Annual Report 2009
Fortis Finance N.V.

Fortis Finance N.V.
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Contents

Report of the Board of Directors on the 2009 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 N.V. 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. has demanded the early redemption of the amounts due from borrowers at par as well.

Most bonds were redeemed as result of received early redemption requests in the first half year 2009. In November 2009 Fortis Finance N.V. launched a public bid on the remaining outstanding notes at par, to assure that all note holders were informed about the ability to turn in their notes at par value (custodians need to inform their clients of any public bid). The appetite to participate to the bid was low: only 5% of the remaining note holders reacted on the offer; at year end 2009 Eur 915 million of the EMTN notes remained outstanding.

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.

Due to the changes in the Fortis group, the composition of the board of Fortis Finance N.V. changed: on 18 February 2009 Jean Dessain, Paul Prud'homme and Bert van der Plas resigned as directors, while Patrick Depovere, Carel Oosterloo and Paul Goris were appointed as director. Patrick Depovere resigned as director on 15 October 2009. The company is grateful for the support that all resigned directors gave to the company during their board membership.

International Financial Reporting Standards

The Fortis Finance N.V. Financial Statements, including the 2008 and 2007 comparative figures, are prepared in accordance with IFRS – including International Accounting Standards ('IAS') and Interpretations – at 31 December 2009 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.

The accounting policies used to prepare the Financial Statements for 2009 are consistent with those applied in the Financial Statements for the year ended 31 December 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 the EMTN debt is redeemable at par value, Fortis Finance N.V. assumed that this par value represents the best estimate of their fair value, except if trades in the publicly listed notes is observed on the Luxembourg stock exchange above 100%; in these cases the listed trade value is used.

Results and appropriation of profit

The Board of Directors proposes to the General Meeting of Shareholders to allocate the 2009 net profit to the Retained Earnings.

In 2009 Fortis Finance N.V. realised a net profit after tax of EUR 80,474,083 compared to a loss of EUR 95,978,206 recorded in 2008 and a loss of EUR 9,708,000 in 2007. The huge swing in results in 2009 versus 2008 is predominantly due to an open position on two credit default swaps and the unwinding of an interest rate swap, further explained below.

Credit default swaps
Fortis Finance N.V. in the past issued 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 of the CDS were result-neutral for Fortis Finance N.V.
The unexpected default on these notes, and the early redemption that followed as a consequence of this default, created a mismatch, as the relating CDS remained outstanding in full. At December 31, 2008 the fair value of the CDS amounted to EUR 83.1 million (liability) and this open position created an unrealised loss in 2008. Fortis Finance N.V. unwound the CDS for EUR 47 million in the third quarter 2009, leading to a profit of Eur 36 million versus the fair value at year end 2008.

Unwinding Interest rate swap
The 2008 net result extinguished the reserves and resulted in an equity deficit of EUR 43 million at the end of 2008. As indicated earlier, all loans granted to group companies, including loans with fixed interest rates, have been redeemed at par value in the course of 2009, thereby disregarding the fair value of these loans. Consequently, a derivative concluded between Fortis Finance N.V. 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 N.V., thereby restoring the net equity position of the company.

Risk management

Exposure to credit, interest rate and currency risks arise in the normal course of Fortis Finance N.V. business. The board decided to use derivative financial instruments to economically hedge exposure to fluctuations in foreign exchanges rates, interest rates and other risk on a deal by deal basis. The early redemption of notes leads to open currency and interest positions. The open position that existed at year end 2008 with regard to CDS were closed in the course of 2009. The board monitors these risks on a day by day basis and minimises the open positions if and when economically possible.

Prospects

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 N.V. have been resolved. At the end of December 2009 all loans were repaid, and Fortis Finance N.V. has sufficient cash available to repay the outstanding debts. The net equity deficit at year end 2008 has been remedied, and at the date of this report is positive again.

The outstanding debt of Fortis Finance is in default. Due to cross default language in the terms and conditions of the EMTN programme, any new issued loan under such programme would immediately default; Fortis Finance N.V. therefore will not issue new bonds until the last defaulted bond is redeemed, which could take up to 2015. After the last

redemption, 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. If bonds remain outstanding up to their legal maturity, further losses are to be expected in the coming years. Given the uncertainty and the potential losses in the coming years the sole shareholder Fortis Insurance N.V. has provided capital support for an amount up to Eur 20 million at the moment that losses reduce the capital of the company below zero.
The appetite to participate in the public bid launched in November 2009 was low, like the low volume of early redemption requests observed in the second half of 2009. Fortis Finance N.V. therefore changed the introduced early redemption request procedure from monthly to quarterly in 2010. Furthermore, Fortis Finance N.V. decided to use its available cash to grant new loans to Fortis Insurance N.V.; the returns that can be realized on these loans are higher than the returns that can be realized on holding cash at current accounts at banks. To avoid liquidity risks, the loans include options for Fortis Finance N.V. to ask for early redemption at par, in case early redemption requests on the still outstanding bonds would emerge again.

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), 30 March 2010

The Board of Directors:

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

Financial statements 2009

Statement of Financial position

(before appropriation of profit)

In thousands of euro	*Note*	31 December 2009	31 December 2008	31 December 2007
Assets				
Financial fixed assets				
Due from group companies	*1*		5,398,915	7,617,191
Current assets				
Derivatives and other receivables	*2*	88,888	314,558	420,779
Cash and cash equivalents	*3*	944,360	1,723,103	171,622
Total assets		**1,033,248**	**7,436,576**	**8,209,592**
Equity				
Issued capital		125	125	125
Retained earnings		(43,474)	52,504	30,164
Unappropriated profit				62,048
Result for the year		80,474	(95,978)	(9,708)
Total equity	***4***	**37,125**	**(43,349)**	**82,629**
Liabilities				
Long term liabilities				
Interest-bearing loans and borrowings	*5*	914,949	6,945,332	7,476,138
Interest-bearing subordinated loans	*5*	26,092	66,933	97,563
Deferred tax liabilities	*8*			14,321
Current liabilities				
Bank overdrafts				77,715
Tax payable	*6*	28,368	1,506	2,789
Derivatives, deposits and other payables	*7*	26,714	466,154	458,437
Total liabilities		**996,123**	**7,479,925**	**8,126,963**
Total equity and liabilities		**1,033,248**	**7,436,576**	**8,209,592**

Statement of Comprehensive Income

In thousands of euro	*Note*	2009	2008	2007
Income				
Financial income	*9*	410,902	818,706	699,835
Financial expenses	9	(304,532)	(928,218)	(711,688)
Net financial margin		**106,370**	**(109,512)**	**(11,853)**
Operating expenses	10	(442)	(322)	(708)
Rating expenses		(330)	(352)	(379)
EMTN-program expenses		(256)	(98)	(90)
Operating result before tax		**105,342**	**(110,284)**	**(13,030)**
Income tax	11	(24,868)	14,306	3,322
Result for the year		**80,474**	**(95,978)**	**(9,708)**
Other comprehensive income		**80,474**	**(95,978)**	**(9,708)**
Total comprehensive income		**80,474**	**(95,978)**	**(9,708)**
Total result for the year attributable to shareholders		**80,474**	**(95,978)**	**(9,708)**
Total comprehensive income attributable to shareholders		**80,474**	**(95,978)**	**(9,708)**

Statement of changes in net equity

For the year ended 31 December	2009	2008	2007
In thousands of euro			
Balance beginning of year	(43,349)	82,629	92,337
Profit or loss for the period	80,474	(95,978)	(9,708)
Dividend paid		(30,000)	
Balance end of year	**37,125**	**(43,349)**	**82,629**

Statement of cash flows

For the year ended 31 December *In thousands of euro*	2009	2008	2007
Cash and cash equivalents – Balance at 1 January	1,723,103	171,622	257,952
Bank Overdrafts – Balance at 1 January		(77,715)	(123,358)
Total cash and cash equivalents/ bank overdrafts at 1 January	1,723,103	**93,907**	**134,594**
Cash flows from operating activities			
Net result	80,474	(95,978)	(9,708)
Net changes in operating assets and liabilities	(186,908)	99,244	(28,886)
Net cash from operating activities	**(106,435)**	**3,266**	**(38,594)**
Cash flows from Investing activities			
Payments to customers or cash receipt from customers (deposits, long term loans)	**5,398,915**	**2,218,276**	**(1,406,486)**
Cash flows from financing activities			
Proceeds from derivatives			(304)
Cash receipt or repayment of borrowings (subordinated, debt certificates, long term liabilities, straight loans)	(6,071,224)	(554,405)	1,368,715
Payment of derivatives		(7,941)	35,982
Dividend paid to shareholder		(30,000)	
Net cash from financing activities	(6,071,224)	**(592,346)**	**1,404,393**
Cash and cash equivalents– Balance at 31 December	944,360	1,723,103	171,622
Bank overdrafts – Balance at 31 December			(77,715)
Total cash and cash equivalents/ bank overdrafts at 31 December	**944,360**	**1,723,103**	**93,907**

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 companies within the Fortis group. Funds borrowed in the market are either held in cash at current accounts at banks or lend-on to Fortis companies. Fortis Finance N.V. has relatively low exposure to interest and foreign currency risks.

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 30 March 2010.

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 N.V. have been resolved. At the end of December 2009 all loans were repaid, and Fortis Finance N.V. has sufficient cash available to repay the outstanding debts. The net equity deficit at year end 2008 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. In principle all funding transactions were lend-on to other Fortis entities; due to the default of the debt the company asked its borrowers to redeem their on-loans and held the proceeds that it received as result of this redemption in cash in current accounts at banks during 2009. Fortis Finance N.V. structured deals in such a 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 2009 Financial Statements are consistent with those applied for the year ended 31 December 2008.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) which are in effect for the year ended 31 December 2009 and may be relevant and may have an impact on the financial statements, are as follows:

- IAS 1 : Presentation of Financial Statements: A revised presentation;
- IAS 23 : Borrowing Costs;
- IAS 32 : Financial Instruments: Presentation;
- IFRS 7 : Financial Instruments: Disclosures;
- IFRS 8 : Operating segments.

IAS 1: Presentation of Financial Statements: A revised presentation
The Company applies the revised IAS 1 – Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Company presents all owner changes in equity in the statement of changes in equity, while all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been restated to conform to the revised standard.

IAS 23: Borrowing Costs
The changes from the previous version of IAS 23 relate primarily to prohibit immediate expensing of borrowing costs. This amendment became effective in 2009 and will not affect the financial statements.

IAS 32: Financial Instruments
An amendment to IAS 32, changes the classification of some puttable financial instruments that meet the definition of a financial liability into equity because they represent a residual interest in the net assets. A second amendment was issued which addresses the accounting for rights issues such as options and warrants, denominated in a currency other than the issuer’s functional currency. The Company’s financial statement is not affected by either amendment.

IFRS 7: Financial Instruments
An amendment to IFRS 7, introduces a fair value hierarchy and additional disclosures for measurement of financial statements. The amendment became effective in 2009 and resulted in limited additional disclosures in the financial statements.

IFRS 8: Operating Segments

This change in accounting policy follows the adoption of IFRS 8 – Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 – Segment Reporting. As the company operates as only one segment, with no subsidiaries, no segment reporting is included. In accordance with IFRS 8 the Company discloses general and entity-wide disclosures.

The standards or interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) which are not yet in effect at 31 December 2009 and may be relevant and may have an impact on the financial statements, are as follows:

- A Amendment to IAS 39: Financial Instruments: Eligible Hedged items;
- B Amendment to IAS 24: Related Party Disclosures;
- C IFRS 3: Business Combinations, and IAS 27: Consolidated and Separate Financial Statements;
- D IFRS 9: Financial Instruments;
- E IFRIC 14: Minimum funding requirements;
- F IFRIC 17: Distributions of Non-Cash Assets to Owners;
- G IFRIC 18: Transfers of Assets from Customers.

A: Amendment to IAS 39 (EU-endorsed)

The amendments to IAS 39 clarify how to apply existing principles in determining eligible hedged risks and portions. This amendment applies to financial years started on or after 1 July 2009. No impact from adopting this amendment is to be expected.

B: Amendment to IAS 24 Related Party Disclosures (Not yet EU-endorsed)

An amendment to IAS 24 clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The revised standard also clarifies that disclosure us required of any commitments of a related party to do something if a particular event occurs or does not occur in the future. The revised standard is effective as from 2011, with earlier application permitted. The amendment is not expected to have influence on the Company’s financial statements.

C: IFRS 3: Business Combinations, and IAS 27: Consolidated and Separate Financial Statements (EU-endorsed)

IFRS 3 and IAS 27 were revised and will be effective as from 2010. These standards will bring significant changes to the accounting policies related to business combinations and changed ownership interests. The Company does not expect a material impact on the presented figures as there are no business combinations.

D: IFRS 9

The first chapters of a new standard on accounting for financial instruments which will replace IAS 39 Financial instruments: Recognition and measurement. This standard will become effective as from 2013, with earlier adoption permitted, including for 2009. IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard encompassed an overall change of accounting principles. Since its scope will be expanded during 2010, the company will review the effects after this expansion.

E: IFRIC 14: Minimum funding requirements (EU-endorsed)
An amendment to IFRIC 14 on minimum funding requirements corrects an unintended consequence of the originally issued interpretation. The amendment is effective as from 2011, with earlier application permitted. As the Company does not have a pension asset on the balance sheet, the financial statements will not be affected.

F: IFRIC 17 (EU-endorsed)
This provides guidance in respect of distributions of non-cash assets to owners by focusing on the measurement of the dividend payable. This IFRIC will apply prospectively as from 2010. No impact is expected on the financial statements of the Company.

G: IFRIC 18: Transfers of Assets from Customers (EU-endorsed)
IFRIC 18 clarifies the accounting for agreements in which an entity received an item of property, plant and equipment from a customer that the entity must then use either to connect the customer to a network or to provide the customer ongoing access to a supply of goods or services. The interpretation must be applies prospectively to transfer of assets from customer received on or after 1 July 2009. No impact is expected on the financial statements of the Company.

d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rates 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.

e) 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.

f) 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 an 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.

g) 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.

h) 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.

i) 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.

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

In thousands of euro	2009	2008	2007
Due from group companies at amortised cost		4,967,160	4,477,866
Due from group companies held at fair value			2,175,585
Short time deposits with group companies		431,755	963,740
Total		**5,398,915**	**7,617,191**

All amounts due from group companies were repaid by the group companies in 2009.

2. Derivatives and other receivables

In thousands of euro	2009	2008	2007
Accrued interest	34,419	150,776	287,915
Other receivables and pre-payments			2,290
Fair value derivatives	54,469	163,782	130,574
Total	**88,888**	**314,558**	**420,779**

3. Cash and cash equivalents/ bank overdrafts

In thousands of euro	2009	2008	2007
Bank balances	944,360	1,723,103	171,622
Cash and cash equivalents	**944,360**	**1,723,103**	**171,622**
Bank overdrafts			**(77,715)**
Cash and cash equivalents/ bank overdrafts in the statement of cash flows	**944,360**	**1,723,103**	**93,907**

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

4. Capital and reserves

The movements in capital and reserves for the years ended 2007, 2008 and 2009 are as follows:

In thousands of euro	*Share capital*	*Retained earnings*	*Unappropriated profit*	*Result for the year*	*Total*
Balance at 1 January 2007	**125**	**30,164**		**62,048**	92,337
Allocation of profit			62,048	(62,048)	
Total recognised income and expense				(9,708)	(9,708)
Balance at 31 December 2007	**125**	**30,164**	**62,048**	**(9,708)**	**82,629**
Allocation of profit		52,340	(62,048)	9,708	
Dividend paid		(30,000)			(30,000)
Total recognised income and expense				(95,978)	(95,978)
Balance at 31 December 2008	**125**	**52,504**		**(95,978)**	**(43,349)**
Allocation of profit		(95,978)		95,978	
Total recognised income and expense				80,474	80,474
Balance at 31 December 2009	**125**	**(43,474)**		**80,474**	**37,125**

The authorised share capital comprised 1,000 ordinary shares, par value of EUR 500; 250 shares were issued and fully paid up. During 2007, 2008 and 2009 no new shares were issued nor 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.

5. Interest-bearing loans and borrowings

The loans and borrowings can be analysed as follows:

In thousands of euro	2009	2008	2007
Other borrowings due to customers – drawings under EMTN-program	914,949	4,751,931	6,275,546
Other borrowings due to customers – Commercial Paper program		59,699	1,123,893
Other borrowings due to customers – group companies		2,133,702	76,699
Total loans and borrowings	**914,949**	**6,945,332**	**7,476,138**
Subordinated loans – other	26,092	66,933	97,563
Total interest bearing loans and borrowing	**941,041**	**7,012,265**	**7,573,701**

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

Loans and borrowings at fair value	254,160	1,053,133 [1)]	2,390,701
Loans and borrowings at amortised cost	686,881	5,959,132 [1)]	5,183,000
Total loans and borrowings	**941,041**	**7,012,265**	**7,573,701**

The amortised cost of the loans and borrowings at fair value amounted to EUR 2,426 million at 31 December 2007. The sale of material group companies by the Fortis Group in 2008 implied that a default was triggered under the EMTN program and Commercial Paper program, which could not be cured. As a result, holders of Fortis Finance N.V. 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. Structured notes are redeemed according to the contractual agreed early redemption values. At 31 December 2008 and 2009 it was assumed that these redemption values represented the proper amortised cost value or best estimate of the fair value, if applicable.
At 31 December 2009 some notes recorded at fair value were trading above their redemption values; in these cases the observed trading value at 31 December 2009 was used. The amortised cost of the loans and borrowings at fair value amounted to EUR 251 million at 31 December 2009.
The average interest paid on the loans and borrowings was 4.32% in 2009 (2008: 4.95%; 2007: 4.33%). The maturity schedule of the loans and borrowings can be found in note 12.

6. Tax payable

The current tax liabilities of EUR 28,368 represent EUR 26,862 income tax over 2009 payable to Fortis Utrecht N.V. and Eur 1,506 payable to ASR Nederland N.V.. ASR Nederland N.V. was acting as head of the fiscal unity up to 30 September 2008; as of that date Fortis Utrecht N.V. became head of the fiscal unity.

[1] Adjusted for comparison reasons.

7. Derivatives, deposits and other payables

In thousands of euro	2009	2008	2007
Accrued interest	26,264	227,505	285,361
Other payables and accrued expenses	114	33,505	2,531
Fair value derivatives	336	205,144	170,545
Total	**26,714**	**466,154**	**458,437**

8. Deferred tax liabilities

The Deferred taxes are attributable to the revaluation of assets and liabilities at fair value. For tax purposes a penalty interest received for the early redemption of loans in 2006 resulted in a deferred tax liability. Due to the overall loss situation of the tax unity for the year 2008 and 2009, and the expected lack of future taxable profits, Fortis Finance N.V. has impaired its tax assets in 2008.

In thousands of euro	2009	2008	2007
Deferred tax asset on revaluation of liabilities		12,185	33,090
Deferred tax liability on revaluation of assets			(47,411)
Impairment Deferred tax asset		(12,185)	
Net tax asset/ (liability)			**(14,321)**

9. Net financial margin

In thousands of euro	2009	2008	2007
Interest income loans	35,074	433,502	276,642
Interest income derivatives	77,210	223,687	229,789
Interest income cash and cash equivalents	21,117	69,675	103,130
Interest related income	313	509	336
(Un) realised gains on derivatives	276,646	78,248	43,731
Foreign exchange gains			(8)
Net gain on re-measurement from borrowings at fair value	542	12,345	46,215
Other		740	
Financial income	**410,902**	**818,706**	**699,835**
Interest expenses loans and borrowings	(70,046)	(459,873)	(285,703)
Interest expenses subordinated loans	(3,423)	(6,353)	(7,904)
Interest expenses derivatives	(44,482)	(235,585)	(225,189)
Interest expenses cash and cash equivalents	(18,360)	(79,395)	(102,495)
Interest related expenses		(509)	(1,613)
(Un) realised loss on derivatives	(162,976)	(99,190)	(80,017)
Foreign exchange losses	(167)	(14,497)	
Net loss on re-measurement from loans at fair value	(5,078)	(32,730)	(8,767)
Other		(86)	
Financial expenses	**(304,532)**	**(928,218)**	**(711,688)**
Net financial margin	**106,370**	**(109,512)**	**(11,853)**

10. Operating expenses

In thousands of euro	2009	2008	2007
Accounting office fees charged by group companies	100	100	100
Bank costs	4	47	20
Audit costs	78	64	45
Back office / Front office fees charged by group companies	224	357	511
Other	36	(246)	32
Total	**442**	**323**	**708**

The line other relates in 2008 primarily to corrections for inter group charges of prior years. The audit costs relate to the fees charged by KPMG Accountants N.V. for the audit of the annual accounts and related matters.

11. Income tax expense

Recognised in the income statement

In thousands of euro	2009	2008	2007
Current tax expense			
Current year tax income	26,862	(647)	1,506
Provision current tax assets due to result fiscal unity		647	
Taxation previous years	(1,994)		
	24,868		1,506
Deferred tax expense			
Origination and reversal of temporary differences		(26,491)	(4,828)
Provision deferred tax assets due to result fiscal unity		12,185	
Change in tax rate			
		(14,306)	(4,828)
Total income tax expense in income statement	**24,868**	**(14,306)**	**(3,322)**

Reconciliation of effective tax rate

In thousands of euro	2009	2008	2007
Profit before tax(minus = loss)	105,342	(110,284)	(13,030)
Domestic corporate tax rate	25.5%	25.5%	25.5%
Income tax using the domestic corporate tax rate	26,862	(28,122)	(3,322)
Effect tax rate change on deferred tax assets and liabilities			
Provision tax assets due to result fiscal unity		12,832	
Under / (over) provided in prior years	(1,994)	984	
	24,868	(14,306)	(3,322)
Effective corporate tax rate	**23.6%**	**13.0%**	**25.5%**

12. Risk management

Exposure to credit, interest rate and currency risks arised in the normal course of Fortis Finance N.V. business. The board decided to use derivative financial instruments to economically hedge exposure to fluctuations in foreign exchanges rates, interest rates and other risk on a deal by deal basis. The early redemption of notes leads to open currency and interest positions. The open position that existed at year end 2008 with regard to CDS were closed in the course of 2009. The open positions are minimised if and when economically possible.

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.

Transactions involving derivative financial instruments and cash held are with counterparties with sound credit ratings. Given their high credit ratings, management does not expect these counterparties to fail to meet its obligations. 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 default of the debt issued by Fortis Finance N.V., two credit linked notes became daily callable. To hedge the embedded derivative included in these notes Fortis Finance N.V. had a number of Credit Default swaps for a nominal amount of EUR 150 million. In 2009 all Credit Default swaps have been sold.

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.

At 31 December 2009	*less than 6 months*	*6 up to 12 months*	*1 up to 2 years*	*2 up to 5 years*	*5 years And over*	*total*
In thousands of euro						
Cash and cash equivalents/ bank overdrafts	944,360					944,360
Financial assets		875	-483			392
Financial liabilities	(15,051)	(343,217)	(285,510)	(295,217)	(2,382)	(941,377)
Interest GAP on balance	**929,309**	**(342,342)**	**(285,993)**	**(295,217)**	**(2,382)**	**3,375**
Derivatives	(857,770)	61,002	75,992	720,665		(131)
Net interest GAP	**71,539**	**(281,341)**	**(210,021)**	**425,448**	**(2,382)**	**3,244**

At 31 December 2008	*less than 6 months*	*6 up to 12 months*	*1 up to 2 years*	*2 up to 5 years*	*5 years And over*	*total*
In thousands of euro						
Cash and cash equivalents/ bank overdrafts	1,723,103					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	(639,823)	(84,165)	185,728	377,592	130,000	(30,668)
Net interest GAP	**(613,381)**	**(124,708)**	**264,711**	**388,851**	**129,462**	**44,935**

At 31 December 2007	*less than 6 months*	*6 up to 12 months*	*1 up to 2 years*	*2 up to 5 years*	*5 years And over*	*total*
In thousands of euro						
Cash and cash equivalents/ bank overdrafts	134,594					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	
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 in the course of 2008, all assets and liabilities are since that moment classified with a maturity of less than 6 months:

Maturity schedule 2009	*less than 6 months*	*6 up to 12 months*	*1 up to 2 years*	*2 up to 5 years*	*5 years And over*	*total*
In thousands of euro						
Cash and cash equivalents/ bank overdrafts	944,360					944,360
Financial assets						
Financial liabilities	(941,041)					(941,041)
Liquidity Excess (GAP)	**3,319**					**3,319**

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

Maturity schedule 2007	*less than 6 months*	*6 up to 12 months*	*1 up to 2 years*	*2 up to 5 years*	*5 years And over*	*total*
In thousands of euro						
Cash and cash equivalents/ bank overdrafts	93,907					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**

Sensitivity analysis

In managing interest rate and currency risks Fortis Finance N.V. aims to reduce the impact of fluctuations on the earnings. Due to the fact that the loans and borrowings are daily callable 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 2009.

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 no longer related parties since 30 September 2008.

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. Operating segments

Fortis Finance N.V., being an issuing vehicle of the Fortis Group, operated as one segment: it tapped the financial market for funding, that was on-lent to internal group entities. Given the default of the bonds that Fortis Finance N.V. issued, all internal clients redeemed their on-loans, and all proceeds are therefore available in cash; a further break down is therefore not available. Besides paying coupons on debt outstanding, redeeming the principal of debt at maturity or earlier when bondholders request this, and managing the risks due to the special circomstances that link with the defaulted debt, the company is in-active.

15. Off-balance sheet items

Capital support

Given the uncertainty and the potential losses in the coming years the sole shareholder Fortis Insurance N.V. has provided capital support for an amount up to Eur 20 million at the moment that losses reduce the capital of the company below zero.

Taxation unities

Fortis Finance N.V. is part of the tax unity for corporation tax Fortis Utrecht N.V. together with, amongst others, 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.

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.

16. Management remuneration

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

17. Contingent liabilities

We have taken notice of the disclosure on Contingent Liabilities in the 2009 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 are not likely to lead to a substantial claim liability for Fortis Finance N.V.

18. 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, 2009.

Utrecht (NL), 30 March 2010.

The Board of Directors:
J.H. Brugman
C.F. Oosterloo
P. Goris

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 add the net profit to the Retained Earnings.

Auditors' report

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

Auditor's report

Report on the annual accounts

We have audited the accompanying annual accounts 2009 of Fortis Finance N.V., Utrecht, which comprise the balance sheet as at 31 December 2009, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the annual accounts and for the preparation of the report of the management, both 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 annual accounts 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 annual accounts 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 annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, 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 annual accounts 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 annual accounts.

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 annual accounts give a true and fair view of the financial position of Fortis Finance N.V. as at 31 December 2009 and of its result for the year then ended in accordance 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 management is consistent with the annual accounts as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 30 March 2010

KPMG ACCOUNTANTS N.V.

W.G. Bakker RA