

Annual Report 2008

Fortis Finance N.V.

Fortis Finance N.V.
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Report of the Board of Directors on the 2008 financial year

General

In the past Fortis Finance N.V. operated as the window to the financial markets for Fortis entities by issuing both short-term and long-term debt securities under a Belgian/Dutch Commercial Paper program and a Euro Medium Term Note (EMTN) program. Proceeds were primarily on-lent to Fortis holding entities, to finance leverage that existed at this level in the group. Fortis SA/NV in Belgium and Fortis N.V. in The Netherlands, jointly the holding companies of Fortis, provided joint and several guarantees for debt issued by Fortis Finance N.V.

Confronted with the international financial crisis, Fortis has undergone a complete metamorphosis. Its Dutch banking and insurance activities have been sold to the Dutch State, while the other banking activities have been sold to the Belgian State, which in turn sold 75% of Fortis Bank NV/SA to BNP Paribas.

The sale of material group companies stated above implied that a default was triggered under the EMTN program, which could not be cured. As a result, holders of Fortis Finance bonds are at all times entitled to demand the early redemption of their bonds in accordance with Conditions 7(a)(vii) and 7(a)(ix) of the Terms and Conditions. For all bonds other than structured notes, such redemption takes place at par value plus accrued interest until the date of effective early redemption. To enable Fortis Finance N.V. to early redeem the external bondholders, Fortis Finance N.V. has concluded agreements with its borrowers. Based on these agreements Fortis Finance N.V. can demand the early redemption of the amounts due from borrowers at par as well.

Early 2009 most of the bonds have been repaid. At May 15, 2009 the liabilities arising from outstanding bonds under the EMTN and CP program have decreased to EUR 1,0 billion. All the amounts due from (former-)group companies have been repaid at that date, allowing Fortis Finance to immediately honour any request for early redemption by external bondholders.

The shares of Fortis Finance N.V. are indirectly held by Fortis SA/NV and Fortis N.V. via Fortis Utrecht N.V. and Fortis Insurance N.V. The latter is the direct and sole shareholder of Fortis Finance N.V.

The board of Fortis Finance N.V. consisted of four persons that had key functions in Finance of the former Fortis Group; early 2008 Patrick Depovere resigned as board member and was replaced by Paul Prud'homme.

After the metamorphosis three of the board members became responsible for functions within Fortis Bank and Fortis Bank Nederland, that could no longer be combined with the representation as board member at Fortis Finance. The board members Jean Dessain, Bert van der Plas and Paul Prud'homme therefore resigned in March 2009: we are thankful for the efforts that these former colleagues applied in navigating the company through the difficult circumstances. At the same date Paul Goris and Carel Oosterloo replaced the persons that stepped down, while Patrick Depovere was welcomed again as board member, obviously bringing along past and valuable experience.

International Financial Reporting Standards

The Fortis Finance N.V. Financial Statements, including the 2007 and 2006 comparative figures, are prepared in accordance with IFRSs – including International Accounting Standards ('IAS') and Interpretations – at 31 December 2008 and as adopted by the European Union. For IAS 39, Financial Instruments: Recognition and Measurement, the execution regarding hedge accounting (the so-called 'carve out') decreed by the European Union on 19 November 2004 is taken into account.

Where accounting policies are not specifically mentioned below, reference should be made to the IFRS as adopted by the European Union. Accounting policies did not change in the course of 2008.

According to the accounting policies Fortis opted to fair value part of its assets and liabilities, while other parts are valued at amortised cost. With a view at the early redemption process described above, whereby most assets and liabilities are

redeemable at par value, Fortis assumed that this par value represents the best estimate of the fair value of these assets and liabilities.

Results and appropriation of profit

In March 2008 Fortis Finance N.V. paid a dividend of EUR 120,000 per share or EUR 30 million in total on the results realised up to 2006. The Board of Directors proposes to the General Meeting of Shareholders to allocate the 2008 net loss to the Retained Earnings.

In 2008 Fortis Finance N.V. realised a net loss after tax of EUR 95,978,206, compared to a loss of EUR 9,708,000 recorded in 2007, while a profit of EUR 62,048,000 was realised in 2006. The huge swing in results in 2008 versus 2006 is amongst others due to the fact that 2006 included a pre-tax EUR 85 million penalty interest received from Fortis Hypotheek Bank N.V. related to early redemption of granted group company loans for an amount of EUR 2.2 billion. The redeemed loans were recognised at amortised cost and consequently the penalty interest resulted in an exceptional gain. Fortis Finance used the proceeds of these early redemptions to grant new group company loans to Fortis Insurance N.V. and Fortis Utrecht N.V., with similar conditions as the redeemed loans, thus carrying EUR 85 million premium. These premiums were capitalized as an asset and were to be amortised using the effective interest rate method over the remaining period to maturity (2013). However, the early redemption of all loans led to a EUR 55 million direct write off of the not yet amortized premiums in 2008.

From a risk perspective Fortis Finance always applied a policy of a back to back closing of transactions, whereby external loans were matched with loans granted to internal group companies, whereby currency risks, interest risks or exposures with regard to embedded derivatives were avoided by entering into derivatives. The sudden early redemption of structured bonds at pre-defined contractual redemption prices created a mismatch, as the relating derivatives could only be unwound at mark- to- market prices. This specifically applied with regard to two credit-linked bonds, which were hedged by credit default swaps (CDS). In the past these bonds were valued at fair value including the value of the embedded CDS, thus the valuation was neutral for Fortis Finance. At year end 2008, the bonds had to be valued at par value, while the (negative) value of the credit default swaps amounted to EUR 83.1 million; this difference resulted in a loss before tax of EUR 83.1 million.

Due the illiquidity of the credit swap markets, these swaps could not be unwound against a reasonable price.

The 2008 net result extinguished the reserves and resulted in an equity deficit of EUR 43 million. As indicated earlier, all loans granted to group companies, including loans with fixed interest rates, have been redeemed at par value, thereby disregarding the fair value of these loans. Consequently, a derivative concluded between by Fortis Finance and a group entity to hedge its interest position, was also unwound without settling the fair value. This unwinding was done in March 2009 and resulted in a gross profit of EUR 57,9 million for Fortis Finance, thereby restoring the net equity position of the company.

Risk management

Exposure to credit, interest rate and currency risks arises in the normal course of Fortis Finance business. The board decided to use derivative financial instruments to economically hedge exposure to fluctuations in foreign exchanges rate, interest rates and other risk on a deal by deal basis. Interest rate wise, currency wise and possible embedded derivative wise, the funding, on lending and related derivatives form a closed position.

Due to the default situation all loans are now daily callable and the board monitors the open positions that are created by the early redemptions on a day by day basis and minimises the open positions if and when economically possible. For this reason the board has agreed to an open position in Credit Default Swaps

Prospects

Fortis Finance is in a default position. As long as the default continues, Fortis Finance can not issue any new loans. Once the default is remedied, management will review the future for the company. The results for the coming years will be uncertain and dependent on the speed of repayment of the bonds.

Employees

Fortis Finance N.V. has no employees of its own. Its activities are performed by employees of Fortis group companies

Management representation

Management declares that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

Utrecht (NL), 26 May 2009

The Board of Directors:

P. Depovere
J.H. Brugman
C.F. Oosterloo
P. Goris

Financial statements 2008

All amounts reported in the tables of these financial statements are denominated in thousands of euros, unless stated otherwise. Because figures have been rounded off, small differences can occur in comparison with previously reported figures.

Balance sheet

(before appropriation of profit)

| <i>In thousands of euro</i> | | 31 December 2008 | 31 December 2007 | 31 December 2006 |
|--|-------------|---------------------|---------------------|---------------------|
| | <i>Note</i> | | | |
| Assets | | | | |
| Due from group companies | 1 | 5,398,915 | 7,617,191 | 6,210,705 |
| Deferred tax assets | 2 | 0 | 0 | 0 |
| Derivatives and other receivables | 3 | 314,558 | 420,779 | 411,044 |
| Cash and cash equivalents | 4 | 1,723,103 | 171,622 | 257,952 |
| Total assets | | 7,436,576 | 8,209,592 | 6,879,701 |
| Equity | | | | |
| Issued capital | | 125 | 125 | 125 |
| Retained earnings | | 52,504 | 30,164 | 30,164 |
| Unappropriated profit 2006 | | 0 | 62,048 | 0 |
| Result for the year | | (95,978) | (9,708) | 62,048 |
| Total equity | 5 | (43,349) | 82,629 | 92,337 |
| Liabilities | | | | |
| Interest-bearing loans and borrowings | 6 | 6,945,332 | 7,476,138 | 6,021,205 |
| Interest-bearing subordinated loans | 6 | 66,933 | 97,563 | 183,781 |
| Bank overdrafts | 4 | 0 | 77,715 | 123,358 |
| Tax payable | 7 | 1,506 | 2,789 | 1,549 |
| Derivatives, deposits and other payables | 8 | 466,154 | 458,437 | 438,322 |
| Deferred tax liabilities | 2 | - | 14,321 | 19,149 |
| Total liabilities | | 7,479,925 | 8,126,963 | 6,787,364 |
| Total equity and liabilities | | 7,436,576 | 8,209,592 | 6,879,701 |

Income statement

| <i>In thousands of euro</i> | <i>Note</i> | 2008 | 2007 | 2006 |
|------------------------------------|-------------|--------------------|-------------------|---------------|
| Income | | | | |
| Financial income | 10 | 818,706 | 699,835 | 945,812 |
| Financial expenses | 10 | (928,218) | (711,688) | (860,761) |
| Net financial margin | | (109,512) | (11,853) | 85,051 |
| Operating expenses | 9 | (322) | (708) | (690) |
| Rating expenses | | (352) | (379) | (366) |
| EMTN-program expenses | | (98) | (90) | (327) |
| Operating result before tax | | (110,284) | (13,030) | 83,668 |
| Income tax income (2006 expense) | 11 | 14,306 | 3,322 | (21,620) |
| Result for the year | | (95,978) | (9,708) | 62,048 |

Statement of changes in net equity

| For the year ended 31 December | 2008 | 2007 | 2006 |
|--|-------------------|---------------|---------------|
| <i>In thousands of euro</i> | | | |
| Balance beginning of year | 82,629 | 92,337 | 30,289 |
| Profit or loss for the period | (95,978) | (9,708) | 62,048 |
| Dividend paid (related to result 2006) | (30,000) | - | - |
| Balance end of year | (43,349) | 82,629 | 92,337 |

Statement of cash flows

| For the year ended 31 December | 2008 | 2007 | 2006 |
|--|--------------------|----------------------|----------------------|
| <i>In thousands of euro</i> | | | |
| Cash and cash equivalents – Balance at 1 January | 171,622 | 257,952 | 1,321,039 |
| Bank Overdrafts – Balance at 1 January | (77,715) | (123,358) | (1,282,410) |
| Total cash and cash equivalents/ bank overdrafts at 1 January | 93,907 | 134,594 | 38,629 |
| Cash flows from operating activities | | | |
| Net result | (95,978) | (9,708) | 62,048 |
| Net changes in operating assets and liabilities | 99,244 | (28,886) | 57,444 |
| Net cash from operating activities | 3,266 | (38,594) | 119,492 |
| Cash flows from Investing activities | | | |
| Payments to customers or cash receipt from customers (deposits, long term loans) | 2,218,276 | (1,406,486) | 1,671,002 |
| Cash flows from financing activities | | | |
| Proceeds from derivatives | 0 | (304) | 85,870 |
| Cash receipt or repayment of borrowings (subordinated, debt certificates, long term liabilities, straight loans) | (554,405) | 1,368,715 | (1,765,549) |
| Payment of derivatives | (7,941) | 35,982 | (14,850) |
| Dividend paid to shareholder | (30,000) | 0 | 0 |
| Net cash from financing activities | (592,346) | 1,404,393 | (1,694,529) |
| Cash and cash equivalents– Balance at 31 December | 1,723,103 | 171,622 | 257,952 |
| Bank overdrafts – Balance at 31 December | 0 | (77,715) | (123,358) |
| Total cash and cash equivalents/ bank overdrafts at 31 December | 1,723,103 | 93,907 | 134,594 |

General notes

General information

Fortis Finance N.V. is a company domiciled in The Netherlands.

The address is Archimedeslaan 6, 3584 BA Utrecht.

The company is registered with the chamber of Commerce in Utrecht under number 30055940.

The shares of Fortis Finance N.V. are indirectly held by Fortis SA/NV and Fortis N.V. via Fortis Utrecht N.V. and Fortis Insurance N.V. The latter is the direct and sole shareholder of Fortis Finance N.V.

The main activity of Fortis Finance N.V. is to provide funding to the Fortis group and operating entities. Funds borrowed in the market are lend-on to Fortis companies. Fortis Finance N.V. has very low exposure to interest and foreign currency risks; the general policy is to close all positions on a deal by deal basis.

Fortis Finance N.V. does not employ any personnel; all activities are performed by employees of other Fortis entities.

The financial statements were authorised for issue by the Board of Directors on 26 May 2009.

Accounting policies

General

The annual accounts are prepared based on the going concern assumption. The uncertainties that existed around Fortis at year end and could have resulted in the failure of the (former) group companies to repay their debts to Fortis Finance have been resolved. At the date of this report almost all loans were repaid, and Fortis Finance has sufficient cash available to repay the outstanding debts. The net equity deficit at year end has been remedied, and at the date of this report is positive again.

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the European Community.

b) Basis of preparation

The financial statements are presented in euro, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, and certain interest-bearing loans and borrowings.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates are especially used in establishing the fair value of non market quoted financial instruments

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Fortis Finance N.V. is the financing vehicle of the Fortis group and the entity that does the cash management of the Fortis group entities. In principle all funding transactions are lend-on to other Fortis entities. Fortis Finance N.V. structures the deals in such way that only limited interest rate or foreign currency risks remain on the books of Fortis Finance N.V. In certain deals derivatives are used to eliminate the interest or foreign currency risk.

Fortis Finance N.V. does not apply hedge accounting. To limit the volatility in income and equity, Fortis Finance N.V. may apply the fair value option, for deals in which derivatives are involved. This results in a situation that the funding, the on-lending and the derivative are fair valued through the income statement.

c) Changes in accounting principles

The accounting policies used to prepare these 2008 Consolidated Financial Statements are consistent with those applied for the year ended 31 December 2007.

The following changes to Standards (IFRSs) and Interpretations (IFRICs) came into effect during the financial year 2008 (all endorsed by the European Union, except IFRIC 12), with no material effect on Fortis:

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12, Service Concession Agreements
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

On 13 October 2008, the IASB issued amendments to IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures* (endorsed by the European Union on 15 October 2008). The amendments to IAS 39 permit reclassifications from the held for trading or available for sale categories to loans and receivables if the entity has the intent and ability to hold the financial asset for the foreseeable future. The amendments also allow non-derivative financial assets classified as held for trading to be reclassified in rare circumstances. The amendments to IFRS 7 specify the disclosures to be made in case of transfers. The effective date for the amendments is 1 July 2008.

During the year 2008, a number of changes to IFRSs or IFRICs have been published with a later application date:

On 10 January 2008, the IASB (International Accounting Standards Board) published a revised version of IFRS 3, *Business Combinations* and related revisions to IAS 27, *Consolidated and Separate Financial Statements* (not yet endorsed by the European Union). In the new version of IFRS 3, transaction costs directly attributable to the acquisition are no longer included in the cost of the business combination.

Furthermore, under IFRS 3 the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Also, a partial disposal of an investment in a subsidiary that results in a loss of control triggers remeasurement of the residual holding to fair value.

This amendment is applicable as from the financial year 2010 (with earlier application permitted) and could potentially have an effect on Fortis depending on the acquisitions and divestments that will take place.

On 17 January 2008, the IASB issued an amendment to IFRS 2, *Share-based Payments* (endorsed by the European Union on 16 December 2008). This amendment clarifies that vesting conditions are service conditions

and performance conditions only and introduces non-vesting conditions. This amendment is applicable as from the financial year 2009 (with earlier application permitted) and is not expected to have a material effect on Fortis.

On 14 February 2008, the IASB issued amendments to improve the accounting for particular types of financial instruments that have characteristics similar to those of ordinary shares but that at present are classified as financial liabilities (endorsed by the European Union on 21 January 2009). The amendments affect IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements*. These amendments are applicable as from the financial year 2009 (with earlier application permitted) and are not expected to have a material effect on Fortis.

On 22 May 2008, the IASB issued '*Improvements to IFRSs*', a collection of minor amendments to a number of IFRSs (endorsed by the European Union on 23 January 2009). These amendments have different application dates and are not expected to have a material effect on Fortis.

On the same date, the IASB issued an amendment to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 27, *Consolidated and Separate Financial Statements* (endorsed by the European Union on 23 January 2009), related to the cost of an investment in a subsidiary in the separate financial statements of a parent. This amendment is applicable as from the financial year 2009 (with earlier application permitted) and is not expected to have a material impact on Fortis.

On 3 July 2008, the IFRIC (International Financial Reporting Interpretation Committee) issued IFRIC 15, *Agreements for the Construction of Real Estate* (not yet endorsed by the European Union), standardising accounting practice across jurisdictions for the recognition of revenue by real estate developers for sales of units. IFRIC 15 is applicable as from the financial year 2009 (with earlier application permitted) and is not expected to have a material effect on Fortis.

On the same date, the IFRIC issued IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (not yet endorsed by the European Union), clarifying which risks are eligible for hedge accounting. IFRIC 16 is applicable as from the financial year 2009 (with earlier application permitted) and is not expected to have a material effect on Fortis.

On 31 July 2008, the IASB issued amendments to IAS 39, *Financial Instruments: Recognition and Measurement* (not yet endorsed by the European Union), to clarify two hedge accounting issues: inflation in a financial hedged item, and a one-sided risk in a hedged item. The amendments are applicable as from the financial year 2010 (with earlier application permitted) and is not expected to have a material effect on Fortis.

On 27 November 2008, the IFRIC issued IFRIC 17, *Distribution of Non-cash Assets to Owners* (not yet endorsed by the European Union). This IFRIC clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, and that the dividend payable should be measured at the fair value of the net assets to be distributed, with the difference between the dividend paid and the carrying amount of the net assets distributed recognised in the income statement. IFRIC 17 is applicable as from the financial year 2010 (with earlier application permitted) and is not expected to have a material effect on Fortis.

Furthermore, the following IFRSs and IFRICs will also be applicable as from the financial year 2009 (all endorsed by the European Union):

- IFRS 8 *Operating Segments*. This Standard requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker and could have some effect on the way the segment reporting is published by Fortis
- IAS 23 *Borrowing Costs*. This Standard requires capitalisation of all borrowing costs, which is already in line with the Fortis policy

- IAS 1 *Presentation of Financial Statements*, that will only have an impact on presentation, not on recognition or measurement
- IFRIC 13 *Customer Loyalty Programmes*. This Interpretation addresses accounting by entities granting loyalty award credits to customers and is not expected to have a material effect on Fortis

d) **Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the fair value was determined.

d) **Financial instruments**

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note f (Financial income and expenses).

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The company holds derivative financial instruments to hedge its foreign currency, credit risk, equity risk and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

e) Impairment

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

f) Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

g) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

h) Fair Value Calculations

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Derivatives

The fair value of interest rate swaps is the estimated amount that Fortis Finance N.V. would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The estimate is based on the expected cash flows and the swap interest curve applicable at the moment of valuation. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. For the Credit Default Swaps, the fair values are determined based using a valuation technique based on assumptions that are supported by available observable market data.

Non-derivative financial instruments

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Notes to the financial statements

1. Due from group companies

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|---|------------------|------------------|------------------|
| Due from group companies at amortised cost | 4,967,160 | 4,477,866 | 3,964,174 |
| Due from group companies held at fair value | 0 | 2,175,585 | 2,052,063 |
| Short time deposits with group companies | 431,755 | 963,740 | 194,468 |
| Total | 5,398,915 | 7,617,191 | 6,210,705 |

Since the loans have become daily callable in 2008 all amounts receivable, the fair value and the amortised cost value of the loans equal to the nominal value at year end 2008. At year end of 2008 EUR 249 million is related to former group companies, which have been repaid before 27 May 2009. The amortised cost of the loans held at fair value at the end of 2007 is EUR 2,170 million (2006: EUR 2,030 million).

2. Deferred tax assets and liabilities

The Deferred taxes are attributable to the revaluation of assets and liabilities at fair value.

Also for tax purposes the penalty interest received for the early redemption of loans was deferred and resulted in a deferred tax liability. For tax purposes the assets and liabilities, including derivatives are valued at amortised cost. This leads to the follow assets and liabilities. Fortis Finance is part of the fiscal unity Fortis Utrecht. Due to the overall loss situation of the tax unity for the year 2008, and the expected lack of future taxable profits, Fortis Finance has impaired its tax asset.

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|--|------------|-------------------|-------------------|
| Deferred tax asset on revaluation of liabilities | 12,185 | 33,090 | 38,545 |
| Deferred tax liability on revaluation of assets | - | (47,411) | (57,694) |
| Impairment Deferred tax asset | (12,185) | - | - |
| Net tax asset/ liability | - | (14,321) | (19,149) |

3. Derivatives and other receivables

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|------------------------------------|----------------|----------------|----------------|
| Accrued interest | 150,776 | 287,915 | 275,201 |
| Other receivables and pre-payments | - | 2,290 | 4,965 |
| Fair value derivatives | 163,782 | 130,574 | 130,878 |
| Total | 314,558 | 420,779 | 411,044 |

4. Cash and cash equivalents/ bank overdrafts

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|--|------------------|-------------------|--------------------|
| Bank balances | 1,723,103 | 171,622 | 257,952 |
| Cash and cash equivalents | 1,723,103 | 171,622 | 257,952 |
| Bank overdrafts | 0 | (77,715) | (123,358) |
| Cash and cash equivalents/ bank overdrafts in the statement of cash flows | 1,723,103 | 93,907 | 134,594 |

Bank balances and overdrafts are held at Fortis Bank N.V. and Fortis Bank Nederland N.V..

5. Capital and reserves

The movements in capital and reserves for the years ended 2006, 2007 and 2008 are as follows:

| <i>In thousands of euro</i> | <i>Share capital</i> | <i>Retained earnings</i> | <i>Unappropriated profit</i> | <i>Result for the year</i> | <i>Total</i> |
|-------------------------------------|----------------------|--------------------------|------------------------------|----------------------------|-------------------|
| Balance at 1 January 2006 | 125 | 22,830 | 0 | 7,334 | 30,289 |
| Allocation of profit | 0 | 7,334 | 0 | (7,334) | 0 |
| Total recognised income and expense | 0 | 0 | 0 | 62,048 | 62,048 |
| Balance at 31 December 2006 | 125 | 30,164 | 0 | 62,048 | 92,337 |
| Allocation of profit | 0 | 0 | 62,048 | (62,048) | 0 |
| Total recognised income and expense | 0 | 0 | 0 | (9,708) | (9,708) |
| Balance at 31 December 2007 | 125 | 30,164 | 62,048 | (9,708) | 82,629 |
| Allocation of profit | 0 | 52,340 | (62,048) | 9,708 | 0 |
| Dividend paid | | (30,000) | 0 | 0 | (30,000) |
| Total recognised income and expense | 0 | 0 | 0 | (95,978) | (95,978) |
| Balance at 31 December 2008 | 125 | 52,504 | 0 | (95,978) | (43,349) |

At 31 December 2008, the authorised share capital comprised 1,000 ordinary shares (2007: 1,000; 2006: 1,000), par value of EUR 500. At 31 December 2008, 250 shares were issued and fully paid up. During 2006, 2007 and 2008 no new shares were issued nor were own shares bought back by the company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares are held by Fortis Insurance N.V.

6. Interest-bearing loans and borrowings

The loans and borrowings can be analysed as follows:

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|---|------------------|------------------|------------------|
| Other borrowings due to customers – drawings under EMTN-program | 4,751,931 | 6,275,546 | 5,714,692 |
| Other borrowings due to customers – Commercial Paper program | 59,699 | 1,123,893 | 292,110 |
| Other borrowings due to customers – group company's | 2,133,702 | 76,699 | 9,403 |
| Private loans | 0 | 0 | 5,000 |
| Total loans and borrowings | 6,945,332 | 7,476,138 | 6,021,205 |
| Subordinated loans – other | 66,933 | 97,563 | 183,781 |
| Total subordinated loans | 66,933 | 97,563 | 183,781 |
| Total interest bearing loans and borrowing | 7,012,265 | 7,573,701 | 6,204,986 |

The split of total loans and borrowings by measurement principle is as follows:

| | | | |
|--|------------------|------------------|------------------|
| Loans and borrowings at fair value | 197,100 | 2,390,701 | 2,116,634 |
| Loans and borrowings at amortised cost | 6,815,165 | 5,183,000 | 4,088,352 |
| Total loans and borrowings | 7,012,265 | 7,573,701 | 6,204,986 |

Since all loans and borrowings became directly callable in 2008, all loans and borrowings are recorded at nominal value, except structured notes. Structured notes are valued at the contractual agreed early redemption values. The amortised cost of the loans and borrowings at fair value amounted to EUR 2,426 million at 31 December 2007 (31 December 2006: EUR 2,105 million). The average interest paid on the loans and borrowings was 4.95% in 2008 (2007: 4.33%; 2006: 4.77%). The maturity schedule of the loans and borrowings can be found in note 12.

7 Current tax assets and liabilities

The income tax asset of EUR 647 represents the amount of income taxes receivable of period 2008. Due to the negative result of the fiscal unity Fortis Utrecht, Fortis Finance N.V. has set up a provision for the current tax asset.

The current tax liabilities of EUR 1,506 represent the amount of income taxes payable of the prior period 2007.

8. Derivatives and other payables

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|-------------------------------------|----------------|----------------|----------------|
| Accrued interest | 227,505 | 285,361 | 297,263 |
| Other payables and accrued expenses | 33,505 | 2,531 | 6,496 |
| Fair value derivatives | 205,144 | 170,545 | 134,563 |
| Total | 466,154 | 458,437 | 438,322 |

9. Operating expenses

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|--|------------|------------|------------|
| Accounting office fees charged by group companies | 100 | 100 | 100 |
| Bank costs | 47 | 20 | 15 |
| Audit costs | 64 | 45 | 48 |
| Maintenance treasury application | 0 | 0 | 25 |
| Back office / Front office fees charged by group companies | 357 | 511 | 444 |
| Other | (245) | 32 | 58 |
| Total | 323 | 708 | 690 |

The line other relates primarily to corrections for inter group charges of prior years.

The audit cost relate to the fees charged by KPMG Accounts NV for the audit of the annual accounts and related matters.

10. Net financial margin

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|--|--------------------|--------------------|--------------------|
| Interest income loans | 433,502 | 276,642 | 389,003 |
| Interest income derivatives | 223,687 | 229,789 | 219,305 |
| Interest income cash and cash equivalents | 69,675 | 103,130 | 33,739 |
| Interest related income | 509 | 336 | 1,522 |
| (Un) realised gains on derivatives | 78,248 | 43,731 | 192,365 |
| Foreign exchange gains | 0 | (8) | 0 |
| Net gain on re-measurement from borrowings at fair value | 12,345 | 46,215 | 109,878 |
| Other | 740 | - | - |
| Financial income | 818,706 | 699,835 | 945,812 |
| Interest expenses loans and borrowings | (459,873) | (285,703) | (293,327) |
| Interest expenses subordinated loans | (6,353) | (7,904) | (34,065) |
| Interest expenses derivatives | (235,585) | (225,189) | (197,965) |
| Interest expenses cash and cash equivalents | (79,395) | (102,495) | (32,770) |
| Interest related expenses | (509) | (1,613) | (1,628) |
| (Un) realised loss on derivatives | (99,190) | (80,017) | (262,535) |
| Foreign exchange losses | (14,497) | 0 | 0 |
| Net loss on re-measurement from loans at fair value | (32,730) | (8,767) | (38,471) |
| Other | (86) | 0 | 0 |
| Financial expenses | (928,218) | (711,688) | (860,761) |
| Net financial margin | (109,512) | (11,853) | 85,051 |

11. Income tax expense

Recognised in the income statement

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|--|-------------------|------------------|---------------|
| Current tax expense | | | |
| Current year tax income (2007 and 2006 expense) | (647) | 1,506 | 2,192 |
| Provision current tax assets due to result fiscal unity | 647 | 0 | 0 |
| | 0 | 1,506 | 2,192 |
| Deferred tax expense | | | |
| Origination and reversal of temporary differences | (26,491) | (4,828) | 22,573 |
| Provision deferred tax assets due to result fiscal unity | 12,185 | 0 | 0 |
| Change in tax rate | 0 | 0 | (3,145) |
| | (14,306) | (4,828) | 19,428 |
| Total income tax expense in income statement | (14,306) | (3,322) | 21,620 |

Reconciliation of effective tax rate

| <i>In thousands of euro</i> | 2008 | 2007 | 2006 |
|---|-------------------|------------------|---------------|
| Profit before tax(minus = loss) | (110,284) | (13,030) | 83,668 |
| Domestic corporate tax rate | 25.5% | 25.5% | 29.6% |
| Income tax using the domestic corporate tax rate | (28,122) | (3,322) | 24,765 |
| Effect tax rate change on deferred tax assets and liabilities | 0 | 0 | (3,145) |
| Provision tax assets due to result fiscal unity | 12,832 | 0 | 0 |
| Under / (over) provided in prior years | 984 | 0 | 0 |
| Effective corporate tax rate | 13.0% | 25.5% | 25.8% |
| | (14,306) | (3,322) | 21,620 |

12. Risk management

Exposure to credit, interest rate and currency risks arises in the normal course of Fortis Finance N.V. business. Derivative financial instruments are used to economically hedge exposure to fluctuations in foreign exchange rates and interest rates. Risks are contained on a deal by deal basis. Interest rate wise and currency wise the funding, the on-lending and related swaps form a closed position.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Fortis Finance N.V. does not request collateral in respect of financial assets.

Granting of loans was only allowed to (former-) group companies. Due to the sale of the Banking and Dutch insurance operations, Fortis Finance had a receivable of some EUR 250 mln from former group companies. These amounts were repaid before May 15, 2009. Transactions involving derivative financial instruments are with counterparties with whom Fortis Finance N.V. has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Except for the inter group lending there are at the balance sheet date no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Due to the early default situation of Fortis Finance a number of structured credit became daily callable. To hedge the embedded derivative included in these notes Fortis Finance has bought a number of Credit Default swaps for a nominal amount of EUR 150 mln. Given the uncertainties in the credit market these swap could not be unwound at reasonable prices. Management decided to accept the open position, representing a liability of EUR – mln in the year end balance sheet.

Interest rate risk

In the cause of operations, Fortis Finance N.V. is potentially exposed to interest rate risks, especially since all outstanding bonds are early redeemable. With every early redemption, the interest position changes. Fortis Finance N.V. monitors these risks using duration techniques and gap analysis and manages the position with a view to close open positions that occur due to the early redemptions.

The following table indicates the earlier of contractual re-pricing or maturity of interest income-earning financial assets and interest-bearing financial liabilities as well as the derivatives for a number of time buckets. This does not take into consideration the fact that the loans given and taken are directly callable at year end.

| | <i>less than 6 months</i> | <i>6 up to 12 months</i> | <i>1 up to 2 years</i> | <i>2 up to 5 years</i> | <i>5 years And over</i> | <i>total</i> |
|--|-------------------------------|------------------------------|----------------------------|----------------------------|-----------------------------|----------------|
| At 31 December 2008 | | | | | | |
| <i>In thousands of euro</i> | | | | | | |
| Cash and cash equivalents/ bank overdrafts | 1,723,103 | 0 | 0 | 0 | 0 | 1,723,103 |
| Financial assets | 1,316,670 | 144,780 | 1,164,988 | 2,513,669 | 258,808 | 5,398,915 |
| Financial liabilities | (3,013,331) | (185,323) | (1,086,005) | (2,502,410) | (259,346) | (7,046,415) |
| Interest GAP on balance | 26,442 | (40,543) | 78,983 | 11,259 | (538) | 75,603 |
| Derivatives | 2,225 | 20,668 | (2,875) | (28,023) | 833 | (7,172) |
| Net interest GAP | 28,667 | (19,875) | 76,108 | (16,764) | 295 | 68,431 |
| At 31 December 2007 | | | | | | |
| <i>In thousands of euro</i> | | | | | | |
| Cash and cash equivalents/ bank overdrafts | 93,907 | 0 | 0 | 0 | 0 | 93,907 |
| Financial assets | 3,645,138 | 520,025 | 1,484,222 | 1,705,511 | 262,295 | 7,617,191 |
| Financial liabilities | (2,629,029) | (856,443) | (1,463,331) | (1,865,962) | (758,936) | (7,573,701) |
| Interest GAP on balance | 1,110,016 | (336,418) | 20,891 | (160,451) | (496,641) | 137,397 |
| Derivatives | (1,020,932) | 358,939 | (25,000) | 181,993 | 505,000 | 0 |
| Net interest GAP | 89,084 | 22,521 | (4,109) | 21,542 | 8,359 | 137,397 |

| | <i>less than 6 months</i> | <i>6 up to 12 months</i> | <i>1 up to 2 years</i> | <i>2 up to 5 years</i> | <i>5 years And over</i> | <i>total</i> |
|--|-------------------------------|------------------------------|----------------------------|----------------------------|-----------------------------|----------------|
| At 31 December 2006 | | | | | | |
| <i>In thousands of euro</i> | | | | | | |
| Cash and cash equivalents/ bank overdrafts | 134,594 | 0 | 0 | 0 | 0 | 134,594 |
| Financial assets | 1,908,511 | 218,221 | 1,306,814 | 1,436,320 | 1,340,839 | 6,210,705 |
| Financial liabilities | (732,146) | (488,769) | (1,583,403) | (1,647,711) | (1,752,957) | (6,204,986) |
| Interest GAP on balance | 1,310,959 | (270,548) | (276,589) | (211,391) | (412,118) | 140,313 |
| Derivatives | (1,235,731) | 280,924 | 288,001 | 256,806 | 410,000 | 0 |
| Net interest GAP | 75,228 | 10,376 | 11,412 | 45,415 | (2,118) | 140,313 |

Liquidity risk

Liquidity risk is the risk that Fortis Finance N.V. has not sufficient cash to pay loans when these become due. The following table indicates the maturity of interest income-earning financial assets and interest-bearing financial liabilities. Since the assets and liabilities became directly callable at year end 2008 all assets and liabilities are classified with a maturity of less than 6 months:

| | <i>less than 6 months</i> | <i>6 up to 12 months</i> | <i>1 up to 2 years</i> | <i>2 up to 5 years</i> | <i>5 years and over</i> | <i>total</i> |
|--|-------------------------------|------------------------------|----------------------------|----------------------------|-----------------------------|----------------|
| Maturity schedule 2008 | | | | | | |
| <i>In thousands of euro</i> | | | | | | |
| Cash and cash equivalents/ bank overdrafts | 1,723,103 | 0 | 0 | 0 | 0 | 1,723,103 |
| Financial assets | 5,398,915 | 0 | 0 | 0 | 0 | 5,398,915 |
| Financial liabilities | (7,012,265) | 0 | 0 | 0 | 0 | (7,012,265) |
| Liquidity Excess (GAP) | 109,753 | 0 | 0 | 0 | 0 | 109,753 |

| | <i>less than 6 months</i> | <i>6 up to 12 months</i> | <i>1 up to 2 years</i> | <i>2 up to 5 years</i> | <i>5 years and over</i> | <i>total</i> |
|--|-------------------------------|------------------------------|----------------------------|----------------------------|-----------------------------|----------------|
| Maturity schedule 2007 | | | | | | |
| <i>In thousands of euro</i> | | | | | | |
| Cash and cash equivalents/ bank overdrafts | 93,907 | 0 | 0 | 0 | 0 | 93,907 |
| Financial assets | 2,093,431 | 1,016,782 | 1,517,613 | 2,199,000 | 790,365 | 7,617,191 |
| Financial liabilities | (2,070,915) | (1,015,600) | (1,518,442) | (2,194,484) | (774,260) | (7,573,701) |
| Liquidity Excess (GAP) | 116,423 | 1,182 | (829) | 4,516 | 16,105 | 137,397 |

| | <i>less than 6 months</i> | <i>6 up to 12 months</i> | <i>1 up to 2 years</i> | <i>2 up to 5 years</i> | <i>5 years and over</i> | <i>total</i> |
|--|-------------------------------|------------------------------|----------------------------|----------------------------|-----------------------------|----------------|
| Maturity schedule 2006 | | | | | | |
| <i>In thousands of euro</i> | | | | | | |
| Cash and cash equivalents/ bank overdrafts | 134,594 | 0 | 0 | 0 | 0 | 134,594 |
| Financial assets | 461,564 | 356,728 | 1,638,147 | 1,886,667 | 1,867,599 | 6,210,705 |
| Financial liabilities | (446,125) | (382,183) | (1,687,149) | (1,835,702) | (1,853,827) | (6,204,986) |
| Liquidity Excess (GAP) | 150,033 | (25,455) | (49,002) | 50,965 | 13,772 | 140,313 |

If the loans are not early redeemed the last loan will be repaid in December 2015.

Sensitivity analysis

In managing interest rate and currency risks Fortis Finance N.V. aims to reduce the impact fluctuations on the earnings.

Due to the fact that the loans and borrowings are daily callable, and Fortis Finance is quickly reducing its balance sheet, a useful indication of the sensitivity at year end can not be given.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Derivatives

Forward exchange contracts and interest rate swaps are either market-to-market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

For the Credit Default Swaps, the fair values are determined based using a valuation technique based on assumptions that are supported by available observable market data.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Interest rates used for determining fair value

The entity bases the discount rate on the mid-swap curve as of 31 December 2008.

13. Related parties

The purpose of Fortis Finance N.V. is to provide funding for the Fortis group and group companies.

Due to the complete metamorphosis of Fortis the banking activities and the Dutch insurance activities of the former Fortis Group are not longer related parties.

All funding transactions are lend-on to other Fortis entities. The pricing of the on-lending is based on Fortis Finance N.V. funding cost, increased with a margin to cover costs and to comply with fiscal rules and regulations.

Fortis Finance N.V. has no employees of its own; all operational and management activities are performed by employees of other Fortis entities. The activities are charged to Fortis Finance N.V. based on Service level agreements.

14. Off-balance sheet items

Credit lines

A consortium of banks had granted a standby multi currency credit facility in aggregate for EUR 1,000 million to Fortis Finance N.V. Due to the events that impacted Fortis the credit line was withdrawn in September 2008.

Taxation unities

Fortis Finance N.V. is part of the tax unity for corporation tax Fortis Utrecht N.V. (together with Fortis Insurance N.V., Fortis Insurance International N.V., and Fortis Reinsurance N.V.). Fortis Utrecht N.V. acts as the head of this group tax entity. Each of the companies is, in accordance with the standard conditions, jointly and severally liable for debts arising out of corporation tax on the part of the group tax entity as a whole. Due to the sale of Fortis Insurance Netherlands to the Dutch State Fortis Insurance Netherlands has left the fiscal unit per 30 September 2008.

Fortis Finance N.V. is part of the “fiscale eenheid voor de omzetbelasting Fortis N.V. c.s.” a fiscal unity for VAT (Value Added Tax) in the Netherlands.

15. Management remuneration

The board of directors receive their remuneration from other Fortis Group companies. No remunerations are charged directly to Fortis Finance.

16. Contingent liabilities

We have taken notice of the disclosure on Contingent Liabilities in the 2008 Consolidated Financial Statements of Fortis in which is mentioned that Fortis is or can be involved in a number of legal procedures as well as administrative and criminal investigations in Belgium, The Netherlands and the USA. Fortis Finance N.V. is of the opinion that these procedures not will lead to a substantial claim liability for Fortis Finance N.V.

17. Post-balance sheet date events

There have been no material events after balance sheet date that would require adjustments to the financial statements as of December 31, 2008.

Due to the announcement of the default position end of 2008, a significant part of the bonds have been repaid. At May 15, 2009 the liabilities arising from outstanding bonds under the EMTN and CP program were reduced to EUR 1,0 billion. Related to this all the amounts due from (former-) group companies have been repaid at May 26, 2009. Fortis Finance can thus directly honour any request for early redemption of external bondholders.

The exposure to interest rate risk changes with every early redemption. Fortis Finance N.V. monitors these risks using duration techniques and gap analysis and manages the position with a view to close open positions that occur due to the early redemptions. As a consequence of this Fortis Finance N.V. terminated several swaps.

Related to the redemption of loans given to group companies at par value, also a derivative concluded by Fortis Finance with a group entity to hedge its interest position, was also unwound ignoring the fair value. This unwinding was done in

March 2009 and resulted in a gross profit of EUR 57,9 million Fortis Finance, thereby restoring the net equity position of the company.

Other information

Provisions of the articles of association concerning profit appropriation

Article 18, subsection 1 and 2, of the Articles of Association reads:

The company may make distributions to the shareholders and other persons entitled to the profit available for distribution only in so far as the equity capital of the company exceeds the aggregate of the paid-up and called-up part of the capital of the company and the reserves that have to be kept by law.

Profits may be distributed only after adoption of the annual accounts showing that such distribution is permissible. The profit shown in the adopted annual accounts may be disposed of by the general meeting of shareholders as it sees fit.

Profit appropriation

The Board of Directors proposes to the General meeting of shareholders to withdraw the loss from the Retained Earnings.

Utrecht (NL), 26 May 2009.

The Board of Directors:

P. Depovere
J.H. Brugman
C.F. Oosterloo
P. Goris

Auditors' report

To: The General meeting of shareholders of Fortis Finance N.V.

Auditors' report

Report on the financial statements

We have audited the accompanying financial statements 2008 of Fortis Finance N.V., Utrecht, which comprise the balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the board of directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Fortis Finance N.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the board of directors is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Utrecht (NL), 26 May 2009

KPMG ACCOUNTANTS N.V.
H.P. van der Horst RA