EMBEDDED VALUE REPORT 2014

ageas

EMBEDDED VALUE REPORT

2014

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CONTENTS

1 HIGHLIGHTS 2014 Embedded value results 5

1.1 Highlights of 2014 Embedded Value 5
1.2 Value Added by New Business 6

2 2014 Movement Analysis 7

2.1 Restatement 2013 Embedded Value 7
2.2 Expected Return 8
2.3 Experience variances and Assumption changes 9
2.4 Value Added by New Business 10
2.5 Variance in investment income – changes in market conditions and dividends 11
2.6 Equity Reconciliation 12

3 Sensitivity analysis 13

4 Embedded value at Ageas 14

4.1 Principles 14
4.2 Statement of directors 14
4.3 Value Added by New Business (VANB) 14
4.4 Scope 14
4.5 Covered business 14
4.6 Economic assumptions 15
4.7 Operating assumptions 19
4.8 Required equity 19
4.9 Expected return 19
4.10 Equity reconciliation 19
4.11 Sensitivities 20

5 Cautionary statements 21

6 Limited assurance report on the Ageas 2014 embedded value report 22

Annex I: Components of embedded value 24

1 Value of Shareholder's Equity (VSE) 24
2 Value of In-Force business (VIF) 25

1 HIGHLIGHTS 2014
Embedded value results

This document only covers the consolidated Life insurance activities that are controlled by Ageas and the equity associates are thus not taken into account. The concepts of Embedded Value are further explained in Annex I.

KPMG has performed a limited assurance engagement on this Embedded Value Report. Their report is included in Chapter 6.

All amounts are reported in millions of EURO unless otherwise stated.

1.1 Highlights of 2014 Embedded Value

Highlights Embedded Value		2014 Total Insurance		2013 Total Insurance
Embedded Value previous Year-end restated (Year-start)		**5,629**		**5,542**
Operating Embedded Value Earnings	266		326	
Operating return on Embedded Value Year-end restated	4.7%		5.9%	
Total return before dividend on Embedded Value Year-end restated		597		678
Total return before dividend on Embedded Value Year-end restated in %		10.6%		12.2%
Dividends paid		(535)		(434)
Embedded Value Year-end		**5,691**		**5,787**

In December 2014, Ageas completed the sale of its UK Life company, Ageas Protect to AIG. Therefore, Ageas Protect has been excluded in the 2014 Embedded Value calculations. This has decreased the Year-Start value by EUR 158 million. The total consideration received for Ageas Protect amounts to approximately EUR 250 million. The sale is accounted for in Ageas entities that are not in the scope of this report and therefore, the sale resulted in a decrease of the Embedded Value.

The operating return and total return decreased due to lower margins as a result of lower interest rates and changes in costs.

Dividends increased as a result of the disciplined approach of our operating companies towards the upstreaming of cash and further optimisation of our capital structure.

1.2 Value Added by New Business

Value added by New Business	2014	2013	Change
Total Insurance			
Value Added by New Business	89	120	(25.6%)
Present value New Business premiums	4,422	4,924	(9.0%)
Margin	2.0%	2.4%	
Belgium			
Value Added by New Business	55	67	(17.4%)
Present value New Business premiums	2,822	2,996	(5.8%)
Margin	2.0%	2.2%	
UK			
Value Added by New Business		4	-
Present value New Business premiums		228	(100.0%)
Margin		1.9%	
Continental Europe			
Value Added by New Business	18	17	-
Present value New Business premiums	967	1,021	(5.2%)
Margin	1.8%	1.7%	
Asia			
Value Added by New Business	16	32	(49.0%)
Present value New Business premiums	633	679	(6.8%)
Margin	2.6%	4.7%	

With decreasing interest rates, 2014 has been a challenging year for our Life operating companies to sell new products and retain margins. This is especially the case for our Hong Kong activities. A more detailed analysis is included in section 2.4.

2 2014
Movement Analysis

The Movement Analysis explains the movement in Embedded Value starting from the 2014 year-start to the value at year-end by showing the different underlying components. The underlying principles are described in detail in chapter 4 and the background on VANB is covered in Section 2.4

					2014					2013
Embedded Value	Total Insurance	Belgium	UK	Continental Europe	Asia	Total Insurance	Belgium	UK	Continental Europe	Asia
Embedded Value previous Year	5,787	4,045	158	841	743	5,565	3,977	163	689	736
Divestiture	(158)		(158)							
Opening adjustments	0	(79)		(7)	86	(23)	(77)	(2)	(3)	59
EV previous Year-end restated (Year-start)	**5,629**	**3,966**		**834**	**829**	**5,542**	**3,900**	**161**	**686**	**795**
Expected return	275	198		54	23	285	189	1	75	20
Experience variance and assumption changes	(98)	(41)		(45)	(12)	(79)	23	(5)	7	(104)
Value added by New Business	89	55		18	16	120	67	4	17	32
Operating EV Earnings	**266**	**212**		**27**	**27**	**326**	**279**		**99**	**(52)**
Operating return on Embedded Value Year-end restated	4.7%	5.3%		3.2%	3.3%	5.9%	7.2%		14.4%	(6.5%)
Variance on Investment income	377	339		22	16	213	139	(1)	67	8
Changes in Interest rates and market conditions	(46)	(139)		(19)	112	139	118	(2)	(7)	30
Total return before dividend on EV Year-end restated	**597**	**412**		**29**	**155**	**678**	**536**	**(3)**	**159**	**(14)**
Total return before dividend on EV Year-end restated in %	10.6%	10.3%		3.5%	18.7%	12.2%	13.7%	(1.9%)	23.2%	(1.8%)
Dividends paid	(535)	(134)		(313)	(88)	(434)	(392)		(4)	(38)
Embedded Value Year-end	**5,691**	**4,244**		**551**	**896**	**5,787**	**4,045**	**158**	**841**	**743**

Elements of the Movement Analysis table will be discussed in detail in the subsequent paragraphs.

Breakdown of Embedded Value

				2014				2013
	Free	Required	Value of In-force	Embedded	Free	Required	Value of In-force	Embedded
Embedded Value Movement analyses	Surplus +	Equity +	business =	Value	Surplus +	Equity +	business =	Value
Previous Year-end restated (Year-start)	**439**	**2,475**	**2,715**	**5,629**	**604**	**2,605**	**2,334**	**5,542**
Expected return	(2)	42	235	275	22	51	212	285
Transfer to Shareholder's Equity	532	(179)	(353)	0	572	(201)	(371)	(0)
Experience variance and assumption changes	(11)	(16)	(71)	(98)	11	(27)	(63)	(79)
Value added by New Business	(240)	127	202	89	(291)	146	265	120
Variance on Investment income	162	13	202	377	(75)	5	283	213
Changes in Interest rates and markets conditions	(103)	28	29	(46)	70	(24)	92	139
Dividends paid	(535)			(535)	(434)			(433)
Year-end	**242**	**2,490**	**2,959**	**5,691**	**479**	**2,555**	**2,753**	**5,787**

2.1 Restatement 2013 Embedded Value

Restatement of Embedded Value	2014 Total Insurance	Belgium	UK	Continental Europe	Asia	2013 Total Insurance
Embedded Value previous Year	5,787	4,045	158	841	743	5,565
Divestiture	(158)		(158)			
Opening Adjustments	0	(79)		(7)	86	(23)
Embedded Value previous Year-end restated (Year-start)	**5,629**	**3,966**		**834**	**829**	**5,542**

The Restatement includes:

- Divestment of Ageas Protect for EUR 158 million;
- Positive impact as a result of improved modelling of the **profit sharing rules** within Ageas Asia Holdings (EUR 82 million);
- **Exclusion of minority shares in group entities** that are part of AG Insurance that have been included in last year's Embedded Value for EUR 76 million.

After the restatements, the 2013 Embedded Value Year-end restated (Year-start) amounts to EUR 5,629 million.

2.2 Expected Return

The principles of the Expected Return are described in paragraph 4.9.

Expected Return	Free Surplus +	Required Equity +	Value of In-force business =	2014 Embedded Value	2013 Embedded Value
Embedded Value previous Year-end restated (Year-start)	**439**	**2,475**	**2,715**	**5,629**	**5,542**
Operating assumption changes	6	(1)	(40)	(35)	(66)
Embedded Value Year-end restated after assumption changes	**445**	**2,474**	**2,675**	**5,594**	**5,476**
Expected return	**(2)**	**42**	**235**	**275**	**285**
reference rate	3	13	14	30	33
in % of Embedded Value Year-end restated after assumption changes	0.6%	0.5%	0.5%	0.5%	0.6%
in excess of reference rate	(5)	29	221	245	252
in % of Embedded Value Year-end restated after assumption changes	(1.1%)	1.2%	8.3%	4.4%	4.6%

The Operating assumption changes are further explained in section 2.3.

- The basis of the expected return is the **reference rate**[1] at the start of the year. This reference rate decreased from 0.6% as at 1 January 2013 to 0.5% as at 1 January 2014. The decrease is the result of the decreased value of the illiquidity premium/volatility adjustment between 1 January 2013 and 1 January 2014.
- The **Expected Return on Free Surplus** also includes the interest that is paid on the external financing. As the interest rate on these loans is much higher compared to the reference rate, the overall Expected Return on the Free Surplus is slightly negative.

1) On page 15, paragraph 4.6.1, the reference rate is further defined.

2.3 Experience variances and Assumption changes

The underlying principles of the operating assumptions are described in paragraph 4.7.

Detail on assumption changes and experience variances	Free Surplus	+	Required Equity	+	Value of In-force business	=	2014 Embedded Value	=	Belgium	+	Continental Europe	+	Asia	2013 Embedded Value
Experience variances and Operating assumption changes	**(11)**		**(16)**		**(71)**		**(98)**		**(41)**		**(45)**		**(12)**	**(79)**
Non-economic variances	(17)		(15)		(31)		(63)		(21)		(44)		2	(12)
Impact of operating assumptions	**6**		**(1)**		**(40)**		**(35)**		**(20)**		**(1)**		**(14)**	**(67)**
Mortality / Morbidity	5		(0)		12		17		15		0		2	(4)
Costs (expenses / commissions)	1		(1)		(48)		(48)		(40)		(8)		(0)	(78)
Lapse / renewals	0		0		(12)		(12)		11		(5)		(18)	(72)
Tax	0		0		(6)		(6)		(11)		5			40
Premium Persistency	0		(0)		(0)				2				(2)	11
Level of Required Equity														11
Change in target asset mix / asset investment rules					21		21		3		3		15	14
Profit sharing rules					(46)		(46)		(46)					
Cost inflation					16		16		11		5			14
Other	(0)		0		23		23		35		(1)		(11)	(3)

Non-economic Variances

- The main variance in Continental Europe relates to changes in **the fee structure for investment products in Portugal** for EUR 29 million.
- The variance in Belgium is related to one-off strengthening of **profit sharing provisions**.

Operating assumptions

- Due to a further fine-tuning of the **cost** allocation to Life Retail products at AG Insurance, the Embedded Value has decreased by EUR 40 million;
- AG Insurance has revised down their long term target margin to better reflect the low interest rate environment which has mostly been compensated by a reduction in profit sharing;
- These value decreases are compensated by lower **cost inflation** and improved **lapse** and mortality assumptions.

2.4 Value Added by New Business

The table below gives a breakdown of the VANB for the various Life segments, including the key indicators for sales and margins. The reported IRR is calculated based on a traditional deterministic projection using real-world assumptions.

	2014				2013
Value Added by New Business	Total Insurance	Belgium	Continental Europe	Asia	Total Insurance
Value Added by New Business	89	55	18	16	120
New Business Strain	(113)	(18)	(9)	(86)	(146)
Value of In-force business	202	73	27	102	266
Present Value Future Profits	260	112	30	118	310
Cost of Financial Options and Guarantees	(34)	(21)	(1)	(12)	(20)
Cost of Non-hedgeable risks	(11)	(7)	(1)	(3)	(9)
Cost of Capital	(13)	(11)	(1)	(1)	(15)

Value Added by New Business	Total Insurance	Belgium	Continental Europe	Asia	UK
Value Added by New Business Evolution					
VANB Current Year	89	55	18	16	
VANB Previous Year	120	67	17	32	4
Present Value New Business Premiums (PVNBP)					
PVNBP Current Year	4,422	2,822	967	633	
PVNBP Previous Year	4,924	2,996	1,021	679	228
Sales & Margins PVNBP basis					
VANB/PVNBP Current Year	2.0%	2.0%	1.8%	2.6%	
VANB/PVNBP Previous Year	2.4%	2.2%	1.7%	4.7%	1.9%
Annualised premium Equivalent (APE)					
APE Current Year	485	295	98	92	
APE Previous Year	532	292	105	99	36
Sales & Margins APE basis					
VANB/APE Current Year	18.4%	18.6%	18.1%	17.7%	
VANB/APE Previous Year	22.5%	22.9%	16.3%	32.3%	11.8%
IRR					
IRR Current Year	9.3%	9.9%	15.5%	7.0%	
IRR Previous Year	10.9%	11.9%	13.5%	9.0%	2.6%

General

With decreasing interest rates, 2014 has been a challenging year for our Life operating companies to sell new products and retain margins. This is especially the case for our Hong Kong activities.

Asia

Our Hong Kong activities were impacted by the decrease of interest rates during 2014. Furthermore, it reflects lower sales and a higher expense overrun and an adverse evolution in lapse rates.

Belgium

The low interest rate environment has created challenges on future profit margins of Savings products. However, Term and Unit Linked future profit margins remain solid. Important growth has been realised for Term products while Unit Linked is characterised by a decreasing trend.

Continental Europe

The overall VANB of Continental Europe has remained stable. A shift has occurred from Unit Linked products to guaranteed products. This shift was managed well by redesigning new generation Savings products suitable for low interest rate environments.

2.5 Variance in investment income – changes in market conditions

	2014				2013
Variances in Investment Income and Changes in Market Conditions	Total Insurance	Belgium	Continental Europe	Asia	Total Insurance
Variance in Investment Income	**377**	**339**	**22**	**16**	**213**
Shares	52	46	3	3	144
Real Estate	77	78	(1)	(0)	23
Unit Linked funds	6	3	3	(0)	14
Fixed Income	242	212	16	14	32
Changes in Interest Rates and Market Conditions	**(46)**	**(139)**	**(19)**	**112**	**139**

- The **Variance in Investment Income** reflects the impact of deviations of actual experience from expectations during the year with respect to economic factors. For fixed income the variance is mostly related to the continued decrease of spreads on government bonds during 2014 (10 year spread decreases: 35bps on Belgium, 100 bps on Italy, 200 bps on Portugal);
- **Changes in Interest Rates and Market conditions** include the impact of the decreased interest rates on the value of the (fixed income) assets and liabilities of Ageas. Furthermore, the effect of the appreciation of the Hong Kong Dollar against the Euro is included for EUR 107 million.

2.6 Equity Reconciliation

The table below provides an overview of the adjustments made to the IFRS group Shareholder Equity to arrive at the Embedded Value for reporting year 2014. The detailed principles are described in paragraph 4.10.

			2014			2013
Equity Reconciliation	Life	Non-Life & Other Insurance	General Account	Life	Non-Life & Other Insurance	General Account
Total IFRS Shareholder's Equity	**7,135**	**2,052**	**1,036**	**5,865**	**1,748**	**913**
Activities not included in Embedded Value	(1,533)	(2,052)	(1,036)	(733)	(1,748)	(913)
IFRS Shareholder's Equity of activities included in Embedded Value	**5,602**			**5,132**		
Adjustments from IFRS to EEV						
Deduction Deferred Acquisition Costs	(425)			(467)		
Deduction of Intangible Assets (Goodwill/VOBA) 2)	(414)			(564)		
Valuation adjustment Technical Provisions	3,665			1,402		
Market value adjustments	1,895			1,167		
Reallocation of UCG to assets backing provisions	(7,666)			(3,692)		
Adjustments for participation differences	75			56		
Value of Shareholder's Equity	2,732			3,034		
Value of In-Force Business	2,959			2,753		
Embedded Value Year-end	**5,691**			**5,787**		

* *The definition of "Value of Shareholder's Equity" and "Value of In-Force Business" is described in Annex I.*

The "activities not included in Embedded Value" mainly relate to the Equity Associates (2014: EUR 1,429 million).

The overall change of the adjustments is the result of decreased interest rates.

3 Sensitivity analysis

Note that all sensitivities are performed without any management actions, e.g. the sensitivity Reference Rate – 100bp assume the same technical interest rate as of today for Value New Business. The principles of the sensitivities are described in detail in paragraph 4.11.

			2014		2013
	Total		Continental		Total
Sensitivities - Embedded Value	Insurance	Belgium	Europe	Asia	Insurance
Embedded Value Year-end	**5,691**	**4,244**	**551**	**896**	**5,787**
Reference rate +100bp	(0.1%)	(1.6%)	10.5%	0.7%	1.5%
Reference rate -100bp	(0.6%)	0.9%	(4.7%)	(5.5%)	(4.5%)
Asset values shares and real estate -10%	(5.1%)	(5.9%)	(3.6%)	(2.3%)	(5.0%)
Volatilities equities and properties +25%	(0.5%)	(0.6%)	(0.3%)	(0.2%)	(0.1%)
Volatilities risk-free yields +25%	(2.4%)	(2.6%)	(0.2%)	(3.1%)	(2.0%)
Volatility Adjustment 0 bp	(4.7%)	(3.8%)	(1.6%)	(10.6%)	(5.1%)
Volatility Adjustment +10 bp	2.3%	2.3%	2.1%	2.1%	1.6%
Required Equity (minimum regulatory level)	2.3%	1.9%	2.2%	2.4%	1.8%
Costs -10%	3.2%	3.2%	3.0%	3.1%	2.9%
Mortality rates -5%	0.2%	0.1%	(1.4%)	1.9%	0.4%
Lapse rates -10%	1.4%	1.2%	0.6%	2.3%	2.7%

			2014		2013
	Total		Continental		Total
Sensitivities - Value Added by New Business	Insurance	Belgium	Europe	Asia	Insurance
Value New Business	**89**	**55**	**18**	**16**	**120**
Reference rate +100bp	12.2%	8.9%	9.6%	26.0%	9.1%
Reference rate -100bp	(14.5%)	(2.3%)	(7.9%)	(60.9%)	(23.7%)
Volatilities equities and properties +25%	(4.6%)	(7.0%)	(0.5%)	(1.2%)	(3.9%)
Volatilities risk-free yields +25%	(9.0%)	(7.7%)	(0.6%)	(22.3%)	(5.9%)
Volatility Adjustment 0 bp	(20.6%)	(22.4%)	(7.9%)	(28.7%)	(16.0%)
Volatility Adjustment +10 bp	10.3%	13.0%	5.6%	6.8%	2.5%
Required Equity (minimum regulatory level)	9.3%	6.8%	5.8%	13.0%	5.2%
Costs -10%	13.7%	15.1%	3.8%	19.7%	9.8%
Mortality rates -5%	0.5%	(0.7%)	(1.7%)	6.7%	1.4%
Lapse rates -10%	11.7%	4.5%	10.2%	37.6%	10.0%

The 2014 sensitivities are in line with the 2013 sensitivities except for:

- Decrease of the reference rate. For both Embedded Value and Value Added by New Business this sensitivity has decreased as the reference rate is floored at 0%.
- Exclusion of the volatility adjustment. As the Euro volatility adjustment has decreased considerably during 2014 as shown in Chapter 4.6.1, the sensitivity towards the exclusion of the volatility adjustment for Euro countries has also decreased.

4 Embedded value at Ageas

4.1 Principles

Ageas's Embedded Value Report complies with the following guidance issued by the CFO Forum:

- European Embedded Value Principles, issued 5 May 2004;
- Additional Guidance on European Embedded Value Disclosures, issued 31 October 2005.

In addition to these principles, Ageas has already applied principles 2-6, 7.1, 7.4, 8, 9.1 – 9.3, 10, 11.1 – 11.5, 11.7 – 11.10, 11.13, 11.15 – 11.16, 12 - 16, 17.1 – 17.3.7, 17.3.10 – 17.3.20, 17.3.22 – 17.3.36, 17.3.46 – 17.3.47, 17.4 – 17.8.8 from the Market Consistent Embedded Value Principles issued in October 2009.

The applied Market Consistent Embedded Value principles mostly relate to actuarial and economic assumptions and methodologies. Furthermore, some of the applied MCEV principles relate to instructions on the disclosure of results, assumptions and methodologies used. The applied principles have not changed compared to 2013.

Ageas's Embedded Value reporting is a supplementary reporting to the primary financial statements and represents a measure of the shareholders' interest in Ageas's Life insurance businesses, comprising the market value of the Shareholder's Equity plus the value of the operating business. Annex I gives a detailed description of these elements.

4.2 Statement of directors

We confirm that this Embedded Value Report has been prepared in accordance with the European EV Principles as detailed in paragraph 4.1. The Board of Directors reviewed the Embedded Value Report on 5 March 2015 and authorizes its issue.

4.3 Value Added by New Business (VANB)

The VANB represents the Value Added by New Business written in the period, and is calculated in a similar way to the embedded value. It is calculated as the value of the new business written in 2014 and In-Force at 31 December 2014 plus the first year losses (New Business Strain).

The Value Added by New Business includes only contracts sold during 2014 and does not include future new business.

4.4 Scope

All amounts in the tables of this Embedded Value Report are denominated in millions of euro, unless stated otherwise.

The Embedded Value of Life insurance operations provides additional information on the value of existing contracts and acquired new business and is based on a market consistent approach.

Ageas is organised into five operating segments:

- Belgium;
- United Kingdom (UK);
- Continental Europe;
- Asia;
- General Account.

4.5 Covered business

The scope of this Embedded Value Report covers value that arises from Life insurance contracts sold through Ageas's consolidated Insurance entities. It does not include any of the Non-Life activities, such as Property & Casualty Insurance, the General Account and the non-consolidated Asian and European partnerships. These activities are considered non-covered businesses.

The Ageas's Life entities included in the scope of Embedded Value are:

- AG Insurance in Belgium, with Ageas's share of 75%;
- Continental Europe, which includes:
  - Ageas France in France;
  - Millenniumbcp Ageas in Portugal, with Ageas's share of 51%.
- Ageas Asia Holdings in Hong Kong, which includes Ageas Insurance Company (Asia);

The business under scope includes Life business, such as Traditional Life, Term, Annuities, Unit-Linked, Universal Life and Group Business. Accident and health products sold through the relevant entities are considered Non-Life products and are therefore treated as not covered business. Only in the event that types of products appear as a policy rider to Life business, is their value included in the Embedded Value calculations.

In our IFRS Financial Statements, AG Insurance and Millenniumbcp Ageas have been consolidated 100%. For Embedded Value reporting purposes, these businesses are included for the share Ageas holds in them, as mentioned above.

The valuation of all the subordinated liabilities issued by the entities of the covered business has been valued on the basis of the credit rating of the issuing entity.

4.6 Economic assumptions

4.6.1 Reference rates

For 2014 reporting purposes, Ageas updated its approach for the reference rates to be in line with the latest valuation parameters set out by EIOPA under Solvency II. The update relates to the replacement of the illiquidity premium by a volatility adjustment that is applied on the zero coupon yield curve for the EUR currency. For the other currencies HKD and USD, the volatility adjustment is not known and therefore Ageas has decided to continue using the QIS5 Illiquidity premium method for these 2 currencies.

Ageas uses a stochastic economic scenario generator to produce 1,000 arbitrage free scenarios of future investment returns on each asset class, based on the reference rate mentioned above and the volatilities given in section 4.6.2.

Risk free

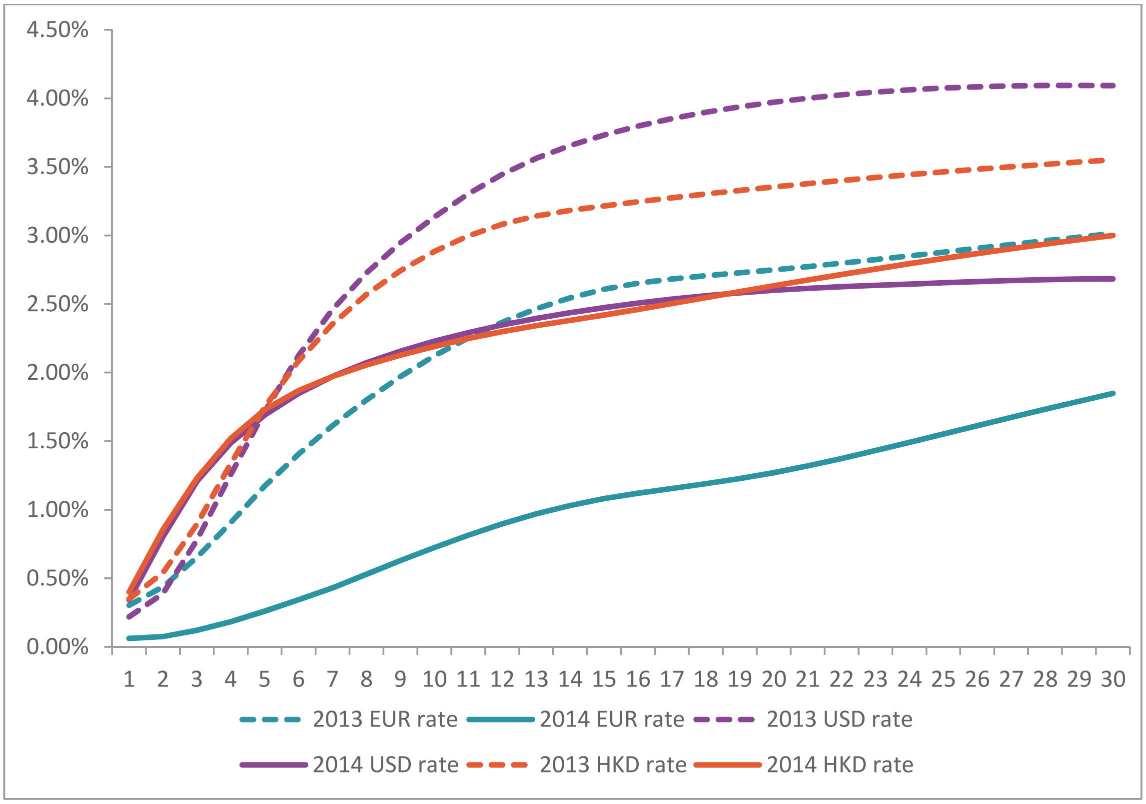
The risk free rate is derived from the forward zero coupon yield curve which is reduced by 10 bps credit spread until the last liquid

point. The forward zero coupon yield curve is derived from the swap curves at 31 December 2014 for the relevant currencies and these are sourced from market sources for rates up to year 20 for the EUR, up to year 15 for the HKD and up to year 50 for the USD. For rates beyond these maturities, the extrapolation method (Smith-Wilson) is used to converge from the last observed liquid market data point to an unconditional ultimate long term forward rate. Similar to last year valuation methodology Ageas applies a period of convergence of 40 years to align with what is recommended by the Solvency II guidelines and what is applied by peers.

Samples of the risk free rates up to year 30 are plotted in the graph below.

	2014			2013		
Risk free rates	Euro	HKD	USD	Euro	HKD	USD
1 yr	0.06 %	0.40 %	0.34 %	0.30 %	0.35 %	0.22 %
5 yr	0.26 %	1.73 %	1.69 %	1.17 %	1.75 %	1.72 %
10 yr	0.72 %	2.19 %	2.23 %	2.12 %	2.88 %	3.13 %
15 yr	1.08 %	2.42 %	2.47 %	2.61 %	3.22 %	3.73 %
20 yr	1.27 %	2.63 %	2.60 %	2.75 %	3.35 %	3.97 %

The table and chart below show the risk free spot rates.



Volatility Adjustment (VA) / Illiquidity Premium (IP)

The volatility adjustment is derived from the curves provided by EIOPA during the 2014 European Stress Tests for the EUR currency

As mentioned above as there was no information provided on the VA for the HKD and USD currencies, therefore Ageas has used the IP. As shown in table below, these IP have increased compared to last year.

Volatility Adjustment (2013: Illiquidity premia)	2014	2013
EUR	19	20 - 24
HKD	36	29
GBP		27
USD	47	38

Maturity of the Volatility adjustment (in years)	EUR	HKD	USD
Full volatility adjustment	20	15	50

4.6.2 Volatilities

The scenarios used in the economic scenario generator are calibrated to fit to market data at the valuation date with the aim of achieving certain target of accuracy set by the group. For the entities in the Eurozone, one single set of scenarios have been produced. At year end, the swaption volatilities have increased, in particular for the long term maturities. For the Hong Kong activities, the scenarios are produced with the centralized group tool as for other companies.

Volatilities			2014	2013
10 yr Sample swaption quote	5 yr option / 10 yr option	EUR	42.7% / 37.0%	25.9% / 23.3%
		HKD	29.3% / 25.0%	22.8% / 22.9%
		USD	29.3% / 26.7%	20.3% / 16.4%
15 yr Sample swaption quote	5 yr option / 10 yr option	EUR	40.6% / 36.3%	24.6% / 22.8%
		HKD	27.2% / 22.8%	21.9% / 21.6%
		USD	27.8% / 25.6%	
Real Estate	Imo APFIPP Index	EUR	2.6 %	2.1 %
	REBE Funds	EUR	14.0 %	14.0 %
	REBE Offices	EUR	7.0 %	7.0 %
	SX86E Index	EUR	30.4 %	31.3 %
	HSP Index	HKD	27.3 %	28.3 %
Equity	MSCI EMU	EUR	18.5 %	11.9 %
	MSCI US	USD	12.3 %	10.2 %
	MSCI Europe Ex EMU	EUR	14.7 %	9.5 %
	PSI 20	EUR	22.4 %	13.7 %
	MSCI World Free	USD	9.8 %	8.8 %
	MSCI Far east ex Japan	USD	10.5 %	11.2 %
	MBCP	EUR	53.9 %	37.8 %
	MSCI Emerging Market	USD	12.1 %	12.6 %
	MSCI Asia	USD	10.4 %	11.6 %
	EUROSTOXX50	EUR	16.6 %	17.9 %
	SP500	USD	17.3 %	15.3 %

4.6.3 *Actual and Target asset mix*

The table below provides information on the asset mix.

The actual asset mix is the investment portfolio in the balance sheet as at 31 December 2014. It excludes assets held in funds for which the policyholder bears the investment risks and assets backing shareholder's equity which do not impact on the Cost of Financial Options and Guarantees (CFOG). In the table the assets are classified according to their economical characteristic, e.g. equities in fixed income funds are classified as fixed income.

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

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

	2014							
	Total Insurance		Belgium		Continental Europe		Asia	
Asset mix - operating business	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	90.0%	88.6%	89.2%	87.8%	93.5%	94.4%	98.3%	93.0%
Shares	2.8%	2.9%	3.0%	3.0%	1.5%	0.7%	1.7%	7.0%
Real Estate	7.2%	8.5%	7.7%	9.3%	5.0%	4.8%	0.0%	0.0%

	2013							
	Total Insurance		Belgium		Continental Europe		Asia	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	88.8%	88.5%	87.9%	88.0%	93.5%	93.5%	99.0%	85.0%
Shares	2.7%	2.9%	2.9%	2.9%	1.4%	1.8%	1.0%	10.0%
Real Estate	8.5%	8.6%	9.1%	9.1%	5.1%	4.7%	0.0%	5.0%

4.6.4 *Real world investment return assumptions*

The assumed investment returns include future investment risk premiums that are used to generate the expected return in the Movement Analysis. The real world investment return assumptions used in this report are:

- *Equities;*

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

- *Real Estate;*

  The real estate risk premium has been assumed to be 200bp above the reference rate.

- *Debt Securities;*

  The investment return on debt securities real world projections are based on actual cash flows (coupons and principles)

Any deviation as a result of defaults or spread changes is included in the "Variance on investment return" in the analysis of change.

Note that these assumptions do not influence the final valuation, since higher expected returns, will have an equally opposite effect on the variance, representing the difference between actual and Expected Return.

4.7 Operating assumptions

4.7.1 Expenses

Modeled expenses start at the actual 2014 expense level and are modeled taking into account the assumed inflation rate over the projection period. Future commission payments follow the schemes agreed with the parties entitled to the payments. No account is taken of the effect of future expense reduction program, productivity gains or integration synergies.

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

The total unallocated central overheads in 2014 were EUR 58 million (2013: EUR 55 million). The share for the Life insurance activities of these expenses or any recurrence of these has not been included in the year-end Embedded Value or Value Added by New Business.

4.7.2 Expense inflation

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

4.7.3 Operating assumptions

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

4.7.4 Tax

Both local corporate tax and local taxes e.g. dividend taxes have been incorporated in the calculation of the Embedded Value based on the local tax position and local applicable tax rates. If this leads to deferred tax assets, an assessment has been made to determine that appropriate tax rates have been applied to direct and indirect returns on equities, real estate and fixed income. In all other cases the appropriate local corporate tax rate is applied.

4.7.5 Premium persistency

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

4.7.6 Profit sharing

Based on contractual obligations and management actions, profit sharing dividends are reflected in the group modeling platform and included in the Embedded Value calculations as a future outgoing cashflow.

4.8 Required equity

The required equity has been calculated as set out in section 1.1. of Annex I.

4.9 Expected return

The “expected return at the **reference rate”** shows the projected change over one year forward at risk free applicable at the start of the year. The VIF contains also the unwinding at the first year risk free rate. The VIF increases as all future profits now require one year less discounting.

The “expected return **in excess of reference rate”** is the additional Embedded Value expected to be created if “real world” expected investment returns applicable at the year-start were to emerge. It also includes the release from risks with respect to options and guarantees and non-financial and residual non-hedgeable risks. The margin for the year built into the valuation for uncertainty with regards to asymmetric financial risk and non-financial risk is released in this step.

The **“transfer to shareholders’ equity”** shows the effect of the realization of the projected net profits from the VIF and the release of Required Equity. The change on shareholders’ equity has no impact on the Embedded Value overall as it contains the release of profits included in the VIF to the Free Surplus during the year.

4.10 Equity reconciliation

To arrive at the Value of Shareholder’s Equity for Embedded Value an adjustment is made to reallocate Unrealised Capital Gains. Under IFRS, all Unrealised Capital Gains, including those on assets backing technical provisions are accounted for as Shareholder Equity. For Embedded Value purposes these assets, including their Unrealised Capital Gains/Losses, are projected and valued as part of the Value of In-Force business and therefore need to be excluded from the EEV Shareholder’s Equity.

The line "Valuation adjustment Technical Provisions" includes several adjustments, including unallocated profit sharing and shadow accounting, whereas “Market value adjustments” relates to the revaluation to market value of the real estate and Held to Maturity portfolio.

4.11 Sensitivities

Following the CFO Forum guidance sensitivities are required to be provided for the in-force portfolio and the new business. These sensitivities are performed with respect to underlying best estimate assumptions and based on current market conditions as at 31 December 2014. Both economic and non-economic sensitivities are tested. The same management actions and policyholder behaviours have been assumed in the sensitivities as for the base case. Each sensitivity analysis is calculated by changing the relevant assumption in isolation. It does not take into account second order effects this may have on other assumptions underlying the projections.

- Reference rate + 100 bps – This sensitivity assumes an upward shift of 100 bps in the reference rate and still converging to the UFR of 4.2%;

- Reference rate -100 bps – This sensitivity assumes a downward shift of 100 bps in the reference rate, floored at 0% and still converging to the UFR of 4.2%, without taking into account any possible management actions on the guaranteed interest rates. In this sensitivity no repricing of new business has been applied. Due to the asymmetric and non-linear impact of embedded financial options and guarantees, falling market rates have a higher impact on EV than rising interest rates;

- Asset values of equities and real estate -10% – This sensitivity assumes a decrease of the asset values of both equities and real estate by 10%. Since the modelled investment strategies take into account a certain target allocation based on market value, this shock may lead to a rebalancing of the modelled assets at the end of the first year, when defined boundaries for each asset class are exceeded;

- Volatilities equities and properties +25% – This sensitivity assumes a 25% increase of both the equity and real estate volatility by multiplying the base assumption by a factor of 125%;

- Volatilities risk-free yields +25% – This sensitivity assumes a 25% increase of the volatility of the risk free yields by multiplying the base assumption by a factor of 125%;

- Volatility Adjustment 0 bp – This sensitivity assumes the Volatility Adjustment are set at 0 for all currencies, or in other words, a reference rate equal to the risk free rate.;

- Volatility Adjustment +10 bp – This sensitivity assumes the Volatility Adjustment includes 10bp on the existing Volatility Adjustments for Euro, Hong Kong Dollar and US Dollar.

- Required Capital on the local regulatory minimum level – This sensitivity assumes that the Required Capital to hold is only to meet the minimum local regulatory requirements. This sensitivity is assumed to impact the Frictional Cost of Capital and the Cost of Non-Hedgeable Risks resulting from a lower level of Shareholders Equity needed to meet the minimum level of Required Capital. For the majority of entities the minimal regulatory capital is set at 100% of solvency 1 capital;

- Costs -10% – all maintenance costs excluding commissions and acquisition expenses decrease by 10%. Cost inflation remains unchanged;

- Lapse -10% – This sensitivity assumes that the lapse rates used in the base scenario are multiplied by a factor of 90%;

- Mortality -5% – This sensitivity assumes that the mortality rates used in the base scenario are multiplied by a factor of 95%. This has been applied on both annuity and life assurance business.

5 Cautionary statements

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

Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Future actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in Ageas's core markets, (ii) performance of financial markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) interest rate levels, (vii) currency exchange rates, (viii) increasing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the Economic and Monetary Union, (x) changes in the policies of central banks and/or foreign governments and (xi) general competitive factors, in each case on a global, regional and/or national basis.

In addition, the financial information contained in this presentation, including the pro forma information contained herein, is unaudited and is provided for illustrative purposes only. It does not purport to be indicative of what the actual results of operations or financial condition of Ageas and its subsidiaries would have been had these events occurred or transactions been consummated on or as of the dates indicated, nor does it purport to be indicative of the results of operations or financial condition that may be achieved in the future.

No warranty can be given by Ageas, either explicitly or implicitly, regarding the correctness or completeness of the information, forecasts and assumptions contained in these pages. The information here provided could be subject to changes. This report and the information contained herein in no way replace any formal reporting. Investment considerations should continue to be based on periodical reporting and other information Ageas is required to disclose by law or stock exchange regulations.

6 Limited assurance report on the Ageas 2014 embedded value report

6.1 Introduction

We were engaged by the Board of Directors of Ageas SA/NV (hereafter: "the Board of Directors") to report in the form of an independent limited assurance conclusion on the Ageas' Embedded Value Report for the covered life insurance business as at 31 December 2014 including the related movements in embedded value, including restatements and operating embedded value earnings, the new business value and the sensitivities (as stated on pages 1 to 21), for the year then ended and management assertion thereon (the "Ageas 2014 Embedded Value Report") that based on our work performed, described in this report, nothing has come to our attention that causes us to believe that the Ageas 2014 Embedded Value Report is not properly prepared, in all material respects, in accordance with the following Principles as set out on page 14 of the Ageas 2014 Embedded Value Report, the "EEV Principles":

- The European Embedded Value Principles and Guidance as developed by the CFO Forum and published on 5 May 2004.
- Additional Guidance on European Embedded Value Disclosures, issued 31 October 2005.
- Principles 2 - 6, 7.1, 7.4, 8, 9.1 – 9.3, 10, 11.1 – 11.5, 11.7 – 11.10, 11.13, 11.15 – 11.16, 12 - 16, 17.1 – 17.3.7, 17.3.10 – 17.3.20, 17.3.22 – 17.3.36, 17.3.46 – 17.3.47, 17.4 – 17.8.8 from the Market Consistent Embedded Value Principles issued October 2009.

6.2 Ageas responsibilities

The Board of Directors is responsible for the preparation of the Ageas 2014 Embedded Value Report in accordance with the EEV Principles that is free from material misstatements and for the determination of the assumptions to be used, and information contained therein.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Ageas 2014 Embedded Value Report that is free from material misstatement, whether due to fraud or error. It also includes selecting and applying the appropriate methodology; and using assumptions that are reasonable in the circumstances; selecting and applying policies; making judgments and estimates that are reasonable in the circumstances; and maintaining adequate records in relation to the Ageas 2014 Embedded Value Report.

The Board of Directors is also responsible for preventing and detecting fraud and for identifying and ensuring that Ageas complies with laws and regulations applicable to its activities. The Board of Directors is responsible for ensuring staff involved with the preparation of the Ageas 2014 Embedded Value Report are properly trained, systems are properly updated and that any changes in reporting encompass all significant business units.

6.3 Our Responsibilities

Our responsibility is to examine the Ageas 2014 Embedded Value Report prepared in accordance with the EEV principles by Ageas and to report thereon in the form of an independent limited assurance conclusion based on the evidence obtained.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance engagements other than audits or reviews of historical financial information, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain a meaningful level of assurance whether nothing has come to our attention that causes us to believe that the Ageas 2014 Embedded Value Report is not properly prepared, in all material respects, in accordance with EEV principles.

The procedures selected depend on our understanding of the preparation of the Ageas 2014 Embedded Value Report, and other engagement circumstances, and our consideration of areas where material deviations to EEV principles are likely to arise. In developing our understanding of the Ageas 2014 Embedded Value Report, we developed an understanding of internal control over the preparation of the Ageas 2014 Embedded Value Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Ageas's internal control over the preparation of the Ageas 2014 Embedded Value Report.

Our engagement also included:

- evaluating the appropriateness of the compilation process of the Ageas 2014 Embedded Value Report and the appropriateness of the methods, policies and procedures used as well as the determination process of the assumptions described on pages 14 to 20,
- verifying the consistent application of the methodology across Ageas. Furthermore we have performed analytical procedures on the results of the calculations of the embedded value as at 31 December 2014 and the 2014 movements.

Limited assurance is less than absolute assurance and reasonable assurance. Evidence-gathering procedures for a limited assurance engagement are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We did not perform model validation procedures and/or reperformance of calculations to assess the reliability of the models involved, nor did we assess the completeness and correctness of the calculations in those models underlying the Ageas 2014 Embedded Value Report, that would have been performed if this were a reasonable assurance engagement.
As part of this engagement, we have not performed any procedures by way of audit or review of the Ageas 2014 Embedded Value Report nor of the underlying records or other sources from which the Ageas 2014 Embedded Value Report was extracted.

6.4 Criteria

We refer to the section introduction for the principles we have used for the basis for our conclusion.

6.5 Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on our procedures performed, described in this report, nothing has come to our attention that causes us to believe that the Ageas 2014 Embedded Value Report is not properly prepared, in all material respects, in accordance with the EEV principles.

6.6 Other matters

We draw attention to chapter 5 of the Embedded Value Report, which indicates that the calculations underlying the Embedded Value Report are necessarily based on numerous assumptions with respect to economic conditions, operating conditions, political conditions and other matters with respect to future cash flows. Many of these are beyond the control of Ageas and actual cash flows in the future are likely to be different from those assumed in the calculation and such variation may be material.

Brussels, 5 March 2015

KPMG Réviseurs d'Entreprises/Bedrijfsrevisoren

Represented by
M. Lange / K. Tanghe

Annex I: Components of embedded value

The components of the Embedded Value are:

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

1 Value of Shareholder's Equity (VSE)

The Value of Shareholder's Equity equals the market value of the tangible assets backing Ageas's Life Equity including adjustments to ensure consistency with the calculation of the Value of In-Force Business. For example, unrealised capital gains that originate from assets backing the customer liabilities but appear on the IFRS balance sheet within shareholder equity are modeled within the Value of In-Force Business and therefore are deducted from the value of shareholder equity. Intangible assets such as VOBA and DAC are given no value because the Embedded Value they represent is valued explicitly within the Value of In-Force. See Section 2.1.6 for an overview of the reconciliation from IFRS to the Value of Shareholder's Equity.

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

1.1 Required Equity (RE)

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

All Ageas businesses must hold sufficient solvency capital to meet their local regulatory requirements and target a buffer above this to ensure they can withstand a range of adverse events. The level solvency capital is usually funded with a combination of Shareholder's Equity and other admissible capital items such as debt instruments. For Embedded Value reporting, the amount of Required Equity to meet the solvency capital level should only contain the Shareholder's part.

As capital and equity measures from various local regulatory regimes differ from a market consistent valuation framework, the translation to Required Capital for valuation purposes follows the subtraction method. The principle of this method is to assume that a surplus in local target capital is really free for distribution and that the remainder is needed to meet the solvency requirements and the amount of free capital should therefore be consistent in any framework. Therefore, by assuming a fixed amount of free surplus, any remaining amount of Shareholder's Equity should automatically be locked in for solvency requirements. It is possible that the Required Equity in the Embedded Value is lower than the Solvency I requirement.

This is the result of non Embedded Value elements that qualify as Solvency I Available Capital e.g. subordinated liabilities and components that are part of Value of In-Force Business under Embedded Value e.g. unrealized capital gains.

1.2 Free Surplus (FS)

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

2 Value of In-Force business (VIF)

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

2.1 Present Value of Future Profits (PVFP)

Present Value of Future Profits (Certainty Equivalent Value) corresponds to the value of the business without taking credit for any future investment risk premiums and represents the value as if all cash flows are fixed and certain and all investment assets earn a return equal to the reference rate (risk free return), with the cash flows discounted at the same reference rate. This value captures the intrinsic value (or in-the-money value) of the financial options and guarantees. The reference rate is defined in section 4.6.1.

2.2 Cost of Financial Options and Guarantees (CFOG)

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

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

2.3 Cost of Non-Hedgeable Risks (CNHR)

The Cost of Non-Hedgeable Risks is an allowance for risks that are currently not allowed for in the Cost of Financial Options and Guarantees, including those which cannot be hedged as a result of the absence of liquid and well developed markets for these risks. While within a market consistent framework the financial risks arising from options and guarantees are addressed through the CFOG, an additional separate adjustment is necessary for all other risks. The CNHR is an explicit deduction to the Certainty Equivalent value to place a value on the uncertainty of shareholder profits around the expected insurance and non-hedgeable risks embedded in the insurance cash flows.

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

The annual charge on the solvency capital held for these risks is calculated by a 0.5% post-tax charge of the projected total Required Equity each year.

2.4 Frictional Cost of Capital (CoC)

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

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


ageas SA / NV
Rue du Marquis 1 - Markiesstraat 1
1000 Brussels
Belgium
ageas.com