



SNS REAAL

**European Embedded Value
Report 2007**

2007



European Embedded Value Report 2007

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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.

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

1.2 Acquisition of AXA

In 2007 SNS REAAL purchased the insurance activities of AXA Group in the Netherlands ('AXA'). The acquisition was finalised in September 2007. In 2008 SNS REAAL will also acquire Zwitserleven. The figures shown in this report do not include any of Zwitserleven's business.

The embedded value calculations of the AXA life portfolio and the REAAL life portfolio are based on different methodologies. The main difference between the AXA life portfolio figures and the REAAL life portfolio figures is, that the REAAL calculations are based on real world economic assumptions with a risk discount rate defined using the Weighted Average Cost of Capital approach to incorporate an aggregate allowance to compensate for risk whilst AXA's is market consistent using risk free economic assumptions and discount rates with allowance for the value of options and guarantees in a risk-neutral framework.

Please note that due to this different methodology it isn't possible to combine the REAAL life portfolio figures and AXA life portfolio figures. Also note that the EEV of REAAL implicitly includes the embedded value of AXA, as the book value of AXA on the REAAL balance sheet represents the full value of AXA.

The total embedded value of REAAL is therefore 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') of REAAL.

The Net Asset Value ('NAV') of REAAL includes the IFRS book value of AXA. The breakdown of the IFRS book value of AXA is explained in Appendix 3. The actual Market Consistent Embedded Value ('MCEV') of AXA at end 2007 is outlined in Appendix 4.

SNS REAAL intends to harmonise and standardise the 2008 embedded value calculations of REAAL and AXA by moving both to an updated market consistent basis. In the year of adapting the market consistent basis, figures are not fully comparable to the years before.

Independent review

Watson Wyatt Insurance Consulting B.V. ('Watson Wyatt Insurance Consulting') has reviewed the calculation of the embedded value of REAAL as at 31 December 2007, the value of its new business written during 2007 and the movement analysis over 2007. The covered business included all life insurances and associated rider benefits. All material business units, with exception of the AXA life portfolio, were included in the review. The value of the life portfolio of AXA was included at its IFRS book value less an adjustment for goodwill.

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.

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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 embedded value of REAAL.

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 reduced with the surplus value as calculated in the liability adequacy test (toereikendheidstoets), 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.

Together, these two components make up the life insurance EV. The value of AXA has been determined as its IFRS net equity less an allowance for goodwill. 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 REAAL's non-life insurance and other activities is then 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 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 its results 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 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	2007	2006	Change
Life insurance Adjusted Net asset value	1,298.9	1,098.8	200.1
Life insurance Value in force	1,075.7	817.9	257.8
Life insurance EV	2,374.6	1,916.8	457.8
Net asset value of non-life and other activities	339.9	175.4	164.5
Total EV	2,714.5	2,092.2	622.3

The embedded value increased by €622.3 million during 2007, of which €364.6 million Adjusted NAV and €257.8 million VIF. From this increase, €547.6 million is the consequence of the AXA acquisition. Another driver of the increase is the choice of REAAL to adapt new WFT legislation into the Solvency requirement, which led to €96.7 million increase in VIF.

The increase from the AXA acquisition can be explained as follows.

Table 2:

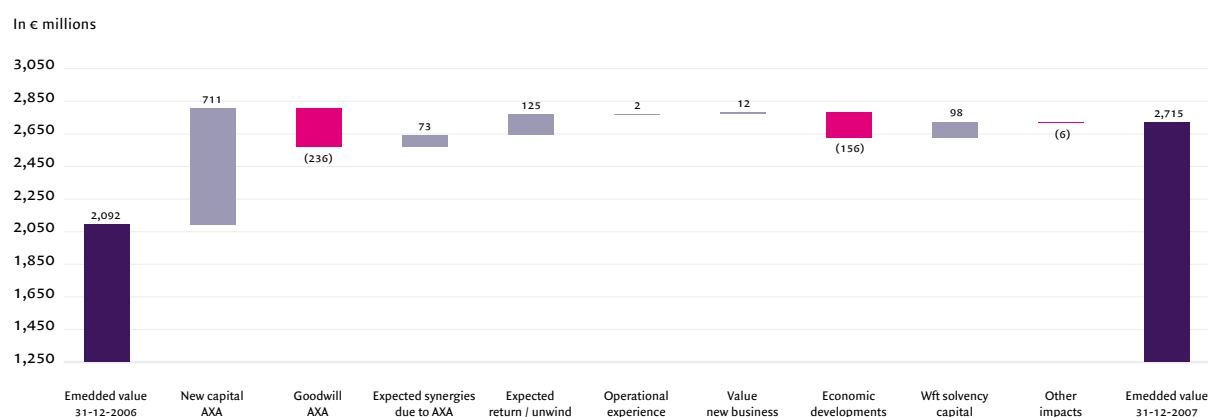
In € millions	Adjusted net asset value	Value in Force	Embedded Value
New capital	711.0		711.0
Goodwill	(236.0)		(236.0)
Synergy included in REAAL EEV		72.6	72.6
Total	475.0	72.6	547.6

This means that €74.7 million (i.e., €622.3 million less €547.6 million) of the increase in EV is caused by changes in the value of REAAL in a stand alone basis, which can be analysed as follows.

Table 3:

In € millions	Adjusted net asset value	Value in Force	Embedded Value
Expected return on free equity and unwinding of the VIF	17.5	107.5	125.0
Operational experience (excluding synergy AXA)	1.0	2.4	3.4
Value new business	3.1	8.4	11.5
Economic experience and economic assumptions changes	(229.3)	73.5	(155.8)
Transfer net results	117.9	(117.9)	--
New Wft legislation		96.7	96.7
Other impacts	(20.6)	14.6	(6.0)
Total impact REAAL stand alone	(110.4)	185.1	74.7

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 2007. The value of 2007 and 2006 new life insurance business is summarised in the table below.

Table 4: New business

In € millions	2007	2006	% change
Annualised Premium Equivalent ('APE')	170.2	196.3	(13.3%)
Present Value New Business Premium ('PVNBP')	1,290.7	1,395.8	(7.6%)
Value New Business ('VNB')	11.5	20.2	(44.8%)
Margin as % of PVNBP	0.9%	1.4%	(40.3%)

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. In addition, volumes were under pressure as a result of increases in interest rates. As already noted, this led to decreased mortgage refinancing activities and consequently a drop in the volume of Unit Linked products, which are closely related to mortgages. These developments have resulted in a decrease of VNB compared to 2006.

The figures in the table above do not contain the Value New Business of AXA.

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 2006 and 2007 respectively. After a number of 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

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 2006 and 2007 are outlined in the tables below. The net credit spread on fixed interest investments allows for defaults that vary by credit rating.

Table 5: 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%

Table 6: 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%

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 around 83% of the assets (2006: 83%) is 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 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).

Table 7: Derivation of Risk Discount Rate

	2007	2006
Risk free rate	4.89%	4.05%
Equity risk premium	3.00%	3.00%
Risk factor (β)	1.14	1.18
Weighting debt financing	22%	15%
After-tax cost of debt financing	5.82%	4.02%
Risk discount rate	7.70%	7.00%

The assumed risk factor (beta) 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 2007 of 7.70%, an increase of 70 basis points compared to end 2006. Overall, the risk margin (risk discount rate less ultimate risk free rate) is lower in 2007 than in 2006 (2007: 2.81% 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.

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 (2006: 22 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 2 of this document.

3.2.4 Taxes

In preparing its end 2006 and 2007 EV life insurance results, REAAL has assumed the nominal tax rates shown in the table below.

Table 8: Nominal tax rates

	2007	2008	2009	2010+
End 2006	25.5%	25.5%	25.5%	25.5%
End 2007		25.5%	25.5%	25.5%

In calculating after-tax earnings allowance has been made for tax-exempt income and expenses. In both 2006 and 2007, the effective rate of tax used in projecting future after-tax profits is 22%.

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% (2006: 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 ('Wet op het financieel toezicht', or 'Wft') that came into force on January 1st 2007, the surplus value as calculated in the 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. There was no such allowance at year-end 2006 as the applicable legislation only came into force at 1 January 2007. 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 and expense inflation

As stated in the 2006 EEV disclosure, REAAL drafted a plan to simplify and improve its processes, in order to reduce its external staff significantly, replacing them with internal staff. As a result of the acquisition of the activities of AXA in the Netherlands, once integration of these activities has been realised expense reductions are expected to be higher than envisaged last year. Both the expected synergy savings and associated integration expenses have been taken into account in determining 2007 EEV figures. In 2008, expected integration expenses are projected to exceed the expected synergy savings. In the years 2009-2013, significant synergy savings are expected.

For the EEV calculations, SNS REAAL feels it is appropriate to take into account 70% of the expected synergy on non-acquisition expenses for the life business. This results in the synergy percentages as outlined below.

Table 9: Efficiency gains (2006) / synergy (2007)

	2007	2008	2009	2010	2011	2012	2013
End 2006	1.75%	1.75%	1.75%	0.00%	0.00%	0.00%	0.00%
End 2007		(0.14%)	8.01%	6.25%	5.27%	1.57%	0.22%

Table 10: Increase in renewal expenses

	2007	2008	2009	2010	2011	2012	2013+
End 2006	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
End 2007		2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

The expenses used to determine unit costs exclude the costs associated with one-off projects, mainly new regulatory and legislative projects performed in 2007. As a result, € 8.4 million of expenses (before tax) were excluded (2006: € 7.8 million).

3.3.2 Mortality, disability and lapses

The assumptions used in the EV calculations for 2006 and 2007 are based on a review of actual operating experience in 2006 and 2007 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 2006 and 2007.

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 for 2007 less the surplus value calculated 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 11: Adjusted net asset value

In € millions	2007	2006
Total reported shareholders' equity - REAAL	1,913.4	1,306.5
Less minority interests	(4.1)	(2.8)
Adjusted net asset value *	1,909.3	1,303.7
Adjusted net asset value		
Life insurance activities	1,547.2	1,123.9
Restricted capital (beklemd vermogen)	(12.3)	(25.0)
Goodwill	(236.0)	--
Sub-total Life insurance	1,298.9	1,098.8
Non-life insurance	362.2	179.9
Other activities	(22.3)	(4.5)
Total adjusted net asset value	1,638.7	1,274.2

* The adjusted net asset value can be split into Life (2007: €1,547.2 million; 2006: €1,123.9 million) and Non-Life (2007: €362.2 million; 2006: €179.9 million).

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.

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

The €1,638.7 million adjusted net asset value includes the value for AXA.

3.4.2 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'). As stated before, AXA is included in REAAL's EV figures at its IFRS book value (less an adjustment for goodwill). Therefore the VOBA figures detailed below exclude the VOBA and other intangibles arising as a result of the acquisition of AXA.

At the end of 2007, DAC totalled €559 million (2006: €538 million) and VOBA €104 million (2006: €112 million)

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 2007 would introduce double counting.

The results of the IFRS Liability Adequacy Test performed at end 2007 show that both the DAC and VOBA are recoverable from future profits. The Liability Adequacy Test also shows that the amount deferred in respect of 2007 new business was recoverable from future margins.

3.5 Results

3.5.1 Embedded value

The table below provides details of the EV at year-end 2006 and year-end 2007. Non-life insurance and other activities are included on the basis of their net asset value.

Table 12: Embedded Value

In € millions	2007	2006
Free surplus (life)	850.3	325.0
Required capital (life)	448.6	773.8
Total adjusted net asset value (life)	1,298.9	1,098.8
Present value of future profits	1,207.1	1,050.2
Cost of options and guarantees	(20.1)	(37.3)
Cost of capital	(111.3)	(194.9)
Value of in-force business	1,075.7	817.9
Life insurance EV	2,374.6	1,916.8
Net asset value of non-life and other activities	339.9	175.4
Total EV	2,714.5	2,092.2

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 for 2007 is the required capital reduced by the surplus value in the mathematical reserves net of taxes (€ 371.7 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, 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 € 37.3 million at year-end 2006, to € 20.1 million at year-end 2007) is the result of the higher expected risk free return at the end of 2007.

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 2007.

Table 13: Value added by new business

In € millions	2007	2006
Value of new business before tax and cost of capital	30.0	49.3
Tax	(6.5)	(10.8)
Cost of capital	(12.0)	(18.4)
Value of new business after tax and cost of capital	11.5	20.2
APE	170.2	196.3
Margin as % of APE	6.6%	10.3%
PVNBP	1,290.7	1,395.8
Margin as % of PVNBP	0.9%	1.4%

For 2007 the value of new business ('VNB') of REAAL (excluding AXA) amounted to € 11.5 million (2006: € 20.2 million). Similar to the VIF, the impact on value of 70% of expected synergy savings and integration costs has been allowed for in determining VNB. The Dutch market for life insurance products remains very competitive. As a result, the margins on both regular premiums (e.g. term insurance) and individual single premiums (especially immediate annuities) decreased in 2007.

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 2007 New Business is 8.9% (IRR 2006: 9.1%).

3.5.4 Analysis of the change in embedded value

The EV increased during 2007 by € 622.3 million (2006: € 431.5 million).

The change in EV in 2007 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.

Table 14: Movement analysis

In € millions	Adjusted net asset value	Value of in-force business	2007 Total	2006 Total
EV from prior period	1,274.2	817.9	2,092.2	1,660.7
Adjustments to EV from prior period	0.0	11.6	11.6	(15.8)
Revised starting EV	1,274.2	829.5	2,103.7	1,644.9
Value New Business	3.1	8.4	11.5	20.2
Expected return / unwinding	17.5	107.5	125.0	92.8
Transfer net result	117.9	(117.9)	0.0	0.0
Operational experience	1.0	74.4	75.4	142.8
Operating return	139.5	72.4	211.9	255.7
Economic experience variances	(229.3)	(13.6)	(242.9)	76.4
Economic assumption changes	--	87.1	87.1	140.2
New capital life business less dividend paid	431.6	--	431.6	(54.0)
New WFT legislation cost of capital	--	96.7	96.7	--
Goodwill related to acquisition of AXA's life activities	(156.3)	--	(156.3)	--
Miscellaneous impacts	14.4	3.6	18.0	33.4
Change in value of non life and other activities	244.2	--	244.2	(4.5)
Goodwill related to acquisition of AXA's non-life activities	(79.7)	--	(79.7)	--
Closing EV	1,638.7	1,075.7	2,714.5	2,092.2

Adjustments to EV from prior period

The adjustments to EV from prior period represent the impact on EV of refinements to financial projection models (€11.6 million).

Value New Business

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 2007 difference between actual and modelled experience (increase VIF €23.5 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 a decrease of the value in force of €(29.1) million.
- ⊙ The impact of inclusion of 70% of expected cost synergy: €72.6 million less the impact of the efficiency gains in 2006 EEV (€17.0).
- ⊙ Other impacts (increase VIF €24.4 million).

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 2006 to 2007 (including changes made to the weighting of debt financing and after-tax cost of debt financing in determining the risk discount rate), and the increase in bond yields over 2007. These changes have increased VIF by €101.0 million.

The change of the expense inflation results in a decrease in VIF of €13.9 million.

New capital

As part of the financing of the purchase of AXA, REAAL increased its available equity by €711 million. After the deduction of dividend paid to the group of €26 million, shareholder equity increases by €685 million. Of this amount, €431.6 million is accounted for in the Movement Analysis on the line “New capital life business less dividend paid”. The other €253.4 million is part of the change in the value of non-life and other activities.

Goodwill

The goodwill presented is the goodwill shown in the IFRS balance sheet. This goodwill result from the acquisition of AXA (total €236 million, split €156.3 million for Life and €79.7 million for Non-Life).

Impact new legislation ('Wft') on cost of capital

REAAL's required capital is defined as 150% of the EU-minimum requirement, or €820.3 million at end 2007.

The Wft liability adequacy test shows that of this capital, €476.5 million is covered by surplus in reserves (after tax €371.1 million). As from 2007, in the calculation of the cost of capital for REAAL the required capital is reduced by this surplus, thus reducing the cost of capital.

This new method of calculation has reduced the cost of capital by €100.7 million, of which €4.0 million is accounted for in the VNB.

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.

3.6.1 Life insurance embedded value sensitivities

The table below summarises the results of the sensitivity analysis of the life insurance embedded value at 31 December 2007

Table 15: Life insurance embedded value sensitivities

In € millions	Adjusted net asset value	Value of in-force business	2007 Total
As reported	1,638.7	1,075.7	2,714.5
Impact of sensitivity on reported value:			
100 basis point reduction in the risk discount rate		148.5	148.5
100 basis point increase in the risk discount rate		(127.0)	(127.0)
100 basis point reduction in asset return and discount rate simultaneously	136.1	(152.2)	(16.2)
100 basis point increase in asset return and discount rate simultaneously	(113.5)	71.2	(42.4)
10% decrease in lapse rates		23.3	23.3
5% lower mortality and disability rates for insurance contracts with short term mortality risk		21.8	21.8
5% lower mortality and disability rates for insurance contracts with longevity risk		(16.0)	(16.0)
10% decrease in maintenance expenses		45.2	45.2
No synergy		(72.6)	(72.6)
Instant 10% downward change on value of equity	(129.3)	(0.5)	(129.8)
Required capital 100% of EU minimum		73.0	73.0

Please note that these sensitivities represent only the sensitivity of the REAAL in-force portfolio. Sensitivities for the AXA in-force portfolio are presented in Appendix 4.

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

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.

3.6.2 New Business sensitivities

The table provides a summary of the impact of the previous described sensitivities on the value added by 2007 new business.

Table 16: New business sensitivities

In € millions	2007 Total
As reported – value of new business	11.5
Impact of sensitivity on reported value	
100 basis point reduction in the risk discount rate	7.2
100 basis point increase in the risk discount rate	(6.0)
100 basis point reduction in interest rates*	(20.6)
100 basis point increase in interest rates*	14.6
10% decrease in lapse rates	2.6
5% lower mortality and disability rates (short term)	1.6
5% lower mortality and disability rates (longevity)	(0.9)
10% decrease in maintenance expenses	45.2
No synergy	(6.2)
Required capital 100% of EU minimum	4.8

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

Please note that these sensitivities represent only the sensitivity of the REAAL new business portfolio.

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 2007 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.

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.

Table 17: Volatility 2006 and 2007

	Fixed interest	Equities
2006	0.68%	16.0%
2007	0.68%	16.0%

Table 18: 14 Correlation matrix 2006

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

Table 19: Correlation matrix 2007

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

APPENDIX 3 – IFRS Book value of AXA

The total embedded value of REAAL is reported as the sum of the value of in-force business of REAAL and the total net asset value reduced by the goodwill paid on the purchase of AXA. The Net Asset Value ('NAV') of REAAL includes therefore the IFRS book value of AXA less goodwill.

1 Acquisition of AXA

On 5 September 2007, SNS REAAL acquired AXA. The total price paid, including expenses, can be broken down into the following parts.

Table 20:

In € millions	
Purchase Price as at January 1st, 2007	1,750
Interest up to September 5, 2007	47
Purchase Price paid	1,797
Acquisition expenses	14
Total	1,811

Immediately after the acquisition, the acquisition was consolidated in the balance sheet of REAAL in the following manner:

Table 21:

In € millions	
Net Asset Value excluding intangible assets & goodwill	949
Intangible Assets	627
Goodwill	236
Total	1,811

At the end of 2007 the value in the balance sheet is €1,802 million.

2 Ratio purchase price and Embedded Value

One of the relevant Key Performance Indicator's ('KPIs') in the acquisition of AXA was the ratio Purchase Price / Embedded value. The acquisition was based on the 1-1-2007 ratio, which was 1.13 (1,750 / 1,548).

At closing date the ratio was still at the same level: 1.12 (1,797 / 1,608). This indicates that the value of the AXA portfolio remained stable during the phase until the closing date.

APPENDIX 4 – Stand alone value of AXA

In this section, the stand alone embedded value of AXA is outlined. Please note, that because AXA's figures have been calculated on a market consistent basis, it isn't possible to combine the REAAL and AXA figures. Also note that the EEV of REAAL implicitly includes the embedded value of AXA, as the book value of AXA on the REAAL balance sheet represents the full value of AXA.

SNS REAAL intends to harmonise and standardise the 2008 embedded value calculations of REAAL and AXA by moving both to an updated market consistent basis.

1 Stand alone value of AXA

Consistent with prior years, AXA has determined its embedded value using market consistent, methodology. The outcome is as follows.

Table 22: Total embedded value

In € millions	2007	2006	change
Adjusted Net asset value	685.1	718.5	(33.4)
Value in force	654.5	637.0	17.5
Life insurance EV	1,339.6	1,355.5	(15.9)
Net asset value of non-life and other activities	271.0	192.5	78.5
Total EV	1,610.6	1,548.0	62.6

2 Independent review

Tillinghast, the insurance consulting business of Towers Perrin, has reviewed the methodology and assumptions used to calculate of the embedded value as at 31 December 2007, the value of new business written during 2007, the analysis of movement in embedded value over 2007, and the sensitivities shown for the former AXA companies in this report.

Tillinghast 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 AXA's market consistent methodology, which includes a stochastic allowance for the cost of financial options and guarantees;
- ⊙ The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- ⊙ The economic assumptions used are internally consistent and consistent with observable market data; 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, noting the disclosed exception concerning the treatment of affiliated investment management companies.

Tillinghast 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 embedded values, new business values, analysis of movement, and sensitivities. Tillinghast has not, however, performed detailed checks on the models and processes involved.

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

3 Analysis of change

Table 23: Movement analysis 2007

In € millions	Adjusted net asset value	Value of in-force business	Total MCEV
EV from prior period	910.8	637.9	1,548.6
Adjustments to EV from prior period	41.9	(16.3)	25.7
Revised starting EV	952.7	621.6	1,574.3
New business contribution	(5.3)	7.4	2.0
Expected return / unwind	20.5	52.8	73.3
Transfer net result	84.6	(84.6)	--
Operational experience	(4.1)	(32.8)	(36.9)
Operating return	89.8	(51.3)	38.5
Economic experience variances	(99.8)	87.4	(12.4)
New capital life business and other activities less dividend paid	15.0		15.0
Miscellaneous impacts	(0.8)	(3.2)	(4.0)
Change in value of non life	(0.8)		(0.8)
Closing EV	956.1	654.5	1,610.6

4 AXA new business value

The VNB of AXA for the full year 2007 amounted € 2.0 million (2006: € 10.2 million). The Dutch market for life insurance products remains very competitive. As a result, the margins on both regular premiums (e.g. term insurance) and individual single premiums (especially immediate annuities) decreased.

5 Sensitivities of the AXA portfolio and new business value

Table 24: Life insurance embedded value sensitivities

In € millions	Adjusted net asset value	Value of in-force business	Total MCEV
As reported	956.4	654.4	1,610.6
Impact of sensitivity on reported value:			
100 basis point reduction in the risk discount rate		86.4	86.4
100 basis point increase in the risk discount rate		(74.9)	(74.9)
100 basis point simultaneous reduction in asset return and discount rate		(72.9)	(72.9)
100 basis point simultaneous increase in asset return and discount rate		30.3	30.3
10% decrease in lapse rates		18.5	18.5
5% lower mortality and disability rates		8.1	8.1
10% decrease in maintenance expenses		40.0	40.0
No synergy		(27.4)	(27.4)
Instant 10% downward change on value of equity		(10.7)	(10.7)
Required capital 100% of EU minimum		18.6	18.6

APPENDIX 5 – 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 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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