before goodwill impairment for the year 2009. Since the portfolio is in run off, the profits included in the portfolio and related funding will be realised over time and will not be replaced by profits from new transactions. The goodwill recognised by RPI represents a significant part of the future profits of this business; the realisation of the profits will therefore lead to the impairment of goodwill.

Based on a discounted cash flow model for the total portfolio, Fortis concluded that an impairment of EUR 0.6 billion was required, bringing the 2009 result for RPI to nil. To determine the cash flows of the portfolio and related funding several assumptions were made such as loss giving default probability if default, pre-payment speed, housing price evolutions, additional sector and geographical data when needed. Given the fact that the uncertainties were taken into consideration when determining the cash flows, and the fact that the funding of RPI is guaranteed, the expected cash flows have been discounted at 8% being the risk free interest rate for Belgium plus the normal equity premium.

2.1.2 Acquisition of 50% + 1 share of UBI Assicurazioni

Fortis and BNP Paribas Assurance acquired 50% + 1 share of UBI Assicurazioni from UBI Banca at year-end 2009. UBI Assicurazioni is active in the Italian market for non-life insurance, especially in the motor and property business, primarily through distribution through the bank channel of UBI Banca. The transaction was executed through a holding company (F&B Insurance Holdings), which is owned by Fortis (50% + 1 share) and BNP Paribas Assurance (50% -1 share). UBI Banca will keep 50% - 1 share. Fortis and BNP Paribas Assurance have paid a consideration of EUR 120 million in cash on completion. An additional consideration currently estimated at approximately EUR 40 million (net present value) will be payable to UBI Banca over a 10 year period, dependent upon the achievement of certain volume thresholds in the future. Including the additional payments, the acquisition price was EUR 160 million resulting in goodwill of EUR 128 million.

2.1.3 Other investments

Further to the investments mentioned above Fortis concluded some minor acquisitions, especially in real estate funds and the parking business.

2.2 Disposals in 2009

Fortis sold on 12 May 2009 a stake of 25% + 1 share in AG Insurance to Fortis Bank for EUR 1,375 million. The sale generated a capital gain of EUR 697 million, which is included in the result for 2009.

On 6 October 2009, Fortis announced the sale of its Luxembourg Non-Life activities to La Baloise, for a total consideration of EUR 23 million. The sale took effectively place in January 2010. Fortis further sold its reinsurance business (CAPAG) in Luxembourg. The assets and liabilities of Luxembourg Non-Life and CAPAG are treated as Assets and Liabilities held for sale.

2.3 Discontinued operations in 2008

Due to the turmoil on the financial markets, Fortis had to sell large parts of its operations to the Belgium and Dutch governments in 2008. A chronological description of all transactions is provided in the Consolidated Financial Statements 2008.

The impact of discontinued operations on Fortis' income statement is as follows:

	2008
Fortis Bank nv-sa (Fortis Bank Belgium)	(20,822)
Fortis Bank Nederland (Fortis Bank Netherlands)	(8,590)
Fortis Verzekeringen Nederland (Fortis Insurance Netherlands)	1,745
Fortis Corporate Insurance	255
Total	(27,412)

The income statement for 2008 as shown above does not include detailed information for 2008. This is due to the fact that the four discontinued operations informed Fortis at year-end 2008 that they were not able to provide Fortis with the full detail of the operational result for the period 1 January 2008 – till the date of sale due to material uncertainties.

3 Outstanding shares and earnings per share

The following table shows the number of outstanding shares.

	<i>Shares issued</i>	<i>Treasury shares</i>	<i>Shares outstanding</i>
Number of shares as at 31 December 2008	2,516,657,248	(41,828,197)	2,474,829,051
Balance acquired / sold		198,367	198,367
Number of shares as at 31 December 2009	2,516,657,248	(41,629,830)	2,475,027,418

Shares issued and potential number of shares

In addition to the shares already outstanding, Fortis issued options or instruments containing option features, which could upon exercise lead to an increase in the number of outstanding shares. The table below shows an overview of the shares issued and the potential number of shares as at 31 December 2009.

Number of shares as at 31 December 2009	2,516,657,248
Shares that may be issued:	
- in connection with option plans	32,220,563
- in connection with convertible securities related to the MCS	106,723,586
Total potential number of shares as at 31 December 2009	2,655,601,397

Earnings per share

The following table details the calculation of earnings per share.

	<i>2009</i>	<i>2008</i>
Net profit attributable to shareholders	1,192	(28,022)
Elimination of finance costs on convertible debt (net of tax impact)		
Net profit used to determine diluted earnings per share	1,192	(28,022)
Weighted average number of ordinary shares for basic earnings per share	2,474,987,564	2,295,883,060
Adjustments for:		
- assumed conversion of convertible securities		
- share options		
- restricted shares	469,740	738,895
Weighted average number of ordinary shares for diluted earnings per share	2,475,457,304	2,296,621,955
Basic earnings per share (in euro per share)	0.48	(12.21)
Basic earnings per share before result of discontinued operations (in euros per share)	0.48	(0.27)
Diluted earnings per share (in euros per share)	0.48	(12.21)
Diluted earnings per share before result of discontinued operations (in euros per share)	0.48	(0.27)

In 2009 weighted average options on 32,220,563 shares (2008: 43,971,460) with a weighted average exercise prices of EUR 21.57 per share (2008: EUR 22.31) were excluded from the calculation of diluted EPS because the exercise price of the options was higher than the average market price of the shares. During 2009 39,682,540 Fortis shares (2008: 39,682,540) arising from convertible securities related to the FRESH, were excluded from the calculation of diluted earnings per share because the interest per share saved on these securities was higher than the basic earnings per share.

The convertible securities to be issued related to the MCS (106,723,586) have been excluded from the calculation of diluted earnings per share because Fortis expects that the issuance of these shares will not have a dilutive effect (see also note 25 Contingent liabilities).

Fortis shares totalling 125,313,283 (2008: 125,313,283) issued in relation to CASHES are included in the ordinary shares although they do not bear dividend nor voting rights until the moment of conversion of the CASHES.

4 Supervision and solvency

After the sale of the banking operations in October 2008, Fortis is considered to be an Insurance Holding company. As such Fortis is subject to supervision on the operating company level as well as on the consolidated level.

4.1 Fortis consolidated

At the Fortis consolidated level, Fortis is supervised by the Belgian Banking, Finance and Insurance Commission (BFIC). Their prudential supervision includes verification on a semi-annual basis that Fortis on a consolidated basis meets the solvency requirements. The subsidiaries of Fortis are supervised by the supervisors in the countries in which they are located.

4.2 Insurance

Fortis' insurance subsidiaries are required to maintain a minimum level of qualifying capital relative to the premiums received for Non-life insurance contracts and relative to the Life insurance liabilities arising from insurance and investment contracts. The consolidated regulatory solvency requirements of Fortis' insurance subsidiaries are EUR 2,756 million as at 31 December 2009 (31 December 2008: EUR 2,525 million) and are covered by the available qualifying total capital.

4.3 General Account

The General Account includes the so called legacy related issues. For the time being no capital requirements have been defined to cover the risks of the General Account.

4.4 Fortis core equity target and total capital

Fortis reassessed during its recent strategic review the current capitalisation levels of its insurance activities and the General Account.

Fortis is of the opinion that the capitalisation levels appropriately reflect the specific characteristics of the businesses including the commitments resulting from agreements with its partners. Fortis expects to maintain a minimum aggregate solvency ratio of 200% of the minimum regulatory requirements. Fortis will review minimum targets at the time of introduction of Solvency II.

A strong capital base in the individual insurance operations is deemed necessary in order to fund the capital requirements related to the significant organic growth that is planned while satisfying the local rating and solvency requirements.

The General Account is not subject to minimum regulatory requirements.

Capital ratios

Fortis' core equity amounted to EUR 8.6 billion at the end of 2009 (2008: EUR 7.9 billion). Core equity exceeds the total minimum requirement of the insurance activities by EUR 5.8 billion (2008: EUR 5.4 billion).

The core equity of the insurance operations stood at EUR 6.0 billion (2008: EUR 4.7 billion), while total available capital at the insurance entities amounted to EUR 6.4 billion (2008: EUR 5.1 billion), 231% of the legally required minimum (2008: 202%). The solvency ratio of AG Insurance amounted to 205% (2008: 189%). Based on local accounting and regulatory supervision, the solvency ratio for AG Insurance was even 223% (2008: 204%).

For Fortis Insurance International, the total solvency ratio was 300% at the end of 2009 (2008: 238%).

*Key Capital Indicators**31 December 2009*

<i>In EUR million</i>	<i>AG Insurance</i>	<i>Insurance International</i>	<i>Total Insurance</i>	<i>General (incl. elim)</i>	<i>Total Fortis</i>
Core equity	3,511	2,552	6,063	2,514	8,577
Total available capital	4,120	2,246	6,366	2,365	8,731
Minimum solvency requirements	2,008	748	2,756		
Amount of total capital above minimum	2,112	1,498	3,610		
Core solvency ratio	175%	341%	220%		
Total solvency ratio	205%	300%	231%		

31 December 2008

<i>In EUR million</i>	<i>AG Insurance</i>	<i>Insurance International</i>	<i>Total Insurance</i>	<i>General (incl. elim)</i>	<i>Total Fortis</i>
Core equity	2,890	1,767	4,657	3,225	7,882
Total available capital	3,535	1,555	5,090	3,079	8,169
Minimum solvency requirements	1,871	654	2,525		
Amount of total capital above minimum	1,664	901	2,565		
Core solvency ratio	154%	270%	184%		
Total solvency ratio	189%	238%	202%		

Reconciliation from net equity to total capital

Fortis' reconciliation from net equity to total capital is presented below.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Share capital and reserves	6,387	34,394
Net profit attributable to shareholders	1,192	(28,022)
Unrealised gains and losses	771	423
Shareholders' equity	8,350	6,795
Non-innovative hybrid capital instruments	1,496	1,474
Non-controlling interests	1,654	515
Revaluation of real estate to fair value	559	526
Revaluation of debt securities, net of tax and shadow accounting	(812)	(375)
Revaluation of equity securities, net of tax and shadow accounting	(10)	
Goodwill	(650)	(531)
Participation Royal Park Investments	(760)	
Expected dividend	(201)	
Expected dividend, related to Call option BNP Paribas shares	(581)	
Other	(468)	(522)
Core equity	8,577	7,882
Innovative capital instruments	496	456
Subordinated liabilities	29	67
Other prudential filters and deductions on total capital	(371)	(236)
Total capital	8,731	8,169

Participating interests in financial institutions that are not fully consolidated are deducted from total capital. The core equity instruments issued by Fortis and on-lent to Fortis Bank SA/NV (NITSH I and part of NITSH II for a total amount of EUR 900 million) are excluded from the core equity. Unrealised gains on real estate after tax within AG Insurance are included in core equity for 90%, the remainder for 100% in accordance with local regulation.

Explanatory notes to the Consolidated Statement of financial position

5 Cash and cash equivalents

Cash includes cash on hand, available balances with central banks and other financial instruments with a term of less than three months from the date on which they were acquired. The composition of Cash and cash equivalents is as follows:

	<i>31 December 2009</i>	<i>31 December 2008</i>
Cash on hand	2	2
Due from banks	5,480	5,471
Other	154	460
Total cash and cash equivalents	5,636	5,933

6 Investments

The composition of Investments is as follows:

	<i>31 December 2009</i>	<i>31 December 2008</i>
Financial investments		
- Available for sale	52,911	45,018
- Held at fair value through profit or loss	189	191
- Derivatives held for trading	151	237
Total, gross	53,251	45,446
Impairments:		
- of investments available for sale	(181)	(314)
Total impairments	(181)	(314)
Total	53,070	45,132

6.1 Investments available for sale

The fair value and amortised cost of Fortis' available for sale investments including gross unrealised gains and losses were as follows:

	<i>Historical/ amortised cost</i>	<i>Impairments</i>	<i>Gross unrealised gains</i>	<i>Gross unrealised losses</i>	<i>Fair value</i>
<i>31 December 2009</i>					
Government bonds	32,564		1,202	(331)	33,435
Corporate debt securities	16,659	(4)	721	(71)	17,305
Structured credit instruments	463	(27)	14	(18)	432
Private equities and venture capital	3	(1)			2
Equity securities	1,559	(149)	154	(13)	1,551
Other investments	5				5
Total	51,253	(181)	2,091	(433)	52,730
<i>31 December 2008</i>					
Government bonds	26,997		926	(381)	27,542
Corporate debt securities	15,389	(24)	379	(303)	15,441
Structured credit instruments	535	(95)	4	(26)	418
Private equities and venture capital	4	(1)			3
Equity securities	1,555	(194)	20	(91)	1,290
Other investments	10				10
Total	44,490	(314)	1,329	(801)	44,704

Government bonds detailed by country of origin

Government bonds detailed by country of origin as at 31 December are as follows:

	<i>Historical/ amortised cost</i>	<i>Gross unrealised gains (losses)</i>	<i>Fair value</i>
31 December 2009			
Belgian national government	6,572	369	6,941
Dutch national government	664	18	682
German national government	1,632	43	1,675
Italian national government	8,598	315	8,913
French national government	1,638	80	1,718
Great Britain national government	546	8	554
Greek national government	4,318	(241)	4,077
Spanish national government	1,944	58	2,002
Portuguese national government	2,963	109	3,072
Austrian national government	1,527	29	1,556
Finnish national government	181	6	187
Irish national government	580	18	598
Slovenian national government	512	29	541
Czech republic national government	318	12	330
Slovakian national government	138	9	147
United States of America national government	269	4	273
Other national governments	164	5	169
Total	32,564	871	33,435
31 December 2008			
Belgian national government	4,612	348	4,960
Dutch national government	362	25	387
German national government	515	41	556
Italian national government	8,598	(30)	8,568
French national government	741	68	809
Great Britain national government	565	35	600
Greek national government	5,218	(217)	5,001
Spanish national government	697	41	738
Portuguese national government	2,853	104	2,957
Austrian national government	802	23	825
Finnish national government	81	5	86
Irish national government	541	16	557
Slovenian national government	510	8	518
Czech republic national government	318	(5)	313
Slovakian national government	138	2	140
United States of America national government	262	79	341
Other national governments	184	2	186
Total	26,997	545	27,542

There were no impairments on governments bonds in 2009 and 2008.

6.2 Net unrealised gains and losses on Available for sale investments included in equity

	<i>31 December 2009</i>	<i>31 December 2008</i>
Available for sale investments in debt securities:		
Carrying amount	51,172	43,401
Gross unrealised gains and losses	1,517	599
- Related tax	(483)	(185)
Shadow accounting	(302)	(73)
- Related tax	80	34
Net unrealised gains and losses	812	375
Available for sale investments in equity securities and other investments:		
Carrying amount	1,558	1,303
Gross unrealised gains and losses	141	(71)
- Related tax	(15)	2
Shadow accounting	(42)	
- Related tax	15	2
Net unrealised gains and losses	99	(67)

Available for sale investments in equity securities and other investments also include private equities and venture capital and all other investments, excluding debt securities.

6.3 Investments held at fair value through profit or loss

The following table provides information about the Investments that are held at fair value and for which unrealised gains or losses are recorded through profit or loss.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Government bonds	10	7
Corporate debt securities	82	150
Structured credit instruments	91	26
Debt securities	183	183
Equity securities	3	1
Other investments	3	7
Equity securities and other investments	6	8
Total investments held at fair value through profit or loss	189	191

6.4 Real estate

The fair value of Real estate, held as investment as well as for own use, is set out below.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Fair value:		
Investment property	2,205	1,799
Land and buildings held for own use	1,426	1,369
Total fair value	3,631	3,168
Carrying amount:		
Investment property	1,653	1,290
Land and buildings held for own use	1,035	974
Total carrying amount	2,688	2,264
Gross unrealised gain / loss	943	904
Taxation	(300)	(288)
Net unrealised gain / loss (not recognised in equity)	643	616

7 Loans

	<i>31 December 2009</i>	<i>31 December 2008</i>
Loans to banks	1,817	13,894
Loans to customers	2,325	2,520
Total	4,142	16,414
Less impairments:		
- specific credit risk	(9)	(10)
- incurred but not reported (IBNR)	(1)	
Total loans	4,132	16,404

7.1 Loans to banks

Loans to banks consists of the following:

	<i>31 December 2009</i>	<i>31 December 2008</i>
Interest-bearing deposits	902	1,107
Loans and advances	900	5,751
Subordinated loans		6,662
Other	15	374
Total	1,817	13,894
Less impairments:		
- specific credit risk	(1)	(1)
Loans to banks	1,816	13,893

7.2 Loans to customers

Loans to customers is as follows:

	<i>31 December 2009</i>	<i>31 December 2008</i>
Residential mortgage	1,595	1,561
Consumer loans	7	10
Commercial loans	113	103
Policyholder loans	148	139
Financial lease receivables	65	67
Other loans	397	640
Total	2,325	2,520
Less impairments:		
- specific credit risk	(8)	(9)
- incurred but not reported (IBNR)	(1)	
Loans to customers	2,316	2,511

8 Reinsurance and other receivables

Included under Reinsurance and other receivables is the Claim amounting to EUR 362 million on Fortis Capital Company Limited, Fortis Bank Nederland N.V. and the Dutch State. This claim is for full compensation for the payment made by Fortis to Fortis Capital Company Limited (a subsidiary of Fortis Bank Netherlands N.V.) to allow it to pay the above amount to the holders of preference shares. Due to the fact that the claim is contested by the counterparty, the amount is fully impaired as shown in Note 23 Change in impairments.

9 Call option BNP Paribas shares

Under the agreement signed on 12 May 2009, Fortis was granted a cash-settled call option by the Federal Holding and Investment Corporation (Société Fédérale de Participations et d'Investissement / Federale Participatie- en Investeringsmaatschappij – SFPI/FPIM) that allows Fortis to benefit from any appreciation in the value of 121,218,054 BNP Paribas shares held by the SFPI/FPIM. These shares were acquired by the SFPI/FPIM in return for selling 75% + 1 share of Fortis Bank. This option entitles Fortis to the difference between the strike price of EUR 68 and the market price of the BNP Paribas shares at the time of exercise, or the selling price of the underlying BNP Paribas shares, at the discretion of SFPI/FPIM. After the expiration of a lock-up period on 10 October 2010, Fortis can exercise the options for a period of six years ending 10 October 2016. These rights have replaced the 'coupon 42'. After the Rights Issue of BNP Paribas on 29 September 2009, the exercise price was reduced to EUR 66.672.

The granted rights include some non-standard features that differ from standard ISDA based option protocols, such as restrictions on transferability, limitations on freedom of exercise, forced exercise under specific circumstances and specific adjustment mechanics.

The option is recorded at fair value, with subsequent revaluations recorded in the income statement under Change in call option BNP Paribas shares.

Value calculation

The theoretical value of an individual option can be calculated based on traditional Black-Scholes option valuation techniques. Besides market observable data on the reporting date, such as interest yield, actual and strike price of the share and the remaining duration of the option, the calculation needs to include assumptions regarding future dividend and implied volatility. Non-standard features should be taken into account.

The following data were used, in addition, the data for 31 December are based on an adjusted strike price of EUR 66.672 (previously EUR 68.00) due to the rights issue of BNP Paribas at the end of September 2009:

	<i>31 December 2009</i>	<i>12 May 2009</i>
BNP Paribas shareprice	EUR 55.85	EUR 45.98
Volatility	27%	35%
Dividend yield	3.57%	4.30%
Price per option up to 10 October 2016	EUR 10.37	EUR 9.47
Theoretical value of 121.2 million options	EUR 1,257 million	EUR 1,148 million
Estimated value, after adjustment for non standard features (30%)	EUR 880 million	EUR 803 million

Volatility

Given the size of the rights issue, representing 10.24% of the BNP Paribas outstanding shares, the exercise or monetisation of the options is expected to have an effect on the volatility of the shares. The applied volatility has a significant effect on the outcome, a change in the volatility of 5% on 31 December 2009 results in a 25 % change in the value of the option.

Adjustment for non standard features

Given the unusual features of the option, professional market parties will apply a significant discount to the theoretical valuation. Fortis has decided to lower the theoretical value by 30% for these non-standard features, based on indications from professional market parties ranging from 10% to 50%. Fortis is carefully examining various structures to monetise or exercise its rights with a view to maximising value for its shareholders.

Pay out of proceeds

Fortis has undertaken to propose to pay out as dividend the benefits of exercises, monetisation or any other contemplated structure, to the extent permitted by law and taking into account practical constraints.

The Belgian Ruling Commission has confirmed that the grant of the BNP Paribas option is not itself a taxable event for Fortis SA/NV. Fortis believes it is likely that it will be able to achieve a situation in which it will not have to pay corporate income tax when the gains on the option are realised and thus be able to propose, to the extent permitted by law, to dividend out the gross proceeds. However, due to the stringent rules of IFRS, Fortis is required to recognise a deferred tax liability of EUR 299 million related to the value of the option. As a result, the valuation net-of-tax as at 31 December 2009 amounted to EUR 581 million.

10 Liabilities arising from Life insurance contracts

The following table provides an overview of the liabilities arising from Life insurance contracts as at 31 December.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Liability for future policyholder benefits	22,466	21,586
Reserve for policyholder profit sharing	297	240
Shadow accounting adjustment	171	38
Before eliminations	22,934	21,864
Eliminations	(3)	(9)
Gross	22,931	21,855
Reinsurance	(28)	(39)
Net	22,903	21,816

11 Liabilities arising from Life investment contracts

The following table provides an overview of the liabilities arising from Life investment contracts as at 31 December.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Liability for future policyholder benefits	23,966	21,486
Reserve for policyholder profit sharing	194	86
Shadow accounting adjustment	173	35
Gross	24,333	21,607
Reinsurance		
Net	24,333	21,607

12 Liabilities related to Unit-linked contracts

The liabilities related to Unit-linked contracts are broken down into insurance and investment contracts as follows:

	<i>31 December 2009</i>	<i>31 December 2008</i>
Insurance contracts	1,647	1,362
Investment contracts	19,126	16,716
Total	20,773	18,078

13 Liabilities arising from Non-life insurance contracts

The following table provides an overview of the liabilities arising from Non-life insurance contracts as at 31 December.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Claims reserves	4,002	3,535
Unearned premiums	960	782
Reserve for policyholder profit sharing	9	8
Before eliminations	4,971	4,325
Eliminations	(37)	(36)
Gross	4,934	4,289
Reinsurance	(255)	(224)
Net	4,679	4,065

14 Debt certificates

The following table shows the types of Debt certificates issued by Fortis and the amounts outstanding.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Held at amortised cost	661	3,617
Held at fair value through profit or loss	254	1,053
Total debt certificates	915	4,670

15 Subordinated liabilities

The following table provides a specification of the Subordinated liabilities.

	31 December 2009	31 December 2008
FRESH	1,250	1,229
Liability component of subordinated convertible securities	1,250	1,229
- Hybrone	494	494
- Nitsh I	531	550
- Nitsh II	546	568
Fortis Hybrid Financing	1,571	1,612
Other subordinated liabilities	29	67
Total subordinated liabilities	2,850	2,908

FRESH

On 7 May 2002, Fortfinlux S.A. issued undated Floating Rate Equity-linked Subordinated Hybrid capital securities (FRESH) for a total principal amount of EUR 1,250 million and with a denomination of EUR 250,000 each. Coupons on the securities are payable quarterly in arrears, at a variable rate of 3 month Euribor + 1.35%.

The FRESH was issued by Fortfinlux S.A., with Fortis SA/NV and Fortis N.V. acting as co-obligors. The principal amount of the securities will not be repaid in cash. The sole recourse of the holders of the FRESH against any of the co-obligors with respect to the principal amount are the 39,682,540 Fortis shares that Fortfinlux S.A. pledged in favour of such holders. Pending the exchange of the FRESH against Fortis shares, these Fortis shares do not have any dividend rights or voting rights (the reported number of outstanding Fortis shares as at 31 December 2009 already includes the 39,682,540 Fortis shares issued for the purpose of such exchange).

In the event that dividends are not paid on the Fortis shares, or that the dividends to be declared are below a threshold with respect to any financial year (dividend yield less than 0.5%) and in certain other exceptional circumstances, payment of coupons will be made in accordance with the so-called Alternative Coupon Satisfaction Method (ACSM). The ACSM implies that new Fortis shares will be issued and delivered to the holders of the FRESH. If the ACSM is triggered and there is insufficient available authorised capital to enable Fortis N.V. and Fortis SA/NV to meet the ACSM obligation, the coupon settlement will be postponed until such time as the ability to issue shares is restored. Because of these characteristics the FRESH is treated as part of Fortis' regulatory qualifying capital.

Fortis' announcement on 15 March 2009 that it would not declare a dividend for the 2008 financial year would have triggered the ACSM. However, on 27 May 2009 Fortis announced its intention to resume the payment of a dividend for the 2009 financial year in 2010, whereby the dividend will be equal to or in excess of the above stated threshold dividend yield of 0.5%. As a result the coupons due during 2009 were paid in cash instead of through the ACSM.

The FRESH has no maturity date, but may be exchanged for Fortis shares at a price of EUR 31.50 per share at the discretion of the holder. The FRESH will automatically be converted into Fortis shares if the price of the Fortis share is equal to or higher than EUR 47.25 on twenty consecutive stock exchange business days.

Fortis Hybrid Financing

In 2006, Fortis incorporated a special purpose company named Fortis Hybrid Financing S.A., which issued perpetual deeply subordinated and pari passu ranking securities, and invested the proceeds thereof in instruments issued by (former) Fortis operating companies which qualified as solvency for those entities. The securities issued by Fortis Hybrid Financing have the benefit of a support agreement and a subordinated guarantee entered into by Fortis SA/NV and Fortis N.V.

Fortis Hybrid Financing issued EUR 500 million of securities called 'Hybrone' in 2006, at an interest rate of 5.125% until 20 June 2016 and 3 month Euribor + 2.00% thereafter. In 2008 it issued USD 750 million of securities called 'Nitsh I' at an interest rate of 8.25% and EUR 625 million of securities called 'Nitsh II' at an interest rate of 8.0%. The first call date of these two instruments is in 2013.

The proceeds of these securities were on-lent to AG Insurance for EUR 750 million and to Fortis Bank nv-sa for EUR 375 million and USD 750 million. Under the support agreement Fortis SA/NV and Fortis N.V. are obliged to contribute to Fortis Hybrid Financing such funds as are necessary to allow it to pay the coupon in any year that Fortis declares a dividend or, alternatively, to pay the coupon through the ACSM if the entities which received the proceeds fail to pay the coupons on their on-loans in cash due to a breach of the applicable regulatory minimum solvency levels.

In the event that Fortis fails to achieve the regulatory minimum solvency level or if consolidated assets are less than the sum of liabilities, excluding liabilities not considered senior debt, or if Fortis Hybrid Financing so elects, the cash coupon will be replaced by settlement through the ACSM.

16 Borrowings

	<i>31 December 2009</i>	<i>31 December 2008</i>
Due to banks	2,483	8,759
Due to customers	96	148
Other borrowings	195	179
Total borrowings	2,774	9,086

16.1 Due to banks

The table below shows the components of Due to banks.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Deposits from banks:		
- Demand deposits	549	2,285
- Time deposits		285
- Other deposits	107	120
Total deposits	656	2,690
Repurchase agreements	1,654	1,184
Other	173	4,885
Total due to banks	2,483	8,759

As at 31 December 2008, the item Other included a 10-year loan of EUR 4,750 million from Fortis Bank Belgium; this loan was redeemed in 2009.

16.2 Due to customers

The table below shows the components of Due to customers.

	<i>31 December 2009</i>	<i>31 December 2008</i>
Deposits	1	1
Other borrowings	5	5
Funds held under reinsurance agreements	90	113
Held at fair value through profit or loss		29
Total due to customers	96	148

17 RPN(I)

The RPN(I) is a financial instrument that results in quarterly payments being made to, or received from, BNP Paribas Fortis Bank SA/NV.

Mechanism. Each quarterly payment is determined as the average over the quarter of the interest payments at an annual rate of 3-month EURIBOR plus 20 bps to be made on a reference amount as calculated on each trading day.

The reference amount is defined as:

- The difference between EUR 3,000 million and the market value of the CASHES as quoted by the Luxembourg stock exchange, less
- The difference between EUR 2,350 million and the market value of 125,313,283 Fortis shares.

If the reference amount is positive, Fortis Bank SA/NV pays interest on the reference amount to Fortis. If it is negative, Fortis pays interest on the reference amount to Fortis Bank SA/NV.

State guarantee. The Belgian State has issued a state guarantee on the RPN(I) interests paid by Fortis, to the benefit of Fortis Bank SA/NV. The annual guarantee fee amounts to 70 bps to be paid on the reference amount. To secure the payment of the fee and recourse of the Belgian State in case of default Fortis granted the Belgium State a pledge on a maximum of 20% of the shares of AG Insurance.

Reference values. On 31 December 2009, the CASHES closed at 54.4% and the Fortis share price at EUR 2.62. The reference amount was therefore EUR 654 million, negative on that date. On 30 December 2009, 3-month EURIBOR stood at 0.7%.

In total, Fortis paid EUR 3.0 million interest on the RPN(I) in 2009 (period starting on 12 May 2009).

Valuation approach and assumptions. Fortis records the RPN(I) at fair value through profit or loss. As no observable market price of the RPN(I) is available, Fortis estimates the fair value of the RPN(I) using a level 3 valuation technique (discounted cash flow model). The valuation approach was refined in the course of Q4 2009, based on valuation techniques traditionally used to value financial derivative instruments: arbitrage-free pricing and Monte-Carlo simulations.

Fortis made the following key assumptions to determine the fair market value of the RPN(I) on 31 December 2009:

- Fortis share prices have been projected using a standard geometric Brownian motion (Black Scholes model), assuming an initial share price of EUR 2.62 (closing price on 31 December 2009), an average dividend yield of 3% over the expected term of the instrument consistent with the dividend policy proposed by Fortis, and a share price volatility of 42% estimated based on market data for the last three months of 2009.
- The price of CASHES has been projected based on stochastic interest rates and forward spread curves applicable to CASHES with an additional stochastic perturbation, calibrated on the market value of the CASHES of 54.4% on 31 December 2009. For modeling purposes, the CASHES have been assumed to have a constant maturity of 50 years at any point in the future, beyond which the contribution of discounted free cash flows becomes negligible.
- The current and future risk-free rates have been calibrated on market data as at 31 December 2009 and projected through a standard arbitrage-free interest rate model.
- The valuation model also accounts for the conversion option embedded in the CASHES at prices of EUR 23.94 (optional) and EUR 35.91 (automatic), as well as for the payment of a one-off extraordinary dividend in 2016 of the value of the BNP Paribas option.
- Projected future interest payments have been discounted at a discount rate reflecting the risk associated with Fortis liabilities such as the RPN(I), consistent with a fixed spread of 545 basis points.

The fair value of the RPN(I) is the average net present value of the projected future payments based on the above assumptions in 750 different stochastic scenarios.

Conclusion. At year end 2009, the RPN(I) was accounted for as a liability with a fair value amounting to EUR 316 million.

Sensitivities. The sensitivity of the fair value of the RPN(I) to changes in the parameters are as follows, assuming that other parameters remain unchanged:

- An increase in the initial price of the Fortis share to EUR 2.90 decreases the fair value by EUR 11 million to EUR 305 million; a decrease in the starting value to EUR 2.30, increases the fair value by EUR 11 million to EUR 327 million.
- An increase in the market value of the CASHES to 60% increases the fair value by EUR 69 million to EUR 385 million; a decrease to 48% reduces the value by EUR 75 million to EUR 241 million.
- A steepening of the risk free interest curve leading to an increase of 100bps of the 30-year risk-free rate increases the fair value by EUR 26 million to EUR 342 million; a flattening of the curve leading to a decrease of 100 bps of the 30-year risk-free rate reduces the value by EUR 36 million to EUR 280 million.
- A decrease in the discount rate of 100 bps increases the fair value by EUR 34 million to EUR 350 million; an increase of 100 bps reduces the fair value by EUR 28 million to EUR 288 million.

Assuming more favourable conditions for the four key parameters in the model (initial Fortis share price of EUR 2.90, CASHES at 48%, flatter risk-free yield curve and discount rate 100 bps higher), the fair value of the RPN(I) decreases to EUR 180 million.

Assuming less favourable conditions for the four key parameters in the model (initial Fortis share price of EUR 2.30, CASHES at 60%, steeper risk-free yield curve and discount rate 100 bps lower), the fair value of the RPN(I) increases to EUR 493 million.

The fair value of the RPN(I) shows no material sensitivity to the assumed share price volatility and dividend yield of the Fortis share. This is essentially attributed to the fact that the conversion option embedded in the CASHES remains very much out of the money in nearly all scenarios.

Explanatory notes to the Consolidated income statement

18 Insurance premiums

The following table provides an overview of gross-insurance premiums earned.

	2009	2008
Gross inflow Life	9,365	8,919
Gross inflow Non-life	2,654	2,693
Eliminations	(1)	(28)
Total gross inflow	12,018	11,584

The table below shows the details of Life-insurance premiums.

	2009	2008
Unit-linked insurance contracts		
Single written premiums	11	7
Periodic written premiums	127	120
<i>Group business total</i>	<i>138</i>	<i>127</i>
Single written premiums	44	84
Periodic written premiums	41	50
<i>Individual business total</i>	<i>85</i>	<i>134</i>
Total unit-linked insurance contracts	223	261
Non unit-linked insurance contracts		
Single written premiums	350	320
Periodic written premiums	742	699
<i>Group business total</i>	<i>1,092</i>	<i>1,019</i>
Single written premiums	956	675
Periodic written premiums	758	749
<i>Individual business total</i>	<i>1,714</i>	<i>1,424</i>
Total non unit-linked insurance contracts	2,806	2,443
Investment contracts with DPF		
Single written premiums	3,173	2,706
Periodic written premiums	393	386
Total investment contracts with DPF	3,566	3,092
Total gross premiums Life insurance	6,595	5,796
Premium inflow recognised in income statement	6,595	5,796
Premium inflow deposit accounting	2,770	3,123
Total premium inflow Life insurance	9,365	8,919

Total premium inflow Life insurance is gross premiums received by insurance companies for issued insurance and investment contracts. Premium inflow of insurance contracts and investment contracts with DPF is recognised in the income statement. Premium inflow of investment contracts without DPF, mainly unit-linked contracts, is – after deduction of fees – directly recognised as a liability (deposit accounting). Fees are recognised as fee income in the income statement.

The table below shows the details of Non-life insurance premiums for the period. Premiums for Motor, Fire and other damage to property and Other, are grouped in Property & Casualty.

	<i>Accident & Health</i>	<i>Property & casualty</i>	<i>Total</i>
2009			
Gross written premiums	641	2,013	2,654
Change in unearned premiums, gross	(4)	(28)	(32)
Gross earned premiums	637	1,985	2,622
Ceded reinsurance premiums	(27)	(112)	(139)
Reinsurers' share of unearned premiums	(1)	15	14
Net earned premiums Non-life insurance	609	1,888	2,497

2008			
Gross written premiums	631	2,062	2,693
Change in unearned premiums, gross	(1)	(12)	(13)
Gross earned premiums	630	2,050	2,680
Ceded reinsurance premiums	(37)	(121)	(158)
Reinsurers' share of unearned premiums	1	(4)	(3)
Net earned premiums Non-life insurance	594	1,925	2,519

Below is a breakdown of the Non-life gross earned premiums by reporting segment.

	<i>Accident & Health</i>	<i>Property & casualty</i>	<i>Total</i>
2009			
AG Insurance	424	1,045	1,469
Fortis Insurance International	185	843	1,028
Net earned premiums Non-life insurance	609	1,888	2,497

2008			
AG Insurance	423	1,001	1,424
Fortis Insurance International	171	924	1,095
Net earned premiums Non-life insurance	594	1,925	2,519

19 Interest, dividend and other investment income

The breakdown of Interest, dividend and other investment income by type of product is as follows:

	2009	2008
Interest income		
Interest income on cash equivalents	200	309
Interest income on loans to banks	98	406
Interest income on investments	2,124	1,932
Interest income on loans to customers	154	219
Interest income on derivatives held for trading	71	216
Other interest income	12	7
Total interest income	2,659	3,089
Dividend income from equity securities	37	119
Rental income from investment property	126	110
Revenues parking garage	242	242
Other investment income	59	100
Total interest, dividend and other investment income	3,123	3,660

20 Realised and unrealised gains and losses

This table provides details of Realised and unrealised gains and losses.

	2009	2008
Debt securities classified as available for sale	36	(15)
Equity securities classified as available for sale	(21)	(145)
Derivatives held for trading	91	(201)
Capital gain on sale AGI shares	697	
Investments in associates	18	
Property, plant and equipment		12
Assets and liabilities held at fair value through profit or loss	100	(174)
Hedging results		(8)
Other	32	23
Total realised and unrealised gains and losses	953	(508)

21 Insurance claims and benefits

The details of Insurance claims and benefits are shown in the table below.

	2009	2008
Life insurance	7,457	6,414
Non-life insurance	1,769	1,690
Eliminations	(1)	(4)
Total insurance claims and benefits, net	9,225	8,100

Details of Life insurance claims and benefits, net of reinsurance, are shown below.

	2009	2008
Benefits and surrenders, gross	3,907	4,016
Change in liabilities arising from insurance and investment contracts, gross	3,578	2,422
Total Life insurance claims and benefits, gross	7,485	6,438
Reinsurers' share of claims and benefits	(27)	(23)
Total Life insurance claims and benefits, net	7,457	6,414

Details of Non-life insurance claims and benefits, net of reinsurance, are shown in the following table.

	2009	2008
Claims paid, gross	1,700	1,680
Change in liabilities arising from insurance contracts, gross	106	107
Total Non-life insurance claims and benefits, gross	1,806	1,787
Reinsurers' share of change in liabilities	12	(11)
Reinsurers' share of claims paid	(49)	(86)
Total Non-life insurance claims and benefits, net	1,769	1,690

22 Finance costs

The following table shows the breakdown of Finance costs.

	2009	2008
Finance costs		
Debt certificates	71	413
Subordinated liabilities	180	233
Borrowings - due to banks	157	405
Borrowings - due to customers		33
Other borrowings	7	11
Derivatives	52	218
Other liabilities	31	30
Total finance costs	498	1,343

23 Change in impairments

Change in impairments is as follows:

	2009	2008
Change in impairments of:		
Investments in debt securities	9	80
Investments in equity securities and other	81	443
Investment property	11	10
Loans to banks		1
Loans to customers		2
Reinsurance and other receivables	355	21
Property, plant and equipment	6	
Goodwill and other intangible assets	3	1
Accrued interest and other assets	2	
Total change in impairments	467	558

The impairment on Reinsurance and other receivables relates mainly to the impairment on FCC (see note 8 Reinsurance and other receivables).

Explanatory note on segment reporting

24 Information on segments

24.1 General information

Fortis is now organised into three operating segments which are further subdivided into business segments (for details see below):

- AG Insurance
- Fortis Insurance International
- General Account

Fortis' segment reporting reflects the full economic contribution of the businesses of Fortis. The aim is direct allocation to the businesses of all balance sheet and income statement items for which the businesses have full managerial responsibility.

Segment information is prepared based on the same accounting policies as those used in preparing and presenting Fortis' Consolidated Financial Report for the Second-half year (as described in note 1) and by applying appropriate allocation rules.

Transactions between the different businesses are executed under standard commercial terms and conditions.

Allocation rules

In accordance with Fortis' business model, insurance companies report support activities directly in the business.

When allocating balance sheet items to operating segments, a bottom-up approach is used based on the products sold to external customers.

For the balance-sheet items not related to products sold to customers, a tailor-made methodology adapted to the specific business model of each reportable segment is applied.

24.2 AG Insurance

AG Insurance offers its products, a comprehensive range of Life and Non-life covers, through several distribution channels. Independent intermediaries service the Private market as well as the small and medium sized enterprise segment. AG Insurance focuses through branches of Fortis Bank on the retail market. AG Employee Benefits offers Group Life and Health-Care solutions and services to large and medium-sized companies.

AG Insurance – Life

Life insurance includes both savings, with investment-focused unit-linked contracts, and traditional products with a guaranteed interest rate.

AG Insurance – Non-life

Non-life insurance includes next to the retail and business targeted Property & Casualty product range (Motor, Fire and Liability) also workmen's' compensation and Accident & Health products.

24.3 Fortis Insurance International

Fortis Insurance International leverages its existing skills in distribution, operations and products from selected European and Asian markets, where it has established leading positions.

Fortis Insurance International – Life

In Life insurance, Fortis Insurance International is active through wholly-owned subsidiaries in France, Germany, Hong Kong, Poland, Turkey, Ukraine, Russia and the United Kingdom. In Portugal, Fortis Insurance International holds a 51% shareholding in Millenniumbcp Fortis. In Luxembourg, Fortis Insurance International holds a 50% shareholding in Fortis Luxembourg Vie, S.A. In Asia, Fortis Insurance International operates through minority shareholdings in Thailand, Malaysia, China and India.

Fortis Insurance International – Non-life

In Non-life, Fortis Insurance International is active through a wholly-owned subsidiary in the United Kingdom. In Portugal, Non-life is sold through Millenniumbcp Fortis. In Asia, Fortis Insurance International operates through minority shareholdings in Thailand and Malaysia. Non-life also includes the activities of Fortis Reinsurance.

24.4 General Account

The General Account mainly comprises activities not related to the core Insurance business, such as group finance and other holding activities. In addition, the General Account also includes the investment in Royal Park Investments, the call option on BNP Paribas shares and the liabilities related to CASHES (RPN(I)). The General Account included in 2008 also the discontinued operations Fortis Bank, Fortis Insurance Netherlands and Fortis Corporate Insurance.

24.5 Statement of financial position by operational segment

31 December 2009

	AGI	FII	General	Eliminations	Total
Assets					
Cash and cash equivalents	824	540	4,272		5,636
Financial investments	42,279	10,767	54	(30)	53,070
Investment property	1,524	129			1,653
Loans	2,234	998	1,867	(967)	4,132
Investments related to unit-linked contracts	6,569	14,196		(70)	20,695
Investments in associates	89	465	760	8	1,322
Reinsurance and other receivables	643	648	12	(39)	1,264
Current tax assets	34	27	42		103
Deferred tax assets	25	34	(6)		53
Call option BNP Paribas shares			880		880
Accrued interest and other assets	1,166	610	102	(30)	1,848
Property, plant and equipment	1,045	63			1,108
Goodwill and other intangible assets	236	1,140			1,376
Assets held for sale	68	35			103
Total assets	56,736	29,652	7,983	(1,128)	93,243
Liabilities					
Liabilities arising from life insurance contracts	19,263	3,671		(3)	22,931
Liabilities arising from life investment contracts	19,545	4,788			24,333
Liabilities related to unit-linked contracts	6,570	14,203			20,773
Liabilities arising from non-life insurance contracts	2,973	1,998		(37)	4,934
Debt certificates			915		915
Subordinated liabilities	891	28	2,917	(986)	2,850
Borrowings	1,421	991	413	(51)	2,774
Current tax liabilities	43	61	2		106
Deferred tax liabilities	535	84	406		1,025
RPN(I)			316		316
Accrued interest and other liabilities	1,568	488	203	(50)	2,209
Provisions	13	17	4		34
Liabilities related to assets held for sale	17	22			39
Total liabilities	52,839	26,351	5,176	(1,127)	83,239
Shareholders' equity	2,860	2,684	2,807	(1)	8,350
Non-controlling interests	1,037	617			1,654
Total equity	3,897	3,301	2,807	(1)	10,004
Total liabilities and equity	56,736	29,652	7,983	(1,128)	93,243
Number of employees	5,635	4,940	38		10,613

31 December 2008

	<i>AGI</i>	<i>FII</i>	<i>General</i>	<i>Eliminations</i>	<i>Total</i>
Assets					
Cash and cash equivalents	2,815	609	2,509		5,933
Financial investments	36,121	8,917	1,264	(1,170)	45,132
Investment property	1,153	137			1,290
Loans	2,326	1,091	14,193	(1,206)	16,404
Investments related to unit-linked contracts	5,901	12,177		(38)	18,040
Investments in associates	57	374			431
Reinsurance and other receivables	612	557	23	(38)	1,154
Current tax assets	20	26	27		73
Deferred tax assets	113	2	2		117
Call option BNP Paribas shares					
Accrued interest and other assets	1,136	481	221	(43)	1,795
Property, plant and equipment	1,073	62			1,135
Goodwill and other intangible assets	281	1,085			1,366
Assets held for sale					
Total assets	51,608	25,518	18,239	(2,495)	92,870
Liabilities					
Liabilities arising from life insurance contracts	18,355	3,509		(9)	21,855
Liabilities arising from life investment contracts	17,523	4,084			21,607
Liabilities related to unit-linked contracts	5,901	12,177			18,078
Liabilities arising from non-life insurance contracts	2,893	1,432		(36)	4,289
Debt certificates			4,812	(142)	4,670
Subordinated liabilities	890	25	2,946	(953)	2,908
Borrowings	1,339	1,367	6,671	(291)	9,086
Current tax liabilities	49	24	2		75
Deferred tax liabilities	348	80	181		609
RPN(I)					
Accrued interest and other liabilities	1,394	369	582	(33)	2,312
Provisions	49	9	13		71
Liabilities related to assets held for sale					
Total liabilities	48,741	23,076	15,207	(1,464)	85,560
Shareholders' equity	2,785	2,009	3,032	(1,031)	6,795
Non-controlling interests	82	433			515
Total equity	2,867	2,442	3,032	(1,031)	7,310
Total liabilities and equity	51,608	25,518	18,239	(2,495)	92,870
Number of employees	5,542	4,718	114		10,374

24.6 Income statement by operational segment split in Life and Non-life

2009

	AGI		FII		General	Eliminations	Total
	Life	Non-life	Life	Non-life			
Income							
- Gross premium income	4,769	1,515	1,826	1,139		(1)	9,248
- Change in unearned premiums		(4)		(28)			(32)
- Ceded earned premiums	(5)	(42)	(63)	(83)			(193)
Net earned premiums ¹⁾	4,764	1,469	1,763	1,028		(1)	9,023
Interest, dividend and other investment income	2,140	191	372	77	423	(80)	3,123
Unrealised gain (loss) on Call option BNP Paribas shares					880		880
Unrealised gain (loss) on RPN(I)					(316)		(316)
Realised and unrealised gains and losses	99	(4)	9	22	827		953
Income related to investments for unit-linked contracts	860		1,447				2,307
Share of result of associates	4		55	8		(4)	63
Fee and commission income	84	3	196	92			375
Other income	227	72	10	11	12	(10)	322
Total income	8,178	1,731	3,852	1,238	1,826	(95)	16,730
Expenses							
- Insurance claims and benefits, gross	(5,652)	(992)	(1,833)	(814)		1	(9,290)
- Insurance claims and benefits, ceded		17	28	20			65
Insurance claims and benefits, net	(5,652)	(975)	(1,805)	(794)		1	(9,225)
Charges related to unit-linked contracts	(908)		(1,417)				(2,325)
Finance costs	(112)	(12)	(18)	(8)	(408)	60	(498)
Change in impairments	(103)	(4)	(9)	(2)	(353)	4	(467)
Change in provisions	36	2	(5)		9		42
Fee and commission expense	(294)	(299)	(219)	(160)			(972)
Staff expenses	(262)	(157)	(90)	(107)	(16)	(8)	(640)
Other expenses	(479)	(209)	(151)	(122)	(84)	30	(1,015)
Total expenses	(7,774)	(1,654)	(3,714)	(1,193)	(852)	87	(15,100)
Profit before taxation	404	77	138	45	974	(8)	1,630
Income tax expenses	(32)	(14)	(28)	(14)	(230)		(318)
Net profit before result of discontinued operations	372	63	110	31	744	(8)	1,312
- Attributable to non-controlling interests	56	13	44	7			120
- Attributable to shareholders	316	50	66	24	744	(8)	1,192
Net result of discontinued operations							
Net profit attributable to shareholders	316	50	66	24	744	(8)	1,192

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

2009

	<i>AGI</i>		<i>FII</i>		<i>General</i>	<i>Eliminations</i>	<i>Total</i>
	<i>Life</i>	<i>Non-life</i>	<i>Life</i>	<i>Non-life</i>			
Gross premium income	4,769	1,515	1,826	1,139		(1)	9,248
Inflow deposit accounting	583		2,187				2,770
Gross inflow	5,352	1,515	4,013	1,139		(1)	12,018

Second half-year 2009

	AGI		FII		General	Eliminations	Total
	Life	Non-life	Life	Non-life			
Income							
- Gross premium income	2,318	707	928	562		1	4,516
- Change in unearned premiums		58		7			65
- Ceded earned premiums	(2)	(22)	(24)	(45)			(93)
Net earned premiums ¹⁾	2,316	743	904	524		1	4,488
Interest, dividend and other investment income	1,090	95	186	39	104	(40)	1,474
Unrealised gain (loss) on Call option BNP Paribas shares					150		150
Unrealised gain (loss) on RPN(I)					28		28
Realised and unrealised gains and losses	62	(2)	13	(2)	17		88
Income related to investments for unit-linked contracts	602		993				1,595
Share of result of associates	3		44	7		(4)	50
Fee and commission income	42	2	106	48			198
Other income	179	42	5	5	1	(4)	228
Total income	4,294	880	2,251	621	300	(47)	8,299
Expenses							
- Insurance claims and benefits, gross	(2,756)	(488)	(926)	(423)		(1)	(4,594)
- Insurance claims and benefits, ceded		11	6	9			26
Insurance claims and benefits, net	(2,756)	(477)	(920)	(414)		(1)	(4,568)
Charges related to unit-linked contracts	(637)		(983)				(1,620)
Finance costs	(53)	(6)	(6)	(3)	(120)	29	(159)
Change in impairments	(25)	(1)	(2)	1	9	4	(14)
Change in provisions	32		(6)		3		29
Fee and commission expense	(150)	(143)	(134)	(83)			(510)
Staff expenses	(133)	(77)	(46)	(55)	(5)	(3)	(319)
Other expenses	(319)	(120)	(63)	(59)	(44)	15	(590)
Total expenses	(4,041)	(824)	(2,160)	(613)	(157)	44	(7,751)
Profit before taxation	253	56	91	8	143	(3)	548
Income tax expenses	(64)	(16)	(13)	(2)	(62)		(157)
Net profit before result of discontinued operations	189	40	78	6	81	(3)	391
- Attributable to non-controlling interests	46	12	23	4			85
- Attributable to shareholders	143	28	55	2	81	(3)	306
Net result of discontinued operations							
Net profit attributable to shareholders	143	28	55	2	81	(3)	306

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

	<i>Second half-year 2009</i>						
	<i>AGI</i>		<i>FII</i>		<i>General</i>	<i>Eliminations</i>	<i>Total</i>
	<i>Life</i>	<i>Non-life</i>	<i>Life</i>	<i>Non-life</i>			
Gross premium income	2,318	707	928	562		1	4,516
Inflow deposit accounting	288		1,293				1,581
Gross inflow	2,606	707	2,221	562		1	6,097

2008

	AGI		FII		General	Eliminations	Total
	Life	Non-life	Life	Non-life			
Income							
- Gross premium income	4,077	1,465	1,719	1,228		(28)	8,461
- Change in unearned premiums				(13)			(13)
- Ceded earned premiums	(5)	(41)	(59)	(120)		28	(197)
Net earned premiums ¹⁾	4,072	1,424	1,660	1,095			8,251
Interest, dividend and other investment income	2,193	205	372	108	915	(133)	3,660
Unrealised gain (loss) on Call option BNP Paribas shares							
Unrealised gain (loss) on RPN(I)							
Realised and unrealised gains and losses	(173)	4	(140)	(25)	(184)	10	(508)
Income related to investments for unit-linked contracts	(1,593)		(1,598)				(3,191)
Share of result of associates	2		22	3			27
Fee and commission income	127	7	192	106			432
Other income	120	54	19	11	52	(23)	233
Total income	4,748	1,694	527	1,298	783	(146)	8,904
Expenses							
- Insurance claims and benefits, gross	(4,749)	(943)	(1,689)	(844)		4	(8,221)
- Insurance claims and benefits, ceded	1	16	23	81			121
Insurance claims and benefits, net	(4,748)	(927)	(1,666)	(763)		4	(8,100)
Charges related to unit-linked contracts	1,584		1,635				3,219
Finance costs	(142)	(10)	(69)	(18)	(1,215)	111	(1,343)
Change in impairments	(466)	(7)	(72)	(7)	(20)	14	(558)
Change in provisions	(33)	(3)	1		(14)		(49)
Fee and commission expense	(302)	(285)	(169)	(150)	(6)		(912)
Staff expenses	(250)	(140)	(84)	(114)	(44)	(12)	(644)
Other expenses	(375)	(190)	(159)	(139)	(173)	42	(994)
Total expenses	(4,732)	(1,562)	(583)	(1,191)	(1,472)	159	(9,381)
Profit before taxation	16	132	(56)	107	(689)	13	(477)
Income tax expenses	(96)	(40)	1	(33)	60		(108)
Net profit before result of discontinued operations	(80)	92	(55)	74	(629)	13	(585)
- Attributable to non-controlling interests	5	1	10	9			25
- Attributable to shareholders	(85)	91	(65)	65	(629)	13	(610)
Net result of discontinued operations					(27,412)		(27,412)
Net profit attributable to shareholders	(85)	91	(65)	65	(28,041)	13	(28,022)

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

2008

	<i>AGI</i>		<i>FII</i>		<i>General</i>	<i>Eliminations</i>	<i>Total</i>
	<i>Life</i>	<i>Non-life</i>	<i>Life</i>	<i>Non-life</i>			
Gross premium income	4,077	1,465	1,719	1,228		(28)	8,461
Inflow deposit accounting	740		2,383				3,123
Gross inflow	4,817	1,465	4,102	1,228		(28)	11,584

Second half-year 2008

	AGI	AGI	FII	FII	General	Eliminations	Total
	Life	Non-life	Life	Non-life			
Income							
- Gross premium income	1,754	691	972	593		(14)	3,996
- Change in unearned premiums		57		4			61
- Ceded earned premiums	(3)	(21)	(24)	(57)		14	(91)
Net earned premiums ¹⁾	1,751	727	948	540			3,966
Interest, dividend and other investment income	1,101	103	216	51	563	(74)	1,960
Unrealised gain (loss) on Call option BNP Paribas shares							
Unrealised gain (loss) on RPN(I)							
Realised and unrealised gains and losses	(189)	(13)	(130)	(19)	(56)	1	(406)
Income related to investments for unit-linked contracts	(950)		(1,034)				(1,984)
Share of result of associates	1		(2)	(2)			(3)
Fee and commission income	59	4	101	54			218
Other income	78	33	15	4	17	(10)	137
Total income	1,851	854	114	628	524	(83)	3,888
Expenses							
- Insurance claims and benefits, gross	(1,993)	(479)	(987)	(421)		4	(3,876)
- Insurance claims and benefits, ceded	1	7	4	41			53
Insurance claims and benefits, net	(1,992)	(472)	(983)	(380)		4	(3,823)
Charges related to unit-linked contracts	941		1,081				2,022
Finance costs	(77)	(3)	(42)	(11)	(699)	60	(772)
Change in impairments	(383)	(3)	(72)	(7)	(20)	10	(475)
Change in provisions	(31)	(1)	1		(14)		(45)
Fee and commission expense	(145)	(137)	(94)	(74)	(6)		(456)
Staff expenses	(128)	(69)	(43)	(55)	(21)	(6)	(322)
Other expenses	(214)	(108)	(79)	(63)	(98)	19	(543)
Total expenses	(2,029)	(793)	(231)	(590)	(858)	87	(4,414)
Profit before taxation	(178)	61	(117)	38	(334)	4	(526)
Income tax expenses	(97)	(25)	16	(17)	8		(115)
Net profit before result of discontinued operations	(275)	36	(101)	21	(326)	4	(641)
- Attributable to non-controlling interests	2	1	(14)	5			(6)
- Attributable to shareholders	(277)	35	(87)	16	(326)	4	(635)
Net result of discontinued operations					(29,025)		(29,025)
Net profit attributable to shareholders	(277)	35	(87)	16	(29,351)	4	(29,660)

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

	<i>Second half-year 2008</i>						
	<i>AGI</i>		<i>FII</i>		<i>General</i>	<i>Eliminations</i>	<i>Total</i>
	<i>Life</i>	<i>Non-life</i>	<i>Life</i>	<i>Non-life</i>			
Gross premium income	1,754	691	971	593		(14)	3,995
Inflow deposit accounting	368		927				1,295
Gross inflow	2,122	691	1,898	593		(14)	5,290

24.7 Technical result insurance

To analyse the insurance results, Fortis uses the concept of technical result and operating margin.

Technical result mainly includes premiums, fees and allocated financial income, less claims and benefits and less operating expenses. Realised capital gains and losses on investments backing certain insurance liabilities, including separated funds, are part of the allocated financial income and thus included in technical result. Financial income, net of the related investment costs, is allocated to the various Life and Non-life branches based on the investment portfolios backing the insurance liabilities of these branches.

Realised and unrealised capital gains and losses on investments recognised in the income statement, backing the insurance liabilities of the various branches and not allocated to the technical result are included in the operating margin.

The reconciliation of the operating margin to the profit before taxation, includes all income and costs, not allocated to the insurance or investment contracts and thus not reported in the operating margin.

Within its insurance segments Fortis manages its Life and Non-life businesses separately. Life business includes insurance contracts covering risks related to the life and death of individuals. Life business also includes investment contracts with and without discretionary participation features (DPF). Non-life business includes four branches: Accident & Health, Motor, Fire and Other damage to property, covering the risk of property losses or claims liabilities.

The technical result for the different segments and branches and its reconciliation to the profit before taxation is shown below.

	2009		2008	
	AGI	FII	AGI	FII
Life technical result	385	65	(11)	(24)
- Accident & Health	65	1	74	6
- Motor	5	(22)		38
- Fire and other damage to property	(21)	41	30	57
- Other	25	(8)	15	8
Non-Life technical result	74	12	119	109
Total technical result	459	77	108	85
Capital gains (losses) allocated to operating margin	(81)	15	(68)	(37)
Operating margin	378	92	40	48
Share of result of associates and joint ventures	4	63	2	25
Other result	99	28	106	(22)
Profit before taxation	481	183	148	51

24.8 Other segment information on Non-life insurance

The ratios for the Non-life business for the half-year ended 31 December split by insurance segment are shown below.

	<i>Claims ratio</i>	<i>Expense ratio</i>	<i>Combined ratio</i>
2009			
AG Insurance	66.4%	36.8%	103.2%
Fortis Insurance International	77.2%	30.5%	107.7%

2008			
AG Insurance	65.0%	35.9%	100.9%
Fortis Insurance International	69.6%	28.8%	98.4%

Claims ratio: the cost of claims, net of reinsurance, as a percentage of the net earned premiums, excluding the internal costs of handling claims.

Expense ratio: expenses as a percentage of the earned premiums, net of reinsurance. Expenses include internal costs of handling claims, plus net commissions charged to the year, less internal investment costs.

Combined ratio: the sum of the claims ratio and the expense ratio.

24.9 Geographic segmentation

Fortis' activities are managed on a worldwide basis. The table below shows key figures based on the location of the Fortis company that has entered into the transaction.

	<i>Net Profit</i>	<i>Total income</i>	<i>Total assets</i>
31 December 2009			
Benelux	1,068	12,128	73,238
Other European countries	47	4,173	18,472
Asia	77	429	1,533
Total	1,192	16,730	93,243

	<i>Net Profit</i>	<i>Total income</i>	<i>Total assets</i>
31 December 2008			
Benelux	(28,075)	6,234	75,620
Other European countries	44	2,527	15,823
Asia	9	143	1,427
Total	(28,022)	8,904	92,870

25 Contingent liabilities

Like any other financial institution, Fortis is involved as a defendant in various claims, disputes and legal proceedings arising in the ordinary course of its business, which since the divestment of its banking activities in October 2008 is limited to insurance activities.

In addition, as a result of the events and developments occurred between May 2007 and October 2008 (capital increase and acquisition of parts of ABN AMRO in October 2007, announcement of the accelerated solvency plan in June 2008, divestment of banking activities and Dutch insurance activities in September/October 2008), Fortis is involved or may still become involved in a number of legal proceedings as well as administrative and criminal investigations in Belgium, the Netherlands and the USA, some of which could result in substantial but currently unquantifiable future liabilities for Fortis.

While some ongoing legal proceedings and investigations do not trigger any immediate risk of (material) monetary consequences for Fortis, it cannot be ruled out that they could lead to such negative impact at a later stage. This is the case for (i) the investigations conducted by court-appointed experts in Belgium and the Netherlands to report on the September/October transactions (for the Belgian experts) and on the financing of the offer on ABN AMRO, the public statements from Fortis since the offer on ABN AMRO and on the September/October transactions (for the Dutch experts) and (ii) investigations conducted by supervisory authorities in the Netherlands (Authority for the Financial Markets - AFM) and Belgium (Banking, Finance and Insurance Commission - BFIC), as well as the criminal investigation conducted in Belgium.

On 5 February 2010, the AFM has levied a fine on Fortis SA/NV and Fortis N.V. of € 576.000 for breaches of the Dutch Securities Act ('Wet op het financieel toezicht'). The AFM alleges that on 5 June 2008 certain statements would have been incorrect or misleading in respect of the solvency situation of Fortis and that on 14 June 2008 Fortis should have made public that the required EC remedies would imply that the financial objectives for 2008 and later could not be achieved without additional measures. This might imply that, for the period of 5 to 25 June 2008, investors may allege to have traded on not fully correct information. Fortis challenges any allegations of wrongdoing and has appealed the decision of the AFM.

Any negative findings of these ongoing investigations may lead to new proceedings against Fortis, including claims for compensatory damages being initiated against Fortis at a later stage. This may in particular be the case for the findings by the AFM which, subject to successful appeal by Fortis, have led the AFM to impose a fine as described above.

Ongoing lawsuits brought against Fortis in Belgium, the Netherlands and the US expose Fortis to the risk of court decisions to pay monetary damages to compensate the shareholders for some of their losses suffered since September 2007:

- Various proceedings have been initiated by individual shareholders and shareholder organizations in Belgium and the Netherlands demanding (i) the annulment of decisions taken by the Fortis Board in September/October 2008 or alternative compensatory damages and/or (ii) the payment of monetary damages based on alleged miscommunication and/or market abuse committed by Fortis over the period between May 2007 and October 2008. Such proceedings include:
 - proceedings initiated before the Brussels Commercial Court by a number of individuals represented by Mr. Modrikamen; the request for provisional measures against Fortis has been dismissed on 8 December 2009 and Mr. Modrikamen has announced that he would now pursue the procedure on the merits
 - proceedings initiated by a number of individuals gathered around Deminor International, which are pending before the Brussels Commercial court
 - proceedings initiated before the Amsterdam District Court by the VEB and Deminor as well as proceedings initiated by a number of individuals represented by Mr. De Gier; these proceedings are still pending; and
 - proceedings before the Utrecht District Court initiated by a number of individuals represented by Mr. Bos, which are also still pending. In this context, some former directors and top executives of Fortis have requested the court to acknowledge the alleged obligation of Fortis, under termination agreements entered into in 2008 and/or rules of Dutch civil law, to hold such persons harmless against damages resulting from or relating to the legal proceedings initiated against them and which would originate from their functions within the Fortis group. Fortis is contesting the validity of the mentioned statutory and contractual hold harmless commitments.
- A class action has been filed in the US District Court of the Southern District of New York to demand damages based on alleged securities fraud committed in the period between 17 September 2007 and 14 October 2008. This action has been dismissed on 19 February 2010 on the basis of lack of jurisdiction, and is subject to appeal.

Should any of these proceedings result in the annulment of (part of) the decisions taken by the Fortis Board and of the resulting agreements (which is highly unlikely, amongst others taking into account that Mr Modrikamen has announced that he would drop such claim and that Deminor has not formulated such a claim), this would have consequences on the financial position of Fortis that are unquantifiable at this stage. In the event that any court decisions were to order Fortis to pay monetary damages, this could have a severe negative impact on its financial position.

In respect of legal proceedings initiated against Fortis and Fortiflux by investors in relation with the FRESH instrument issued in 2002, Fortis remains convinced, after consultation with its legal advisors, that its legal position is sound and is not likely to be successfully challenged in court.

In respect of all legal proceedings and investigations of which management is aware, Fortis will make provisions for such matters if and when, in the opinion of management, who consult with legal advisors, it is probable that a payment will have to be made by Fortis and the amount can be reasonably estimated.

Without prejudice to any specific comments made above, given the various stages and continuously evolving nature as well as inherent uncertainties and complexity of the current proceedings and investigations, management is not in a position to determine whether any claims or actions brought against Fortis in connection with these proceedings and investigations are without merit or can be successfully defended or whether the outcome of these actions or claims may or may not result in a significant loss in the Fortis Consolidated Financial Statements.

In 2008, the Fortis parent companies granted to some former executives and directors at the time of their departure a contractual hold harmless protection covering legal expenses and, in some cases, also the financial consequences of any judicial decisions in the event that legal proceedings were brought against such persons on the basis of their mandates exercised in the company. In respect of some of these persons, Fortis is contesting the validity of the contractual hold harmless commitments to the extent they relate to the financial consequences of any judicial decisions.

Contingent liabilities for hybrid instruments of former subsidiaries

Fortis' former operating entities issued a number of hybrid instruments that have created a contingent liability for Fortis N.V. and Fortis SA/NV, because these former parent companies acted as guarantor, co-obligor or provided support agreements. The following chapters describe the contingent liabilities linked to these instruments.

1. CASHES

CASHES (Convertible And Subordinated Hybrid Equity-linked Securities) is a EUR 3 billion instrument issued by Fortis Bank nv-sa, with Fortis SA/NV and Fortis N.V. acting as co-obligors. According to the terms and conditions of this instrument it will only be reimbursed by Fortis Bank by means of an exchange against already issued Fortis shares, owned by Fortis Bank (the reported number of outstanding Fortis shares as at 31 December 2009 already includes the 125,313,283 Fortis shares issued for the purpose of such exchange). Pending the exchange of the CASHES against Fortis shares, these Fortis shares do not have any dividend rights or voting rights.

The principal amount of the CASHES will not be repaid in cash. The sole recourse of the holders of the CASHES against any of the co-obligors with respect to the principal amount are the 125,313,283 Fortis shares that Fortis Bank pledged in favour of such holders.

The CASHES have no maturity date, but may be exchanged for Fortis shares at a price of EUR 23.94 per share at the discretion of the holders. From 19 December 2014, the CASHES will be automatically converted into Fortis shares if the price of the Fortis share is equal to or higher than EUR 35.91 on twenty consecutive stock exchange business days. Coupons on the securities, in principle payable by Fortis Bank, are payable quarterly, in arrears, at a variable rate of 3 month Euribor + 2.0%.

In the event that dividends are not paid on the Fortis shares, or that the dividends to be declared are below a threshold with respect to any financial year (dividend yield less than 0.5%), and in certain other circumstances, coupons will mandatorily need to be settled by Fortis SA/NV and Fortis N.V. in accordance with the so called Alternative Coupon Settlement Method (ACSM), while Fortis Bank would need to issue instruments that qualify as hybrid Tier 1 instruments to Fortis as compensation for the coupons so paid by Fortis SA/NV and Fortis N.V. If the ACSM is triggered and there is insufficient available authorised capital to enable Fortis SA/NV and Fortis N.V. to meet the ACSM obligation, the coupon settlement will be postponed until such time as the ability to issue shares is restored.

Fortis' announcement on 15 March 2009 that it would not declare a dividend for the 2008 financial year would have triggered the ACSM. However, on 27 May 2009 Fortis announced its intention to resume the payment of a dividend for the 2009 financial year in 2010, whereby the dividend will be equal to or in excess of the above stated threshold dividend yield of 0.5%. As a result the coupons due during 2009 were paid in cash instead of through the ACSM.

2. MCS

On 7 December 2007, Fortis Bank Nederland, with Fortis Bank nv-sa, Fortis SA/NV and Fortis N.V. acting as co-obligors, issued mandatory convertible securities (MCS) for a total principal amount of EUR 2 billion. A breach of minimum solvency levels at Fortis Bank Nederland would lead to accelerated conversion using an ACSM for unpaid coupons.

Coupon payments on the MCS are paid by Fortis Bank Nederland; coupon payments are at the discretion of the issuers if Fortis has not declared or paid a dividend in the 12 months prior to the coupon date. Although this situation applied at the semi annual coupon dates in 2009, Fortis Bank Nederland continued to pay the coupons.

The MCS will be converted mandatorily on 7 December 2010 into Fortis shares the exact number of which will depend on the then prevailing share price, with a minimum of 88,928,413 and a maximum of 106,723,586 Fortis shares (the reported number of outstanding Fortis shares as at 31 December 2009 does not yet include these shares). According to agreements entered into between the parties, Fortis Bank Nederland N.V. should compensate Fortis by issuing new shares to Fortis SA/NV and Fortis N.V. at conversion; this compensation is disputed by the Dutch State, after it took over control of Fortis Bank Nederland N.V.

At conversion of the MCS, Fortis will record a EUR 2 billion increase of its equity against a EUR 2 billion receivable for new Fortis Bank Nederland N.V. shares to be received from Fortis Bank Nederland N.V. In the event that the Dutch State successfully disputes this claim, Fortis SA/NV and Fortis N.V. will need to record an impairment on this receivable, subject to the level of compensation that will be agreed upon.

3. Fortis Capital Company

Fortis Capital Company Limited issued EUR 450 million of non-cumulative, non-voting, perpetual preference shares in 1999, with a Support Agreement granted by Fortis Bank, Fortis SA/NV and Fortis N.V. Fortis Capital Company announced on 26 March 2009 that it would not call the instruments in June 2009. Given the non-call and in accordance with the support agreement, holders of these preference shares had a one-time right to exchange their preference shares for Fortis ordinary shares, and Fortis in turn could redeem the preference shares in cash instead of issuing the required shares.

Preference shareholders representing EUR 362 million of principal amount to exchange their preference shares, and Fortis elected to pay the redemption of these preference shares in cash. Since Fortis Bank Nederland (the entity to which Fortis Capital Company on-lent the proceeds) is no longer part of Fortis, Fortis believes it is entitled to compensation for this redemption. On 24 August 2009, Fortis initiated legal proceedings on the merits of the case before the Amsterdam Commercial Court against Fortis Capital Company Limited, Fortis Bank Nederland and the Dutch State to claim full compensation for the EUR 362 million cash redemption. Fortis claim is included under reinsurance and other receivables. Due to the fact that the claim is contested by the counterparty, the amount is fully impaired as shown in Note 23 Change in impairments.

Investors in the remaining EUR 88 million of preference shares no longer have any stock settlement rights against Fortis SA/NV and Fortis N.V.

Under the terms of the Support Agreement, Fortis is still required to support the annual dividend (3-month Euribor + 2.60%) on the remaining EUR 88 million of preference shares in the event that any of the supporting companies (Fortis SA/NV, Fortis N.V. or Fortis Bank) pays a dividend while Fortis Bank Nederland for solvency reasons is unable to pay the dividend on its preference shares.

4. Fortis Bank Tier 1 debt securities 2001

Fortis Bank nv-sa issued EUR 1,000 million of redeemable perpetual cumulative coupon debt securities in 2001, which benefit from a support agreement entered into by Fortis SA/NV and Fortis N.V., at an interest rate of 6.50% until 26 September 2011 and 3 month Euribor + 2.37% thereafter.

Under the parental Support Agreement if Fortis Bank's solvency drops below the threshold level or if Fortis Bank so elects, the coupon will be settled through the issue of ordinary shares by Fortis SA/NV and Fortis N.V. via an ACSM, for which Fortis Bank would need to compensate Fortis SA/NV and Fortis N.V. by issuing ordinary shares or profit-sharing certificates.

The Support Agreement also gives holders the option, in the event that Fortis Bank does not call the instrument in 2011, to ask Fortis SA/NV and Fortis N.V. to settle the principal amount of the instrument through the issue of Fortis shares. In turn, Fortis SA/NV and Fortis N.V. have the option to settle the principal amount of the securities in cash instead. In both cases, Fortis would be compensated for this settlement by the receipt of Tier 1 debt securities of Fortis Bank.

5. Fortis Bank Tier 1 debt securities 2004

Fortis Bank nv-sa issued EUR 1,000 million perpetual securities in 2004, which benefit from a support agreement entered into by Fortis SA/NV and Fortis N.V., at an interest rate of 4.625% until 27 October 2014 and 3 month Eurobor + 1.70% thereafter.

Under the parental support agreement if Fortis Bank's solvency drops below the threshold level or if Fortis Bank so elects, the coupon will be settled through the issue of ordinary shares by Fortis SA/NV and Fortis N.V. via an ACSM, for which Fortis Bank would need to compensate Fortis SA/NV and Fortis N.V. by issuing ordinary shares.

26 Events after the date of the statement of financial position

There have been no material events after the date of the statement of financial position that would require adjustment to the Consolidated Financial Report for the Second-half year at 31 December 2009.

Tesco Personal Finance Plc (TPF) and Fortis will form a new partnership providing motor and household insurance. The partnership will give Tesco responsibility for retail pricing, sales and marketing, customer service and new product. Fortis will use its considerable expertise to provide underwriting and claims management. The partnership includes the creation of a new entity to underwrite and manage claims. Known as Tesco Insurance Limited the new entity will be owned for 49.9% by TPF and 50.1% by Fortis. Tesco will start writing business towards the end of 2010.

Statement of the Board of Directors

The Board of Directors of Fortis is responsible for preparing the Fortis Consolidated Financial Report for the Second-half year as at 31 December 2009 in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the European Transparency Directive (2004/109/EC).

The Board of Directors of Fortis declares that, to the best of its knowledge, the Fortis Consolidated Financial Report for the Second-half year gives a true and fair view of the assets, liabilities, financial position, profit or loss of Fortis and the undertakings included in the consolidation as a whole and that the information contained herein has no omissions likely to modify significantly the scope of any statements made. In addition the Report of the Board of Directors for 2009 includes the information required pursuant to section 5:25d subsections 8 and 9 of the Dutch Financial Markets Supervision Act.

The Board of Directors reviewed the Fortis Consolidated Financial Report for the Second-half year on 9 March 2010 and authorised their issue.

Brussels/Utrecht, 9 March 2010

Board of Directors

Chairman	Jozef De Mey
Vice-Chairman	Guy de Selliers de Moranville
Chief Executive Officer	Bart De Smet
Directors	Jan Zegering Hadders
	Frank Arts
	Roel Nieuwdorp
	Lionel Perl
	Jin Shaoliang