SNS REAAL

European Embedded Value Report 2006

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Highlights

1.1 Introduction

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.

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

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.

1 Total embedded value

In € millions	2006	2005	% change
Life insurance EV	1,916.8	1,480.9	29.4%
Net asset value of non-life and other activities	175.4	179.8	(2.5%)
Total EV	**2,092.2**	**1,660.7**	**26.0%**

The embedded value increased by € 431.5 million during 2006.

1.3 New business results

The value added by new business also increased in 2006. The value of 2006 and 2005 new life insurance business is summarised in the table hereafter.

2 New business

In € millions	2006	2005	% change
Annualised Premium Equivalent ('APE')	196.3	176.4	11.2%
Present Value New Business Premium ('PVNBP')	1,395.8	1,213.0	15.1%
Value added by new business	20.2	14.9	35.3%
Margin as % of PVNBP	1.4%	1.2%	17.6%

1.4 Definition of embedded value

Embedded value for the life insurance business comprises two components:

- Adjusted net asset value, being the sum of
  - Required capital defined as 150% of the EU minimum solvency requirement, plus
  - Free surplus
- Value of in-force business, being the sum of
  - Present value of future after-tax profits, less
  - Cost of options and guarantees, less
  - Cost of holding required capital

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 the non-life insurance and other activities is then added to this value to determine the total EV of the insurance company REAAL Verzekeringen N.V. ('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 and current best estimates for future operating and economic assumptions. 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.

SNS REAAL has chosen to exclude from the EV results presented in this document, the value of the profits that its investment management company makes on the assets it manages for the life insurance company. This choice has been made because of the commercially sensitive nature of disclosing margins for companies that also manage third-party assets. Asset management charges have therefore been dealt with on an arm's length basis.

The retirement benefit plans for employees of SNS REAAL are defined contribution and these plans are insured with parties outside SNS REAAL. As a result, there are no adjustments to EV required in respect of employee benefit plans. The costs to SNS REAAL of providing these defined contribution plans are however part of the expenses allowed for in the embedded value calculations.

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

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

Watson Wyatt Insurance Consulting B.V. has been engaged by SNS REAAL to review the results, methodology and assumptions used in preparing the figures in this report. The scope and conclusions of their review are contained in Section 7 of this report.

Economic assumptions

Economic assumptions are approved by REAAL's Executive Board and are based on input from SNS REAAL's 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 2005 and 2006 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 in 2006 (250 basis points in 2005). In 2006, property returns assume a premium above risk free rates of 200 basis points (166 basis points in 2005). These changes to the risk premiums assumed on equity shares and property reflect SNS REAAL's current view of prospective returns on these asset classes.

2.1 New money investment assumptions

These 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 2005 and 2006 are outlined in the tables below. The net credit spread on fixed interest investments allows for defaults that vary by credit rating.

3 New money investment assumptions 2005

	2006	2007	2008	2009	2010	2011+
Risk free fixed interest returns	3.36%	3.46%	3.56%	3.64%	3.71%	3.74%
Net credit spread on fixed interest	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%
Equity returns	5.86%	5.96%	6.06%	6.14%	6.21%	6.24%
Property returns	5.02%	5.13%	5.22%	5.30%	5.37%	5.41%

4 New money investment assumptions 2006

	2007	2008	2009	2010	2011	2012+
Risk free fixed interest returns	3.97%	3.99%	4.01%	4.03%	4.05%	4.05%
Net credit spread on fixed interest	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%
Equity returns	6.97%	6.99%	7.01%	7.03%	7.05%	7.05%
Property returns	5.97%	5.99%	6.01%	6.03%	6.05%	6.05%

Future investments for non-unit linked business have been assumed to be invested in a mix of fixed interest investments and equities and property. Around 83% of new money (2005: 85%) is assumed to be invested in fixed interest investments and the remainder in a mix of equities and property.

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. This level of defaults is deducted from the net credit spread on fixed interest.

2.2 Risk discount rate

The risk discount rate is a combination of a risk free rate (in this case, the ultimate rates 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 using a risk free interest rate, an equity risk premium, a risk factor (beta) and an allowance for the impact of debt financing (based on the market value of this debt).

5 Derivation of Risk Discount Rate

	2006	2005
Risk free rate	4.05%	3.74%
Equity risk premium	3.00%	2.50%
Risk factor (ß)	1.18	1.24
Weighting debt financing	15%	9%
After-tax cost of debt financing	4.02%	5.43%
Risk discount rate	7.00%	6.70%

The risk factor (beta), assumed 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, given the short history available for the SNS REAAL share price (listed in may 2006).

The risk discount rate for 2006 allows for changes REAAL plans to make in 2007 to the way in which it is financed i.e. the debt to equity ratio of the life insurance company. These changes will impact both the debt financing weighting and the after-tax cost of debt financing.

The WACC computation produced a discount rate at end 2006 of 7.00%, an increase of 30 basis points compared to end 2005. Overall, the risk margin (risk discount rate less ultimate risk free rate) is almost constant from 2005 to 2006 (2005: 2.96% and 2006: 2.95%).

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.

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 22 basis points (2005: 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.

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, the correlation between returns in each of the investment categories and the volatility of return per category. Equity and fixed interest volatilities, and asset correlations are summarised in Appendix II of this document.

2.4 Taxes

In preparing its end 2005 and 2006 EV life insurance results, REAAL has assumed the nominal tax rates shown in the table below.

6 Nominal tax rates

	2006	2007	2008	2009+
End 2005	29.6%	29.1%	29.1%	29.1%
End 2006		25.5%	25.5%	25.5%

In calculating after-tax earnings allowance has been made for tax-exempt income and expenses. In 2006, the effective rate of tax used in projecting future after-tax profits was 22% (24.4% in 2005).

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 for 2006 at 150% (2005: 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. The same definition of required capital is used for both existing and new business.

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.

3.1 Expenses and expense inflation

In 2006, REAAL performed a thorough examination of the systems and processes used to manage its in-force business. This analysis was aimed at identifying areas of the business where processes could be simplified and improved. In addition, areas of the business were identified where there was an over-reliance on external staff. To remedy this, REAAL drafted a plan to simplify and improve its processes, to reduce its external staff numbers significantly and to replace them with internal staff. Management put their plan into place in 2006, and the plan covers the period 2006 - 2010.

As a result of the action taken by management to reduce the current cost base, REAAL feels it is appropriate to allow for some reduction in future expense levels and has done this in two ways:

1. An allowance for efficiency gains of 1.75% per year on average over the period 2007 - 2009. This increases the value of in-force business by € 19.8 million and the value of new business € 1.5 million.

2. Decrease of annual expenses of 15 million, reached in 2010, have been targeted from process improvements and reductions in the use of external personnel. The calculations at end 2006 assume that the targeted expense savings will be achieved over the period 2007 - 2010 rather than immediately. Starting January 2007 this amount has been excluded from the expenses used to determine unit costs, with the after-tax impact of these expenses being deducted from the value of in-force business. This results in a reduction in in-force value of € 20.5 million.

REAAL feels it is appropriate to allow for these reductions in expenses as they have a proven track record of achieving such expense reductions and have well-defined plans in place to cut expenses over the short to medium term.

As a result of the action taken by management, the Activity Based Costing ('ABC') study was updated. The result of this update is that the allocation of renewal expenses to different product lines and to different types of policies i.e. premium paying, paid-up (including single premium policies) and pensions-in-payment has been changed. In general, premium paying policies have become slightly more expensive and other types of policy have become slightly less expensive.

The expenses used to determine unit costs exclude the costs associated with one-off projects such as the Initial Public Offering, and a variety of new regulatory and legislative projects performed in 2006. As a result, € 7.8 million of expenses (before tax) were excluded.

The end 2006 figures assume a renewal expense inflation rate of 1.75% from 2010 onwards. In the period 2007 to 2009, expense inflation is assumed to be offset by efficiency gains of 1.75%, resulting in a net inflation rate of 0%. The figures at end 2005 assumed an ultimate inflation rate of 2% (from 2008 onwards). The reduction in ultimate inflation rate reflects the reduction in general price inflation from 2005 to 2006.

The realisation of these efficiency gains is part of SNS REAAL' plans aimed at achieving a cost to premium income ratio of 13% at the end of 2009.

The expense increase shown at the end of 2006 for the period 2007 to 2009 is a net rate, in which expense inflation of 1.75% is offset by anticipated efficiency gains of 1.75%.

3.2 Mortality, disability and lapses

The assumptions used in the EV calculations for 2005 and 2006 are based on a review of actual operating experience in 2005 and 2006 by REAAL's Insurance Risk Management function.

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 2005 and 2006.

Capital

The EV is based on local reporting requirements and allows for required capital defined as being 150% of the EU minimum solvency requirement.

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.

7 Adjusted net asset value

In € millions	2006	2005
Total reported shareholders' equity - REAAL	1,306.5	1,193.3
less minority interests	(2.8)	(2.8)
Total shareholders' equity after minority interests	1,303.7	1,190.5
Adjusted net asset value		
Total shareholders' equity after minority interests	1,303.7	1,190.5
Restricted capital (beklemd vermogen)	(25.0)	(37.6)
Value of other activities	(4.5)	--
Total adjusted net asset value	1,274.2	1,152.9

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 where part of the revaluation of the underlying assets is to be distributed to policyholders in the future in the form of profit-sharing and as such is 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.

4.2 DAC and VOBA

In calculating the new business and value of in-force 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'). At the end of 2006, DAC totalled € 538 million (2005: € 421) and VOBA € 112 million (2005: € 118).

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 2006 would introduce double counting.

Results

5.1 Embedded value

The table below provides details of the EV at year-end 2005 and year-end 2006. Non-life insurance and other activities are included on the basis of their net asset value.

8 Embedded Value

In € millions	2006	2005
Free surplus (life)	325.0	257.8
Required capital (life)	773.9	715.3
Total adjusted net asset value (life)	**1,098.9**	**973.1**
Present value of future profits	1,050.2	748.9
Cost of options and guarantees	(37.4)	(45.7)
Cost of capital	(194.9)	(195.4)
Value of in-force business	**817.9**	**507.8**
Life insurance EV	**1,916.8**	**1,480.9**
Net asset value of non-life and other activities	175.4	179.8
Total EV	**2,092.2**	**1,660.7**

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.

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, around 40% of the technical provisions relate to business with some form of profit-sharing (discretionary or otherwise).

Around 10% 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 cost of financial options and guarantees (from € 46 million at year-end 2005, to € 37 million at year-end 2006) is the result of the increase in the general level of bond yields and the flattening of the yield curve over the course of 2006.

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

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 2006.

9 Value added by new business

In € millions	2006	2005
Value of new business before tax and cost of capital	49.4	47.4
Tax	(10.8)	(11.8)
Cost of capital	(18.4)	(20.7)
Value of new business after tax and cost of capital	**20.2**	**14.9**
APE	196.3	176.4
Margin as % of APE	**10.3%**	**8.5%**
PVNBP	1,395.8	1,213.0
Margin as % of PVNBP	**1.4%**	**1.2%**

The new business value in 2006 is higher than that in 2005 due to increased volumes of new business, changes in prevailing interest rates, lower effective tax rates, improvements in projected mortality results and increases in equity risk and property risk premiums.

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 2006 New Business is 9.1%.(IRR 2005: 8.8%).

5.4 Analysis of the change in embedded value

The EV increased by € 431.5 million (2005: € 239 million) during 2006. This is after a dividend payment by REAAL to SNS REAAL of € 54 million (2005: € 58 million). Before any dividend payment, the increase in EV was € 485.5 million (2005: € 297 million).

The change in EV in 2006 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, and includes amounts transferred between these two categories.

10 Movement analysis

Amounts in € million	Adjusted net asset value	Value of in-force business	2006 Total	2005 Total
EV from prior period	**1,152.9**	**507.8**	**1,660.7**	**1,421.5**
Adjustments to EV from prior period	0.0	(15.8)	(15.8)	0.0
Revised starting EV	**1,152.9**	**492.0**	**1,644.9**	**1,421.5**
New business contribution	(1.0)	21.2	20.2	14.9
Expected return on existing business				
- Return on VIF	--	82.4	82.4	84.2
- Transfer of net asset value	80.5	(80.5)	--	--
- Return on free equity	10.4	--	10.4	5.2
Operational experience	13.6	129.2	142.8	9.6
Operating return	**103.5**	**152.2**	**255.7**	**113.9**
Economic experience variances	71.3	5.2	76.4	198.7
Economic assumption changes	--	140.2	140.2	(66.3)
Dividend	(54.0)	--	(54.0)	(58.0)
Miscellaneous impacts	5.1	28.3	33.4	(3.3)
Change in value of other activities	(4.5)	--	(4.5)	54.2
Closing EV	**1,274.3**	**817.9**	**2,092.2**	**1,660.7**

The adjustments to EV from prior period represent the impact of refinements to financial projection models.

New business contribution

- This year's invested initial capital (€ 1 million) is less than last year's (€ 12.9 million) due to the deferral of more acquisition expenses.

The difference between the net profit attributable to shareholders in the financial statements 2006 (€ 149 million) and the expected return on existing business according to the EV-models (€ 80.5 million) is mainly due to economic variances.

The operational experience variance represents:

- The 2006 difference between actual and modelled experience.
- The impact of a change in the strategic asset mix that has been approved by SNS REAAL's Asset Liability Committee (resulting in an increase in the value of in-force business of € 15.3 million).
- The impact of the new operational assumptions. These assumptions are adjusted as a result of a new activity based costing study and new studies concerning mortality and lapses. These adjustments result in an increase in the value of in-force business of € 117.1 million.
- The expense levels given management's plans in this area (as outlined in section 3.1 of this report).

Economic experience variances primarily reflect better than anticipated investment income from equity shares.

Economic assumption changes reflect the change in risk discount rate from 2005 to 2006 (including changes made to the weighting of debt financing and after-tax cost of debt financing in determining the risk discount rate), the updating of equity risk premium and property return premium, and the increase in bond yields over 2006. These changes have increased the value of in-force business by € 140.2 million.

Corporate tax rates were reduced again in 2006. The corporate tax rate for financial years 2007 and onward has been reduced from 29.1% to 25.5%. This change has also impacted the effective tax rates assumed in preparing these figures – decreased to 22% from 24.4% at end 2005. The impact of this change in tax rates on the value of in-force business (€ 40.2 million) is part of 'Miscellaneous Impacts' in the movement analysis.

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.

Please note that if several of the changes outlined below were to occur at once, then the result would not be the sum of the individual sensitivity tests i.e. the results of the tests are not additive.

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;
- 10% lower maintenance expenses;
- Required capital equal to 100% of EU minimum solvency requirement rather than 150%.

6.1 Life insurance embedded value sensitivities

The table below summarises the results of the sensitivity analysis of the life insurance embedded value at 31 December 2006.

11 Life insurance embedded value sensitivities

In € millions	Adjusted net asset value	Value of in-force business	Total
As reported	**1,274.3**	**817.9**	**2,092.2**
Impact of sensitivity on reported value:			
- 100 basis point reduction in the risk discount rate	--	152.0	152.0
- 100 basis point increase in the risk discount rate	--	(128.0)	(128.0)
- 100 basis point reduction in interest rates*	199.1	(252.4)	(53.3)
- 100 basis point increase in interest rates*	(171.9)	120.0	(52.0)
- 10% decrease in lapse rates	--	23.4	23.4
- 5% lower mortality and disability rates	--	2.4	2.4
- 10% decrease in maintenance expenses	--	47.0	47.0
- Required capital 100% of EU minimum	--	67.4	67.4

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

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 & 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 a change in interest rates stems from the change in risk discount rate that accompanies a move in the underlying risk free rate.

The adjustment shown to the adjusted net asset value in the interest rate sensitivities represents the revaluation of fixed interest assets that are valued at market value under IFRS i.e. fixed interest assets classified as either available-for-sale or fair value through profit and loss. The accounting mismatch introduced by IFRS (i.e. assets being valued at market value with corresponding liabilities being valued at book) leads to a situation where the EV assets are valued at market yields (plus or minus 100 basis points) with the after-tax change reported in adjusted net asset value, whilst any additional (or lower) return on fixed interest assets valued at market value is discounted using a risk discount rate that is significantly higher than corresponding market yields.

The in-force portfolio is relatively insensitive to changes in mortality and disability experience given the mix of business in force i.e. offsetting positions in short term and long term mortality risk.

6.2 New Business sensitivities

The table provides a summary of the impact of the previous described sensitivities on the value added by 2006 new business.

12 New business sensitivities

In € millions	
As reported – value of new business	**20.2**
Impact of sensitivity on reported value:	
- 100 basis point reduction in the risk discount rate	11.8
- 100 basis point increase in the risk discount rate	(9.8)
- 100 basis point reduction in interest rates*	(38.7)
- 100 basis point increase in interest rates*	12.2
- 10% decrease in lapse rates	3.9
- 5% lower mortality and disability rates	1.2
- 10% decrease in maintenance expenses	5.4
- Required capital 100% of EU minimum	6.0

*) 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 2006 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.

Independent review

Watson Wyatt Insurance Consulting B.V. ('Watson Wyatt Insurance Consulting') has reviewed the calculation of the embedded value of SNS REAAL as at 31 December 2006, the value of its new business written during 2006 and the movement analysis over 2006. All material business units were included in the review. The covered business included all life insurances and associated rider benefits.

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 high level checks 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.
S. Weessies AAG

Appendix

APPENDIX 1 – *Types of options and guarantees*

Financial options and guarantees may result from a minimum guarantee within a specified profit sharing formula, they may result from management discretion, or maturity guarantees may have been provided at outset of the policy. Generally, minimum guarantee rates are either 3% or 4%, depending on the issue date of the policy, with more recent issues having lower guaranteed rates.

A brief description of the options and guarantees in the life insurance products sold by REAAL is provided below.

1 Traditional profit-sharing business

Traditional profit-sharing business with minimum interest guarantees typically have a time value related to these guarantees. There are two prevailing profit-sharing forms:

- The credited rate is determined by a formula based on an external index (u-yield).
- The credited rate is based on the performance of REAAL's fixed income portfolio with some management discretion as to the precise amounts paid; only on Individual business.

2 Unit-linked business

Part of the unit-linked portfolio contains maturity guarantees. Minimum guarantees vary from 0% to 5.5% depending on the issue date of the policy, with lower returns applying to more recent issues. Funds have to be invested for a minimum number of years, usually ten, before any guarantee applies. The guarantee normally only applies at maturity but for Pensions' policies any maturity guarantee also applies when funds are transferred to another provider (to the amount transferred).

3 Group, segregated account business

Certain group, segregated account contracts provide the holder (i.e. an employer) with the right to leave paid-up benefits with REAAL irrespective of whether the underlying assets are sufficient to meet the contract's liabilities.

APPENDIX 2 – *Valuation of options and guarantees*

1 Traditional profit-sharing business

The cost of financial options and guarantees was determined by comparing the average benefit payments over a range of stochastically generated economic scenarios to the benefit payments under a single deterministic economic scenario. Using this approach, the costs associated with a range of developments are estimated and reflected.

The projected benefits under each of the stochastic scenarios are discounted using a risk discount rate that varies by economic scenario, maintaining a risk margin consistent with the deterministic scenario throughout each of the scenarios.

2 Unit-linked business

For this type of business, the total value (i.e. time value plus intrinsic value) was determined by projecting the average of benefit payments over a range of stochastically generated economic scenarios.

The projected benefits under each of the stochastic scenarios are discounted using a risk discount rate that varies by economic scenario, maintaining a risk margin consistent with the deterministic scenario throughout each of the scenarios.

The total cost of financial options and guarantees was then deducted from the deterministic EV to arrive at the results shown in this report.

3 Group, segregated account business

For segregated accounts, the total cost (i.e. time value plus intrinsic value) was determined by projecting the average of benefit payments over a range of stochastically generated economic scenarios.

The projected benefits under each of the stochastic scenarios are discounted using a risk discount rate that varies by economic scenario, maintaining a risk margin consistent with the deterministic scenario throughout each of the scenarios.

The total cost of this guarantee was then deducted from the deterministic EV to arrive at the results shown in this report.

4 Volatility and correlation

In determining the cost of options, ,the following volatility and correlation parameters were used. These are based on a mix of implied and historical levels.

13 Volatility 2005 and 2006

	Fixed interest	Equities
2005	0.68%	16.0%
2006	0.68%	16.0%

14 Correlation matrix 2005 and 2006

	Fixed interest	Equities	Property
Fixed interest	100%	0%	0%
Equities	0%	100%	57%
Property	0%	57%	100%

APPENDIX 3 – *Disclaimer*

Cautionary note regarding forward looking statements

This document contains forward-looking statements, including statements about SNS REAAL's beliefs, expectations, and targets. These statements, including, without limitation, SNS REAAL's financial targets are based on SNS REAAL's current plans, estimates and projections, as well as SNS REAAL's expectations of external conditions and events. In particular the words 'expect', 'anticipate', 'estimate', 'may', 'should', 'believe', 'intend', 'plan', 'aim', 'could', 'will', 'potential', and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve inherent risks and uncertainties and speak only as of the date they are made. SNS REAAL undertakes no duty to and will not necessarily update any of them in light of new information or future events, except to the extent required by applicable law. SNS REAAL's cautions investors that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements.

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