



SNS REAAL

European Embedded Value Report 2008



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Introduction

1.1 European Embedded Value Principles

The European Embedded Value ('EEV') Principles were published in May 2004 by the CFO Forum. The principles and the additional guidance on EEV disclosures published in October 2005, provide a framework for calculating and reporting supplementary embedded value information. In 2008 the CFO-forum published guidance for reporting Market Consistent Embedded Values ('MCEV').

SNS REAAL NV ('SNS REAAL') recognises the importance of the CFO Forum's framework for embedded value ('EV') reporting and the results of REAAL Verzekeringen NV ('REAAL') presented in this report comply with the EEV Principles for traditional embedded values.

1.2 Acquisitions

In 2007 SNS REAAL acquired the insurance activities of AXA Group in the Netherlands ('AXA') and in April 2008 the Dutch Swiss Life insurance operations ('Zwitserleven').

As stated in the report of 2007 the total embedded value of REAAL was reported as the sum of the total net asset value excluding the goodwill paid on the acquisition of AXA and the value of in-force business ('VIF') after tax of REAAL. Mainly this was done because of the different methodologies in EEV calculations.

This year REAAL has calculated the embedded value for REAAL including AXA and Zwitserleven on the same EEV basis. The changes to the new methodology have been implemented per year-end 2008. The effects of these changes are illustrated in this report.

Independent review

Watson Wyatt Insurance Consulting B.V. ('Watson Wyatt Insurance Consulting') has reviewed the calculation of the embedded value of REAAL as of 31 December 2008, the value of its new business written during 2008 and the movement analysis over 2008. The covered business included all life insurances and associated rider benefits. All material business units were included in the review.

Watson Wyatt Insurance Consulting has concluded that the methodology and assumptions used comply with the European Embedded Value Principles and Guidance.

The directors are responsible for the Embedded Value calculations. However, Watson Wyatt Insurance Consulting has performed a high-level review on the results of the calculations and has discovered no material issues. Watson Wyatt Insurance Consulting has not, however, performed detailed checks on the models and processes used.

In arriving at these conclusions, Watson Wyatt Insurance Consulting has relied on the accuracy and completeness of data and information supplied by SNS REAAL and that the directors know of no other information or data which ought to have been made available to Watson Wyatt Insurance Consulting that would materially affect the conclusion set out herein.

The review was conducted on behalf of SNS REAAL and designed solely to meet the requirements of the directors of SNS REAAL. To the fullest extent permitted by law, Watson Wyatt Insurance Consulting does not accept or assume responsibility to anyone other than SNS REAAL for its work or for the conclusions it has formed.

Watson Wyatt Insurance Consulting B.V.
Drs. H. Blaak AAG

Embedded Value REAAL

3.1 Highlights

3.1.1 Definition of embedded value

This part of the report contains the figures and analysis of the REAAL embedded value.

Embedded value for the life insurance business comprises two components:

- ⊙ Adjusted net asset value ('ANAV'), being the sum of
 - Required capital defined as 150% of the EU minimum solvency requirement reduced with the surplus value in the Wet op het financieel toezicht ('Wft') liability adequacy test (toereikendheidstoets), plus
 - Free surplus.
- ⊙ Value of in-force business ('VIF'), being the sum of
 - Present value of future after-tax profits, less
 - Cost of options and guarantees, less
 - Cost of holding required capital.

Together, these two components make up the life insurance EV. The value of holding activities is included within the life insurance EV, as part of the adjusted net asset value. The net asset value of REAAL's non-life insurance and the value of other activities is added to this value to determine the total EV of REAAL.

All material blocks of life insurance business are included in the results shown in this report. The following product groupings have been valued:

- ⊙ Life products and their associated disability rider benefits;
- ⊙ Deferred and immediate annuity products;
- ⊙ Pension products.

Future new life business that will be sold after the valuation date is not reflected in the figures shown in this report. No allowance has been made for the potential value added by the renewal of current policies by existing non-life policyholders. The assumptions used in calculating the EV e.g. expenses, have been set assuming a going-concern basis.

Future after-tax profits are estimated using actuarial methods. Future operating and economic assumptions are based on current best estimates. These assumptions are reviewed annually in line with EEV guidance. The distribution of these profits, in terms of both amount and timing, is restricted by accounting rules ('International Financial Reporting Standards – IFRS'). The estimated timing of future after-tax profits allows for these restrictions.

The benefit plans of our recent acquisitions classify as defined benefit plans and for these plans SNS REAAL holds an IAS19 provision on the balance sheet. In the IAS19 calculations the corridor option under IFRS is followed, and the corridor is adjusted on the net asset value. The remainder of SNS REAAL's employees is covered under defined contribution plans. These are insured with parties outside SNS REAAL, and as a result there is no adjustments to EV required with respect to these employee benefit plans. The costs to SNS REAAL of all of these plans are part of the expenses allowed for in the embedded value calculation.

SNS REAAL uses EV as an internal management tool for its life insurance operations. Within REAAL, EV plays an important role in:

- ⊙ Pricing of new business;
- ⊙ Analysis of operating performance;
- ⊙ Product line management;
- ⊙ Distribution channel management.

3.1.2 Embedded value results

All figures in this document are presented on an after-tax basis unless stated otherwise. The table below provides a high-level overview of the EV results.

Table 1: Total embedded value

In € millions	2008	2007
Life insurance Adjusted Net asset value	2,180.1	1,298.9
Life insurance Value in force	1,419.6	1,075.7
Life insurance EV	3,599.7	2,374.6
Net asset value of non-life and other activities	373.2	339.9
Total EV	3,972.9	2,714.5

The embedded value increased by €1,258.4 million during 2008, of which €914.5 million Adjusted NAV and €343.9 million VIF. The breakdown of this increase is as follows:

- ⊙ Zwitserleven acquisition €965.1 million
- ⊙ Restatement AXA acquisition –€14.8 million
- ⊙ Impact financial markets €356.0 million
- ⊙ REAAL stand alone –€47.9 million

Table 2: Impact Zwitserleven acquisition on EV

In € millions	Adjusted net asset value	Value in Force	Embedded Value
New capital	690.0	--	690.0
Goodwill	(185.6)	--	(185.6)
Distribution network	(20.5)	--	(20.5)
Calculation on REAAL basis on end year assumptions	--	481.2	481.2
Total	483.9	481.2	965.1

In the recalculation on REAAL basis allowance has been made for the deferral and amortisation of value of business acquired ('VOBA') and intangibles resulting from the Zwitserleven acquisition.

Changes in purchase price accounting and recalculation on REAAL basis of the AXA-deal had an effect of –€14.8 million on the EV. This is shown in the next table.

Table 3: Impact AXA acquisition in 2008 on EV

In € millions	Adjusted net asset value	Value in Force	Embedded Value
Change in goodwill life business	(127.3)	--	(127.3)
Change in goodwill non life business	(5.5)	--	(5.5)
Calculation on REAAL basis on end year assumptions	--	118.0	118.0
Total impact REAAL stand alone	(132.8)	118.0	(14.8)

In the recalculation of the AXA VIF on REAAL basis an allowance has been made for the deferral and amortisation of value of business acquired ('VOBA') and other intangibles relating to the life business.

The effects of the exceptional behaviour of the financial markets and the support received from the government and the Stichting Beheer SNS REAAL ('Stichting') have the following consequence on the Adjusted Net Asset Value of the insurance block of SNS Reaal.

Table 4: Impact financial markets on EV

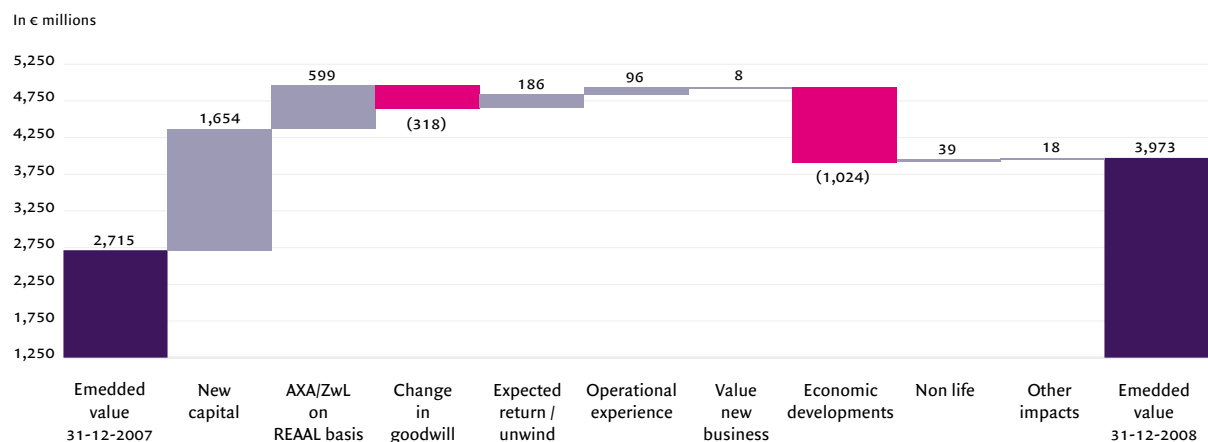
In € millions	Life	Other	Total
New capital	975.0	--	975.0
Impact Financial Markets in result	(596.0)	(23.0)	(619.0)
Total	379.0	(23.0)	356.0

This means that – €47.9 million (i.e. €1,258.4 million less €1,306.3 million) of the increase in EV is caused by changes in the value of REAAL on a stand alone basis. This can be analysed as follows.

Table 5: REAAL stand alone

In € millions	Adjusted net asset value	Value in Force	Embedded Value
Expected return on free equity and unwinding of the VIF	50.6	135.4	186.0
Operational experience	(9.9)	98.4	88.5
Value new business	2.0	5.7	7.6
Economic experience and economic assumptions changes	(47.6)	(372.4)	(420.0)
Transfer expected net result	135.3	(135.3)	--
Other impacts	15.2	39.5	54.7
Non life	61.8	--	61.8
Total impact REAAL stand alone	207.3	(255.3)	(47.9)

1 Headlines analysis of change EV



For a more detailed analysis please refer to paragraph 3.5.4.

3.1.3 New business results

The value added by new business is decreased in 2008. The value of 2008 and 2007 new life insurance business is summarised in the table below.

Table 6: Value new business

In € millions	2008	2007
Annualised Premium Equivalent ('APE')	456.4	170.2
Present Value New Business Premium ('PVNBP')	2,857.9	1,290.7
Value New Business ('VNB')	7.6	11.5
Margin as % of PVNBP	0.3%	0.9%

The Dutch Market for life insurance products remained very competitive. As a result, the margins of both regular premiums (for example mortality covers) and individual single premium products (in particular immediate annuities) decreased. REAAL introduced a very competitive term product that resulted in higher sales but with lower margins. In addition, volumes were under pressure as a result of the transparency issues about cost contributions in universal life and unit linked policies.

The 2007 figures in table 6 do not contain the Value New Business ('VNB') of AXA and Zwitserleven. As stated in 2007 the VNB of AXA was €2.5 million (on MCEV basis). VNB of Zwitserleven in that year was €13.4 million. The 2008 figures consist of the value new business of all entities. In the second quarter of 2008, AXA products, excluding the DBV brand, have been made non-selling. Zwitserleven had a contribution of €8.2 million.

3.2 Economic assumptions

Economic assumptions are approved by REAAL's Executive Board and are based on input from the SNS REAAL Asset Liability Committee. The risk-free rates for the first five years of the projections have been derived from the implied 10-year forward rates as at end 2007 and 2008 respectively. After five years, risk free rates are assumed to remain constant.

Equity returns are set by reference to the risk free return and assume an equity risk premium of 300 basis points. The property returns assume a premium above risk free rates of 200 basis points. These risk premiums assumed on equity shares and property reflect SNS REAAL's current view of prospective returns on these asset classes.

3.2.1 New money investment assumptions

New money investment assumptions include the long term risk-free interest rates, new money credit spreads, equity and property returns. The rates used for the life insurance EV valuation at both year-end 2007 and 2008 are outlined in the tables below. The net credit spread on fixed interest investments allows for defaults that vary by credit rating.

Table 7: New money investment assumptions 2007

	2008	2009	2010	2011	2012	2013+
Risk free fixed interest returns	4.42%	4.52%	4.63%	4.71%	4.80%	4.89%
Net credit spread on fixed interest	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%
Equity returns	7.42%	7.52%	7.63%	7.71%	7.80%	7.89%
Property returns	6.42%	6.52%	6.63%	6.71%	6.80%	6.89%

Table 8: New money investment assumptions 2008

	2009	2010	2011	2012	2013	2014+
Risk free fixed interest returns	3.49%	3.72%	3.96%	4.15%	4.33%	4.56%
Net credit spread on fixed interest	1.24%	1.24%	1.24%	1.24%	1.23%	1.17%
Equity returns	6.49%	6.72%	6.96%	7.15%	7.33%	7.56%
Property returns	5.49%	5.72%	5.96%	6.15%	6.33%	6.56%

Future investments for non-unit linked business have been assumed to be invested in a mix of fixed interest investments and equities and property. In the first year of projection this is the actual mix. After the first year of projection approximately 83% of the assets (2007: 83%) are assumed to be invested in fixed interest investments and the remainder in a mix of equities and property.

The risk free rates in both years are based on the 10-year forward rates on government bonds inferred from yield curves on 31 December. The average credit rating of the existing fixed interest portfolio is 'AA'. Current market values of fixed interest assets make an implicit allowance for defaults on the existing portfolio. The assumed level of defaults on new money is approximately 10 basis points in both years.

3.2.2 Risk discount rate

The risk discount rate is a combination of the risk free rate (in this case, the ultimate rate shown in the tables above) to reflect the time value of money plus a risk margin to make allowance for the risk that experience in future years differs from that assumed. In particular, a risk margin is added to allow for the risk that projected additional returns on, for example, equities are not achieved.

In determining the discount rate REAAL follows the principle that an appropriate risk margin should be derived, using a weighted average cost of capital ('WACC') approach. The WACC is calculated by using a risk free interest rate, an equity risk premium, a risk factor (β) and an allowance for the impact of debt financing (based on the market value of this debt).

Table 9: Derivation of Risk Discount Rate

	2008	2007
Risk free rate	4.56%	4.89%
Equity risk premium	3.00%	3.00%
Risk factor (β)	1.10	1.14
Weighting debt financing	41%	22%
After-tax cost of debt financing	7.97%	5.82%
Weighting government capital	18%	--
After-tax cost of government capital	8.50%	--
Risk discount rate	8.00%	7.70%

The assumed risk factor (β) i.e. the correlation between REAAL and European stock market returns has been estimated based on a comparison between the MSCI Index and the MSCI Insurance Index.

The WACC computation produced a discount rate at end 2008 of 8.0%, an increase of 30 basis points compared to end 2007. Due to the high credit spreads the risk margin (risk discount rate less ultimate risk free rate) is higher in 2008 than it is in 2007 (2008: 3.44% and 2007: 2.81%). Although risk free rates are lower than in 2007, this was more than offset by the increased risk margins resulting in a higher discount rate.

The WACC for the value new business is calculated on the average level for the WACC during the year. This WACC is 7.7% for 2008 (2007: 7.4%)

The WACC for 2008 is calculated including AXA and Zwitserleven.

No other adjustments for risk are reflected in the discount rate. Differences in risk by product line are reflected through the capital allocation and through deductions for the time value of financial options and guarantees.

3.2.3 Economic scenarios

SNS REAAL has generated a series of economic scenarios for use in determining the cost of options and guarantees. The way in which these scenarios have been derived is described below.

Scenarios for traditional profit-sharing business

Long-term (i.e. 10 year) fixed interest rates are simulated using a normal distribution. Where profit-sharing is based on an external index (e.g., u-yield), the u-yield is approximated as the projected return on 10 year Government bonds minus 20 basis points (2007: 20 basis points). Where management has some discretion over the amount of profit-sharing, the level of profit-sharing is estimated as a moving average of projected returns on fixed interest investments with an average maturity of 10 years.

In the calculation principles, used for profit sharing in the Zwitserleven products, the u-rate is determined at the so called partial u-rate at valuation date. During the projection period the u-rate is defined as the risk free rate at that moment increased by the difference between partial u-rate and risk free rate at valuation date. In addition profit on property and equity is taken into account for this type of profit sharing.

Scenarios for unit-linked and group segregated account business

These portfolios are backed by a mix of fixed interest and equity investments. Economic scenarios are generated using expected returns on each of these investment categories, based upon the correlation between returns in each of the investment categories and the volatility of return per category.

Volatility and correlation

The following volatility and correlation parameters were used to determine the time value of financial options and guarantees. These are based on a mix of implied and historical levels.

Table 10: Volatility 2007 and 2008

	Fixed interest	Equities
2007	0.68%	16.0%
2008	0.68%	21.0%

Table 11: Correlation matrix 2007 and 2008

	Fixed interest	Equities	Property
Fixed interest	100%	0%	0%
Equities	0%	100%	65%
Property	0%	65%	100%

3.2.4 Taxes

In preparing the year-end 2007 and 2008 EV life insurance results, REAAL has assumed the nominal tax rates shown in the table below.

Table 12: Nominal tax rates

	2008	2009	2010	2011+
End 2007	25.5%	25.5%	25.5%	25.5%
End 2008	--	25.5%	25.5%	25.5%

In calculating after-tax earnings allowance has been made for tax-exempt income and expenses. In 2007 the effective rate of tax used in projecting future after-tax profits was 22%. Due to the acquisitions the overall effective tax rate in 2008 calculations is increased to 22.5%.

3.2.5 Required capital

In addition to policyholder reserves, capital is needed to support the life insurance business. This 'required capital' is an allocation of surplus that cannot be distributed until it is no longer needed to support the business in-force. Setting aside capital to protect policyholders comes with a cost, which is reflected in a reduced EV and value of new business.

REAAL has set its required capital level at 150% (2007: 150%) of the EU regulatory minimum requirement. This reflects the level of capital considered by SNS REAAL to be appropriate to manage the business, allowing for REAAL's assessment of the level of market, insurance and operating risk inherent in the underlying portfolio.

According to the new supervisory laws (Wft) that came into force on January 1st 2007, the surplus value in the Wft liability adequacy test (toereikendheidstoets) can be treated as solvency capital, thus reducing the required shareholder's capital and as a result also reducing the cost of capital. The same definition of required capital is used for both existing and new business.

3.3 Operational assumptions

All of REAAL's expenses, including corporate overhead expenses, have been allocated to the various business units within the insurance group. Other than certain non-recurrent expenses, as discussed below, expenses attributable to the life insurance businesses have been allocated to acquisition or to maintenance expenses and are included in the EV projections.

3.3.1 Expenses, synergy and expense inflation

As a result of the acquisition of the activities of AXA in the Netherlands, expense reductions are expected to be higher than envisaged last year once integration of these activities has been realised.

For the EEV calculations, SNS REAAL feels it is appropriate to take into account 100% of the expected synergy on non-acquisition expenses for the life business of the AXA deal (2007: 70%). For the Zwitserleven acquisition REAAL also expects significant synergy effects. These synergy effects are also included in the 2008 figures.

Table 13: Expenses synergy and cost inflation

Portfolio	2008	2009	2010	2011	2012	2013
End 2007 REAAL	(0.14%)	8.01%	6.25%	5.27%	1.57%	0.22%
End 2008 REAAL	--	10.87%	19.92%	12.72%	6.11%	0.00%
AXA	--	8.61%	5.51%	4.52%	1.33%	0.17%
Zwitserleven	--	2.44%	11.39%	8.95%	5.69%	0.00%

Table 13 does not include the impact of expense inflation. Expense inflation assumptions are as follows.

Table 14: Increase in renewal expenses

	2008	2009	2010	2011	2012	2013	2014
End 2007	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
End 2008	--	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

In 2008 expenses used to determine unit costs exclude the costs associated with the extra expenses due to the integration of AXA. These costs are mainly associated with temporarily staff hired to overcome the outflow due to movement of activities to other locations. This leads to an exclusion of € 33.4 million of costs. Besides this € 16.6 million is deducted because the costs were made for non recurrent items. In 2007 € 8.4 million was deducted. These costs were mainly associated with new regulatory and legislative projects performed in 2007. For Zwitserleven there are € 23.4 million costs excluded.

3.3.2 Mortality, disability and lapses

The assumptions used in the EV calculations for 2007 and 2008 are based on a review of actual operating experience by REAAL's Insurance Risk Management function. AXA and Zwitserleven performance figures are calculated separately by the actuarial department.

Mortality assumptions have been updated to reflect improvements in life expectancy for the population in general, and to reflect a more detailed analysis of recent historical mortality experience for the various products sold by REAAL. Lapse assumptions have also been updated to reflect changes in recent historical experience.

The business, through the SNS REAAL Asset Liability Committee, has provided a sign-off that their assumptions represent their best estimates for 2007 and 2008.

3.4 Capital

The EV is based on local reporting requirements and allows for required capital defined as being 150% of the EU minimum solvency requirement less the surplus value in the Wft liability adequacy test.

3.4.1 Adjusted net asset value

The table below illustrates the derivation of the adjusted net asset value figures for life insurance business and non-life insurance activities that are part of the total EV.

Table 15: Adjusted net asset value

In € millions	2008	2007
Total reported shareholders' equity - REAAL	3,155.3	1,913.4
Less minority interests	(12.6)	(4.1)
Adjusted net asset value ¹	3,142.7	1,909.3
Adjusted net asset value		
Life insurance activities	2,659.3	1,467.5
Restricted capital (beklemd vermogen)	(8.7)	(12.3)
Goodwill	(469.2)	(156.3)
Other	(1.3)	--
Sub-total Life insurance	2,180.1	1,298.9
Non-life insurance	398.2	362.2
Other activities	(25.0)	(22.3)
Total adjusted net asset value	2,553.3	1,638.7

¹) The adjusted net asset value can be split into Life (2008: € 2,180.1 million; 2007: € 1,298.9 million) and Non-Life (2008: € 398.2 million; 2007: € 362.2 million). The 2008 total amount of goodwill (after tax) is € 554.4 million of which € 85.2 million is taken into account in the non life net asset value.

The amount shown in the table above as 'Restricted Capital' (*beklemd vermogen*) results from the adoption of IFRS and relates to individual profit-sharing business. In this line, part of the revaluation of the underlying assets is to be distributed to policyholders in the future in the form of profit-sharing. The expected future value to be distributed to policyholders is classified as restricted capital. The amount deducted from the net asset value in this respect, has been added to the value of in-force business i.e., this adjustment represents a reallocation of value between the adjusted net asset value and the value of in-force business.

The goodwill shown in the table above has arisen as a result of the acquisition of AXA and Zwitserleven. As illustrated above, goodwill has been excluded for EEV purposes.

In the 2007 figures the € 1,638.7 million adjusted net asset value include the value for AXA based upon 2007 AXA basis. In the 2008 figures all acquisitions are calculated on REAAL-basis.

3.4.2 DAC and VOBA

In calculating the new business and value of in-force ('VIF') figures shown in this report, allowance has been made for the deferral and amortisation of deferred acquisition costs ('DAC') and of value of business acquired ('VOBA'). As stated before, in 2007 AXA is included in REAAL's EV figures at its IFRS book value (less an adjustment for goodwill). Therefore the 2007 VOBA figures detailed below exclude the VOBA and other intangibles arising as a result of the acquisition of AXA. For the 2008 figures the VOBA for both the AXA and Zwitserleven acquisition is allowed for in the VIF.

At the end of 2008, DAC totalled € 588 million (2007: € 584 million, including AXA) and VOBA € 1,161.6 million (2007: € 759 million, including AXA). The amortisation of DAC and VOBA has been allowed for in projecting future after-tax distributable profits. The value of in-force business includes the net present value of these profits. Therefore, reducing the EV by either the amount of DAC and/or VOBA outstanding at end 2008 would introduce double counting.

The results of the IFRS Liability Adequacy Test performed at end 2008 show that both the DAC and VOBA are recoverable from future profits. The Liability Adequacy Test also shows that the amount deferred with regards to 2008 new business was recoverable from future margins.

3.5 Results

3.5.1 Embedded value

The table below provides details of the EV as of year-end 2007 and year-end 2008. Non-life insurance and other activities are included on the basis of their net asset value.

Table 16: Embedded Value

In € millions	2008	2007
Free surplus (life)	667.8	850.3
Required capital (life)	1,512.3	448.6
Total adjusted net asset value (life)	2,180.1	1,298.9
Present value of future profits	2,030.2	1,207.1
Cost of options and guarantees	(152.4)	(20.1)
Cost of capital	(458.2)	(111.3)
Value of in-force business	1,419.6	1,075.7
Life insurance EV	3,599.7	2,374.6
Net asset value of non-life and other activities	373.2	339.9
Total EV	3,972.9	2,714.5

All material blocks of life insurance business are included in the reported EV results. 95% of the in-force business (and 100% of the new business) is included in REAAL's projection models.

The required capital presented is the required capital reduced by the surplus value of the Wft liability adequacy test (net of taxes). The reduction is €94.4 million for REAAL excluding AXA and Zwitserleven (2007: €371.7 million).

Including Zwitserleven and AXA the reduction for 2008 is €378.3 million.

3.5.2 Options and guarantees

In addition to the margin above the risk free rate contained in the risk discount rate and the cost of holding required capital, risk is also allowed for under EEV through an explicit reduction in the EV for the (time) value of options and guarantees.

Options and guarantees result from a minimum guarantee within a specified profit sharing formula. Minimum guarantees are either 3% or 4% depending on the issue date of the policy, with more recent issues having lower rates of guarantee. For traditional business 50% of the technical provisions relate to business with some form of profit-sharing (discretionary or otherwise).

Around 15% of Individual unit-linked business, measured as a percentage of technical provisions, has some form of minimum maturity guarantee. Group segregated account business provides the holder with the right to leave paid-up benefits with REAAL irrespective of whether the underlying assets are sufficient to meet the contract's liabilities.

The change in the time value of financial options and guarantees (from €20.1 million at year-end 2007, to €152.4 million at year-end 2008) is the result of the lower risk free rates at the end of 2008, the performance of the assets in 2008 and the inclusion of AXA and Zwitserleven.

Further detail on the types of options and guarantees embedded in insurance products and their valuation is provided in Appendices 1 and 2 of this report.

3.5.3 Value of new business

An important element in the change in EV from one year to the next is the value added by new business. The value added by new business is the present value of after-tax distributable profits associated with sales during the reporting period. The value is determined using the average of economic assumptions over each quarter during the year, and year-end operational assumptions. The cost of capital associated with the new business is included in the new business value.

New business sales are expressed on the basis of the following:

- ⊙ Annual Premium Equivalent ('APE'), equal to regular premium plus one tenth of single premium and
- ⊙ The Present Value of future New Business Premiums ('PVNBP') which equals the single premiums received in the year plus the present value of regular premiums projected to be received over the term of the new contracts, allowing for expected levels of lapse and mortality.

New business volumes include premiums arising from the sales of new individual and group contracts. Renewals of existing group contracts are included in new business volumes. Projected contractual increases in premiums (either salary related or due to new members on existing group contracts) are reflected in the in-force value and deviations from these projections are treated as variations in experience rather than new sales. For individual policies, non-contractual increases to the benefits under these contracts are in principle included in new business.

The table below provides for an overview of the value created by the new business sold in 2008.

Table 17: Value added by new business

In € millions	2008	2007
Value of new business before tax and cost of capital	54.7	30.0
Tax	(12.3)	(6.5)
Cost of capital	(34.8)	(12.0)
Value of new business after tax and cost of capital	7.6	11.5
APE	456.4	170.2
Margin as % of APE	1.6%	6.6%
PVNBP	2,857.9	1,290.7
Margin as % of PVNBP	0.3%	0.9%

For 2008, the value of new business ('VNB') of REAAL (including AXA) amounted to – € 0.5 million (2007: € 11.5 million for REAAL and € 2.5 million for AXA). Zwitserleven added € 8.2 million (2007: € 13.4 million). Similar to the VIF, the impact on value of 100% of expected AXA synergy savings and integration costs has been allowed for in determining VNB (2007: 70%). The expected synergy of the Zwitserleven-deal is taken into account for 50% in the REAAL and for 50% in the Zwitserleven figures.

The 2007 figures in the table above do not contain the Value New Business of AXA and Zwitserleven. As stated in 2007 the VNB of AXA was € 2.5 million (on MCEV basis). The VNB of Zwitserleven in that year was € 13.4 million (on traditional EV basis).

The Dutch Market for life insurance products remains very competitive. As a result, the margins of both regular premiums (for example mortality covers) and individual single premium products (in particular immediate annuities) decreased. REAAL introduced a very competitive term product that resulted in higher sales but with lower margins. In addition, volumes were under pressure as a result of the transparency issues concerning cost contributions in universal life and unit linked policies.

The internal rate of return ('IRR') is the discount rate at which the present value of distributable earnings projected to be earned by new business is equal to the total capital invested to write the business. New business generally requires capital to be invested to meet acquisition costs, set up statutory reserves in excess of premiums received and to meet required capital levels in excess of statutory reserves. This investment is recouped over the remaining lifetime of the policies.

The IRR of REAAL's 2008 New Business is 8.0% (IRR 2007: 8.9%).

3.5.4 MCEV

Figures in this report are based on traditional EEV calculations. In 2009, REAAL will implement MCEV guidance principles to the embedded value calculations. Due to the new principles and the acquisition of Zwitserleven, the transition to MCEV has been put forward by one year.

Based on current market parameters and due to differences in methodology, the level of embedded value on an MCEV basis is estimated to be significantly lower compared to the level on an EEV basis.

3.5.5 Analysis of the change in embedded value

The EV increased during 2008 by € 1,258.4 million (2007: € 622.3 million).

The change in the EV in 2008 is explained by the movement analysis shown in the table below. The analysis is shown separately for adjusted net asset value and the value of in-force business, including amounts transferred between these two categories.

Table 18: Movement analysis

In € millions	Adjusted net asset value	Value of in-force business	2008 Total	2007 Total
EV from prior period	1,638.7	1,075.7	2,714.5	2,092.2
Adjustments to EV from prior period	--	14.9	14.9	11.6
Revised starting EV	1,638.7	1,090.6	2,729.5	2,103.7
Value New Business	2.0	5.6	7.6	11.5
Expected return / unwinding	50.6	135.4	186.0	125.0
Transfer net result	135.3	(135.3)	--	--
Operational experience	(9.9)	98.4	88.5	75.4
Operating return	177.9	104.2	282.1	211.9
Economic experience variances	(643.6)	(75.9)	(719.5)	(242.9)
Economic assumption changes	--	(296.5)	(296.5)	87.1
New capital life business less dividend paid	1,654.5	--	1,654.5	431.6
New WFT legislation cost of capital	--	--	--	96.7
Goodwill related to acquisitions (2007 AXA, 2008 Zwitserleven)	(312.9)	--	(312.9)	(156.3)
Recalculation VIF AXA and Zwitserleven on REAAL-basis	--	599.2	599.2	--
Miscellaneous impacts	5.3	(2.0)	3.3	18.0
Change in value of non life and other activities	38.8	--	38.8	244.2
Goodwill related to acquisition of AXA's non-life activities	(5.5)	--	(5.5)	(79.7)
Closing EV	2,553.3	1,419.6	3,972.9	2,714.5

Please note that unless stated otherwise, all figures regarding the VIF in the table above and the explanations below, are figures of REAAL stand alone i.e. excluding AXA and Zwitserleven. The ANAV figures include changes in net asset value due to AXA and Zwitserleven.

Adjustments to EV from prior period

The adjustments to EV from prior period represent the impact on EV of refinements to financial projection models (€ 14.9 million).

Value New Business

This value represents the VNB of REAAL including AXA and Zwitserleven. Due to the deferral of acquisition costs, the new business strain of REAAL is very limited.

Expected return / unwind

This consists of:

- ⊙ The unwinding of the discount rate on the value of in-force business at the beginning of the year and of new business written during the year;
- ⊙ The expected return on free equity.

Transfer net result

The expected profits included in the present value of future profits that flow from the in-force business to the net asset value are recorded under this heading.

Operational experience variances

This represents:

- ⊙ The 2008 difference between actual and modelled experience (decrease VIF € 14.6 million)
- ⊙ The impact of new operational assumptions. These assumptions have been adjusted as a result of new studies concerning expenses, mortality and lapses. These adjustments result in an increase of the value in force of € 113.0 million. This amount can be split up in a change due to mortality frequencies and lapses (€ 85.6 million) and a change due to expenses (€ 27.7million). This last figure consists of a downward effect as a result of higher basis costs and an upward effect due to synergy.

Economic experience variances

Economic experience variances primarily consist of the reduction in the market value of bonds and the fall in value of equities.

Economic assumption changes

Reflects the change in risk discount rate from 2007 to 2008 (including changes made to the weighting of debt financing and after-tax cost of debt financing in determining the risk discount rate), and the decrease in bond yields over 2008. These changes have decreased VIF by € 319.9 million.

The change of the expense inflation results in a increase in VIF of € 32.3 million.

New Capital life business less dividend paid

As part of the financing of the purchase of Zwitserleven, REAAL increased its available equity by € 690 million. At the end of the year REAAL received a part of the capital the Dutch government made available for SNS Reaal (€ 585 million) and the loan SNS REAAL received from the 'Stichting' (€ 390 million). The payment made on this capital is deducted on the same row (– € 25.5 million).

Goodwill related to acquisitions

The goodwill presented is the change in the goodwill shown in the IFRS balance sheet. This goodwill results from the recalculation of the opening balance sheet of AXA (total € 132.8 million, where € 127.3 million for Life and € 5.5 million for Non-Life) and Zwitserleven (total € 185.6 million, all Life).

Recalculation VIF Zwitserleven and AXA on REAAL-basis

The presented value is the value in force of the AXA and Zwitserleven portfolios reduced by the present value of the after tax annual write off of the VOBA corrected for interest. Last year in the EV disclosure it was presumed that the value in force of AXA was exactly the same as the Value of Business Acquired after tax ('VOBA'). This recalculation increases the VIF by € 125.8 million.

For the Zwitserleven portfolio there is an increase of € 481.2 million.

3.6 Sensitivity analysis

EV calculations rely upon several best estimate assumptions with respect to future investment income, mortality rate, lapse rates, etc. Sensitivity testing of the life insurance EV and new business outcomes for alternative assumptions is provided in the tables below.

The sensitivities that have been performed are as follows:

- ⊙ 100 basis point lower discount rate;
- ⊙ 100 basis point higher discount rate;
- ⊙ 100 basis point reduction in interest rates, including subsequent changes to assumed investment returns for all asset classes, market value of fixed interest assets and risk discount rates;
- ⊙ 100 basis point increase in interest rates, including subsequent changes to assumed investment returns for all asset classes, market value of fixed interest assets and risk discount rates;
- ⊙ 10% lower lapses: lapse assumptions are multiplied by 0.90;
- ⊙ 5% lower mortality and disability: mortality and disability assumptions are multiplied by 0.95. The result for the insurances with longevity risk is shown separately;
- ⊙ 10% lower maintenance expenses;
- ⊙ 10% instant downward change in value of equity;
- ⊙ Required capital equal to 100% of EU minimum solvency requirement rather than 150%;
- ⊙ Value excluding the expected synergy.

This year for the first time these figures include the sensitivity of the AXA and Zwitserleven business.

3.6.1 Life insurance embedded value sensitivities

The table below summarises the results of the sensitivity analysis of the life insurance embedded value as of 31 December 2008.

Table 19: Life insurance embedded value sensitivities

In € millions	Adjusted net asset value	Value of in-force business	2007 Total
As reported	2,553.3	1,419.6	3,972.9
Impact of sensitivity on reported value:			
100 basis point reduction in the risk discount rate	--	341.9	341.9
100 basis point increase in the risk discount rate	--	(286.0)	(286.0)
100 basis point reduction in asset return and discount rate simultaneously	424.0	(441.6)	(17.7)
100 basis point increase in asset return and discount rate simultaneously	(381.7)	244.7	(137.0)
10% decrease in lapse rates	--	70.9	70.9
5% lower mortality and disability rates for insurance contracts with short term mortality risk	--	105.5	105.5
5% lower mortality and disability rates for insurance contracts with longevity risk	--	(33.9)	(33.9)
10% decrease in maintenance expenses	--	107.1	107.1
No synergy	--	(247.0)	(247.0)
Instant 10% downward change op value of equity	(118.7)	(8.7)	(127.3)
Required capital 100% of EU minimum	--	173.7	173.7

These sensitivities represent the sensitivity of the REAAL in-force portfolio including AXA and Zwitserleven.

Changes in fixed interest returns generally coincide with changes in returns on other investment types and changes in risk discount rates. For this reason, we believe it is more appropriate to consider the changes in value resulting from simultaneous changes in fixed interest returns, equity and property yields and discount rates, than to consider these items independently.

1% lower interest rates have a larger impact on the value of in-force business than the 1% increase because in the down scenario the investment returns are at, or below, the interest guarantees. The gain on the mirror sensitivity test, 1% higher interest rates, is not as significant for profit-sharing business as part (or all) of these gains are passed to policyholders in the form of profit-sharing. For unit-linked and non profit-sharing business, the main impact of changes in interest rates stems from the change in risk discount rate that accompanies a move in the underlying risk free rate.

Reductions in mortality and disability experience given the mix of business in force (i.e. offsetting positions in short term and long term mortality risk), have a positive effect on the value.

3.6.2 New Business sensitivities

The table provides a summary of the impact of the previous described sensitivities on the value added by 2008 new business.

Table 20: New business sensitivities

In € millions	
As reported – value of new business	7.6
Impact of sensitivity on reported value	
100 basis point reduction in the risk discount rate	16.4
100 basis point increase in the risk discount rate	(13.9)
100 basis point reduction in interest rates ¹⁾	(44.1)
100 basis point increase in interest rates ¹⁾	34.6
10% decrease in lapse rates	3.1
5% lower mortality and disability rates (short term)	4.9
5% lower mortality and disability rates (longevity)	(1.1)
Goodwill related to acquisitions	8.2
10% decrease in initial costs	10.2
No synergy	(19.1)
Required capital 100% of EU minimum	9.2

¹⁾ 100 basis point change in interest rates, including subsequent changes to assumed investment returns for all asset classes and risk discount rates.

The sensitivity to changes in interest rates is based around the premise that whilst capital markets would have moved as a result of the fall or rise in interest rates, premiums received from policyholders and benefits and guarantees provided to policyholders would not. The sensitivity also assumes that new-money rates are applied to 2008 cash flows available for investment. This is the reason that the sensitivity to a 1% fall in interest rates shows such a large change relative to the reported value.

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