FORTIS

2009 Embedded Value Report

10 March 2010

Contents

1 Highlights

All amounts in the tables of these Financial Statements are denominated in millions of Euros, unless stated otherwise.

The Embedded Value of Life insurance operations provides additional information on the value of existing contracts and acquired new business and is based on a market consistent approach. Fortis Embedded Value is calculated in accordance with the European Embedded Value (EEV) Principles and Guidance as developed by the CFO Forum.

As per 12 May 2009 the scope of Fortis Group consisted of 75% of AG Insurance, Fortis Insurance International, including international insurance activities in Europe and Asia, and a General Segment. The scope for Embedded Value reporting excludes the General Segment which reflects the holding activities. Consolidated businesses are included based on Fortis stakes. The Asian joint ventures have been excluded from Embedded Value reporting, but included in the Adjusted Net Equity for their IFRS Shareholder Equity value.

The divestiture of the 25% stake in AG Insurance to BNP Paribas Fortis led to an opening adjustment of EUR 954 million. Other Opening Adjustments comprise modelling enhancements, including a marking to market of existing subordinated loans with a market quotation increasing Shareholder Equity by EUR 191 million, and a capital contribution of EUR 30 million from Fortis Group to Insurance International. The total of opening adjustments has led to a restatement of the Embedded Value 2008 by EUR 652 million to EUR 4.3 billion. Where comparisons are made with 2008 results, these results have been restated for the scope changes in 2009.

The total value growth of EUR 626 million is based on solid operating earnings of EUR 257 million, including Value Added by New Business of EUR 69 million. The EV growth is further supported by higher interest rates and a recovery of financial markets during 2009. At year-end 2009 Embedded Value amounted to EUR 4,898 million for the Life insurance activities.

Embedded Value

	Total Insurance	AG Insurance	Insurance International
Embedded Value Year-end 2008	4,923	3,817	1,107
Divestiture	(954)	(954)	0
Other opening adjustments	302	345	(43)
Previous EV restated	4,271	3,208	1,063
Expected return	251	196	56
Experience variance and assumption changes	(63)	(23)	(41)
Value added by New Business	69	49	20
Operating EV Earnings	257	222	35
Operating return on EV	6.0%	6.9%	3.3%
Variance on Investment income	4	(69)	73
Changes in Interest rates and markets conditions	365	277	89
Embedded Value Year-end 2009	4,898	3,638	1,260
Total return on EV	14.7%	13.4%	18.5%

Value Added by New Business (VANB) has been restated from EUR 102 million in 2008 to EUR 81 million due to the scope change for the divestiture of the 25% stake in AG insurance (EUR 13 million) and modelling enhancements (EUR 8 million) at Insurance International.

VANB reduced from EUR 81 million in 2008 to EUR 69 million in 2009. The VANB at AG insurance reached higher levels in 2009 due to the fact that values were impacted by defaulting bonds in 2008. The increase in VANB at AG Insurance was more than offset by a decrease at Insurance International which was driven by lower new business volumes expressed as Present Value of New Business Premiums (PVNBP) in combination with lower margins. Margins were negatively impacted by the combination of lower volumes and a relatively fixed cost base and a less favourable product mix due to a lower proportion of unit-linked business.

VANB is calculated using year-end assumptions.

Value added by New Business

	2009	2008	Change
Total Insurance			
Value Added by New Business)	69	81	(14.1%)
Present value New business premiums	5,471	6,225	(12.1%)
Margin	1.3%	1.3%	
AG Insurance			
Value Added by New Business	49	40	23.7%
Present value New business premiums	3,249	3,266	(0.5%)
Margin	1.5%	1.2%	
Insurance International			
Value Added by New Business	20	41	(51.0%)
Present value New business premiums	2,222	2,959	(24.9%)
Margin	0.9%	1.4%	

Fortis applies a market consistent valuation approach. In line with the approach taken for Embedded Value of 2008 Fortis includes a liquidity premium in calibrating its reference rate. The CFO Forum is in the process of reviewing the method of applying a liquidity premium under the Market Consistent Embedded Value Principles©. Until this review is finalised, Fortis' continues the methodology adopted in 2008, which in 2009 leads to a reference rate of 20 bps above the swap curve for Euro currencies and 50bp for US Dollar and Hong Kong dollar, for all liabilities.

The methodology and assumptions used to determine the 2009 embedded value results have been reviewed by Towers Watson.

2 Embedded Value at Fortis

Fortis Embedded Value disclosure complies with the European Embedded Value (EEV) Principles. These principles were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers. The EEV Principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

In complying with the EEV principles at year-end 2008, Fortis adopted a bottom-up market consistent approach. This approach aligns with internal Risk and Value applications by using integrated processes with a single platform for stochastic analysis used for a range of risk management purposes including Economic Capital and ALM.

On 4 June 2008, the CFO Forum released new European Insurance CFO Forum Market Consistent Embedded Value Principles[1] ('MCEV Principles'). As a result of the turmoil in the financial markets in 2008, the CFO Forum announced on 19 December 2008 to review the MCEV Principles since these were developed in a period with stable financial markets. The aim of the review is to avoid that extreme financial market conditions can have any misleading effects on the Market Consistent Embedded Value results. In particular, the focus of this review is on implied volatilities, the cost of non-hedgeable risks and the use of swap rates as a proxy for risk-free rates and the effect of liquidity premiums.

In October 2009, the CFO Forum published an amendment to the MCEV Principles to reflect the inclusion of a liquidity premium as the CFO Forum recognised that the existence of a liquidity premium is evidenced and that the reference rate to be applied should include both the swap yield curve appropriate to the currency of the cash flows, and on top of it, a liquidity premium, where appropriate. The CFO Forum continues its review to develop more detailed application guidance to increase consistency going forward.

Until this review is finalised, Fortis' continues the methodology adopted in 2008 by setting the reference rate to include a liquidity premium. This reference rate is applied for all liabilities.

In this context, Fortis decided to remain compliant with the EEV Principles and Guidance and to endorse the MCEV Principles when the review of these principles is completed and the principles will become mandatory for its members.

Embedded Value reporting should be seen as supplementary reporting to primary financial statements and represents a measure of the shareholders' interest in Fortis' life insurance business, comprising the market value of the shareholder equity plus the value of the operating business. These components are defined as follows:

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

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2.1 Value of Shareholder Equity (VSE)

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

See Section 4.5 for an overview of the reconciliation from IFRS to the Value of Shareholder Equity and the calculation of Fortis' Adjusted Net Equity.

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

2.1.1 Required Equity (RE)

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

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

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

2.1.2 Free Surplus (FS)

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

2.2. Value of In Force business (VIF)

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

2.2.1 Certainty Equivalent Value of future profits (PVFP)

Certainty Equivalent Value corresponds to the value of the business without taking credit for any future investment risk premiums and represents the value as if all cash flows are fixed and certain and all investment assets earn a return equal to the reference rate (risk free return), with the cash flows discounted at the same reference rate. This value captures the intrinsic value (or in-the-money value) of the financial options and guarantees. The reference rate is defined in section 3.2.

2.2.2 Cost of Financial Options and Guarantees (CFOG)

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

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

2.2.3 Cost of Non-Hedgeable Risks (CNHR)

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

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

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

In the light of the review of the CFO Forum MCEV Principles, we continue to calibrate the annual charge on the solvency capital held for these risks as a simple 0.5% post-tax charge of the projected total Required Equity each year.

2.2.4 Frictional Cost of Capital (CoC)

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

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

2.3 Value Added by New Business (VANB)

The VANB represents the value added by new business written in the period, and is calculated in a similar way to the embedded value. It is calculated as the value of the new business written in 2009 that is in-force at 31 December 2009 plus the first year losses (New Business Strain).

The Value Added by New Business includes only premiums arising from contracts sold during 2009 and does not include future new business. VANB is calculated using year-end assumptions.

3 Scope

3.1 Covered business

As per 12 May 2009, the scope of Fortis Group consists of Fortis Insurance, reflecting its insurance activities, and the General Segment, reflecting activities not related to Insurance including discontinued operations.

Fortis Insurance includes 75% of AG Insurance in Belgium and Fortis Insurance International, comprising international insurance activities in Europe and Asia.

The scope of Embedded Value covers value that arises from Life insurance activities sold through Fortis' Insurance entities. It does not include any other activities, such as General or Health Insurance. These activities are considered non-covered business.

The Fortis' Life entities included in the scope of Embedded Value (abbreviations used in this document are given in parenthesis) are:

- AG Insurance in Belgium, with Fortis share of 75%
- Insurance International, of which
  - Fortis Assurances in France
  - Fortis Luxembourg Vie in Luxembourg, with Fortis share of 50%
  - Millenniumbcp Fortis in Portugal, with Fortis share of 51%
  - Fortis Insurance Company Asia in Hong Kong

Fortis Embedded Value excludes the General Segment and insurance activities in the joint ventures in Asia and entities in Continental Europe and UK not mentioned above.

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

In our Annual Accounts, AG Insurance, Millenniumbcp Fortis and Luxembourg Vie are reported on a 100% consolidated basis. For embedded value reporting, these businesses are included for their Fortis' share.

The businesses out of scope such as the General Segment, the Asian joint ventures and smaller entities in Insurance International as well as the non-covered business are included in the Adjusted Net Equity for their IFRS Shareholder Equity value.

3.2 Economic assumptions

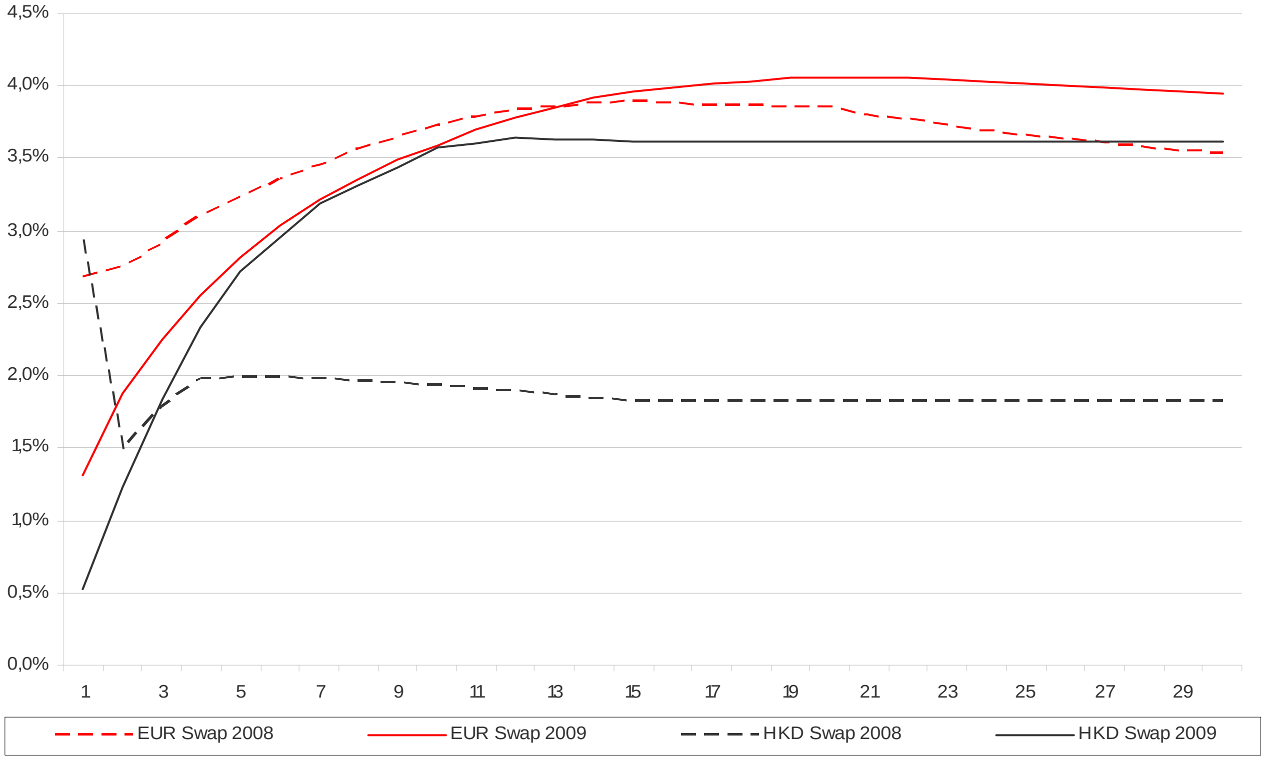
3.2.1 Reference rates

As a basis for the reference rate Fortis uses the swap curves at 31/12/2009 for the relevant currencies and these are sourced from Bloomberg for rates up to 50 years. For rates beyond this, a constant flat rate is assumed. Samples of the swap rates up to year 30 are plotted in the graph on page 11. Fortis uses this curve to extract forward reinvestment yields that are used for all asset classes.

Table 1 - Swap curve[1]

	2009		2008	
	Euro	HKD	Euro	HKD
1 yr	1.3%	0.5%	2.7%	2.9%
5 yr	2.8%	2.7%	3.2%	2.0%
10 yr	3.6%	3.6%	3.7%	1.9%
20 yr	4.1%	3.6%	3.8%	1.8%

[1] *Par rates*



The credit crisis has weighed on financial markets, impacting markedly the market prices of financial instruments. In particular, spreads on debt securities increased significantly during 2008. Under normal market conditions the spreads on debt securities, which are expressed as an additional return over and above assumed risk free returns (represented by swap rates), reflect most importantly the risk of the debt issuer will default (i.e. credit risk). In distressed market conditions as observed at the end of 2008, Fortis considered that there also exist material spreads on debt securities for liquidity risk. However, in cases where these assets can be held to maturity, or alternatively sold at any convenient time in the future, an investor is not exposed to this risk creating an opportunity for the investor to earn this additional return. As a result for Embedded Value reporting 2008 Fortis set the reference rate to equal the swap rate plus a liquidity premium.

While conditions in credit markets improved during 2009, Fortis considers that there still exists material spreads on debt securities for liquidity risk. In line with our approach adopted for Embedded Value reporting 2008, Fortis has continued to include a liquidity premium in setting the reference rate.

In October 2009, the CFO Forum published an amendment to the MCEV Principles recognising the existence of a liquidity premium. This amendment clarified that the reference rate to be applied should include both the swap yield curve appropriate to the currency of the cash flows, and on top of it, a liquidity premium, where appropriate. The CFO Forum continues its review to develop more detailed application guidance to increase consistency going forward. Until this review is finalised, Fortis' continues the methodology adopted in 2008 by setting the reference rate to include a liquidity premium.

There is a range of different approaches recognized for setting the liquidity premium. These approaches lead to different and volatile outcomes and therefore these methods are not conclusive. In order to set a liquidity premium, Fortis has used various accepted approaches as a reference to set the liquidity premium. These approaches include a Covered Bond approach, a Credit Default Swap (CDS) approach and other available studies. The reference rate used equals the swap curve plus a fixed liquidity premium for the entire term structure. This reference rate is applied to all liabilities.

For Embedded Value reporting 2009, the liquidity premium is set at 20 bps for Euro currencies and 50bp for US Dollar and Hong Kong dollar. The comparable assumptions used the previous year were 50bp and 100bp respectively.

Fortis uses a stochastic economic scenario generator to produce 1,000 arbitrage free scenarios of future investment returns on each asset class, based on the reference rate above and the volatilities as given in section 3.2.2.

3.2.2 Volatilities

Volatilities for fixed interest assets are based on a selection of at-the-money swaptions quotes as at 31/12/2009. Volatility for shares is based on an observed implied volatility of a range of ten year at-the money equity index options at 31/12/2009. Volatility for real estate is based on historical market data. The volatility assumptions for 2008 were based, where available, on market data at 31/12/08.

Table 2 - Implied Volatilities

			2009	2008
10 yr Sample swaption quote	5yr option / 10yr option	EUR	16.4% / 14.4%	20.8% / 18.3%
		HKD	23.8% / 24.7%	50.0% / 50.6%
15 yr Sample swaption quote	5yr option / 10yr option	EUR	16.6% / 14.7%	22.3% / 21.2%
		HKD	23.8% / 24.7%	56.6% / 52.1%
Real Estate	Imo APFIPP Index	EUR	1.4%	20.2%
	SX86E Index	EUR	29.6%	20.2%
	BEREAL Index	EUR	45.5%	20.2%
	REBE Funds	EUR	11.3%	23.9%
	REBE Offices	EUR	6.6%	11.9%
	HSP Index	HKD	28.5%	21.9%
Equity	MSCI EMU	EUR	26.3%	29.6%
	MSCI US	USD	23.9%	33.2%
	MSCI Europe Ex EMU	EUR	26.3%	28.4%
	MSCI Japan	JPY	22.2%	36.0%
	MSCI Hong Kong	HKD	26.9%	33.7%
	PSI 20	EUR	26.9%	37.3%
	MSCI World Free	USD	22.2%	29.2%
	MSCI Far east ex Japan	USD	30.2%	38.2%
	Hang Seng	HKD	26.9%	39.7%
	MSCI Daily TR World Net	EUR	22.2%	33.0%

Source: Bloomberg and BNP Paribas Fortis

3.2.3 Actual and Target asset mix

Table 3 below provides information on the asset mix.

The Actual asset mix is the investment portfolio on balance sheet as at 31/2/2009. It excludes assets held in funds for which the policyholder bears the investment risks and assets backing shareholder equity which do not impact CFOG.

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

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

Table 3 - Asset mix - operating business

	2009						2008					
	Total Insurance		AG Insurance		Insurance International		Total Insurance		AG Insurance		Insurance International	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	91%	85%	91%	85%	94%	84%	92%	84%	92%	84%	92%	84%
Shares	1%	7%	1%	6%	1%	8%	1%	7%	1%	7%	3%	8%
Real Estate	7%	8%	8%	9%	5%	7%	7%	8%	8%	8%	5%	7%

3.2.4 Real world investment return assumptions

This section provides background to the assumed investment returns including future investment risk premiums that are used to generate the Expected Return in the Movement Analysis. Note that these assumptions do not influence the final valuation, since higher expected returns, will have an equal effect on the variance, representing the difference between actual and Expected Return. The real world investment return assumptions from a traditional point of view are:

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

- *Real Estate Risk Premium:*
  The real estate risk premium has been assumed to be 200bp above the reference rate.

For the investment return on debt securities real world projections are based on the actual cash flows being their coupons and principles. Any deviation as a result of defaults or spread changes is included in the variance on investment return in the analysis of change.

3.3 Operating assumptions

3.3.1 Expenses

Modelled expenses start at the actual 2009 expense level and are modelled taking into account the assumed inflation rate over the projection period. Future commission payments follow the schemes agreed with the parties entitled to the payments. No account is taken of the effect of future expense reduction programs, productivity gains or integration synergies and no material non-recurring expenses have been identified. In total, an amount of EUR 3.5 million one-off expenses are excluded from the projections.

The Embedded Value allows for the long-term cost of providing pension benefits to Fortis' staff in the Life entities as recognized under IAS 19.

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

The total unallocated central overheads in 2009 were EUR 78 million relating to the General Segment, and EUR 61 million related to central overhead expenses for insurance activities, including covered and non-covered business. The share for the life insurance activities of these expenses or any recurrence of these, has not been allowed for in the year-end Embedded Value or Value Added by New Business.

3.3.2 Expense Inflation

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

3.3.3 Operating assumptions

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

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

3.3.4 Tax

Appropriate tax rates are applied to direct and indirect returns on shares, real estate and fixed income. In all other cases the appropriate local corporate tax rate is applied.

4 Embedded Value 2009 results

4.1 Restatement Embedded Value of 2008

The restructuring of the group that started in 2008 was concluded on 12 May 2009. The divestiture of the 25% stake in AG Insurance to BNP Paribas Fortis led to an opening adjustment of EUR 954 million. Other Opening Adjustments comprise modeling enhancements, including a marking to market of existing subordinated loans with a market quotation increasing Shareholder Equity by EUR 191 million, and a capital contribution of EUR 30 million from Fortis Group to Insurance International. The total of opening adjustments has led to a restatement of the Embedded Value 2008 by EUR 652 million to EUR 4.3 billion.

Similarly, the 2008 Value Added by New Business results have been restated to reflect the new scope and changed from EUR 102 million to EUR 81 million.

Table 4 - Restatement of EV

	Free Surplus +	Required Equity +	Value of In-force business =	Embedded Value	AG Insurance	Insurance International
Year-end 2008	362	2,617	1,944	4,923	3,817	1,107
Divestiture	(80)	(540)	(335)	(954)	(954)	0
Other Opening Adjustments	202	(18)	118	302	345	(43)
Year-end 2008 restated	**485**	**2,059**	**1,728**	**4,271**	**3,208**	**1,063**
Value Added by New Business 2008	(294)	186	210	102	53	49
Value Added by New Business 2008 restated	(261)	155	187	81	40	41

Where comparisons are made to 2008 results, the figures represent the restated figures resulting from the scope changes at Fortis Group, unless stated otherwise.

4.2 Embedded Value of 2009

The outcome of the Embedded Value as calculated at 2009 year-end is presented in Table 5. The movement and analysis is explained further in section 4.4.

Table 5 - Embedded Value 2009

	Total Insurance	AG Insurance	Insurance International
EV 2009 year end	**4,898**	**3,638**	**1,260**
Total Shareholder Equity	2,940	2,345	595
Required Equity	2,340	1,875	465
Free Surplus	600	470	130
Value of In-force Business	1,957	1,292	665
Certainty Equivalent Value	3,176	2,238	938
Cost of Financial Options and Guarantees	(628)	(406)	(222)
Cost of Non-hedgeable risks	(165)	(143)	(22)
Cost of Capital	(425)	(397)	(28)
Value of In-force Business 2009 Year-start	1,728	1,176	551
Value of In-force Business 2009 Year-end	1,957	1,292	665
% Change	13%	10%	21%
Modelled Technical Provisions 2009 Year-start	46,518	31,152	15,366
Modelled Technical Provisions 2009 Year-end	50,803	33,760	17,043
% Change	9.2%	8.4%	10.9%
Ratio VIF/Modelled Tech. prov. 2009 Year-start	3.7%	3.8%	3.6%
Ratio VIF/Modelled Tech. prov. 2009 Year-end	3.9%	3.8%	3.9%

4.3 Value Added by New Business

Value Added by New Business (VANB) has been restated from EUR 102 million in 2008 to EUR 81 million due to the scope change for the divestiture of the 25% stake in AG insurance (EUR 13 million) and modeling enhancements (EUR 8 million) at Insurance International.

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

Table 6 - Value Added by New Business

	Total Insurance	AG Insurance	Insurance International
Value Added by New Business	**69**	**49**	**20**
New Business Strain	(87)	(12)	(75)
Value of In-force business	157	61	95
Certainty Equivalent Value	224	100	124
Cost of Financial Options and Guarantees	(38)	(15)	(23)
Cost of Non-hedgeable risks	(8)	(6)	(2)
Cost of Capital	(21)	(17)	(4)
Value Added by New Business Evolution	(14%)	24%	(51%)
VANB 2009	69	49	20
VANB 2008	81	40	41
Present Value New Business Premiums (PVNBP)	(12%)	(1%)	(25%)
PVNBP 2009	5,471	3,249	2,222
PVNBP 2008	6,225	3,266	2,959
Sales & Margins PVNBP basis			
VANB/PVNBP 2009	1.3%	1.5%	0.9%
VANB/PVNBP2008	1.3%	1.2%	1.4%
Annualised premium Equivalent (APE)	(10%)	4%	(23%)
APE 2009	577	321	256
APE 2008	642	309	333
Sales & Margins APE basis			
VANB/APE 2009	12.0%	15.3%	7.8%
VANB/APE 2008	12.5%	12.9%	12.2%
IRR			
IRR 2009	13.0%	12.3%	14.2%
IRR 2008	14.4%	12.7%	17.3%

VANB reduced from EUR 81 million in 2008 to EUR 69 million in 2009. The VANB at AG Insurance increased by 24% compared to 2008, which was impacted by the default of investments in Lehman Brothers.

The increase at AG insurance was more than offset by a decrease at Insurance International which was driven by lower new business volumes expressed as Present Value of New Business Premiums (PVNBP) in combination with lower margins. Margins were negatively impacted by the combination of lower volumes and a relatively fixed cost base and a less favourable product mix due to a lower proportion of unit-linked business

4.4 Movement Analysis

The Analysis of Change explains the movement in Embedded Value at 2009 year-start to the value at year-end by showing the different underlying components. Background on Value Added by New Business is covered in Section 4.3

The total value growth of EUR 626 million is based on solid operating earnings of EUR 257 million, including Value Added by New Business of EUR 69 million. The EV growth is further supported by higher interest rates and a recovery of financial markets during 2009. At year-end 2009 Embedded Value amounted to EUR 4,898 million for the Life insurance activities.

Table 7 - Embedded Value

	2009			2008		
	Total Insurance	AG Insurance	Insurance International	Total Insurance	AG Insurance	Insurance International
Embedded Value Previous Year	4,923	3,817	1,107	6,705	5,706	1,000
Divestiture	(954)	(954)	0	(470)	(374)	(96)
Other opening adjustments	302	345	(43)	431	(25)	455
Previous EV restated	**4,271**	**3,208**	**1,063**	**6,666**	**5,307**	**1,359**
Expected return	251	196	56	485	419	65
Experience variance and assumption changes	(63)	(23)	(41)	42	80	(38)
Value added by New Business	69	49	20	102	53	49
Operating EV Earnings	**257**	**222**	**35**	**629**	**552**	**77**
Operating return on EV	6.0%	6.9%	3.3%	9.4%	10.4%	5.6%
Variance on Investment income	4	(69)	73	(1,833)	(1,605)	(228)
Changes in Interest rates and markets conditions	365	277	89	(539)	(438)	(101)
Embedded Value Year-end	**4,898**	**3,638**	**1,260**	**4,923**	**3,817**	**1,107**
Total return on EV	14.7%	13.4%	18.5%	(26.1%)	(28.1%)	(18.6%)

At AG Insurance the recovery of financial markets dominated the change in value coming from the traditional business with long-term liabilities which benefit most by the increased interest rates. The variance on investment returns were negatively impacted by increased spreads on bonds, including government bonds.

At Insurance International a balanced business mix reduced the impact of increased interest rates. The solid operating performance was reduced by variance in operating experience, such as lapses.

The change in Interest Rates and Market Conditions includes the changes in interest rates, volatilities and liquidity premium. In 2009, the curve recovered with an upward sloping curve which had a positive impact on the valuation of long-term liabilities.

Table 8 - Movement in Embedded Value

	Free Surplus +	Required Equity +	Value of In-force business =	Embedded Value	AG Insurance	Insurance International
Year-start 2009	485	2,059	1,728	4,271	3,208	1,063
Expected return	434	(52)	(131)	251	196	56
reference rate	4	70	78	152	124	28
in excess of reference rate	2	15	82	99	71	28
transfer to shareholder equity	428	(137)	(291)	0	(0)	0
Experience variance and assumption changes	(50)	125	(137)	(63)	(23)	(41)
Value added by new business	(267)	180	157	69	49	20
Variance on Investment income	(35)	6	32	4	(69)	73
Changes in Interest rates and markets conditions	32	27	318	376	277	99
Exchange rate differences	2	(4)	(9)	(10)	0	(10)
Year-end 2009	**600**	**2,340**	**1,957**	**4,898**	**3,638**	**1,260**

Expected return is the after-tax return on the opening embedded value resulting from projections of the assets and liabilities over the year based on expected "real world" returns. The Expected Return is split between the reference rate and the additionally expected return above the reference rate from investing in more risky assets, such as shares, real estate and corporate bonds. It includes the release of risks charges as captured by the CFOG and CFHR. In total, the expected return contributed EUR 251 million.

Overall, the changes in Operating assumptions and operating experience variance lead to a decrease of EUR 63 million. Key changes in Operating Assumptions include a decrease of EUR 72 million as a result of an increase in expenses and a decrease of EUR 39 million driven by an increase in Required Equity for AG Insurance.

Table 9 - Detail on assumption changes and experience variances

	Free Surplus +	Required Equity +	Value of In-force business =	Embedded Value	AG Insurance	Insurance International
Operating assumption changes and variance	(50)	125	(137)	**(63)**	(23)	(41)
Non-economic variance	77	(2)	(10)	**65**	91	(25)
Impact of operating assumptions	(128)	127	(128)	**(129)**	(113)	(15)
Mortality/Morbidity	(0)	(2)	29	**26**	6	20
Costs (expenses / commissions)	0	(0)	(72)	**(72)**	(17)	(55)
Lapse / persistency / renewals	1	0	0	**1**	(19)	21
Tax	0	(0)	(2)	**(2)**	(2)	1
Premium Persistency	0	0	(15)	**(15)**	(15)	0
Level of Required Equity	(128)	128	(39)	**(39)**	(43)	3
Change in target asset mix/asset investment rules	(0)	0	(16)	**(16)**	(17)	1
Profit sharing rules	(0)	0	9	**9**	9	0
Cost inflation	0	(0)	(21)	**(21)**	(15)	(6)

4.5 Equity Reconciliation and Adjusted Net Equity

Table 10 provides an overview of the adjustments made to the IFRS group Shareholder Equity to arrive at the Value of Shareholder Equity used in Embedded Value for reporting year 2009. The scope adjustments include IFRS Shareholders Equity of the life activities of non-covered business such as Fortis' share of the Asian Joint Ventures and smaller European entities left out of scope.

The IFRS Shareholder Equity allocated to the life insurance activities can be replaced by the Embedded Value. Together with the IFRS equity value of the non-covered business and out-of scope business, including the General Account, Joint Ventures in Asia and European businesses these comprise to the Adjusted Net Equity for Total Fortis.

Table 10 - Adjusted Net Equity

	2009	2008[1]
Total IFRS equity, including minority interests, allocated to	**10,004**	**7,310**
General Segment, including eliminations	2,806	2,001
Minority interests	1,654	515
Insurance	5,544	4,793
Insurance Shareholders Equity, allocated to	**5,544**	**4,793**
Other Insurance activities	965	907
Life Insurance activities	4,579	3,889
Life Activities Shareholders Equity, split between	**4,579**	**3,889**
Non-covered	504	79
Covered	4,075	3,811
Covered Life Activities IFRS Equity, adjusted for	**4,075**	**3,811**
Deduction Deferred Acquisition Costs	(172)	(167)
Deduction of Other Intangible Assets (Goodwill/VOBA)	(920)	(953)
Reserve adjustments	169	447
Market value adjustments	847	444
Reallocation of UCG to assets backing provisions	(1,293)	(761)
Adjustments for participation differences	235	158
Value of Shareholder Equity	**2,940**	**2,979**
Embedded Value, of which	**4,898**	**4,923**
Value of Shareholder Equity	2,940	2,979
Value of In-Force Business	1,957	1,944
Business out of scope	**4,040**	**2,829**
Adjustments for participation differences	(235)	(158)
Non-covered life activities	504	79
Other Insurance activities	965	907
General including eliminations	2,806	2,001
Adjusted Net Equity	**8,938**	**7,753**

(1) Not restated for scope changes

The Adjusted Net Equity is presented net of minority interests. The way IFRS treats minority interests differs from Embedded Value. In adjusting the fully consolidated IFRS figures, this treatment leads to participation differences that need to be corrected for.

To arrive at the Value of Shareholder Equity for Embedded Value an adjustment is made to reallocate Unrealised Capital Gains. Under IFRS, all Unrealised Capital Gains, including those on assets backing technical provisions are accounted for as Shareholder Equity. For Embedded Value these assets, including their Unrealised Capital Gains, are projected and valued as part of the Value of in force business and therefore need to be deducted from the IFRS Shareholder Equity.

The Adjusted Net Equity does not include any future profits or losses arising from the out of scope or non-covered business.

5 Sensitivity analyses

The Embedded Value calculations are based on the current market conditions and Fortis' view on best estimate assumptions. In line with EEV additional guidance we provide information on the following sensitivities in order to get a sense of the impact of on the Embedded Value and Value Added by New Business.

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

The Sensitivity analyses include:
- Reference rate +100 bp – This sensitivity assumes an upward parallel shift of 100 bp in yield curve.
- Reference rate -100 bp – This sensitivity assumes a downward parallel shift of 100 bp in yield curve.
- Asset values of shares and real estate -10% – This sensitivity assumes a decrease of the asset values of both shares and real estate by 10%.
- Volatilities equities and properties +25% – This sensitivity assumes a 25% increase of both the equity and real estate volatility by multiplying the base assumption by a factor of 125%.
- Volatilities risk-free yields +25% – This sensitivity assumes a 25% increase of the volatility of the risk free yields by multiplying the base assumption by a factor of 125%.
- Liquidity Premium 0 bp – This sensitivity assumes a reference rate plus 0 bp Liquidity Premium, or in other words, a reference rate equal to the swap curve.
- Liquidity Premium +10 bp – This sensitivity assumes a reference rate plus 30 bp Liquidity Premium for Euro currencies and 60 bp for Hong Kong Dollar and US Dollar.
- Costs -10% – all maintenance costs excluding commissions and acquisition expenses decrease by 10%. Cost inflation remains unchanged.
- Lapse -10% – This sensitivity assumes that the lapse rates used in the base scenario are multiplied by a factor of 90%.
- Mortality -5% – This sensitivity assumes that the mortality rates used in the base scenario are multiplied by a factor of 95%. This has been applied on both annuity and life assurance business.
- Required Capital on the local regulatory minimum level – This sensitivity assumes that the Required Capital to hold is only to meet the minimum local regulatory requirements. This sensitivity is assumed to only impact the Cost of Capital resulting from a lower level of Shareholders Equity needed to meet the minimum level of Required Capital.

Sensitivies - Embedded Value

	Total Insurance	AG Insurance	Insurance International
Embedded Value	**4,898**	**3,638**	**1,260**
Reference rate +100bp	(2.0%)	(2.7%)	0.1%
Reference rate -100bp	(1.7%)	(1.9%)	(1.1%)
Asset values shares and real estate -10%	(4.8%)	(5.2%)	(3.4%)
Volatilities equities and properties +25%	0.7%	1.2%	(0.7%)
Volatilities risk-free yields +25%	(5.2%)	(4.9%)	(6.0%)
Liquidity Premium 0 bp	(4.0%)	(4.1%)	(3.5%)
Liquidity Premium +10 bp	1.7%	1.8%	1.3%
Required Equity (minimum regulatory level)	2.6%	3.2%	0.8%
Costs -10%	2.8%	2.6%	3.2%
Mortality rates -5%	0.6%	0.3%	1.3%
Lapse rates -10%	0.6%	0.2%	1.6%

Sensitivities - Value Added by New Business

	Total Insurance	Insurance Belgium	Insurance International
Value Added by New Business	**69**	**49**	**20**
Reference rate +100bp	7.4%	7.2%	7.7%
Reference rate -100bp	(15.9%)	(19.0%)	(8.2%)
Volatilities equities and properties +25%	(0.4%)	3.4%	(9.6%)
Volatilities risk-free yields +25%	(18.9%)	(13.3%)	(32.7%)
Liquidity Premium 0 bp	(15.3%)	(15.5%)	(14.6%)
Liquidity Premium +10 bp	5.9%	5.4%	7.0%
Required Equity (minimum regulatory level)	9.1%	10.2%	6.3%
Costs -10%	10.8%	7.8%	18.1%
Mortality rates -5%	5.3%	3.3%	10.3%
Lapse rates -10%	7.0%	3.6%	15.2%

6 Review

Towers Watson has reviewed the methodology and assumptions used to calculate the embedded value at 31 December 2009 and the 2009 value of new business, for the in-scope life insurance operations of AG Insurance and Insurance International.

Towers Watson has concluded that the methodology and assumptions used comply with the EEV Principles. In particular:

- The methodology makes allowance for the aggregate risks in the covered business through Fortis's methodology as set out earlier in this document, which includes a stochastic allowance for the cost of financial options and guarantees, and deductions to allow for the frictional cost of required capital and the cost of non-hedgeable risks;
- The operating assumptions have been set with appropriate regard to past, current, and expected future experience;
- The economic assumptions used are internally consistent and derived from observable market data. It is noted that for 2009 reference rates have been based on swap rates as at 31 December 2009 plus a uniform uplift of 20bp for the European companies and 50bp for the Hong Kong company; and
- For participating business, the assumed bonus rates, and the allocation of profit between policyholders and shareholders, are consistent with the projection assumptions, established company practice and local market practice.

The methodology and assumptions used also comply with the EEV Guidance, with the disclosed exception relating to the treatment of Group central overhead expenses.

Towers Watson has also performed limited high-level checks on the results of the calculations and has confirmed that any issues discovered do not have a material impact on the disclosed total Fortis embedded value at 31 December 2009 and 2009 value of new business. Towers Watson has not, however, performed detailed checks on the models and processes involved.

In arriving at these conclusions, Towers Watson has relied on data and information provided by Fortis. This opinion is made solely to Fortis in accordance with the terms of Towers Watson's engagement letter. To the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care or liability to anyone other than Fortis for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

7. Cautionary statements

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

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