



AG Insurance SA/NV
(incorporated in Belgium with limited liability)

U.S.\$550,000,000
6.75 per cent. Fixed Rate Reset Perpetual Subordinated Notes

Issue Price: 100 per cent.

The U.S.\$550,000,000 6.75 per cent. Fixed Rate Reset Perpetual Subordinated Notes (the "Notes") will be issued by AG Insurance SA/NV ("AG Insurance" or the "Issuer"). The Notes will bear interest from (and including) 21 March 2013 (the "Closing Date") to (but excluding) the First Call Date (as defined below) at a rate of 6.75 per cent. per annum, and thereafter at a reset fixed rate of interest, which will be reset on the First Call Date and on each sixth anniversary of the First Call Date. Interest on the Notes is payable semi-annually in arrear on 21 March and 21 September in each year, the first payment being on 21 September 2013, subject to deferral as described below. The terms and conditions of the Notes (the "Conditions", and references herein to a numbered Condition shall be construed accordingly) provide that the Issuer must pay interest in certain specified circumstances, must defer payment of interest in certain other specified circumstances and, if none of the foregoing circumstances apply, may elect to defer any interest payment at its sole discretion, all as described in Condition 5. Any deferred interest payments, together with interest thereon, shall, for so long as the same remain unpaid, constitute "Arrears of Interest". Subject to certain exceptions, the Issuer may pay Arrears of Interest at any time and must pay such Arrears of Interest in certain circumstances described in Condition 5.

The Notes have no fixed redemption date and the holders of the Notes have no right to require the Issuer to redeem the Notes. The Notes may be redeemed at the option of the Issuer in whole but not in part on 21 March 2019 (the "First Call Date") or on any Interest Payment Date thereafter at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date. If a Deductibility Event, Gross-up Event or Regulatory Event occurs, the Issuer may also elect to redeem the Notes in whole but not in part at their principal amount, in each case together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date, all as more fully described in Condition 6. The Issuer shall be required to defer redemption of the Notes in certain circumstances as set out in Condition 6.

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and, in the event of a Winding-up, claims in respect thereof will rank (i) behind claims in respect of (a) any unsubordinated indebtedness and payment obligations of the Issuer (including, without limitation, the claims of policyholders of the Issuer) and (b) any dated subordinated indebtedness and payment obligations of the Issuer, (ii) *pari passu* and without any preference among themselves, (iii) at least equally and rateably with claims in respect of any other existing or future direct, unsecured and undated subordinated indebtedness and payment obligations of the Issuer (other than obligations in respect of Junior Securities) and (iv) in priority to the claims of Junior Creditors (as such terms are defined in the Conditions). In the event of a Winding-up, no payments will be made under the Notes until the claims of such holders of unsubordinated and more senior, subordinated indebtedness and payment obligations shall first have been satisfied in full.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "CSSF") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities (the "Luxembourg Prospectus Law"), for the approval of this Prospectus (the "Prospectus") for the purposes of Directive 2003/71/EC, as amended (the "Prospectus Directive"). This approval cannot be considered as a judgment on, or as any comment on, the merits of the transaction, nor on the situation of the Issuer and the CSSF gives no undertaking as to the economic and financial soundness of the transaction and the quality or solvency of the Issuer, in line with the provisions of Article 7 (7) of the Luxembourg Prospectus Law. Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the official list of the Luxembourg Stock Exchange (the "Official List") and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to listing on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Notes will be issued in denominations of U.S.\$200,000 in dematerialised form under the Belgian Code of Companies (*Code des Sociétés/Weboek van Vennootschappen*) (the "Belgian Code of Companies") and cannot be physically delivered. The Notes will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the National Bank of Belgium (the "NBB") or any successor thereto (the "X/N Clearing System" or "NBB System"). Access to the X/N Clearing System is available through those of its participants whose membership extends to securities such as the Notes. X/N Clearing System participants include certain banks, stockbrokers (*sociétés de bourse/beursvennootschappen*), Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream, Luxembourg"). Accordingly, the Notes will be eligible to clear through, and therefore accepted by, Euroclear and Clearstream, Luxembourg and investors can hold their Notes within securities accounts in Euroclear and Clearstream, Luxembourg.

Notes may be held only by, and transferred only to, eligible investors referred to in Article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax ("Eligible Investors") holding their securities in an exempt securities account that has been opened with a financial institution that is a direct or indirect participant in the X/N Clearing System operated by the NBB.

The Notes are expected to be rated BBB by Standard & Poor's Credit Market Services France SAS ("S&P") and BBB+ by Fitch France SAS ("Fitch"). S&P and Fitch are established in the European Economic Area (the "EEA") and registered under the Regulation (EC) No 1060/2009 on credit rating agencies, as amended (the "CRA Regulation") and are included in the list of registered credit rating agencies published by European Securities and Markets Authority ("ESMA") on its website in accordance with CRA Regulation (the information contained on that website does not form part of this Prospectus). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.

STRUCTURING AGENTS TO THE ISSUER AND JOINT BOOKRUNNERS

J.P. Morgan

UBS Investment Bank

JOINT BOOKRUNNERS

HSBC

BNP PARIBAS

IMPORTANT INFORMATION

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer and its subsidiaries taken as a whole (the “Group”) and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer (the “Responsible Person”) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Bookrunners (as defined in “Subscription and Sale” below) to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of further restrictions on offers and sales of Notes and distribution of this Prospectus, see “Subscription and Sale” below.

No person is or has been authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Bookrunners.

Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Bookrunners expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

The Joint Bookrunners have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability (whether fiduciary, in tort or otherwise) is accepted by the Joint Bookrunners as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the Notes. The Joint Bookrunners accept no liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes.

Neither this Prospectus nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer or the Joint Bookrunners that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Notes

constitutes an offer or invitation by or on behalf of the Issuer or the Joint Bookrunners to any person to subscribe for, or to purchase, any Notes.

References in this Section “Important Information” to a “Joint Bookrunner” shall, in the case of Joint Bookrunners who are also Structuring Agents to the Issuer, include such entities in their capacities as both Joint Bookrunners and Structuring Agents to the Issuer.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

This Prospectus contains various amounts and percentages which have been rounded and, as a result, when those amounts and percentages are added up, they may not total.

Unless otherwise specified or the context otherwise requires, references to (i) “euro”, “EUR” and “€” are to the currency introduced at the start of the third stage of the economic and monetary union pursuant to the Treaty establishing the European Community, as amended and (ii) “U.S.\$” and “U.S. dollars” are to the lawful currency of the United States of America.

In connection with the issue of the Notes, UBS Limited (the “Stabilising Manager”) (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

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OVERVIEW OF THE NOTES

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the audited consolidated financial statements for the financial years ended 31 December 2011 and 31 December 2012 as set out on pages F-1 and following. Words and expressions defined in “Terms and Conditions of the Notes” (the “Conditions”) shall have the same meanings in this section and references in this overview to a numbered Condition shall be construed accordingly.

Issuer:	AG Insurance SA/NV
Description of the Notes:	U.S.\$550,000,000 6.75 per cent. Fixed Rate Reset Perpetual Subordinated Notes (the “Notes”) to be issued by the Issuer on 21 March 2013 (the “Closing Date”).
Joint Structuring Agents and Joint Bookrunners:	J.P. Morgan Securities plc
Joint Bookrunners:	UBS Limited
	BNP Paribas
	HSBC Bank plc
Trustee:	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent, Domiciliary Agent and Agent Bank:	BNP Paribas Securities Services, Belgium Branch
Status of the Notes:	The Notes constitute direct, unsecured and subordinated obligations of the Issuer (subordinated in the manner set out below) which will at all times rank <i>pari passu</i> without any preference among themselves.
Subordination of the Notes:	In the event of a Winding-up, claims in respect of the Notes shall rank:
	<ul style="list-style-type: none">(i) behind claims in respect of (a) any unsubordinated indebtedness and payment obligations of the Issuer (including, without limitation, the claims of policyholders of the Issuer) and (b) any dated subordinated indebtedness and payment obligations of the Issuer;(ii) <i>pari passu</i> and without any preference among themselves and with claims in respect of the Perpetual Subordinated Loans;(iii) at least equally and rateably with claims in respect of any other existing or future direct, unsecured and undated subordinated indebtedness and payment obligations of the Issuer (other than obligations in respect of Junior Securities); and(iv) in priority to the claims of Junior Creditors.

Solvency Condition

Except in a Winding-up of the Issuer, all payments in respect of the Notes are conditional upon the Issuer being solvent at the time for payment by the Issuer and no amount shall be payable in respect of the Notes unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the “Solvency Condition”).

The Issuer will be considered to be solvent if (i) it is able to pay its debts owed to its creditors (other than Junior Creditors) as they fall due, (ii) its credit has not been imperilled within the meaning of Article 2 of the Belgian Law of 8 August 1997 on bankruptcy and (iii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors).

Redemption:

The Notes have no fixed redemption date and the holders of the Notes have no right to require the Issuer to redeem the Notes at any time. The Issuer may, however, elect to redeem the Notes in the circumstances described below.

Issuer’s Call Option

Subject as provided under “Deferral of Redemption” below and to the provisions of Condition 6, the Notes will be redeemable, at the option of the Issuer, in whole but not in part on 21 March 2019 (the “First Call Date”) or on any Interest Payment Date thereafter at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date.

Redemption for Deductibility Event, Gross-up Event or Regulatory Event

In addition, subject to as provided under “Deferral of Redemption” below and to the provisions of Condition 6, the Issuer may elect to redeem, in whole but not in part, the Notes upon the occurrence of a Deductibility Event, Gross-up Event or Regulatory Event at their principal amount, in each case together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date.

The consent of the Relevant Supervisory Authority to any redemption of the Notes may be required pursuant to the Applicable Regulations.

Deferral of Redemption:**Deferral of Redemption following a Regulatory Deficiency Event**

If a Regulatory Deficiency Event has occurred and is continuing on the date specified in the notice of redemption by the Issuer pursuant to the Conditions or a redemption on such date would itself cause a Regulatory Deficiency Event to occur, the redemption of the Notes shall be deferred.

In such event, subject (except in the case of (iii) below) to the Solvency Condition, such Notes shall instead become due for redemption at their principal amount, together with Arrears of Interest (if any) and any other

accrued but unpaid interest up to (but excluding) the redemption date, upon the earliest of:

- (i) the date falling 10 Business Days after the date the Regulatory Deficiency Event has ceased (provided that if on such 10th Business Day a further Regulatory Deficiency Event has occurred and is continuing or a redemption would itself cause a Regulatory Deficiency Event to occur, the provisions of this paragraph shall apply *mutatis mutandis* to determine the subsequent date for redemption of the Notes); or
- (ii) the date falling 10 Business Days after the Relevant Supervisory Authority has agreed to the repayment or redemption of the Notes; or
- (iii) the Winding-up of the Issuer.

Deferral of Redemption relating only to the Solvency Condition

If a Regulatory Deficiency Event has not occurred but the Issuer is required to defer redemption of the Notes on the date specified in the notice of redemption by the Issuer only as a result of the Solvency Condition not being satisfied at such time or following such payment, such Notes shall instead become due for redemption, at their principal amount together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date, on the date falling 10 Business Days immediately following the day that the Solvency Condition is met provided that it continues to be met and a Regulatory Deficiency Event has not occurred at such deferred date for payment. See Condition 6.

The deferral of the redemption of the Notes in accordance with the Conditions will not constitute a default by the Issuer and will not give Holders or the Trustee any right to accelerate the Notes such that amounts of principal, interest or Arrears of Interest would become due and payable on the Notes earlier than otherwise scheduled pursuant to the Conditions or the Trust Deed.

Interest:

The Notes will bear interest from (and including) the Closing Date to (but excluding) the First Call Date at a rate of 6.75 per cent. per annum (being a rate equal to 1.317 per cent. per annum plus the Margin of 5.433 per cent. per annum). In respect of each successive six year period thereafter, the Notes will bear interest at a rate equal to the Six Year U.S. dollar Mid Swap Rate as determined by the Agent Bank, plus the Margin of 5.433 per cent. per annum. Interest will be payable semi-annually in arrear on each Interest Payment Date, subject to deferral as described below. See Condition 4.

Interest Payment Dates:

21 March and 21 September in each year, commencing on (and including) 21 September 2013.

Compulsory Payment of Interest:

The Issuer shall be required to pay accrued interest (and any Arrears of Interest then outstanding) on each Compulsory Interest Payment Date.

Subject to a Mandatory Interest Deferral Event not having occurred and being continuing, as more particularly described below, an Interest Payment Date will be a Compulsory Interest Payment Date if, in the six month period prior to such Interest Payment Date, a Compulsory Interest Payment Event has occurred.

A “Compulsory Interest Payment Event” means:

- (i) any dividend or distribution is declared payable or a payment is made on any Junior Securities, save where such dividend, distribution or payment is mandatory in accordance with the terms and conditions of such Junior Securities; or
- (ii) any repurchase, redemption or acquisition by the Issuer or any of its Subsidiaries of any Junior Securities, save where the Issuer or, as the case may be, the relevant Subsidiary is not able to defer, pass or eliminate the payment or other obligation in respect of such repurchase, redemption or acquisition.

Interest Deferral:Optional Deferral of Interest

The Issuer may elect to defer all (but not some only) of any payment of interest on the Notes which is otherwise scheduled to be paid on any Optional Interest Payment Date.

Mandatory Deferral of Interest

An Interest Payment shall be deferred mandatorily on an Interest Payment Date (a “Mandatory Interest Deferral Date”) if:

- (i) a Regulatory Deficiency Event has occurred and is continuing at the relevant Interest Payment Date;
- (ii) the Solvency Condition is not met as at such Interest Payment Date; or
- (iii) payment of such Interest Payment would cause a Regulatory Deficiency Event or would cause the Solvency Condition not to be met,

(each a “Mandatory Interest Deferral Event”),

provided, however, that if the Relevant Supervisory Authority confirms in writing to the Issuer that it accepts that interest accrued in respect of the Notes (or any part thereof) during such Interest Period can be paid (to the extent that the Relevant Supervisory Authority may provide such acceptance in accordance with the Applicable Regulations), the relevant Interest Payment Date will not be a Mandatory Interest Deferral Date in relation to such interest (or such part thereof) unless the Solvency

Condition is not met.

Arrears of Interest:

If the Issuer elects or is required (whether pursuant to the Solvency Condition or due to a Mandatory Interest Deferral Event) to defer any payment of interest, such deferred payment shall itself bear interest at the prevailing interest rate applicable to the Notes, and such deferred interest payment and interest thereon shall, for so long as the same remains unpaid, constitute "Arrears of Interest". See also "Risk Factors — Factors which are material for the purpose of assessing the market risks associated with the Notes — The Issuer may (except in certain limited circumstances) elect to, and in certain circumstances must, defer interest payments on the Notes" for a discussion of the uncertainties regarding compounding of interest under Belgian law.

Subject to a Mandatory Interest Deferral Event not having occurred and being continuing, Arrears of Interest may be settled at the option of the Issuer in whole (or in part) at any time upon notice to the Holders and the Trustee, and all Arrears of Interest will in any event become due for payment on the first to occur of the following dates:

- (i) the next succeeding Compulsory Interest Payment Date; or
- (ii) the date on which the Notes are redeemed or repaid in accordance with the Conditions; or
- (iii) upon a Winding-up of the Issuer.

Notwithstanding the previous paragraphs, if a Regulatory Event occurs, any unpaid Arrears of Interest resulting from any deferral of interest on an Optional Interest Payment Date shall also fall due and payable on the date (the "Compulsory Partial Settlement Date") being the later of:

- (i) the first Interest Payment Date falling on or after the fifth anniversary of the relevant Optional Interest Payment Date on which the relevant Interest Payment was deferred; and
- (ii) the first Interest Payment Date falling on or after the fifth anniversary of the date on which the Regulatory Event occurs.

If on any Compulsory Partial Settlement Date the Solvency Condition is not met, such payment of Arrears of Interest shall not fall due until the date falling 10 Business Days immediately following the day that the Solvency Condition is met, provided that if on such 10th Business Day the Solvency Condition is not met or would not be met if the Arrears of Interest were paid, then the date for such payment shall be the first following Business Day on which the Solvency Condition is so met and will continue to be met following payment of such Arrears of Interest.

Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Notes or for any other purpose, unless such payment is required in accordance with Condition 5(f).

Enforcement Events:

If the Issuer defaults (i) for a period of 7 calendar days or more in the payment of any interest due in respect of the Notes or any of them or (ii) for a period of 14 calendar days or more in payment of the principal due in respect of the Notes or any of them, the Trustee may sue for payment when due and prove or claim in the Winding-up of the Issuer for such payment but may take no further or other action to enforce, prove or claim for any such payment. See Condition 12.

The Trustee and the Holders shall have no right to petition for or institute proceedings for the bankruptcy of the Issuer in Belgium or to institute equivalent insolvency proceedings (including those equivalent to a Winding-up) pursuant to any laws in any country in respect of any default of the Issuer under the Notes or the Trust Deed.

Variation:

If a Regulatory Event has occurred and is continuing, the Issuer (subject to the prior approval of the Relevant Supervisory Authority (if required pursuant to the then Applicable Regulations in order for the Notes to qualify as regulatory capital)) may with the prior agreement of the Trustee modify the terms and conditions of the Notes (without the consent of the Holders) so that such Regulatory Event no longer exists after such modification. Any such modification to the Notes is conditional on certain matters set out in the Conditions being satisfied. See Condition 7.

Additional Amounts:

All payments in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any Taxes of the Kingdom of Belgium, unless such withholding or deduction is required by law.

If any such withholding or deduction is made, additional amounts will be payable by the Issuer subject to certain exceptions as are more fully described in Condition 11.

Form:

The Notes will be issued in dematerialised form under the Belgian Code of Companies (*Code des Sociétés/Wetboek van Vennootschappen*) (the “Belgian Code of Companies”) and cannot be physically delivered.

Denomination:

The Notes will be issued in denominations of U.S.\$200,000.

Governing Law:

The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that the provisions contained in Condition 2 in relation to subordination and waiver of set-off, Conditions 14(a) and (c) and any matter relating to the dematerialised form of the Notes and any non-contractual obligations arising out of the same shall be governed by, and construed in accordance with, Belgian law.

Rating:

The Notes have been rated BBB by Standard & Poor’s Credit Market Services France SAS (“S&P”) and BBB+ by Fitch France SAS (“Fitch”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time

by the assigning rating agency.

Listing and Admission to Trading:

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market.

Selling and Transfer Restrictions:

The United States, the United Kingdom, Belgium, Switzerland, Hong Kong, Singapore, Korea and China (See "Subscription and Sale"). Notes may be held only by, and transferred only to, Eligible Investors holding their securities in an exempt securities account that has been opened with a financial institution that is a direct or indirect participant in the X/N Clearing System operated by the NBB.

Use of Proceeds:

The net proceeds of the issue of the Notes will be used in priority by the Issuer to (fully or partially) redeem outstanding subordinated loans to Ageas Hybrid Financing S.A. The remaining net proceeds will be used for general corporate purposes.

Risk Factors:

Prospective investors should carefully consider the information set out in "Risk Factors" in conjunction with the other information contained in this Prospectus.

Clearing Systems:

The Notes will be represented exclusively by book entries in the records of the X/N Clearing System operated by the NBB or any successor thereto. Access to the X/N Clearing System is available through those of its participants whose membership extends to securities such as the Notes. X/N Clearing System participants include certain banks, stockbrokers (*sociétés de bourse/beursvennootschappen*), Euroclear and Clearstream, Luxembourg. Accordingly, the Notes will be eligible to clear through, and therefore accepted by, Euroclear and Clearstream, Luxembourg and investors can hold their Notes within securities accounts in Euroclear and Clearstream, Luxembourg.

ISIN:

BE6251340780.

Common Code:

090729276.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons which may not be considered significant risks by the Issuer based on the information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes

Financial risks

The level of and volatility in interest rates may adversely affect the Issuer's business

To be able to meet their future liabilities, insurers invest in a variety of assets that typically include a large portfolio of fixed income securities. Interest rate volatility can adversely affect insurance businesses by reducing the returns earned and by reducing the market value of such portfolios. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and internal economic and political considerations, inflation, governmental debt, regulatory environment and any other factors that are beyond AG Insurance's control.

In particular, the insurance sector can be adversely impacted by sustained low interest rates. In times of low interest rates - as experienced since 2005 - bond yields typically decrease. Consequently, when the bonds mature the sums realised are reinvested in bonds with lower yields, which in turn decreases the investment income of the insurer. A protracted period of low interest rates has a negative impact, especially on life insurers with substantial interest rate guarantees on a traditional book of business where the portfolio yield approximates the guaranteed interest rate on the policies written. Persistently low interest rates not only render delivering the necessary return for clients or offering competitive profit sharing more difficult, but also hamper efforts to maintain the required profitability to remunerate shareholders. Low interest rates also make it difficult to continue to offer to clients attractive life investment and savings insurance products, which may lead to a reduction in new business and hence have a negative impact on AG Insurance's results of operations.

AG Insurance's non-life insurance business is equally impacted by interest rate volatility, as its long tail business (such as disability insurance and workmen's compensation) is heavily dependent on investment returns, thereby displaying direct sensitivity to interest rate movements.

As cash flows can be (re-)invested at higher rates, the earnings of an insurer will typically be positively impacted by an increase in interest rates, though only over a protracted period of time. The largest beneficiaries will be life insurers with large traditional books of participating business. Surrenders or lapses could, however, increase as higher investment returns may be available elsewhere and

policyholders would have an incentive to switch. This is particularly the case if surrender penalties are relatively low.

To reduce the interest rate sensitivity of its life insurance business AG Insurance attempts to match its liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the liabilities, thereby compensating the interest rate risk. However, to the extent that such asset liability matching (“ALM”, which includes hedging strategies) or other risk mitigating actions (such as profit sharing policies) (See “Description of the Issuer — Risk management”) are not practicable or fully achieved, there still may be fluctuations in the value of assets and liabilities as interest rates change, which may have a negative effect on AG Insurance’s financial condition or results of operations.

AG Insurance also uses derivative instruments such as interest rate swaps and swaptions to mitigate its exposure to interest rate volatility. Any mismatch between the interest rate used for discounting the liabilities and the hedged interest rate could render the hedge unsuccessful and expose AG Insurance to unexpected losses and volatility and have an adverse effect on its financial condition or results of operations.

Stock market volatility or downturns can adversely affect the activities of the Issuer

Stock market volatility and overall declines in stock market indices can negatively affect AG Insurance’s activities. Volatility and declines in market indices can reduce unrealised capital gains in its investment portfolio and hence impact AG Insurance’s excess solvency margin. Volatility can also negatively affect the demand for certain insurance products such as unit linked products. Stock market downturns and high volatility can occur not only as a result of the economic cycle, but also as a result of war, acts of terrorism, natural disasters or other similar events outside AG Insurance’s control.

While AG Insurance has the necessary tools and risk management strategies in place to closely monitor and manage its share portfolio, residual risks persist and a durable decline in the market values of its share portfolio could have a material adverse effect on AG Insurance’s results and financial condition.

AG Insurance is vulnerable to spread risk with respect to its fixed income portfolio

Like most insurance companies, the Issuer has a significant fixed income portfolio in which assets are matched against its life insurance liabilities. The exposure to (credit) spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. A spread widening will reduce the value of fixed income securities held and increase the investment income associated with the purchase of new fixed income securities in the investment portfolio. Conversely, spread tightening will generally increase the value of fixed income securities in the portfolio and will reduce the investment income associated with new purchases of fixed income securities. A number of factors can cause an individual asset or a whole class of assets to decrease in market value, including a perception or fear in the market that there is an increase in the likelihood of defaults.

Although AG Insurance has developed the necessary tools and risk metrics to closely monitor and manage its spread risk, a residual risk may still exist and spread widening could have a material adverse effect on its results and financial condition.

The Issuer is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations in its investment portfolio

Given the large proportion of sovereign bonds in its investment portfolio, AG Insurance is subject to the risk of potential sovereign debt credit deterioration and default. Investing in such instruments creates exposure to the direct or indirect consequences of political, social or economic changes (included changes in governments) and to the creditworthiness of the sovereign. The risk exists that the debt issuer

may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and AG Insurance may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by different factors (such as the relative size of the debt service burden to the economy as a whole) that are beyond AG Insurance's control. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issues. If a sovereign were to default on its obligations, this could have a material adverse impact on the Issuer's financial condition and results.

Concerns about the quality of certain European sovereign debts and the sustainability of some sovereign credit ratings were pronounced following the European Stability Fund and International Monetary Fund "bailouts" of Greece, Ireland and Portugal. This also raised questions about the continued viability of the Euro as a common currency and whether certain Euro zone countries may withdraw from the currency union. Euro zone leaders took a number of steps following the 21 July 2011 summit to provide further financing for Greece, improve debt sustainability and stem contagion. Although the package marked a significant step in containing the sovereign debt crisis, solving the structural and governance problems with respect to sovereign debt will take years. As a result of this turbulence within the Euro zone, the government bond market for certain jurisdictions has experienced increased spreads and price volatility, credit downgrade events and increased probability of default. While AG Insurance reduced a major part of its exposure to the Euro zone periphery in 2011 and 2012 (See "Description of the Issuer — Key financial figures" and "Description of the Issuer — Market trends and environment — Financial markets turmoil"), a default or debt restructuring by a sovereign issuer, with possible "knock-on" effects on other sovereign issuers and on the financial markets in general, could still have a potentially material adverse effect on AG Insurance's results or financial condition.

The reduction of AG Insurance's exposure to the Euro zone periphery led to an increase of the Belgian government bonds portfolio, which now constitutes a substantial part of AG Insurance's investment portfolio (See "Description of the Issuer — Market trends and environment — Financial markets turmoil"). Hence, AG Insurance is largely exposed to the risks associated with the Belgian political and economic situation, which could have a significant impact on the value of AG Insurance's investment portfolio. This was for instance the case in November 2011, where the yield on Belgian government bonds showed a significant increase, illustrated by an increasing spread versus German government bonds (often used as European reference rate), owing in part to the post-election impasse in forming a new government in Belgium in the period between the June 2010 elections and the formation of a new government in December 2011.

The European sovereign debt crisis persists to this day and credit spreads have not yet fully returned to pre-global economic and financial crisis levels. A sovereign debt default or restructuring by a Euro zone or other government (or government-backed) issuer could have potentially significant negative consequences both for the holders of such debt and for the stability of the broader financial markets and sector. Although AG Insurance monitors its sovereign debt exposure closely, any of these events, depending on their precise nature and magnitude, could have a material adverse effect on the results and financial condition of AG Insurance.

Fluctuations in currency exchange rates may affect AG Insurance's results of operations and solvency

AG Insurance is exposed to foreign currency, in particular U.S. dollars, through its investments. While AG Insurance seeks to manage its exposure to foreign currency fluctuations through hedging, fluctuations in exchange rates may have a significant impact on AG Insurance's results of operations and cash flows. For example, a strengthening or weakening of the euro against the U.S. dollar may adversely affect AG Insurance's results of operations. While AG Insurance uses a range of instruments and

strategies to hedge against currency risk, these instruments and strategies may prove ineffective or only partially effective and as a result AG Insurance may suffer losses.

AG Insurance's exposure to fluctuations in the property markets could adversely affect its returns on invested assets, the value of its investment portfolio or its solvency position

AG Insurance has a significant exposure to property risk. Its real estate portfolio is well-diversified and includes investments in office, retail, logistics and recently in nursing homes, and through Interparking, in the car parks business in Europe. The investments are also geographically diversified in Belgium, France and Luxembourg, and for Interparking also in Spain, Germany, Italy, the Netherlands and other European countries.

The value of the property portfolio of AG Real Estate, the Issuer's real estate subsidiary, is subject to risks related to, amongst others, rent levels, property prices, occupancy levels, consumer spending and interest rates. Due to the financial crisis and the related economic downturn, the property market, especially the office market, faces deteriorating occupancy levels and non-core retail properties are adversely affected by the related low consumer spending, which, in turn, reduces returns on those property investments. Occupancy levels, mainly in the office market, suffer from this gloomy economic environment. For instance, short term contracts or provisions entitling customers to terminate contracts early could reduce occupancy. The economic downturn has an impact on the real estate market and clearly split it into core and non-core properties. The liquidity of non-core properties is under pressure, while the desirability of core properties increases their values.

Although AG Insurance has the necessary tools in place to closely monitor the real estate risk to which it is exposed by way of its subsidiary AG Real Estate, residual risks exist and a durable decline in the market values of its property investments could have a material adverse effect on its business, revenues, results and financial condition.

Asset illiquidity can adversely affect the Issuer's business

Liquidity risk in AG Insurance's business stems from the liquidity characteristics of the assets purchased and the liabilities sold. Some liabilities arising from life insurance products can be surrendered while others, such as liabilities arising from pension insurance, term insurance and annuities, are highly illiquid. The illiquidity of some life insurance products is strengthened by tax regulation and built-in penalties in case of surrender. Non-life liabilities are also considered to be illiquid by nature. Assets are characterised by a different degree of liquidity, going from a highly liquid (cash) to a low degree of liquidity (real estate). Additionally, protracted market declines can reduce the liquidity of markets that are typically liquid. While liquidity risk has not traditionally been significant (even in the stressed and illiquid market conditions of 2008) and has been closely monitored, AG Insurance could face liquidity problems if, in the course of its activities, it requires exceptional amounts of cash at short notice in excess of currently anticipated cash requirements, and there are insufficient liquid assets and/or if assets prove to be difficult to sell at attractive prices in a timely manner.

A sustained increase in inflation rates may negatively affect AG Insurance's business, solvency position and results of operations

Inflation, as measured by consumer price indices or other means, is a continuing risk. A sustained increase in the inflation rate in the markets where AG Insurance or its subsidiaries operate would have multiple impacts on AG Insurance and may negatively affect its business, solvency position and results of operations. For example, a sustained increase in the inflation rate may result in an increase in market interest rates which may in turn (i) decrease the estimated fair value of certain fixed income securities AG Insurance holds in its investment portfolio, resulting in reduced levels of unrealised capital gains

available to AG Insurance and which could negatively impact its solvency margin position and net income, and (ii) result in increased surrenders of certain life and savings products, particularly those with fixed rates below market rates. This may also require AG Insurance to pay higher interest rates on debt securities that it might issue in the financial markets from time to time.

A significant and sustained increase in inflation has historically also been associated with sluggish performance of equity markets generally. A sustained decline in equity markets may (i) result in impairment charges to equity securities that AG Insurance holds in its investment portfolio and reduce levels of unrealised capital gains available to AG Insurance, which would in turn reduce net income and negatively impact AG Insurance's solvency position, (ii) negatively impact performance, future sales and surrenders of unit linked products where the underlying investments are often allocated to equity funds, (iii) negatively impact the ability of AG Insurance's asset management to retain and attract assets under management, as well as the value of assets that are managed, all of which may negatively impact AG Insurance's results of operations. In addition, in the context of certain property & casualty risks underwritten by AG Insurance (particularly "long-tail" risks), a sustained increase in inflation may result in (i) claims inflation (*i.e.* an increase in the amount ultimately paid to settle claims several years after the policy coverage period or event giving rise to the claim), coupled with (ii) an underestimation of corresponding claims reserves at the time of establishment due to a failure to fully anticipate increased inflation and its effect on the amounts ultimately payable to policyholders, and, consequently, (iii) actual claims payments significantly exceeding associated insurance reserves. In addition, a failure to accurately anticipate higher inflation and factor it into the product pricing assumptions may result in a systemic mispricing of products, resulting in underwriting losses which would negatively impact AG Insurance's results of operations.

The Issuer is exposed to counterparty default risk, which could have a material adverse effect on its results and financial condition

The Issuer is exposed to default risk, which is the risk that the third parties owing money, securities or other assets to the Issuer do not pay or fulfil their obligations when due. These parties include trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, reinsurers, bond issuers and financial intermediaries. Third parties may default on their obligations to the Issuer due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, fraud or other reasons.

Although AG Insurance has the necessary tools in place to closely monitor default risk (including by way of periodic reviews of the financial statements and reputation of counterparties), a residual risk exists and could negatively impact AG Insurance's results and financial condition.

Insurance liability risks

Experience in the Issuer's life and non-life businesses could be inconsistent with the assumptions the Issuer uses to price its products, which could adversely affect its results

The results of AG Insurance's life and non-life businesses depend significantly upon the extent to which its actual claim experience remains consistent with the assumptions used in the pricing of its products. Life insurance premiums are calculated using assumptions as to mortality, interest rates and expenses used to project future liabilities. In non-life insurance, claim frequency, claim severity and expense assumptions are used to set prices. Although experience (*i.e.* the claims and expenses as actually experienced) is closely monitored, there is no guarantee that actual experience will match the assumptions that were used in initially establishing the future policyholder benefits and related premium

levels. To the extent that actual experience differs significantly from the assumptions used, AG Insurance may be faced with unforeseen losses that negatively impact its results.

The Issuer is subject to risks concerning the adequacy of its technical provisions, which could have a negative impact on the Issuer's results in case these provisions prove to be insufficient

The technical provisions of AG Insurance serve to cover the current and future liabilities towards its policyholders. Technical provisions are established with respect to both AG Insurance's life and non-life businesses and include, *inter alia*, mathematical provisions, claims provisions (for reported and unreported claims), unearned premium provisions and ageing provisions. These technical provisions and the assets backing them represent the major part of AG Insurance's balance sheet. Depending on the actual realisation of the future liabilities (*i.e.* the claims as actually experienced), the current technical provisions may prove to be inadequate. For example, AG Insurance's life and health insurance reserves are derived from actuarial practices and assumptions, including an assessment of mortality, morbidity rates, expenses and interest rates. If the actual future mortality and morbidity rates deviate from those used in the projections, this may lead to inadequate reserving. Reserving inadequacy can also occur due to other factors that are beyond the control of insurers, such as unexpected legal developments, advances in medicine and changes in social attitudes. Although AG Insurance has the necessary actuarial tools (such as liability adequacy testing) in place to closely monitor and manage reserve risk, a residual risk still exists and to the extent that technical provisions are insufficient to cover AG Insurance's actual insurance losses, expenses or future policy benefits, AG Insurance would have to add to these technical provisions and incur a charge to its earnings, which could adversely impact its results and financial condition.

The Issuer's operating results may be materially adversely affected by the occurrence of natural or man-made disasters or pandemics and by the consequences of emerging risks that are unpredictable by nature

Pandemics, natural catastrophic events (such as hurricanes, windstorms, hailstorms and earthquakes) and man-made disasters such as acts of terrorism each have the potential to affect the operating results of AG Insurance adversely. In particular, assessing weather-related risk in a rapidly changing environment has become increasingly difficult, with knowledge of past weather events becoming an unreliable guide for future weather events. While AG Insurance generally seeks to manage its exposure to any of these risks through reinsurance and through limiting total risk accumulation, it has experienced in the past and could experience in the future material losses from these types of risks and losses caused by the occurrence of such risks could have a material adverse effect on its results or financial position.

Reinsurance may not be adequate to protect the Issuer against losses and it may incur losses due to the inability of its reinsurers to meet their obligations

In the normal course of business, AG Insurance transfers exposure to certain risks in its non-life and life insurance businesses to others through reinsurance arrangements. Under these arrangements, reinsurers assume a portion of AG Insurance's losses and expenses associated with reported and unreported claims in exchange for a portion of the premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. If reinsurance is not available at commercially attractive rates and if the resulting additional costs are not compensated by premiums paid to AG Insurance, this could adversely affect AG Insurance's results. Also, increasing concentration in the reinsurance market reduces the number of major reinsurance providers and therefore could hamper AG Insurance's efforts to diversify in its reinsurance risk.

Any decrease in the amount of AG Insurance's reinsurance cover relative to its primary insurance liability could increase its risk of loss. Reinsurance arrangements do not eliminate AG Insurance's

obligation to pay claims and introduce credit risk with respect to AG Insurance's ability to recover amounts due from the reinsurers. While AG Insurance monitors the solvency of its reinsurers through a periodic review of their financial statements, the risk of default by a reinsurer cannot be excluded. Any inability of its reinsurers to meet their financial obligations could materially adversely affect AG Insurance's results.

Operational risks

While the Issuer manages its operational risks, these risks remain an inherent part of its business

AG Insurance's business is dependent on the processing of a large number of complex transactions across numerous and diverse products, and is subject to a complex and changing legal and regulatory regime. Additionally, because of the long term nature of much of the business, accurate records have to be maintained for significant periods. This inherently generates operational risks which relate to the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud. These events can potentially result in the irrecoverable loss of essential data, financial loss and harm to AG Insurance's reputation. While AG Insurance attempts to keep operational risks at appropriate levels by maintaining a sound and well controlled environment in light of the characteristics of its business, the markets and the regulatory environment in which it operates, these control measures may not mitigate operational risks sufficiently and cannot eliminate them.

The Issuer is dependent on the existence and due performance of two major outsourcing contracts, the termination or non-performance of which could have a negative impact on operating its business and hence on profitability

AG Insurance relies in part on the IT infrastructure of BNP Paribas Fortis (formerly a sister company to AG Insurance known as Fortis Bank) under an outsourcing agreement with BNP Paribas Fortis (See "Description of the Issuer — Material contracts — Servicing agreement"). Pursuant to this agreement, BNP Paribas Fortis hosts and manages a number of IT applications of AG Insurance on its mainframe computers. All technical specifications and responsibilities are, amongst others, fully documented in the agreement. The agreement allows BNP Paribas Fortis to outsource its IT services to a third party if it so desires. Each party can terminate the agreement at its convenience as of 1 January 2012, subject to giving 30 days' prior notice. AG Insurance and BNP Paribas Fortis are examining alternative arrangements to allow AG Insurance to migrate to another service provider from 2014 onwards if needed, while keeping the necessary integration between bank and insurance applications to support AG Insurance's bancassurance activities.

On 28 December 2012 AG Insurance was informed by BNP Paribas Fortis that BNP Paribas Fortis will outsource the IT infrastructure services provided to AG Insurance to a separate IT company in the BNP Paribas group located in Paris. This company will gradually take over operational responsibility as of 1 April 2013 at the earliest. BNP Paribas Fortis will nevertheless bear responsibility towards AG Insurance for the performance of all obligations under the initial outsourcing agreement.

Notwithstanding the efforts in examining alternative arrangements, AG Insurance retains a certain degree of dependence on BNP Paribas Fortis that may represent an operational risk and that could adversely impact AG Insurance's operations and results.

In addition, an agreement with Portima (an IT service provider that manages the interconnection and standardisation of data transfer between insurance brokers and insurance companies) is essential for running AG Insurance's Broker Channel business. While AG Insurance is a 35.9 per cent. shareholder of

Portima, the reliance on Portima represents a material operational risk for AG Insurance's Broker Channel business.

In addition, the agreements with both BNP Paribas Fortis and Portima carry operational risks, which may stem from service failure, service interruptions or defaults, error, breach of or attempts to renegotiate the terms of the agreement or termination of the agreement.

The risk management framework in place may leave the Issuer exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

AG Insurance devotes significant resources to the development and implementation of an effective risk management framework consisting of policies, procedures and assessment methods appropriate to its risk profile and risk appetite. Sophisticated risk modelling (such as value-at-risk models), duration analysis, sensitivity analysis and stress testing as well as other risk assessment methods are in place. Nonetheless, these risk management techniques and strategies may not be fully effective in mitigating AG Insurance's risk exposure in all economic market environments or against all types of risk, including the risks that the risk management fails to identify or anticipate. Some of the quantitative and risk metrics for managing AG Insurance's risk are based upon use of observed historical market behaviour and data. AG Insurance applies statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict future risk exposures adequately. AG Insurance's losses could thus be significantly greater than its measures would indicate. In addition, the quantified modelling does not take all risks into account and although it is complemented by a more qualitative approach that takes into account a broader set of risks, this could prove to be insufficient. Unanticipated or incorrectly assessed risk exposures could result in material losses in AG Insurance's business.

The hiring and retention of skilled employees is a priority for the Issuer and the non-realisation of this objective could have a negative impact on the sustainability and development of its business and on its profitability

The success of AG Insurance's business, the continuity of its operations and its ability to develop new products and services and to comply with a continually changing legal framework depend on its ability to attract and retain qualified employees, particularly those with responsibilities such as actuarial analysis, financial analysis, risk and compliance. Like many other insurers AG Insurance faces intense competition in the hiring and retention of trained and capable employees. Potential candidates often do not perceive the (Belgian) insurance sector as an attractive employer compared to banks or more internationally focused insurance groups. The retirement of employees also creates the additional challenge of bridging the age or seniority gap by timely attracting new recruits with adequate profiles.

Failure to attract and retain sufficient highly skilled and trained employees may negatively impact AG Insurance's ability to comply with its legal obligations (including the approval of certain individuals by regulatory authorities) or its ability to sustain or develop certain business and may therefore adversely impact AG Insurance's profitability.

Strategic risks

The Issuer is the principal operating company of the Ageas group

AG Insurance is the principal operating company of the Ageas insurance group, which as of 2008 consists of the Belgian and international (excluding Dutch) insurance business of the former Fortis group and subsequent acquisitions and/or disposals. AG Insurance's key position within the Ageas group, in which it contributes significantly to earnings, requires both sound governance and a solid

operating model. Certain governance aspects of the relationship between AG Insurance and its two shareholders (the Ageas group through Ageas Insurance International N.V. and the BNP Paribas group through BNP Paribas Fortis SA/NV) were established in the Shareholders' Agreement (See "Description of the Issuer — Shareholding structure"). No less importantly, other aspects were established in a capital management policy approved by AG Insurance's Board of Directors, detailing the principles regulating capital transfers in both directions (by AG Insurance to both shareholders (capital upstream and dividend policy) and from the Ageas group and BNP Paribas group to AG Insurance (capital funding)). Should such capital management policy fail to realise its goals or should it not be implemented as currently envisaged, the growth strategy of AG Insurance and, hence, its future capacity to generate profits may be adversely impacted.

AG Insurance may be unable to maintain a competitive distribution network of independent brokers and is dependent on an exclusive distribution agreement with BNP Paribas Fortis, both of which could adversely impact its future business and results

AG Insurance offers insurance products through a multi-channel distribution model using a Broker Channel (a network of independent brokers), a Bank Channel (through BNP Paribas Fortis and bpost banque/bpost bank) for the distribution of life and non-life products and direct distribution of group life insurance in a "business to business" context (See "Description of the Issuer — Distribution channels").

A substantial part of the distribution, particularly in the non-life insurance business (approximately 72 per cent.), originates from distribution through a large network of brokers that may also offer products of AG Insurance's competitors. As a result, AG Insurance's successful distribution through this channel depends on the preferences of these intermediaries for the products and services of AG Insurance. Intermediaries' preferences are determined in part by the level of compensation offered and also by product features and quality, the services offered to customers, the support services and the financial position or solvency of the insurance company. AG Insurance may not succeed in continuing to provide incentives to insurance brokers to market its products and services successfully, which failure could adversely impact its results.

In the Bank Channel, which is an important driver in AG Insurance's inflow (generating approximately 65 per cent. of the life inflow and approximately 12 per cent. of the non-life gross written premiums), AG Insurance is dependent on the network of BNP Paribas Fortis for the distribution of life and non-life insurance products. The exclusive distribution agreement between AG Insurance and BNP Paribas Fortis was extended in 2009 to run until at least 31 December 2020, but can be terminated by BNP Paribas Fortis - subject to giving at least three years' notice - no later than 1 January 2018 (See "Description of the Issuer — Material contracts — Bankassurance Distribution Agreements"). This termination right coincides with the first possible exit by BNP Paribas Fortis from the shareholders' structure of AG Insurance established by the Shareholders' Agreement.

A termination by BNP Paribas Fortis of the distribution agreement with effect as of 31 December 2020 (or later) without AG Insurance having a suitable alternative distribution network in place would have a material adverse effect on AG Insurance's financial condition and results of operations.

To avoid such a loss of distribution capacity, AG Insurance actively seeks to mitigate this risk by investing in the relationship with BNP Paribas Fortis (See "Description of the Issuer — Distribution channels — Bank Channel"). Additionally, AG Insurance is seeking to diversify its distribution channels. However, particularly in the life insurance market where AG Insurance has a market share of over 25 per cent., such possibilities are limited. There can be no assurance, therefore, that efforts to maintain distribution capacity at current levels will be successful, such that a termination of the distribution

agreement by BNP Paribas Fortis and the resulting loss of a significant client base would have a material adverse effect on AG Insurance's financial position and results of operations.

The Issuer is exposed to the risk of a downgrade of any of its credit ratings

AG Insurance is rated "A-" (stable) (Financial Strength Rating and Counterparty Credit Rating) by S&P and "A+" (stable) (Insurer Financial Strength) and "A" (stable) (long term Issuer Default Rating) by Fitch (See "Description of the Issuer — Credit ratings of AG Insurance"). A downgrade of any of AG Insurance's credit ratings (for any reason whatsoever) could have a variety of negative effects, including higher funding and refinancing costs in the capital markets, a weakened competitive position, increased surrenders or termination of policies, increased costs of reinsurance and damage to AG Insurance's reputation and image, all of which could have an adverse effect on AG Insurance's financial condition and results of operations.

The Issuer's insurance business is carried out in Belgium, creating a concentration risk

AG Insurance's insurance activities and business are carried out in Belgium. AG Insurance is thus directly exposed to Belgium specific risks and does not benefit from geographical diversification to mitigate such concentration risk. Specific conditions in Belgium, including in relation to regulation, political stability, act of God or any other negative event that could affect the country, may have a direct, disproportionate and materially adverse impact on AG Insurance activities and profitability.

Business risks

AG Insurance's performance is subject to substantial competitive pressure that could adversely affect its results

There is substantial competition in Belgium for the type of insurance products that AG Insurance offers in both the life and non-life business. AG Insurance faces competition from KBC, AXA, ING and Belfius (the new name of Dexia's former Belgian retail bank) in life retail insurance, from AXA, Delta Lloyd, P&V and KBC in life group insurance and from AXA, Ethias, KBC and Belfius in non-life insurance.

The financial crisis and solvency capital requirements have strongly impacted the Belgian financial landscape as they put both life and non-life insurers under pressure to generate profitability in a mature environment. To avoid high capital requirements imposed by future Solvency II rules insurers have invested more in safe haven investments and tried to shift product offerings from high capital consuming savings products to unit linked and risk offerings. This challenge led to lowering the guaranteed interest rate in group life insurance and individual life products, tariff increases and adapted product features in non-life products.

In addition, industry consolidation continued in order to diversify risks and realise economies of scale. Mercator, which acquired niche player Avéro and Argenta's employee benefits business in 2010, and Nateus rebranded at the end of 2012 to jointly form Baloise Insurance. Due to the financial crisis, KBC and Ethias were forced to divest part of their insurance activities. In 2012 Fidea (previously sold by KBC to private equity fund JC Flowers) announced its intention to merge with Delta Lloyd's non-life business, while the Dexia disentanglement continued with the creation of Belfius Bank & Insurance, a fully state owned company.

Furthermore, high capital requirements for monoline insurance companies, anticipating the implementation of Solvency II, have led to further consolidation. Allianz Belgium acquired Mensura and regrouped its Belgian and Dutch activities, while funeral insurance specialist DELA took over AXA

Belgium's funeral insurance. P&V in turn decided to transform its subsidiary, a small sized local insurance company Piette & Partners, into an underwriting agency.

In addition to consolidations and partnerships, insurers are also exploring different approaches in distribution as an alternative response to the challenges they have encountered or they expect to encounter in the future. For example, Corona Direct generates supplemental revenues by selling insurance through a retailer, Hema, and via white labelling insurance with other affinity commercial brands (Fiat, Harley Davidson). Online aggregators, such as mefirst.be, have also introduced a new platform to consumers allowing them to compare insurance premiums.

Consumer demand and awareness also affect competition, in particular as a result of technological advances and the impact of (social) media. Consumers have become more knowledgeable, price conscious and risk averse, demanding more convenience and transparency.

AG Insurance therefore operates in a concentrated and mature market that is subject to continuing consolidation and that constantly seeks to develop new products and distribution channels. If AG Insurance is unable to offer competitive and attractive products profitably, it may lose market share and/or incur losses on some of its activities. Competitive pressure could further result in increased pricing pressure, particularly as competitors seek to win market share, which may impair the ability of AG Insurance to maintain or increase profitability.

Continuing difficult market conditions and business cycles in which AG Insurance operates may adversely affect its business and its profitability

AG Insurance's business is affected by changing general market conditions, which can cause its results to fluctuate from year to year, as well as on a more long term basis. These conditions include economic cycles such as insurance industry cycles and financial market cycles, including volatile movements in market prices for securities. In particular, cycles in the non-life insurance industry are characterised by periods of price competition, fluctuations in underwriting results and the occurrence of unpredictable weather-related and other losses. Fluctuations in interest rates, credit spreads, consumer and business spending, demographics and other factors also influence the performance of AG Insurance's business.

Market conditions continue to be volatile and there can be no assurance as to the effect of this volatility, particularly if it is prolonged, on the results of AG Insurance's activities. Although AG Insurance is well capitalised and has a well-balanced business mix of life and non-life products allowing for a partial mitigation of such volatility, it may experience the negative effects of changing market conditions on its results and financial condition.

There are continuing uncertainties regarding the final implementing measures that will be adopted under the Solvency II regime and that could have potentially adverse impacts on the insurance sector as a whole and on the Issuer in particular

The European Union is currently developing a new solvency framework for insurance and reinsurance companies operating in the European Union, referred to as "Solvency II". The adoption of European Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance of 25 November 2009 marked an important step in this major reform. Implementation of the Solvency II Directive by the EU Member States and its entry into force had originally been scheduled for 1 January 2014, but recent developments suggest that implementation of the Solvency II Directive may be postponed quite considerably.

The new approach to solvency will be based on the concept of three pillars: minimum capital requirements, supervisory review of the company's assessment of risk and enhanced disclosure requirements. A key aspect of Solvency II is that capital requirements will be risk-based assessed and

that under this new regime companies will be permitted to use a (partial) self-developed internal model (as opposed to the standard approach or model) for the calculation of the required capital, provided the relevant regulatory authority approves such internal model.

While the European Commission has already initiated the process of developing the detailed Level 2 implementing measures that will implement the high-level principles of the Level 1 Directive, such implementing measures will not be agreed until the Omnibus II Directive is adopted. The Omnibus II Directive, which is currently being negotiated between the Parliament and the Council, will amend the Solvency II Directive to bring it in line with the EU Lisbon Treaty and to take account of the EU's new supervisory structure. The adoption of the Omnibus II Directive has been significantly delayed and significant uncertainties regarding some of the implementing measures persist.

In particular the artificial volatility with respect to long term products is an issue, requiring action by AG Insurance regarding the testing of the so-called "long term guarantee assessment package" as required by the Belgian supervisory authority for insurance companies, the National Bank of Belgium. Although AG Insurance endeavours to roll out Solvency II technical specifications that properly reflect the capital required with respect to its long term business, the potential future impact of the final Solvency II implementing measures on AG Insurance's solvency position and business currently cannot yet be fully assessed nor quantified.

Within the Solvency II context AG Insurance is currently developing an internal model for the capital calculation regarding the non-life insurance underwriting risk. For the market risk capital calculation, some orientations to develop an internal model have already been taken. In the meantime the standard approach is used for market risk and all other risks except non-life. There can be no assurance, however, that the National Bank of Belgium will approve AG Insurance's proposed internal model, in which case AG Insurance would be required to comply with stricter capital requirements than anticipated and/or may be imposed "capital add-ons", which in turn could have an adverse effect on its financial position and results of operations.

In addition, the effect of the new solvency rules may be to impact adversely on AG Insurance's solvency position, which could potentially entail a significant increase in the capital that AG Insurance is required to hold to support its business or some of its business lines.

Finally, the final content of the implementing measures of Solvency II may result in the Notes not qualifying as at least Tier Two own funds regulatory capital (See "Terms and conditions of the Notes — Definitions — Regulatory Event"). In such case, AG Insurance may elect to redeem the Notes due to the occurrence of a Regulatory Event (See "— Factors which are material for the purpose of assessing the market risks associated with the Notes — Risks related to the structure of the Notes — The Notes will be subject to optional redemption by the Issuer including upon the occurrence of certain events, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Notes" or to modify the terms of the Notes (See "— Factors which are material for the purpose of assessing the market risks associated with the Notes — Risks related to the structure of the Notes — Modification upon Regulatory Event").

The business of the Issuer is subject to extensive laws and regulations and changes in the legal and/or regulatory environment may have an adverse effect on its business, financial condition, reputation or image in the market

AG Insurance conducts its business subject to ongoing regulation and associated regulation risks, including the effects of changes in the laws, regulations, policies and interpretation thereof in those jurisdictions in which AG Insurance or its subsidiaries conduct business. The timing and form of future changes in regulation are unpredictable and beyond AG Insurance's control. Changes made could

materially and adversely affect AG Insurance's business products, services offering, the value of its assets or the extent of its liabilities.

In particular AG Insurance now faces the new so called "Twin Peaks" supervisory structure in Belgium aimed at simpler and more transparent insurance products and at reinforcing consumer protection rights. The supervision of insurance products is entrusted to the Belgian Financial Services and Markets Authority (FSMA, formerly CBFA (*Commission Bancaire, Financière et des Assurances/Commissie voor het Bank-, Financie- en Assurantiewezen*)). Heightened regulatory scrutiny could, for example, prohibit certain types of segmentation and adversely impact AG Insurance's profitability. In the meantime, the Belgian government has also adopted a draft law extending and strengthening the powers of the FSMA through "Twin Peaks II".

On 3 July 2012 the European Commission adopted, among others, the following proposals to improve consumer protection in financial services: a proposal for a revision of the Insurance Mediation Directive ("IMD II") and a proposal for a regulation on key information documents for packaged retail investment products ("PRIPs"). IMD II and PRIPs, while separate proposals, are linked. The IMD II and PRIPs proposals introduce rules aimed at levelling the playing field for the sale and disclosure of insurance and retail investment products to strengthen consumer protection. IMD II addresses sales and disclosure rules for insurance products, including additional sales rules for insurance investment products. PRIPs addresses disclosure rules for retail investment products and introduces a new standard for product information called a "Key Information Document" or "KID". The main issues for AG Insurance are transparency of remuneration in life as well as in non-life insurance (with a transitional regime of five years for non-life), a ban on commissions on life insurance investment products sold on the basis of independent advice, the introduction of investment profiles and suitability/appropriateness tests in life investment products and the implementation of the key information document. AG Insurance, through its Corporate Legal Department, is following these proposals very closely and contributes to the IMD II Belgian industry working group set up by Assuralia (the professional organisation of insurance companies in Belgium).

In addition, the introduction by the United States of America of the Foreign Account Tax Compliance Act ("FATCA") (See "— Factors which are material for the purpose of assessing the market risks associated with the Notes — Risks related to the Notes generally — U.S. Foreign Account Tax Compliance Withholding") may have significant operational consequences for AG Insurance, given the broad and highly technical nature of FATCA.

On 4 July 2012 the European Market Infrastructure Regulation ("EMIR") was adopted. EMIR addresses the risks involved in OTC trading by imposing new requirements on counterparties entering into OTC derivative contracts. In particular, it imposes (i) central clearing obligations (standardised derivative contracts entered into by financial counterparties such as insurance companies should be cleared through central counterparties in order to reduce the risk in the financial system), (ii) risk management obligations (counterparties entering into non-centrally cleared OTC derivative contracts must apply appropriate risk measures, including – as far as financial counterparties are concerned – the exchange of collateral), and (iii) reporting obligations (all OTC derivative contracts should be reported to trade repositories). EMIR's entry into force will be gradual throughout 2013, leading to new challenges for AG Insurance, amongst others an adaptation of its collateral management infrastructure and organisation, the determination of OTC derivatives valuation methodologies and their documentation and an update of existing processes and IT applications in order to correctly identify and provide required information and build a daily reporting file.

If AG Insurance fails to appropriately address, or appears to fail to address, the regulatory changes, AG Insurance's reputation could be harmed and AG Insurance could be subject to additional legal risk,

including enforcement actions, fines and penalties. Despite its best efforts to comply with applicable regulations, there are a number of risks in areas where applicable regulations may be unclear or where regulators revise their previous guidance or courts overturn previous rulings. AG Insurance also faces increasing compliance costs in view of the continuously changing regulatory landscape in which it operates, which could impact its results and financial condition.

Potential changes to International Financial Reporting Standards as adopted by the European Union may adversely affect the consolidated results of the Issuer and its financial condition

The consolidated accounts of AG Insurance are prepared in accordance with International Financial Reporting Standards (IFRS). In March 2004 the International Accounting Standards Board (IASB) introduced a framework for reporting insurance contracts (IFRS 4), described as Phase I, which, except for selected exceptions, basically allowed the continuation of existing practices for reporting insurance contracts and associated policyholder liabilities that existed before January 2005. In July 2010 the IASB published an Exposure Draft for its IFRS 4 Phase II on insurance contracts. Phase II is expected to introduce significant changes to the way entities that prepare accounts in accordance with IFRS would report insurance contracts. It is uncertain whether and how the proposals in the Exposure Draft will become definitive and when such changes might take effect. These changes are expected to affect significantly the way the consolidated financial position and results of AG Insurance's operations are reported upon and measured, the impact of which currently cannot be assessed.

Reputational risks

Litigation and investigations affecting the Issuer's indirect shareholders could have a negative effect on the Issuer

Through BNP Paribas Fortis SA/NV (which holds 25 per cent. plus one share of AG Insurance), AG Insurance's indirect minority shareholders are BNP Paribas S.A. and the (Belgian) Federal Participation and Investment Company (Société Fédérale de Participations et d'Investissement (SFPI)/Federale Participatie- en Investeringsmaatschappij (FPIM), which, acting in the framework of a *mission déléguée/gedelegeerde opdracht*, holds the shares in BNP Paribas Fortis SA/NV for the account of the Belgian State). BNP Paribas S.A., the Belgian State, the SFPI/FPIM and BNP Paribas Fortis are involved in litigation relating to the bailout and subsequent dismantling of the former Fortis group. The outcome of such litigation, as well as any other potential litigation involving BNP Paribas S.A., the Belgian State, the SFPI/FPIM or BNP Paribas Fortis, and the financial consequences thereof for these entities cannot currently be predicted. However, such litigation could have an indirect negative effect on AG Insurance, including harm to its reputation and resulting loss of business.

AG Insurance's indirect majority shareholder is ageas SA/NV, the listed parent company of the former Fortis group. Ageas SA/NV is involved in litigation and investigations relating to the bailout and the subsequent dismantling of the former Fortis group, as well as relating to certain events preceding the bailout. The outcome of such litigation and investigations cannot currently be predicted, but could entail substantial financial consequences for the Ageas group entities involved.

AG Insurance's risk of direct exposure to potential financial difficulties encountered by the Ageas group as a result of the litigation and investigations is mitigated to some extent by the Shareholders' Agreement that grants AG Insurance's minority shareholder BNP Paribas Fortis a veto right on dividends and other capital issues (See "Description of the Issuer — Shareholding structure"), thereby preventing (excessive) outflows of cash from AG Insurance to the Ageas group. Despite the absence of financial guarantees provided by AG Insurance for the benefit of Ageas group entities and its full operational independence from the Ageas group, financial difficulties encountered by the Ageas group, or a market perception of

such difficulties, may have a material adverse effect on AG Insurance's reputation, results of operations and financial condition.

Potential effects on AG Insurance of such financial difficulties include, but are not limited to, AG Insurance's clients and other third parties associating AG Insurance with the Ageas group and ceasing to transact, or reducing their transaction of, business with AG Insurance, leading to lapses or a decrease in new business generation. Furthermore, a sale by Ageas Insurance International N.V. of all or part of its shares in AG Insurance (subject to compliance with certain transfer restrictions (See "Description of the Issuer — Shareholding structure")) to generate cash to satisfy liabilities of the Ageas group as a result of such litigation, investigations or otherwise would lead to a change of control over AG Insurance, as a result of which AG Insurance could be faced with integration issues under a new shareholder, potential changes in its strategy, product offering or distribution network and possibly changed client behaviour. All of the foregoing could adversely affect AG Insurance's results of operations and financial condition.

Litigation or other proceedings or actions may adversely affect the Issuer's business and hence its financial condition and results of operations

AG Insurance's business is subject to the risk of litigation by customers, employees or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation or similar proceedings or actions is difficult to assess or quantify. Plaintiffs in these types of actions may seek recovery of large or indeterminate amounts or other remedies that may affect AG Insurance's ability to conduct business, and the magnitude of the potential loss relating to such actions may remain unknown for substantial periods of time. The cost to defend future actions may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of AG Insurance's services, regardless of whether the allegations are valid or whether AG Insurance ultimately is found liable. As a result, litigation may adversely affect AG Insurance's business, financial condition and results.

Systemic risks

The Issuer is considered to be a "systemically important financial institution" and could itself be exposed to systemic risk that could adversely impact its results and financial condition

Systemic risk is generally understood to be the risk of an economic disruption that stems from the financial sector and seriously impairs the economy. Concerns about, or a default by, one financial institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related. This interdependence means that the failure of a sufficiently large and influential financial institution could materially disrupt the financial market, which could cause severe market declines or volatility. Such a failure could also cause a chain of defaults of counterparties. This systemic risk could adversely impact future product sales of AG Insurance as a result of reduced confidence in the financial sector. This could also reduce its results because of market decline and write-downs of assets and claims on third parties.

The Belgian Law of 2 July 2010 amending the Law of 2 August 2002 relating to the supervision of the financial sector and financial services and the Law of 22 February 1998 determining the organic status of the National Bank of Belgium and containing various provisions created the so called "Twin Peaks" model of supervision, moving away from a centralised supervision model in favour of a bipolar model where supervision powers are shared between the National Bank of Belgium (NBB) and the Belgian Financial Services and Markets Authority (FSMA). The Law of 2 July 2010 was implemented by the Belgian Royal Decree of 3 March 2011 on the evolution of the supervision architecture for the financial sector. The prudential control on insurance companies and on "systemically important financial

institutions” (SIFIs) is now the responsibility of the NBB. AG Insurance is monitored by the NBB both in its capacity as a SIFI and as an insurance company. Under the Royal Decree of 3 April 2011 the notion of SIFI is no longer defined, but AG Insurance was designated as a SIFI by the predecessor entity to the NBB in relation to SIFIs. In addition, Ageas is also monitored by the NBB both in its capacity as a SIFI and as an insurance holding, as a result of which AG Insurance is indirectly subject to additional consolidated prudential control.

As a SIFI, AG Insurance falls under the specific supervision of the NBB for all its “strategic decisions”. The NBB has the right to oppose intended strategic decisions by AG Insurance if they are deemed to be in breach of the sound and prudent management of the SIFI or if they create a material risk for the stability of the financial sector. The NBB can also impose additional specific measures upon AG Insurance, including in relation to liquidity, solvency, risk concentration and risk positions, if the NBB determines that as a SIFI AG Insurance has an inadequate risk profile or if its policy can have a negative impact on the stability of the financial system.

As an insurance company, AG Insurance is also supervised by the NBB in relation to its capital, liquidity and solvency requirements, internal governance and organisation and fit and proper assessment of management and shareholders (See “Description of the Issuer — Insurance supervision and regulation”).

Finally, the Belgian Law of 2 June 2010 on the expansion of rescue measures for undertakings in the banking and financial sector, as amended by the above mentioned Belgian Royal Decree of 3 April 2011, introduced the possibility of an expropriation by Royal Decree (upon the initiative or advice of the NBB) if the NBB is of the opinion that an insurance company is in breach of the provisions of the Belgian Law of 9 July 1975 on the control of insurance companies and its implementing measures, that the insurance company’s policy or financial position do not provide sufficient guarantees for the due performance of its obligations or that the administrative or accounting organisation or internal control show significant shortcomings. Expropriation measures can only be taken if the insurance company is systemically important in accordance with the meaning of the Law of 2 June 2010, *i.e.* if the above mentioned shortcomings are likely to affect the stability of the Belgian or international financial system in view of the extent of the insurance company’s obligations or its role in the financial system. Expropriation can consist of a transfer, sale or contribution of the insurance company’s assets or liabilities or of the shares in such insurance company. The beneficiary of the expropriation can be the Belgian State or any Belgian or foreign public or private entity. These specific expropriation rules set aside more general Belgian law principles: the traditional bankruptcy rules allowing the avoidance of transactions entered into during the so called “suspect period” (*i.e.* claw back) do not apply, nor do limitations on the transferability of shares contained in legal or contractual provisions (such as approval rights or rights of first refusal).

The foregoing is in addition to the power the NBB has, vis-à-vis any insurance company, to suspend or prohibit the exercise of all or part of the activities or to wholly or partially suspend the performance of ongoing agreements.

This new regulatory regime, its implementation and further interpretation by the regulatory bodies and the courts may have a material and adverse impact on AG Insurance’s functioning and operations and hence could materially and adversely impact its results and financial position.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks. The Notes are complex financial instruments. Sophisticated institutional investors generally purchase complex financial instruments as part of a wider portfolio strategy rather than as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with a measured and appropriate addition of risk to their overall portfolios, and only after performing an intensive analysis of all involved risks. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact the investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of the Notes

The Issuer's obligations under the Notes are subordinated, and on a Winding-up of the Issuer investors may lose some or all of their investment in the Notes

The Issuer's obligations under the Notes will be direct, unsecured and subordinated and will rank *pari passu* and without preference among themselves. In the event of a Winding-up (as defined in "Terms and Conditions of the Notes" (the "Conditions")) of the Issuer under Belgian law, the claims of the Holders in respect of the Notes will rank (i) behind claims in respect of (a) unsubordinated indebtedness and payment obligations of the Issuer (including, without limitation, the claims of policyholders of the Issuer) and (b) any dated subordinated indebtedness and payment obligations of the Issuer, and (ii) at least equally and rateably with claims in respect of any other existing or future direct, unsecured and undated subordinated indebtedness and payment obligations of the Issuer (other than obligations in respect of Junior Securities (as defined in the Conditions)).

By virtue of such subordination, in a Winding-up of the Issuer, the assets of the Issuer would be applied first in satisfying all senior-ranking claims in full, and payments would be made to Holders of the Notes, *pro rata* and proportionately with payments made to holders of any other *pari passu* instruments (if any), only if and to the extent that there are any assets remaining after satisfaction in full of all such senior-ranking claims. A Holder may therefore recover a lesser proportion of its claim than the holders of unsubordinated or dated subordinated liabilities of the Issuer, and may not recover any part of its investment in the Notes.

Furthermore, the Conditions will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the Notes which may be incurred or assumed by the Issuer from time to time, whether before or after the Closing Date. The incurrence of any such liabilities may reduce the amount (if any) recoverable

by Holders on a Winding-up of the Issuer. Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes and each Holder shall, by virtue of its holding, be deemed to have waived all such rights of set-off, compensation or retention.

In addition, notwithstanding the stated ranking, the Belgian Bankruptcy Law of 8 August 1997 does not prevent distributions being made while a Winding-up decision is not final and pending an appeal. Therefore it is possible that distributions may be made to more deeply subordinated creditors before distributions are made to the Holders of the Notes. Condition 2 of the Conditions on the status of the Notes should be read taking into account this risk. However, given the current practice of bankruptcy trustees and their potential liability this risk seems to be very remote.

Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in the Notes will lose some or all of its investment should the Issuer become insolvent.

Furthermore, if the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound up, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such event, investors may lose some or substantially all of their investment in the Notes, whether or not the Issuer is wound up.

Payments of interest and principal relating to the Notes are subject to a Solvency Condition except in a Winding-up of the Issuer

Except where the Issuer is in Winding-up, all payments in respect of the Notes (including any damages awarded for breach of any obligations under the Notes) are conditional upon the Issuer being solvent (as defined in the Conditions) at the time for payment by the Issuer and no amount shall be payable in respect of the Notes unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter. See Condition 2 of the Conditions. If the Issuer is unable to make payments on the Notes due to the operation of the Solvency Condition (as defined in the Conditions) and such circumstances continue to exist, the Issuer may be required to defer payments of interest and/or principal on the Notes for an extended or indefinite period of time whilst continuing to make payments on certain of its other obligations, and there is a risk that the amounts so deferred may only become payable in a Winding-up of the Issuer (in which case the risks described under "The Issuer's obligations under the Notes are subordinated, and on a Winding-up of the Issuer investors may lose some or all of their investment in the Notes" above shall apply).

If the Issuer is unable, or the market anticipates that the Issuer may be unable, to pay any interest or principal as a result of the operation of the Solvency Condition, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such event, investors may lose some or substantially all of their investment in the Notes.

The Notes are perpetual, the Issuer has no obligation to redeem the Notes at any time and the Holders of the Notes have no right to require the Issuer to redeem the Notes at any time. There is also the potential for the indefinite postponement of redemption

The Notes are undated securities and have no fixed maturity or other redemption date and although the Issuer may redeem or repurchase the Notes in certain circumstances, the Issuer is under no obligation to

do so. The Holders have no right to call for the redemption of the Notes or to petition for the Winding-up of the Issuer. Therefore, prospective investors should be aware that they may be required to bear the financial risks associated with an investment in perpetual securities, and may not recover their investment, for an indefinite period of time.

Furthermore, save where the Notes become due and payable in a Winding-up, if (a) on or prior to the date scheduled for redemption (by virtue of the Issuer exercising its right to redeem the Notes) a Regulatory Deficiency Event has occurred and is continuing (or would occur as a result of the redemption of the Notes) or (b) as at such date the Solvency Condition is not met (or would not be met as a result of the redemption of the Notes), the Notes will only become due for redemption (i) on a Winding-up of the Issuer, (ii) with the consent of the Relevant Supervisory Authority and then only if the Solvency Condition is met and such redemption would not cause the Solvency Condition not to be met or (iii) at a time when no Regulatory Deficiency Event is occurring, the Solvency Condition is met and such redemption would not cause a Regulatory Deficiency Event to occur or the Solvency Condition not to be met. Therefore, the Holders may receive their investment back at a later point in time than initially expected or not at all.

If the Notes are not redeemed for the reasons set out above, interest or Arrears of Interest will accrue on the Notes in the circumstances set out in the Conditions but Holders will not receive any additional compensation for the postponement of the redemption over and above such accrual or payment of interest or Arrears if Interest (if any).

If the Issuer is unable, or the market anticipates that the Issuer may become unable, to redeem the Notes on a scheduled redemption date, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such event, investors may lose some or substantially all of their investment in the Notes.

The Notes provide Holders with limited rights and remedies

The only enforcement events in the Conditions relate to non-payment of an amount which is due. Any amounts of principal, interest and/or other amounts in respect of the Notes which are deferred on a scheduled payment date in accordance with the Conditions which permit or require deferral shall not fall due on such scheduled payment date, and accordingly non-payment on such date of the amounts so deferred shall not entitle the Holders or the Trustee to take enforcement action against the Issuer.

Non-payment of an amount which is due shall be deemed to be a default under the Notes and the Trustee may sue for payment when due and prove or claim in the Winding-up of the Issuer for such payments. The Conditions do not provide for cross default allowing acceleration of the Notes.

In addition, upon such a default, the sole remedies available to the Trustee are to sue for payment of principal or interest when the same are due and to prove or claim in the Winding-up of the Issuer. **Investors in the Notes should note that the Trustee and the Holders have no right to petition for the Winding-up of the Issuer.**

In a Winding-up, the risks described under “The Issuer’s obligations under the Notes are subordinated, and on a Winding-up of the Issuer investors may lose some or all of their investment in the Notes” above shall apply, and the Trustee and Holders will have only limited ability to influence the conduct of such Winding-up.

The Holders have no rights to proceed directly against the Issuer or prove or claim in a Winding-up of the Issuer, save in the very limited circumstances set out in the Conditions.

Set-off risk

Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes and each Holder shall, by virtue of being a Holder, be deemed to have waived all such rights of set-off.

The Notes will be subject to optional redemption by the Issuer including upon the occurrence of certain events, and an investor may not be able to reinvest the redemption proceeds at an effective rate of return as that in respect of the Notes

Unless previously redeemed in full, the Notes will be redeemable, at the option of the Issuer, in whole but not in part on the First Call Date or on any Interest Payment Date thereafter at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date, subject to and in accordance with Condition 6 of the Conditions.

In addition, the Issuer may elect to redeem, in whole but not in part, the Notes upon the occurrence of a Deductibility Event, Gross-up Event or Regulatory Event (as such Regulatory Event is further described in the following paragraph) at their principal amount, in each case together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date.

The final content of the implementing measures of Solvency II may result in the Notes not qualifying as at least Tier Two own funds regulatory capital. In such case, the Issuer shall have the option to redeem the Notes due to the occurrence of a Regulatory Event (See “— Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Notes — There are continuing uncertainties regarding the final implementing measures that will be adopted under the Solvency II regime and that could have potentially adverse impacts on the insurance sector as a whole and on the Issuer in particular”).

During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The cash paid to investors upon such a redemption may be less than the then current market value of the Notes or the price at which investors purchased the Notes. Subject to the contractual and regulatory restrictions on doing so set out in the Conditions, the Issuer might be expected to redeem the Notes when its cost of borrowing is lower than the interest payable on them. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest payable on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in the light of other investments available at that time.

The Issuer may (except in certain limited circumstances) elect to, and in certain circumstances must, defer interest payments on the Notes

The Issuer may, at its sole discretion and for any reason, elect to defer all or part of any payment of interest on the Notes, subject to limited exceptions. See Condition 5 of the Conditions. Further, if a Regulatory Deficiency Event has occurred and is continuing on any Interest Payment Date, or if the relevant interest payment cannot be made in compliance with the Solvency Condition, the Issuer must defer all (or part of the) interest which would otherwise be due and payable on such Interest Payment Date.

Any deferral of interest in accordance with the Conditions will not constitute a default for any purpose. Any actual or anticipated deferral of interest will be likely to have an adverse effect on the market price

of the Notes. In addition, as a result of the interest deferral provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such deferral and may be more sensitive generally to adverse changes in the financial condition of the Issuer. Investors should be aware that any announcement relating to the future deferral of interest payments or any actual deferral of interest payments may have an adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such event, investors may lose some or substantially all of their investment in the Notes.

The Notes do not contain a “dividend stopper” provision. Therefore, while the deferral of interest payments continues, the Issuer is not prohibited by the Conditions from making payments on other securities ranking senior, equally with or more junior to the Notes.

Condition 5(d) provides that, in the case of deferral of any Interest Payment, such deferred payment shall bear interest from the date of deferral. As a matter of English law, which governs the Conditions insofar as is relevant to this matter, interest will be compounded from the date of deferral and will become due in accordance with the Conditions without the need for any action by or on behalf of the Trustee or the Holders.

By contrast, Article 1154 of the Belgian Civil Code provides that interest can only be compounded if it has remained outstanding for at least one year and on demand. If such Article were considered to be a matter of Belgian international public policy, it is possible that it would be recognised by the English courts as overriding the contractual provisions of the Conditions regarding compounding of interest on Deferred Interest Payments or that any judgment in relation to such compounding of interest would not be recognised and enforced in Belgium. In such case, Deferred Interest Payments would only bear interest if they have remained outstanding for at least one year (and such compounding interest would only start to accrue from the first anniversary of deferral). Furthermore, such interest would only compound and become due if a demand were to be made of the Issuer by or on behalf of the Holders.

Variation of the terms of the Notes upon the occurrence of a Regulatory Event

If a Regulatory Event has occurred and is continuing, then the Issuer may, subject to Condition 7 of the Conditions (without any requirement for the consent or approval of the Holders) at any time vary the terms of the Notes so that the Regulatory Event no longer exists after such modification. Whilst the modified Notes must have terms not materially less favourable to Holders than the terms of the Notes, there can be no assurance that, due to the particular circumstances of each Holder, such modified Notes will be as favourable to each Holder in all respects.

Fixed rate notes are exposed to specific market risks

The Notes bear a fixed interest rate reset every six years. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the “Market Interest Rate”). While the nominal rate of a security with a fixed interest rate is fixed until the redemption of the security, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security is likely to change in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Notes and can lead to losses for the Holders if they sell the Notes. In addition, the reset of the fixed interest rate in accordance with

Condition 4 may also affect the secondary market and the market value of the Notes and following any such reset of the fixed interest rate, the new fixed interest rate on the Notes may be lower than the previous fixed interest rate on the Notes, thereby reducing the amount of interest payable to Holders.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Majority decisions bind all Holders

The Conditions contain provisions for calling meetings of Holders to consider certain matters affecting their interests generally. These provisions will permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meetings and Holders who voted in a manner contrary to the majority.

Change to the law

The Conditions of the Notes are governed by and to be construed in accordance with English law and, in respect of Condition 2, Conditions 14(a) and (c) of the Conditions and any matter relating to the dematerialised form of the Notes, governed by and to be construed in accordance with Belgian law, in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or, as the case may be, the laws of the Kingdom of Belgium, the official application, interpretation or the administrative practice after the date of this Prospectus.

EU Savings Directive

Under the EC Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), member states of the European Economic Union (the “EU Member States” and each a “EU Member State”) are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Paying Agent established in a state which at that time applies the withholding tax system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor the relevant Paying Agent nor any other person would be obliged to pay additional amounts to the Holders or to otherwise compensate Holders for the reductions in the amounts that they will receive as a result of the imposition of such withholding tax.

Belgian withholding tax

If the Issuer, the NBB, the Paying Agents or any other person is required to make any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatever nature in respect of any payment in respect of the Notes, the Issuer, the NBB, the relevant Paying Agent or that other person shall make such payment after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. The Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Holder

in respect of the Notes, after withholding for any taxes imposed by tax authorities in the Kingdom of Belgium upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such withholding taxes, except that no such additional amounts shall be payable in respect of any Note in the limited circumstances set out in Condition 11 of the Conditions.

U.S. Foreign Account Tax Compliance Withholding

Pursuant to the foreign account tax compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (“FATCA”), the Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Notes issued or materially modified on or after the later of (a) 1 January 2014 and (b) the date that is six months after the date on which the final regulations applicable to “foreign passthru payments” are filed in the Federal Register and (ii) any Notes which are treated as equity for U.S. federal tax purposes, whenever issued.

Under existing guidance, this withholding tax may be triggered on payments on the Notes if (i) the Issuer is a foreign financial institution (“FFI”) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (“IRS”) to provide certain information on its account holders (making the Issuer a “Participating FFI”), (ii) the Issuer is required to withhold on “foreign passthru payments”, and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI to or through which payment on such Notes is made is not a Participating FFI or otherwise exempt from FATCA withholding. The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear.

In particular, Belgium has announced that it intends to enter into an intergovernmental agreement with the United States to help implement FATCA for certain Belgian entities. The full impact of such an agreement on the Issuer and the Issuer’s reporting and withholding responsibilities under FATCA is unclear. The Issuer may be required to report certain information on its U.S. account holders to the government of Belgium in order (i) to obtain an exemption from FATCA withholding on payments it receives and/or (ii) to comply with any applicable Belgian law. It is not yet certain how the United States and Belgium will address withholding on “foreign passthru payments” (which may include payments on the Notes) or if such withholding will be required at all.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Issuer, any Paying Agent or any other person would, pursuant to the Conditions, be required to pay Additional Amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE HOLDERS IS UNCERTAIN AT THIS TIME. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Taxation

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. Potential investors are advised not to rely upon the tax summary contained in this Prospectus but to ask for their own tax adviser’s advice on their individual

taxation with respect to the acquisition, sale and redemption of the Notes. Only these advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration has to be read in connection with the taxation sections of this Prospectus.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk and credit risk:

No prior market for the Notes

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing and trading on its regulated market and to the NBB for the Notes to be issued into the X/N Clearing System. However, there can be no assurance that a liquid secondary market for the Notes will develop or, if it develops, that it will continue. In an illiquid market, an investor might not be able to sell its Notes easily or at prices that will provide it with a yield comparable to similar investments that have a developed secondary market. The possibility to sell the Notes might additionally be restricted by country specific reasons. Illiquidity may have a severely adverse effect on the market value of the Notes.

Credit ratings may not reflect all risks

Credit ratings may not reflect all risks and the methodologies of determining credit ratings may be changed from time to time leading to potential downgrades. S&P and Fitch have each assigned a credit rating to the Notes. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There is no assurance that the rating will remain for any given period of time or that the rating will not be lowered or withdrawn if, in the judgement of the relevant credit rating agency, circumstances in the future so warrant. Such change may, among other factors, be due to a change in the methodology applied by the relevant rating agency to rating securities with similar structures to the Notes, as well as, or as opposed to, any revaluation of the Issuer's financial strength or other factors such as conditions affecting the financial services industry generally.

In the event a rating assigned to the Notes or the Issuer is subsequently lowered for any reason, the market value of the Notes is likely to be adversely affected, but no person or entity will be obliged to provide any additional support or credit enhancement with respect to the Notes. See also "The Notes will be subject to optional redemption by the Issuer including upon the occurrence of certain events, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Notes" above.

Credit ratings do not imply that interest will be paid

A credit rating is not a statement as to the likelihood of non-deferral of interest on the Notes. Holders have a greater risk of deferral of interest payments than persons holding other securities with similar credit ratings but no, or more limited, interest deferral provisions.

Relationship with the Issuer

All notices and payments to be delivered to the Holders will be distributed by the Issuer to such Holders in accordance with the Conditions. In the event that a Holder does not receive such notices or payments, its rights may be prejudiced but it may not have a direct claim against the Issuer therefor.

Reliance on the procedures of the X/N Clearing System and its participants

The Notes will be issued in dematerialised form under the Belgian Code of Companies and cannot be physically delivered. The Notes will be represented exclusively by book entries in the records of the X/N Clearing System.

Access to the X/N Clearing System is available through its participants whose membership extends to securities such as the Notes. X/N Clearing System participants include certain banks, stockbrokers (*sociétés de bourse/beursvennootschappen*), and Euroclear and Clearstream, Luxembourg. Transfers of interests in the Notes will be effected between the X/N Clearing System participants in accordance with the rules and operating procedures of the X/N Clearing System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the X/N Clearing System participants through which they hold their Notes.

The Issuer, the Trustee and the Paying Agents will have no responsibility for the proper performance by the X/N Clearing System or its participants of their obligations under their respective rules and operating procedures.

A Holder must rely on the procedures of the X/N Clearing System, Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer will have no responsibility or liability for the records relating to the Notes within the X/N Clearing System.

Further, for so long as the Notes are held in the X/N Clearing System, payments in respect of the Notes shall be made to each Holder who is a direct participant in the X/N Clearing System subject to receipt of confirmation of the details of such direct participant's U.S. dollar account. Payments will be made by credit or transfer to an account in U.S. dollars maintained by the payee with a bank in New York City. Each direct participant in the X/N Clearing System shall have to submit such account details by no later than the date falling two Business Days prior to the due date for payment. Records of such payments shall be maintained by the Domiciliary Agent. Any payment so made will be a good discharge for the Issuer. Each of the persons shown in records of a direct participant, sub-participant or the operator of the X/N Clearing System as the beneficial holder of a particular nominal amount of Notes must look solely to the relevant direct participant or sub-participant, as the case may be, for its share of each payment so made by the Issuer on the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as

collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. The investors should consult their legal advisers to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Potential conflicts of interest

The Issuer may from time to time be engaged in transactions involving an index or related derivatives which may affect the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the Holders.

The Paying Agents and the Joint Bookrunners might have conflicts of interests which could have an adverse effect to the interests of the Holders. Potential investors should be aware that the Issuer is involved in a general business relation or/and in specific transactions with the Paying Agents and/or each of the Joint Bookrunners and that they might have conflicts of interests which could have an adverse effect to the interests of the Holders. Potential investors should also be aware that the Paying Agents and each of the Joint Bookrunners may hold from time to time debt securities, shares or/and other financial instruments of the Issuer or its parent companies or subsidiaries.

The Principal Paying Agent and the Agent Bank do not assume any fiduciary duties or other obligations to Holders and, in particular, are not obliged to make determinations which protect or further their interests

BNP Paribas Securities Services, Belgium Branch will act as the Issuer's Principal Paying Agent, Domiciliary Agent and Agent Bank (the "Agent"). In its respective capacities as Agent, it will act in accordance with the Conditions in good faith and endeavour at all times to make determinations in a commercially reasonable manner. However, Holders should be aware that the Agent does not assume any fiduciary or other obligations to the Holders and, in particular, is not obliged to make determinations which protect or further the interests of the Holders.

The Agent may rely on any information to which it should properly have regard that is reasonably believed by it to be genuine and to have been originated by the proper parties. The Agent shall not be liable for the consequences to any person (including Holders) of any errors or omissions in (i) any determination made by the Agent in relation to the Notes or interests in the Notes, in each case in the absence of fraud or wilful default. Without prejudice to the generality of the foregoing, the Agent shall not be liable for the consequences to any person (including Holders) of any such errors or omissions arising as a result of (i) any information provided to the Agent proving to have been incorrect or incomplete or (ii) any relevant information not being provided to the Agent on a timely basis.

Notes may be held only by Eligible Investors

Notes may be held only by, and transferred only to, Eligible Investors referred to in Article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax holding their Notes in an exempt account that has been opened with a financial institution that is a direct or indirect participant in the X/N Clearing System operated by the NBB.

HISTORICAL FINANCIAL INFORMATION

This Prospectus should be read and construed in conjunction with the audited consolidated financial statements of the Issuer prepared in accordance with IFRS for the financial years ended 31 December 2011 and 31 December 2012 and the audit reports thereon as set out on pages F-1 and following. Such documents shall be incorporated in, and form part of, this Prospectus.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Notes.

The issue of the U.S.\$550,000,000 6.75 per cent. Fixed Rate Reset Perpetual Subordinated Notes (the “**Notes**”, which expression shall, unless otherwise indicated, include any Further Notes) was (save in respect of any Further Notes) authorised by a resolution of the board of directors of AG Insurance SA/NV (the “**Issuer**”) passed on 27 February 2013. The Notes are constituted by a trust deed (the “**Trust Deed**”) dated 21 March 2013 between the Issuer and BNY Mellon Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Holders of the Notes (as defined below).

The statements in these terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed and (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 21 March 2013 relating to the Notes between the Issuer, BNP Paribas Securities Services, Belgium Branch as the initial principal paying agent, domiciliary agent and agent bank (the “**Principal Paying Agent**”, the “**Domiciliary Agent**” and the “**Agent Bank**”, which expressions shall include any successors thereto), the other paying agents appointed from time to time (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the Paying Agents for the time being) and the Trustee, are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, Canary Wharf, London, United Kingdom E14 5AL) and at the specified offices of each of the Paying Agents. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Trust Deed and the Paying Agency Agreement. In particular, under the Trust Deed the Trustee is entitled to rely on information provided to it by the NBB System (as defined below) and its participants as to the identity of the Holders and the holding of Notes and to rely on information contained in Block Voting Instructions and Voting Certificates (each as defined below) issued by the NBB System or its participants for meetings of Holders, and any such information relied on by the Trustee shall be conclusive and binding on the Trustee and Holders.

1 Form, Denomination and Title

The Notes are in dematerialised form in accordance with Article 468 *et seq.* of the Belgian Code of Companies (as defined below). The Notes will be represented by book entry in the records of the clearing system operated by the National Bank of Belgium (the “**NBB**”) or any successor thereto (the “**NBB System**”). The Notes can be held through participants in the NBB System, including Euroclear and Clearstream, Luxembourg and through other financial intermediaries which in turn hold the Notes through Euroclear and Clearstream, Luxembourg, or other participants in the NBB System. The Notes are accepted for clearance through the NBB System, and are accordingly subject to the applicable Belgian clearing regulations, including the Belgian Law of 6 August 1993 on transactions in certain securities, its implementing Belgian Royal Decrees of 26 May 1994 and 14 June 1994 and the rules of the NBB System and its annexes, as issued or modified by the NBB from time to time (the laws, decrees and rules mentioned in this Condition 1 being referred to herein as the “**NBB System Regulations**”). Title to the Notes will pass by account transfer in accordance with the NBB System Regulations. The Notes shall neither be physically delivered nor converted into bearer securities (*titres au porteur/effecten aan toonder*). The Holders will not be entitled to exchange the Notes for securities in bearer form.

Notes may be held only by, and transferred only to, eligible investors referred to in Article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax, holding their securities in an exempt securities account that has been opened with a financial institution that is a direct or indirect participant in the NBB System operated by the NBB.

For so long as the Notes are held by or on behalf of the NBB System, each person (each an “**Accountholder**”) being shown in the records of a participant or sub-participant in the NBB System as the holder of a particular principal amount of the Notes (in which regard any certificates or other documents issued by the NBB System or a participant or sub-participant therein as to the principal amount of such Notes standing to the account of any Accountholder (together with any notification from the NBB System or the operator thereof as to the identity of a relevant participant with whom the Accountholder holds its Notes) shall be conclusive and binding for all purposes) shall be treated by the Issuer, the Trustee and the Paying Agents as the holder of that principal amount for the purpose of any quorum, voting, the right to demand a poll or for any other associative rights (as defined in Article 474 of the Belgian Code of Companies). With respect to the payment of principal or interest on the Notes, such payment will be made to participants in the NBB System and with respect to the delivery of any notice to be given to or by a Holder in respect of the Notes pursuant to these Conditions, such notice must be given in accordance with the standard procedures of the NBB System and, in the case of notice by a Holder, may only be given by a participant in the NBB System (whether acting on its own behalf or on behalf of other subscribers holding through such participant) in respect of the relevant Notes held by or through it, and the expressions “**Holder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

The Notes are in the principal amount of U.S.\$200,000 each and may only be settled through the NBB System in principal amounts equal to that denomination or an integral multiple thereof.

2 Winding-up

(a) General

The Notes constitute direct, unsecured and subordinated obligations of the Issuer which will at all times rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under or arising from the Notes and the Trust Deed in respect of principal, interest and other amounts (including, without limitation, Arrears of Interest) in respect of the Notes, constitute direct, unsecured and subordinated obligations of the Issuer subordinated in the manner set out below and claims in respect thereof shall at all times rank in the event of a Winding-up:

- (i) behind claims in respect of (a) any unsubordinated indebtedness and payment obligations of the Issuer (including, without limitation, the claims of policyholders of the Issuer) and (b) any dated subordinated indebtedness and payment obligations of the Issuer;
- (ii) *pari passu* and without any preference among themselves and with claims in respect of the Perpetual Subordinated Loans;
- (iii) at least equally and rateably with claims in respect of any other existing or future direct, unsecured and undated subordinated indebtedness and payment obligations of the Issuer (other than obligations in respect of Junior Securities); and
- (iv) in priority to the claims of Junior Creditors.

(b) Condition to Payment

Except in a Winding-up of the Issuer, all payments in respect of the Notes (including any damages awarded for breach of any obligations thereunder) are, in addition to the right of the Issuer to defer payment of interest in accordance with Condition 5(a) and the obligation of the Issuer to do so pursuant to Condition 5(b), conditional upon the Issuer being solvent at the time for payment by the Issuer and no amount shall be payable in respect of the Notes unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

In these Conditions the Issuer will be considered to be solvent if (i) it is able to pay its debts owed to its creditors (other than Junior Creditors) as they fall due, (ii) its credit has not been imperilled within the meaning of Article 2 of the Belgian Law of 8 August 1997 on bankruptcy and (iii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors).

The Trustee may at any time request the delivery of a certificate as to the satisfaction or non-satisfaction of the Solvency Condition signed by two directors of the Issuer, and such certificate shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Holders and all other interested parties as correct and sufficient evidence thereof and the Trustee shall be entitled to rely conclusively on such certificate without liability to any person.

(c) Amount due on a Winding-up

In a Winding-up of the Issuer the amount payable in respect of the Notes shall be an amount equal to the principal amount of such Notes, together with Arrears of Interest (if any) and any other unpaid interest which has accrued up to, but excluding, the date of payment of such amounts and the claims for such amounts will be subordinated in the manner described in Condition 2(a) above.

(d) Set-off

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes or the Trust Deed and each Holder shall, by virtue of its holding of any Note, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes or the Trust Deed is discharged by set-off, such Holder shall, unless such payment is prohibited by applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-up the liquidator or, as appropriate, such relevant insolvency practitioner as is appointed to the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or relevant insolvency practitioner appointed to the Issuer (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

3 Definitions

In these Conditions:

“**Accountholder**” has the meaning provided in Condition 1.

“**Additional Amounts**” has the meaning provided in Condition 11.

“**Agent Bank**” means BNP Paribas Securities Services, Belgium Branch acting as agent bank in accordance with the Paying Agency Agreement and these Conditions or its successors for the time being appointed under the Paying Agency Agreement.

“**Applicable Regulations**” means, from (and including) the Closing Date to (but excluding) the date of implementation of the Future Applicable Capital Instruments Regulations, the solvency margin, capital adequacy regulations or any other regulatory capital rules then in effect and which are applicable to the Issuer and/or the Group as applied and construed by the Relevant Supervisory Authority and, from (and including) the date of implementation of the Future Applicable Capital Instruments Regulations, such Future Applicable Capital Instruments Regulations then in effect and which are applicable to the Issuer and/or the Group as applied and construed by the Relevant Supervisory Authority.

“**Arrears of Interest**” has the meaning provided in Condition 5(d).

“**Assets**” means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events, all in such manner as the board of directors of the Issuer may determine.

“**Belgian Code of Companies**” means the Belgian *Code des Sociétés/Wetboek van Vennootschappen*.

“**Block Voting Instruction**” has the meaning ascribed to it in Schedule 2 of the Trust Deed.

“**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business in Brussels and New York City.

“**Calculation Amount**” has the meaning provided in Condition 4(b).

“**Clearstream, Luxembourg**” means Clearstream Banking, *société anonyme*.

“**Closing Date**” means 21 March 2013.

“**Compulsory Interest Payment Date**” has the meaning provided in Condition 5(e).

“**Compulsory Interest Payment Event**” has the meaning provided in Condition 5(e).

“**Compulsory Partial Settlement Date**” has the meaning provided in Condition 5(f).

“**Conditions**” means these terms and conditions.

“**Deductibility Event**” means that at any time, by reason of a Tax Law Change, in making any payment of interest on the Notes, the Issuer will not be entitled to claim a deduction in respect of computing its taxation liabilities in the Kingdom of Belgium, or such entitlement is reduced or otherwise adversely affected in any material respect (so long as this cannot be avoided by the Issuer taking reasonable measures available to it at the time).

“**Deferred Interest Payment**” has the meaning provided in Condition 5(d).

“**Domiciliary Agent**” means BNP Paribas Securities Services, Belgium Branch acting as domiciliary agent pursuant to the Paying Agency Agreement and any successor thereto.

“**Euroclear**” means Euroclear Bank SA/NV.

“**Extraordinary Resolution**” has the meaning provided in the Trust Deed.

“**First Call Date**” means 21 March 2019.

“**Further Notes**” means any further Notes issued pursuant to Condition 16 and consolidated and forming a single series with the then outstanding Notes.

“Future Applicable Capital Instruments Regulations” means the solvency margin or capital adequacy regulations or any other regulatory capital rules which may in the future be introduced by the Relevant Supervisory Authority and which are applicable to the Issuer and/or the Group as applied and construed by the Relevant Supervisory Authority, which would lay down the requirements to be fulfilled by financial instruments for inclusion in ‘own funds regulatory capital’ (or whatever terminology is employed by such rules or regulations) provided that:

- (i) if, immediately following the implementation of the Solvency II Directive, the Notes are treated (in whole or in part) as tier two own funds, **“Future Applicable Capital Instruments Regulations”** shall mean such of the above-mentioned rules and/or regulations as are applicable to tier two own funds regulatory capital; and
- (ii) if, immediately following the implementation of the Solvency II Directive, the Notes are treated (in whole or in part) as tier one own funds, **“Future Applicable Capital Instruments Regulations”** shall mean such of the above-mentioned rules and/or regulations as are applicable to tier one own funds regulatory capital.

“Gross-up Event” means that at any time, by reason of a Tax Law Change, the Issuer has paid or would, on the occasion of the next payment of principal or interest due in respect of the Notes, not be able to make such payment without having to pay Additional Amounts (so long as this cannot be avoided by the Issuer taking reasonable measures available to it at the time).

“Group” means the Issuer and each of its Subsidiaries from time to time.

“Holder” means, in respect of any Note, the person entitled thereto in accordance with the NBB System Regulations, subject as provided in Condition 1.

“Interest Amount” has the meaning set out in Condition 4(a).

“Interest Determination Date” means, in respect of the first Relevant Six-Year Period, the second Business Day prior to the First Call Date and, in respect of each Relevant Six-Year Period thereafter, the second Business Day prior to the first day of each such Relevant Six-Year Period.

“Interest Payment” means in respect of an interest payment on an Interest Payment Date, the amount of interest payable for the relevant Interest Period in accordance with Condition 4.

“Interest Payment Date” means 21 March and 21 September in each year, commencing on 21 September 2013.

“Interest Period” means the period from (and including) the Closing Date to (but excluding) the first Interest Payment Date and thereafter each successive period from (and including) an Interest Payment Date to (but excluding) the next following Interest Payment Date.

“Interest Rate” means the applicable rate of interest, as set out in Condition 4(a).

“Issuer” means AG Insurance SA/NV.

“Junior Creditors” means all holders of securities and other creditors (if any) of the Issuer whose claims rank, or are expressed to rank junior to, the claims of the Holders (including, without limitation, holders of Junior Securities).

“Junior Securities” means (a) any class of share capital of the Issuer, (b) any payment obligations of the Issuer which rank, or are expressed to rank, junior to the Notes and/or *pari passu* with any class of share capital of the Issuer and (c) any guarantee or support agreement entered into by the Issuer in respect of

any obligations of any person or entity, which guarantee or support agreement ranks, or is expressed to rank, junior to the Notes and/or *pari passu* with any class of share capital of the Issuer.

“Liabilities” means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the board of directors of the Issuer may determine.

“Mandatory Interest Deferral Date” has the meaning provided in Condition 5(b).

“Mandatory Interest Deferral Event” has the meaning provided in Condition 5(b).

“Margin” means 5.433 per cent.

“NBB” means the National Bank of Belgium (*Banque Nationale de Belgique/Nationale Bank van België*) or any successor thereto.

“NBB System” has the meaning provided in Condition 1.

“NBB System Regulations” has the meaning provided in Condition 1.

“Notes” means the U.S.\$550,000,000 6.75 per cent. Fixed Rate Reset Perpetual Subordinated Notes.

“Optional Interest Payment Date” means any Interest Payment Date that is neither a Compulsory Interest Payment Date nor a Mandatory Interest Deferral Date.

“Paying Agency Agreement” means the paying agency agreement dated 21 March 2013 relating to the Notes and entered into between the Issuer, the Paying Agents, the Agent Bank and the Trustee.

“Paying Agents” means the Principal Paying Agent and the other paying agents in relation to the Notes for the time being.

“Perpetual Subordinated Loans” means any perpetual subordinated loans under which the Issuer is borrower and which were in issue as at the Closing Date.

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

“Principal Paying Agent” means BNP Paribas Securities Services, Belgium Branch acting as principal paying agent pursuant to the Paying Agency Agreement and any successor thereto.

“Proceedings” has the meaning set out in Condition 18(b).

“Rating Agency” means Standard & Poor’s Credit Market Services France SAS and its successors and assigns.

“Regulatory Deficiency Event” means:

- (i) before the implementation of the Solvency II Directive, the consolidated solvency margin of the Issuer falls below 100 per cent. of the required consolidated solvency margin or any applicable solvency margin or capital adequacy levels as applicable under Applicable Regulations; or
- (ii) following the implementation of the Solvency II Directive, the ‘own funds’ regulatory capital (or whatever the terminology is employed by the Applicable Regulations from time to time) of the Issuer is not sufficient to cover its ‘capital requirement’ (or whatever terminology is employed by the Applicable Regulations from time to time) and a deferral of interest is required or a redemption or repayment of principal is prohibited under the then Applicable Regulations; or

- (iii) the Relevant Supervisory Authority has notified the Issuer that it has determined, in view of the financial and/or solvency condition of the Issuer and/or the Group, that in accordance with Applicable Regulations at such time the Issuer must take specified action in relation to payments of principal and/or interest under the Notes.

“Regulatory Event” means that, at any time while any of the Notes are outstanding, the Issuer (a) remains subject to consolidated regulatory supervision by the Relevant Supervisory Authority and (b) has received notice in writing from such Regulatory Supervisory Authority that under the Applicable Regulations (including, without limitation, the Future Applicable Capital Instruments Regulations) or an official application or interpretation of those rules and regulations including, without limitation, a decision of any court or tribunal, such Notes no longer fulfil the requirements of the Applicable Regulations such that they are to be fully excluded from being counted as:

- (i) (prior to the implementation of the Future Applicable Capital Instruments Regulations) perpetual securities constituting part of the available solvency margin of the Issuer and/or the Group; or
- (ii) (following implementation of the Future Applicable Capital Instruments Regulations) at least tier two own funds regulatory capital (or whatever terminology is employed by the Future Applicable Capital Instruments Regulations) of the Issuer and/or the Group,

in either case, for the purposes of the determination of its regulatory capital, except, in any case, where such lack of treatment results from the application of any regulatory limits on the inclusion of such securities in (prior to the implementation of the Future Applicable Capital Instruments Regulations) the available solvency margin or (following the implementation of the Future Applicable Capital Instruments Regulations) tier one or (as the case may be) tier two own funds regulatory capital, as applicable.

“Relevant Date” means (i) in respect of any payment other than a sum to be paid by the Issuer upon a Winding-up, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders, in accordance with Condition 15, and to the Trustee and (ii) in respect of a sum to be paid by the Issuer on a Winding-up, the date which is one day prior to the date of such Winding-up.

“Relevant Six-Year Period” has the meaning given to it in Condition 4(a).

“Relevant Supervisory Authority” means the National Bank of Belgium (*Banque Nationale de Belgique/Nationale Bank van België*) or such other authority having primary supervisory authority regarding capital or solvency with respect to the Issuer and/or Group.

“Six Year U.S. dollar Mid Swap Rate” means, in respect of a Relevant Six-Year Period, the semi-annual mid market swap rate for U.S. dollar swap transactions with a maturity of six years displayed on Reuters page “ISDAFIX3” (or such other page as may replace that page on Reuters, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Interest Determination Date in respect of such Relevant Six-Year Period. If such swap rate does not appear on that page, the Six Year U.S. dollar Mid Swap Rate shall instead be determined by the Agent Bank on the basis of (i) quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the mid-swap rate in U.S. dollars quoted by such banks at approximately 11.00 a.m. (New York time) on the Interest Determination Date to participants in the U.S. dollar swap market for a six-year period and (ii) the arithmetic mean expressed as a percentage and rounded, if necessary, to the

nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards) of such quotations. For this purpose, the mid-swap rate means in each case the arithmetic mean, rounded, if necessary, to the nearest 0.00001 per cent. (0.000005 per cent. being rounded upwards), of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to six years commencing on that Interest Determination Date, where the floating leg, calculated on an Actual/360 day count basis is equivalent to the three month London Interbank offered rate for U.S. dollars (where the terms “**30/360 day count basis**” and “**Actual/360 day count basis**” have the meanings given to the terms “30/360” and “Actual/360”, respectively, in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.).

“**Solvency II Directive**” means Directive 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of insurance and re-insurance (Solvency II).

“**Solvency Condition**” has the meaning set out in Condition 2(b).

“**Subsequent Fixed Rate of Interest**” has the meaning set out in Condition 4(a).

“**Subsidiary**” means, at any particular time, a company or other entity which is then directly or indirectly controlled or whose issued share capital (or equivalent) is then more than 50 per cent. beneficially owned by the Issuer. For this purpose, for a company or other entity to be “**controlled**” by the Issuer means that the Issuer (whether directly or indirectly and whether by ownership of shares or equivalent or by the possession of voting power, contract or otherwise) has the power to appoint or remove all or the majority of the board of directors or other governing body of that other company or entity or has the power to control the affairs and policies of that other company or entity.

“**Taxes**” has the meaning set out in Condition 11.

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, or clarification of, the laws or regulations of the Kingdom of Belgium or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which the Kingdom of Belgium is a party, or any change in the application of official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change, amendment or interpretation becomes, or would become, effective on or after 19 March 2013.

“**Trust Deed**” means the trust deed dated 21 March 2013 constituting the Notes and entered into between the Issuer and the Trustee.

“**U.S.\$**” or “**U.S. dollars**” means the lawful currency of the United States of America for the time being.

“**Voting Certificate**” has the meaning ascribed to it in Schedule 2 of the Trust Deed.

“**Winding-up**” means any concursus creditorum (*concours de créanciers/samenloop van schuldeisers*) on all or substantially all of the assets of the Issuer, including bankruptcy (*faillite/faillissement*) and judicial or voluntary dissolution and liquidation (*dissolution et liquidation judiciaire ou volontaire/gerechtelijke of vrijwillige ontbinding en vereffening*), except in the latter case for corporate reorganisations involving a voluntary dissolution without liquidation (*dissolution volontaire sans liquidation/vrijwillige ontbinding zonder vereffening*).

4 Interest

(a) Interest Rate

The Notes bear interest on their outstanding principal amount:

- (i) in respect of the period from (and including) the Closing Date to (but excluding) 21 March 2019 (the “**First Call Date**”) at the rate of 6.75 per cent. per annum; and
- (ii) in respect of each successive six-year period thereafter, the first such period commencing on (and including) the First Call Date and ending on (but excluding) the sixth anniversary thereof (each, a “**Relevant Six-Year Period**”), at such rate per annum as is equal to the sum of the Six Year U.S. dollar Mid Swap Rate and (ii) the Margin (rounded down, where necessary, to four decimal places, with 0.00005 being rounded down), as determined by the Agent Bank on the relevant Interest Determination Date in accordance with the Paying Agency Agreement,

in accordance with the provisions of this Condition 4.

Subject to the Issuer’s option to defer any payment of interest otherwise scheduled to be paid on an Optional Interest Payment Date and to a Mandatory Interest Deferral Event not having occurred and being continuing, interest shall be payable semi-annually in arrear in equal instalments on each Interest Payment Date.

The Interest Rate in respect of each Relevant Six-Year Period (each, a “**Subsequent Fixed Rate of Interest**”) shall be determined by the Agent Bank on the relevant Interest Determination Date. The Issuer shall cause notice of the relevant Subsequent Fixed Rate of Interest and the amount of interest which, subject to Conditions 2(b) and 5, will be payable per Calculation Amount (each, an “**Interest Amount**”) on each Interest Payment Date in respect of which such Subsequent Fixed Rate of Interest applies to be given to the Holders, in accordance with Condition 15, and to the Trustee as soon as reasonably practicable after each relevant Interest Determination Date and in any event no later than the fourth Business Day thereafter. Such determination of the relevant Subsequent Fixed Rate of Interest and relevant Interest Amount shall (in the absence of manifest error) be binding on the Trustee and the Holders.

If the Agent Bank does not at any time for any reason so determine the relevant Subsequent Fixed Rate of Interest or calculate the relevant Interest Amount for a Relevant Six-Year Period, the Trustee (or an expert appointed by the Trustee at the expense of the Issuer) shall do so and such determination or calculation shall be deemed to have been made by the Agent Bank. In doing so, the Trustee (or the expert) shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4, whether by the Agent Bank or the Trustee (or the expert appointed by it), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Holders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

(b) *Accrual of Interest*

The Notes will cease to bear interest from (and including) (i) the date of redemption thereof pursuant to Condition 6 or (ii) from (and including) the date on which the Notes become repayable in a Winding-up of the Issuer in accordance with Conditions 2 and 12(b), as the case may be, unless payment of all amounts due in respect of the Notes is not made, in which event interest shall continue to accrue at the relevant Interest Rate in respect of unpaid amounts on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Where it is necessary to compute an amount of interest in respect of a period of less than a complete Interest Period, the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Interest in respect of any Note shall be calculated per U.S.\$200,000 in principal amount thereof (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the Interest Rate in respect of such period, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

5 Interest Deferral

(a) *Optional Deferral of Payments*

The Issuer may elect to defer all (but not some only) of any Interest Payment which is otherwise scheduled to be paid on any Optional Interest Payment Date by giving notice of such election to the Holders and the Trustee in accordance with Condition 5(g).

If an Interest Payment Date is a Compulsory Interest Payment Date, any notice given under this Condition 5(a) shall have no force or effect.

(b) *Mandatory Deferral of Payments*

An Interest Payment shall be deferred mandatorily on an Interest Payment Date (a “**Mandatory Interest Deferral Date**”) if:

- (i) a Regulatory Deficiency Event has occurred and is continuing at the relevant Interest Payment Date; or
- (ii) the Solvency Condition is not met as at such Interest Payment Date; or
- (iii) payment of such Interest Payment would cause a Regulatory Deficiency Event or would cause the Solvency Condition not to be met,

(each of (i) to (iii) above being referred to in these Conditions as a “**Mandatory Interest Deferral Event**”),

provided, however, that if the Relevant Supervisory Authority confirms in writing to the Issuer that it accepts that the interest accrued in respect of the Notes (or any part thereof) during such Interest Period can be paid (to the extent that the Relevant Supervisory Authority may provide such acceptance in accordance with the Applicable Regulations), the relevant Interest Payment Date will not be a Mandatory Interest Deferral Date in relation to such interest (or such part thereof) unless the Solvency Condition is not met.

If the Issuer is required to defer any Interest Payment (in whole or in part) pursuant to this Condition 5(b), it shall give notice to the Holders and the Trustee in accordance with Condition 5(g).

The foregoing provisions of this Condition 5(b) shall apply *mutatis mutandis* to any payment of Arrears of Interest pursuant to Condition 5(f), on the basis that references in this Condition 5(b) to: (i) “Interest Payment” shall be construed therein to mean the relevant payment of Arrears of Interest; (ii) “Interest Payment Date” shall be construed therein to mean the scheduled date for payment of such Arrears of Interest; and (iii) “Interest Period” shall be construed therein as the Interest Period during which such scheduled payment date falls.

(c) *Deferral not default*

If the Issuer elects pursuant to Condition 5(a), or is required pursuant to Conditions 2(b) or 5(b), to defer any payment of interest, the amount of interest so deferred shall not fall due on the scheduled payment date, the Issuer shall not have any obligations to make such payment on such date, and any such deferral and non-payment shall not constitute a default by the Issuer under the Notes or the Trust Deed for any purpose.

(d) *Arrears of Interest*

If any Interest Payment, or (in relation to interest deferred pursuant to Condition 5(b) only) any part thereof, is deferred as a result of the exercise by the Issuer of its discretion pursuant to Condition 5(a) or the obligation on the Issuer to defer payment pursuant to Condition 2(b) or 5(b), then such deferred payment (each a “**Deferred Interest Payment**”) shall itself bear interest at the prevailing Interest Rate (such further interest together with the Deferred Interest Payment being, for so long as the same remains unpaid, “**Arrears of Interest**”).

See also “Risk Factors — Factors which are material for the purpose of assessing the market risks associated with the Notes — The Issuer may (except in certain limited circumstances) elect to, and in certain circumstances must, defer interest payments on the Notes” for a discussion of the uncertainties regarding compounding of interest under Belgian law.

Arrears of Interest shall be calculated from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant date on which such Deferred Interest Payment is paid in accordance with Condition 5(f), such further interest being compounded on each Interest Payment Date.

(e) *Compulsory Interest Payments*

The Issuer shall be required to pay accrued interest (and any Arrears of Interest then outstanding) on each Compulsory Interest Payment Date.

An Interest Payment Date shall be a compulsory Interest Payment Date (a “**Compulsory Interest Payment Date**”) if a Compulsory Interest Payment Event shall have occurred in the period of six months prior to such Interest Payment Date, unless a Mandatory Interest Deferral Event has occurred and is continuing as at such Interest Payment Date.

A “**Compulsory Interest Payment Event**” means:

- (i) any dividend or distribution is declared payable or a payment is made on any Junior Securities, save where such dividend, distribution or payment is mandatory in accordance with the terms and conditions of such Junior Securities; or

- (ii) any repurchase, redemption or acquisition by the Issuer or any of its Subsidiaries of any Junior Securities, save where the Issuer or, as the case may be, the relevant Subsidiary is not able to defer, pass or eliminate the payment or other obligation in respect of such repurchase, redemption or acquisition.

(f) Payment of Arrears of Interest

Subject to a Mandatory Interest Deferral Event not having occurred and being continuing, Arrears of Interest may be settled at the option of the Issuer in whole (or in part) at any time following delivery of a notice to such effect given by the Issuer to the Holders and the Trustee in accordance with Condition 5(g).

If a Regulatory Deficiency Event occurs, then (save for any payment to be made in accordance with Condition 2(c) on a Winding-up of the Issuer) the prior approval of the Relevant Supervisory Authority shall be required in relation to any payment of Arrears of Interest which accrued prior to the occurrence of, or during the continuance of, a Mandatory Interest Deferral Event.

The Issuer (having given (except in the case of (iii) below) any notifications to, or received any consent from (in either case if and to the extent required by Applicable Regulations) the Relevant Supervisory Authority) shall pay any Arrears of Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the next succeeding Compulsory Interest Payment Date; or
- (ii) the date on which the Notes are redeemed or repaid in accordance with Condition 6; or
- (iii) upon the Winding-up of the Issuer.

In addition to the previous paragraphs of this Condition 5(f), if a Regulatory Event occurs, any unpaid Arrears of Interest resulting from any deferral of interest on an Optional Interest Payment Date shall also fall due and payable on the date (the **“Compulsory Partial Settlement Date”**) being the later of:

- (i) the first Interest Payment Date falling on or after the fifth anniversary of the relevant Optional Interest Payment Date on which the relevant Interest Payment was deferred; and
- (ii) the first Interest Payment Date falling on or after the fifth anniversary of the date on which the Regulatory Event occurs.

If on any Compulsory Partial Settlement Date the Solvency Condition is not met, such payment of Arrears of Interest shall not fall due until the date falling 10 Business Days immediately following the day that the Solvency Condition is met, provided that if on such 10th Business Day the Solvency Condition is not met or would not be met if the Arrears of Interest were paid, then the date for such payment shall be the first following Business Day on which the Solvency Condition is so met and will continue to be met following a payment of such Arrears of Interest.

Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Notes or the Trust Deed or for any other purpose, unless such payment is required in accordance with this Condition 5(f).

For the avoidance of doubt, in the case of Notes varied in accordance with Condition 7, interest, Arrears of Interest and any other amounts accrued on the Notes originally issued will continue to accrue on such varied Notes.

(g) *Notices and Certificates*

The Issuer shall give not less than 5 nor more than 30 Business Days' prior notice to the Holders, in accordance with Condition 15, and to the Trustee:

- (i) of any Optional Interest Payment Date on which the Issuer elects to defer interest as provided in Condition 5(a) above;
- (ii) of any Mandatory Interest Deferral Date, which notice shall specify (A) the amount of interest that will be deferred (and thus not paid) on such Mandatory Interest Deferral Date and (B) whether such deferral is due to a Regulatory Deficiency Event or non-satisfaction of the Solvency Condition (provided that if a Mandatory Interest Deferral Event occurs less than 5 Business Days before such Interest Payment Date, the Issuer shall give such notice as soon as practicable under the circumstances before such Mandatory Interest Deferral Date); and
- (iii) of any date upon which amounts in respect of Arrears of Interest are to be paid, which notice shall specify the Business Day on which such Arrears of Interest (or part thereof) will be settled.

Prior to the publication of any notice pursuant to (ii) above, the Issuer shall deliver to the Trustee (and make available to Holders a copy of) a certificate signed by two directors of the Issuer stating either that (A) a Regulatory Deficiency Event has occurred and is continuing or that payment of the relevant Interest Payment (or part thereof) would cause a Regulatory Deficiency Event or (B) that the Solvency Condition is not satisfied or payment of the relevant Interest Payment (or part thereof) could not be made in compliance with the Solvency Condition, on the relevant Interest Payment Date, whichever is applicable. The Trustee shall be entitled to accept such certificate as sufficient evidence of the events and circumstances described therein without liability to any person, in which case such certificate shall be conclusive and binding on the Trustee and Holders.

6 **Redemption**

(a) *No maturity date*

The Notes have no fixed redemption date and the Holders have no right to require the Issuer to redeem the Notes at any time. The Issuer shall only have the right to redeem, vary or purchase the Notes in accordance with this Condition 6, Condition 7 or Condition 8, as applicable, and Condition 9.

(b) *Issuer's Call Option*

Subject to Conditions 2(b), 6(e), 6(f) and 9, the Issuer may, by giving not less than 30 nor more than 60 calendar days' notice to the Holders, in accordance with Condition 15, and to the Trustee (which notice shall, subject as aforesaid, be irrevocable), redeem all, but not some only, of the Notes on the First Call Date or on any Interest Payment Date thereafter at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date. Upon the expiry of such notice, the Issuer shall (subject as aforesaid) redeem the Notes.

(c) *Redemption for Taxation Reasons*

Subject to Conditions 2(b), 6(e), 6(f) and 9, if a Deductibility Event or a Gross-up Event occurs and is continuing as at the date on which notice is given to Holders pursuant to this Condition 6(c), then the Issuer may, subject to having given not less than 30 nor more than 60 calendar days' notice to the Holders, in accordance with Condition 15, and to the Trustee (which notice shall, subject as aforesaid, be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the

Notes at their principal amount, in each case together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date. Upon the expiry of such notice, the Issuer shall (subject as aforesaid) redeem the Notes.

Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee (and make available to Holders a copy of) an opinion from a nationally recognised law firm or other tax adviser in the Kingdom of Belgium experienced in such matters that a Deductibility Event or a Gross-up Event (as the case may be) has occurred and is continuing or will apply to payments to be made on the next succeeding Interest Payment Date. The Trustee shall be entitled to accept such opinion as sufficient evidence of the Deductibility Event or Gross-up Event having occurred and being continuing or as occurring as at the next Interest Payment Date (without liability to any person), in which case it shall be conclusive and binding on the Trustee and Holders.

(d) Redemption following a Regulatory Event

Subject to Conditions 2(b), 6(e), 6(f) and 9, if a Regulatory Event occurs and is continuing as at the date on which notice is given to Holders pursuant to this Condition 6(d), then the Issuer may, subject to having given not less than 30 nor more than 60 calendar days' notice to the Holders, in accordance with Condition 15, and to the Trustee (which notice shall, subject as aforesaid, be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date. Upon the expiry of such notice, the Issuer shall (subject as aforesaid) redeem the Notes.

Prior to the publication of any notice of redemption pursuant to this Condition 6(d), the Issuer shall deliver to the Trustee (and make available to Holders a copy of) a certificate signed by two directors of the Issuer stating that a Regulatory Event has occurred and is continuing. The Trustee shall be entitled to accept such certificate as sufficient evidence of the Regulatory Event having occurred and being continuing (without liability to any person), in which case it shall be conclusive and binding on the Trustee and Holders.

(e) Deferral of Redemption

If a Regulatory Deficiency Event has occurred and is continuing on the date specified in the notice of redemption by the Issuer under Conditions 6(b), (c) or (d) or a redemption would itself cause a Regulatory Deficiency Event to occur, the Issuer shall give notice to the Holders in accordance with Condition 6(i) and to the Trustee that redemption of the Notes shall be deferred, and no redemption pursuant to Conditions 6(b), (c) or (d) will fall due or be permitted other than as set out below in this Condition 6(e).

In such event, subject (except in the case of (iii) below) to the Solvency Condition in Condition 2(b), such Notes shall instead become due for redemption at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date, upon the earliest of:

- (i) the date falling 10 Business Days after the date the Regulatory Deficiency Event has ceased (provided that if on such 10th Business Day a further Regulatory Deficiency Event has occurred and is continuing or a redemption would itself cause a Regulatory Deficiency Event to occur, the Issuer shall give further notice to the Holders in accordance with Condition 6(i) and to the Trustee that redemption of the Notes will again be deferred, and the provisions of this Condition 6(e) shall apply *mutatis mutandis* to determine the subsequent date for redemption of the Notes); or

- (ii) the date falling 10 Business Days after the Relevant Supervisory Authority has agreed to the repayment or redemption of the Notes; or
- (iii) the Winding-up of the Issuer.

(f) Deferral of Redemption relating only to Solvency Condition

If Condition 6(e) does not apply, but the Issuer is required to defer redemption of the Notes on the date specified in the notice of redemption by the Issuer under Conditions 6(b), (c) or (d) only as a result of the Solvency Condition not being satisfied at such time or following such payment, the Issuer shall give notice to the Holders in accordance with Condition 6(i) and to the Trustee that redemption of the Notes shall be deferred, and no redemption pursuant to Conditions 6(b), (c) or (d) will fall due or be permitted other than as set out below in this Condition 6(f).

In such event, such Notes shall instead become due for redemption, at their principal amount, together with Arrears of Interest (if any) and any other accrued but unpaid interest up to (but excluding) the redemption date, on the date falling 10 Business Days immediately following the day that the Solvency Condition is met, provided that if on such 10th Business Day the Solvency Condition is not met or a Regulatory Deficiency Event has occurred and is continuing, or would not be met or would occur (as applicable) if the Notes were to be redeemed, then the Issuer shall give further notice to the Holders in accordance with Condition 6(i) and to the Trustee that redemption of the Notes will again be deferred, the Notes shall not fall due for redemption on such date and Condition 6(e) (in the case of deferral due to a Regulatory Deficiency Event) or this Condition 6(f) (in the case of deferral only due to the Solvency Condition) shall apply *mutatis mutandis* to determine the subsequent date for the redemption of the Notes.

(g) No default or acceleration

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 2(b) or this Condition 6 will not constitute a default by the Issuer under the Notes or the Trust Deed or for any other purpose and will not give Holders or the Trustee any right to accelerate the Notes such that amounts of principal, interest or Arrears of Interest would become due and payable on the Notes earlier than otherwise scheduled pursuant to these Conditions or the Trust Deed.

(h) Trustee Not Obliged to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Holders for any loss arising from any failure by the Trustee to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance exists.

(i) Notices and Certificates

The Issuer shall give such prior notice to the Holders as is practicable in the circumstances, in accordance with Condition 15, and to the Trustee of:

- (i) each deferral of redemption pursuant to Conditions 6(e) or (f), which notice shall specify whether the relevant deferral is due to a Regulatory Deficiency Event or non-satisfaction of the Solvency Condition; and
- (ii) any subsequent date of redemption of the Notes pursuant to Conditions 6(e) or (f).

Prior to the publication of any notice pursuant to (i) above, the Issuer shall deliver to the Trustee (and make available to Holders a copy of) a certificate signed by two directors of the Issuer stating either that (A) a Regulatory Deficiency Event has occurred and is continuing or that redemption of the Notes on the relevant scheduled redemption date would cause a Regulatory Deficiency Event or (B) that the Solvency Condition is not satisfied or redemption of the Notes on the relevant scheduled redemption date could not be effected in compliance with the Solvency Condition, whichever is applicable. The Trustee shall be entitled to accept such certificate as sufficient evidence of the events and circumstances described therein without liability to any person, in which case such certificate shall be conclusive and binding on the Trustee and Holders.

(j) Supervisory consent

Any redemption of the Notes (whether on a date originally scheduled for redemption under Conditions 6(b), (c) or (d) or on a deferred redemption date under Conditions 6(e) or (f)) shall, if and to the extent then required by the Relevant Supervisory Authority or Applicable Rules, be subject to any notifications to, or consent or non-objection from, the Relevant Supervisory Authority.

7 Variation

If a Regulatory Event has occurred and is continuing, the Issuer (subject to the prior approval of the Relevant Supervisory Authority (if required pursuant to the then Applicable Regulations in order for the Notes to qualify as regulatory capital)) may with the prior agreement of the Trustee modify the terms and conditions of the Notes (without the consent of the Holders) so that such Regulatory Event no longer exists after such modification.

Any such modification to the Notes is conditional on the modified Notes having terms that (i) are not materially less favourable to the Holders than the terms of the Notes and (ii) are, except for the modification required to avoid the relevant Regulatory Event, substantially identical to the terms of the Notes (including, without limitation, the Interest Rates and Interest Payment Dates).

The terms and conditions of the Notes may only be modified if (i) all rights to accrued but unpaid interest and Arrears of Interest (if any) are retained following such variation, (ii) the modification itself does not give rise to (y) a detrimental change in the published rating of the Notes or of the Issuer ascribed to them by the Rating Agency or any other rating agency that has given a rating solicited by the Issuer, in the period of twelve months prior to the modification or (z) a Deductibility Event, Gross-up Event or Regulatory Event, (iii) the Notes remain listed on the regulated market of the Luxembourg Stock Exchange or such other internationally recognised EEA regulated market as selected by the Issuer and (iv) the Notes remain admitted to, and traded in, the same clearing system (or systems) as they were prior to such modification.

Prior to any such modification, the Issuer shall deliver to the Trustee (and make available to Holders a copy of) a certificate in the form required by Condition 6(d) and also confirming the matters detailed in the paragraph above (including, without limitation that the Issuer has itself received confirmation from the Rating Agency and any other rating agency that has given a rating, solicited by the Issuer, in the period of twelve months prior to the modification that the modification will not cause a detrimental change in the relevant published rating of the Notes). The Trustee shall be entitled to accept the delivery by the Issuer to it of any such certificate as sufficient evidence that (i) the matters set out in the certificate have occurred and are continuing and (ii) the conditions to modification set out in this Condition 7 have been or will be met or satisfied, in which event it shall be conclusive and binding on the Trustee and the Holders.

In connection with any variation in accordance with this Condition 7, the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading. The Issuer shall

give notice of any such variation to the Holders, in accordance with Condition 15, and to the Trustee as soon as reasonably practicable after such variation.

8 Purchases and Cancellation

(a) Purchases

Subject to Condition 9, the Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Notes in any manner and at any price. All Notes so purchased may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Principal Paying Agent.

The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 14.

(b) Cancellation

All Notes redeemed by the Issuer pursuant to Condition 6, and all Notes purchased by the Issuer or any of its Subsidiaries and surrendered for cancellation, shall be cancelled forthwith and may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

9 Preconditions to Redemption, Variation and Purchase

Prior to the giving of any notice of redemption, variation or purchase of the Notes, the Issuer will be required to:

- (a) have complied with the regulatory rules on notification to, or consent from, the Relevant Supervisory Authority (in each case, as contained within, referred to in or imposed on the Issuer, the Group or the Notes directly or indirectly by virtue of the Applicable Regulations and only if and to the extent required or applicable in order for the Notes to qualify as regulatory capital of the Issuer or the Group);
- (b) be satisfied that a Regulatory Deficiency Event is not continuing, that the Solvency Condition is satisfied and that such action will not cause a Regulatory Deficiency Event or cause the Solvency Condition not to be met.

A certificate from any two directors of the Issuer delivered to the Trustee confirming that the Issuer is in compliance with the matters detailed above shall be conclusive evidence thereof.

The Trustee shall be entitled to accept the certificate as sufficient evidence that the requirements of, or circumstances required by, this Condition 9 have been or will be met or satisfied, in which event it shall be conclusive and binding on the Trustee and the Holders.

10 Payments

(a) Principal and Interest

Without prejudice to Article 474 of the Belgian Code of Companies, all payments of principal or interest in respect of the Notes shall be made through the Domiciliary Agent.

(b) Payments

For so long as the Notes are held in the NBB System, payments in respect of the Notes shall be made to direct participants in the NBB System subject to receipt of confirmation of the details of such direct participant's U.S. dollar account. Payments will be made by credit or transfer to an account in U.S.

dollars maintained by the payee with a bank in New York City. Each direct participant in the NBB System shall have to submit such account details by no later than the date falling two Business Days prior to the due date for payment. Records of such payments shall be maintained by the Domiciliary Agent.

Any payment so made will be a good discharge for the Issuer. Each of the persons shown in records of a direct participant, sub-participant or the operator of the NBB System as the beneficial holder of a particular nominal amount of Notes must look solely to the relevant direct participant or sub-participant, as the case may be, for its share of each payment so made by the Issuer on the Notes.

(c) Payments only on Business Days

If the due date for payment of any amount in respect of the Notes is not a Business Day, then the Holder thereof shall not be entitled to payment of the amount payable until the next following Business Day and shall not be entitled to any further interest or payment in respect of any such delay.

(d) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer or (one or more of) its Paying Agents agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 11.

The Paying Agents shall not make or impose on a Holder any charge or commission in relation to any payment in respect of the Notes.

(e) Payments outside of the United States

Notwithstanding any other provision of these Conditions, payments in respect of the Notes may be made at the specified offices of the Paying Agents in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(f) Agents, etc.

The Issuer reserves the right under the Paying Agency Agreement at any time, without the prior approval of the Agent Bank, relevant Paying Agent or the Principal Paying Agent, to vary or terminate the appointment of the Agent Bank, any of the Paying Agents and appoint additional or other paying agents or a different agent bank, provided that it will (i) maintain an agent bank, (ii) maintain a principal paying agent in relation to the Notes and (iii) maintain a domiciliary agent in relation to the Notes, which domiciliary agent will at all times be a participant in the NBB System. Notice of any change in Paying Agent or their specified offices will promptly be given by the Issuer to the Holders in accordance with Condition 15.

(g) Fractions

When making payments to Holders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such

payment will be rounded down such that the amount is a whole multiple of the smallest unit of the relevant currency.

11 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by the Kingdom of Belgium or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as shall result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note:

- (a) **Other connection:** to, or to a third party on behalf of, a Holder who is liable to such Taxes in respect of such Note by reason of its having some connection with the Kingdom of Belgium other than a mere holding of such Note; or
- (b) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or any agreement between the EU and any other country or territory providing for similar measures; or
- (c) **Non-Eligible Investor:** to a Holder, who at the time of issue of the Notes, was not an eligible investor within the meaning of Article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax or to a Holder who was such an eligible investor at the time of issue of the Notes but, for reasons within the Holder’s control, either ceased to be an eligible investor or, at any relevant time on or after the issue of the Notes, otherwise failed to meet any other condition for the exemption of Belgian withholding tax pursuant to the Belgian Law of 6 August 1993 on transactions in certain securities; or
- (d) **Conversion into registered securities:** to a Holder who is liable to such Taxes because the Notes were upon its request converted into registered Notes and could no longer be cleared through the NBB System.

References in these Conditions to principal, Interest Payments, Deferred Interest Payments, Arrears of Interest and/or any other amount in respect of interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions.

12 Enforcement Events

Notwithstanding any of the provisions below in Condition 12, the right to sue for payment is limited to circumstances where payment has become due. No principal, interest or any other amount will be due where payment of the same has been deferred pursuant to, and in accordance with the provisions of, Condition 2(b), 5 and/or 6, as the case may be.

The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

(a) No right to institute bankruptcy and other similar proceedings

The Trustee and the Holders shall have no right to petition for or institute proceedings for the bankruptcy of the Issuer in Belgium or to institute equivalent insolvency proceedings (including those equivalent to a Winding-up) pursuant to any laws in any country in respect of any default of the Issuer under the Notes or the Trust Deed.

Notwithstanding any of the provisions below in this Condition 12, the right to sue for payment in respect of the Notes is limited to circumstances where payment has become due. Pursuant to Condition 2(b) and save as set out in Condition 2(c), no principal, interest or any other amount will be due on the relevant payment date if the Solvency Condition is not satisfied, at the time of and immediately after any such payment. In the case of any payment of interest in respect of the Notes, such payment (i) may be deferred pursuant to Condition 5(a) and if so deferred will not be due and (ii) will be deferred and not be due if Condition 5(b) applies and (iii) in the case of payment of principal, such payment will be deferred and will not be due if Conditions 6(e) or (f) apply.

If the Issuer defaults (i) for a period of 7 calendar days or more in the payment of any interest due in respect of the Notes or any of them or (ii) for a period of 14 calendar days or more in payment of the principal due in respect of the Notes or any of them, the Trustee may sue for payment when due and prove or claim in the Winding-up of the Issuer for such payment but may take no further or other action to enforce, prove or claim for any such payment.

No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to this Condition 12(a), nor will the Trustee accept the same, otherwise than during or after a Winding-up of the Issuer, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent (if required) from, the Relevant Supervisory Authority which the Issuer shall confirm in writing to the Trustee.

(b) Amounts to become due and payable on Winding-up

If an order is made by the competent court or resolution passed for the Winding-up of the Issuer, the provisions of Condition 2(c) shall apply.

(c) Enforcement

Without prejudice to Conditions 12(a) or (b) above, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed including, without limitation, payment of any principal or interest in respect of the Notes and any damages awarded for breach of any obligations in respect of the Notes) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums (in cash or otherwise) sooner than the same would otherwise have been payable by it. Nothing in this Condition 12(c) shall, subject to Condition 12(a), prevent the Trustee from proving or claiming in any Winding-up of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including without limitation, payment of any principal or interest in respect of the Notes and any damages awarded for any breach of any obligations in respect of the Notes).

(d) Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in Conditions 12(a) or (c) above to enforce the obligations of the Issuer under the Trust Deed or the Notes or any other steps or action unless (i) it shall have been so directed by an Extraordinary Resolution of the Holders or so requested

in writing by the Holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(e) *Right of Holders*

No Holder shall be entitled to proceed directly against the Issuer or prove or claim in a Winding-up of the Issuer unless the Trustee, having become so bound to proceed or prove or claim in such Winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 12.

(f) *Extent of Holders' remedy*

No remedy against the Issuer, other than as referred to in this Condition 12, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed in respect thereof. For the avoidance of doubt, the Holders waive, to the fullest extent permitted by law, (i) all their rights whatsoever pursuant to Article 1184 of the Belgian Civil Code to rescind (*résoudre/ontbinden*), or demand in legal proceedings the rescission (*résolution/ontbinding*) of, the Notes and (ii) to the extent applicable, all their rights whatsoever in respect of the Notes pursuant to Article 487 of the Belgian Code of Companies (right to rescind (*résolution/ontbinding*)). Furthermore, to the fullest extent permitted by law, the Trustee and the Holders hereby waive their rights under Article 1117 of the Belgian Civil Code to nullify, or demand in legal proceedings the nullification of, the Notes on the ground of error (*erreur/dwaling*).

13 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment.

Claims in respect of any other amounts payable in respect of the Notes shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

14 Meetings of Holders, Modification and Waiver

(a) *Meetings of Holders*

The Trust Deed contains provisions for convening meetings of Holders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions.

All meetings of Holders will be held in accordance with the provisions of Article 568 et seq. of the Belgian Code of Companies with respect to bondholders meetings; provided however that the Issuer, in accordance with the provisions of Article 569 of the Belgian Code of Companies, shall, at its own expense, promptly convene a meeting of Holders upon the request in writing of Holders holding not less than one-fifth of the aggregate principal amount of the outstanding Notes. Subject to the quorum and majority requirements set out in Article 574 of the Belgian Code of Companies, and if required thereunder subject to validation by the court of appeal of Brussels, the meeting of Holders shall (with the assent of the Issuer) be entitled to exercise the powers set out in Article 568 of the Belgian Code of Companies and to modify or waive any provision of these Conditions upon the proposal of the Issuer to do so, provided however that the following matters may only be sanctioned by an Extraordinary

Resolution passed at a meeting of Holders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum: (i) any proposal of the Issuer to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or the date for any such payment; (ii) any proposal of the Issuer to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iii) any proposal of the Issuer to change the currency in which amounts due in respect of the Notes are payable; (iv) any proposal of the Issuer to change the provisions regarding subordination referred to in Condition 2 and/or the Trust Deed; or (v) any proposal of the Issuer to change the quorum required at any meeting of Holders or the majority required to pass an Extraordinary Resolution.

Resolutions duly passed in accordance with these provisions shall be binding on all Holders, whether or not they are present or represented at the meeting and whether or not they vote in favour of such a resolution.

For the avoidance of doubt, any modification to be made to the Conditions pursuant to this Condition 14 and the Trust Deed shall require the consent of the Issuer and will be subject to any notifications or approvals (if and to the extent required or applicable pursuant to the then Applicable Regulations in order for the Notes to qualify as regulatory capital) of the Relevant Supervisory Authority.

Convening notices for meetings of Holders shall be made in accordance with Article 570 of the Belgian Code of Companies, which currently requires an announcement to be published not less than fifteen calendar days prior to the meeting in the Belgian Official Gazette (*Moniteur Belge/Belgisch Staatsblad*) and in a newspaper of national distribution in Belgium. The Trust Deed provides that, subject to the Issuer's consent, a resolution in writing signed by or on behalf of the Holders of not less than 75 per cent. in aggregate nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held, provided that the terms of the proposed resolution have been notified in advance to the Holders through the NBB System. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) *Modification and Waiver*

Subject to the prior approval of the Relevant Supervisory Authority (if required pursuant to the then Applicable Regulations in order for the Notes to qualify as regulatory capital), the Trustee may agree with the Issuer, without the consent of the Holders, to (i) any modification of any of the provisions of the Trust Deed, any agreement supplemental to the Trust Deed (including, without limitation, the Conditions) or the Paying Agency Agreement which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, (ii) any modification of the Conditions in accordance with Condition 7 and (iii) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach, or proposed breach, of any of these Conditions and of the provisions of the Trust Deed or any agreement supplemental to the Trust Deed (including, without limitation, the Conditions) or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders.

(c) *Meetings of Shareholders and Right to Information*

The Holders shall be entitled to attend all general meetings of shareholders of the Issuer, in accordance with Article 537 of the Belgian Code of Companies, and they shall be entitled to receive or examine any documents that are to be remitted or disclosed to them in accordance with the Belgian Code of Companies. The Holders who attend any general meeting of shareholders of the Issuer shall be entitled only to a consultative vote.

15 Notices

All notices regarding the Notes will be valid if published either in a leading daily newspaper in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Issuer shall also ensure that all notices are duly published in a manner which complies (i) with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading and (ii) with all legal requirements relating thereto. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

For so long as the Notes are held by or on behalf of the NBB System, notices to Holders may also be delivered to the NBB System for onward communication to Holders in substitution for such publication (provided that, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require they are also published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*)). Any such notice shall be deemed to have been given to Holders on the seventh calendar day after the date on which the said notice was given to the NBB System.

16 Further Issues

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions in all respects as the Notes or in all respects except for the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the Notes or upon such terms as to interest, redemption and otherwise as the Issuer may determine at the time of their issue. The Trust Deed contains provisions for convening a single meeting of the Holders.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

(a) *Governing Law*

The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that the provisions contained in Condition 2 in relation to subordination and waiver of set-off, Conditions 14(a) and (c) and any matter relating to the dematerialised form of the Notes and any non-contractual obligations arising out of the same shall be governed by, and construed in accordance with, Belgian law.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Notes and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Notes (“Proceedings”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the Holders (provided that the Holders are entitled to proceed directly under Condition 12(e)) and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Agent for Service of Process

The Issuer has irrevocably appointed Ageas (UK) Limited of Ageas House, Tollgate, Eastleigh, Hampshire, SO53 3YA as its agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

CLEARING

The Notes will be accepted for clearance through the X/N Clearing System under the ISIN number BE6251340780 and Common Code 090729276 with respect to the Notes, and will accordingly be subject to the NBB System Regulations (as defined in “Terms and Conditions of the Notes”).

The number of Notes in circulation at any time will be registered in the register of registered securities of the Issuer in the name of the NBB.

Access to the X/N Clearing System is available through those of its participants whose membership extends to securities such as the Notes.

Notes may be held only by, and transferred only to, eligible investors referred to in Article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax (“Eligible Investors”) holding their securities in an exempt securities account that has been opened with a financial institution that is a direct or indirect participant in the X/N Clearing System operated by the NBB.

X/N Clearing System participants include certain banks, stockbrokers (*sociétés de bourse/beursvennootschappen*), and Euroclear and Clearstream, Luxembourg. Accordingly, the Notes will be eligible to clear through, and therefore accepted by, Euroclear and Clearstream, Luxembourg and investors can hold their Notes within securities accounts in Euroclear and Clearstream, Luxembourg.

Transfers of interests in the Notes will be effected between X/N Clearing System participants in accordance with the rules and operating procedures of the X/N Clearing System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the X/N Clearing System participants through which they hold their Notes.

The Principal Paying Agent will perform the obligations of domiciliary agent included in the Clearing Agreement.

The Issuer and the Principal Paying Agent will not have any responsibility for the proper performance by the X/N Clearing System or its participants of their obligations under their respective rules and operating procedures.

DESCRIPTION OF THE ISSUER

1 Overview, incorporation and history

Overview

AG Insurance is the market leader in the Belgian insurance market, with a 27.4 per cent. market share in life insurance (in terms of funds under management) and a 15.7 per cent. market share in non-life insurance (in terms of gross written premiums) in 2011¹. AG Insurance is a composite insurer offering a broad range of products that cover the needs of both individuals and companies. It distributes its products through independent insurance brokers, the retail banking branches of BNP Paribas Fortis (Belgium's largest bank), as well as branches of the Belgian post (bpost banque/bpost bank), and directly in a "business to business" context.

AG Insurance is active both in life insurance and in non-life insurance. For the year ended 31 December 2012, AG Insurance recorded gross premium income of EUR 6.4 billion, split 73 per cent./27 per cent. between life insurance and non-life insurance. At the end of 2012, AG Insurance's insurance liabilities amounted to over EUR 56.1 billion.

AG Insurance's insurance business is carried out solely in Belgium (See "Risk factors — Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes — The Issuer's insurance business is carried out in Belgium, creating a concentration risk").

AG Real Estate, a wholly-owned subsidiary of AG Insurance, is the most prominent real estate group in Belgium and employs approximately 200 professionals specialised in asset, property, development, construction, project management, public private partnerships and real estate finance, responsible for the management of a portfolio valued at approximately EUR 5.5 billion as at 31 December 2012. In real estate development, AG Real Estate has a strong track record with completed developments representing more than 2 million square metres of office, residential and retail space in Belgium, France and Luxembourg. Interparking, an indirect subsidiary of AG Insurance active and a European leader in the sector of public car park management in nine European countries, employs a further 2,000 individuals throughout Europe.

At the end of 2012, AG Insurance and its subsidiaries (the "**Group**") employed 6,235 full time employees.

AG Insurance is the principal operating company of the Ageas group. Ageas is an international insurance group with a heritage spanning more than 180 years that is active both in life and non-life insurance. Ranked among the top 20 insurance companies in Europe, Ageas concentrates its business activities in Europe and Asia. Ageas' insurance activities are made up of four distinct segments: Belgium (AG Insurance), United Kingdom, Continental Europe and Asia. Those activities are served through a combination of wholly-owned subsidiaries and partnerships with strong financial institutions and key distributors. Ageas employs more than 13,000 people in total and has annual inflows of more than EUR 21 billion. Ageas shares are listed on Euronext Brussels, where Ageas is part of the local blue chip Bel20 index. Ageas' market capitalisation as at 1 March 2013 amounted to approximately EUR 6.2 billion.

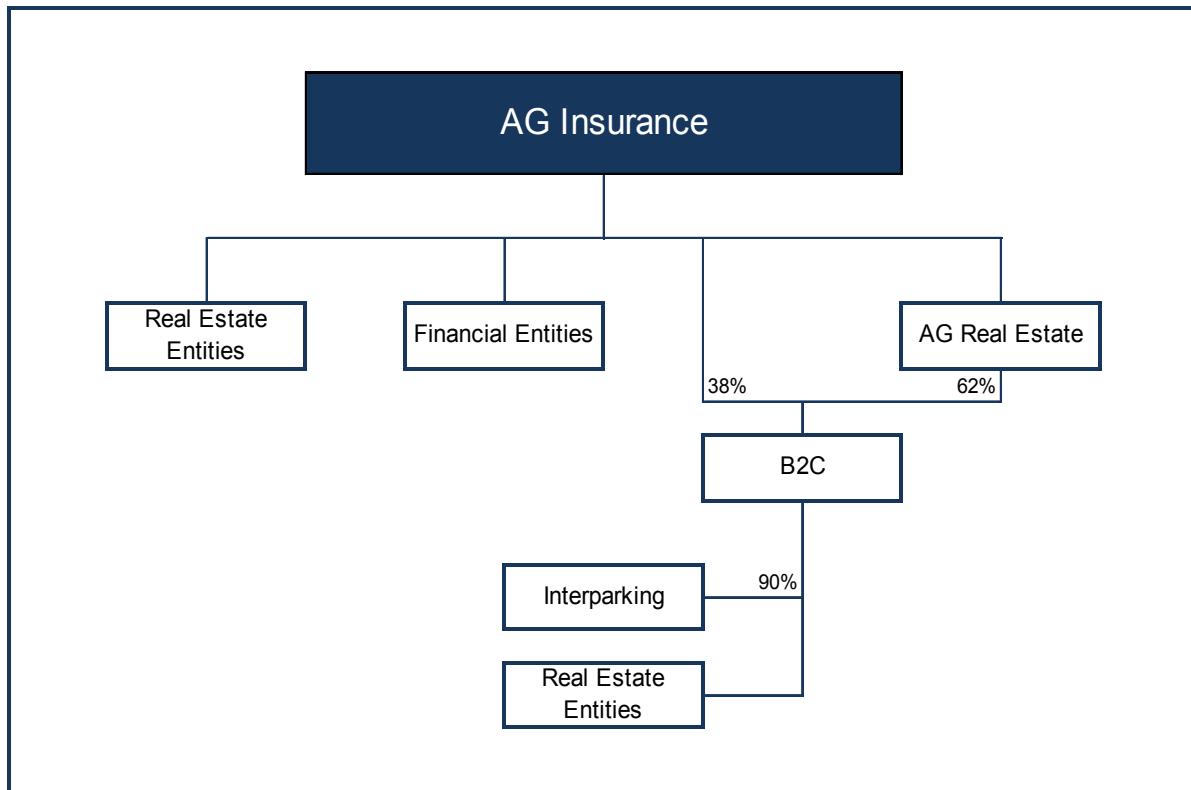
Incorporation

AG Insurance SA/NV was incorporated as "*Compagnie d'Assurance Maritime et d'Incendie d'Anvers Securitas*", by Royal Decree, on 29 March 1819. AG Insurance SA/NV is a company with limited liability (*société anonyme/naamloze vennootschap*) incorporated and existing under the laws of Belgium for an

¹ Calculated based on internal figures and market data available in Assuralia's "Quarterly Globalisation Survey on Premium Income". Assuralia is the professional organisation of insurance companies (<http://www.assuralia.be>).

unlimited duration, with its registered office at Boulevard Emile Jacqmainlaan 53, B-1000 Brussels, Belgium (telephone number: +32 (0)2 664 81 11) and registered with the Crossroads Bank of Enterprises (Brussels) under enterprise number 0404.494.849.

Set out below is a simplified structure of the Group formed by AG Insurance and its subsidiaries:



The registered capital of AG Insurance amounts to EUR 526,604,028, represented by 631,286 fully paid up ordinary shares without par value. All shares are in registered form. AG Insurance has not issued any other equity instruments.

The Board of Directors is currently not authorised to increase the share capital pursuant to the authorised capital (*capital autorisé/toegestaan kapitaal*) procedure.

Except as a result of the merger between AG Insurance and “*les Assurances de Fortis Banque SA*”/“*de Verzekeringen van Fortis Bank NV*”, the capital of AG Insurance has not been increased by a contribution in kind during the last ten years. Pursuant to this merger by absorption the capital of AG Insurance was increased in kind by an amount of EUR 459,470,028 as a result of the transfer of all assets and liabilities of “*les Assurances de Fortis Banque SA*”/“*de Verzekeringen van Fortis Bank NV*” to AG Insurance, effective 30 June 2006.

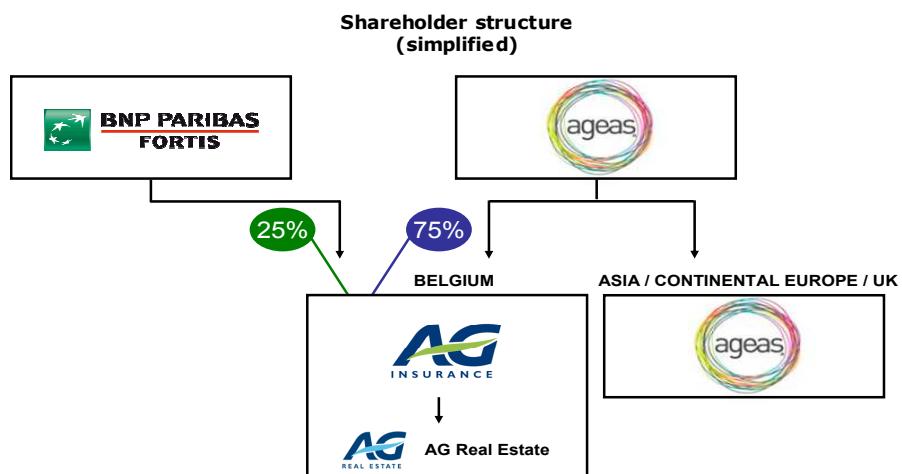
History

AG Insurance's core business dates back to 1824 with the creation of a life insurance company (“*Maatschappij van Algemene Verzekeringen op het Leven, de Dotale Fondsen en de Overlevingen*”) followed by the creation of a non-life sister company in 1830 (“*Maatschappij van Algemene Verzekeringen tegen Gevaren van Brand*”). The companies evolved through numerous changes, acquisitions and mergers, including the acquisition in 1971 of the “*Compagnie d'Assurance Maritime et d'Incendie d'Anvers Securitas*”, the merger of the latter by absorption of “*AG van 1830*” in 1986 and the merger by absorption of “*AG van 1824*” in 1990 to become Fortis AG SA/NV in 1999.

In 2006, by merger between Fortis AG and “*les Assurances de Fortis Banque SA*”/“*de Verzekeringen van Fortis Bank NV*” (formerly “*CGER/ASLK*”), the company adopted a multi-channel distribution model and became Fortis Insurance Belgium SA/NV. Following the financial crisis in 2008 and as part of the bailout of the former Fortis group, Fortis Bank nv-sa and Fortis Insurance Belgium SA/NV were separated. The current shareholders’ structure crystallised in 2009, when, on 12 May 2009, the BNP Paribas group (acting through Fortis Bank nv-sa) acquired 25 per cent. (plus one share) of Fortis Insurance Belgium SA/NV pursuant to an agreement between BNP Paribas, the Belgian State and the former Fortis group.

Fortis Insurance Belgium changed its name into AG Insurance on 19 June 2009, effective 22 June 2009, while the parent companies of the former Fortis group were renamed ageas SA/NV and ageas N.V. in April 2010. Effective 7 August 2012, the Dutch parent company ageas N.V. was merged into the Belgian parent company ageas SA/NV, such that the Belgian company ageas SA/NV, with a permanent establishment in the Netherlands, is the sole listed parent company of the Ageas group. Fortis Bank nv-sa has been operating under the commercial name BNP Paribas Fortis since the BNP Paribas group acquired a 75 per cent. stake in Fortis Bank from the Belgian State in May 2009. Effective 1 January 2013 Fortis Bank changed its legal name to BNP Paribas Fortis.

2 Shareholding structure



AG Insurance’s direct shareholders are Ageas Insurance International N.V., that holds 75 per cent. (minus one share) of the outstanding shares, and BNP Paribas Fortis SA/NV (formerly Fortis Bank nv-sa), that holds the remaining 25 per cent. (plus one share).

Ageas Insurance International N.V. is a wholly-owned subsidiary of ageas SA/NV, the Belgian listed parent company of the former Fortis group, now known as Ageas.

BNP Paribas Fortis SA/NV is owned by the BNP Paribas group (74.93 per cent.), the Belgian State through the (Belgian) Federal Participation and Investment Company (Société Fédérale de Participations et d’Investissement (SFPI)/Federale Participatie- en Investeringsmaatschappij (FPIM), which, acting in the framework of a *mission déléguée/gedelegeerde opdracht*, holds the shares in BNP Paribas Fortis SA/NV for the account of the Belgian State) (25 per cent.) and minority shareholders (0.07 per cent.).

BNP Paribas Fortis and Ageas Insurance International entered into a shareholders’ agreement dated 12 May 2009 (the “**Shareholders’ Agreement**”), to which AG Insurance is also a party. The Shareholders’ Agreement provides that, among other things, BNP Paribas Fortis will be represented by two non-executive

directors in AG Insurance's board of directors. If BNP Paribas Fortis' stake in AG Insurance equals or exceeds 5 per cent. but is lower than 15 per cent., it will only be entitled to one representative in the board of directors.

AG Insurance directors appointed upon proposal of BNP Paribas Fortis have a number of veto rights on important decisions such as the distribution of interim dividends, the entering into (or amendment of) material contracts or financial arrangements between AG Insurance and any of its shareholders (if not in the ordinary course of business), material acquisitions or disposals of a material part of AG Insurance's business, among other things.

BNP Paribas Fortis also has a veto right at AG Insurance's shareholders' meetings on a number of important items such as dividend payments, mergers, increase or decrease of the registered share capital, etc.

The Shareholders' Agreement also contains a prohibition for BNP Paribas Fortis to sell its stake in AG Insurance prior to 1 January 2018. Furthermore, a put option was granted to BNP Paribas Fortis in 2009 pursuant to which BNP Paribas Fortis may sell its shares in AG Insurance to Ageas Insurance International after 1 January 2018 at fair market value.

Finally, neither Ageas Insurance International nor BNP Paribas Fortis may transfer only part of their stake in AG Insurance. In case of transfer of shareholdings, both shareholders benefit from reciprocal pre-emption and tag along rights.

The Shareholders' Agreement was entered into for a period of 15 years.

As part of the bail-out of the former Fortis group in 2008 (completed by the separation of the Fortis group in 2009), Ageas Insurance International granted to the Belgian State a pledge on a maximum of 20 per cent. of the shares in AG Insurance to secure certain payment obligations of ageas SA/NV that are guaranteed by the Belgian State. It is expected that in the weeks following the date of this Prospectus this percentage will be reduced to 14 per cent.

3 Credit ratings of AG Insurance

AG Insurance is rated by S&P and Fitch. The ratings (situation as at 19 February 2013) can be summarised as follows:

S&P

Financial Strength Rating	A - (stable outlook)
Counterparty Credit Rating	A - (stable outlook)

Fitch

Insurer Financial Strength	A + (stable outlook)
Long term Issuer Default Rating	A (stable outlook)

On 27 November 2012 S&P confirmed the Issuer's "A-" counterparty credit and financial strength ratings and affirmed its stable outlook for AG Insurance.

On 14 December 2012 Fitch confirmed AG Insurance's IFS (Insurer Financial Strength) rating of "A+" and long term IDR (Issuer Default Rating) of "A". The outlooks on the IFS rating and the long term IDR were adjusted from negative to stable.

4 Business structure

Segments and organisation

Three operating segments are distinguished for IFRS segment reporting purposes: Individual Life (Insurance) & Health, Non-Life (Insurance) other than Health Care and Employee Benefits & Health Care. Individual Life & Health markets insurance contracts covering risks related to the life and death of individuals as well as individual health care insurance. Individual Life & Health also markets individual investment contracts with and without a discretionary participation feature, as well as individual unit linked contracts. Non-Life is further broken down into four lines of business: accident, motor, fire and other (including third party liability). Employee Benefits & Health Care includes group insurance and collective health care insurance policies, as well as a small group insurance unit linked portfolio.

From an internal organisational point of view, AG Insurance is managed through three business lines: (i) Bank Channel which includes life product development, (ii) Broker Channel which includes non-life product development and (iii) Employee Benefits/Health Care Channel.

Brands

AG Insurance sells its insurance products under its own brand name through insurance brokers and directly, as well as those of its key distributors through their channels, including most notably BNP Paribas Fortis and the Belgian post bank (bpost banque/bpost bank).

AG Insurance subsidiaries operate under their own brand names, including AG Real Estate in real estate management and development and Interparking in car park management.

5 Distribution channels

AG Insurance distributes its products through three distinct channels: a Bank Channel (BNP Paribas Fortis branches and bpost banque/bpost bank branches) (See “— Material contracts — Bancassurance Distribution Agreements”), a Broker Channel (independent brokers) and directly in a “business to business” context through its Employee Benefits/Health Care Channel.

The table below illustrates the relative importance of the distribution channels in terms of their contribution to the total gross inflow for the year ended 31 December 2012.

	Life	Non-Life	
		(%)	
Bank	49	4	52
Broker	10	18	28
Employee Benefits/Health Care	16	3	20
Total	75	25	100

Total gross inflow for the year ended 31 December 2012 amounted to EUR 6.9 billion, of which EUR 5.1 billion in the life segment and EUR 1.8 billion in the non-life segment.

Bank Channel

The Bank Channel distributes individual life & health and non-life (property & casualty) products.

Individual life

Individual life products are mainly distributed by the Bank Channel through AG Insurance's long-standing strategic partnerships with BNP Paribas Fortis (both retail and business) and bpost banque/bpost bank.

As AG Insurance and BNP Paribas Fortis no longer belong to the same group of companies, the focus of the Bank Channel is to maintain the highest levels of partner and customer satisfaction through appropriate governance, products, processes, sales support and remuneration.

Non-life

The Bank Channel distributes non-life insurance products (accident, motor, fire and other (including third party liability)) to retail customers, offering the same products and following the same acceptance and pricing rules as in the Broker Channel. Bank branches propose non-life solutions only to retail clients who are not already customers of AG Insurance. BNP Paribas Fortis is also incentivised to refer business clients to the Broker Channel.

Broker Channel

The Broker Channel distributes individual life & health and non-life (property & casualty as well as workmen's compensation) products.

Non-life

The Broker Channel's main activities consist of distributing non-life insurance products, serving the retail as well as the business market (small and medium size enterprises and corporate clients with more than 50 full time employees) through independent insurance brokers. Building upon a broad product offering and deep penetration of insurance brokerage in Belgium, the Broker Channel targets both individuals and SMEs and larger corporate clients.

Individual life

The Broker Channel also distributes individual life insurance products through independent insurance brokers and through branches of Fintro, a network of independent bank managers operating on behalf and for BNP Paribas Fortis.

Employee Benefits/Health Care Channel

The Employee Benefits/Health Care Channel distributes its pension (group insurance) and health care products – which are a complement to the benefits provided by the Belgian social security system – through brokers, consultants and directly to its clients (*i.e.* employers and sectors in a business to business context and to a lesser extent individuals). The Employee Benefits/Health Care Channel can rely on leads generated by international networks such as IGP and Insurope it belongs to and by BNP Paribas Fortis.

Products sold by Employee Benefits encompass company plans, sector plans and early retirement plans. Health Care products sold encompass group medical, group disability and individual medical covers, and are sold both to employers and individuals.

6 Products

Life insurance products

AG Insurance's life products consist of a broad range of products with or without a discretionary participation feature (a contractual right to receive, as a supplement to guaranteed benefits, additional benefits depending on the performance of the insurance company). Products are offered to both the individual and the group life markets.

Individual customers

In individual life insurance, AG Insurance offers a broad product range addressing the changing needs of its customers over their lifetime, including savings and investment products to save for a house, children, retirement (with or without tax benefits), for a specific purpose (different risk/return) or to cover the need for an additional income, non-unit linked contracts, pension products with tax benefits and closed and open-ended structured unit linked products.

Products offering protection are, for instance, death cover (asset protection), mortgage linked insurance and unemployment insurance.

For professionals and self employed customers, AG Insurance provides pension plans and second pillar (employer-administered and funded group life) plans for small and medium size enterprises.

All products have surrender protection features, some of which are based on market value adjustment features, meaning that customers receive the value of the investments underlying their products if they lapse.

Employee Benefits

AG Insurance's Employee Benefits & Health Care business line offers global employee benefits packages in pensions and health, both as a complement to regular welfare benefits, to major employers in the private sector, sector-wide organisations and the public sector.

Pension benefits include lump sums assured during life or death covering, annuities and spouses' and orphans' benefits. AG Insurance offers both standardised and customised products.

Health insurance includes medical cost insurance and disability benefits.

Non-life insurance products

Fire

AG Insurance's fire insurance policies provide coverage to both individual and business customers. Fire policies generally provide coverage for a variety of losses, including fires, storms, burglary and other perils. Individual coverage is provided on both a single-risk and multi-risk basis, with multi-risk policies providing coverage for loss or damage to dwellings, damage to personal goods and liability to third parties.

Business coverage is provided to Belgian companies for buildings and facilities in Belgium, and includes ordinary and commercial risks, but no large industrial risks.

Motor

The motor insurance policies offered by AG Insurance provide coverage to individual and commercial (fleet) insurers for third party liability (including property damage and bodily injury), as well as coverage for theft, fire and collision damage. Belgian law requires that coverage for third party liability be maintained with respect to each licensed motor vehicle. Other types of coverage, including collision, first party medical and damage suffered by the policyholder, the driver of the vehicle or the vehicle itself, are optional.

Corporate customers

To specifically serve the larger enterprise segment, the corporate unit was created, where experts in this area develop and offer tailor-made products and services specifically for this target group.

Liability

The main product offered is private third party liability insurance, which protects all family members against damage caused to third parties in private life situations. Other liability products relate to travel and domestic staff. AG Insurance also offers liability cover for small and medium sized enterprises and corporates.

Workmen's compensation

In addition to private life accident cover, AG Insurance is the second largest workmen's compensation insurer in the Belgian market². Belgian law provides that each employer must underwrite an insurance policy ("workmen's compensation") to cover employees both in case of accidents at the workplace and in commuter traffic. Unlike most other European countries, in Belgium the private sector rather than the State social security system provides these insurance products. Although provided by the private sector, the levels of premiums are subject to control by the government, which also exerts administrative control on claims handling.

Legal assistance

This product offers legal protection in civil matters.

Contribution to AG Insurance's results per operating segment

The contribution of the various products per operating segment to AG Insurance's results for the year ended 31 December 2012 and for the year ended 31 December 2011 is set out in the tables below.

By product line (EUR mio)	2012	Operating segments			
		Total AG Insurance	Individual Life & Health	Non-Life other than Health Care	Employee Benefits & Health Care
Life technical result	354	273			81
Non-life technical result.....	96	6	67		23
- Accident & Health.....	42	6	13		23
- Motor.....	27		27		
- Fire and other damage to property.....	32		32		
- Other.....	(5)		(5)		
Total technical result.....	450	279	67	104	
Capital gains (losses) allocated to operating margin.....	128	66	22		40
Operating margin	578	345	89	144	
Other results.....	83	55	8		20
Profit before taxation.....	661	400	97	164	

² Source: National Bank of Belgium (<http://www.bnb.be/doc/cp/nl/vo/stat/pdf/inc-ao.xls>).

2011	Operating segments			
	Total AG Insurance	Individual Life & Health	Non-Life other than Health Care	Employee Benefits & Health Care
By product line (EUR mio)				
Life technical result	184	130		54
Non-life technical result.....	56	12	21	22
- Accident & Health.....	30	12	(4)	22
- Motor.....	56		56	
- Fire and other damage to property.....	(34)		(34)	
- Other.....	4		4	
Total technical result	240	142	22	76
Capital gains (losses) allocated to operating margin.....	(505)	(235)	(11)	(260)
Operating margin	(265)	(92)	11	(184)
Other results.....	(205)	(134)	(19)	(52)
Profit before taxation.....	(470)	(226)	(8)	(236)

7 Market position

Within the Belgian distribution landscape AG Insurance holds a leading position in both the bank distribution channel (through its partnerships with BNP Paribas Fortis and bpost banque/bpost bank) and the broker distribution channel. Direct distribution, both with agents and online platforms, is mainly dominated by mutual and cooperative insurance companies.

Life insurance market

Life insurance market distribution is dominated by bancassurers (such as BNP Paribas Fortis, KBC and Belfius), which had a market share of 43% in 2010. Although in decline over a period of 15 years, brokers still remain the second largest distribution channel (23%), closely followed by insurance companies offering life products directly (18%, mainly driven by Ethias and overall group life business). Assurfinance³ (11%) and Agents (5%) have the lowest market share.

Non-life insurance market

Within the non-life insurance market brokers remained the dominant force in 2010 with a distribution share of 58%. Despite this dominant position, brokers have lost market share to direct channels (20% mainly influenced by Ethias), Banks (7%) and Assurfinance (4%).

Market share evolution

AG Insurance has a leading market share in life insurance with a market share of 27.3 per cent. (measured in terms of funds under management) at the end of September 2012. In non-life insurance, AG Insurance has increased its market share from 14.8 per cent. at the end of 2008 to 15.6 per cent. at the end of September 2012. In a highly concentrated non-life market, AG Insurance is the market leader with a market share of 21%

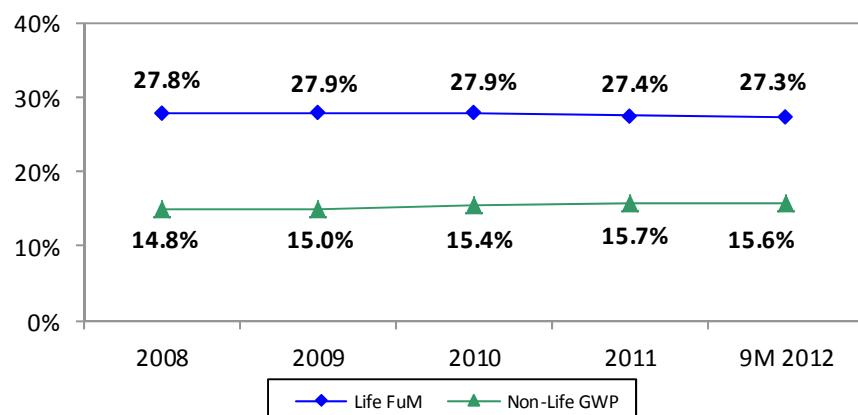
³ Assurfinance refers to the system where an independent insurance broker also acts as an (exclusive) agent of a bank.

in fire (even reaching 27.3% in household) and the runner up in motor with a growing market share of 15.1%⁴.

⁴ Calculated based on internal figures and market data available in Assuralia's "Quarterly Globalisation Survey on Premium Income".

Market share evolution 2008-9M 2012

Life excluding 1st pillar



Source: Assuralia Quarterly Globalisation Surveys on premium income

Position in 2011	Changes compared to 2010	Group	Total	Total non-life	Total life
1		AG Insurance	21.1	15.5 ⁵	24.3
2		AXA	14.7	20.2	11.5
3		KBC	13.2	9.4	15.4
4		Ethias	8.4	11.6	6.5
5		Belfius	8.0	4.8	9.8
6		P&V	4.6	5.8	4.0
7		Allianz	4.4	4.2	4.6
8	↑ 4	Baloise	3.7	6.5	2.0
9	↓ 1	ING	3.6	1.1	5.1
10		ERGO	3.3	4.6	2.5
11	↓ 2	Delta Lloyd	2.9	0.6	4.3
12	↑ 1	Argenta	2.3	0.9	3.1
13	↓ 2	Generali	1.8	1.9	1.7
14		Federale	1.1	1.8	0.6
15		Amlin	0.6	1.7	0.0
Top 15			93.6	90.5	95.4

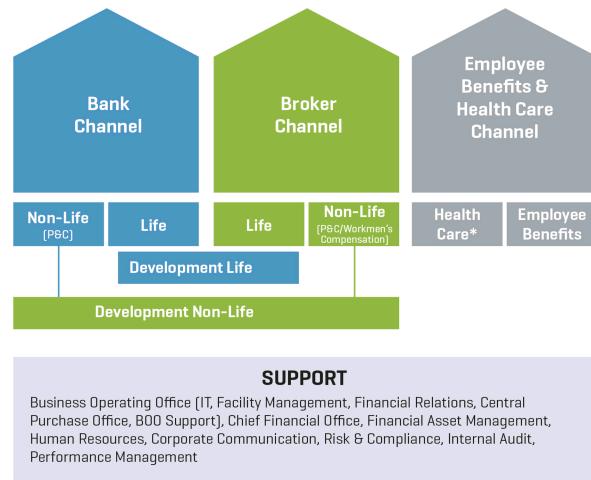
Source: Assuralia, gross inflow 2011

⁵ The scope of this inquiry does not take into account collective health care business (0.2% non-life market share in 2011).

8 Strategy

The general over-arching objectives of AG Insurance are to be a leading and profitable multi-distribution service provider of insurance products and to continue to strengthen its market leadership position.

The principles underlying AG Insurance's operational model are summarised in the diagram below.



The AG Insurance operational model is characterised by a customer focused approach through three distribution channels: Bank Channel, Broker Channel and Employee Benefits/Health Care Channel. Each channel is responsible for distributing life, non-life and/or employee benefits products.

AG Insurance aims at creating further synergies to enhance its product and service leadership. As such, one product development entity "life" for the Bank and Broker Channels and one product development entity "non-life" for the Bank and Broker Channels, as well as one product development entity "health care" for the Bank and Broker Channels and business to business distribution, were created. This has led to greater homogeneity in the product, resulting in turn into operational synergies.

9 Key financial figures

AG Insurance's gross inflows for the year ended 31 December 2012 amounted to EUR 6.9 billion, 11 per cent. higher than for the year ended 31 December 2011. Life inflows amounted to EUR 5.1 billion as at 31 December 2012, compared to EUR 4.5 billion as at 31 December 2011. Non-life gross written premiums stood at EUR 1.8 billion for the year ended 31 December 2012, compared to EUR 1.7 billion for the year ended 31 December 2011.

Life funds under management increased by 7 per cent. to EUR 53.2 billion over the same period.

The total combined ratio for the year ended 31 December 2012 stood at 99.5 per cent., compared to 101.6 per cent. for the year ended 31 December 2011.

Net profit attributable to shareholders for the year ended 31 December 2012 amounted to EUR 433 million, compared to negative EUR 436 million for the year ended 31 December 2011. Net profit attributable to shareholders in 2011 was however severely impacted by impairment charges on Greek bonds amounting to EUR 779 million (post tax and profit sharing impacts).

Shareholders' equity as at 31 December 2012 stood at EUR 5,371 million, compared to EUR 3,175 million as at 31 December 2011. The increase in shareholders' equity resulted mainly from the positive evolution of net unrealised gains and losses and retained profit.

Under Solvency I, AG Insurance is required to maintain a minimum level of qualifying capital relative to the premiums received for non-life insurance contracts and relative to the life insurance liabilities arising from insurance and investment contracts. As at 31 December 2012 AG Insurance's solvency ratio stood at 176 per cent., up from 174 per cent. at the end of 2011.

The table below sets out the calculation of AG Insurance's solvency ratio as a percentage by which the total available capital exceeds the minimum regulatory solvency requirements.

	2012	2011
	<i>(EUR mio)</i>	<i>(EUR mio)</i>
Total available capital.....	4,185	3,940
Minimum solvency requirements.....	2,380	2,262
Amount of total capital above minimum.....	1,805	1,678
Total solvency ratio	176%	174%

See note 8 of the audited consolidated financial statements of the Issuer prepared in accordance with IFRS for the period ended 31 December 2012 for more information on the available regulatory capital and the required solvency of AG Insurance.

The Notes described in this Prospectus will rank *pari passu* with the Perpetual Subordinated Loans. As at the date of this Prospectus, the Perpetual Subordinated Loans, which consist of a EUR 150 million loan from ageas SA/NV, a EUR 500 million loan from Ageas Hybrid Financing S.A. and a EUR 250 million loan from Ageas Hybrid Financing S.A., represent approximately 21% of total available capital (See notes 29-30 of the audited consolidated financial statements of the Issuer prepared in accordance with IFRS for the period ended 31 December 2012 for more information on the Issuer's existing subordinated obligations). The issuance of the Notes will not increase this percentage, as the Issuer intends to use the net proceeds of the issue of the Notes in priority to (fully or partially) redeem outstanding subordinated loans to Ageas Hybrid Financing S.A. (See "Use of Proceeds").

10 Market trends and environment

The environment in which AG Insurance operates has been affected by several trends and developments, some of which are specific to the insurance business in Belgium (See also "Risk factors — Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes — AG Insurance's performance is subject to substantial competitive pressure that could adversely affect its results").

Financial markets turmoil

As a result of the Euro zone sovereign debt crisis (See "Risk factors — Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes — The Issuer is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations in its investment portfolio"), AG Insurance decided to reduce its exposure to the peripheral Euro zone countries (Greece, Ireland, Italy, Portugal and Spain) in its sovereign bonds portfolio. A significant part of the portfolio was reinvested in Belgian government bonds, in French government bonds and to a lesser extent in Austrian, German and Dutch government bonds. The table below illustrates the evolution of AG Insurance's sovereign debt exposure between 31 December 2010 and 31 December 2012.

Carrying values (EUR mio)	31/12/2012		31/12/2011		31/12/2010	
	%	%	%	%	%	%
Italy	1,120	4	1,046	4	2,750	10
Ireland	392	1	350	1	439	2
Greece	0	0	354	1	1,085	4
Portugal	12	0	55	0	75	0
Spain	274	1	827	3	1,395	5
Sub-total	1,798	6	2,632	9	5,744	21
Belgium.....	18,307	60	13,946	52	9,770	36
France.....	4,312	14	3,932	15	3,695	14
Germany.....	1,357	5	1,505	6	2,579	9
Austria.....	2,643	9	2,134	8	2,228	8
Other	1,912	6	2,729	10	3,182	12
Total government bonds	30,329	100	26,878	100	27,198	100

See the sections “Investment default risk” and “Concentration Risk” of note 7.5 “Financial Risk” of the audited consolidated financial statements of the Issuer prepared in accordance with IFRS for the period ended 31 December 2012 for more information on the asset split (government, corporate, bank and finance and structured credit instruments) of the asset portfolio and on the rating quality of the investment portfolio.

Political and economic environment

Following a period of rising yields on Belgian government bonds in 2011 pending the formation of a new Belgian government, Belgian OLO (*obligation linéaire/lineaire obligatie*, Belgian government bonds) rates came down markedly as financial markets reacted positively to the budgetary measures by the new Belgian government installed in December 2011, thereby restoring investor confidence. On 27 December 2012 the yield on Belgian 10 year OLOs had fallen to 2.04%, a record low.

A number of budgetary measures taken by recent Belgian governments have had a direct impact on AG Insurance. As from January 2011, a 15 basis points state contribution is due by insurance companies on so called Branch 21 savings products (except second pillar products). The Belgian government introduced this contribution in order to provide a deposit guarantee (of maximum EUR 100,000) for insurance saving contracts, similar to the deposit protection in the banking sector. This measure resulted in a cost for AG Insurance of EUR 41 million in 2012 and EUR 40 million in 2011. Furthermore, the rate of the notional interest deduction (“NID”), a tax deduction allowed on the qualifying net equity of Belgian corporate tax payers, was reduced from 3 per cent. to 2.742 per cent. The NID can no longer be carried forward to subsequent tax years (NID carry forwards built up until assessment year 2012 can, subject to certain limitations, still be deducted from future taxable income).

In addition, several measures have had or will have an impact on AG Insurance indirectly, such as, amongst others:

- (i) an increase of the withholding tax rate on interest from 21% to 25% in 2013 (except for regulated savings deposits and state bonds issued and subscribed between 24 November and 2 December 2011). Exemption from withholding tax after 8 years and one day stays nonetheless in place on insurance savings contracts;

- (ii) the tax range on payments for accumulated personal pension and long term savings (second and third pillar) was limited to 30% since 2012;
- (iii) the separate tax rates that apply to pension capital pay-out will gradually be increased for early retirements as from 2013;
- (iv) an increase of individual life insurance premium taxes from 1.1% to 2% on premiums paid since 1 January 2013; the increase would however not apply to mortgage linked term insurance products (“*assurance solde restant dû/schuldsaldoverzekering*”) and fiscal pension savings; and
- (v) a special contribution of 1.5% due on the portion of employer contributions to pension plans that exceed the threshold of EUR 30,000 per year; the practical applications of this new measure have been worked out and will be implemented at the beginning of 2013.

11 Risk management

See note 7 of the audited consolidated financial statements of the Issuer prepared in accordance with IFRS for the period ended 31 December 2012 for more information on the risk management of AG Insurance.

AG Insurance is in particular subject to interest rate risk. Interest rate risk is managed by combining the cash-flow matching principle with duration matching for the investment of the bond portfolio. While the cash-flow matching principle is most important for the short to medium term liabilities, duration matching is important for the long term liabilities. AG Insurance has in place asset liability management (“ALM”) in order to manage assets and liabilities in a coordinated way. ALM is based on a comprehensive analysis and management of the asset portfolio in light of the current liabilities and future cash flows. As such analysis is based on estimated liability cash flows, this estimate of the liability cash flow profile may, however, be inaccurate, and a forced liquidation of investments at a loss prior to their maturity in order to cover the liability may be required. Possible mitigation actions with respect to interest rate risk include offsetting transactions or hedging via derivatives, together with appropriate product design (especially insofar as life insurance products are concerned) and adequately provisioning for low interest rate risk. Although measures are taken to manage investments in a changing interest rate environment, AG Insurance may not be able to fully mitigate the interest rate risk of its assets relative to its liabilities (See “Risk factors — Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Notes — The level of and volatility in interest rates may adversely affect the Issuer’s business”).

12 Insurance supervision and regulation

The Belgian Law of 2 July 2010 amending the Law of 2 August 2002 relating to the supervision of the financial sector and financial services and the Law of 22 February 1998 determining the organic status of the National Bank of Belgium and containing various provisions split the supervision of financial institutions and financial markets. The Law of 2 July 2010 thus created the so called “Twin Peaks” model and was implemented by the Royal Decree of 3 March 2011 on the evolution of the supervision architecture for the financial sector. While the Belgian FSMA (Financial Services and Markets Authority, the new name of the CBFA (*Commission Bancaire, Financière et des Assurances/Commissie voor het Bank-, Financie- en Assurantiewezen*)) remains the stock market regulator and focuses on protection of consumers, the prudential supervision of insurance companies and of “systemically important financial institutions” (SIFIs) is now the responsibility of the National Bank of Belgium (NBB). AG Insurance is monitored by the NBB both in its capacity as a SIFI and as an insurance company. In addition, Ageas is also monitored by the NBB both in its capacity as a SIFI and as an insurance holding, as a result of which AG Insurance is indirectly subject to additional consolidated prudential control.

As a SIFI, AG Insurance falls under the specific supervision of the NBB for all its “strategic decisions”. The NBB has the right to oppose intended strategic decisions by AG Insurance if they are deemed to be in breach of the sound and prudent management of the SIFI or if they create a material risk for the stability of the financial sector. The NBB can also impose additional specific measures upon AG Insurance, including in relation to liquidity, solvency, risk concentration and risk positions, if the NBB determines that as a SIFI AG Insurance has an inadequate risk profile or if its policy can have a negative impact on the stability of the financial system.

As an insurance company, AG Insurance is also supervised by the NBB in relation to its capital, liquidity and solvency requirements, internal governance and organisation and fit and proper assessment of management and shareholders (See “Risk factors — Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Notes — The Issuer is considered to be a “systemically important financial institution” and could itself be exposed to systemic risk that could adversely impact its results and financial condition”).

At the European level, Solvency II and the International Financial Reporting Standards (IFRS) Phase II are leading to a convergence of regulatory and capital requirements respectively financial reporting.

Solvency II is the updated set of capital requirements for insurance companies that operate in the European Union. This new regulatory framework had originally been scheduled to come into effect on 1 January 2014, but recent developments suggest that implementation of the Solvency II Directive may be postponed to 2016 or even later. As a comprehensive framework for risk management, Solvency II aims to define required capital levels based on fair value and to implement procedures to identify, measure and manage risk levels (See “Risk factors — Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Notes — There are continuing uncertainties regarding the final implementing measures that will be adopted under the Solvency II regime and that could have potentially adverse impacts on the insurance sector as a whole and on the Issuer in particular”).

The IFRS are principle-based accounting standards. IFRS Phase II will address recognition and measurement issues for insurance contracts using a fair value approach. This means that all insurance contracts will also have to be measured at fair value (See “Risk factors — Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Notes — Potential changes to International Financial Reporting Standards as adopted by the European Union may adversely affect the consolidated results of the Issuer and its financial condition”).

13 Material contracts

Bankassurance Distribution Agreements

AG Insurance has a long-standing partnership with BNP Paribas Fortis SA/NV relating to the distribution of AG Insurance’s products through the retail banking channel of BNP Paribas Fortis. This partnership was formalised in a Bankinsurance Agreement dated 6 November 1996 and further supplemented and completed by several other agreements.

The existing agreements provide for the practical aspects, commercial relationships, fees and conditions at which BNP Paribas Fortis will distribute AG Insurance’s life and non-life products. They regulate the parties’ mutual obligations in terms of marketing, sales management, sales support, distribution channels, liabilities, compliance, products offering, trademark use, complaints management, etc. The agreements also provide that BNP Paribas Fortis will distribute AG Insurance’s products exclusively.

As part of the various agreements entered into in the context of the bailout of the former Fortis group, the partnership agreement was extended in 2009 to run until at least 31 December 2020. However, it can be

terminated by either party - subject to giving at least three years' notice - no later than 1 January 2018 (See "Risk factors — Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes — AG Insurance may be unable to maintain a competitive distribution network of independent brokers and is dependent on an exclusive distribution agreement with BNP Paribas Fortis, both of which could adversely impact its future business and results").

AG Insurance also entered into distribution agreements with other parties such as Fintro (the operations of BNP Paribas Fortis through independent bank managers) and bpost banque/bpost bank (the Belgian post bank). The term of the agreements is set to 31 December 2014 but they are renewable.

Servicing agreement

After the dismantling of the Fortis group, AG Insurance and BNP Paribas Fortis SA/NV entered into a long term mainframe outsourcing servicing agreement on 20 August 2010. Pursuant to this agreement, BNP Paribas Fortis hosts and manages a number of IT applications of AG Insurance on its mainframe computers. All technical specifications and responsibilities are, amongst others, fully documented in the agreement. The agreement allows BNP Paribas Fortis to outsource its IT services to a third party if it so desires.

This outsourcing agreement complies with the provisions of the CBFA's circular PPB-2006-1-CPA and is entered into for an indefinite term. Each party can terminate the agreement at its convenience as of 1 January 2012, subject to giving 30 days' prior notice (See "Risk factors — Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes — The Issuer is dependent on the existence and due performance of two major outsourcing contracts, the termination or non-performance of which could have a negative impact on operating its business and hence on profitability"). AG Insurance and BNP Paribas Fortis are examining alternative arrangements to allow AG Insurance to migrate to another service provider from 2014 onwards if needed, while keeping the necessary integration between bank and insurance applications to support AG Insurance's bancassurance activities.

On 28 December 2012 AG Insurance was informed by BNP Paribas Fortis that BNP Paribas Fortis will outsource the IT infrastructure services provided to AG Insurance to a separate IT company in the BNP Paribas group located in Paris. This company will gradually take over operational responsibility as of 1 April 2013 at the earliest. BNP Paribas Fortis will nevertheless bear responsibility towards AG Insurance for the performance of all obligations under the initial outsourcing agreement.

Notwithstanding the efforts in examining alternative arrangements, AG Insurance retains a certain degree of dependence on BNP Paribas Fortis that may represent an operational risk and that could adversely impact AG Insurance's operations and results.

14 Management of AG Insurance

AG Insurance has a two-tier management structure composed of a Board of Directors (*conseil d'administration/raad van bestuur*) and of a Management Committee (*comité de direction/directiecomité*). The members of the Management Committee are also members of the Board of Directors. The Board of Directors is in charge of defining the company's strategy and objectives. It also controls the Management Committee which is entrusted with the management of the day-to-day insurance operations.

The consolidated articles of association of AG Insurance are dated as of 15 March 2011. In accordance with Article 3 of the articles of association the purpose of AG Insurance is to carry out all insurance and reinsurance activities. Pursuant to the issue of the Notes, the articles of association will be amended in order to comply with the provisions of the Belgian Code of Companies on "companies making or having made a public call on savings".

The Board of Directors also set up an Audit and Risk Committee (as provided for in Article 14ter of the Belgian Law of 9 July 1975 on the control of insurance companies) and a Nomination and Remuneration Committee. Furthermore, three members of the Board are independent directors according to the meaning of Article 526ter of the Belgian Code of Companies.

No conflicts of interests of the Board members or of the members of the Management Committee exist between any duties to AG Insurance and their private interests.

Board of Directors

The following individuals, all of whom have their business address at Boulevard Emile Jacqmainlaan 53, 1000 Brussels, Belgium, are members of the Board of Directors of AG Insurance:

Jozef De Mey is chairman of the Board of AG Insurance and chairman of the Nomination and Remuneration Committee. He is also chairman of the board of ageas SA/NV and Ageas Insurance International N.V. and non-executive director of Taiping Life (China), Muang Thai Ageas Holding Co. Ltd (Thailand), AiCA (Hong Kong), Credimo NV and Credimo Holding NV.

He also sits on the board of the Flemish-Chinese Chamber of Commerce, J. Zinner NV, Ghent Festival of Flanders and De Eik NV.

Bart De Smet is vice-chairman of the Board of AG Insurance and a member of the Nomination and Remuneration Committee. He is also CEO and executive director of ageas SA/NV, executive director of Ageas Insurance International N.V., chairman of the board of Millenium BCP Ageas (Portugal), vice-chairman of the board of F&B Insurance Holding, eTIQa/Maybank FH (Malaysia), IDBI (India), AiCA (Hong Kong) and member of the board of Credimo.

He is also the chairman of Assuralia (the professional organisation of insurance companies in Belgium).

Xavier de Walque is an independent non-executive director and a member of the Audit and Risk Committee of AG Insurance.

He is also Chief Financial Officer of Cobepa.

Renate Krümmer is an independent non-executive director and a member of the Audit and Risk Committee of AG Insurance.

She is also a commissioner at the Auditor Oversight Commission.

Eric Lombard is a non-executive director of AG Insurance and a member of the Nomination and Remuneration Committee. Eric Lombard was appointed upon proposal of BNP Paribas Fortis SA/NV.

He is also CEO and chairman of the board of BNP Paribas Assurance and CARDIF Assurance Vie. He is chairman of the board of CARDIF Assurance Risques Divers. He is also director of BNP Paribas Asset Management SAS, BNP Paribas Personal Finance, Cortal Consors, GIE BNP Paribas Assurance, Natio Assurance, SAS Cardif Retraite Assurance Vie and SBI Life Insurance Co. Ltd. He is manager of Halmahera SARL. He is also member of the surveillance committee (*conseil de surveillance*) of BNP Paribas Real Estate.

Lionel Perl is a non-executive director of AG Insurance and a member of the Audit and Risk Committee and of the Nomination and Remuneration Committee. He is also a non-executive director of ageas SA/NV and Ageas Insurance International N.V.

He is also a board member of Urbina S.A. and managing director of Fenway Group S.A., Sotexim S.A. and Finance & Communication.

Peter Vandekerckhove is a non-executive director of AG Insurance. Peter Vandekerckhove was appointed upon proposal of BNP Paribas Fortis SA/NV.

He is an executive director of BNP Paribas Fortis SA/NV and member of the board of BNP Paribas Investment Partners, BNP Paribas Fortis Factor and of BNP Paribas Fortis Foundation.

Daniël van Woensel is an independent non-executive director of AG Insurance and chairman of the Audit and Risk Committee of AG Insurance.

He is also an independent board member of Weghsteen en Driege.

Management Committee

The following individuals, all of whom have their business address at Boulevard Emile Jacqmainlaan 53, 1000 Brussels, Belgium, are both members of the Board of Directors and of the Management Committee:

Antonio Cano is the chairman of the Management Committee of AG Insurance and the Chief Executive Officer of AG Insurance. He is also chairman of the board of AG Finance, AG Real Estate and Willemot.

He is a board member of Assuralia.

Benny De Wyngaert is a member of the Management Committee of AG Insurance and Managing Director of the Bank Channel and Life Insurance Development at AG Insurance. He is also chairman of the board of AGALLIS.

He is a board member of the non-profit organisation CIMIRE asbl/vzw (Compte Individuel Multisectoriel/Multisectoriële Individuele Rekening).

Heidi Delobelle is a member of the Management Committee of AG Insurance and the Chief Risk Officer of AG Insurance.

Jean-Michel Kupper is a member of the Management Committee of AG Insurance and Managing Director of the Employee Benefits & Health Care Channel at AG Insurance. He is also chairman of the board of Assusoft and Serfinac.

Philippe Landrain is a member of the Management Committee of AG Insurance and Managing Director of the Broker Channel and Non-Life Insurance Development at AG Insurance. He is also vice-chairman of the board of Benelux Assist and a board member of Brokers Finop, FIB Invest, Alpha Credit and Willemot.

He is also a board member of Brocom Services

Philippe Latour is a member of the Management Committee of AG Insurance and Chief Financial Officer of AG Insurance. He is also chairman of the board of Brokers Finop, FIB Invest and Gamma Capital and a board member of AG Real Estate, Interparking, AG Finance and Intreinco.

He is also chairman of the board of Aviabel and a boardmember of Assuralia

Wim Vermeir is a member of the Management Committee of AG Insurance and the Chief Investment Officer of AG Insurance.

15 Legal and arbitration proceedings

From time to time, AG Insurance is involved in litigation arising in the ordinary course of its business, both as plaintiff and as defendant. AG Insurance adequately manages the legal proceedings in which it is involved and customary and adequate provisions have been made.

Neither AG Insurance nor any of its subsidiaries are involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of AG Insurance and/or the Group.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used in priority by the Issuer to (fully or partially) redeem outstanding subordinated loans to Ageas Hybrid Financing S.A. The remaining net proceeds will be used for general corporate purposes.

The expenses in connection with the admission to trading are expected to amount to EUR 5,600.

TAXATION

The statements herein regarding taxation are a general description of the principal Belgian and Luxembourg tax consequences for investors receiving interest in respect of, or disposing of, the Notes and is of a general nature. It does not purport to be a complete analysis of tax considerations relating to the Notes.

This general description is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (or with retroactive effect). Investors should appreciate that, as a result of changing law or practice, the tax consequences may be otherwise than as stated below. This discussion is for general information purposes only and does not purport to be a comprehensive description of all possible tax consequences that may be relevant. Potential purchasers of Notes should consult their own professional advisers as to the possible tax consequences of subscribing for, purchasing, holding or selling the Notes and the receipt of any amount in connection with the Notes under the laws of their countries of citizenship, residence, ordinary residence or domicile.

EU SAVINGS DIRECTIVE

Under the EC Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), member states of the European Economic Union (the “EU Member States” and each a “EU Member State”) are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

BELGIAN TAXATION

(a) Belgian withholding tax

Notes may be held only by, and transferred only to, Eligible Investors (as defined below) holding their Notes in an X account. This section summarises the Belgian withholding tax treatment in the hands of Eligible Investors only. All payments by or on behalf of the Issuer of interest on the Notes are in principle subject to the 25 per cent. Belgian withholding tax on the gross amount of the interest. In this regard, “interest” means the periodic interest income, any amount paid by the Issuer in excess of the issue price (whether upon repurchase or upon redemption) and, in case of a realisation of the Notes between two interest payment dates, the *pro rata* of accrued interest corresponding to the holding period.

However, payments of interest and principal under the Notes by or on behalf of the Issuer may be made without deduction of withholding tax in respect of the Notes if and as long as at the moment of payment or attribution of interest they are held by certain eligible investors (See hereinafter “Eligible Investors”) in an exempt securities account (an “X Account”) that has been opened with a financial institution that is a direct or indirect participant (a “Participant”) in the X/N Clearing System operated by the NBB. Euroclear and Clearstream, Luxembourg are directly or indirectly Participants for this purpose.

Holding the Notes through the X/N Clearing System enables Eligible Investors to receive the gross interest income on their Notes and to transfer the Notes on a gross basis. Participants in the X/N Clearing System must enter the Notes which they hold on behalf of Eligible Investors in an X Account. Eligible Investors are

those entities referred to in Article 4 of the *Arrêté Royal du 26 mai 1994 relatif à la perception et à la bonification du précompte mobilier/Koninklijk besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing* (Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax) which include, *inter alia*:

- (i) Belgian corporations subject to Belgian corporate income tax;
- (ii) institutions, associations or companies specified in Article 2, §3 of the Law of 9 July 1975 on the control of insurance companies other than those referred to in 1° and 3° subject to the application of Article 262, 1° and 5° of the Income Tax Code of 1992;
- (iii) state regulated institutions (*institutions parastatales/parastatalen*) for social security, or institutions which are assimilated therewith, provided for in Article 105, 2° of the Royal Decree implementing the Income Tax Code 1992;
- (iv) non-resident investors provided for in Article 105, 5° of the same Decree;
- (v) investment funds, recognised in the framework of pension savings, provided for in Article 115 of the same Decree;
- (vi) tax payers provided for in Article 227, 2° of the Income Tax Code 1992 which have used the income generating capital for the exercise of their professional activities in Belgium and which are subject to non-resident income tax pursuant to Article 233 of the same Code;
- (vii) the Belgian State in respect of investments which are exempt from withholding tax in accordance with Article 265 of the Income Tax Code 1992;
- (viii) investment funds governed by foreign law which are an indivisible estate managed by a management company for the account of the participants, provided the fund units are not offered publicly in Belgium or traded in Belgium; and
- (ix) Belgian resident corporations, not provided for under (i), when their activities exclusively or principally consist of the granting of credits and loans.

Eligible Investors do not include, *inter alia*, Belgian resident investors who are individuals or non-profit making organisations, other than those mentioned under (ii) and (iii) above.

Upon opening of an X Account for the holding of Notes, the Eligible Investor is required to provide the Participant with a statement of its eligible status on a form approved by the Minister of Finance. There is no ongoing declaration requirement to the X/N Clearing System as to the eligible status, save that the Eligible Investor needs to inform the Participant of any change in the information contained in the statement of their eligible status. However, Participants are requested to make declarations to the NBB as to the eligible status of each investor from whom they held notes in an X Account during the preceding calendar year. These identification requirements do not apply to Notes held in Euroclear or Clearstream, Luxembourg as Participants to the X/N Clearing System, provided that Euroclear or Clearstream only hold X Accounts and that they are able to identify the holders for whom they hold Notes in such account.

(b) *Belgian tax on income and capital gains*

Notes may be held only by, and transferred only to, Eligible Investors holding their securities in an X account. This section summarises the Belgian tax on income and capital gains in the hands of such Eligible Investors. This section therefore does not address the tax treatment in the hands of investors that do not qualify as Eligible Investors such as Belgian resident individuals and Belgian legal entities that do not qualify as Eligible Investors.

Belgian resident companies

Interest attributed or paid to corporate Holders that are Belgian residents for tax purposes (*i.e.* who are subject to the Belgian Corporate Income Tax (*impôt des sociétés/vennootschapsbelasting*)) and capital gains realised upon the sale of the Notes are taxable in principle at the ordinary corporate income tax rate of 33.99 per cent. Capital losses realised upon the sale of the Notes are in principle tax deductible.

Belgian legal entities

Belgian legal entities which qualify as Eligible Investors (as defined in the section “Belgian withholding tax”) and which consequently have received gross interest income are required to pay the withholding tax themselves. Capital gains realised on the sale of the Notes are, in principle, tax exempt, unless the capital gains qualify as interest (as defined in the section “Belgian withholding tax”). Capital losses are, in principle, not tax deductible.

Belgian non-residents

Non-residents who use the Notes to exercise a professional activity in Belgium through a permanent establishment are in principle subject to the same tax rules as Belgian resident companies (see above).

Holders who are not residents of Belgium for Belgian tax purposes and who are not holding the Notes through their permanent establishment in Belgium, will not become liable for any Belgian tax on income or capital gains by reason only of the acquisition or disposal of the Notes provided that they qualify as Eligible Investors and that they hold their Notes in an X Account.

(c) Tax on stock exchange transactions

A stock exchange tax (*taxe sur les opérations de bourse/taks op de beursverrichtingen*) will be levied on the acquisition and disposal of the Notes on the secondary market in Belgium through a professional intermediary. The rate applicable for secondary sales and purchases in Belgium through a professional intermediary is 0.09 per cent. with a maximum amount of EUR 650 per transaction and per party. The tax is due separately from each party to any such transaction (*i.e.* the seller (transferor) and the purchaser (transferee)) both collected by the professional intermediary.

However, the tax referred to above will not be payable by exempt persons acting for their own account, including investors who are Belgian non-residents provided they deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors, as defined in Article 126/1, 2º of the Code of various duties and taxes (*Code des droits et taxes divers/Weitboek diverse rechten en taksen*).

LUXEMBOURG TAXATION

The comments below are intended as a basic summary of certain withholding tax consequences in relation to the purchase, ownership and disposal of the Notes under Luxembourg law. Persons who are in any doubt as to their tax position should consult a professional tax adviser.

(a) Luxembourg withholding tax

Under Luxembourg tax laws currently in effect and with the possible exception of interest paid to individuals and to certain residual entities (as described below), there is no Luxembourg withholding tax on payments of interest, including accrued but unpaid interest. There is also no Luxembourg withholding tax, with the possible exception of payments made to individuals and to certain residual entities (as described below), upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

(b) Individuals not resident in Luxembourg

Under the Luxembourg laws dated 21 June 2005 (the “Laws”) implementing the EU Savings Directive and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (“EU”), a Luxembourg based paying agent (within the meaning of the EU Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual or certain “residual entities” resident or established in another EU Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the exchange of information or, in case of an individual beneficiary, for the tax certificate procedure. “Residual entities” within the meaning of Article 4.2 of the EU Savings Directive are entities established in an EU Member State or in certain EU dependent or associated territories (which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the EU Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, which are not and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC, as replaced by the Council Directive 2009/65/EC, or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands). Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

The current withholding tax rate is 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries (See “EU Savings Directive” above).

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

(c) Individuals resident in Luxembourg

In accordance with the law of 23 December 2005, as amended (the “Law”), a 10 per cent. withholding tax is levied on interest payments made by Luxembourg paying agents (defined in the same way as in the EU Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 85/611/EC, as replaced by the Council Directive 2009/65/EC, or for the exchange of information regime). Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent.

Pursuant to the Law, Luxembourg resident individuals, acting in the framework of their private wealth, can opt to self-declare and pay a 10 per cent. tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the EU Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a state or territory which has concluded an international agreement directly related to the EU Savings Directive.

SUBSCRIPTION AND SALE

BNP Paribas, HSBC Bank plc, J.P. Morgan Securities plc and UBS Limited (the “Joint Bookrunners”) have, pursuant to a Subscription Agreement dated 19 March 2013, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent. of their principal amount less a commission payable as a percentage of the aggregate nominal amount of the Notes. In addition, the Issuer has agreed to reimburse the Joint Bookrunners for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer and the Joint Bookrunners have further agreed that an additional selling concession of 0.50 per cent. may be payable by the Issuer to certain third party intermediaries on the principal amount of their purchase in connection with the initial sale and distribution of the Notes.

General

Neither the Issuer nor any Joint Bookrunner has made any representation that any action will be taken in any jurisdiction by the Joint Bookrunners or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Bookrunner has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense unless otherwise agreed.

United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“Regulation S”).

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of any such Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Bookrunner has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Belgium

The Notes may not be distributed in Belgium by way of an offer of securities to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on a regulated market (the “Prospectus Law”), save in those circumstances set out in Article 3 §2 of the Prospectus Law.

The placement is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and the Prospectus or any other offering material relating to the Notes has not been and will not be approved by, the Belgian Financial Services and Markets Authority (the Belgian FSMA) (*Autorité des services et marchés financiers/Autoriteit voor Financiële Diensten en Markten*).

Accordingly, the placement may not be advertised and each of the Joint Bookrunners has represented and agreed that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than in the circumstances set out in Article 3 §2 of the Prospectus Law.

Switzerland

Neither this Prospectus nor any other document relating to the sale of the Notes constitutes a public offering prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Prospectus nor any other document relating to the Notes may be publicly distributed or otherwise made publicly available in or from Switzerland. This Prospectus is not intended as an offer or solicitation with respect to the purchase or sale of the Notes by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland, provided that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Notes.

Hong Kong

Each Joint Bookrunner has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement,

invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
 - 1.1 to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
 - 1.2 where no consideration is or will be given for the transfer;
 - 1.3 where the transfer is by operation of law; or
 - 1.4 as specified in Section 276(7) of the SFA.

Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively, the “FSCMA”). Accordingly, each Joint Bookrunner represents and agrees, that it has not offered, sold or delivered, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, the “FETL”)), except as otherwise permitted under applicable Korean laws and regulations, including the FSCMA and FETL.

People’s Republic of China

Each Joint Bookrunner has represented and agreed that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes except as permitted by the securities laws of the People’s Republic of China.

GENERAL INFORMATION

1. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. BNP Paribas Securities Services, Luxembourg Branch, having its registered office at 33, rue de Gasperich, L-5826 Hesperange, Luxembourg has been appointed as listing agent for that purpose.
2. The Issuer has obtained all necessary consents, approvals and authorisations in Belgium and Luxembourg in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer passed on 27 February 2013.
3. There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2012 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2012.
4. Neither the Issuer nor any of its subsidiaries is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.
5. The Notes have been accepted for clearance through the X/N Clearing System of the NBB with a Common Code of 090729276. The International Securities Identification Number (ISIN) for the Notes is BE6251340780.

The address of the NBB as operator of the X/N Clearing System is Boulevard de Berlaimont 14, B-1000 Brussels, Belgium.

6. Except as disclosed in "Description of the Issuer — Material Contracts" of this Prospectus, there are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Issuer's group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to holders in respect of the Notes being issued.
7. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
8. For the period of 12 months starting on the date of this Prospectus, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer:
 - (a) the articles of association (*statuts/statuten*) of the Issuer, in French and Dutch;
 - (b) a copy of this Prospectus (including the audited consolidated financial statements of the Issuer prepared in accordance with IFRS for the financial years ended 31 December 2011 and 31 December 2012 and the audit reports thereon) together with any Supplement to this Prospectus or further Prospectus; and
 - (c) all reports, letters and other documents, balance sheets, valuations and statements by any expert, any part of which is extracted or referred to in this Prospectus.

This Prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Klynveld Peat Marwick Goerdeler (KPMG) Réviseurs d'Entreprises SCCRL/Bedrijfsrevisoren CBVBA (member of the *Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren*), having its registered office at avenue du Bourgetlaan 40, B-1130 Brussels, Belgium, and represented by Mr Michel Lange and Mr Karel Tanghe, audited the consolidated financial statements of the Issuer prepared in accordance with IFRS for the financial years ended 31 December 2011 and 31 December 2012 without qualification and in accordance with IFRS.

9. So far as the Issuer is aware, no person involved in the offer has any interest, including conflicting ones, that is material to the offer. The Joint Bookrunners and their affiliates have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or its affiliates in the ordinary course of business.
10. The yield of the Notes will be 6.75 per cent. per annum for the period from (and including) the Issue Date to (but excluding) the First Call Date. The yield is calculated as at the issue date on the basis of the issue price. It is not an indication of future yield.

DEFINITIONS

Combined ratio	The sum of the non-life claims ratio with the non-life expense ratio (which is the non-life cost ratio plus the non-life commission ratio).
Discretionary participation feature	<p>A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:</p> <ul style="list-style-type: none">(a) that are likely to be a significant portion of the total contractual benefits;(b) the amount or timing of which is contractually at the discretion of the issuer; and(c) that are contractually based on:<ul style="list-style-type: none">(i) the performance of a specified pool of contracts or a specified type of contract;(ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or(iii) the profit or loss of the company, fund or other entity that issues the contract.
Employee benefits	All forms of considerations given by an entity in exchange for service rendered by employees, in addition to their pay or salary.
Funds under management	The amount of technical provisions transposed to corresponding investments.
Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder should a specified uncertain future event adversely affects the policyholder.
Non-life claims ratio	The ratio between the insurer's claims burden (net of reinsurance) and net premiums received.
Non-life commission ratio	The ratio between the insurer's commissions paid (net of reinsurance) and net premiums received.
Non-life cost ratio	The ratio between the insurer's operating costs and net premiums received.

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**Audited consolidated annual financial statements of the Issuer for the financial year ended
31 December 2011**



Consolidated Financial Statements

31 December 2011

(in EUR millions)

Your Partner in Insurance

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Consolidated Financial Statements 2012

Consolidated statement of financial position

(before appropriation of profit)

	Note	31 December 2011	31 December 2010	31 December 2009
Assets				
Cash and cash equivalents	15	1.871,2	389,3	823,8
Financial investments	16	43.595,6	44.191,0	42.279,0
Investment property	17	2.020,9	1.874,2	1.523,7
Loans	18	2.879,0	2.563,0	2.233,7
Investments related to unit-linked contracts		5.894,3	6.687,2	6.569,5
Investments in associates	19	150,8	104,6	89,3
Reinsurance and other receivables	20-21	680,2	712,4	642,5
Current tax assets	32	118,7	34,5	34,1
Deferred tax assets	32	27,7	145,5	24,7
Accrued interest and other assets	22	1.481,5	1.269,6	1.166,5
Property, plant and equipment	23	1.034,6	1.019,5	1.045,3
Goodwill and other intangible assets	24	357,5	388,0	235,7
Asset held for sale				68,6
Total assets		60.112,0	59.378,7	56.736,4
Liabilities				
Liabilities arising from life insurance contracts	25	20.720,5	20.077,9	19.263,0
Liabilities arising from life investment contracts	26	22.478,2	21.433,9	19.544,7
Liabilities related to unit-linked contracts	27	5.894,3	6.687,2	6.569,5
Liabilities arising from non-life insurance contracts	28	3.195,9	3.141,4	2.973,2
Subordinated liabilities	29-30	894,5	892,8	891,1
Borrowings	31	1.787,9	1.766,3	1.421,0
Current tax liabilities	32-33	34,4	34,2	43,3
Deferred tax liabilities	32-33	361,6	359,7	535,5
Accrued interest and other liabilities	34	1.426,7	1.328,2	1.568,6
Provisions	35	15,6	16,7	12,6
Liabilities related to asset held for sales				17,4
Total liabilities		56.809,6	55.738,3	52.840,0
Shareholders' equity	4	3.174,8	3.509,8	3.812,9

Non-controlling interests	5	127,6	130,7	83,6
Total equity		3.302,4	3.640,5	3.896,4
Total liabilities and equity		60.112,0	59.378,7	56.736,4

Consolidated income statement

	Note	2011	2010
Income			
- <i>Gross premium income¹⁾</i>		5.934,0	6.120,2
- <i>Change in unearned premiums</i>		(9,0)	0,4
- <i>Ceded earned premiums</i>		(65,1)	(55,)
Net earned premiums	37	5.859,8	6.065,5
Interest, dividend and other investment income	38	2.415,6	2.361,8
Realised and unrealised gains and losses	39	284,1	40,9
Investment income related to unit-linked contracts	40	(177,3)	467,8
Share of result of associates	41	7,6	5,4
Fee and commission income	42	91,7	96,7
Other income	43	159,7	188,0
Total income		8.641,1	9.226,2
Expenses			
- <i>Insurance claims and benefits, gross</i>		(6.154,5)	(6.633,2)
- <i>Insurance claims and benefits, ceded</i>		26,7	68,6
Insurance claims and benefits, net	44	(6.127,8)	(6.564,6)
Charges related to unit-linked contracts		166,0	(480,3)
Finance costs	45	(108,7)	(91,8)
Change in impairments	46	(1.370,9)	(29,3)
Change in provisions	35	(1,5)	(1,5)
Fee and commission expense	47-48	(601,3)	(596,2)
Staff expenses	49	(425,2)	(420,4)
Other expenses	50	(641,9)	(561,6)
Total expenses		(9.111,3)	(8.745,4)
Profit before taxation		(470,2)	480,8
Income tax expenses	51	40,4	(125,8)
Net profit before result of discontinued operations		(429,8)	355,0
Attributable to non-controlling interests		(6,1)	(3,6)
Net profit attributable to shareholders		(435,9)	351,4

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

	<i>Note</i>	2011	2010
Gross premium income		5.934,0	6.120,2
Inflow deposit accounting (directly recognised as liability)	37	244,8	589,2
Gross inflow		6.178,8	6.709,4

Consolidated statement of comprehensive income

	2011	2010
Net profit attributable to shareholders	(435,9)	351,4
Changes in revaluation of investments		
Change in revaluation of investments available for sale, gross	469,9	(975,8)
Related tax	(194,5)	323,4
Change in revaluation of investments available for sale, net	275,4	(652,4)
Share of other comprehensive income of associates, gross	(2,6)	1,7
Related tax		
Share of other comprehensive income of associates, net	(2,6)	1,7
Change in revaluation of investments, gross	467,3	(974,1)
Related tax	(194,5)	323,4
Change in revaluation of investments, net	272,8	(650,7)
Change in foreign exchange differences, gross	(0,2)	(0,1)
Related tax		
Change in foreign exchange differences, net	(0,2)	(0,1)
Other comprehensive income for the period, net of tax	272,6	(650,9)
Revaluation of investments attributable to non-controlling interests	6,0	
Attributable to shareholders	278,6	(650,9)
Total comprehensive income for the period, attributable to shareholders	(157,3)	(299,5)

Consolidated statement of changes in equity

	Share		Currency		Net profit attributable to shareholders	Unrealised gains and losses	Share		Non- controlling interests	Total
	Share capital	premium	Other reserves	translation reserve			holders'	equity		
										equity
Balance at 1 January 2010	526,6	231,5	1.783,1	(0,1)	431,5	840,2	3.812,9	83,6		3.896,4
Net profit for the period					351,4		351,4		3,6	355,0
Revaluation of investments						(650,8)	(650,8)			(650,8)
Foreign exchange differences				(0,1)			(0,1)			(0,1)
Total non-owner changes in equity				(0,1)	351,4	(650,8)	(299,5)	3,6		(295,9)
Transfer			431,5		(431,5)					
Dividend								(1,1)		(1,1)
Other changes in equity			(3,6)				(3,6)	44,6		41,0
Balance at 31 December 2010	526,6	231,5	2.211,0	(0,2)	351,4	189,4	3.509,8	130,7		3.640,5
Net profit for the period					(435,9)		(435,9)	6,1		(429,8)
Revaluation of investments						278,7	278,7	(6,0)		272,7
Foreign exchange differences			(0,2)				(0,2)			(0,2)
Total non-owner changes in equity				(0,2)	(435,9)	278,7	(157,4)	0,1		(157,3)
Transfer			351,4		(351,4)					
Dividend			(174,9)				(174,9)	(3,2)		(178,1)
Other changes in equity			(2,7)				(2,7)	0,1		(2,6)
Balance at 31 December 2011	526,6	231,5	2.384,8	(0,4)	(435,9)	468,2	3.174,8	127,6		3.302,4

The line Other changes in equity in the column Non-controlling interests includes mainly the non-controlling interest in acquired real-estate companies.

Changes in equity are described in greater detail in Note 4 and Note 5.

Consolidated cash flow statement

	Note	2011	2010
Profit before taxation		(470,2)	480,8
<i>Adjustments to non-cash items included in profit before taxation:</i>			
(Un)realised gains (losses)	39	(320,3)	(34,4)
Share of profits in associates	41	(7,6)	(5,4)
Depreciation, amortisation and accretion	50	523,0	422,7
Impairments	46	1.370,9	29,3
Provisions	35	1,5	1,4
<i>Changes in operating assets and liabilities:</i>			
Derivatives held for trading (assets and liabilities)	16	(4,2)	79,7
Loans	18	(318,0)	(329,1)
Reinsurance and other receivables	20-21	45,0	(22,6)
Investments related to unit-linked contracts		792,9	(117,7)
Borrowings	31	(4,5)	195,3
Liabilities arising from insurance and investment contracts	25-26-28	1.717,3	2.769,1
Liabilities related to unit-linked contracts	27	(780,1)	172,5
Net changes in all other operational assets and liabilities		(571,8)	(502,9)
Dividend received from associates		4,4	1,4
Income tax paid		(131,4)	(114,9)
Cash flow from operating activities		1.846,9	3.025,2
Investing activities within the group			1,4
Purchases of financial investments	16	(13.044,4)	(17.430,7)
Proceeds from sales and redemptions of financial investments	16	13.074,1	14.351,0
Purchases of investment property	17	(215,2)	(131,8)
Proceeds from sales of investment property	17	83,3	20,2
Purchases of property, plant and equipment	23	(38,5)	(51,0)
Proceeds from sales of property, plant and equipment	23	9,3	0,4
Acquisition of subsidiaries and associates	3	(48,9)	(184,8)
Divestments of subsidiaries and associates	3		8,4
Purchases of intangible assets	24	(2,6)	(2,4)
Proceeds from sales of intangible assets			3,5
Cash flow from investing activities		(182,9)	(3.417,2)
Proceeds from the issuance of other borrowings	31	13,4	6,7

Payment of other borrowings	31	(17,7)	(46,8)
Dividends paid to shareholders of the parent company		(174,9)	
Dividends paid to non-controlling interests		(3,2)	(1,1)
Cash flow from financing activities		(182,4)	(41,2)

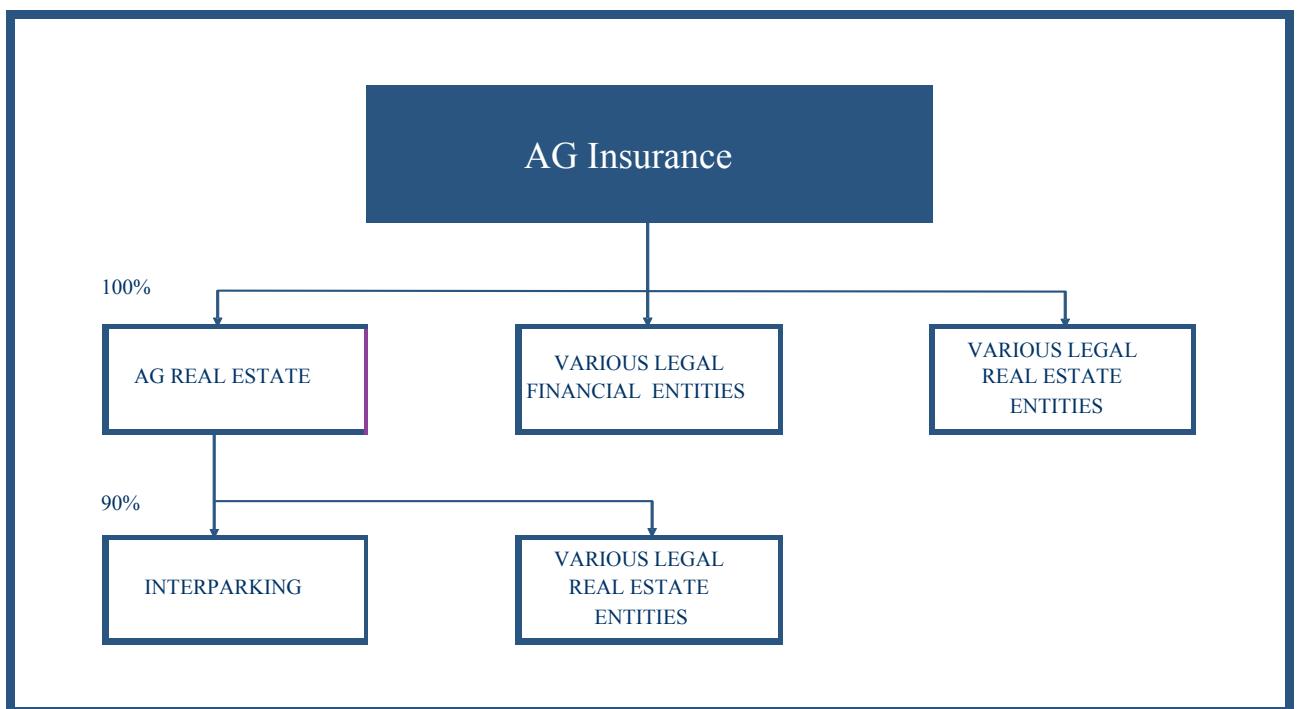
	<i>Note</i>	<i>2011</i>	<i>2010</i>
Net increase (decrease) of cash and cash equivalents		1.481,9	(433,2)
Cash and cash equivalents as at 1 January	15	389,3	823,8
Cash and cash equivalents as at 31 December	15	1.871,2	389,3
Supplementary disclosure of operating cash flow information			
Interest received	38	1.878,9	1.772,9
Dividend received from financial investments	38	73,9	51,2
Interest paid	45	(104,4)	(163,1)

General Notes

1 Legal structure

AG Insurance S.A/N.V. (AG Insurance) is a regulated composite Belgian insurance undertaking which is primarily engaged in both life and non-life insurance activities. AG Insurance is located at 53, Boulevard Emile Jacqmainlaan, Brussels.

These consolidated financial statements include the financial statements of the parent and all its controlled subsidiaries (see also Note 2.5 consolidation principles). No material change in the summary structure as shown below has occurred in 2011.



2 Summary of accounting policies

The AG Insurance Consolidated Financial Statements 2011 comply with International Financial Reporting Standards (IFRSs) at 31 December 2011, as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

AG Insurance did not publish consolidated financial statements in prior periods. These are therefore AG Insurance's first IFRS consolidated financial statements. Ageas, AG Insurance's parent (see further), already publishes consolidated financial statements in accordance with IFRS. Accordingly, as authorised by IFRS1.D16, AG Insurance has measured its assets and liabilities as included in these consolidated financial statements at the carrying amounts that are included in the Ageas consolidated financial statements. These consolidated financial statements were authorised for issue by the Board of Directors on 27 March, 2012.

2.1 Basis of accounting

The accounting policies are consistent with those applied for the year ended 31 December 2010. Amended IFRSs effective on 1 January 2011 with importance for AG Insurance (and endorsed by the EU) are listed in paragraph 2. The accounting policies shown in this note are a summary from the complete Ageas group accounting policies which can be found on www.ageas.com/en/Pages/accountingpolicies.aspx.

The AG Insurance Consolidated Financial Statements are prepared on a going concern basis. They give a fair presentation of the financial position, financial performance and cash flows of

AG Insurance, with relevant, reliable, comparable and understandable information. The AG Insurance Consolidated Financial Statements are stated in (millions of) euros, which is the functional currency of AG Insurance.

Assets and liabilities recorded in the statement of financial position of AG Insurance have usually a duration of more than 12 months, except for Cash and cash equivalents, Reinsurance and other receivables, Accrued interest and other assets, Accrued interest and other liabilities and Current tax assets and liabilities.

The most significant IFRSs for the measurement of assets and liabilities as applied by AG Insurance are:

- ◆ IAS 1 for presentation of financial statements;
- ◆ IAS 16 for property, plant and equipment;
- ◆ IAS 23 for loans;
- ◆ IAS 28 for investments in associates;
- ◆ IAS 36 for the impairment of assets;
- ◆ IAS 38 for intangible assets;
- ◆ IAS 39 for financial instruments;
- ◆ IAS 40 for investment property;
- ◆ IFRS 3 for business combinations;
- ◆ IFRS 4 for the measurement of insurance contracts;
- ◆ IFRS 7 for the disclosures of financial instruments;
- ◆ IFRS 8 for operating segments.

2.2 Changes in accounting policies

The following relevant new or revised standards, interpretations and amendments to standards and interpretations have become effective on 1 January, 2011 (and are endorsed by the EU):

2.2.1. IAS 1 Presentation of financial statements (amendment)

The amendment clarifies that, for each component of equity, an entity may present the breakdown of other comprehensive income either in the statement of

changes in equity or in the notes to the financial statements.

2.2.2. IAS 24 Related-party disclosures (amendment)

The definition of a related party has been amended to remove inconsistencies and to make it simpler to apply. Some entities will be required to make additional disclosures under this new definition. The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates, and entities with shareholders that are involved with other entities. For example, a subsidiary is now required to disclose transactions with an associate of its parent. Similarly, disclosure is required of transactions between two entities where both entities are joint ventures (or one is an associate and the other is a joint venture) of a third entity. In addition, an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

2.2.3 IAS 27 Consolidated and separate financial statements (amendment)

It states that loss of control over a subsidiary, the loss of significant influence over an associate and loss of joint control over a jointly controlled entity are similar events and should therefore be accounted for similarly. Such an event should be recognised and measured at fair value and any gain or loss is recognised in the profit or loss.

2.2.4 IAS 34 Interim Financial Reporting (amendment)

Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurements (if significant), and the need to update relevant information from the most recent annual report. Also further guidance has been given how to apply these principles.

2.2.5 IFRS 3 Business Combinations (amendment)

- ◆ Contingent consideration arrangements arising from business combinations with acquisition

dates preceding the application of IFRS 3 (2008) are accounted for in accordance with the guidance in the previous version of IFRS 3 (as issued in 2004). This amendment clarifies that the guidance in IAS 39, IAS 32 and IFRS 7 will not apply to contingent consideration arising from business combinations with an effective date prior to the application of the revised version of IFRS 3.

- ◆ The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent 'present' ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless IFRS requires another measurement basis. Removal of reference to transactions between segments as being hedgeable transactions in individual or separate financial statements. This amendment will reduce diversity in practice and provides clearer guidance on how to measure non-controlling interests.

2.3 Accounting estimates

The preparation of the AG Insurance Consolidated Financial Statements in conformity with IFRS requires the use of certain measurement estimates at the end of the reporting period. In general, these estimates and the methods used are consistent since the introduction of IFRS in 2005. Each estimate by nature introduces a significant risk of material adjustments (positive or negative) to the carrying amounts of assets and liabilities within the next financial year.

2.3.1 Change in assumptions

The adequacy of insurance liabilities is tested based on the best estimates and assumptions, embedded options and guarantees of the cash flows for insurance policies and related investments using a risk free discount rate. As of 2010, the assumption for reinvestments includes a reasonable credit spread, in line with the target asset mix. AG Insurance believes that this change in assumption provides a better indication for loss recognition compared to the prior assumptions.

In prior years, the liability adequacy test did not result in any significant losses.

The key measurement estimates at the reporting date are shown in the table below

.

31 December 2011

<i>Assets</i>	<i>Estimation uncertainty</i>
Available for sale securities	
- Corporate debt securities	
- Financial instruments	
Level 2	- The valuation model - Inactive markets
Level 3	- The valuation model - Use of not market observable input - Inactive markets
Investment property	Determination of the useful life and residual value
Loans	- The valuation model - The maturity
Associates	A mix of uncertainties depending on the asset mix
Goodwill	- The valuation model - Financial and economic variables - Discount rate
Other intangible assets	- The inherent risk premium of the entity - Determination of the useful life and residual value
Deferred tax assets	- Interpretation of complex tax regulations - Amount and timing of future taxable income
 <i>Liabilities</i>	
Liabilities for Insurance contracts	
Life	- Actuarial assumptions - Interest rate used in liability adequacy test
Non-life	- Liabilities for (incurred but not reported) claims - Claim adjustment expenses
Pension obligations	- Actuarial assumptions - Discount rate
Provisions	- The likelihood of a present obligation due to events in the past - The calculation of the best estimated amount
Deferred tax liabilities	- Interpretation of complex tax regulations

For more detailed information on the application of these estimates, reference is made to the applicable notes in the AG Insurance Consolidated Financial Statements. In note 7 Risk Management the way AG Insurance mitigates the various risks of the insurance operations has been described.

2.3.2 Events after the reporting period

Events after the reporting period relate to events that occur between the balance sheet date and the date when the financial statements are authorized for issue. Two types of events can be identified:

- ◆ Events leading to an adjustment of the consolidated financial statements if they provide evidence of conditions that existed at the balance sheet date;
- ◆ Events resulting in additional disclosures if they are indicative of conditions that arose after the balance sheet date, and if relevant and material.

AG Insurance has identified the second type of events mentioned above for the reporting period 2011 and disclosed these in Note 55.

2.4 Segment reporting

Operating segments

The primary format for reporting segment information is based on operating segments. AG Insurance's reportable operating segments represent groups of assets and operations engaged in providing financial products or services, which are subject to different risks and returns.

AG Insurance' current core activity is insurance with the following business segments:

- ◆ Individual Life and Health
- ◆ Non life (other than Health Care)
- ◆ Employee Benefits and Health Care

2.5 Consolidation principles

2.5.1 Subsidiaries

The Consolidated Financial Statements include AG Insurance SA/NV and its subsidiaries. Subsidiaries are those companies, of which

AG Insurance, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities ('control'). Subsidiaries are consolidated from the date on which effective control is transferred to AG Insurance and are no longer consolidated from the date that control ceases. Subsidiaries acquired exclusively with a view to resale are accounted for as non-current assets held for sale. The result on a sale of a portion of an interest in a subsidiary without a change in control is accounted for in the income statement.

Intercompany transactions, balances and gains and losses on transactions between AG Insurance companies are eliminated. Non-controlling interests in the net assets and net results of consolidated subsidiaries are shown separately on the statement of financial position and income statement. Non-controlling interests are stated at the fair value of the net assets at the date of acquisition. Subsequent to the date of acquisition, non-controlling interests comprise the amount calculated at the date of acquisition and the non-controlling interests' share of changes in equity since the date of acquisition.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether AG Insurance controls another entity.

2.5.2 Associates

Investments in associates are accounted for using the equity method. These are investments in which AG Insurance has significant influence, but does not control. The investment is recorded at AG Insurance's share of the net assets of the associate. The

ownership share of net income for the year is recognised as share in result of associates and AG Insurance's share in the investments post-acquisition direct equity movements are recognised in equity.

Gains on transactions between AG Insurance and investments accounted for using the equity method are eliminated to the extent of AG Insurance's interest. Losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Losses are recognised until the carrying amount of the investment is reduced to nil and further losses are only recognised to the extent that AG Insurance has incurred legal or constructive obligations or made payments on behalf of an associate.

2.6 Foreign currency

The functional currency of AG Insurance is the Euro. Foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances in foreign currencies at year end are translated at year end exchange rates for monetary items.

Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair values are determined. The resulting exchange differences are recorded in the income statement as foreign currency gains (losses), except for those non-monetary items whose fair value change is recorded as a component of equity.

The distinction between exchange differences (recognised in the income statement) and unrealised fair value results (recognised in equity) on available-for-sale financial assets is determined according to the following rules:

- ◆ the exchange differences are determined based on the evolution of the exchange rate calculated on the previous balances in foreign currency, and
- ◆ the unrealised (fair value) results are determined based on the difference between the balances in euros of the previous and the new period, converted at the new exchange rate.

2.7 Measurement bases used in preparing the financial statements

The classification and measurement of assets and liabilities is based on the purpose of entering into these transactions.

2.7.1 Financial assets

Management determines the appropriate classification of its investment securities at the time of the purchase. Investment securities with a fixed maturity where management has both the intent and the ability to hold to maturity are classified as held to maturity. Investment securities with fixed or determinable payments that are not quoted in an active market that upon initial recognition are not designated as held-for-trading nor as available-for-sale, are classified as loans and receivables. Investment securities to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available for sale. Investment securities that are acquired for the purpose of generating short-term profits are considered to be held for trading.

Held-to-maturity investments are carried at amortised cost less any impairment changes. Any difference between the initial recognition amount resulting from transaction costs, initial premiums or discounts is amortised over the life of the investment using the effective interest method. If a held-to-maturity investment is determined to be impaired, the impairment is recognised in the income statement. (see Note 16 Financial investments for details on the

reclassification of Investments available for sale to Investments held to maturity).

Loans and receivables are measured at amortised cost, using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. For floating rate instruments the cash flows are periodically re-estimated to reflect movements in market interest rates. If the floating rate instrument initially is recognised at an amount (almost) equal to the principal repayable, the re-estimation has no significant effect on the carrying amount of the instrument and there will be no adjustments to the received interest, reported on an accrual basis. However, if a floating rate instrument is acquired at a significant premium or discount, this premium or discount is amortised over the expected life of the instrument and included in the calculation of the EIR. The carrying amount will be recalculated each period by computing the present value of estimated future cash flows at the actual effective interest rate. Any adjustments are recognised in profit or loss.

Available-for-sale investment securities are measured at fair value. Changes in the fair value are recognised directly in equity until the asset is sold, unless the asset is hedged by a derivative. These investments are carried at fair value with movements in fair value recognised through the income statement for the part attributable to the hedged risk and through equity for the remaining part.

Held-for-trading assets and assets designated as held at fair value through profit or loss are carried at fair value. Changes in the fair value are recognised in the income

statement. The (realised and unrealised) results are included in 'Realised and unrealised gains and losses'. Interest received (paid) on assets (liabilities) held for trading is reported as interest income (expense). Dividends received are included in 'Interest, dividend and other investment income'. The majority of these financial assets (being bonds and equity shares) is classified as Available for Sale and measured at fair value. The unrealised gains and losses are reported in shareholders' equity. For the insurance portfolios, where 'unrealised' gains and losses of bonds have a direct impact on the measurement of the insurance liabilities,

AG Insurance applies shadow accounting in accordance with IFRS 4. This means that the changes in the unrealised gains and losses will affect the measurement of the insurance liabilities and are therefore not part of equity.

2.7.2 Investment property and property held for own use

For reasons of comparability of the performance in the AG Insurance Consolidated Financial Statements, AG Insurance did not opt in 2005 for the fair value model for investment property (with gains or losses from a change in the fair value recognised in profit or loss), but for the cost model, in line with the classification for property held for own use. After recognition as an asset, all property is carried at its cost less any accumulated depreciation and any accumulated impairments. As a consequence, changes in the fair value of the property are not recognised in the income statement nor in shareholders' equity, unless the property is impaired.

2.7.3 Investment in Associates

For associates where AG Insurance has significant influence, the power to participate in the financial and operating policy decisions of the investee (but is not in control), AG Insurance applies the equity method of accounting for these associates. The AG Insurance's share of the profit or loss is recognised in the income statement and revaluations are reported in shareholders' equity, while distributions received from the associate reduce the carrying amount of the investment.

2.7.4 Goodwill and other intangible assets

Goodwill

♦ Goodwill from business combinations from 1 January 2010

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over:

- (a) the AG Insurance's share in the net identifiable assets acquired and liabilities assumed; and
- (b) net of the fair value of any previously held equity interest in the acquiree.

Any acquisitions costs are directly expensed, except for the costs to issue debt or equity securities which shall be recognised in accordance with IAS 32 and IAS 39.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, AG Insurance has an option to measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

If the business combination is achieved in stages, the acquisition date fair value of the previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

♦ Goodwill from business combinations prior to 1 January 2010

In comparison with the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, AG Insurance had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Other intangible assets with definite lives

Other intangible assets include intangible assets with definite lives, such as car park concessions, internally developed software that is not an integral part of the related hardware and licenses that are generally amortised over their useful lives using the straight-line method.

2.7.5 Financial liabilities

The measurement and recognition in the income statement depends on the IFRS classification of the financial liabilities, being: (a) financial liabilities at fair value through profit or loss, and (b) other financial liabilities measured at amortised cost.

2.7.6 Liabilities arising from insurance and investment contracts

Life insurance

These liabilities relate to insurance contracts, investment contracts with discretionary participation features (DPF) and investment contracts that transfer insurance risk, financial risk or both. Investment contracts without discretionary participation features are valued at amortised cost.

For Life insurance contracts, future policy benefit liabilities are calculated using a net level premium method (present value of future net cash flows) on the basis of actuarial assumptions as determined by historical experience and industry standards.

Participating policies include any additional liabilities relating to any contractual dividends or participation features. For some designated contracts, the future policy benefit liabilities have been re-measured to reflect current market interest rates.

For Life insurance contracts with minimum guaranteed returns, liabilities have been set up to reflect expected long-term interest rates. The liabilities relating to annuity policies during the accumulation period are equal to accumulated policyholder balances. After the accumulation period, the liabilities are equal to the present value of expected future payments. Changes in mortality tables that occurred in previous years are fully reflected in these liabilities.

Non-life insurance

Claims and claim adjustment expenses are charged to the income statement as incurred. Unpaid claims and claim adjustment expenses include estimates for reported claims and provisions for claims incurred but not reported. Non-life liabilities for workmen's compensation business are presented at their net present value. AG Insurance does not discount its liabilities for claims other than for claims with determinable and fixed payment terms.

Liability adequacy test

The adequacy of insurance liabilities ('liability adequacy test') is tested at each reporting date. The tests are performed on legal fungible level (asset pool level) for life and on a level of homogeneous product groups for non-life. AG Insurance considers current best estimates of all contractual cash flows, including related cash flows such as (re)investment returns and expenses. The assumptions are internally consistent with those used for other modeling purposes, such as embedded value. For Life Insurance contracts, the tests include cash flows resulting from embedded options and

guarantees. The present value of these cash flows has been determined by using a risk-free discount rate, allowing an illiquidity premium. Any shortfall is recognised immediately in the income statement, either as a DAC impairment or as a loss recogniton.

2.7.7 Assets and liabilities related to unit-linked contracts

AG Insurance's non-participating insurance and investment contracts are primarily unit-linked contracts where the investments are held on behalf of the policyholder and measured at fair value.

The liabilities for such contracts are measured at unit value (i.e. fair value of the fund in which the unit-linked contracts are invested divided by the number of units of the fund).

Certain products contain guarantees, which are also valued at fair value and included in liabilities related to policyholders, with the change in the fair value recognised in the income statement. Insurance risks are taken into account on basis of actuarial assumptions.

2.8 Measurement of impaired assets

An asset is impaired when its carrying amount exceeds its recoverable amount. AG Insurance reviews all of its assets at each reporting date for objective evidence of impairment. The carrying amount of impaired assets is reduced to its estimated recoverable amount and the amount of the change in the current year is recognised in the income statement.

If in a subsequent period the amount of the impairment on assets other than goodwill or available-for-sale equity instruments decreases, due to an event occurring after the write-down, the amount is reversed by adjusting the impairment and is recognised in the income statement. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment been recognised for the asset in prior years.

2.8.1. Financial assets

A financial asset (or group of financial assets) classified as available for sale is impaired if there is objective evidence of impairment as a result of one or more events (loss events or 'triggers', e.g. significant financial difficulty of the issuer) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated.

For equity securities, the triggers used to determine whether there is objective evidence of impairment include, amongst others, the consideration whether the fair value is significantly (25%) below cost or has been below cost for a prolonged period (four consecutive quarters) at the date of the statement of financial position.

Reversal of impairments of debt instruments which can be objectively related to an event occurring after the recognition of the impairment, are recognised in the income statement. Positive revaluations, after an impairment of equity securities are recognised in equity.

2.8.2. Investment property and property held for own use

Property is measured according to the cost model and impaired when the carrying amount exceeds its recoverable amount, which is the highest of 'Fair value less costs to sell' or 'Value in use' (the expected present value of future cash flows, without deduction for transfer tax). At the end of each reporting period AG Insurance assesses whether there is any indication that an asset may be impaired, considering various external (e.g. significant changes in the economic environment) and internal sources of information (e.g. plan to dispose). If any such indication exists (and only then), AG Insurance shall estimate the recoverable amount of the property. Any impairment identified is recognised in the income statement. After the recognition of an impairment, the depreciation for future periods is

adjusted based on the revised carrying amount less its residual value over its remaining useful life.

2.8.3. Goodwill and other intangible assets

Goodwill is an intangible asset with an indefinite life and is not amortised, but instead tested for impairment at least annually. Intangible assets with definite lives are amortised over the estimated useful life and reviewed at each reporting date. Any impairment identified is recognised in the income statement.

2.8.4. Other assets

For non-financial assets, the recoverable amount is measured as the higher of the fair value less cost to sell and the value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

2.9 Fair value of financial instruments

On initial recognition, the fair value of a financial instrument is the transaction price, unless the fair value is evidenced by observable current market transactions in the same instrument, or is based on a valuation technique that includes inputs only from observable markets.

The principal methods and assumptions used by AG Insurance in determining the fair value of financial instruments are:

- ♦ Fair values for securities available for sale or at fair value through profit or loss are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Discount factors are based on the swap curve plus a spread reflecting the risk characteristics of the instrument. Fair values for securities held to

- ◆ maturity (only necessary for disclosures) are determined in the same way.
- ◆ Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.
- ◆ Fair values for unquoted private equity investments are estimated using applicable market multiples (e.g. price/earnings or price/cash flow ratios) refined to reflect the specific circumstances of the issuer.
- ◆ Fair values for loans are determined using discounted cash flow models based upon AG Insurance's current incremental lending rates for similar type loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. Option pricing models are used for valuing caps and prepayment options embedded in loans that have been separated in accordance with IFRS.
- ◆ Off-balance-sheet commitments or guarantees are fair valued based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

For more detailed information on the application of these methods and assumptions, reference is made to the applicable notes in the Consolidated Financial Statements.

2.10 Revenue recognition

2.10.1 Gross premium income

Premium income when received

Premiums from Life insurance policies and investment contracts with discretionary participation features that are considered long duration type contracts are recognised as revenue when due from the policyholder. Estimated future benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. This matching is accomplished by the establishment of liabilities of the insurance policies and investment contracts with discretionary participation features and by the deferral and subsequent amortisation of policy acquisition costs.

Premium income when earned

For short duration type contracts (principally Non-life), premiums are recorded as written upon inception of the contract. Premiums are recognised in the income statement as earned on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of the coverage.

2.10.2 Interest income and expense

Interest income and interest expense are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. Interest income includes coupons earned on fixed and floating rate income instruments and the accretion or amortisation of the discount or premium.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2.10.3 Realised and unrealised gains and losses

For financial instruments classified as available for sale, realised gains or losses on sales and divestments

represent the difference between the proceeds received and the initial book value of the asset sold, minus any impairments recognised in the income statement after adjustment for the impact of any fair value hedge accounting.

For financial instruments carried at fair value through profit or loss, the difference between the carrying value at the end of the current reporting period and the previous reporting period is included in 'Realised and unrealised gains and losses'.

For derivatives, the difference between the carrying clean fair value (i.e. excluding the unrealised portion of the interest accruals) at the end of the current reporting period and the previous reporting period is included in 'Realised and unrealised gains and losses'.

Previously recognised unrealised gains and losses recorded directly into equity are transferred to the income statement upon derecognition or upon the financial asset becoming impaired.

2.10.4 Fee and commission income

Fees as integral part of effective interest rate

Fees that are an integral part of the effective interest rate of a financial instrument are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value through profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

Fees recognised as services are provided

Fees are generally recognised as revenue as the services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not considered a derivative, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Fees recognised upon completion of the underlying transaction

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised upon completion of the underlying transaction. Commission revenue is recognised when the performance obligation is complete. Loan syndication fees are recognised as revenue when the syndication has been completed.

Fee revenue from investment contracts

This relates to contracts, without discretionary participation features, issued by insurance companies that are classified as investment contracts, because the covered insurance risk is not significant. Revenues from these contracts consist of fees for the coverage of insurance, administration fees and surrender charges. Expenses include mortality claims and interest credited.

3 Acquisitions and disposals

The following significant acquisitions and disposals were made in 2011 and 2010.

3.1 Acquisitions in 2011

Acquisitions consist of two car parks acquired during the first quarter of 2011 and two other car parks and a warehousing subsidiary acquired in the fourth quarter.

Contipark Parkgaragen Kurhaus Wiesbaden GmbH

Assets		Liabilities	
Property, plant and equipment	18,7	Borrowings	11,4
Accrued interest and other assets	1,3	Deferred tax liabilities	1,8
		Accrued interest and other liabilities	5,5
		Total liabilities	18,7
		Acquisition price	1,3
Total Assets	20,0	Total liabilities and acquisition price	20,0

Marienplatz car park

Assets		Liabilities	
Banks	0,5	Borrowings	
Property, plant and equipment	10,8	Deferred tax liabilities	4,3
Accrued interest and other assets	0,1	Accrued interest and other liabilities	0,2
		Total liabilities	4,5
		Acquisition price	7,0
Total Assets	11,5	Total liabilities and acquisition price	11,5

Poland car park

Assets		Liabilities	
Banks	0,0	Borrowings	

Property, plant and equipment	0,8	Deferred tax liabilities	0,8
Accrued interest and other assets	4,4	Accrued interest and other liabilities	0,5
<hr/>			1,3

Acquisition price 3,9

Total Assets	5,2	Total liabilities and acquisition price	5,2
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Valenciennes SAS

Assets	Liabilities
Banks 0,5	Borrowings 16,1
Investment property 16,2	Deferred tax liabilities 0,1
Accrued interest and other assets 0,2	Accrued interest and other liabilities 0,2
<hr/>	
Total liabilities 16,4	

Acquisition price 0,6

Total Assets	17,0	Total liabilities and acquisition price	17,0
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Parking Bowling Green GmbH: total assets amount to EUR 0.1 million.

In Q1 2011, AG Real Estate acquired two subsidiaries consolidated by equity method:

Association Westland Shopping Center (45.85 %)

Assets	Liabilities
Investments in associates 35,6	Deferred tax liabilities 4,1
	Acquisition price 31,5
<hr/>	
Total Assets 35,6	Total liabilities and acquisition price 35,6

Regatta LO (50%)

Assets		Liabilities	
Investments in associates	8,4	Contingent liabilities	2,8
		Acquisition price	5,6
Total Assets	8,4	Total liabilities and acquisition price	8,4

In addition, AG REAL ESTATE has incorporated five fully owned real estate subsidiaries: Immo Nation OPCI, Nation SAS and République SAS in France in Q2, Gent Zuid in Belgium in Q3 and Fontenay SAS and AG RE Westinvest in Q4.

3.2 Disposals in 2011

No major disposals were made in 2011.

3.3 Acquisitions in 2010

AG Real Estate had concluded the following major acquisitions in 2010:

- ◆ Venti M (a real estate fund acquired for 60% in the fourth quarter of 2010); net profit 2011 was EUR 4,2 million (AG Insurance share EUR 2,5 million).
- ◆ Metropark (a car park business acquired in the first quarter of 2010).

3.4 Disposals in 2010

On 30 June, 2010, AG Insurance sold its subsidiary CAPAG, hereby realizing a capital gain of EUR 8,4 million. CAPAG was a captive reinsurance entity providing intragroup reinsurance services.

3.5 Assets and liabilities of acquisitions and disposals

The table below provides details of the assets and liabilities resulting from the acquisition or disposal of subsidiaries, associates at the date of acquisition or disposal.

	2011		2010				
	Acquisitions		Divestments		Acquisitions		Divestments
Assets and liabilities of acquisitions and divestments							
Cash and cash equivalents	1,1				11,3		
Financial investments							
Investment property	16,2				276,1		
Loans							
Investments related to unit-linked contracts							
Investments in associates	37,3				9,1		
Reinsurance and other receivables	0,7				1,8		
Current and deferred tax assets					23,7		
Accrued interest and other assets	1,4				0,3		
Property, plant and equipment	30,3				16,1		
Goodwill and other intangible assets	4,1				133,6		
Borrowings	27,5				190,1		
Current and deferred tax liabilities	7,1				30,1		
Accrued interest and other liabilities	6,4				7,7		
Provisions					2,8		
Liabilities related to assets held for sale							
Non-controlling interests					45,0		
Changes in equity related to divestments							
Net assets acquired / Net assets disposed of	50,1				196,3		
Result of disposal, gross					8,4		
Result on discontinued operations, net of taxes					8,4		
Cash used for acquisitions / received from disposals:							
Total purchase consideration / Proceeds from sale	(50,1)				(196,3)		
Less: Cash and cash equivalents acquired / divested	1,1				11,3		
Cash used for acquisitions / received from disposals	(49,0)				(185,0)		8,4

4 Shareholders' equity

The following table shows the composition of shareholders' equity.

31 December 2011	
Share capital	526,6
Share premium reserve	231,5
Other reserves	2.384,8
Currency translation reserve	(0,4)
Net profit attributable to shareholders	(435,9)
Unrealised gains and losses	468,2
Shareholders' equity	3.174,8

AG Insurance's statutory capital amounts to EUR 526 604 028 and is represented by 631 286 ordinary shares with no par value, fully paid-in. No changes in share capital occurred in 2011 or 2010. Its shareholders are:

- Ageas Insurance International N.V., Archimedeslaan 6, NL-3584 BA Utrecht, holding 473 464 shares or 75% ;
- Fortis Bank N.V., Warandeberg 3, 1000 Brussel, holding 157 822 shares or 25%.

Other reserves represent accumulated prior year earnings. Other reserves include the following amounts that are not available for dividend distribution:

- an unavailable reserve amounting to 233,2 million that is assimilated to paid-in capital;
- a statutory "legal reserve" amounting to 52,7 million, capped at 10% of nominal share capital, set-up according to Belgian Company Law.

Statutory retained earnings of consolidated subsidiaries also include for 114,5 million legal reserves that are not available for dividend distribution to their respective parent entities.

The consolidated statement of financial position is presented before dividend allocation. No dividend will be paid this year.

The table below shows the unrealised gains and losses included in shareholders' equity.

31 December 2011	Available for sale	Held to maturity	Revaluation of	Cash flow	Total
	investments	investments	associates	hedges	
Gross	896,5	(17,4)	(0,9)	(11,2)	867,0
Related tax	(307,7)	5,9		0,8	(301,0)
Shadow accounting	(148,1)				(148,1)
Related tax	50,3				50,3
Total	491,0	(11,5)	(0,9)	(10,4)	468,2
31 December 2010					
Gross	327,6		1,7	0,6	329,9
Related tax	(84,5)				(84,5)
Shadow accounting	(84,9)				(84,9)
Related tax	28,8				28,8
Total	187,0		1,7	0,6	189,4

Unrealised gains and losses on available for sale investments are discussed in detail in Note 16.

Changes in the fair value of derivatives that are designated and qualify as a cash-flow hedge are recognised as an unrealised gain or loss in Shareholders' equity. Any hedge ineffectiveness is immediately recognised in the income statement.

The table below shows changes in gross unrealised gains and losses included in shareholders' equity for 2010 and 2011.

	Available for sale	Held to maturity	Revaluation of	Cash flow	Total
	Investments	Investments	associates	hedges	
Gross unrealised gains (losses) as at 1 January 2010	1.464,3				1.464,3
Changes in unrealised gains (losses) during the year	(806,4)		1,7	0,6	(804,1)
Reversal unrealised (gains) losses because of sales	(326,8)				(326,8)
Reversal due to impairment	(3,1)				(3,1)
Other	(0,4)				(0,4)
Gross unrealised gains (losses) as at 31 December 2010	327,6		1,7	0,6	329,9

Changes in unrealised gains (losses) during the year	227,0	(2,6)	(11,8)	212,6
Reversal unrealised (gains) losses because of sales	(252,6)			(252,6)

Reversal due to impairment	577,2				577,2
Other (Reclassification to HTM)	17,4	(17,4)			
Gross unrealised gains (losses) as at 31 December 2011	896,5	(17,4)	(0,9)	(11,2)	867,0

5-6 Non-controlling interests

The following table provides information about the most significant non-controlling interests in AG Insurance entities.

	% of non-controlling interest	Amount as at 31 December 2011	% of non-controlling interest	Amount as at 31 December 2010
<i>Group company</i>				
Interparking SA	10,1%	85,1	10,1%	81,8
Venti M	40,0%	38,7	40,0%	44,9
Cortenbergh le Corrège	38,8%	3,7	38,8%	3,9
Total		127,6		130,7

Non-controlling interest represents the relative participation of a third party in the shareholders' equity of an AG Insurance subsidiary as determined by AG Insurance IFRS accounting principles.

7 Risk Management

Active in many markets as a provider of insurance, both Life and Non-Life, AG Insurance faces a number of risks that, whether internal or external, may affect the company's operations, its earnings, the value of its investments or the sale of certain products and services.

7.1 Introduction

2011 was a year of tremendous market volatility and challenging market conditions. In the previous years of Euro convergence AG Insurance had limited ALM and market risk through a strong cash flow matching supported by, among others, European Governments debt. During 2010 and even more in 2011, the market became aware that some Euro-zone states, in a difficult economic situation, might represent a higher credit risk than anticipated. Through its high concentration in European Government debt, AG Insurance thus suffered strongly from the unrest within the Euro-zone, affecting the Greek debt as of early 2010 and gradually extended to the rest of the Eurozone during 2011.

7.2 Risk management organisation and governance

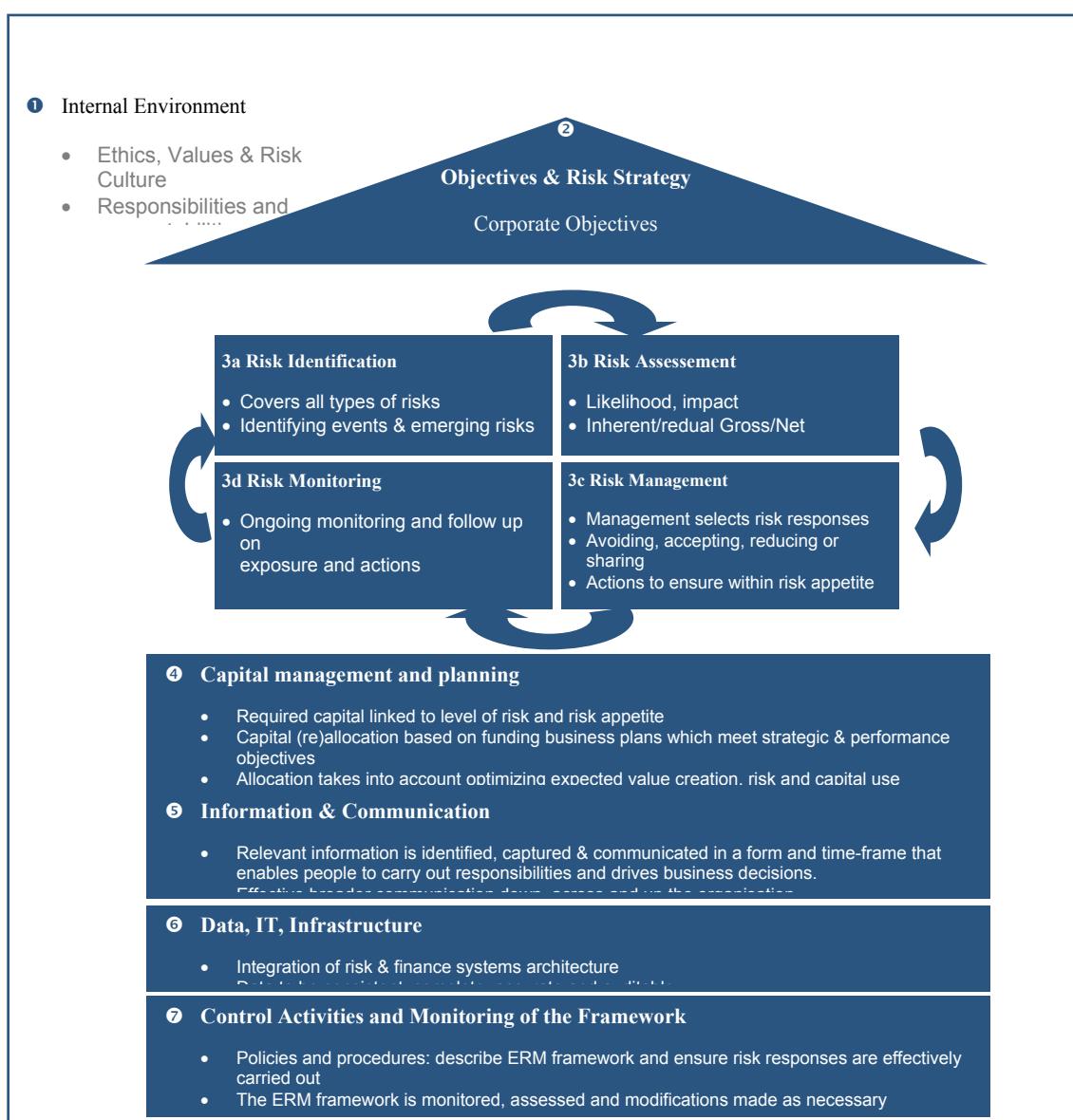
Risk Management is an integral part of the insurance business and is therefore part of the activities of all managers across the company. The mission of the Risk Management department at central level and within the operations is to ensure that risks that affect the achievement of strategic, operational or financial objectives are promptly identified, measured, managed, reported and monitored.

In practice AG Insurance's risk management aims to achieve the following objectives:

- ◆ understanding the key risks being taken and ensure no plausible scenario would cause the company to default on its obligations to policyholders and debt holders
- ◆ defining a risk appetite and ensuring that the risk profile is kept within the limits defined
- ◆ supporting the company's decision making process by ensuring that consistent, reliable and timely risk information is available to the decision makers and using that information to provide a risk opinion
- ◆ creating a culture of risk awareness in which each manager carries out his duty to be aware of the risks of his business, to manage them adequately and report them transparently
- ◆ monitoring of limits

AG Insurance' risk framework is evolving to ensure AG Insurance builds on the strengths of the past and the lessons learned during extreme market conditions of the last years as well as to adapt the framework to its own management. The framework is targeted to support the mission, objectives and high standards of risk management at central and business level. It will combine the following elements into a coherent risk management framework (i.e. Enterprise Risk Management (ERM) Framework, see illustration):

- ◆ risk organisation and governance
- ◆ core policies and guidance
- ◆ measurement and modelling methods
- ◆ risk appetite
- ◆ reporting requirements



The Risk Management organisation is designed to ensure:

- ◆ clear responsibility and accountability regarding risk management and a culture of risk awareness
- ◆ independence of the Risk Management Function
- ◆ transparent and coherent risk-related decision-making, covering all risks of the risk taxonomy
- ◆ knowledge and best practice sharing and high standards of risk management
- ◆ consistency to enable aggregate risk reporting and oversight at group level

As to the risk organisation and governance:

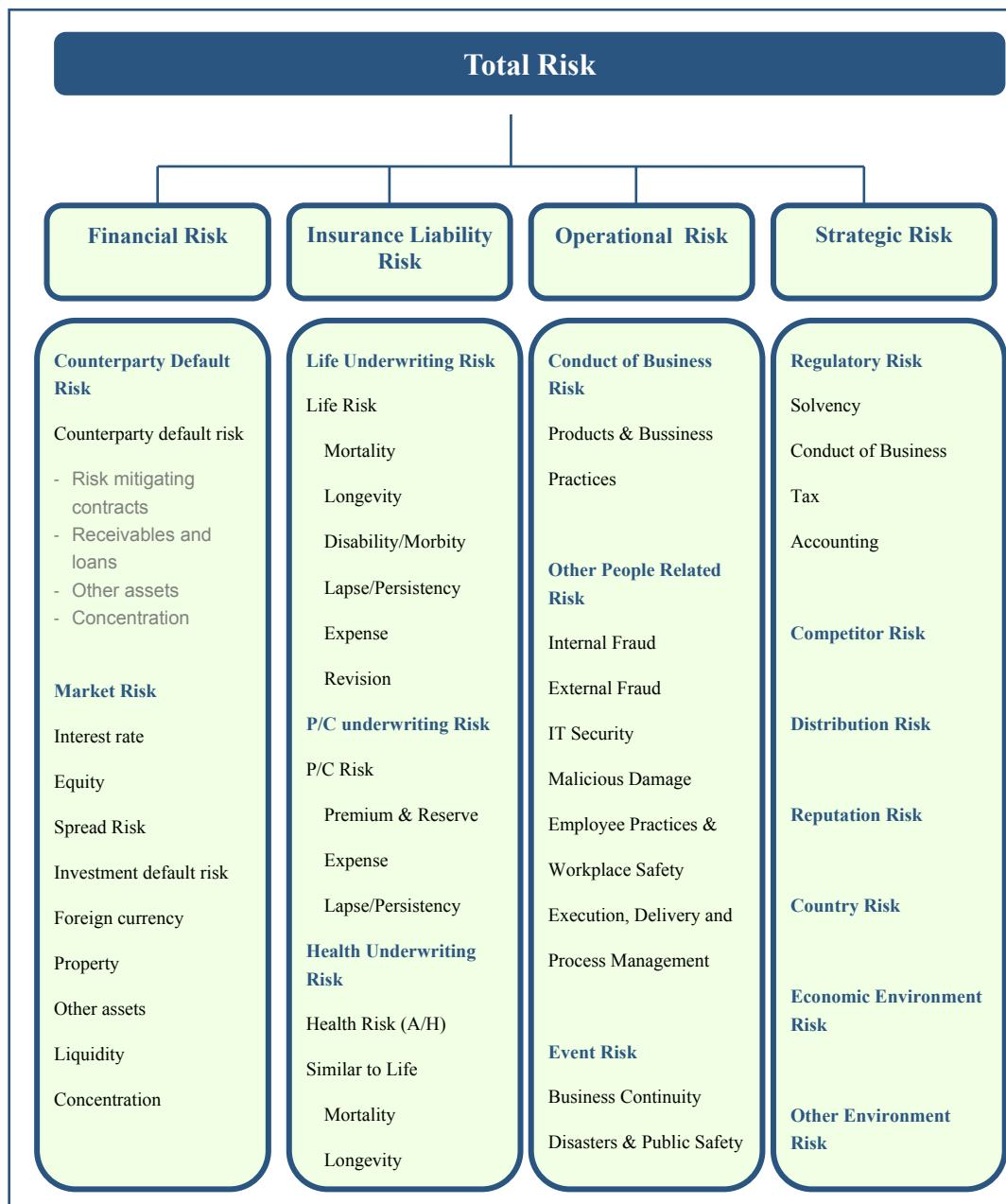
- ◆ A CRO, member of the AG Insurance Management Committee, Risk and Audit Committee and the Board is heading the Risk Management Function at the level of AG Insurance;
- ◆ the Risk Management Function is – in order to ensure proximity to the business and embedding - based on a two-layered model, centrally steered (Central Risk department) while being partially distributed in the business lines (through Decentralized Risk Managers);
- ◆ different risk committees at the different levels of the organisation are in place: Audit and Risk Committee at the level of the Board, Business Risk Committee at the level of the Management Committee, Risk Function Committee (supported by business line risk committees) as well as a Model Control Board at the level of the Risk Management Function.

Internal Audit as third line of defence provides an important additional level of control by both systematic and ad hoc assessments of management processes including risk management.

7.3 Risk taxonomy

AG Insurance operates across a wide range of insurance products in Belgium. AG Insurance is therefore exposed to a wide range of risks. The Risk Taxonomy is defined with the objective of ensuring a consistent and comprehensive approach to risk identification, measurement, monitoring, reporting and management by highlighting and defining all identified risks within the company.

Below is the Risk taxonomy as applicable in 2011:



The taxonomy cannot be considered as exhaustive, and it is the responsibility of business management and risk management to ensure that all risks are identified. While the aim is to keep a high degree of stability and consistency over time in this taxonomy, it will be reviewed on at least an annual basis and adjusted if appropriate.

7.4 Risk Appetite

Through a formal Risk Appetite Policy approved by the Board, AG Insurance has defined a clear Risk Appetite Framework setting formal and quantitative boundaries for risk taking with respect to solvency, value, earnings and liquidity. Qualitative criteria are completing this set of quantitative criteria. The risk appetite boundaries are further cascaded down into workable limits at the level of the different risk takers.

AG Insurance must, at all times, maintain a solvency position such that no plausible scenario would cause the company to default on its obligations to policyholders. To accomplish this, AG Insurance has established the following objectives for its risk management strategy related to Solvency:

- ◆ target to maintain a 200% Solvency I ratio: At specific moments with particular conditions as referred to below, the actual solvency ratio may be lower, but then its future development needs to be charted to come to the adequate level within reasonable timing;
- ◆ maintain solvency even under extreme event scenarios: AG Insurance must remain solvent in the case of plausible extreme events.

Risk Appetite Statement concerning Solvency

AG Insurance's internal risk appetite framework sets a Minimum Acceptable Capital as well as a Target Capital. Both are currently defined as a conservative percentage over the Required Minimum Margin in a Solvency I environment and with regards to the Solvency Capital Requirement in a Solvency II environment.

Risk Appetite Statement concerning Earnings

AG Insurance has issued a statement in terms of year-end budgeted IFRS earnings. This statement is not a hard limit but acts as a guideline.

Risk Appetite Statement concerning Value

As for Earnings, AG Insurance has issued a statement in terms of the beginning of the year market consistent value. This statement is not a hard limit but acts as a guideline.

7.5 Financial Risk

Financial risk encompasses all risks relating to the value and performance of financial assets. This includes:

- ◆ Counterparty default risk with respect to risk-mitigating contracts such as re-insurance arrangements, securitisations and derivatives as well as receivables from intermediaries;
- ◆ Market risk which arises from adverse change in the financial situation resulting - directly or indirectly - from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments due to movements in interest rates, spreads, stock prices. It also includes Investment default risk with

respect to invested assets (including financial instruments), currency risk, liquidity risk, property risk and concentration risk.

Financial risk is the most significant risk for many of AG Insurance's operations. The risk framework in place in all operations combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risks and to ensure that risks being taken are appropriate for both customer and shareholder and are appropriately rewarded.

The overall asset mix is determined based on asset mix studies to identify the appropriate strategic asset allocation and on a regular monitoring of the market situation and prospects to decide on the tactical allocation. The decision process needs to balance risk appetite, capital requirements, long term risks and return, policyholder expectations, profit sharing requirements and tax and liquidity issues to arrive at an appropriate target asset mix.

7.5.1 Counterparty Default

Counterparty default risk reflects possible losses due to unexpected default with respect to re-insurers, counterparties, securitisation and derivatives, intermediaries and clients.

7.5.2 Market Risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Interest Rate Risk

Interest rate risk exists for all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility.

Changes in interest rate risk can impact the products the lines of business sell through, for example, guaranteed interest and profit sharing, as well as the value of AG Insurance's investments. It arises because of a mismatch between the sensitivity of assets and liabilities to changes in interest rates. AG Insurance measures, monitors and controls its interest rate risk using a number of indicators including mismatch analysis and stress testing. The investment policies usually require close matching unless specifically approved. Longer term business can be difficult to match due to lack of availability of suitable assets and the matching strategy is determined taking into account the risk appetite, availability of assets, current and prospective market rates and levels of guarantee. Derivatives are sometimes used to hedge interest-rate risk.

The typically long-insurance liabilities imply a negative gap on the long maturity buckets and a positive one on the shorter part of the curve.

Equities and Real Estate Risk

Equities and real-estate risk arises from the level or volatility of market prices or their yield. These risks are controlled through limit setting based on the risk appetite and through the investment policy that require a range of controls to be in place including what action will be taken in the event of significant falls in value (for example CPPI mechanism with respect to equities⁶). Pro-active management of this risk in recent years resulted in the rapid reduction in exposure to equity risk through sales and hedging. AG Insurance had

⁶ CPPI stands for Constant Proportion Portfolio Insurance.

communicated earlier its intention to gradually increase its equity exposure. Market circumstances and volatility however did not allow for such orientation during 2011.

For risk management purposes, AG Insurance bases its definition of equities exposure on the underlying assets and risks. On a risk based approach, total economic exposure to equities is given in the table below together with a reconciliation to the IFRS reported figures.

	2011		2010	
	IFRS Definition	Economic exposure	IFRS Definition	Economic exposure
Type of asset				
Direct equity investments	733,6	733,6	1306,4	1306,4
Equity funds	47,6	48,0	36,3	36,3
Private equity	14,1	13,7	4,2	4,2
Mixed funds				
Structured funds	16,0		4,0	
Hedge funds				
Bond funds	69,0		31,0	
Money market funds				
Real estate funds (SICAFI/REITS)	367,0		342,0	
Other equity funds		27,0		29,0
Total equity securities and other investments	1.247,3	822,3	1.723,9	1.375,9

For risk management purposes, AG Insurance defines the exposure to real estate on the market value of the assets and include the assets held for own use. This differs from exposure reported under IFRS definitions which exclude unrealised gains and report property held for own use. The table below identifies what AG Insurance considers economic exposure to real estate and how this reconciles to the figures reported under IFRS.

	2011		2010	
	IFRS Definition	Economic exposure	IFRS Definition	Economic exposure
Type of asset				
<i>Carrying amount</i>				
Investment properties	2.020,9	2.020,9	1.874,2	1.874,2
PP&E: land and buildings for own use	972,1	972,1	962,9	962,9
<i>Unrealised capital gain</i>				
Investment properties		731,5		532,4
PP&E: land and buildings for own use		452,0		384,9
Buildings held for resale	146,0	146,0	25,6	25,6

Real estate funds		367,0	342,0
Other Indirect investments real estate		482,0	286,0
Total risk based view on real estate exposure	3.139,0	5.171,0	2.862,7

Spread risk

Spread risk results from the sensitivity of the value of assets and liabilities to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

A significant portion of AG Insurance's liabilities are illiquid. AG Insurance generally aims to hold credit assets to maturity. This helps reduce the impact of spread risk significantly because the liabilities are illiquid. AG Insurance can not be forced to sell at distressed prices, but can choose to sell if it considers this to be the best course of action.

Investment default risk

The investment default risk includes the risk of actual default and credit migration, rather than spread changes alone. This risk may be covered within spread risk but is included for completeness and to stress how the impact of actual defaults and migration may differ from credit spread changes.

This risk is managed through limits which take into account the type of credit exposure, credit quality and, where needed, maturity, and through regular monitoring and early warning systems. AG Insurance also monitors its largest exposures to individual entities and groups to ensure adequate diversification and identification of significant concentration.

Impairment for specific credit risk is established if there is objective evidence that AG Insurance will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount. In case of market traded securities, the recoverable amount is the fair value.

The most important impairment relates to the Greek Government bond exposure of 1 563 (at amortised cost), that was impaired by 1 209 to a fair value of 354. These assets held an accrued interest position of 18 at year end 2011.

Write-offs are based on AG Insurance's latest estimate of its recovery and represent the loss that

Impairment for specific credit risk is established if there is objective evidence that AG Insurance considers it will incur. Conditions for write-off may be that the obligor's bankruptcy proceedings have been finalised and securities have been exhausted, the obligor and/or guarantors are insolvent, all normal recovery efforts have been exhausted, or the economic loss term (i.e. the term within which all expenses will exceed the amount of recovery) has been reached.

◆ Overview of Credit exposure and impairments

The following table gives an overview to which credit risk AG Insurance is exposed.

	2011	2010
Cash and cash equivalents (see note 15)	1.871,2	389,3
Derivatives held for trading (assets) (see note 16)	18,2	22,0
Loans	2.886,9	2.568,9
Impairments	(7,9)	(5,9)
Total Loans, net (see note 18)	2.879,0	2.563,0
Interest bearing investments	43.545,3	42.447,6
Impairments	(1.215,6)	(6,3)
Total Interest bearing investments, net (see note 16)	42.329,7	42.441,3
Reinsurance and other receivables	685,1	718,7
Impairments	(4,9)	(6,3)
Total Reinsurance and other receivables, net (see note 20)	680,2	712,4
Total credit risk exposure, gross	49.006,7	46.146,5
Impairments	(1.228,4)	(18,5)
Total credit risk exposure, net	47.778,3	46.128,0

The table below provides information on impairments and the impaired credit risk exposure as at 31 December.

	2011	2010
	Impairments	Impairments

	<i>Impaired</i> <i>outstanding</i>	<i>for specific</i> <i>credit risk</i>	<i>Coverage</i> <i>ratio</i>	<i>Impaired</i> <i>outstanding</i>	<i>for specific</i> <i>credit risk</i>	<i>Coverage</i> <i>ratio</i>
Cash and cash equivalents						
Interest bearing investments	1.574,0	(1.215,6)	77,2%	6,3	(6,3)	100,0%
Loans to customers	120,2	(7,2)	6,0%	101,2	(5,0)	4,9%
Other receivables	4,9	(4,9)	100,0%	6,7	(6,3)	94,0%
Total impaired credit exposure	1.699,1	(1.227,7)	72,3%	114,2	(17,6)	15,4%

◆ Credit Risk quality

The table below outlines the credit quality by investment grade of interest bearing investments based on external ratings.

	2011		2010	
	Carrying value	Percentage	Carrying value	Percentage
Investment grade				
AAA	16.480,3	38,9%	20.267,2	47,8%
AA	15.622,3	36,9%	13.106,9	30,9%
A	7.155,4	16,9%	6.764,9	15,9%
BBB	2.103,7	5,0%	1.031,1	2,4%
Investment grade	41.361,7	97,7%	41.170,1	97,0%
Below investment grade	880,0	2,1%	1.141,2	2,7%
Unrated	88,0	0,2%	128,0	0,3%
Total investments in interest bearing securities, net	42.329,7	100,0%	42.441,3	100,0%
Impairments	1.215,6		6,3	
Total investments in interest bearing securities, gross	43.545,2		42.445,7	

The bond portfolio is highly geared towards high investment grade bonds. The amount below investment grade includes in 2011 and 2010 the Government bonds of Greece and Ireland.

◆ Additional information on the quality of Government Bonds and Corporate Bonds

The table below provides information on the rating of government bonds.

	31 December 2011	31 December 2010
By IFRS classification		
Held to maturity	4.373,5	
Available for sale	22.504,7	27.198,2
Total government bonds	26.878,3	27.198,2
By rating		
AAA	9.359,7	10.605,2
AA	14.027,6	11.391,3
A	2.662,1	3.677,0
BBB	47,7	438,9
Total investment grade	26.097,1	26.112,4
BB or lower	780,8	1.085,2

Unrated	0,4	0,6
Total non-investment grade and unrated	782,0	1.085,8
Total government bonds	26.878,3	27.198,2

The table below provides information on the rating of corporate bonds.

	31 December 2011	31 December 2010
By IFRS classification		
Available for sale	4.910,9	2.901,8
Held at fair value through profit or loss		
Total corporate bonds	4.910,9	2.901,8
By rating		
AAA	648,0	0,0
AA	320,7	234,2
A	2.573,1	2.244,4
BBB	1.332,3	418,2
Total investment grade	4.874,0	2.896,7
BB or lower	16,5	0,0
Unrated	20,3	5,1
Total non-investment grade and unrated	77,6	15,3
Total corporate bonds	4.910,9	2.901,8

The table below provides information on the rating of bonds of banks and other financial institutions.

	31 December 2011	31 December 2010
By IFRS classification		
Available for sale	9.995,3	11.741,6
Held at fair value through profit or loss	75,0	77,9
Total banking and other financials	10.070,3	11.819,5
By rating		
AAA	6.198,4	9.322,2
AA	1.182,2	1.450,8
A	1.884,2	833,3
BBB	667,0	147,4
Total investment grade	9.931,8	11.753,7
BB or lower	82,6	0,0
Unrated	55,8	65,8
Total non-investment grade and unrated	138,5	65,8
Total banks and other financials	10.070,3	11.819,5

The table below provides information on the rating of structured credit instruments.

	31 December 2011	31 December 2010
By IFRS classification		
Available for sale	384,5	423,5
Held at fair value through profit or loss	85,7	96,3
Total banking and other financials	470,2	519,8
By rating		
AAA	274,2	339,8
AA	91,8	30,6
A	36,0	10,1
BBB	56,7	26,7
Total investment grade	458,8	407,2
BB or lower	0,0	56,0
Unrated	11,4	56,5
Total non-investment grade and unrated	11,4	112,6
Total Structured credit instruments	470,2	519,8

Currency Risk

Currency risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities.

AG Insurance's investment policy limits this risk by requiring the currency mismatch between assets and liabilities to be hedged and in most cases it is entirely eliminated.

The main currency risk exposures to foreign currencies as at 31 December are stated in the table below. The exposures shown are net (assets minus liabilities).

At 31 December 2011	GBP	USD	HUF	CHF	AUD
Total assets	96,9	662,0	2,5	2,1	
Total liabilities	7,0	53,7			0,2
Total assets minus liabilities	89,9	608,3	2,5	2,1	(0,2)
Off balance		(523,0)			
Net position	89,9	85,3	2,5	2,1	(0,2)
At 31 December 2010					

Total assets	0,1	282,4	3,5		
Total liabilities		32,5		0,2	
Total assets minus liabilities	0,1	249,9	3,5	(0,2)	

Liquidity Risk

Liquidity risk is the risk of not having sufficient financial resources available to meet obligations as they fall due, or to secure these only at excessive cost. It has two components:

- ♦ *Funding liquidity risk* is the risk that expected and unexpected cash demands of policyholders, and other contract holders cannot be met without suffering unacceptable losses or without endangering the business franchise.
- ♦ *Market liquidity risk* concerns the inability to realise assets due to inadequate market depth, or market disruption. As such it is related to market risk.

Expected cash inflows and outflows are managed at asset pool level while treasury and related liquidity positions are monitored on a daily basis.

The table below shows all AG Insurance's assets and liabilities undiscounted expected cash flows, other than unit linked related, classified into relevant maturity groupings. Liquidity risk being concentrated on the short term, this table presents the net expected cash-flows generated by liabilities and investments over the next three years.

In comparison with 2010, changes in the liquidity position are significant in year 1 due to an unusually high cash position (2,1 versus 0,4 billion) and higher bond maturities (+0,9 billion). Actual net cash inflow in the first year is expected higher than shown, as roll-over of existing one-year repurchase agreements is not reflected in the table.

	At 31 December 2011			At 31 December 2010		
	Year 1		Year 2	Year 3	Year 1	
	2012	2013	2014	2011	2012	2013
Investments (excl. unit linked)						
Cash & cash equivalents	2.072,3				389,3	
Residential mortgages and other loans	289,1	188,2	188,2	290,0	181,0	171,8
Debt securities	4.378,5	4.032,4	4.347,4	3.486,8	3.972,0	4.003,2
Equity securities	49,3	47,1	44,7	63,8	63,8	63,8
Property	256,1	245,5	230,7	212,5	212,5	212,5
Financial Liabilities						
Repurchase agreements	(1.004,8)	(20,4)	(30,8)	(1.006,1)	(19,2)	(20,6)

Subordinated loans	(53,1)	(53,1)	(53,6)	(53,1)	(53,1)	(53,1)
Other	(82,6)	(69,0)	(69,0)	(72,8)	(51,5)	(51,5)
Policyholder Contracts (excl. unit linked)						
Premiums, net of reinsurance	2.821,2	2.005,8	1.906,0	2.484,0	1.878,8	1.788,4
Benefits, net of reinsurance	(5.978,0)	(5.110,0)	(5.317,1)	(6.148,9)	(4.929,3)	(4.845,4)
Other Assets and Liabilities						
Other assets	664,7	15,9	15,9	651,0	0,0	0,0
Other liabilities	(633,9)	(6,0)	(6,0)	(474,2)	(17,6)	(17,6)
Net cash flow	2.778,7	1.276,6	1.256,5	(177,6)	1.237,4	1.251,5

Concentration Risk

Concentration risk can arise due to large aggregate exposures to single counterparties or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of capital loss due to a bankruptcy or failure to pay.

Avoidance of concentration is therefore fundamental to AG Insurance investment strategy of maintaining granular, liquid and diversified portfolios. AG Insurance defines its limits, taking into account its particular situation and any group requirements.

To manage the concentration of credit risk, AG Insurance's Market risk - ALM policy and Investment policy prescribes the spreading across different sectors and countries and by setting total one obligor limits.

The table below provides information on the concentration of interest bearing investments by location and by type of counterparty as at 31 December.

31 December 2011	Government	Corporate	Bank and	Structured Credit	Total
			Finance	Instruments	
Belgium	13.946,1	141,8	33,4	19,7	14.141,0
France	3.931,7	1.315,9	2.164,8	82,0	7.494,4
Germany	1.505,4	563,9	2.499,7	96,0	4.665,0
Austria	2.134,4	315,9	636,7		3.087,0
Netherlands	1.292,7	304,3	580,8	194,7	2.372,5
Supranational	194,3		1.914,7		2.108,9
Spain	827,2	111,4	712,3		1.650,9
Italy	1.045,9	203,0	138,5		1.387,4
United States	37,5	625,2	378,1	45,4	1.086,2
UK		513,1	242,5	8,1	763,8

	Government	Corporate	Bank and Finance	Structured Credit Instruments	Total
Finland	282,8	63,5	66,0		412,3
Ireland	350,3	13,5	19,2	11,2	394,3
Sweden		242,3	148,0		390,4
Greece	353,8	3,6			357,4
Czech Republic	249,2	47,4			296,6
Australia		110,2	177,4		287,5
Slovenia	210,7	0,00			210,7
Slovakia	210,3	0,00			210,3
Switzerland		65,3	108,0		173,3
Norway		51,3	81,5		132,8
Poland	112,4	11,9			124,3
Other European countries	133,3	112,0	52,4	1,6	299,4
Asia	10,7	18,8	68,4		97,9
Other countries	49,5	76,8	47,7	11,4	185,3
Total on balance	26.878,3	4.910,9	10.070,3	470,2	42.329,7

31 December 2010	Government	Corporate	Bank and Finance	Structured Credit Instruments	Total
Belgium	9.769,9	91,7	63,5	0,5	9.925,6
France	3.695,0	632,6	3.125,3	5,0	7.457,9
Germany	2.578,9	491,5	2.755,4	88,2	5.914,0
Austria	2.228,3	52,6	936,5		3.217,4
Italy	2.749,5	213,4	111,7		3.074,7
Spain	1.394,7	82,5	806,3		2.283,6
Netherlands	1.269,9	236,6	653,8	47,7	2.208,0
Supranational	43,5	0,0	2.105,3		2.148,7
Greece	1.085,2	0,0	8,7		1.093,9
FinLand	731,1	70,9	47,5		849,4
United States	35,4	276,7	319,0	0,3	631,3
Ireland	438,9	13,6	40,0		492,5
UK		241,1	219,0		460,1
Czech republic	358,8	45,6			404,5
Australia		105,4	174,8		280,2

Sweden		134,4	136,7	271,1
Slovenia	234,9			234,9
Slovakia	221,1			221,1
Switzerland		80,9	71,6	152,5
Portugal	75,3	17,3	39,8	132,4
Poland	119,5	12,1		131,6
Other European Countries	99,0	45,8	78,5	223,4
Asia	10,7	34,0	80,2	124,9
Other Countries	58,5	23,1	45,8	378,2
Total on balance	27.198,2	2.901,8	11.819,5	519,8
				42.441,3

Sensitivity

The table below shows the impact on the IFRS income statement and IFRS Equity as the result of stress tests that are calibrated based on a one in every 30 year event.

- ◆ Equity : (30)%; non-regulated equities (40)%;
- ◆ Spread risk : factor times duration. The factor ranges from 70bp for AAA to almost 2% for BBB corporates;
- ◆ Interest Rate : up and down around 50% on the short end of the yield curve to over 20% on the long end;
- ◆ Real estate : (18)%;

Figures in EUR million	Impact on P&L	Impact on IFRS Equity
Equity - market risk	(211,5)	(238,4)
Spread - rate risk	(32,5)	(275,5)
Interest - rate risk – down	(0,3)	742,0
Interest - rate risk – up	0,1	(1197,1)
Real - estate risk	(191,0)	(209,5)

7.6 Insurance Risk

Insurance risk refers to the changes in claims arising from uncertainty and timing of the claims as well as changes to the underlying assumptions, including expenses and lapses, made at the start of the policy.

Life risk includes longevity risk, mortality risk and morbidity risk (i.e. illness risk) and disability risk. These are sometimes referred to as biometric risks. Life risk also covers lapse changes and changes in costs which can have a considerable impact on the ultimate cost of the liabilities especially for long term business.

Non-life risk is the risk that claims are higher than expected. The causes can be split between catastrophe risk which is when a significant event such as a windstorm leads to a jump in claims or more general claim risks which can have a range of triggers including inflation or customer behaviour being different from that expected.

Each business manages insurance risk through a combination of insurance risk policy, underwriting policy, product approval policy, reserving policy and reinsurance policy. Particular attention is given the underwriting process in order to ensure that the customer segment who buys the product is consistent with the underlying assumptions made about the customers when the product was designed and priced.

Underwriting involves review procedures by actuarial staff that examines the actual loss experience. A range of indicators and statistical analysis tools are employed to refine underwriting standards in order to improve loss experience and/or ensure pricing is adjusted appropriately.

Business lines aim to set premiums at a level that will ensure that premiums received plus the investment income earned on them exceed the total of claims, costs of handling those claims and the cost of managing the business. The appropriateness of pricing is tested using a range of techniques and key performance

indicators appropriate to a particular portfolio, on both a priori basis (e.g. profit testing) and a posteriori basis (e.g. embedded value, combined ratios).

The factors taken into consideration when pricing insurance vary by product according to the cover and benefits offered. However, in general they include:

- ◆ expected claims by policyholders and related expected payouts and their timing;
- ◆ the level and nature of variability associated with the expected benefits. This includes analysis of claims statistics as well as consideration of the evolution of jurisprudence, the economic climate and demographic trends;
- ◆ other costs of producing the relevant product, such as distribution, marketing, policy administration, and claim administration costs;
- ◆ financial conditions, reflecting the time value of money;
- ◆ solvency capital requirements;
- ◆ target levels of profitability;
- ◆ insurance market conditions, notably competitor pricing of similar products.

7.6.1 Mortality/longevity risk

Mortality risk arises due to unexpected changes to mortality rates because of an epidemic disease, or a major event such as an industrial accident or natural disaster. Mortality risk of this type is mitigated through limits set in the underwriting policy and via a number of excess-of-loss and catastrophe reinsurance treaties.

Longevity risk is the unexpected increase in survival rates resulting in an improved life expectancy, and is managed through underwriting policy, regular reviewing of the mortality tables used for pricing and establishing liabilities, limitation of the contract period and review of pricing at renewal. Where longevity is found to be rising faster than assumed in the mortality tables, additional provisions are set up and pricing of new products is adjusted accordingly.

7.6.2 Disability risk

Disability risk covers the uncertainty in claims due to disability rates and levels that are higher than expected. This can, for example, arise in the disability and health business and workers compensation's pricing, provisioning and underwriting policies accordingly. AG Insurance also mitigates disability risk through medical selection strategies and appropriate reinsurance cover.

7.6.3 Expense and Persistency risk

When designing and pricing insurance policies, assumptions also need to be made relating to the costs of selling and then administrating the policies until they lapse or mature and of the rate of persistency that will be experienced. The risks that actual experience may be different than the potential impact are identified during the product development stage and can be mitigated by thorough product design, for example use of early redemption penalties, initial charges or spreading the commission paid to distributors to align interests.

7.6.4 Non-life claims risk

Non-Life claims risk can differ from the expected outcome for a range of reasons. For example, short-tail claims, such as motor damage and property damage claims, are generally reported within a few days or weeks and are settled soon afterwards. The resolution of long-tail claims, such as body injury or liability claims, can take years to complete. In the case of long-tail claims, information concerning the event, such as medical treatment required, may, due to its very nature, not be readily obtainable. Analysis of long-tail losses is also more difficult, requires more detailed work and is subject to greater uncertainties than analysis of short-tail losses.

AG Insurance takes into account experience with similar cases and historical trends, such as reserving patterns, exposure growth, loss payments, pending levels of unpaid claims, as well as court decisions and economic conditions.

To mitigate the claims risk, AG Insurance adopts selection and underwriting policies based on its historical claims experience and modelling. She does this by client segment and class of business based on knowledge or expectations of future movements in claims frequency and severity. AG Insurance also benefits from diversification effects by engaging in a wide range of non-life insurance classes, and while this does not reduce the average claims it does significantly reduce the variation in the total claims book and therefore the risk. The risk of unexpectedly large claims is contained by policy limits, concentration management and re-insurance.

7.6.5 Catastrophe Risk

Catastrophe risk is reinsured as follows:

- ◆ Natural Catastrophes in non-life (windstorm, earthquake, flood) are reinsured up to an amount between the one in 150 and the one in 200-year event. The protection is realized by excess of loss per event covers, completed for the largest exposure by an annual aggregate stop loss cover.
- ◆ Man-made catastrophes in non-life (fire, explosions, plane crash) and catastrophes life (death and/or disability) are reinsured up to amounts corresponding to estimates of worst-case scenarios and/or through market pools (terrorism).

7.6.6 Reinsurance

Where appropriate, AG Insurance also enters into reinsurance contracts to limit its exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk), or on a portfolio basis (per event), i.e. where individual policyholder exposures are within local limits but an unacceptable risk of accumulation of claims exists at company level (catastrophe risks). The latter events are mostly weather related or man made. Reinsurance companies are selected based primarily on pricing and counterparty risk considerations. The management of counterparty risk is integrated into the overall management of credit risk.

The major uses of external reinsurance include the mitigation of the impact of natural catastrophes (e.g. hurricanes, earthquakes and floods), large single claims from policies with high limits and multiple claims triggered by a single human-made event.

The table below provides details by product line on the proportion of premiums ceded to reinsurers in the year ended 31 December (amounts in millions).

2011	Gross written premiums	Ceded premiums	Net premiums
<i>Product lines</i>			
Life	4.263,0	(4,3)	4.258,7
Accident & Health	462,2	(11,0)	451,2
Property & Casualty	1.208,7	(49,8)	1.158,9
General and eliminations	0,1		0,1
Total Insurance	5.934,0	(65,1)	5.868,9

2010	Gross written	Ceded	Net
	premiums	premiums	premiums
<i>Product Lines</i>			
Life	4.529,5	(4,9)	4.524,6
Accident & Health	456,0	(8,8)	447,2
Property & Casualty	1.134,7	(41,4)	1.093,3
General and eliminations			
Total Insurance	6.120,2	(55,1)	6.065,1

7.6.7 Insurance liabilities adequacy testing

Each line of business establishes liabilities for future claims on policies and sets aside assets to support those liabilities. This involves making estimates and assumptions that can affect the reported amount of assets, liabilities, shareholders' equity and income statement within the next year. These estimates are evaluated at each reporting date using statistical analysis based on internal and external historical data.

The adequacy of insurance liabilities is reviewed at each reporting date and requires increases in liabilities to be immediately recorded and recognised in the income statement. AG Insurance's Liability Adequacy Testing (LAT) Policy and process fulfill IFRS requirements. The LAT-Policy has been revised during 2011 for Life insurance liabilities and is implemented to provide assurance to AG Insurance management that sufficient assets are held to back liabilities on a best-estimate, economic basis.

Certified actuaries (internal and external) have confirmed the overall adequacy of Liabilities arising from insurance and investment contracts as at 31 December 2011 as well as at 31 December 2010.

The risk that the actual outcome will exceed Liabilities arising from insurance and investment contracts cannot be eliminated completely, given the uncertainties inherent in the techniques, assumptions and data used in the statistical analysis. To ensure that the risk of being unable to meet policyholder and other obligations is reduced to extremely low levels, AG Insurance holds additional solvency capital.

The relative variability of the expected outcomes is lower for larger and more diversified portfolios. Factors that would increase insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location, type of industry as well as negative changes in the public domain (such as legislative changes, etc.) and extreme events such as hurricanes.

Whenever such factors materialise, the level of risk is brought back down to the risk appetite levels by means of a risk transfer mechanism, such as reinsurance. This includes, but is not limited to, European weather events.

Overview of Insurance Liabilities

Life liabilities

Life liabilities are established when a policy is sold in order to ensure that sufficient funds are set aside to meet the future claims relating to that policy.

Non-Life Liabilities

Non-life claims liabilities are made for claims that have occurred but have not yet been settled (i.e. expired risk). In general, AG Insurance defines claims liabilities by product category, cover and year and take into account undiscounted prudent forecasts of payouts on reported claims and estimates of unreported claims. Allowances for claims expenses and inflation are also included.

Unexpired risks – contracts for which premiums have been received but for which the risk has not yet expired – are covered by unearned premiums within Liabilities arising from insurance and investment contracts.

The table below provides an overview of the insurance liabilities by segment.

31 December 2011	Non-life Gross liability split				Life gross liability split	
	Total	Unearned	Claims	Total	Unit-linked	Traditional and Universal life
	Non-life	premium	outstanding	Life		
Insurance total	3.195,9	347,9	2.848,0	49.093,0	5.894,3	43.198,7

31 December 2010						
Insurance total	3.141,4	338,9	2.802,6	48.199,0	6.687,2	41.511,8

Loss reserve development table

The loss reserve development table shows the movements of accounting reserves from 31 December 2002 until 31 December 2011. All contracts concerned are insurance contracts as defined by IFRS.

Accident Year as at 31 December 2011	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>All material figures quoted are undiscounted</i>										
Gross Ultimate Claims (Cumulative) for both Property & Casualty and Accident & Health:										
Gross reserves for unpaid claims and claims expenses developed initially at the booking date	757,1	721,4	754,8	792,6	822,7	880,5	940,1	963,3	1.060,8	1.068,4
Cumulative payments at:										
2003	164,3									
2004	238,6	153,8								
2005	288,5	224,1	160,3							
2006	328,8	277,0	232,0	167,9						
2007	360,0	318,0	285,5	241,8	188,0					
2008	387,9	353,1	330,5	299,2	271,8	216,7				
2009	417,1	387,4	373,0	352,6	338,7	312,8	237,9			
2010	436,7	411,2	402,7	390,7	387,9	377,0	332,6	258,9		
2011	454,3	432,6	428,5	424,5	430,4	432,4	406,3	361,7	316,6	
Reserves re-estimated at:										
2003	673,8									
2004	663,2	685,8								
2005	662,1	680,2	723,0							
2006	609,9	658,8	699,0	750,5						
2007	641,1	654,9	688,2	736,1	797,9					
2008	645,7	657,1	693,7	744,0	803,1	884,0				
2009	624,7	635,3	668,6	716,8	774,9	853,7	896,5			
2010	615,5	625,7	658,1	704,1	761,8	842,4	894,2	939,7		
2011	611,5	621,8	656,4	700,4	756,5	832,3	880,0	933,4	1.033,1	
Gross Outstanding Claims Liabilities (including IBNR)	157,1	189,2	228,0	276,0	326,1	400,0	473,8	571,7	716,5	1.068,4
Cumulative redundancy/deficiency										

from initial claims versus re-estimated reserves									
- Nominal	145,6	99,7	98,4	92,1	66,2	48,2	60,0	29,9	27,6
- Percentage	19,2%	13,8%	13,0%	11,6%	8,0%	5,5%	6,4%	3,1%	2,6%
Other claims liabilities (not included in table)									625,4
Claims with regard to workers' compensation and health care									1.145,3
Total claims balance sheet									2.839,1

The row 'Gross reserves for unpaid claims and claim expenses developed initially at the booking date' represents the liabilities reported in the balance sheet on the reporting date for the year indicated in the column heading. As such, each amount in this row reflects the outstanding claim liabilities for all years of occurrence prior to and including the reporting year.

The first part of the runoff table related to 'Cumulative Payments' reports the cumulative amount of claim payments made per development period since the first of January of the year indicated. The payments relate to the years of occurrence prior to and including the year of liability reporting.

The second part of the runoff table entitled 'Reserves re-estimated at' shows an estimate of the final liabilities carried at 31 December of the year indicated in respect of all years of occurrence prior to and including this year at each future development period. The further the claims have developed, the more reliable the valuation of the liabilities becomes.

The row 'Gross outstanding claim liabilities (including IBNR)' represents the amount reported at year end 2011.

The amount disclosed as Total claims balance sheet is further disclosed in note 28.

7.7 Operational risk

All companies including financial institutions are subject to operational risk due to inadequately controlled internal processes or systems, human error or non-compliance as well as from external events and in general due to the uncertainty inherent in all business undertakings.

AG Insurance as a whole, as well as every line of business needs to have in place a process to manage operational risk. This process is an integral part of the risk management framework and needs to be approved by the appropriate bodies. The operational risk management framework consists of company-wide processes embedded at central level and in all lines of business, which collectively aims at identifying, assessing, managing, monitoring and reporting on operational risks. These company-wide processes are:

- ◆ Operational Risk Event Reporting
- ◆ Loss Data Collection
- ◆ Large loss Exposure Analysis
- ◆ Key Risk Report.

7.8 Strategic risks

Strategic risks cover external and internal factors that can impact AG Insurance's ability to meet its current business plan and also to position itself for achieving ongoing growth and value creation. This includes changes in the regulatory, legal or competitive landscape and reputation risks (see also note 52 Contingent liabilities). Business strategies need to take such risks into account and we aim to be pro-active in identifying such risks and responding to them.

AG Insurance's regular risk identification and assessment processes resulting in a Key Risk Report include strategic risks. These were also explicitly considered throughout the strategic review and planning processes and followed up.

7.9 Total Risk

AG Insurance has a quarterly key risk identification process in place, to identify key risks that could impact the realisation of AG Insurance's objectives. It also assesses the control framework in place to ensure that these risks are managed on an ongoing basis. Each business follows up on their key risks on at least a quarterly basis. A wide range of internal and external sources is used in the identification of the key risks. In addition to being a core part of AG Insurance's risk framework, this process leads to the management control statements made by each business and signed by the CEO.

8 Supervision and solvency

AG Insurance is subject to prudential supervision from its insurance regulator, the National Bank of Belgium (BNB). Among other controls, prudential supervision includes a quarterly control on AG Insurance meeting its solvency requirements. Accordingly, based on the rules and regulations for insurance undertakings applicable in Belgium, AG Insurance reports on a quarterly basis to the BNB its available regulatory capital and required solvency, which are assessed on a non-consolidated basis based on local accounting principles. The data below reflect the results of a similar assessment on a consolidated IFRS basis.

The table below gives an overview of the key capital indicators:

	31 December 2011	31 December 2010
Total available capital	3.940,2	4.273,0
Minimum solvency requirements	2.262,5	2.161,0
Amount of total capital above minimum	1.677,7	2.112,0
 Total solvency ratio	 174%	 198%

AG Insurance's shareholders' equity reconciles to total available solvency capital as follows:

	31 December 2011	31 December 2010
Share capital and reserves	3.142,5	2.968,9
Net profit attributable to shareholders	(435,9)	351,4
Unrealised gains and losses	468,2	189,4
Shareholders' equity	3.174,8	3.509,8
<i>Add:</i>		
Subordinated liabilities	894,5	892,8
Non-controlling interests	127,6	130,7
Revaluation of real estate to fair value	703,1	544,9
<i>Less:</i>		
Revaluation of debt securities, net of tax and shadow accounting	(501,3)	(100,6)
10 % of Revaluation of equity securities, net of tax and shadow accounting		(9,2)
Goodwill and Other Intangibles	(357,6)	(388,0)
Equalisation Reserve	(123,7)	(92,0)
Expected dividend		(175,7)
Unrealised gains and losses on Cash flow hedges	27,9	
Other	(5,2)	(39,3)
Total available capital	3.940,2	4.273,3

8.1. Regulatory asset pledge

Belgian Insurance Control law requests the insurer's assets to be pledged in order to secure policyholder liabilities. At 31 December 2011, EUR 53 454 million of assets have accordingly been formally assigned to this regulatory pledge.

8.2. Capital management

AG Insurance considers a strong capital base a necessity, on the one hand as a competitive advantage and on the other hand as being necessary to fund the planned growth.

AG Insurance is further required to maintain a minimum level of qualifying capital relative to the premiums received for non-life insurance contracts and relative to the life insurance liabilities arising from insurance and investment contracts.

AG Insurance is of the opinion that the capitalisation levels must reflect appropriately the specific characteristics of the businesses including the commitments resulting from agreements with its partners. AG Insurance targets an aggregate solvency ratio of 200% of the minimum regulatory requirements at total insurance level. AG Insurance will review this target at the latest at the time of the introduction of Solvency II.

9 Post-employment benefits, other long-term employee benefits and termination benefits

Post-employment benefits are employee benefits, such as pensions and post-employment medical care, which are payable after the end of employment. Other long-term employee benefits are employee benefits which do not fall fully due within twelve months of the period in which the employees rendered the related service, including long-service awards and long-term disability benefits. Termination benefits are employee benefits payable as a result of the premature end of the employee's employment contract.

9.1 Post-employment benefits

9.1.1 Defined benefit pension plans and other post-employment benefits

For the majority of its employees AG Insurance operates defined benefit pension plans. Only a limited number of employees are covered by a defined contribution plan.

Under defined benefit pension plans, benefits are calculated based on years of service and level of salary. Pension obligations are determined on the basis of mortality tables, employee turnover, wage drift and economic assumptions such as inflation and discount rate. Discount rates are set on the basis of the yield (at closing date) of debt securities of similar duration, issued by blue-chip companies or by the government in the absence of a representative corporate market.

In addition to pensions, post-employment benefits may also include other expenses such as reimbursement of part of health insurance premiums which continue to be granted to employees after retirement.

The following table provides details of the amounts shown in the statement of financial position as at 31 December regarding defined-benefit pension obligations and other post-employment benefits.

	<i>Defined benefit pension plans</i>		<i>Other post-employment benefits</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Present value of funded obligations	21,8	16,5		
Present value of unfunded obligations	317,8	290,2	62,0	58,5
Defined benefit obligation	339,6	306,7	62,0	58,5
Fair value of plan assets	(18,8)	(17,1)		
	320,8	289,6	62,0	58,5
Unrecognised actuarial gains (losses)	(29,7)	(13,1)	(10,2)	(7,4)
Net defined benefit liabilities (assets)	291,3	276,5	51,8	51,0
Amounts in the statement of financial position:				
Defined benefit liabilities	296,5	281,5	51,8	51,0
Defined benefit assets	(5,2)	(5,0)		
Net defined benefit liabilities (assets)	291,3	276,5	51,8	51,0

Defined benefit liabilities are classified under Accrued interest and other liabilities (see Note 34) and defined benefit assets are classified under Accrued interest and other assets (see Note 22).

As AG Insurance is a financial institution specialising in the management of employee benefits, most of its employees' pension plans are insured by itself. Under IFRS, the assets backing these pension plans are non-qualifying and consequently may not be considered as plan assets.

The following table reflects the changes in net defined benefit liabilities (assets) as recognised in the statement of financial position.

	<i>Defined benefit pension plans</i>		<i>Other post-employment benefits</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Net defined benefit liabilities (assets) as at 1 January	276,5	269,4	51,0	48,0
Total defined benefit expense	28,7	25,5	2,3	3,1
Employer's contributions	(1,5)	(1,6)		
Benefits directly paid by the employer	(13,5)	(16,2)		
Acquisitions and disposals of subsidiaries		(2,6)		
Transfer	0,5	1,7		
Other	0,4	0,4	(1,5)	
Net defined benefit liabilities (assets) as at 31 December	291,3	276,5	51,8	51,0

Benefits directly paid by the employer relate to defined benefit pension plans that are directly held within AG Insurance.

The table below shows the changes in defined benefit obligation.

	<i>Defined benefit pension plans</i>		<i>Other post-employment benefits</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Defined benefit obligation as at 1 January	306,7	291,2	58,5	42,7
Current service cost	18,3	13,8	1,4	1,1
Interest cost	11,7	12,2	2,4	2,2
Past service cost - vested benefits			(1,5)	
Settlements		(2,9)		
Actuarial losses (gains) on defined benefit obligation	16,3	8,2	2,9	12,5
Participants' contributions	0,1	0,1		
Benefits paid	(1,0)	(1,0)		
Benefits directly paid by the employer	(13,5)	(16,2)	(1,6)	(0,1)
Transfer	0,5	1,0		
Other	0,4	0,4		
Defined benefit obligation as at 31 December	339,6	306,7	62,0	58,5

Actuarial losses (gains) on defined benefit obligation mainly reflect the change in discount rate and other actuarial assumptions and the experience adjustment on defined benefit obligations.

The following table shows the changes in the fair value of plan assets.

	<i>Defined benefit pension plans</i>	
	<i>2011</i>	<i>2010</i>
Fair value of plan assets as at 1 January	17,1	16,0
Expected return on plan assets	0,7	0,6
Actuarial gains (losses) on plan assets	(0,4)	0,4
Employer's contributions	1,5	1,6
Participants' contributions	0,1	0,1
Benefits paid	(1,0)	(1,0)
Settlements	0,8	
Transfer		(0,7)
Fair value of plan assets as at 31 December	18,8	17,1

Actuarial gains (losses) on plan assets are mainly the difference between actual and expected return. The following table shows the actual return on plan assets for defined benefit pension plans.

	<i>Defined benefit pension plans</i>	
	<i>2011</i>	<i>2010</i>
Actual return on plan assets	0,3	1,0

The following table shows the changes in the total of unrecognised actuarial gains (losses) on liabilities and assets.

	<i>Defined benefit pension plans</i>		<i>Other post-employment benefits</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Unrecognised actuarial gains (losses) as at 1 January	(13,1)	(5,8)	(7,4)	5,2
Settlements		(0,1)		
Amortisation of unrecognised actuarial losses (gains) on defined benefit obligation	0,1	0,4	0,1	(0,1)
Amortisation of unrecognised actuarial losses (gains) on plan assets	0,1	0,1		
Actuarial gains (losses) on defined benefit obligation	(16,3)	(8,2)	(2,9)	(12,5)
Actuarial gains (losses) on plan assets	(0,4)	0,4		
Unrecognised actuarial gains (losses) as at 31 December	(29,7)	(13,1)	(10,2)	(7,4)

Experience adjustments are actuarial gains and losses that arise because of differences between the actuarial assumptions made at the beginning of the year and actual experience during the year.

The following table shows experience adjustments to plan assets and defined benefit obligations.

	Defined benefit pension plans		Other post-employment benefits	
	2011	2010	2011	2010
Experience adjustments to plan assets, gain (loss)	(0,4)	0,4		
As % of plan assets as at 31 December	(2,1%)	2,4%		
Experience adjustments to defined benefit obligation, loss (gain)	0,7	(5,1)	0,9	(2,5)
As % of defined benefit obligation as at 31 December	0,2%	(1,7%)	1,5%	(4,2%)

The following table shows the components of expenses related to the defined benefit pension plans and other post-employment benefits for the year ended 31 December.

	Defined benefit pension plans		Other post-employment benefits	
	2011	2010	2011	2010
Current service cost	18,3	13,8	1,4	1,1
Interest cost	11,7	12,2	2,4	2,2
Expected return on plan assets	(0,7)	(0,6)		
Past service cost - vested benefits			(1,5)	
Amortisation of unrecognised actuarial losses (gains) on defined benefit obligation	0,1	0,4	0,1	(0,1)
Amortisation of unrecognised actuarial losses (gains) on plan assets	0,1	0,1		
Settlements	0,8	(0,4)		
Total defined benefit expense	28,7	25,5	2,3	3,1

The current service cost, past service cost, amortisation of unrecognised actuarial losses (gains) on the defined benefit obligation and losses (gains) on curtailments and settlements impacting liabilities are included in Staff expenses (see Note 49). All other defined benefit expense items are included in Finance costs (see Note 45).

The table below shows the expected and actual return on non-qualifying assets for defined benefit pension plans. In accordance with IFRS, the expected return on non-qualifying assets can not be deducted from the defined benefit expense.

	2011	2010
Expected return on non-qualifying assets	9,5	9,4
Actual return on non-qualifying assets	7,5	8,7

The following table shows the principal actuarial assumptions made for the euro-zone countries.

	Defined benefit pension plans				Other post-employment benefits			
	2011		2010		2011		2010	
	Low	High	Low	High	Low	High	Low	High
Discount rate	3,2%	4,0%	3,4%	3,9%	3,9%	4,0%	4,1%	4,2%
Expected return on plan assets as at 31 December	4,0%	4,4%	4,1%	4,1%				
Future salary increases (price inflation included)	2,9%	5,2%	2,5%	4,9%				
Future pension increases (price inflation included)	2,4%	2,4%	2,0%	2,0%				
Medical cost trend rates					3,8%	3,8%	3,8%	3,8%

AG Insurance uses the government bond curve and AA-graded corporate bonds as references for the expected return on bonds and adds a risk premium to that return for equity securities and real estate.

A one-per-cent change in assumed medical cost trend rates would have the following effect on the defined benefit obligation and defined benefit expense for medical costs:

	Medical care	One-percent increase	One-percent decrease
Effect on the defined benefit obligation - medical costs	62,0	20,8%	(16,3%)
Effect on the total defined benefit expense - medical costs	2,3	43,1%	(32,3%)

The plan assets comprise predominantly equity securities, fixed-income securities and investment contracts with insurance companies. AG Insurance's internal investment policy stipulates that investment in derivatives and emerging markets for the purpose of funding pension plans is to be avoided. AG Insurance gradually adjusts its asset allocation policy to ensure a close match between the duration of assets and that of pension liabilities.

The asset mix of the plan assets for pension obligations is as follows:

	31 December 2011	31 December 2010
Equity securities	15,5%	12,2%
Debt securities	37,0%	36,6%
Insurance contracts	43,4%	41,9%
Real estate	0,0%	0,0%
Other	3,0%	0,0%
Cash	1,1%	9,3%

The mix of the unqualified assets for pension obligations is as follows:

	31 December 2011	31 December 2010
Equity securities	2,1%	2,1%
Debt securities	29,8%	31,5%
Insurance contracts	60,8%	58,6%
Other	7,4%	7,9%

The employer's contributions expected to be paid to post-employment benefit plans for the year ending 31 December 2011 are as follows:

	Defined benefit pension plans
Expected contribution next year to plan assets	2,0
Expected contribution next year to unqualified plan assets	21,1

9.1.2 Defined-contribution plans

AG Insurance operates a number of defined contribution plans. The employer's commitment to a defined contribution plan is limited to the payment of contributions calculated in accordance with the plan's regulations. Employer contributions to defined-contribution plans are included in Staff expenses (see Note 49).

9.2 Other long-term employee benefits

Other long-term employee benefits include long-service awards. The table below shows net liabilities. The liabilities related to other long-term employee benefits are included in the statement of financial position under Accrued interest and other liabilities (see Note 34). The assets are included in the statement of financial position under Accrued interest and other assets (see Note 22).

	2011	2010
Defined benefit obligation	10,9	8,5
Other amounts recognised in the statement of financial position		
Net defined benefit liabilities (assets)	10,9	8,5
Amounts shown in the statement of financial position:		
Defined benefit liabilities	10,9	8,5
Defined benefit assets		
Net defined benefit liabilities (assets)	10,9	8,5

The following table shows the changes in liabilities for other long-term employee benefits during the year.

	2011	2010
Net liability as at 1 January	8,5	9,0
Total expense	2,9	
Benefits directly paid by the employer	(0,5)	(0,4)
Net liability as at 31 December	10,9	8,5

The table below provides the range of actuarial assumptions applied when calculating the liabilities for other long-term employee benefits.

	2011		2010	
	Low	High	Low	High
Discount rate	3,4%	3,4%	3,6%	3,6%
Future salary increases	2,9%	5,2%	2,5%	4,9%

Expenses related to other long-term employee benefits are shown below. Interest cost is included in Finance costs (see Note 45), all other expenses are included in Staff expenses (see Note 49).

	2011	2010
Current service cost	0,4	0,4
Interest cost	0,3	0,4
Net actuarial losses (gains) recognised immediately	0,5	(0,8)
Past service costs recognised immediately	1,7	
Losses (gains) of curtailments or settlements		
Total expense	2,9	0,0

9.3 Termination benefits

Termination Benefits are employee benefits payable as a result of either an enterprise's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The table below shows liabilities related to termination benefits included in the statement of financial position under Accrued interest and other liabilities (see Note 34).

	2011	2010
Defined benefit obligation	20,3	24,7
Net defined benefit liabilities (assets)	20,3	24,7

The following table shows the changes in liabilities for termination benefits during the year.

	2011	2010
Net liability as at 1 January	24,7	30,2
Total expense	2,3	4,5
Benefits directly paid by the employer	(6,2)	(9,0)
Transfer	(0,5)	(1,0)
Net liability as at 31 December	20,3	24,7

Expenses related to termination benefits are shown below. Interest cost is included in Finance costs (see Note 45). All other expenses are included in Staff expenses (see Note 49).

	2011	2010
Current service cost	2,4	3,1
Interest cost	0,4	0,6
Net actuarial losses (gains) recognised immediately	(0,5)	
Losses (gains) of curtailments or settlements	0,8	
Total expense	2,3	4,5

10 Employee share option and share purchase plans

The AG Insurance's 2011 and 2010 remuneration package for employees does not include own share related instruments.

11 Remuneration of Board of Director Members and Executive Committee members

Consideration paid to the members of the Board of Directors in 2011 amount to EUR 4,2 million. At December 31, 2011, outstanding loans on the members of the Board of Directors amounted to EUR 0,3 million.

12 Audit fees

Fees paid to AG Insurance's auditors for 2011 and 2010 can be broken down into the following components:

- ♦ audit fees, which include fees for auditing the statutory and Consolidated Financial Statements as well as the embedded value report, and quarterly and other reports;
- ♦ audit-related fees, which include fees for work performed on prospectuses, non-standard auditing and advisory services not related to statutory auditing;
- ♦ fees for tax advice;
- ♦ other non-audit fees, which include fees for support and advice.

The breakdown of audit fees for the year ended 31 December is as follows:

	2011		2010	
	AG Insurance	Other	AG Insurance	Other
	Statutory	AG Insurance	Statutory	AG Insurance
	Auditors	Auditors	Auditors	Auditors
Audit fees	1,5	0,2	1,5	0,2
Audit-related fees	0,4			
Tax fees				
Other non-audit fees	0,1	0,2	0,2	
Total	2,0	0,4	1,7	0,2

13 Related parties

Parties related to AG Insurance include associates, Ageas companies and their key personnel and minority shareholder BNPP Fortis (Fortis Bank N.V.).

AG Insurance frequently enters into transactions with related parties in the course of its business operations. Such transactions mainly concern distribution agreements and regular financial operations with Fortis Bank nv-sa, service level agreements with Ageas and other regular business operations that are entered into under similar commercial and market terms that would apply to non-related parties:

- ◆ **Bankinsurance Distribution Agreement with Fortis Bank nv-sa:**

AG Insurance has a historical partnership with Fortis Bank nv-sa relating to the distribution of AG Insurance's products through the retail channel of Fortis Bank nv-sa.

The existing agreements provide for the practical and legal aspects of the distribution strategy and operations with Fortis Bank nv-sa. They regulate the parties' mutual obligations in terms of marketing, sales management, sales support, distribution channels, liabilities, compliance, products offering, trademark use, complaints management, etc. The agreements also provide that Fortis Bank nv-sa will exclusively distribute AG Insurance's products.

The global partnership agreement runs until at least 31 December 2020. However, up till 31 December 2017 either party can terminate the agreement, subject to giving at least three years' prior notice.

- ◆ **Servicing agreement:**

Following the dismantling of the Fortis group, AG Insurance and Fortis Bank nv-sa entered into a long term mainframe outsourcing servicing agreement that allows AG Insurance to use Fortis Bank nv-sa's mainframe to operate its services. As from 1 January 2012, each party can terminate the agreement at its convenience subject to giving 30 days' prior notice.

In December 2011, AG Insurance provided to DTH Partners LLC and NB 70 Pine LLC (joint and several borrowers), both real estate investment companies in the U.S., a convertible bridge loan of USD 70 million (EUR 54.1 million) as part of the financing of the acquisition of a landmark building in Manhattan, New York located at 70 Pine Street. The loan has a maturity of 1 year, bears an interest rate of 12% and benefits from a security package, including (i) pledges over shares of the special purpose vehicle owning the building, (ii) guarantee agreements (iii) pledges over receivables and, (iv) in addition, grants AG Insurance options to convert into entities holding residential rental properties in downtown Manhattan. As DTH Partners LLC is an entity which is related to Mr. Ronny Brückner, a member of the Board of Directors of Ageas, the aforementioned transaction is regarded as a related party transaction under IFRS rules, and as such is hereby disclosed. The amount is included in the next table in the line Due from customers in the column Ageas. Although this is a unique transaction, management considers the transaction to be concluded at arms' length.

	2011				2010			
	Associates	Ageas	Fortis Bank	Total	Associates	Ageas	Fortis Bank	Total
Income and expenses - related parties								
Interest income	2,3	0,2	22,6	25,1	0,9		9,6	10,5
Interest expense			(54,9)	(7,4)	(62,3)		(54,6)	(11,1)
Premiums		0,1		0,1				
Dividend and other investment income			27,9	27,9			18,2	18,2
Fee and commission income		5,7	22,0	27,7	2,7		23,4	26,1
Realised gains			13,4	13,4			0,2	0,2
Other income	0,5	15,9	0,9	17,3	0,1	26,0	4,7	30,8
Fee and commission expense			(238,8)	(238,8)		(0,1)	(249,8)	(249,9)
Realised losses			(5,5)	(5,5)			(32,8)	(32,8)
Operating, administrative and other expenses	(18,5)	(4,6)	(0,1)	(23,2)	(18,4)	(8,5)	(0,1)	(27,0)
Statement of financial position - related parties								
Cash and cash equivalents			652,3	652,3			169,3	169,3
Trading assets			6,4	6,4			2,3	2,3
Due from banks			130,1	130,1			132,7	132,7
Investments in associates	8,0		31,5	39,5	8,0		37,8	45,8
Due from customers	33,4	54,1	45,7	133,2	24,0		51,7	75,7
Other assets		1,5		1,5	1,8			1,8
Reinsurance share, trade and other receivables	6,4	3,3	3,6	13,3		44,6	4,8	49,4
Accrued income and and deferred charges		0,7	19,0	19,7		0,1	7,9	8,0
Investments on behalf of policyholders			1.279,6	1.279,6			1.322,5	1.322,5
Trading liabilities			2,1	2,1				
Due to banks			291,1	291,1			1.110,2	1.110,2
Liabilities arising from insurance and investment contracts					0,4			0,4
Debt certificates, subordinated liabilities and other borrowings	4,6	894,5		899,1	5,6	892,8	1,9	900,3
Deferred revenues and accrued interest and expenses	2,2	27,1	16,7	46,0		27,1	20,4	47,5
Other liabilities	13,7		1,0	14,7	2,7	159,8		162,5

14 Information on segments

14.1 AG Insurance

AG Insurance offers its products, a comprehensive range of Life and Non-Life cover, through several distribution channels. Independent intermediaries service the private market as well as the small and medium-sized enterprise segment. AG Insurance focuses on the bank retail market through branches of BNP Paribas Fortis Bank in Belgium. Life insurance includes both savings, with investment-focused unit-linked contracts, and traditional products with a guaranteed interest rate. Non-Life insurance includes, besides the retail and business-targeted Property & Casualty product range (Motor, Fire and Liability), also Workers' Compensation and Accident & Health products.

Additionally, the primary format for reporting segment information to management is based on operating segments. AG Insurance's reportable operating segments represent groups of assets and operations engaged in providing financial products or services which are subject to different risks and returns. AG Insurance' current operating segments are:

- ◆ Individual Life and Health;
- ◆ Non life (other than Health Care);
- ◆ Employee Benefits and Health Care.

14.2 Income statement split into Life and Non-life

2011	Life	Non-life	Other	
			Insurance	Total
Income				
- Gross premium income	4.263,0	1.670,9		5.934,0
- Change in unearned premiums		(9,0)		(9,0)
- Ceded earned premiums	(4,3)	(60,8)		(65,1)
Net earned premiums	4.258,7	1.601,1		5.859,8
Interest, dividend and other investment income	2.249,6	184,2	(18,2)	2.415,6
Realised and unrealised gains and losses	270,4	13,6		284,1
Income related to investments for unit-linked contracts	(177,3)			(177,3)
Share of result of associates	6,9	0,7		7,6
Fee and commission income	89,1	2,6		91,7
Other income	103,7	56,0		159,7
Total income	6.801,1	1.858,3	(18,2)	8.641,1
Expenses				
- Insurance claims and benefits, gross	(5.064,5)	(1.090,0)		(6.154,5)
- Insurance claims and benefits, ceded	1,8	24,9		26,7
Insurance claims and benefits, net	(5.062,8)	(1.065,1)		(6.127,8)
Charges related to unit-linked contracts	166,0			166,0
Finance costs	(97,0)	(11,8)		(108,7)
Change in impairments	(1.315,1)	(55,8)		(1.370,9)
Change in provisions	(0,1)	(1,4)		(1,5)
Fee and commission expense	(277,0)	(324,3)		(601,3)
Staff expenses	(268,3)	(156,8)		(425,2)
Other expenses	(438,6)	(221,6)	18,2	(641,9)
Total expenses	(7.292,9)	(1.836,8)	18,2	(9.111,3)
Profit before taxation	(491,8)	21,5		(470,2)
Income tax expenses	57,6	(17,2)		40,4
Net profit for the period	(434,2)	4,4		(429,8)
Attributable to non-controlling interests	5,4	0,7		6,1
Net profit attributable to shareholders	(439,6)	3,7		(435,9)
Non-cash expenses (excl. depreciation & amortisation)	(1.277,1)	(49,8)		(1.327,0)

Gross premium income	4.263,0	1.670,9	5.934,0
Inflow deposit accounting	244,8		244,8
Gross inflow	4.507,8	1.670,9	6.178,8

2010	Other			
	Life	Non-life	Insurance	Total
Income				
- Gross premium income	4.529,5	1.590,7		6.120,2
- Change in unearned premiums		0,4		0,4
- Ceded earned premiums	(4,9)	(50,1)		(55,1)
Net earned premiums	4.524,6	1.540,9		6.065,5
Interest, dividend and other investment income	2.190,0	189,7	(17,8)	2.361,8
Realised and unrealised gains and losses	35,5	5,5		40,9
Income related to investments for unit-linked contracts	467,8			467,8
Share of result of associates	4,9	0,5		5,4
Fee and commission income	93,5	3,1		96,7
Other income	128,3	59,8		188,0
Total income	7.444,5	1.799,5	(17,8)	9.226,2
Expenses				
- Insurance claims and benefits, gross	(5.472,3)	(1.160,9)		(6.633,2)
- Insurance claims and benefits, ceded	1,2	67,4		68,6
Insurance claims and benefits, net	(5.471,1)	(1.093,5)		(6.564,6)
Charges related to unit-linked contracts	(480,3)			(480,3)
Finance costs	(81,3)	(10,5)		(91,8)
Change in impairments	(27,3)	(2,0)		(29,3)
Change in provisions	0,1	(1,5)		(1,5)
Fee and commission expense	(289,0)	(307,1)		(596,2)
Staff expenses	(262,8)	(157,6)		(420,4)
Other expenses	(370,7)	(208,6)	17,8	(561,6)
Total expenses	(6.982,5)	(1.780,8)	17,8	(8.745,4)
Profit before taxation	462,0	18,7		480,8

Income tax expenses	(122,6)	(3,2)	(125,8)
Net profit for the period	339,5	15,5	355,0
Attributable to non-controlling interests	3,2	0,5	3,6
Net profit attributable to shareholders	336,3	15,0	351,4
Non-cash expenses (excl. depreciation & amortisation)	(71,6)	(8,3)	(79,9)
Gross premium income	4.529,5	1.590,7	6.120,2
Inflow deposit accounting	589,2		589,2
Gross inflow	5.118,7	1.590,7	6.709,4

14.3 Technical result insurance

AG Insurance uses the concept of technical result and operating margin, to analyse the insurance results,

Technical result includes premiums, fees and allocated financial income, less claims and benefits and less operating expenses. Realised gains and losses on investments backing insurance liabilities, such as separate accounts, are part of financial income and are thus included in the technical result. Financial income, net of the related investment costs, is allocated to the various Life and Non-life branches based on the investment portfolios backing the insurance liabilities of these branches.

Realised and unrealised gains and losses on investments that back other insurance liabilities, are included in the operating margin.

The reconciliation of the operating margin and profit before taxation, includes all income and costs, not allocated to the insurance or investment contracts and thus not reported in the operating margin.

AG Insurance is managed through three business segments, identified according to its reporting lines: Individual Life & Health, Non-Life other than Health Care and Employee Benefits & Health Care. Individual Life & Health business includes insurance contracts covering risks related to the life and death of individuals as well as individual health care insurance. Individual Life & Health business also includes individual investment contracts with and without discretionary participation features (DPF) as well as individual unit-linked contracts. Non-life comprises four lines of business: Accident, Motor, Fire and Other (including Third party Liability). Employee Benefits & Health Care business includes group insurance and health care contracts with employers as well as a small group insurance unit-linked portfolio.

The technical results for the different segments and their reconciliation with profit before taxation are shown below.

2011	Life & Health	Non-Life (other than Health Care)	Employee Benefits & Health Care	Total AG Insurance
Gross inflow Life	3.477,3		1.030,6	4.507,8
Gross inflow Non-life	34,8	1412,7	223,5	1.670,9
Operating costs	(117,3)	(240,3)	(99,5)	(457,0)
	0,0	0,0	0,0	
Life technical result	129,9	0,0	54,1	183,9
- <i>Accident & Health</i>	12,3	(4,5)	22,0	29,8
- <i>Motor</i>		56,2		56,2
- <i>Fire and other damage to property</i>		(33,9)		(33,9)
- <i>Other</i>		3,7		3,7
Non-Life technical result	12,3	21,4	22,0	55,8
Total technical result	142,2	21,4	76,1	239,7
Capital gains (losses) allocated to operating margin	(234,6)	(10,8)	(259,8)	(505,3)
Operating margin	(92,4)	10,6	(183,8)	(265,6)
Other result, including brokerage	(133,8)	(18,6)	(52,3)	(204,6)
Profit before taxation	(226,2)	(7,9)	(236,0)	(470,2)
Key performance indicators				
Expense ratio	46,7%	39,5%	18,7%	36,8%
Claims ratio	27,8%	65,8%	76,3%	66,5%
Combined ratio	74,4%	105,4%	94,9%	103,3%
Life cost in % of Life FUM (annualised)	0,31%		0,54%	0,37%
Funds under management	36.673,4	2.721,4	12.893,8	52.288,9

Claims ratio: the cost of claims, net of reinsurance, as a percentage of net earned premiums, excluding the internal costs of handling claims.

Expense ratio: expenses as a percentage of net earned premiums, net of reinsurance. Expenses include internal costs of handling claims, plus net commissions charged to the year, less internal investment costs.

Combined ratio: the sum of the claims ratio and the expense ratio.

2010	Life & Health	Non-Life (other than Health Care)	Employee Benefits & Health Care	Total AG Insurance
Gross inflow Life	4.068,4		1.050,3	5.118,7
Gross inflow Non-life	32,5	1.336,2	222,0	1.590,7
Operating costs	(115,8)	(230,3)	(93,7)	(439,8)
	0,0	0,0	0,0	
Life technical result	267,1	0,0	76,1	343,2
- <i>Accident & Health</i>	11,0	(1,2)	23,6	33,4
- <i>Motor</i>		(6,4)		(6,4)
- <i>Fire and other damage to property</i>		(92,1)		(92,1)
- <i>Other</i>		65,8		65,8
Non-Life technical result	11,0	(33,9)	23,6	0,7
Total technical result	278,1	(33,9)	99,7	343,9
Capital gains (losses) allocated to operating margin	(92,3)	(1,3)	48,9	(44,7)
Operating margin	185,8	(35,2)	148,6	299,2
Other result, including brokerage	117,7	17,2	46,7	181,6
Profit before taxation	303,6	(18,1)	195,3	480,8
Key performance indicators				
Expense ratio	35,6%	39,8%	16,6%	36,4%
Claims ratio	43,5%	70,4%	78,0%	71,0%
Combined ratio	79,1%	110,2%	94,6%	107,3%
Life cost in % of Life FUM (annualised)	0,32%	0,00%	0,56%	0,38%
Funds under management	36.349,5	2.671,7	12.316,9	51.340,4

Claims ratio: the cost of claims, net of reinsurance, as a percentage of net earned premiums, excluding the internal costs of handling claims.

Expense ratio: expenses as a percentage of net earned premiums, net of reinsurance. Expenses include internal costs of handling claims, plus net commissions charged to the year, less internal investment costs.

Combined ratio: the sum of the claims ratio and the expense ratio.

Notes to the consolidated statement of financial position

15 Cash and cash equivalents

Cash includes cash on hand, current accounts and other financial instruments with a term of less than three months from the date on which they were acquired. The composition of cash and cash equivalents as at 31 December is as follows:

	31 December 2011	31 December 2010
Cash on hand	2,1	1,7
Due from banks	1.745,6	371,4
Other	123,5	16,2
Total cash and cash equivalents	1.871,2	389,3

16 Financial investments

The composition of financial investments is as follows:

	31 December 2011	31 December 2010
Financial investments		
- Held to maturity	4.373,5	
- Available for sale	40.438,8	44.165,2
- Held at fair value through profit or loss	173,8	182,7
- Derivatives held for trading	18,2	22,0
Total, gross	45.004,3	44.369,9
Impairments:		
- of investments held to maturity		
- of investments available for sale	(1.408,8)	(178,9)
Total impairments	(1.408,8)	(178,9)
Total	43.595,6	44.191,0

16.1 Investments held to maturity

	31 December 2011			31 December 2010		
	Government	Corporate debt	Total	Government	Corporate debt	Total
				bonds	securities	
Historical/amortised cost at recognition			4.248,1			4.248,1
Acquisitions	125,7			125,7		
Amortisation	(0,3)			(0,3)		
Total investments held to maturity	4.373,5			4.373,5		
Fair value	4.553,0			4.553,0		

In 2011, AG Insurance reclassified, in accordance with IFRS, Belgian government bonds amounting to EUR 4.3 billion from Available for sale to Held to maturity. The reclassification took place against the fair value of the investments at the time of the reclassification. The difference between the fair value and the amortised cost, which amounted to 17, remains included in Unrealised gains and losses in Shareholders' equity and will be amortised over the remaining maturity of the investments. The amortisation is offset in the income statement against the amortisation of the difference between the book value and the nominal value of the bonds, leading to no impact in the income statement.

16.2 Investments available for sale

The fair value and amortised cost of available-for-sale investments including gross unrealised gains, gross unrealised losses, and impairments are as follows:

31 December 2011	<i>Historical/ amortised cost</i>	<i>Gross unrealised gains</i>	<i>Gross unrealised losses</i>	<i>Total gross</i>	<i>Impairments</i>	<i>Fair value</i>
Government bonds	23.471,1	880,3	(637,4)	23.714,0	(1.209,1)	22.504,9
Corporate debt securities	14.262,8	781,5	(131,9)	14.912,4	(6,4)	14.906,0
Structured credit instruments	384,2	13,4	(13,1)	384,5	(0,1)	384,4
Available for sale investments in debt securities	38.118,1	1.675,2	(782,4)	39.010,9	(1.215,6)	37.795,3
Private equities and venture capital	14,5		(0,4)	14,1		14,1
Equity securities	1.407,5	93,8	(89,8)	1.411,5	(193,2)	1.218,3
Other investments	2,2			2,2		2,2
Available for sale investments in equity securities and other investments	1.424,2	93,8	(90,2)	1.427,8	(193,2)	1.234,6
Total investments available for sale	39.542,3	1.769,0	(872,6)	40.438,7	(1.408,8)	39.030,0

31 December 2010	<i>Historical/ amortised cost</i>	<i>Gross unrealised gains</i>	<i>Gross unrealised losses</i>	<i>Total gross</i>	<i>Impairments</i>	<i>Fair value</i>
Government bonds	27.584,2	756,0	(1.142,0)	27.198,2		27.198,2
Corporate debt securities	14.054,4	707,6	(116,5)	14.645,5		14.645,5
Structured credit instruments	425,7	16,7	(12,6)	429,8	(6,3)	423,5
Available for sale investments in debt securities	42.064,3	1.480,3	(1.271,1)	42.273,5	(6,3)	42.267,2
Private equities and venture capital	4,8			4,8	(0,6)	4,2
Equity securities	1.762,4	158,2	(39,8)	1.880,8	(172,0)	1.708,8
Other investments	6,2			6,2		6,2
Available for sale investments in equity securities and other investments	1.773,4	158,2	(39,8)	1.891,8	(172,6)	1.719,2
Total investments available for sale	43.837,7	1.638,5	(1.310,9)	44.165,3	(178,9)	43.986,3

AG Insurances uses the following classification of fair value measurement within the fair value hierarchy:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets.

Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.

Level 3: Fair values measured using inputs that are not based on observable data.

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Valuation investments available for sale								
Government bonds	22.504,7			22.504,9	27.198,2			27.198,2
Corporate debt securities	14.898,0	8,1		14.906,0	14.565,5	80,0		14.645,5
Structured credit instruments	267,1	43,8	73,6	384,4	13,0	364,3	46,1	423,5
Private equities and venture capital			14,1	14,1			4,2	4,2
Equity securities	1.098,8	118,0	1,5	1.218,3	1.618,2	89,0	1,5	1.708,8
Other investments	0,4		1,8	2,2	3,8		2,4	6,3
Balance as at 31 December	38.769,0	169,9	91,0	39.030,0	43.398,7	533,3	54,3	43.986,3

The changes in level 3 valuation are as follows:

	2011		2010	
	Balance as at 1 January		54,3	84,4
Maturity / Redemption		(0,1)		(0,7)
Acquisition		10,4		4,2
Proceeds from sales		(20,5)		(45,4)
Realized gains / losses		2,0		1,3
Reversal of impairments			4,6	
Unrealized gains / losses		(0,4)		1,1
Transfers between valuation categories		45,4		4,8
Balance as at 31 December		91,0		54,3

The level 3 positions are mainly sensitive to a change in the level of credit spreads. If the general level of credit spreads increases by 1 basis point, it is estimated that the market value of these positions drops by 2 basis points. This would translate into a loss of value by approximately EUR 2 million for every basis point widening

of the level of credit spreads. The changes in value of the level 3 instruments are accounted for within shareholders' equity within unrealised gains and losses.

Government bonds detailed by country of origin as at 31 December are as follows:

31 December 2011	<i>Historical/</i> <i>amortised</i>	<i>Gross</i>	<i>Impairments</i>	<i>Fair</i> <i>value</i>
	<i>cost</i>	<i>unrealised</i>		
		<i>gains (losses)</i>		
Belgian national government	9.461,5	111,1		9.572,6
French national government	3.769,3	162,4		3.931,7
Austrian national government	2.003,5	130,9		2.134,4
German national government	1.290,4	215,0		1.505,4
Dutch national government	1.179,5	113,2		1.292,7
Italian national government	1.359,4	(313,5)		1.045,9
Spanish national government	916,9	(89,7)		827,2
Greek national government	1.563,0	8,7	(1.209,1)	353,8
Irish national government	404,8	(54,5)		350,3
Finnish national government	260,3	22,5		282,8
Czech republic national government	244,2	5,0		249,2
Slovenian national government	229,4	(18,7)		210,7
Slovakian national government	212,6	(2,3)		210,3
Portuguese national government	81,1	(26,1)		55,0
United States of America national government	31,0	6,5		37,5
Other national governments	464,2	(27,6)		445,4
Total	23.471,1	242,9	(1.209,1)	22.504,9

31 December 2010	<i>Historical/ amortised cost</i>	<i>Gross unrealised gains (losses)</i>	<i>Impairments</i>	<i>Fair value</i>
Belgian national government	9.640,1	129,8		9.769,9
French national government	3.632,2	62,8		3.695,0
Italian national government	2.835,6	(86,1)		2.749,5
German national government	2.437,5	141,4		2.578,9
Austrian national government	2.161,6	66,7		2.228,3
Spanish national government	1.506,7	(112,0)		1.394,7
Dutch national government	1.225,4	44,5		1.269,9
Greek national government	1.669,4	(584,2)		1.085,2
Finnish national government	717,9	13,2		731,1
Irish national government	531,5	(92,6)		438,9
Czech republic national government	346,3	12,5		358,8
Slovenian national government	227,4	7,5		234,9
Slovakian national government	211,6	9,5		221,1
Portuguese national government	82,1	(6,8)		75,3
United States of America national government	30,3	5,1		35,4
Other national governments	328,6	2,7		331,3
Total	27.584,2	(386,0)		27.198,2

Net unrealised gains and losses on available for sale investments included in equity

	31 December 2011	31 December 2010
Available for sale investments in debt securities:		
Carrying amount	37.795,3	42.267,2
Gross unrealised gains and losses	892,8	209,2
- Related tax	(301,9)	(71,7)
Shadow accounting	(135,7)	(64,8)
- Related tax	46,1	22,0
Net unrealised gains and losses	501,3	94,7
Available for sale investments in equity securities and other investments:		
Carrying amount	1.234,6	1.719,2
Gross unrealised gains and losses	3,6	118,4
- Related tax	(5,8)	(12,8)

Shadow accounting	(12,4)	(20,1)
- Related tax	4,2	6,8
Net unrealised gains and losses	(10,4)	92,3

Available for sale investments in equity securities and other investments also include private equities and venture capital and all other investments, excluding debt securities.

Impairments of investments available for sale

The following table shows the breakdown of impairments of investments available for sale.

	31 December 2011	31 December 2010
Impairments of investments available for sale:		
- on debt securities	(1.215,6)	(6,3)
- on equity securities and other investments	(193,2)	(172,6)
Total impairments of investments available for sale	(1.408,8)	(178,9)

The changes in impairments of available for sale investments are as follows:

	2011	2010
Balance as at 1 January	178,9	186,9
Acquisitions/divestments of subsidiaries		
Increase in impairments	1.381,9	33,1
Release of impairments		(4,6)
Reversal on sale/disposal	(151,9)	(36,4)
Foreign exchange differences and other adjustments	(0,1)	(0,1)
Balance as at 31 December	1.408,8	178,9

16.3 Investments held at fair value through profit or loss

The following table provides information as at 31 December about the investments held at fair value, for which unrealised gains or losses are recorded through profit or loss.

	31 December 2011	31 December 2010
Corporate debt securities	75,0	77,9
Structured credit instruments	85,7	96,3
Debt securities	160,7	174,2
Equity securities	13,1	8,4
Equity securities and other investments	13,1	8,4
Total investments held at fair value through profit or loss	173,8	182,7

AG Insurance uses the following classification of fair value measurement within the fair value hierarchy:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets.
- Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.
- Level 3: Fair values measured using inputs that are not based on observable data.

	Level 1	2011			2010		
		Level 2	Level 3	Total	Level 1	Level 2	Level 3
Valuation investments held at fair value through profit or loss							
Corporate debt securities		75,0		75,0		77,9	
Structured credit instruments			85,7	85,7		96,3	96,3
Equity securities		13,1		13,1		8,4	
Balance as at 31 December		88,1	85,7	173,8		86,3	96,3
							182,7

The changes in level 3 valuation are as follows:

	2011		2010
	96,3	85,7	90,8
Balance as at 1 January			
Maturity / Redemption		(5,0)	
Proceeds from sales		(18,3)	(9,2)
Realized gains / losses			14,8
Unrealized gains / losses	12,7		
Balance as at 31 December	85,7		96,3

The level 3 positions are mainly sensitive to a change in the general level of credit spreads. If the general level of credit spreads increases by 1 basis point, it is estimated that the market value of these positions drops by 1 basis point. This would translate into a loss of value by approximately EUR 1 million, for every basis point widening of the general level of credit spreads. The change in value of Structured credit instruments between 2011 and 2010 is due to revaluation which is classified under realised and unrealised gains and losses.

The amortised cost of the debt securities held at fair value through profit or loss as at 31 December 2011 is EUR 121 million (2010: EUR 121 million).

16.4 Derivatives held for trading (assets)

The following table provides a specification of the derivatives held for trading (assets).

	<i>31 December 2011</i>	<i>31 December 2010</i>
Over the counter (OTC)	18,2	22,0
Total derivatives held for trading (assets)	18,2	22,0

Derivatives held for trading are in 2011 and 2010 based on a level 2 valuation.

17 Investment property

Investment property mainly comprises residential, commercial and mixed-use real estate.

	31 December 2011	31 December 2010
Investment property	2.054,7	1.920,5
Impairments of investment property	(33,9)	(46,3)
Total investment property	2.020,9	1.874,2

The following table shows the changes in investment property for the year ended 31 December.

	2011	2010
Acquisition cost as at 1 January	2.425,3	2.039,2
Acquisitions/divestments of subsidiaries	16,2	276,1
Additions/purchases	215,2	131,8
Disposals	(68,0)	(26,5)
Transfer from (to) property, plant and equipment		(0,1)
Other	(3,6)	4,8
Acquisition cost as at 31 December	2.585,2	2.425,3
 Accumulated depreciation as at 1 January	(504,8)	(470,4)
Depreciation expense	(60,2)	(48,6)
Reversal of depreciation due to disposals	34,6	14,6
Other		(0,4)
Accumulated depreciation as at 31 December	(530,4)	(504,8)
 Impairments as at 1 January	(46,3)	(45,1)
Increase in impairments charged to income statement	(1,6)	(2,2)
Reversal of impairments credited to income statement	14,1	
Reversal of impairments due to disposals		3,1
Other		(2,0)
Impairments as at 31 December	(33,9)	(46,3)
 Net investment property as at 31 December	2.020,9	1.874,2
 Fair values supported by market evidence	2.419,1	2.238,7
Fair values subject to an independent valuation	333,3	167,9

Total fair value of investment property at 31 December	2.752,4	2.406,6
Cost of investment property under construction	88,7	141,2

The fair value of investment property is set out below.

	31 December 2011	31 December 2010
Fair values supported by market evidence	2.419,1	2.238,7
Fair value subject to an independent valuation	333,3	167,9
Total fair value of investment property	2.752,4	2.406,6
Total carrying amount	2.020,9	1.874,2
Gross unrealised gain/loss	731,5	532,4
Taxation	(248,6)	(181,0)
Net unrealised gain/loss (not recognised in equity)	482,9	351,4

Fair value of investment property is subject to an independent external appraisal every five years, on a rotating basis. Accordingly, about 20% of the property portfolio is externally appraised each year. Between successive appraisals, fair value of investment property/buildings held for own use is updated using internal models that are constantly calibrated with available market data and/or transactions.

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Real estate is split into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful life of the components is as follows:

- ◆ Structure 50 years for offices and retail; 70 years for residential
- ◆ Closing 30 years for offices and retail; 40 years for residential
- ◆ Techniques and equipment 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Heavy finishing 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Light finishing 10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT, office and equipment are depreciated over their respective useful lives, which are determined individually. As a general rule, residual values are considered to be zero.

Property rented out under operating lease

AG Insurance rents certain assets – mainly property held for investment purposes – to external parties based on operating lease agreements. At 31 December the minimum payments to be received from irrevocable lease agreements amounted to:

	<i>2011</i>	<i>2010</i>
Less than 3 months	45,0	36,3
3 months to 1 year	138,8	107,3
1 year to 5 years	584,3	534,0
More than 5 years	895,1	1.007,7
Total	1.663,2	1.685,3

18 Loans

The composition of Loans is as follows:

	31 December 2011	31 December 2010
Loans to banks	201,1	206,3
Loans to customers	2.685,8	2.362,6
Total	2.886,9	2.568,9
Less impairments:		
- specific credit risk	(7,2)	(5,0)
- incurred but not reported (IBNR)	(0,7)	(0,9)
Total loans	2.879,0	2.563,0

18.1 Loans to banks

Loans to banks consists of the following:

	31 December 2011	31 December 2010
Interest-bearing deposits	1,6	31,5
Reverse repurchase agreements	66,6	
Other	133,0	174,8
Total	201,1	206,3
Loans to banks	201,1	206,3

18.2 Loans to customers

The composition of Loans to customers is as follows:

	31 December 2011	31 December 2010
Residential mortgage	1.582,1	1.618,2
Commercial loans	96,8	85,7
Policyholder loans	111,1	96,1
Financial lease receivables	2,1	
Other loans	893,7	562,5
Total	2.685,8	2.362,6

Less impairments:			
- specific credit risk		(7,2)	(5,0)
- incurred but not reported (IBNR)		(0,7)	(0,9)
Loans to customers		2.677,8	2.356,8

Other loans mainly relates to loans to regional authorities and Governmental organisations.

The credit risk on Loans to customers is mitigated because of collateral that has been pledged.

Financial lease receivables

Receivables related to financial lease agreements as at 31 December comprise:

	<i>Minimum lease</i>		<i>Present value</i>	
	<i>payments</i>		<i>of the minimum lease</i>	<i>payments receivable</i>
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
<i>Gross investment in financial leases:</i>				
Less than 3 months	2,1		2,1	
3 months to 1 year				
1 year to 5 years				
More than 5 years		0,1		
Total	2,1	0,1	2,1	
Unearned finance income		0,1		

Impairments of loans to customers

The following table shows the changes in impairments on Loans to customers.

	<i>2011</i>		<i>2010</i>	
	<i>Specific credit risk</i>	<i>IBNR</i>	<i>Specific credit risk</i>	<i>IBNR</i>
Balance as at 1 January	5,0	0,9	5,5	0,8
Acquisitions/divestments of subsidiaries				
Increase in impairments	3,2		1,4	
Release of impairments	(1,0)	(0,2)	(1,7)	
Write-offs of uncollectible loans			(0,2)	
Foreign exchange differences and other adjustments				
Balance as at 31 December	7,2	0,7	5,0	0,9

19 Investments in associates

The following table provides an overview of the most significant investments in associates as at 31 December.

	% interest	2011		2010
		Carrying amount	Carrying amount	Carrying amount
Association Westland Shopping center	45,8 %	34,5		0
BITM	50,0 %	32,2		31,6
Aviabel	24,7 %	22,7		21,7
Credimo	34,1 %	16,1		18,3
Regatta-lo	50,0 %	8,4		0
Kanaalkom	50,0 %	5,5		5,5
DBFM	37,5 %	5,1		3,8
Other (including Interparking associates)		26,3		23,7
Total		150,8		104,6

The details of the associates are as follows:

2011	Total assets	Total liabilities	Total income	Total expenses
Association Westland Shopping center	77,0	1,5	7,4	5,2
BITM	124,3	59,9	17,2	15,9
Aviabel	197,3	105,5	62,1	51,7
Credimo	933,8	887,1	120,5	119,2
Regatta-lo	25,7	8,9	0,0	0,0
Kanaalkom	28,9	17,8	0,2	0,1
DBFM	67,4	53,9	7,2	6,7

2010	Total assets	Total liabilities	Total income	Total expenses
BITM	126,7	63,6	17,6	15,7
Aviabel	195,7	101,3	58,4	52,8
Credimo	934,1	880,1	123,6	121,2
Kanaalkom	25,7	14,8	0,0	0,1
DBFM	53,6	43,3	11,4	11,8

20 - 21 Reinsurance and other receivables

The table below shows the components of reinsurance and other receivables as at 31 December.

	31 December 2011	31 December 2010
Reinsurers' share of liabilities arising from insurance and investment contracts	173,6	163,1
Receivables from policyholders	235,9	238,4
Fees and commissions receivable	47,6	56,8
Operating lease receivables	2,2	3,0
Receivables from intermediaries	83,0	84,6
Reinsurance receivables		18,5
Other	143,0	154,3
Total gross	685,3	718,7
Impairments	(4,9)	(6,3)
Net total	680,2	712,4

The line Other includes receivables related to VAT and other indirect taxes.

Changes in impairments of reinsurance and other receivables

The following table shows the changes in the impairments of reinsurance and other receivables.

	2011	2010
Balance as at 1 January	6,3	8,1
Increase in impairments	0,2	0,4
Release of impairments	(1,5)	(1,5)
Write-offs of uncollectible amounts	(0,1)	(0,9)
Foreign exchange differences and other adjustments		0,1
Balance as at 31 December	4,9	6,3

Changes in the reinsurer's share of liabilities arising from insurance and investment contracts

Changes in the reinsurer's share of liabilities arising from insurance and investment contracts are shown below.

	2011	2010
Balance as at 1 January	163,1	119,9
Change in liabilities current year	27,2	62,1
Change in liabilities prior years	(4,9)	3,2

Claims paid current year	(2,8)	(2,3)
Claims paid prior years	(8,7)	(18,3)
Other net additions through income statement	(0,4)	(1,4)
Balance as at 31 December	173,6	163,1

22 Accrued interest and other assets

The table below shows the components of Accrued interest and other assets as at 31 December.

	31 December 2011	31 December 2010
Deferred acquisition cost	162,5	164,7
Deferred other charges	67,6	49,1
Accrued interest and other income	1.068,4	994,8
Derivatives held for hedging purposes	1,3	1,5
Buildings held for sale	146,0	25,6
Defined benefit assets	5,2	5,0
Other	30,4	29,0
Accrued interest and other assets	1.481,5	1.269,6

For details of pension plans and related pension assets (see Note 9).

Deferred acquisition costs

Changes in deferred acquisition costs related to insurance and investment contracts are shown below.

	2011	2010
Balance as at 1 January	164,7	168,7
Capitalised deferred acquisition costs	285,4	262,6
Depreciation expense	(287,6)	(266,6)
Balance as at 31 December	162,5	164,7

23 Property, plant and equipment

The table below shows the carrying amount for each category of Property, plant and equipment as at 31 December.

	31 December 2011	31 December 2010
Land and buildings held for own use	972,1	962,9
Leasehold improvements	13,5	12,4
Equipment	49,0	44,2
Total	1.034,6	1.019,5

Changes in Property, plant and equipment are shown below.

2011	<i>Land and buildings</i>	<i>Leasehold</i>	<i>Equipment</i>	<i>Total</i>
	<i>held for own use</i>	<i>improvements</i>		
Acquisition cost as at 1 January	1.392,7	31,7	145,1	1.569,5
Acquisitions/divestments of subsidiaries	29,4	0,6	0,3	30,3
Additions	18,2	2,5	17,8	38,5
Reversal of cost due to disposals	(8,7)	(0,6)	(10,4)	(19,7)
Other	(1,4)		(0,2)	(1,5)
Acquisition cost as at 31 December	1.430,3	34,2	152,6	1.617,1
Accumulated depreciation as at 1 January	(421,7)	(18,6)	(100,9)	(541,1)
Depreciation expense	(31,2)	(2,2)	(15,0)	(48,4)
Reversal of depreciation due to disposals		0,6	10,0	10,7
Other	0,7	(0,1)	2,2	2,9
Accumulated depreciation as at 31 December	(452,2)	(20,2)	(103,5)	(575,9)
Impairments as at 1 January	(8,1)	(0,8)		(8,9)
Reversal of impairments credited to the income statement	2,1	0,3		2,4
Impairments as at 31 December	(6,0)	(0,5)		(6,5)
Property, plant and equipment as at 31 December	972,1	13,5	49,0	1.034,6

2010	Land and buildings	Leasehold	Equipment	Total
	held for own use	improvements		
Acquisition cost as at 1 January	1.429,0	36,0	128,5	1.593,5
Acquisitions/divestments of subsidiaries	12,7	0,5	2,9	16,1
Additions	32,6	1,4	17,0	51,0
Reversal of cost due to disposals			(4,6)	(4,7)
Other	(81,6)	(6,1)	1,3	(86,4)
Acquisition cost as at 31 December	1.392,7	31,7	145,1	1.569,5
Accumulated depreciation as at 1 January	(427,0)	(24,5)	(89,0)	(540,5)
Depreciation expense	(33,7)	(2,5)	(14,1)	(50,2)
Reversal of depreciation due to disposals			4,5	4,5
Other	39,0	8,5	(2,3)	45,1
Accumulated depreciation as at 31 December	(421,7)	(18,6)	(100,9)	(541,1)
Impairments as at 1 January	(7,6)			(7,6)
Increase in impairments charged to the income statement	(0,5)			(0,5)
Other		(0,8)		(0,8)
Impairments as at 31 December	(8,1)	(0,8)		(8,9)
Property, plant and equipment as at 31 December	962,9	12,4	44,2	1.019,5

The amounts in the lines Other under Land and buildings held for own use relate to the transfer of concession rights to intangible assets (see note 24) in accordance with IFRIC 12.

The fair value of owner-occupied property is set out below.

	31 December 2011	31 December 2010
Total fair value of Land and buildings held for own use	1.424,1	1.347,8
Total carrying amount	972,1	962,9
Gross unrealised gain/loss	452,0	384,9
Taxation	(153,6)	(130,8)
Net unrealised gain/loss (not recognised in equity)	298,4	254,1

Fair value of buildings held for own use is subject to an independent external appraisal every five years, on a rotating basis. Accordingly, about 20% of the property portfolio is externally appraised each year. Between successive appraisals, fair value of investment property/buildings held for own use is updated using internal models that are constantly calibrated with available market data and/or transactions.

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The real estate is split into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful lives of the components are as follows:

- ◆ Structure 50 years for offices and retail; 70 years for residential
- ◆ Closing 30 years for offices and retail; 40 years for residential
- ◆ Techniques and equipment 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Heavy finishing 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Light finishing 10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT, offices and equipment are depreciated over their respective useful lives, which have been determined individually. As a general rule, residual values are considered to be zero.

24 Goodwill and other intangible assets

Goodwill and other intangible assets as at 31 December are as follows:

	31 December 2011	31 December 2010
Goodwill	23,8	25,3
Purchased software	0,3	0,4
Internally developed software	6,3	10,7
Other intangible assets	327,2	351,6
Total	357,5	388,0

Other intangible assets mainly include car park service concessions. These have an expected useful life depending upon the duration of the related service concession and are amortised in accordance with their expected lives.

In general, software is amortised over a maximum of five years.

With the exception of goodwill, AG Insurance does not have any intangible assets with indefinite useful lives.

Impairment testing of goodwill is performed annually at the end of the year by comparing the recoverable amount of cash-generating units (CGU) with their carrying amount. The recoverable amount is determined by the higher of the value in use and fair value less costs to sell.

The recoverable amount of a CGU is assessed by means of a discounted cash-flow model of the anticipated future cash flows of the CGU. The key assumptions used in the cash-flow model depend on input reflecting various financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the entity being evaluated.

Changes in goodwill and other intangible assets for the years 2011 and 2010 are shown below.

2011	<i>Goodwill</i>	<i>Purchased</i>	<i>Internally</i>	<i>Other</i>	<i>Total</i>
		<i>software</i>	<i>developed</i>	<i>intangible</i>	
			<i>software</i>	<i>assets</i>	
Acquisition cost as at 1 January	25,8	2,0	22,5	495,1	545,4
Acquisitions/divestments of subsidiaries				4,1	4,1
Additions			0,1	2,5	2,6
Reversal of cost due to disposals				(0,1)	
Other	(2,0)			1,8	(0,1)
Acquisition cost as at 31 December	23,8	2,1	22,5	503,5	551,9
 Accumulated amortisation as at 1 January	 (1,6)	 (11,8)	 (141,7)	 (155,1)	
Amortisation expense	(0,1)	(4,4)	(26,2)	(30,8)	
Reversal of amortisation due to disposals				0,1	
Other	-			(3,1)	(3,1)
Accumulated amortisation as at 31 December	(1,8)	(16,2)	(170,9)	(188,9)	
 Impairments as at 1 January	 (0,4)		 (1,7)	 (2,0)	
Increase in impairments charged to the income statement	0,4		(3,5)	(3,1)	
Impairments as at 31 December	0		(5,2)	(5,1)	
 Goodwill and other intangible assets as at 31 December	 23,8	0,3	6,3	327,2	357,5

2010	<i>Goodwill</i>	<i>Purchased software</i>	<i>Internally developed software</i>	<i>Other intangible assets</i>	<i>Total</i>
Acquisition cost as at 1 January	23,8	1,9	22,5	277,2	325,3
Acquisitions/divestments of subsidiaries	2,0			133,6	135,6
Additions		0,2		0,2	0,4
Reversal of cost due to disposals				(3,5)	(3,5)
Other				87,6	87,6
Acquisition cost as at 31 December	25,8	2,1	22,5	495,1	545,4
 Accumulated amortisation as at 1 January	 (1,5)	 (7,4)	 (77,1)	 (86,0)	
Amortisation expense	(0,1)	(4,4)	(18,4)	(22,9)	
Other	-		(46,2)	(46,2)	
Accumulated amortisation as at 31 December	(1,6)	(11,8)	(141,7)	(155,1)	
 Impairments as at 1 January	 (0,4)			(3,1)	(3,5)
Reversal of impairments credited to the income statement				0,7	0,7
Other				0,8	0,8
Impairments as at 31 December	(0,4)			(1,7)	(2,0)
 Goodwill and other intangible assets as at 31 December	 25,3	 0,4	 10,7	 351,6	 388,0

The amounts in the line Other under Other intangible assets relate to the transfer of concession rights from Land and buildings held for own use (see note 23) in accordance with IFRIC 12.

25 Liabilities arising from Life insurance contracts

The following table provides an overview of the liabilities arising from Life insurance contracts as at 31 December.

	31 December 2011	31 December 2010
Liability for future policyholder benefits	20.493,0	19.852,1
Reserve for policyholder profit sharing	117,6	175,0
Shadow accounting adjustment	109,9	50,7
Gross	20.720,5	20.077,8
Reinsurance	(2,4)	(2,5)
Net	20.718,1	20.075,3

Changes in the liabilities arising from Life insurance contracts (gross of reinsurance and before eliminations) are shown below.

	2011	2010
Balance as at 1 January	20.077,8	19.263,1
Acquisitions/divestments of subsidiaries		
Gross inflow	1.762,2	1.788,7
Time value	687,6	729,1
Payments due to surrenders, maturities and other	(1.533,7)	(1.330,6)
Transfer of liabilities	(0,6)	54,5
Foreign exchange differences		
Shadow accounting adjustment	59,2	(64,7)
Net changes in group contracts	96,1	
Other changes, including risk coverage	(428,1)	(362,3)
Balance as at 31 December	20.720,5	20.077,8

26 Liabilities arising from Life investment contracts

The following table provides an overview of the liabilities arising from Life investment contracts as at 31 December.

	31 December 2011	31 December 2010
Liability for future policyholder benefits	22.374,7	21.246,9
Reserve for policyholder profit sharing	65,3	152,8
Shadow accounting adjustment	38,2	34,2
Gross	22.478,2	21.433,9
Reinsurance		
Net	22.478,2	21.433,9

Changes in the liabilities arising from Life investment contracts are shown below.

	2011	2010
Balance as at 1 January	21.433,9	19.544,7
Gross inflow	2.432,0	2.667,8
Time value	550,0	530,6
Payments due to surrenders, maturities and other	(1.834,2)	(1.115,2)
Transfer of liabilities	(11,9)	0,3
Shadow accounting adjustment	4,0	(98,2)
Net changes in group contracts	(0,1)	
Other changes, including risk coverage	(95,5)	(96,1)
Balance as at 31 December	22.478,2	21.433,9

The adequacy of insurance liabilities ('liability adequacy test') is tested at each reporting date. The tests are performed on legal fungible level (asset pool level) for life.

AG Insurance considers current best estimates of all contractual cash flows, including related cash flows such as (re)investment returns and expenses. The assumptions are internally consistent with those used for other modeling purposes. For Life Insurance contracts, the tests include cash flows resulting from embedded options and guarantees. The present value of these cash flows has been determined by using a risk-free discount rate. Any shortfall is recognised immediately in the income statement.

27 Liabilities related to unit-linked contracts

The liabilities related to unit-linked contracts are broken down into insurance and investment contracts as follows:

	31 December 2011	31 December 2010
Insurance contracts	683,7	708,8
Investment contracts	5.210,6	5.978,4
Total	5.894,3	6.687,2

The following table shows the changes in liabilities related to unit-linked insurance contracts.

	2011	2010
Balance as at 1 January	708,8	689,9
Gross inflow	71,7	76,5
Time value		
Payments due to surrenders, maturities and other		
Transfer of liabilities		
Net changes in group contracts	(96,1)	(56,8)
Other changes, including risk coverage	(0,7)	(0,8)
Balance as at 31 December	683,7	708,8

The following table shows the changes in liabilities related to unit-linked investment contracts.

	2011	2010
Balance as at 1 January	5.978,4	5.879,5
Gross inflow	241,9	585,7
Time value	(203,3)	362,7
Payments due to surrenders, maturities and other	(801,4)	(832,8)
Transfer of liabilities	2,4	(8,7)
Net changes in group contracts	0,1	
Other changes, including risk coverage	(7,5)	(8,0)
Balance as at 31 December	5.210,6	5.978,4

28 Liabilities arising from Non-life insurance contracts

The following table provides an overview of the liabilities arising from Non-life insurance contracts as at 31 December.

	31 December 2011	31 December 2010
Claims reserves	2.839,1	2.796,1
Unearned premiums	347,9	338,9
Reserve for policyholder profit sharing	8,9	6,5
Gross	3.195,9	3.141,5
Reinsurance	(171,2)	(160,5)
Net	3.024,7	2.981,0

Changes in the liabilities arising from insurance contracts for Non-life insurance contracts (gross of reinsurance and before eliminations) are shown below.

	2011	2010
Balance as at 1 January	3.141,5	2.973,3
Acquisitions/divestments of subsidiaries		
Addition to liabilities current year	1.185,6	1.229,1
Claims paid current year	(595,5)	(611,9)
Change in liabilities current year	590,1	617,2
Addition to liabilities prior years	(95,5)	(68,2)
Claims paid prior years	(441,9)	(374,9)
Change in liabilities prior years	(537,4)	(443,1)
	52,7	174,1
Change in unearned premiums	9,0	(0,4)
Transfer of liabilities	6,0	(0,9)
Foreign exchange differences	0,3	2,3
Other changes	(13,6)	(6,9)
Balance as at 31 December	3.195,9	3.141,5

The adequacy of insurance liabilities ('liability adequacy test') is tested by each company at each reporting date. The tests are performed on a level of homogeneous product groups for Non-life. Any shortfall is recognised immediately in the income statement.

29 - 30 Subordinated liabilities

The following table provides a specification of the subordinated liabilities as at 31 December.

	31 December 2011	31 December 2010
Sub-loan	150,0	150,0
Hybrone I	496,1	494,7
Nitsh II	248,4	247,4
Total subordinated liabilities	894,5	892,8

These perpetual subordinated and pari passu liabilities are granted by Ageas SA/NV (the Sub-loan) and Ageas Hybrid Financing S.A. (Hybrone I and Nitsh II).

The Sub-loan yields a coupon of 4,80% till its first call date at 30 September 2014 and 5,80% thereafter. Hybrone I yields a coupon of 5,16% till its first call date at 20 June 2016 and the three months EURIBOR plus 2,03% thereafter. Nitsh II yields a coupon of 8,03% till its first call date at 2 June, 2013, remaining unchanged thereafter.

31 Borrowings

The table below shows the components of borrowings as at 31 December.

	31 December 2011	31 December 2010
Due to banks	1.652,4	1.647,9
Due to customers	76,2	64,7
Other borrowings	59,3	53,7
Total borrowings	1.787,9	1.766,3

31.1 Due to banks

The table below shows the components of Due to banks.

	31 December 2011	31 December 2010
Deposits from banks:		
Demand deposits	2,3	54,3
Total deposits	2,3	54,3
Repurchase agreements	1.067,1	1.049,2
Other	583,0	544,4
Total due to banks	1.652,4	1.647,9

Contractual terms of deposits held by banks

Deposits held by banks by year of contractual maturity as at 31 December are as follows:

	2011	2010
2011		54,3
2012	2,3	
Total deposits	2,3	54,3

31.2 Due to customers

The components of Due to customers are as follows:

	31 December 2011	31 December 2010
Other borrowings	5,4	5,2
Funds held under reinsurance agreements	70,8	59,5
Total due to customers	76,2	64,7

31.3 Other borrowings

The table below shows the components of other borrowings as at 31 December.

	31 December 2011	31 December 2010
Finance lease obligations	32,5	29,7
Other	26,8	24,0
Total other borrowings	59,3	53,7

The Other item relates mainly to the financing of real estate investments.

Finance lease obligations

AG Insurance's obligations under finance lease agreements are detailed in the table below.

	Present value minimum			
	Minimum lease payments		Present value minimum lease payments	
	2011	2010	2011	2010
Less than 3 months	1,6	0,9	1,0	0,3
3 months to 1 year	4,7	2,5	3,1	1,0
1 year to 5 years	11,6	9,9	9,5	6,1
More than 5 years	62,3	65,8	18,9	22,3
Total	80,2	79,1	32,5	29,7
Future finance charges	47,7	49,5		

Other

Other borrowings, excluding financial lease obligations, are classified by remaining maturity in the table below.

	2011	2010
Less than 3 months	5,3	6,2
3 months to 1 year		3,5
1 year to 5 years	13,1	2,2
More than 5 years	8,3	12,2
Total	26,8	24,0

32 - 33 Current and deferred tax assets and liabilities

The components of deferred tax assets and deferred tax liabilities as at 31 December are shown below.

	Statement of financial position		Income statement	
	2011	2010	2011	2010
Deferred tax assets related to:				
Financial investments (available for sale)	93,1	36,3	113,0	13,4
Investment property	19,4	7,4	7,1	1,4
Property, plant and equipment	41,2	41,5	(0,3)	22,3
Intangible assets (excluding goodwill)	6,1	29,9	(23,8)	6,2
Insurance policy and claim reserves	271,9	273,7	(19,9)	(4,0)
Provisions for pensions and post-retirement benefits	42,5	43,5	(1,1)	(0,5)
Other provisions	4,8	4,2	0,6	0,4
Accrued expenses and deferred income	2,6	4,3	(1,7)	2,9
Unused tax losses	82,2	10,0	72,3	(21,5)
Other	31,8	27,1	4,6	5,7
Total deferred tax assets	595,5	478,0	150,7	26,3
Deferred tax liabilities related to:				
Derivatives held for trading (assets)	1,9	1,2	(0,7)	3,5
Financial investments (available for sale)	385,5	130,8	(93,6)	(25,5)
Unit-linked investments	2,7		(2,7)	
Investment property	113,1	113,6	5,6	(3,9)
Loans to customers	3,0	3,0		(0,1)
Property, plant and equipment	190,9	211,1	27,1	19,9
Intangible assets (excluding goodwill)	76,4	76,4		(50,2)
Other provisions				
Deferred policy acquisition costs	32,3	33,2	0,9	1,1
Deferred expense and accrued income	1,5	1,6	0,1	0,1
Tax exempt realised reserves	42,4	45,4	3,0	0,6
Other	79,6	75,6	(1,1)	8,5
Total deferred tax liabilities	929,4	692,2	(61,4)	(46,0)
Deferred tax income (expense)			89,3	(19,7)

Net deferred tax	(333,9)	(214,2)	
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Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The amounts offset in the statement of financial position are:

	2011	2010
Deferred tax asset	27,7	145,5
Deferred tax liability	361,6	359,7
Net deferred tax	(333,9)	(214,2)

Deferred tax assets are recognised to the extent that it is probable that there will be sufficient future taxable profit against which the deferred tax asset can be utilised

Deferred tax assets depending on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences have been recognised based on the expectation that sufficient taxable income will be generated in future years to utilise these deferred tax assets.

As of December 31, 2011, unrecognised deferred tax assets amount to 65 (none as of December 31, 2010).

34 Accrued interest and other liabilities

The composition of Accrued interest and other liabilities as at 31 December is as follows:

	31 December 2011	31 December 2010
Other liabilities	392,8	294,4
Defined benefit pension liabilities	296,5	281,5
Due to agents, policyholders and intermediaries	252,0	294,9
Accounts payable	114,8	101,7
Short-term employee benefit liabilities	84,4	75,5
VAT and other taxes payable	64,6	65,2
Deferred revenues	53,5	50,3
Accrued finance costs	52,8	50,3
Defined benefit liabilities other than pension	51,8	51,0
Termination benefits	20,3	24,7
Derivatives held for hedging purposes	17,8	0,5
Other long-term employee benefit liabilities	10,9	8,5
Accrued other expenses	7,5	8,7
Due to reinsurers	4,9	10,9
Derivatives held for trading	2,1	10,1
Dividends payable	0,1	0,1
Total	1.426,7	1.328,2

Details of employee benefit liabilities can be found in Note 9.

Derivatives held for trading are valued based level 2. All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, i.e. the date when AG Insurance becomes a party to the contractual provisions of the instrument.

35 Provisions

Provisions consist of provisions for litigations. The provisions are based on best estimates available at year-end based on management judgement and in most cases the opinion of legal and tax advisors. The timing of the outflow of cash related to these provisions is by nature uncertain given the unpredictability of the outcome and the time involved in concluding litigation.

Changes in provisions during the year are as follows:

	2011	2010
Balance as at 1 January	16,7	12,6
Acquisition and divestment of subsidiaries		2,8
Increase in provisions	2,3	2,0
Reversal of unused provisions	(0,7)	(0,3)
Utilised during the year	(2,7)	(0,4)
Balance as at 31 December	15,6	16,7

36 Fair value of financial assets and financial liabilities

The following table shows the carrying amounts and fair value of those classes of financial assets and financial liabilities not reported at fair value on the AG Insurance consolidated statement of financial position (held at amortised cost). A description of the methods used to determine the fair value of financial instruments is given below.

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and cash equivalents	1.871,2	1.871,2	389,3	389,3
Loans to banks	201,1	201,1	206,3	206,3
Loans to customers	2.677,8	2.806,3	2.356,8	2.472,3
Reinsurance and other receivables	680,2	680,2	712,4	712,4
Total financial assets	5.430,3	5.558,8	3.664,8	3.780,3
Liabilities				
Debt certificates				
Subordinated liabilities	894,5	626,7	892,8	769,5
Loans from banks	1.652,4	1.649,2	1.647,9	1.646,5
Loans from customers	76,2	76,2	64,7	64,7
Other borrowings	59,3	59,3	53,7	53,7
Total financial liabilities	2.682,4	2.411,4	2.659,1	2.534,4

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.

AG Insurance uses the following methods, in the order listed, when determining the fair value of financial instruments:

- ◆ quoted price in an active market;
- ◆ valuation techniques;
- ◆ cost.

When a financial instrument is traded in an active and liquid market, its quoted market price or value provides the best evidence of fair value. No adjustment is made to the fair value of large holdings of shares, unless there is a binding agreement to sell the shares at a price other than the market price. The appropriate quoted market price for an asset held or a liability to be issued is the current bid price, and for an asset to be acquired or a liability held, the ask price. Mid-market prices are used as a basis for establishing the fair value of assets and liabilities with offsetting market risks.

If no active market price is available, fair values are estimated using present value or other valuation techniques based on market conditions existing at the reporting date. If there is a valuation technique

commonly used by market participants to price an instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, AG Insurance applies that technique.

Valuation techniques that are well established in financial markets include recent market transactions, discounted cash flows and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider when setting a price, and should be consistent with accepted economic methodologies for pricing financial instruments.

The basic principles for estimating fair value are:

- ◆ maximise market inputs and minimise internal estimates and assumptions;
- ◆ change estimating techniques only if an improvement can be demonstrated or if a change is necessary because of changes in the availability of information.

The fair value presented is the 'clean' fair value, which is the total fair value or 'dirty' fair value less interest accruals. Interest accruals are reported separately.

Methods and assumptions used in determining fair value are largely dependent on whether the instrument is traded on financial markets and the information that is available to be incorporated into the valuation models. A summary of different financial instrument types along with the fair value treatment is included below.

Quoted market prices are used for financial instruments traded on a financial market with price quotations.

Non-exchange-traded financial instruments are often traded in over-the-counter (OTC) markets by dealers or other intermediaries from whom market prices are obtainable.

Quotations are available from various sources for many financial instruments traded regularly in the OTC market. Those sources include the financial press, various publications and financial reporting services, and also individual market makers.

Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative.

Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade.

Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered.

The fair value (FV) calculation of financial instruments not actively traded on financial markets can be summarised as follows:

Instrument Type	AG Insurance Products	FV Calculation
Instruments with no stated maturity	Current accounts, saving accounts, etc.	Nominal value.
Instruments without optional features	Straight loans, deposits, etc.	Discounted cash flow methodology; discounting yield curve is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on commercial margin computed based on the average of new production during last 3 months.
Instruments with optional features	Mortgage loans and other instruments with option features	Product is split and linear (non-optional) component is valued using a discounted cash flow methodology and option component valued based on option pricing model.
Subordinated liabilities and related receivables	Subordinated liabilities	Valuation is based on broker quotes in an in-active market (level 3).
Private equity	Private equity and non-quoted participations investments	In general based on the European Venture Capital Association's valuation guidelines, using enterprise value/EBITDA, price/cash flow and price/earnings, etc.
Preference shares (non-quoted)	Preference shares	If the share is characterised as a debt instrument, a discounted cash flow model is used.

AG Insurance pursues a policy aimed at quantifying and monitoring pricing uncertainties related to the calculation of fair values using valuation techniques and internal models. Related uncertainties are a feature of the 'model risk' concept.

Model risk arises when the product pricing requires valuation techniques which are not yet standardised or for which input data cannot be directly observed in the market, leading to assumptions about the input data themselves.

The introduction of new, sophisticated products in the market has resulted in the development of mathematical models to price them. These models in turn depend on assumptions regarding the stochastic behaviour of

underlying variables, numerical algorithms and other possible approximations needed to replicate the complexity of the financial instruments.

Furthermore, the underlying hypotheses of a model depend on the general market conditions (e.g. specific interest rates, volatilities) prevailing at the time the model is developed. There is no guarantee that the model will continue to yield adequate results should market conditions change drastically.

Any related model uncertainty is quantified as accurately as possible and is the basis for adjusting the fair value calculated by the valuation techniques and internal models.

Notes to the consolidated income statement

37 Insurance premiums

The following table provides an overview of the composition of gross inflow and net earned premiums for the year ended 31 December.

	2011	2010
Gross inflow Life	4.507,8	5.118,7
Gross inflow Non-life	1.670,9	1.590,7
Total gross inflow	6.178,8	6.709,4

	2011	2010
Net premiums Life	4.258,7	4.524,6
Net earned premiums Non-life	1.601,1	1.540,9
Total net earned premiums	5.859,8	6.065,5

Life

The table below shows the details of Life premiums for the year ended 31 December.

	2011	2010
Unit-linked insurance contracts		
Single written premiums	11,1	7,6
Periodic written premiums	59,9	68,1
<i>Group business total</i>	<i>71,0</i>	<i>75,8</i>
Single written premiums	0,7	0,8
Periodic written premiums		
<i>Individual business total</i>	<i>0,7</i>	<i>0,8</i>
Total unit-linked insurance contracts	71,7	76,5
Non unit-linked insurance contracts		
Single written premiums	317,9	318,3
Periodic written premiums	641,6	656,2
<i>Group business total</i>	<i>959,6</i>	<i>974,5</i>
Single written premiums	512,0	513,9
Periodic written premiums	290,7	300,3
<i>Individual business total</i>	<i>802,7</i>	<i>814,2</i>
Total non unit-linked insurance contracts	1.762,2	1.788,7
Investment contracts with DPF		
Single written premiums	2.091,9	2.337,7
Periodic written premiums	337,1	326,6
Total investment contracts with DPF	2.429,0	2.664,3
Gross premium income Life insurance	4.263,0	4.529,5
Single written premiums	196,2	516,5
Periodic written premiums	48,6	72,7
Premium inflow deposit accounting	244,8	589,2
Total gross inflow Life	4.507,8	5.118,7

Total premium inflow Life insurance is gross premiums received by insurance companies for issued insurance and investment contracts. Premium inflow of insurance contracts and investment contracts with DPF is recognised in the income statement. Premium inflow of investment contracts without DPF, mainly unit-linked contracts, is – after deduction of fees – directly recognised as liabilities (deposit accounting). Fees are recognised as fee income in the income statement.

	2011	2010
Gross premium income Life	4.263,0	4.529,5
Change in unearned premiums, gross		
Ceded reinsurance premiums	(4,3)	(4,9)
Net premiums Life	4.258,7	4.524,6

Non-life

The table below shows the details of Non-life insurance premiums for the year ended 31 December. Premiums for motor, fire and other damage to property and other are grouped in Property & Casualty.

2011	Accident & Property &		
	Health	casualty	Total
Gross written premiums	462,2	1.208,7	1.670,9
Change in unearned premiums, gross	(0,2)	(8,7)	(9,0)
Gross earned premiums	462,0	1.200,0	1.661,9
Ceded reinsurance premiums	(11,0)	(49,8)	(60,8)
Reinsurers' share of unearned premiums			
Net earned premiums Non-Life insurance	451,0	1.150,2	1.601,1
2010			
Gross written premiums	456,0	1.134,7	1.590,7
Change in unearned premiums, gross	3,5	(3,1)	0,4
Gross earned premiums	459,4	1.131,6	1.591,1
Ceded reinsurance premiums	(8,8)	(41,4)	(50,1)
Reinsurers' share of unearned premiums			
Net earned premiums Non-Life insurance	450,6	1.090,2	1.540,9

38 Interest, dividend and other investment income

The table below provides details of Interest, dividend and other investment income for the year ended 31 December.

	2011	2010
Interest income on cash equivalents	12,2	6,7
Interest income on loans to banks	0,7	0,1
Interest income on investments	1.697,7	1.726,7
Interest income on loans to customers	115,9	107,2
Interest income on derivatives held for trading	9,3	3,4
Other interest income	5,8	7,9
Total interest income	1.841,6	1.852,0
Dividend income from equity securities	73,9	51,2
Rental income from investment property	165,9	133,7
Revenues parking garage	268,4	261,3
Other investment income	65,9	63,4
Total interest, dividend and other investment income	2.415,6	2.361,8

39 Realised and unrealised gains and losses

Realised and unrealised gains and losses for the year ended 31 December are broken down as follows:

	2011	2010
Debt securities classified as available for sale	312,4	(43,4)
Equity securities classified as available for sale	(53,3)	32,8
Derivatives held for trading	(38,4)	(54,3)
Investment property	49,9	11,4
Capital gain on sale of shares of subsidiaries		8,4
Property, plant and equipment	0,3	0,3
Assets and liabilities held at fair value through profit or loss	10,1	24,9
Hedging results	0,4	
Other	2,6	60,9
Total realised and unrealised gains and losses	284,1	40,9

In the context of ongoing uncertainties in the financial markets in 2010, AG Insurance has reduced the concentration on Southern European government bonds in its investment portfolio during the year, as well as rebalanced the portfolio in other asset classes. The rebalancing of the portfolio resulted in capital gains and losses within the debt securities classified as available for sale, equity securities classified as available for sale, as well as in derivatives held for trading.

Derivatives held for trading are initially recognised at acquisition cost, including any transaction costs to acquire the financial instrument. Subsequent measurement is at fair value with changes in fair value recorded in the income statement.

All changes in fair value of the assets and liabilities held at fair value through profit or loss are reported above. This includes unrealised gains and losses from revaluations and realised gains and losses upon derecognition of the assets or liabilities.

Hedging results contain the changes in fair value attributable to the hedged risk – mainly interest-rate risk – of hedged assets and liabilities and the changes in fair value of the hedging instruments.

40 Investment income related to unit-linked contracts

The income related to unit-linked contracts is composed of:

	2011	2010
(Un)realised gains (losses) - insurance contracts	(26,8)	43,0
(Un)realised gains (losses) - investment contracts	(173,6)	402,1
(Un)realised gains (losses)	(200,4)	445,1
Investment income - insurance contracts	4,0	6,8
Investment income - investment contracts	19,0	15,9
Realised investment income	23,0	22,7
Total investment income related to unit-linked contracts	(177,3)	467,8

41 Share of result of associates

Share of result of associates for the year ended 31 December is specified in the table below, for the main associates.

2011	Total	Total	Net	%	Share of result
	income	expenses	income	AG Insurance	of associates
	(100% interest)	(100% interest)	(100% interest)	interest	(AG Insurance share)
Association Westland Shopping center	7,4	5,2	2,2	45,8 %	1,0
BITM	17,2	15,9	1,3	50,0 %	0,6
Aviabel	62,1	51,7	10,4	24,7 %	2,6
Credimo	120,5	119,2	1,3	34,1 %	0,4
Regatta-lo	0,0	0,0	0	50,0 %	0,0
Kanaalkom	0,2	0,1	0,1	50,0 %	0,1
DBFM	7,2	6,7	0,5	37,5 %	0,2
Other (including IPK associates)					2,7
Total share of result of associates					7,6
2010					
BITM	17,6	15,7	1,9	50,0 %	1,0
Aviabel	58,4	52,8	5,5	24,7 %	1,4
Credimo	123,6	121,2	2,4	33,8 %	0,8

Kanaalkom	0,0	0,1	(0,1)	50,0%	(0,1)
DBFM	11,4	11,8	(0,4)	37,5 %	(0,2)
Other (including IPK associates)				2,5	
Total share of result of associates				5,4	

42 Fee and commission income

Fee and commission income for the year ended 31 December is specified in the table below.

	2011	2010
Insurance and investment fees	64,8	74,9
Asset management	16,2	16,2
Guarantees and commitment fees	1,5	0,3
Reinsurance commissions	1,3	2,6
Other service fees	7,8	2,7
Total fee and commission income	91,7	96,7

The line Other service fees mainly relates to commissions received from brokerage companies for the sale of insurance policies.

43 Other income

Other income includes the following elements for the year ended 31 December.

	2011	2010
Proceeds of sale of buildings held for sale	11,6	37,4
Other	148,1	150,6
Total other income	159,7	188,0

44 Insurance claims and benefits

The details of insurance claims and benefits for the year ended 31 December are shown in the table below.

	2011	2010
Life insurance	5.062,8	5.471,1
Non-life insurance	1.065,1	1.093,5
Total insurance claims and benefits, net	6.127,8	6.564,6

Details of Life insurance claims and benefits, net of reinsurance, are shown below.

	2011	2010
Benefits and surrenders, gross	3.476,2	2.736,7
Change in liabilities arising from insurance and investment contracts, gross	1.588,3	2.735,6
Total Life insurance claims and benefits, gross	5.064,5	5.472,3
Reinsurers' share of claims and benefits	(1,8)	(1,2)
Total Life insurance claims and benefits, net	5.062,8	5.471,1

Details of Non-Life insurance claims and benefits, net of reinsurance, are shown in the following table.

	2011	2010
Claims paid, gross	1.037,4	986,8
Change in liabilities arising from insurance contracts, gross	52,7	174,1
Total Non-life insurance claims and benefits, gross	1.090,1	1.160,9
Reinsurers' share of change in liabilities	(10,7)	(46,8)
Reinsurers' share of claims paid	(14,3)	(20,6)
Total Non-life insurance claims and benefits, net	1.065,1	(1.093,5)

45 Finance costs

The following table shows the breakdown of finance costs by product for the year ended 31 December.

	2011	2010
Subordinated liabilities	54,9	54,6
Borrowings - due to banks	36,0	19,1
Other borrowings	1,1	0,7
Derivatives	0,1	
Other liabilities	16,6	17,3
Total finance costs	108,7	91,8

46 Change in impairments

The Change in impairments for the year ended 31 December is as follows:

	2011	2010
Investments in debt securities	1.224,3	(4,6)
Investments in equity securities and other	157,5	33,1
Investment property	(12,4)	2,2
Loans to customers	2,0	(0,3)
Reinsurance and other receivables	(1,3)	(1,0)
Property, plant and equipment	(2,4)	0,5
Goodwill and other intangible assets	3,1	(0,7)
Total change in impairments	1.370,9	29,3

The impairments on investments in debt securities relate to Greek government and corporate bonds for which all maturities have been impaired to their market value on December 31 2011.

47-48 Fee and commission expenses

The components of fee and commission expenses for the year ended 31 December are as follows:

	2011	2010
Securities	1,9	2,1
Intermediaries	556,0	550,2
Custodian fees	3,1	3,0
Other fee and commission expenses	40,2	40,9
Total fee and commission expenses	601,3	596,2

49 Staff expenses

Staff expenses for the year ended 31 December are as follows:

	2011	2010
Salaries and wages	289,8	288,6
Social security charges	83,8	81,2
Pension expenses relating to defined benefit plans	17,7	13,8
Defined contribution plan expenses	8,3	11,6
Share based compensation	0,2	
Other	25,4	25,1
Total staff expenses	425,2	420,4

Other includes cost of leased cars, meal tickets and non-monetary benefits such as medical costs.

Note 9 Post-employment benefits, other long-term employees benefits and termination benefits contains further details of post-employment benefits and other long-term employee benefits, including pension costs related to defined benefit plans and defined contribution plans.

50 Other expenses

Other expenses for the year ended 31 December are as follows:

	2011	2010
Depreciation on tangible assets		
Buildings held for own use	31,2	33,7
Leasehold improvements	2,2	2,5
Investment property	60,2	48,6
Equipment	15,0	14,1
Amortisation of intangible assets		
Purchased software	0,1	0,1
Internally developed software	4,4	4,4
Other intangible assets	26,2	18,4
Other		
Depreciation deferred acquisition costs	287,6	266,6
Capitalised deferred acquisition costs	(285,4)	(262,6)
Other investment charges	155,1	148,8
Operating and other direct expenses relating to investment property	70,3	48,1
Information technology costs	65,6	70,0
Professional fees	46,6	32,0
Marketing and public relations costs	10,4	7,4
Operating lease rental expenses and related expenses	9,2	10,2
Cost of sale of buildings held for sale	9,1	24,8
Maintenance and repair expenses	6,3	5,8
Other	127,9	88,7
Total other expenses	641,9	561,6

Other includes expenses for travel, post, telephone, temporary staff and training.

51 Income tax expenses

The components of income tax expenses for the year ended 31 December are:

	2011	2010
Current tax expenses for the current period	44,7	105,5
Adjustments recognised in the period for		
current tax of prior periods	4,2	0,6
Total current tax expenses	48,9	106,1
Deferred tax arising from the current period	(86,0)	16,1
Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense	(3,3)	3,5
Total deferred tax expenses (income)	(89,3)	19,7
Total income tax expenses (income)	(40,4)	125,8

Below is a reconciliation of expected and actual income tax expense.

	2011	2010
Profit before taxation	(470,2)	480,8
Applicable tax rate	33,99%	33,99%
Expected income tax expense (income)	(159,8)	163,4
<i>Increase (decrease) in taxes resulting from:</i>		
Tax exempt income including capital losses	71,9	1,5
Share in result of associates	(1,3)	(0,8)
Disallowded expenses	7,3	6,8
Change in provision for impairments and deferred tax assets	64,8	
Previously unrecognised tax losses and temporary differences	(3,3)	3,5
Write-down and reversal of write-down of deferred tax assets, including non-compensable tax-losses of the year		
Impact of changes in tax rates on temporary differences	(3,7)	1,8
Foreign tax rate differential	0,0	(6,4)
Adjustments for tax payable in respect of previous years	4,2	0,6
Notional interest deduction	(9,1)	(32,5)
Other	(11,5)	(12,0)
Actual income tax expenses (income)	(40,4)	125,8

**Notes to items not recorded on the
consolidated statement of financial position**

52 Contingent liabilities

AG Insurance is, due to the nature of its recurrent operations, at various stages engaged in legal proceedings initiated by policyholders or other business parties. These contingent liabilities have been provided for (see Note 35) when management is of the opinion that it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. There are no other contingent liabilities of significance.

The table below details collateral and commitments given in the course of business.

	2011	2010
Collateral given:		
- REPO agreements	1.093	1.009
- Credit insurance	79	132
- Credit Lines	390	415
- Inward reinsurance	18	20
Total collateral given	1.580	1.576
Other commitments:		
- Real estate purchase commitments	333	396
- Credit lines given	151	134
- Capital commitments	37	49
- Acquisition commitments	14	18
- Guarantees and Financial letters of credit		
Total other commitments	535	597

53 Lease agreements

AG Insurance has entered into lease agreements to provide for office space, office equipment, vehicles and parking facilities. The following table reflects future commitments to non-cancellable operating leases as at 31 December.

	2011	2010
Less than 3 months	10,6	11,5
3 months to 1 year	32,9	34,5
1 year to 5 years	130,5	147,3
More than 5 years	256,4	253,1
Total	430,3	446,5
Annual rental expense:		

Lease payments	8,3	9,1
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54 Assets under management

Assets under management include investments for own account, unit-linked investments on behalf of insurance policyholders and funds held for third parties. Funds under management include investments that are managed on behalf of clients, either private or institutional, and on which AG Insurance earns a management or advisory fee.

The following table provides a breakdown of assets under management by investment type and origin.

	31 December 2011	31 December 2010
Investments for own account:		
- Debt securities	42.329,5	42.441,4
- Equity securities	1.231,4	1.717,2
- Real estate	2.020,9	1.874,2
- Other	167,1	115,0
Total investments for own account	45.749,1	46.147,8
Investments related to unit-linked contracts	5.894,3	6.687,2
Funds held for third parties:		
- Debt securities		
- Equity securities		
- Real estate	1.303,3	1.395,9
Total funds held for third parties	1.303,3	1.395,9
Total assets under management	52.946,7	54.230,9

Changes in funds held for third parties are shown below.

	2011	2010
Balance as at 1 January	1.395,9	1.380,2
In-/outflow	73,4	
Market gains/losses	(166,0)	15,7
Other		
Balance as at 31 December	1.303,3	1.395,9

55 Events after the date of the statement of financial position

There have been no material events since the date of the Consolidated statement of financial position that would require adjustment to the Consolidated Financial Statements of AG Insurance as at 31 December 2011.

Bail out of Greece

On 21 February 2012, an agreement was announced by the Euro zone Finance ministers related to the second bail out of Greece. AG Insurance has concluded that considering the currently available information and taking into account the exposure of AG Insurance on Greece at year-end 2011, it is not expected that the agreement will have a significant impact on the statement of financial position of AG Insurance.

Statutory auditor's report to the Board of Directors of AG Insurance SA/NV on the consolidated financial statements for the year ended 31 December 2011



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Statutory auditor's report to the Board of Directors of AG Insurance SA/NV on the consolidated financial statements for the year ended 31 December 2011

We have audited the accompanying consolidated financial statements of AG Insurance SA/NV ("the company"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the Consolidated Financial Statements

The board of directors of the company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the group's preparation and fair presentation of the consolidated 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 group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as the overall presentation of the consolidated financial statements. Finally, we have obtained from management and responsible officers of the company the explanations and information necessary for our audit.

We believe that the audit evidence we have obtained provides a reasonable basis for our audit opinion.

KPMG Bedrijfsrevisoren - Réviseurs d'Entreprises, a Belgian civil
CVBA/SCRL and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative ("KPMG
International"), a Swiss entity.

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KPMG Bedrijfsrevisoren -
Réviseurs d'Entreprises
CVBA/SCRL
Burgelijke vennootschap met
handelsvorm - Société civile à
forme commerciale
On鏑eningsnummer - Numéro
d'entreprise 0419122548
RPR Brussel - RPM Bruxelles



*Statutory auditor's report to the Board of Directors of AG Insurance SA/NV
on the consolidated financial statements for the year ended 31 December 2011*

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Company's consolidated financial position as at 31 December 2011 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Brussels, 27 March 2012

KPMG Réviseurs d'Entreprises/Bedrijfsrevisoren
Statutory auditor
represented by

Michel Lange
Réviseur d'Entreprises / Bedrijfsrevisor

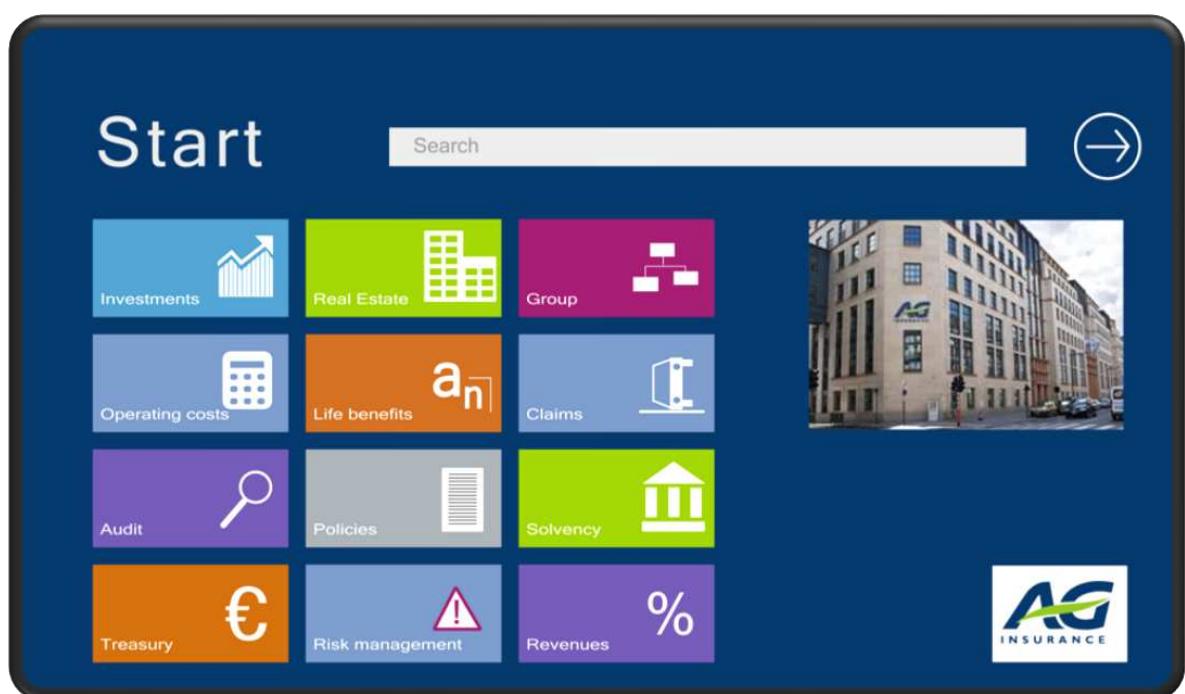
Karel Tanghe
Réviseur d'Entreprises / Bedrijfsrevisor

**Audited consolidated annual financial statements of the Issuer for the financial year ended
31 December 2012**

Consolidated Financial Statements

As of 31 December 2012

(in EUR millions)



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Consolidated Financial Statements 2012

Consolidated statement of financial position

(before appropriation of profit)

	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	15	889,0	1.871,2
Financial investments	16	50.118,9	43.595,6
Investment property	17	2.391,6	2.020,9
Loans	18	3.748,2	2.879,0
Investments related to unit-linked contracts		6.035,2	5.894,3
Investments in associates	19	127,5	150,8
Reinsurance and other receivables	20-21	736,6	680,2
Current tax assets	32-33	1,0	118,7
Deferred tax assets	32-33	18,1	27,8
Accrued interest and other assets	22	1.494,4	1.481,5
Property, plant and equipment	23	1.035,8	1.034,6
Goodwill and other intangible assets	24	364,9	357,5
Assets held for sale			
Total assets		66.961,1	60.112,0
Liabilities			
Liabilities arising from life insurance contracts	25	21.886,3	20.720,5
Liabilities arising from life investment contracts	26	24.781,1	22.478,2
Liabilities related to unit-linked contracts	27	6.035,2	5.894,3
Liabilities arising from non-life insurance contracts	28	3.405,7	3.195,9
Debt certificates			
Subordinated liabilities	29-30	896,5	894,5
Borrowings	31	1.657,7	1.787,9
Current tax liabilities	32-33	20,0	34,4
Deferred tax liabilities	32-33	1.286,3	361,6
Accrued interest and other liabilities	34	1.468,5	1.426,7
Provisions	35	23,5	15,6
Liabilities related to asset held for sales			
Total liabilities		61.460,6	56.809,6
Shareholders' equity	4	5.371,0	3.174,8
Non-controlling interests	5-6	129,5	127,6
Total Equity		5.500,5	3.302,4
Total liabilities and equity		66.961,1	60.112,0

Consolidated income statement

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Income			
- Gross premium income ¹⁾		6.403,2	5.934,0
- Change in unearned premiums		(7,5)	(9,0)
- Ceded earned premiums		(57,5)	(65,1)
Net earned premiums	37	6.338,2	5.859,8
Interest, dividend and other investment income	38	2.465,2	2.415,6
Realised and unrealised gains and losses	39	268,7	284,1
Investment income related to unit-linked contracts	40	608,4	(177,3)
Share of result of associates	41	(0,3)	7,6
Fee and commission income	42	100,9	91,7
Other income	43	159,4	159,7
Total income		9.940,5	8.641,2
Expenses			
- Insurance claims and benefits, gross		(6.730,1)	(6.154,5)
- Insurance claims and benefits, ceded		32,2	26,7
Insurance claims and benefits, net	44	(6.697,9)	(6.127,8)
Charges related to unit-linked contracts		(628,6)	166,0
Finance costs	45	(100,3)	(108,7)
Change in impairments	46	(101,3)	(1.370,9)
Change in provisions	35	(6,8)	(1,5)
Fee and commission expense	47-48	(633,8)	(601,3)
Staff expenses	49	(447,4)	(425,2)
Other expenses	50	(663,3)	(641,9)
Total expenses		(9.279,4)	(9.111,3)
Result before taxation		661,1	(470,2)
Income tax expenses	51	(223,6)	40,4
Net result for the period		437,4	(429,8)
Attributable to non-controlling interests		(4,8)	(6,1)
Net profit attributable to shareholders		432,6	(435,9)

¹⁾ Gross inflow (sum of gross written premiums and premium inflow of investment contracts without Discretionary Participation Features) can be calculated as follows.

	<i>Note</i>	2012	2011
Gross premium income		6.403,2	5.934,0
Inflow deposit accounting (directly recognised as liability)	37	482,5	244,8
Gross inflow		6.885,7	6.178,8

Consolidated statement of comprehensive income

	2012	2011
Net profit attributable to shareholders	432,6	(435,9)
Changes in revaluation of investments		
Change in revaluation of investments available for sale, gross	2.612,7	469,9
Related tax	(856,3)	(194,5)
Change in revaluation of investments available for sale, net	1.756,4	275,4
Share of other comprehensive income of associates, gross	3,8	(2,6)
Related tax		
Share of other comprehensive income of associates, net	3,8	(2,6)
Change in revaluation of investments, gross	2.616,5	467,3
Related tax	(856,3)	(194,5)
Change in revaluation of investments, net	1.760,2	272,8
Change in foreign exchange differences, gross	0,3	(0,2)
Related tax		
Change in foreign exchange differences, net	0,3	(0,2)
Other changes		
Other comprehensive income for the period, net of tax	1.760,5	272,6
Revaluation of investments attributable to non-controlling interests	(3,3)	6,0
Attributable to shareholders	1.763,8	278,6
Total comprehensive income for the period, attributable to shareholders	2.196,4	(157,3)

Consolidated statement of changes in equity

	Share capital	Share premium reserve	Other reserves	Currency translation reserve	Net profit ^a attributable to share-holders	Unrealised gains and losses	Shareholders' equity	Non-controlling interests	Total equity
Balance at 1 January 2011	526,6	231,5	2.211,0	(0,2)	351,4	189,5	3.509,8	130,7	3.640,5
Net profit for the period					(435,9)		(435,9)	6,1	(429,8)
Revaluation of investments						278,7	278,7	(6,0)	272,7
Foreign exchange differences				(0,2)			(0,2)		(0,2)
Total non-owner changes in equity				(0,2)	(435,9)	278,7	(157,4)	0,1	(157,3)
Transfer			351,4		(351,4)				
Dividend			(174,9)				(174,9)	(3,2)	(178,1)
Other changes in equity			(2,7)				(2,7)	0,1	(2,6)
Balance at 31 December 2011	526,6	231,5	2.384,8	(0,4)	(435,9)	468,2	3.174,8	127,6	3.302,4
Net profit for the period					432,6		432,6	4,8	437,4
Revaluation of investments						1.763,4	1.763,4	(3,3)	1.760,1
Foreign exchange differences				0,3			0,3		0,3
Total non-owner changes in equity			0,3		432,6	1.763,4	2.196,3	1,5	2.197,8
Transfer			(435,9)		435,9				
Dividend								(5,5)	(5,5)
Share based compensation									
Other changes in equity			(0,1)				(0,1)	5,8	5,7
Balance at 31 December 2012	526,6	231,5	1.948,8	(0,1)	432,6	2.231,6	5.371,0	129,5	5.500,5

The line Other changes in equity in the column Non-controlling interests includes mainly the non-controlling interest in acquired real-estate companies.

Changes in equity are described in greater detail in Note 4 and Note 5.

Consolidated cash flow statement

	Note	2012	2011
Profit before taxation		661,1	(470,2)
<i>Adjustments to non-cash items included in profit before taxation:</i>			
(Un)realised gains (losses)	39	(275,1)	(320,3)
Share of profits in associates	41	0,3	(7,6)
Depreciation, amortisation and accretion	50	570,5	523,0
Impairments	46	101,4	1.370,9
Provisions	35	6,8	1,5
<i>Changes in operating assets and liabilities:</i>			
Derivatives held for trading (assets and liabilities)	16	(20,4)	(4,2)
Loans	18	(874,6)	(318,0)
Reinsurance and other receivables	20-21	(48,4)	45,0
Investments related to unit-linked contracts		(140,9)	792,9
Borrowings	31	(148,0)	(4,5)
Liabilities arising from insurance and investment contracts	25-26-28	3.533,4	1.717,3
Liabilities related to unit-linked contracts	27	283,3	(780,1)
Net changes in all other operational assets and liabilities		(2.026,1)	(571,8)
Dividend received from associates		1,6	4,4
Income tax paid		(52,1)	(131,4)
Cash flow from operating activities		1.572,8	1.846,9
Purchases of financial investments	16	(11.320,2)	(13.044,4)
Proceeds from sales and redemptions of financial investments	16	9.026,3	13.074,1
Purchases of investment property	17	(269,5)	(215,2)
Proceeds from sales of investment property	17	123,0	83,3
Purchases of property, plant and equipment	23	(52,8)	(38,5)
Proceeds from sales of property, plant and equipment	23	0,6	9,3
Acquisition of subsidiaries and associates	3	(84,0)	(48,9)
Divestments of subsidiaries and associates	3	56,6	
Purchases of intangible assets	24	(31,3)	(2,6)
Proceeds from sales of intangible assets		0,1	
Cash flow from investing activities		(2.551,2)	(182,9)
Proceeds from the issuance of other borrowings	31	8,0	13,4
Payment of other borrowings	31	(6,2)	(17,7)
Dividends paid to shareholders			(174,9)
Dividends paid to non-controlling interests		(5,5)	(3,2)
Cash flow from financing activities		(3,7)	(182,4)

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Net increase (decrease) of cash and cash equivalents		(982,1)	1.481,9
Cash and cash equivalents as at 1 January	15	1.871,2	389,3
Cash and cash equivalents as at 31 December	15	889,0	1.871,2
Supplementary disclosure of operating cash flow information			
Interest received	38	1.913,9	1.878,9
Dividend received from financial investments	38	67,6	73,9
Interest paid	45	(105,1)	(104,4)

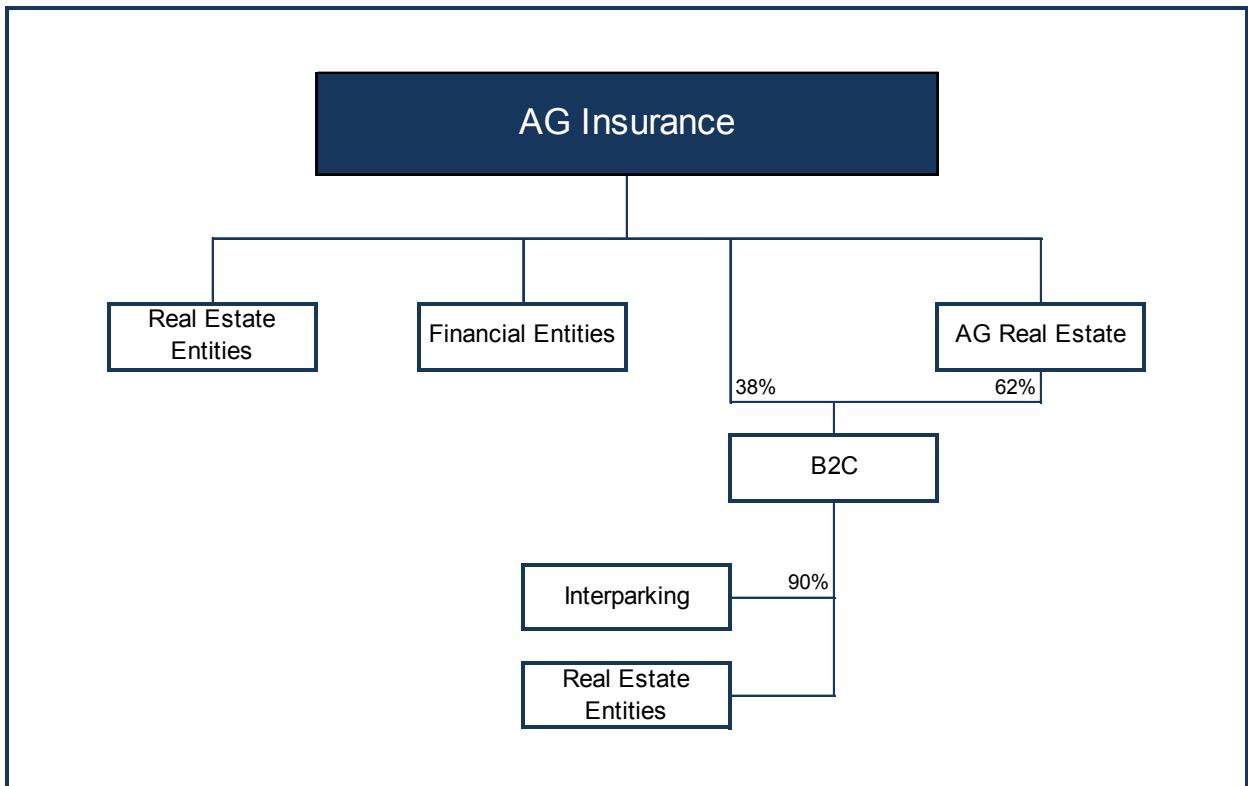
General Notes

1 Legal structure

AG Insurance S.A/N.V. (AG Insurance) is a Belgian regulated composite insurance company which is primarily active in providing life and non-life insurance solutions. The company is headquartered at 53 Boulevard Emile Jacqmain in Brussels.

These consolidated financial statements include the financial statements of the parent company and all its subsidiaries (see also Note 2.5 to consolidation principles). There has been no material change in the structure below in 2012.

In 2012, AG Insurance and its subsidiary AG Real Estate grouped their common consumer activities in a new sub-holding B2C. This operation is an internal group operation and, accordingly, does not affect the consolidation scope.



2 Summary of accounting policies

AG Insurance's 2012 Consolidated Financial Statements comply with International Financial Reporting Standards (IFRSs) for the year ended 31 December 2012, as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

Ageas, AG Insurance's parent company, publishes consolidated financial statements in accordance with IFRS requirements. Accordingly, AG Insurance has measured the assets and liabilities included in these consolidated financial statements at the carrying amount stated in Ageas' consolidated financial statements. The Board of Directors has authorized these Consolidated Financial Statements for distribution on 27 February 2013.

2.1 Basis of accounting

The accounting policies are consistent with those applied for the year ended 31 December 2011. Amended IFRS standards effective on or after 1 January 2012 with an impact on AG Insurance (and endorsed by the EU) are listed in paragraph 2.2. The accounting policies presented in this note are a summary of the Ageas group's complete accounting policies (for further details, see www.ageas.com/en/Pages/accountingpolicies.aspx).

AG Insurance's Consolidated Financial Statements are prepared on a going concern basis. They give a fair presentation of the financial position, financial performance and cash flows of

AG Insurance, with relevant, reliable, comparable and understandable information. The Consolidated Financial Statements are stated in (millions of) euros, the functional currency choice for the company.

Assets and liabilities recorded in AG Insurance's Statement of Financial Position generally have a duration of more than 12 months, except for Cash and Cash Equivalents, Reinsurance and Other Receivables, Accrued Interest and Other Assets, Accrued Interest and Other Liabilities and Current Tax Assets and Liabilities.

The most significant IFRSs used to measure AG Insurance's assets and liabilities are as follows:

- ◆ IAS 1 for the presentation of financial statements
- ◆ IAS 16 for property, plant and equipment
- ◆ IAS 23 for loans
- ◆ IAS 28 for investments in associates
- ◆ IAS 36 for the impairment of assets
- ◆ IAS 38 for intangible assets
- ◆ IAS 39 for financial instruments
- ◆ IAS 40 for investment property
- ◆ IFRS 3 for business combinations
- ◆ IFRS 4 for the measurement of insurance contracts
- ◆ IFRS 7 for the disclosure of financial instruments
- ◆ IFRS 8 for operating segments

2.2 Changes in accounting policies

The following relevant new or revised standards, interpretations and amendments have become effective on or after 1 January 2012 (and are endorsed by the EU):

IFRS 7 Financial Instruments: Disclosures – "Transfers of Financial Assets".

In accordance with these amendments, an entity shall disclose information that enables users of its financial statements:

- ◆ To understand the relationship between transferred financial assets that have not been derecognised in their entirety and the associated liabilities;

- ◆ Required disclosures include a description of the nature of the transferred assets, the nature of the risk and rewards as well as a description of the nature and quantitative disclosure depicting the relationship between the transferred financial assets and the associated liabilities.
- ◆ To evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets;
 - ◆ Required disclosures include the carrying amount and fair value of the derecognised assets and liabilities that represent continuing involvement, maximum exposure to loss from the continuing involvement as well as a maturity analysis of the undiscounted cash flows to repurchase the derecognised financial assets.
- ◆ Additional disclosures are required for any gain or loss recognised at the date of transfer of the assets, income or expenses recognised from the entity's continuing involvement in the derecognised financial assets as well as details of uneven distribution of proceeds from transfer activity throughout the reporting period.

IAS 19 – Employee Benefits

The revised employee benefits standard IAS 19 "Employee Benefits" was published in June 2011 and has an effective date of annual periods beginning on or after 1 January 2013. The most significant changes in the revised standard are the immediate recognition of "unrecognised actuarial gains and losses" in equity instead of applying the so-called corridor approach, and the immediate recognition of taxes on future premiums in equity. In the 2013 Consolidated Financial Statements, the year-end equity on 31 December 2012 will decrease by EUR 72 million as a result of this change.

Furthermore, the revised IAS 19 will require the expected return on plan assets to be determined based on a high-quality corporate bond rate, equal to the discount rate of the defined benefit liability, instead of management's best estimate. Since most of AG Insurance's plan assets are non-qualifying, the impact of this change for 2013 will probably be insignificant.

2.3 Accounting estimates

The preparation of AG Insurance's Consolidated Financial Statements in accordance with IFRS requires the use of certain measurement estimates at the end of the reporting period. In general, these estimates and the methods used have been consistent since the introduction of IFRS in 2005. Each estimate introduces a significant risk of material adjustments (positive or negative) to the carrying amounts of assets and liabilities within the next financial year.

The key measurement estimates on the reporting date are shown in the table below.

<i>31 december 2012</i>	<i>Estimation uncertainty</i>
<i>Assets</i>	
Available for sale securities	
- Corporate debt securities	
- Financial instruments	
- Level 2	<ul style="list-style-type: none"> • The valuation model • Inactive markets
- Level 3	<ul style="list-style-type: none"> • The valuation model • Use of not market observable input • Inactive markets
Investment property	Determination of the useful life and residual value
Loans	<ul style="list-style-type: none"> • The valuation model • The maturity • The credit spread • Interest rates
Associates	A mix of uncertainties depending on the asset mix
Goodwill	<ul style="list-style-type: none"> • The valuation model • Financial and economic variables • Discount rate
Other intangible assets	Determination of the useful life and residual value
Deferred tax assets	<ul style="list-style-type: none"> • Interpretation of complex tax regulations • Amount and timing of future taxable income
<i>Liabilities</i>	
Liabilities for Insurance contracts	
- Life	<ul style="list-style-type: none"> • Actuarial assumptions • Interest rate used in liability adequacy test

- Non-life	<ul style="list-style-type: none"> Liabilities for (incurred but not reported) claims Claim adjustment expenses
Pension obligations	<ul style="list-style-type: none"> Actuarial assumptions Discount rate
Provisions	<ul style="list-style-type: none"> The likelihood of a present obligation due to events in the past The calculation of the best estimated amount
Deferred tax liabilities	<ul style="list-style-type: none"> Interpretation of complex tax regulations

For more detailed information on the application of these estimates, reference is made to the applicable notes in AG Insurance's Consolidated Financial Statements. Note 7 on Risk Management describes the way AG Insurance mitigates insurance operational risk.

Events after the reporting period

Events after the reporting period relate to events that have occurred between the balance sheet date and the date when the financial statements were authorised for issue. Two types of events can be identified:

- ◆ Events leading to an adjustment of the consolidated financial statements if they provide evidence of conditions that existed on the balance sheet date
- ◆ Events resulting in additional disclosures if they are indicative of conditions that arose after the balance sheet date, and if relevant and material

AG Insurance has not identified the type of events mentioned above for the reporting period 2012 (or for 2011) and therefore has not made any adjustments or additional disclosures.

2.4 Segment reporting

Operating segments

The primary format for reporting segment information is based on operating segments. AG Insurance's reportable operating segments consist of groups of assets and operations that provide financial products or services, subject to different levels of risk and return.

AG Insurance's current core activity is insurance in the following business segments:

- ◆ Individual Life and Health
- ◆ Non-Life (other than Health Care)
- ◆ Employee Benefits and Health Care

2.5 Consolidation principles

2.5.1 Subsidiaries

The Consolidated Financial Statements include AG Insurance SA/NV and its subsidiaries. Subsidiaries are companies which financial and operating policies AG Insurance has the power to significantly influence, either directly or indirectly and thereby obtain benefits from its activities ("control"). Subsidiaries are consolidated as of the date effective control is transferred to AG Insurance and are no longer consolidated as of the date that control ceases. Subsidiaries acquired exclusively with a view to resale are accounted for as non-current assets held for sale. The result on a sale of a portion of interest in a subsidiary without a change in control is accounted for in the income statement.

Intercompany transactions (balances and gains and losses on transactions between AG Insurance companies) are eliminated. Non-controlling interests in the net assets and net results of consolidated subsidiaries are shown separately on the Statement of Financial Position and Income Statement. On the acquisition date, non-controlling interests are stated at the fair value of the non-controlling interests' share of net assets. Subsequent to the acquisition date, non-controlling interests include the amount calculated on the acquisition date and the non-controlling interests' share of changes in equity since the acquisition date.

The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether AG Insurance controls another entity.

2.5.2 Associates

Investments in associates are accounted for using the equity method. In these types of investments, AG Insurance has the ability to significantly influence, but not control, operating and financial policies. The investment is recorded as AG Insurance's share of the

net assets of the associate. The ownership share of net income for the year is recognised as share in results of associates and AG Insurance's share in the investments' post-acquisition direct equity movements is recognised in equity.

Gains on transactions between AG Insurance and investments accounted for using the equity method are eliminated to the extent of AG Insurance's interest. Losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Losses are recognised until the carrying amount of the investment is reduced to nil and further losses are only recognised to the extent that AG Insurance has incurred legal or constructive obligations or made payments on behalf of an associate.

2.6 Foreign currency

AG Insurance uses the euro as its functional currency.

Foreign currency transactions are accounted for using the exchange rate on the date of the transaction. Outstanding balances in foreign currencies at year end are translated at year-end exchange rates for monetary items.

Non-monetary items carried at historical cost are translated using the historical exchange rate that existed on the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair values are determined. The resulting exchange differences are recorded in the income statement as foreign currency gains (losses), except for those non-monetary items whose fair value change is recorded as a component of equity.

The distinction between exchange differences (recognised in the income statement) and unrealised fair value results (recognised in equity) on available-for-sale financial assets is determined according to the following rules:

- ◆ Exchange differences are determined based on changes in the exchange rate calculated on the previous balances in foreign currency, and
- ◆ The unrealised (fair value) results are determined based on the difference between the balances in euros of the previous and the new period, converted at the new exchange rate.

2.7 Measurement bases used in preparing the financial statements

The classification and measurement of assets and liabilities is based on the purpose of entering into these transactions.

2.7.1 Financial assets

Management determines the appropriate classification of its investment securities at the time of purchase. Investment securities with a fixed maturity where management has both the intent and the ability to hold to maturity are classified as held to maturity. Investment securities with fixed or determinable payments that are not quoted in an active market that upon initial recognition are not designated as held-for-trading nor as available-for-sale are classified as loans and receivables. Investment securities to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Investment securities that are acquired for the purpose of generating short-term profits are considered to be held for trading.

Held-to-maturity investments are carried at amortised cost less any impairment changes. Any difference between the initial recognition amount resulting from transaction costs, initial premiums or discounts is amortised over the life of the investment using the effective interest method. If a held-to-maturity investment is determined to be impaired, the impairment is recognised in the income statement. (see Note 16 Financial investments for details on the

reclassification of Investments available for sale to Investments held to maturity).

Loans and receivables are measured at amortised cost using the effective interest rate method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the income statement as finance income. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. For floating rate instruments, cash flows are periodically re-estimated to reflect movements in market interest rates. If the floating rate instrument is initially recognised at an amount (almost) equal to the principal repayable, the re-estimation has no significant effect on the carrying amount of the instrument and there will be no adjustments to the received interest reported on an accrual basis. However, if a floating rate instrument is acquired at a significant premium or discount, this premium or discount is amortised over the expected life of the instrument and included in the calculation of the EIR. The carrying amount will be recalculated for each period by computing the present value of estimated future cash flows at the actual effective interest rate. Any adjustments are recognised in profit or loss.

Available-for-sale investment securities are measured at fair value. Changes in fair value are recognised directly in equity until the asset is sold, unless the asset is hedged by a derivative. These investments are carried at fair value with movements in fair value recognised through the income statement for the portion attributable to the hedged risk, and through equity for the remaining portion.

Held-for-trading assets and assets designated as held at fair value through profit or loss are carried at fair value. Changes in fair value are recognised in the income statement. The (realised and unrealised) results are included in "Realised and unrealised gains and losses".

Interest received (paid) on assets (liabilities) held for trading is reported as interest income (expense).

Dividends received are included in "Interest, dividend and other investment income".

The majority of AG Insurance's financial assets (bonds and equity shares) are classified as Available for Sale and measured at fair value. The unrealised gains and losses are reported in shareholders' equity. For insurance portfolios where unrealised gains and losses have a direct impact on the measurement of insurance liabilities, AG Insurance applies shadow accounting in accordance with IFRS 4. This means that the changes in unrealised gains and losses will affect the measurement of insurance liabilities and are therefore not part of equity.

2.7.2 Investment property and property held for own use

To facilitate comparability of performance in AG Insurance's Consolidated Financial Statements, in 2005 AG Insurance decided against using the fair value model for investment property (with gains or losses from a change in fair value recognised in profit or loss) in favour of the cost model, in line with the classification for property held for own use. After recognition as an asset, all property is carried at its cost less any accumulated depreciation and any accumulated impairments. As a consequence, changes in the fair value of property are not recognised in the income statement nor in shareholders' equity unless the property is impaired.

2.7.3 Investment in Associates

AG Insurance applies the equity method of accounting in cases where it exerts significant influence and has the power to participate in the financial and operating policy decisions of the investee, but is not in control of these policies. AG Insurance's share in profit or loss is recognised in the income statement and revaluations are reported in shareholders' equity, while distributions

received from associates reduce the carrying amount of the investment.

2.7.4 Goodwill and other intangible assets

Goodwill

- ◆ Goodwill from business combinations from 1 January 2010

Goodwill is initially measured at cost being the excess of the fair value of the consideration transferred over:

- AG Insurance's share in the net identifiable assets acquired and liabilities assumed and
- net of the fair value of any previously held equity interest in the acquiree

Any acquisitions costs are directly expensed, except for costs to issue debt or equity securities which shall be recognised in accordance with IAS 32 and IAS 39.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, AG Insurance has the option to measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

If the business combination is achieved in stages, the acquisition date fair value of the previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit or loss.

- ◆ Goodwill from business combinations prior to 1 January 2010

In comparison with the aforementioned requirements, the following differences were applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if and only if AG Insurance had a present obligation, the economic outflow was more likely than unlikely, and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Other intangible assets with definite lives

Other intangible assets include intangible assets with definite lives, such as car park concessions, internally developed software that is not an integral part of the related hardware, and licenses that are generally amortised over their useful lives using the straight-line method.

2.7.5 Financial liabilities

The measurement and recognition in the income statement depends on the IFRS classification of the financial liabilities as: (a) financial liabilities at fair value through profit or loss, and (b) other financial liabilities measured at amortised cost.

2.7.6 Liabilities arising from insurance and investment contracts

Life insurance

These liabilities relate to insurance contracts, investment contracts with discretionary participation features (DPF), and investment contracts that transfer insurance risk, financial risk or both. Investment

contracts without discretionary participation features are valued at amortised cost.

For Life insurance contracts, future policy benefit liabilities are calculated using a net level premium method (present value of future net cash flows) on the basis of actuarial assumptions as determined by historical experience and industry standards. Participating policies include any additional liabilities relating to any contractual dividends or participation features. For some designated contracts, the future policy benefit liabilities have been re-measured to reflect current market interest rates.

Non-Life insurance

Claims and claim adjustment expenses are charged to the income statement as incurred. Unpaid claims and claim adjustment expenses include estimates for reported claims and provisions for claims incurred but not reported. Non-Life liabilities for workmen's compensation business are presented at their net present value. AG Insurance does not discount its liabilities for claims other than for claims with determinable and fixed payment terms.

Liability Adequacy Test

The adequacy of insurance liabilities is tested ("Liability Adequacy Test") at each reporting date. The tests are performed on a legal fungible level (asset pool level) for Life and on a homogeneous product group level for Non-Life. AG Insurance considers current best estimates for all contractual cash flows, including related cash flows such as (re)investment returns and expenses. For Life Insurance contracts, the tests include cash flows resulting from embedded options and guarantees. The present value of these cash flows has been determined by using a risk-free discount rate, allowing for an illiquidity premium. Any shortfall is recognised immediately in the income statement, either as DAC impairment or as a loss recognition.

2.7.7 Assets and liabilities related to unit-linked contracts

AG Insurance's non-participating insurance and investment contracts are primarily unit-linked contracts where the investments are held on behalf of the policyholder and measured at fair value.

The liabilities for such contracts are measured at unit value (i.e. fair value of the fund in which the unit-linked contracts are invested divided by the number of units of the fund).

Certain products contain guarantees which are also valued at fair value and included in liabilities related to policyholders, with the change in the fair value recognised in the income statement. Insurance risks are taken into account on basis of actuarial assumptions.

2.8 Measurement of impaired assets

An asset is considered impaired when its carrying amount exceeds its recoverable amount. AG Insurance reviews all of its assets on each reporting date for objective evidence of impairment. The carrying amount of impaired assets is reduced to its estimated recoverable amount and the amount of the change in the current period is recognised in the income statement.

If in a subsequent period the amount of the impairment on assets other than goodwill or available-for-sale equity instruments decreases due to an event occurring after the write-down, the amount is reversed by adjusting the impairment and is recognised in the income statement. This increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment been recognised for the asset in prior years.

2.8.1. Financial assets

A financial asset (or group of financial assets) classified as Available for sale is impaired if there is objective evidence of impairment as a result of one or more events (loss events or "triggers", e.g. significant

financial difficulty of the issuer) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be reliably estimated.

For equity securities, the triggers used to determine whether there is objective evidence of impairment include, amongst others, the consideration whether the fair value is significantly (25%) below cost or has been below cost for a prolonged period (four consecutive quarters) on the date of the Statement of Financial Position.

Reversal of impairments of debt instruments which can be objectively related to an event occurring after the recognition of the impairment are recognised in the income statement. Positive revaluations after an impairment of equity securities are recognised in equity.

2.8.2. Investment property and property held for own use

Property is measured according to the cost model and impaired when the carrying amount exceeds its recoverable amount, which is the highest of "Fair value less costs to sell" or "Value in use" (the expected present value of future cash flows, without deduction for transfer tax). At the end of each reporting period, AG Insurance assesses whether there is any indication that an asset may be impaired, considering various external (e.g. significant changes in the economic environment) and internal (e.g. plan to dispose) sources of information. If any such indication exists (and only then), AG Insurance shall estimate the recoverable amount of the property. Any impairment identified is recognised in the income statement. After impairment recognition, the depreciation for future periods is adjusted based on the revised carrying amount less its residual value over its remaining useful life.

2.8.3. Goodwill and other intangible assets

Goodwill is an intangible asset with an indefinite life and is not amortised, but instead tested for impairment at least annually. Intangible assets with definite lives are

amortised over the estimated useful life and reviewed at each reporting date. Any impairment identified is recognised in the income statement.

2.8.4. Other assets

For non-financial assets, the recoverable amount is measured as the higher of the Fair value less cost to sell and the Value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

2.9 Fair value of financial instruments

On initial recognition, the fair value of a financial instrument is the transaction price, unless the fair value is evidenced by observable current market transactions in the same instrument, or is based on a valuation technique that includes inputs only from observable markets.

The principal methods and assumptions used by AG Insurance in determining the fair value of financial instruments are:

- ◆ Fair values for securities available for sale or at fair value through profit or loss are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Discount factors are based on the swap curve plus a spread reflecting the risk characteristics of the instrument. Fair values for securities held to maturity (only necessary for disclosures) are determined in the same way.
- ◆ Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.

- ◆ Fair values for unquoted private equity investments are estimated using applicable market multiples (e.g. price/earnings or price/cash flow ratios) refined to reflect the specific circumstances of the issuer.
- ◆ Fair values for loans are determined using discounted cash flow models based upon AG Insurance's current incremental lending rates for similar type loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. Option pricing models are used for valuing caps and prepayment options embedded in loans that have been separated in accordance with IFRS.
- ◆ Off-balance sheet commitments or guarantees are fair valued based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

For more detailed information on the application of these methods and assumptions, reference is made to the applicable notes in the Consolidated Financial Statements.

2.10 Revenue recognition

2.10.1 Gross premium income

Premium income when received

Premiums from Life insurance policies and investment contracts with discretionary participation features that are considered long duration type contracts are recognised as revenue when due from the policyholder. Estimated future benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. This matching is accomplished by the establishment of liabilities of the insurance policies and investment contracts with discretionary participation features and by the deferral and subsequent amortisation of policy acquisition costs.

Premium income when earned

For short duration-type contracts (principally Non-Life), premiums are recorded as written upon inception of the

contract. Premiums are recognised in the income statement as earned on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of the coverage.

2.10.2 Interest income and expense

Interest income and interest expense are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. Interest income includes coupons earned on fixed and floating rate income instruments and the accretion or amortisation of the discount or premium.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2.10.3 Realised and unrealised gains and losses

For financial instruments classified as available for sale, realised gains or losses on sales and divestments represent the difference between the proceeds received and the initial book value of the asset sold, minus any impairments recognised in the income statement after adjustment for the impact of any fair value hedge accounting.

For financial instruments carried at fair value through profit or loss, the difference between the carrying value at the end of the current reporting period and the previous reporting period is included in "Result on sales and revaluations".

For derivatives, the difference between the clean fair value (i.e. excluding interest accruals) at the end of the current reporting period and the previous reporting period is included in "Result on sales and revaluations".

Previously recognised unrealised gains and losses recorded directly in equity are transferred to the income statement upon derecognition or upon the financial asset becoming impaired.

2.10.4 Fee and commission income

Fees as integral part of effective interest rate

Fees that are an integral part of the effective interest rate of a financial instrument are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value through profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

Fees recognised as services are provided

Fees are generally recognised as revenue as the services are provided. If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is not considered a derivative, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Fees recognised upon completion of the underlying transaction

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised upon completion of the underlying transaction. Commission revenue is recognised when the performance obligation is complete. Loan syndication fees are recognised as revenue when the syndication has been completed.

Fee revenue from investment contracts

This relates to contracts issued by insurance companies without discretionary participation features that are classified as investment contracts, because the covered insurance risk is not significant. Revenues from these contracts consist of fees for the coverage of insurance, administration fees and surrender charges. Expenses include mortality claims and interest credited.

3 Acquisitions and disposals

The following significant acquisitions and disposals were made in 2012 and 2011.

3.1 Acquisitions in 2012

Major acquisitions in 2012 were in real estate investments, as detailed below.

RDV-Invest sub-group (100%, Q2)

Assets		Liabilities	
Banks	0,1	Borrowings	13,6
Investment property	48,3	Deferred other income	0,3
Other receivables	0,3	Deferred tax liabilities	10,5
Other intangibles	5,5		
Accrued interest and other assets	0,1	Accrued interest and other liabilities	6,4
		Total liabilities	30,8
		Acquisition price	23,4
Total Assets	54,2	Total liabilities and acquisition price	54,2

B.G. 1 (90%, Q4)

Assets		Liabilities	
Banks	0,0	Borrowings	1,4
Other receivables	0,3	Accounts payable	1,2
Accrued interest and other assets	0,1	Total liabilities	2,6
Building held for resale	60,3		
		Minority interests	5,8
		Acquisition price	52,2
Total Assets	60,6	Total liabilities and acquisition price	60,6

3.2 Disposals in 2012

In December, the fully consolidated real estate management company Befimmo SA was sold to Befimmo SCA (SICAFI).

3.3 Acquisitions in 2011

In 2011, the company purchased four car parks and a warehousing subsidiary.

Contipark Parkgaragen Kurhaus Wiesbaden GmbH (85,1 %, Q1)

Assets	Liabilities
	Borrowings 11,4
Property, plant and equipment 18,7	Deferred tax liabilities 1,8
Accrued interest and other assets 1,3	Accrued interest and other liabilities 5,5
	Total liabilities 18,7
	Acquisition price 1,3
Total Assets	20,0
	Total liabilities and acquisition price 20,0

Marienplatz car park (90,6%, Q4)

Assets	Liabilities
Banks 0,5	Borrowings
Property, plant and equipment 10,8	Deferred tax liabilities 4,3
Accrued interest and other assets 0,1	Accrued interest and other liabilities 0,2
	Total liabilities 4,5
	Acquisition price 7,0
Total Assets	11,5
	Total liabilities and acquisition price 11,5

Poland car park (90%, Q4)

Assets	Liabilities
Banks 0,0	Borrowings
Property, plant and equipment 0,8	Deferred tax liabilities 0,8
Accrued interest and other assets 4,4	Accrued interest and other liabilities 0,5
	Total liabilities 1,3
	Acquisition price 3,9

Total Assets	5,2	Total liabilities and acquisition price	5,2
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Valenciennes SAS (100%, Q4)

Assets		Liabilities	
Banks	0,5	Borrowings	16,1
Investment property	16,2	Deferred tax liabilities	0,1
Accrued interest and other assets	0,2	Accrued interest and other liabilities	0,2
		Total liabilities	16,4
		Acquisition price	0,6

Total Assets	17,0	Total liabilities and acquisition price	17,0
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In 2011, AG Real Estate acquired two subsidiaries consolidated by equity method:

Association Westland Shopping Center (45.85 %, Q1)

Assets		Liabilities	
Investments in associates	35,6	Deferred tax liabilities	4,1
		Acquisition price	31,5

Total Assets	35,6	Total liabilities and acquisition price	35,6
Regatta LO (50%), acquired in Q1			
Assets		Liabilities	
Investments in associates	8,4	Contingent liabilities	2,8
		Acquisition price	5,6
Total Assets	8,4	Total liabilities and acquisition price	8,4

In addition, AG Real Estate has incorporated five fully owned real estate subsidiaries: Immo Nation OPCI, Nation SAS and République SAS in France in Q2, Gent Zuid in Belgium in Q3 and Fontenay SAS and AG RE Westinvest in Q4.

3.4 Disposals in 2011

No major disposals were made in 2011.

3.5 Assets and liabilities of acquisitions and disposals

The table below provides details of the assets and liabilities resulting from the acquisition or disposal of subsidiaries, associates at the date of acquisition or disposal.

	2012		2011	
	Acquisition	Divestments	Acquisition	Divestments
Assets and liabilities of acquisitions and divestments				
Cash and cash equivalents		(0,3)		1,1
Financial investments				
Investment property		48,3		16,2
Loans				
Investments related to unit-linked contracts				
Investments in associates	7,9	(35,6)	37,3	
Reinsurance and other receivables	0,6	(0,3)	0,7	
Current and deferred tax assets		(0,1)		
Accrued interest and other assets	60,5	(1,1)	1,4	
Property, plant and equipment			30,3	
Goodwill and other intangible assets	5,2	(3,7)	4,1	
Borrowings	16,1		27,5	
Current and deferred tax liabilities	10,4	(0,6)	7,1	
Accrued interest and other liabilities	6,2	(0,7)	6,4	
Provisions				
Non-controlling interests	5,8			
Changes in equity related to divestments				
Net assets acquired / Net assets disposed of	83,7	(39,5)	50,1	
Result of disposals		17,1		
Cash used for acquisitions / received from disposals:				
Total purchase consideration / Proceeds from sale	(83,7)	56,6	(50,1)	
Less: Cash and cash equivalents acquired / divested	(0,3)		1,1	
Cash used for acquisitions / received from disposals	(84,0)	56,6	(49,0)	

4 Shareholders' equity

The following table shows the composition of shareholders' equity.

31 December 2012	
Share capital	526,6
Share premium reserve	231,5
Other reserves	1.948,8
Currency translation reserve	(0,1)
Net profit attributable to shareholders	432,6
Unrealised gains and losses	2.231,6
Shareholders' equity	5.371,0

AG Insurance's statutory capital amounts to EUR 526 604 028 and is represented by 631 286 ordinary shares with no par value, fully paid-in. No changes in share capital occurred in 2012 or 2011. Its shareholders are:

- Ageas Insurance International N.V., Archimedeslaan 6, NL-3584 BA Utrecht, holding 473 464 shares or 75% ;
- BNP Paribas Fortis nv-sa, 3 rue Montagne du Parc 1000 Brussels, holding 157 822 shares or 25%.

Other reserves represent accumulated earnings from prior years and include the following amounts that are not available for dividend distribution:

- an unavailable reserve of EUR 233,2 million that is considered paid-in capital;
- a statutory "legal reserve" of EUR 52,7 million, capped at 10% of nominal share capital, set-up in accordance with Belgian Company Law.

Statutory retained earnings of consolidated subsidiaries also include for EUR 104,2 million in legal reserves that are not available for dividend distribution to their respective parent entities.

The consolidated statement of financial position is presented before dividend allocation to shareholders. The Board of Directors will propose a dividend pay-out of EUR 324,5 million at the General Assembly, early 2013.

The table below shows the unrealised gains and losses included in shareholders' equity.

The unrealized losses relating to investments "held to maturity" reflect the fair value of the underlying debt securities at the time of classification under this heading (see Note 16.1).

<i>31 December 2012</i>	<i>Available for sale investments</i>	<i>Held to maturity</i>	<i>Revaluation of associates</i>	<i>Cash flow hedges</i>	<i>Total</i>
Gross	4.933,5	(17,0)	2,9	(27,7)	4.891,6
Related tax	(1.645,5)	5,9		1,7	(1.637,9)
Shadow accounting	(1.562,5)				(1.562,5)
Related tax	531,1				531,1
Non-controlling interests			9,3		9,3
Total	2.256,5	(11,1)	2,9	(16,7)	2.231,6
<i>31 December 2011</i>					
Gross	896,5	(17,4)	(0,9)	(11,2)	867,0
Related tax	(307,7)	5,9		0,8	(301,0)
Shadow accounting	(148,1)				(148,1)
Related tax	50,3				50,3
Total	491,0	(11,5)	(0,9)	(10,4)	468,2

Unrealised gains and losses on available for sale investments are discussed in detail in Note 16.

Changes in the fair value of derivatives that are designated and qualify as a cash-flow hedge are recognised as an unrealised gain or loss in Shareholders' equity. Any hedge ineffectiveness is immediately recognised in the income statement.

The table below shows changes in gross unrealised gains and losses included in shareholders' equity for 2011 and 2012.

	<i>Available for sale investments</i>	<i>Held to maturity investments</i>	<i>Revaluation of associates</i>	<i>Cash flow hedges</i>	<i>Total</i>
Gross unrealised gains (losses) as at 1 January 2011	327,5		1,7	0,6	329,9
Changes in unrealised gains (losses) during the year	227,0		(2,6)	(11,8)	212,6
Reversal unrealised gains (losses) because of sales	(252,6)				(252,6)
Reversal due to impairment	577,2				577,2
Other	17,4	(17,4)			
Gross unrealised gains (losses) as at 31 December 2011	896,5	(17,4)	(0,9)	(11,2)	867,0

Gross unrealised gains (losses) as at 1 January 2012	896,5	(17,4)	(0,9)	(11,2)	867,0
Changes in unrealised gains (losses) during the year	3.950,6		3,8	(10,4)	3.944,0
Reversal unrealised gains (losses) because of sales	47,3				47,3
Reversal due to impairment	39,1				39,1
Other		0,4		(6,1)	(5,7)
Gross unrealised gains (losses) as at 31 December 2012	4.933,5	(17,0)	2,9	(27,7)	4.891,6

5 - 6 Non-controlling interests

Non-controlling interests represent the relative share, as determined by AG Insurance IFRS accounting principles, of a third party in the shareholders' equity of an AG Insurance subsidiary.

The table below provides information about the most significant non-controlling interests in AG Insurance subsidiaries.

	<i>% of non-controlling interest</i>	<i>Amount as at 31 December 2012</i>	<i>% of non-controlling interest</i>	<i>Amount as at 31 December 2011</i>
Group company				
Interparking SA	10,1%	88,0	10,1%	85,1
Venti M	40,0%	32,3	40,0%	38,7
B.G.1	10,0%	5,8		
Cortenbergh le Corrège	38,8%	3,3	38,8%	3,7
Total		129,5		127,6

7 Risk Management

Active in a variety of markets as a provider of both Life and Non-Life insurance, AG Insurance is naturally exposed to a number of risks that, whether internal or external, may affect the company's operations, its earnings, the value of its investments or the sale of certain products and services.

7.1 Introduction

2012 was once again a year of challenging market conditions. After peaking in the course of the year, most yield spreads in southern Europe narrowed, highlighting the on-going Eurozone crisis. At the same time, government efforts to save their banks and boost their economies resulted in low yields, negatively affecting profitability prospects for most insurance companies, AG Insurance included. Equity markets rebounded in 2012 after a weak 2011, while volatility decreased.

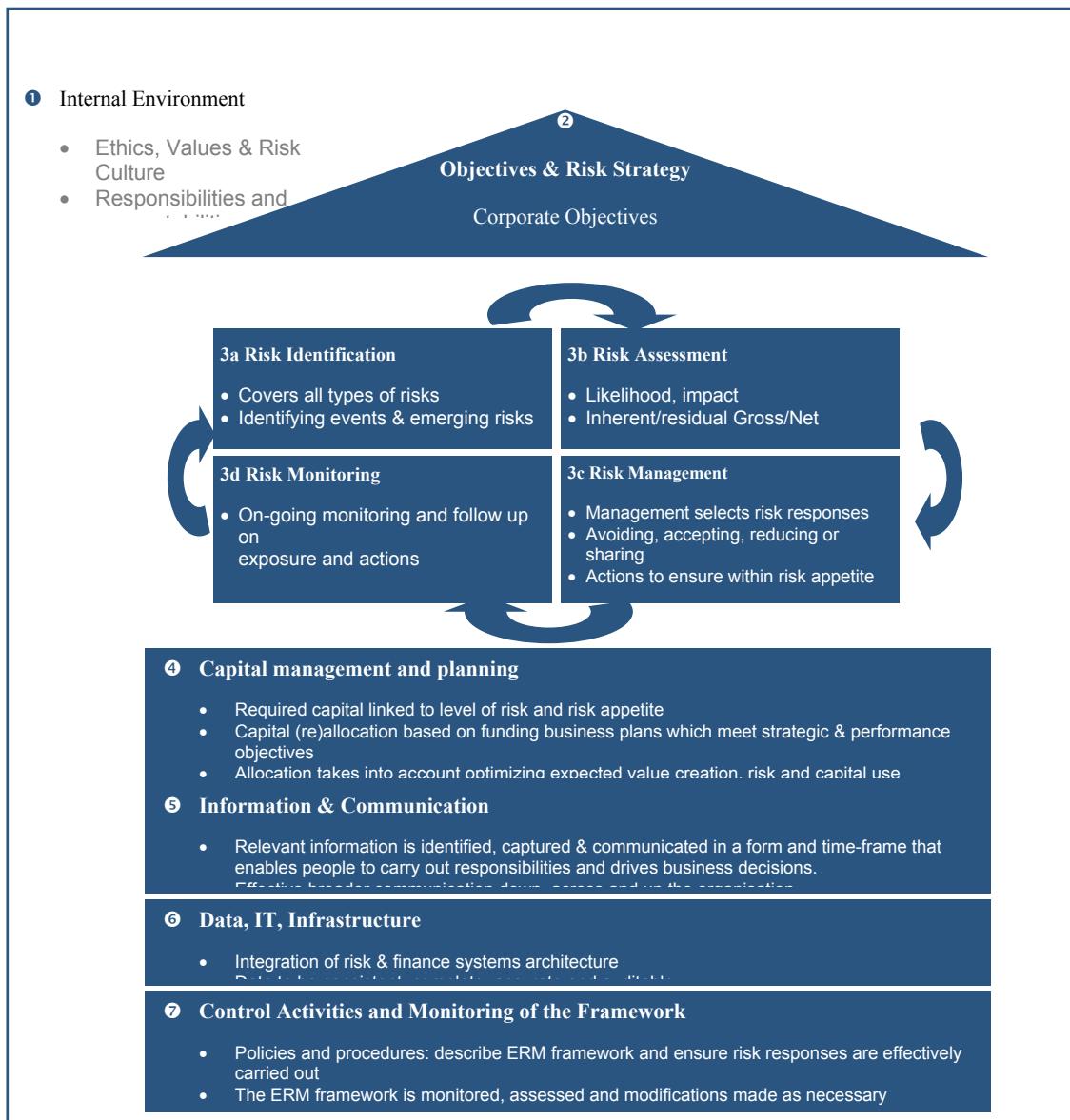
7.2 Risk management organisation and governance

Risk Management is an integral part of the insurance business and a key concern for all managers throughout the company. The mission of the Risk Management department, both centrally as well as at the operational level, is to ensure that risks affecting the achievement of strategic, operational and/or financial objectives are promptly identified, measured, managed, reported and monitored.

At AG Insurance, risk management is focused on achieving the following objectives:

- ◆ understanding the key risks being taken and maintaining a solvency and liquidity position such that no plausible scenario would cause the company to default on its obligations to policyholders and debt holders
- ◆ defining risk appetite and ensuring that the risk profile is kept within set limits
- ◆ supporting the company's decision-making process by ensuring that consistent, reliable and timely risk information is available to the decision makers, and using that information to provide a risk opinion
- ◆ encouraging a strong risk awareness culture where managers are aware of the risks to their business, manage them effectively and report them transparently
- ◆ monitoring limits

AG Insurance's risk management framework has evolved over time to build on past strengths, incorporate key learnings from the extreme market conditions over the past few years, and take its own management processes into account. The framework was designed to support the mission, objectives and high standards of risk management both centrally and at an operational level. It combines the following key points to form a consistent risk management framework (i.e. Enterprise Risk Management (ERM) Framework, as per the diagram below):



The Risk Management organisation is designed to provide:

- ◆ clear responsibility and accountability regarding risk management and promote a culture of risk awareness
- ◆ independence of the Risk Management Function
- ◆ transparent and consistent risk-related decision-making encompassing the full range of risks categorised in the risk taxonomy
- ◆ knowledge and best practice sharing and high standards of risk management
- ◆ consistency to enable aggregate risk reporting and oversight at the group level

In terms of risk structure and governance, AG Insurance has set up the following lines of defence:

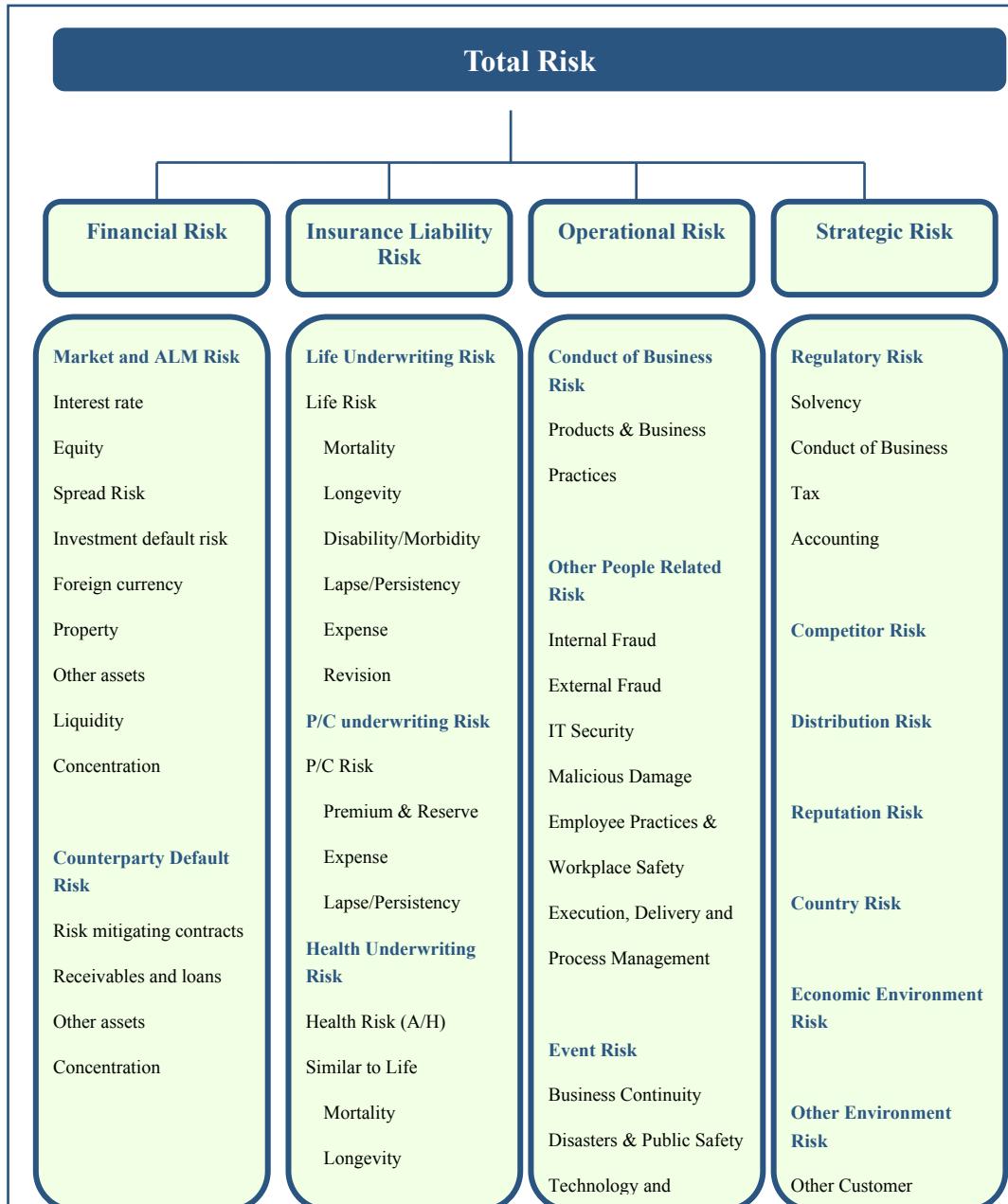
- ◆ a Chief Risk Officer, member of the AG Insurance Management Committee, Risk and Audit Committee and the Board, has overall responsibility for the Risk Management Function at the AG Insurance level
- ◆ a two-tiered approach to the Risk Management Function, with central oversight by the Central Risk department and additional responsibilities delegated to Decentralised Risk Managers to promote greater proximity and embed risk management in day-to-day operations
- ◆ several risk committees at different levels of the organisation including an Audit and Risk Committee at the Board level, a Business Risk Committee at the Management Committee level, a Risk Function Committee (supported by business line risk committees) as well as a Model Control Board at the Risk Management Function level.

The Internal Audit department acts as a third line of defence, providing an important level of additional control through systematic and ad hoc assessments of management processes including risk management.

7.3 Risk taxonomy

AG Insurance provides a wide range of insurance products in Belgium. As a result, the company is exposed to a variety of underwriting, operational and financial risks. The Risk Taxonomy was developed to ensure a consistent and comprehensive approach to risk identification, measurement, monitoring, reporting and management by highlighting and defining all identified risks within the company.

Below is the Risk Taxonomy applicable in 2012:



The taxonomy should not be considered as exhaustive; it is the responsibility of business management and risk management to ensure that all risks are identified. While the objective is to maintain a high degree of stability and consistency over time in this taxonomy, it will be reviewed on at least an annual basis and adjusted if necessary or appropriate.

7.4 Risk Appetite

Through a formal Risk Appetite Policy approved by the Board, AG Insurance has defined a clear Risk Appetite Framework setting formal and quantitative boundaries for risk-taking with respect to solvency, value, earnings and liquidity. Qualitative criteria further round out this set of quantitative criteria. The risk appetite boundaries are further cascaded down into workable limits at the level of the different risk takers.

AG Insurance must, at all times, maintain a solvency position such that no plausible scenario would cause the company to default on its obligations to policyholders. To accomplish this, AG Insurance has established the following objectives for solvency within its risk management strategy:

- ◆ targeted Solvency I ratio of 200%: at specific times and under certain conditions, the actual solvency ratio may be lower, but with close monitoring and the expectation that it will return to the target level within a reasonable timeframe
- ◆ maintain solvency even under extreme event scenarios: AG Insurance must remain solvent in the case of plausible extreme events.

To support this Solvency statement, AG Insurance has also issued a statement in terms of year-end budgeted IFRS earnings as well as with a statement expressed in terms of value. Note that these statements represent guidelines, not hard limits.

7.5 Financial Risk

Financial risk encompasses all risks relating to the value and performance of financial assets, including:

- ◆ Market risk which arises from adverse change in the financial situation resulting - directly or indirectly - from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments due to movements in interest rates, spreads and stock prices. It also includes Investment default risk with respect to invested assets (including financial instruments), currency risk, liquidity risk, property risk and concentration risk.
- ◆ Counterparty default risk with respect to risk-mitigating contracts such as re-insurance arrangements, securitisations and derivatives as well as receivables from intermediaries.

Financial risk is the most significant risk for many of AG Insurance's operations. The risk framework in place in all operations combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risks and to ensure that risks being taken are appropriate for both customers and shareholders and are appropriately rewarded.

The overall asset mix is determined based on asset mix research to identify the appropriate strategic asset allocation, and on regular monitoring of the market situation and prospects to decide on the tactical allocation. The decision process needs to balance risk appetite, capital requirements, long-term risks and return,

policyholder expectations, profit-sharing requirements, and tax and liquidity issues to arrive at an appropriate target asset mix.

7.5.1 Market Risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Interest Rate Risk

Interest rate risk exists for all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility.

Changes in interest rate risk can impact liabilities, such as through guaranteed interest and profit sharing, as well as the value of AG Insurance's investments. It arises when there is a mismatch between the sensitivity of assets and liabilities to changes in interest rates.

AG Insurance measures, monitors and controls its interest rate risk using a number of indicators including mismatch analysis and stress testing. Its investment policies usually require close matching unless specifically approved otherwise. Matching can be difficult for longer term business due to lack of availability of suitable assets, and the matching strategy is determined taking into account the risk appetite, availability of assets, current and prospective market rates, and levels of guarantee. Derivatives are sometimes used to hedge interest rate risk.

Equities and Real Estate Risk

Equities and real estate risk arises from the level or volatility of market prices or their yield. These risks are controlled through limit setting based on risk appetite, and through an investment policy that requires a range of controls to be in place including actions to be taken in the event of significant falls in value (e.g. CPPI mechanism with respect to equities⁷). Equity exposure is now close to the target set in the Strategic Asset Allocation. For risk management purposes, AG Insurance bases its definition of equity exposure on the underlying assets and risks. Using a risk-based approach, total economic exposure to equities is given in the table below together with reconciliation to the IFRS reported figures.

⁷ CPPI stands for Constant Proportion Portfolio Insurance that is a mechanism that aims at protecting the liabilities by realizing at all times or at a set future date a predefined minimum yield on related assets.

	2012		2011	
	IFRS Definition	Economic exposure	IFRS Definition	Economic exposure
Type of asset				
Direct equity investments	1.078,6	1.078,6	733,6	733,6
Equity funds	70,2	70,2	47,6	48,0
Private equity	34,1	34,1	14,1	13,7
Structured funds	40,4		16,0	
Bond funds	17,7		69,0	
Money market funds	189,5			
Real estate funds (SICAFI/REITS)	359,0		367,0	
Other equity funds		19,8		27,0
Total equity securities and other investments	1.789,4	1.202,6	1.247,3	822,3

For risk management purposes, AG Insurance bases its definition of real estate exposure on the market value of the assets, and includes assets held for own use. This differs from exposure reported under IFRS definitions which exclude unrealised gains and report property held for own use.

The table below identifies what AG Insurance considers economic exposure to real estate and how this reconciles to the figures reported under IFRS.

	2012		2011	
	IFRS Definition	Economic exposure	IFRS Definition	Economic exposure
Type of asset				
Carrying amount				
Investment properties	2.391,6	2.391,6	2.020,9	2.020,9
PP&E: land and buildings for own use	971,8	971,8	972,1	972,1
Unrealised capital gain				
Investment properties		862,3		731,5
PP&E: land and buildings for own use		397,7		452,0
Buildings held for resale	107,5	107,5	146,0	146,0
Real estate funds		438,5		449,5
Other indirect investments real estate		355,2		399,0
Total risk based view on real estate exposure	3.470,9	5.524,7	3.139,0	5.171,0

Spread risk

Spread risk results from the sensitivity of the value of assets and liabilities to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

A significant portion of AG Insurance's liabilities are illiquid. AG Insurance generally aims to hold credit assets to maturity. This helps to significantly reduce the impact of spread risk because the liabilities are illiquid.

AG Insurance cannot be forced to sell at distressed prices, but can choose to sell if it considers this to be the best course of action.

Investment default risk

Investment default risk includes the risk of actual default and credit migration rather than spread changes alone. This risk may be covered within spread risk but has been included for completeness and to emphasise how the impact of actual defaults and migration may differ from credit spread changes.

This risk is managed through limits which take the type of credit exposure, credit quality and maturity into account, and through regular monitoring and early warning systems. AG Insurance also monitors its exposure to individual entities and groups to ensure sufficient diversification and identification of significant concentration.

Impairment for specific credit risk is established if there is objective evidence that AG Insurance will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount. For market-traded securities, the recoverable amount is the fair value.

In 2011, Greek government bond exposure represented the most significant impairment. All Greek government bonds that were heavily impaired in 2011 were sold off during the course of 2012. As a result, AG Insurance is no longer exposed to Greek government debt.

◆ Overview of Credit exposure and impairments

The table below provides an overview of AG Insurance's credit risk exposure.

	2012	2011
Cash and cash equivalents (see note 15)	889,0	1.871,2
Derivatives held for trading (assets) (see note 16)	23,2	18,2
Loans	3.759,1	2.886,9
Impairments	(10,8)	(7,9)
Total Loans, net (see note 18)	3.748,2	2.879,0
Interest bearing investments	48.306,1	43.545,3
Impairments	(2,3)	(1.215,6)
Total Interest bearing investments, net (see note 16)	48.303,8	42.329,7
Reinsurance and other receivables	741,4	685,1
Impairments	(4,7)	(4,9)
Total Reinsurance and other receivables, net (see note 20)	736,6	680,2
Total credit risk exposure, gross	53.718,8	49.006,7
Impairments	(17,8)	(1.228,4)
Total credit risk exposure, net	53.701,0	47.778,3

The table below provides information on impairments and impaired credit risk exposure at year-end.

	2012			2011		
	<i>Impairments</i>			<i>Impairments</i>		
	<i>Impaired outstanding</i>	<i>for specific credit risk</i>	<i>Coverage ratio</i>	<i>Impaired outstanding</i>	<i>for specific credit risk</i>	<i>Coverage ratio</i>
Interest bearing investments	3,7	(2,3)	62,2%	1.574,0	(1.215,6)	77,2%
Loans to customers	128,8	(9,8)	7,6%	120,2	(7,2)	6,0%
Other receivables	4,7	(4,7)	100,0%	4,9	(4,9)	100,0%
Total impaired credit exposure	137,2	(16,8)	12,2%	1.699,1	(1.227,7)	72,3%

◆ Credit Risk quality

The table below highlights credit quality by investment grade for interest-bearing investments according to external ratings.

	2012		2011	
	Carrying value	Percentage	Carrying value	Percentage
Investment grade				
AAA	7.186,7	14,9%	16.480,3	38,9%
AA	29.371,5	60,8%	15.622,3	36,9%
A	5.416,3	11,2%	7.155,4	16,9%
BBB	5.186,1	10,7%	2.103,7	5,0%
Investment grade	47.160,6	97,6%	41.361,7	97,7%
Below investment grade	931,9	1,9%	880,0	2,1%
Unrated	211,3	0,4%	88,0	0,2%
Total investments in interest bearing securities, net	48.303,8	100,0%	42.329,7	100,0%
Impairments	(2,3)		(1.215,6)	
Total investments in interest bearing securities, gross	48.306,1		43.545,2	

The bond portfolio is still heavily weighted in high investment-grade bonds. In 2011, below investment grade holdings included Greek and Irish government bonds. The Greek bonds have since been sold in 2012.

◆ Additional information on the quality of Government Bonds and Corporate Bonds

The table below provides information on the rating of government bonds.

	31 December 2012	31 December 2011
By IFRS classification		
Available for sale	25.961,6	22.504,7
Held to maturity	4.367,8	4.373,5
Total government bonds	30.329,4	26.878,3
By rating		
AAA	2.334,4	9.359,7
AA	25.322,7	14.027,6
A	782,3	2.662,1
BBB	1.404,3	47,7
Total investment grade	29.843,6	26.097,1
BB or lower	485,6	780,8
Unrated	0,2	0,4
Total non-investment grade and unrated	485,8	781,2
Total government bonds	30.329,4	26.878,3

The table below provides information on the rating of corporate bonds.

	31 December 2012	31 December 2011
By IFRS classification		
Available for sale	6.959,6	4.910,9
Held at fair value through profit or loss		
Total corporate bonds	6.959,6	4.910,9
By rating		
AAA		648,0
AA	1.047,7	320,7
A	2.988,5	2.573,1
BBB	2.601,0	1.332,3
Total investment grade	6.637,3	4.874,0
BB or lower	263,6	16,5
Unrated	58,7	20,3
Total non-investment grade and unrated	322,3	36,9
Total corporate bonds	6.959,6	4.910,9

The implementation of the new strategic asset allocation has generated an increased diversification from government bonds towards corporate bonds. In view of diversification within these corporate bonds, i.e. in order to respect limit exposure per issuer, further diversification towards lower investment grades has deemed necessary.

The table below provides information on the rating of bonds issued by banks and other financial institutions.

	<i>31 December 2012</i>	<i>31 December 2011</i>
By IFRS classification		
Available for sale	10.547,7	9.995,3
Held at fair value through profit or loss	152,1	75,0
Total banks and other financials	10.699,8	10.070,3
By rating		
AAA	4.691,7	6.198,4
AA	2.948,6	1.182,2
A	1.620,9	1.884,2
BBB	1.122,1	667,0
Total investment grade	10.383,3	9.931,8
BB or lower	175,7	82,6
Unrated	140,8	55,8
Total non-investment grade and unrated	316,5	138,5
Total banks and other financials	10.699,8	10.070,3

The table below provides information on the rating of structured credit instruments.

	31 December 2012	31 December 2011
By IFRS classification		
Available for sale	266,0	384,5
Held at fair value through profit or loss	49,0	85,7
Total Structured credit instruments	315,1	470,2
By rating		
AAA	160,6	274,2
AA	52,5	91,8
A	24,6	36,0
BBB	58,8	56,7
Total investment grade	296,4	458,8
BB or lower	6,9	0,0
Unrated	11,7	11,4
Total non-investment grade and unrated	18,6	11,4
Total Structured credit instruments	315,1	470,2

Currency Risk

Currency risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities.

AG Insurance's investment policy limits this risk by requiring the currency mismatch between assets and liabilities to be hedged. In most cases, the risk has been eliminated entirely.

The table below provides information on exposure to foreign currencies. The figures shown are net (assets minus liabilities).

	USD	GBP	RON	PLN	HUF	CHF	AUD
<i>At 31 December 2012</i>							
Total assets	1.193,0	121,6	11,7	4,9	2,8	2,5	
Total liabilities	31,0	6,8	0,4	1,0		1,4	0,5
Total assets less liabilities	1.162,0	114,8	11,3	3,9	2,8	1,1	(0,5)
Off balance	(1.050,2)						
Net position	111,8	114,8	11,3	3,9	2,8	1,1	(0,5)
<i>At 31 December 2011</i>							
Total assets	662,0	96,9			2,5	2,1	
Total liabilities	53,7	7,0					0,2
Total assets less liabilities	608,3	89,9			2,5	2,1	(0,2)
Off balance	(523,0)						
Net position	85,3	89,9			2,5	2,1	(0,2)

Liquidity Risk

Liquidity risk is the inability to meet cash obligations when payment is due. There are two main categories of liquidity risk:

- ♦ *Funding liquidity risk* occurs when expected and unexpected cash demands of policyholders or other contract holders cannot be met without suffering unacceptable losses or without endangering the business franchise.
- ♦ *Market liquidity risk* is the inability to realise assets due to inadequate market depth or market disruption. As such it is related to market risk.

Expected cash inflows and outflows are managed at the asset pool level while treasury and related liquidity positions are monitored on a daily basis.

The table below shows all AG Insurance's undiscounted expected asset and liability cash flows, other than for unit-linked related contracts, categorised by relevant maturity buckets. As liquidity risk is a short-term concern, the table limits the net expected cash flows generated by assets and liabilities to the next three years.

On 31 December 2012, the cash position decreased to 1.06 billion from a high of 2.07 billion at the end of 2011, accounting for the lower net expected cash flow for Year One on 31 December 2012. Furthermore, as the table does not reflect the roll-over of existing one-year repurchase agreements, the expected net cash inflows in Year One are underestimated as a result.

	31 December 2012			31 December 2011		
	Year 1		Year 2	Year 3	Year 1	
	2013	2014	2015	2012	2013	2014
Investments (excl. unit linked)						
Cash & cash equivalents	1.060,7			2.072,3		
Residential mortgages and other loans	225,1	164,4	157,7	289,1	188,2	188,2
Debt securities	3.981,0	4.245,5	4.602,2	4.378,5	4.032,4	4.347,4
Equity securities	59,2	55,9	52,8	49,3	47,1	44,7
Property	273,4	262,7	244,1	256,1	245,5	230,7
Financial Liabilities						
Repurchase agreements	(868,7)	(29,7)	(32,1)	(1.004,8)	(20,4)	(30,8)
Subordinated loans	(53,1)	(53,6)	(54,6)	(53,1)	(53,1)	(53,6)
Other	(159,8)	(58,9)	(58,9)	(82,6)	(69,0)	(69,0)
Policyholder Contracts (excl. unit linked)						
Premiums, net of reinsurance	2.945,3	1.966,6	1.868,2	2.821,2	2.005,8	1.906,0
Benefits, net of reinsurance	(6.328,2)	(5.726,5)	(5.492,1)	(5.978,0)	(5.110,0)	(5.317,1)
Other Assets and Liabilities						
Other assets	595,7	14,7	14,7	664,7	15,9	15,9
Other liabilities	(684,2)	(6,2)	(6,2)	(633,9)	(6,0)	(6,0)
Net cash flow	1.046,4	834,9	1.295,8	2.778,7	1.276,6	1.256,5

Concentration Risk

Concentration risk arises from the uneven distribution of exposures to a single counterparty or number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to generate significant capital losses due to bankruptcy or failure to pay.

Avoidance of concentration is therefore fundamental to AG Insurance investment strategy of maintaining granular, liquid and diversified portfolios. AG Insurance defines its limits, taking into account its particular situation and any group requirements.

To manage the concentration of credit risk, AG Insurance's Market risk - ALM policy and Investment policy recommends spreading exposures across different sectors and countries and setting "total one obligor" limits.

The table below provides information on the concentration of interest-bearing investments by location and by type of counterparty on 31 December.

<i>31 December 2012</i>	<i>Government</i>	<i>Corporate</i>	<i>Bank and Finance</i>	<i>Structured Credit Instruments</i>	<i>Total</i>
Belgium	18.306,9	274,5	74,5	16,5	18.672,3
France	4.312,4	1.845,2	2.312,7	41,6	8.511,9
Germany	1.357,4	735,9	2.139,5	110,1	4.342,9
Austria	2.642,9	404,7	663,1		3.710,7
Supranational	195,0		2.470,4		2.665,4
Netherlands	547,3	399,4	602,8	74,5	1.624,1
Italy	1.120,2	205,1	128,9		1.454,2
United States	35,3	723,0	392,9	44,2	1.195,5
Spain	273,3	136,1	649,3		1.058,7
UK		658,3	228,3	9,5	896,1
Ireland	391,8	36,4	26,4	6,9	461,5
Sweden		279,8	176,0		455,8
Australia		211,8	201,9		413,7
Finland	234,3	103,9	69,8		408,1
Czech Republic	278,3	51,0			329,3
Slovakia	244,8				244,8
Switzerland		111,3	109,4		220,7
Norway		82,2	134,2		216,4
Poland	203,6	11,7			215,3
Denmark		95,4	48,1		143,5
Canada	50,2	28,3	21,7		100,1
Other European countries	125,0	137,0	137,6	11,7	411,4
Asia	10,7	170,1	77,5		258,3
Other countries		258,5	34,8		293,3
Total on balance	30.329,4	6.959,6	10.699,8	315,1	48.303,8

<i>31 December 2011</i>	<i>Government</i>	<i>Corporate</i>	<i>Bank and Finance</i>	<i>Structured Credit Instruments</i>	<i>Total</i>
Belgium	13.946,1	141,8	33,4	19,7	14.141,0
France	3.931,7	1.315,9	2.164,8	82,0	7.494,4
Germany	1.505,4	563,9	2.499,7	96,0	4.665,0
Austria	2.134,4	315,9	636,7		3.087,0
Netherlands	1.292,7	304,3	580,8	194,7	2.372,5
Supranational	194,3		1.914,7		2.108,9
Spain	827,2	111,4	712,3		1.650,9
Italy	1.045,9	203,0	138,5		1.387,4
United States	37,5	625,2	378,1	45,4	1.086,2
UK		513,1	242,5	8,1	763,8
Finland	282,8	63,5	66,0		412,3
Ireland	350,3	13,5	19,2	11,2	394,3
Sweden		242,3	148,0		390,4
Greece	353,8	3,6			357,4
Czech Republic	249,2	47,4			296,6
Australia		110,2	177,4		287,5
Slovenia	210,7				210,7
Slovakia	210,3				210,3
Switzerland		65,3	108,0		173,3
Norway		51,3	81,5		132,8
Poland	112,4	11,9			124,3
Other European countries	133,3	112,0	52,4	1,6	299,4
Asia	10,7	18,8	68,4		97,9
Other countries	49,5	76,8	47,7	11,4	185,3
Total on balance	26.878,3	4.910,9	10.070,3	470,2	42.329,7

Sensitivity

The table below shows the impact of stress testing on the IFRS income statement and IFRS Equity using scenarios that could occur once every 30 years.

- ◆ Equity : (30)%, non-regulated equities (40)%
- ◆ Spread risk : factor times duration. The factor ranges from 70bp for AAA to almost 2% for BBB corporates
- ◆ Interest Rate : up and down around 50% on the short end of the yield curve to over 20% on the long end
- ◆ Real estate : (18)%

	<i>Impact on income statement</i>	<i>Impact on fair value</i>
Equity - market risk	(165,2)	(301,4)
Spread - rate risk	(9,0)	(373,4)
Interest - rate risk – down		223,4
Interest - rate risk – up		(874,4)
Real - estate risk	(161,8)	(200,3)

7.5.2 Counterparty Default

Counterparty default risk reflects possible losses due to unexpected default with respect to re-insurers, counterparties, securitisation and derivatives, intermediaries and clients.

7.6 Insurance Risk

Insurance risk refers to all insurance underwriting risks reflecting changes in claims arising from uncertainty and the timing of claims, as well as changes to the underlying assumptions, including expenses and lapses, made at the start of the policy.

Life risk includes longevity risk, mortality risk and morbidity risk (i.e. illness risk) and disability risk. These are sometimes referred to as biometric risks. Life risk also covers lapse changes and changes in costs which can have a considerable impact on the ultimate cost of the liabilities, especially for long-term business.

Non-Life risk is the risk that claims are higher than expected. The causes can be split between catastrophe risk, which is when a significant event such as a windstorm leads to a jump in claims, or more general claim risks which could be triggered by a range of events including inflation or customer behaviours divergent from the norm.

Each business manages insurance risk through a combination of Insurance risk policy, Underwriting policy, Product Approval policy, Claims policy and Reinsurance policy. Particular attention is given to the underwriting process in order to ensure that the customer segment which purchases the product is consistent with the underlying assumptions made about the customers when the product was designed and priced.

Underwriting involves review procedures by actuarial staff that examines the actual loss experience. A range of indicators and statistical analysis tools are employed to further refine underwriting standards in order to improve the loss experience and/or ensure that pricing is adjusted appropriately.

Business lines set premiums at levels that will ensure that the premiums received and the investment income earned exceed the total value of claims, plus handling and management costs. Pricing appropriateness is tested using a range of techniques and key performance indicators appropriate for a particular portfolio, on both an *a priori* (e.g. profit testing) and *a posteriori* (e.g. embedded value, combined ratios) basis.

Insurance pricing factors vary per product depending on the coverage and benefits offered but generally all include the following considerations:

- ◆ expected claims by policyholders and related expected pay-outs and their timing
- ◆ the level and nature of variability associated with the expected benefits. This includes analysis of claims statistics as well as changes in jurisprudence, the economic climate and demographic trends
- ◆ other costs of providing the relevant product, such as distribution, marketing, policy administration, and claim administration costs
- ◆ financial conditions, reflecting the time value of money
- ◆ solvency capital requirements
- ◆ target profitability levels
- ◆ insurance market conditions, notably competitor pricing of similar products

7.6.1 Mortality/longevity risk

Mortality risk arises due to unexpected changes in mortality rates because of an epidemic disease, or a major event such as an industrial accident or natural disaster. Mortality risk of this type is mitigated through limits set in the underwriting policy and via a number of excess-of-loss and catastrophe reinsurance treaties.

Longevity risk is the unexpected increase in survival rates resulting in an improved life expectancy, and is managed through underwriting policy, regular reviewing of the mortality tables used for pricing and establishing liabilities, limitation of the contract period, and review of pricing upon renewal. Where longevity is found to be rising faster than assumed in the mortality tables, additional provisions are set up and pricing of new products is adjusted accordingly.

7.6.2 Disability risk

Disability risk covers the uncertainty in claims due to disability rates and levels that are higher than expected. This can, for example, arise in the disability and health business and affect workers compensation's pricing, provisioning and underwriting policies. AG Insurance mitigates disability risk through medical selection strategies and appropriate reinsurance cover.

7.6.3 Expense and Persistency risk

When designing and pricing insurance policies, assumptions also need to be made regarding the costs of selling and then administrating the policies until they lapse or mature as well as the rate of persistency that will be experienced. The risks that actual experience may be different from the potential impact are identified during the product development stage and can be mitigated by thorough product design, such as the use of early redemption penalties, initial charges or spreading the commission paid to distributors to align interests.

7.6.4 Non-Life claims risk

Non-Life claims risk can differ from the expected outcome for a variety of reasons. For example, short-tail claims, such as motor damage and property damage claims, are generally reported within a few days or weeks and are settled soon afterwards. The resolution of long-tail claims, such as body injury or liability claims, can take years to complete. For long-tail claims, information concerning the event, such as medical

treatment required, may, due to its very nature, not be readily obtainable. Analysis of long-tail losses is also more difficult, requires more detailed work and is subject to greater uncertainties than analysis of short-tail losses.

AG Insurance takes experience with similar cases and historical trends into account such as reserving patterns, exposure growth, loss payments and pending levels of unpaid claims as well as court decisions and economic conditions.

To mitigate the claims risk, AG Insurance adopts selection and underwriting policies based on its historical claims experience and modelling. This is done by client segment and class of business based on knowledge or expectations of future movements in claims frequency and severity. AG Insurance also benefits from diversification effects by engaging in a wide range of non-life insurance classes, and while this does not reduce the average claims, it does significantly reduce the variation in the total claims book and therefore the risk. The risk of unexpectedly large claims is contained by policy limits, concentration management and re-insurance.

7.6.5 Catastrophe Risk

Catastrophe risk is reinsured as follows:

- ◆ Natural catastrophes in Non-Life (windstorm, earthquake and flood) are reinsured up to an amount between the one in 150 and the one in 200-year event. Protection is realised by excess of loss per event covers, completed for the largest exposure by an annual aggregate stop-loss cover.
- ◆ Man-made catastrophes in Non-Life (fire, explosions, plane crash) and catastrophes in Life (death and/or disability) are reinsured up to amounts corresponding to estimates of worst-case scenarios and/or through market pools (terrorism).

7.6.6 Reinsurance

Where appropriate, AG Insurance also enters into reinsurance contracts to limit its exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk), or on a portfolio basis (per event), i.e. where individual policyholder exposures are within local limits but with an unacceptable risk of accumulation of claims at the company level (catastrophe risks). Such events are mostly weather-related or man-made.

External reinsurance is primarily used to mitigate the impact of natural catastrophes (e.g. hurricanes, earthquakes and floods), large single claims from policies with high limits, and multiple claims triggered by a single man-made event. Reinsurance companies are selected based primarily on pricing and counterparty risk considerations. The management of counterparty risk is integrated in the overall management of credit risk.

The table below provides details by product line on the proportion of premiums ceded to reinsurers in the year ended 31 December.

2012	Gross written premiums	Ceded premiums	Net written premiums
Product lines			
Life	4.644,1	(4,2)	4.639,9
Accident & Health	483,5	(3,1)	480,4
Property & Casualty	1.275,6	(50,2)	1.225,4
General and eliminations			
Total Insurance	6.403,2	(57,5)	6.345,1

2011	Gross written premiums	Ceded premiums	Net written premiums
Product lines			
Life	4.263,0	(4,3)	4.258,7
Accident & Health	462,2	(11,0)	451,2
Property & Casualty	1.208,7	(49,8)	1.158,9
General and eliminations	0,1		0,1
Total Insurance	5.934,0	(65,1)	5.868,9

7.6.7 Insurance liabilities adequacy testing

Each line of business within AG Insurance establishes liabilities for future claims on policies and sets aside assets to support those liabilities. This involves making estimates and assumptions that can affect the reported amount of liabilities, assets, shareholders' equity and income statement within the next year. These estimates are evaluated on each reporting date using statistical analysis based on internal and external historical data.

The adequacy of insurance liabilities is reviewed on each reporting date and requires increases in liabilities to be immediately recorded and recognised in the income statement. AG Insurance's Liability Adequacy Testing (LAT) Policy and processes fulfil IFRS requirements.

Certified actuaries (internal and external) have confirmed the overall adequacy of Liabilities arising from insurance and investment contracts on 31 December 2012 as well as on 31 December 2011.

The risk that the actual outcome will exceed Liabilities arising from insurance and investment contracts cannot be eliminated completely, given the uncertainties inherent in the techniques, assumptions and data used in the statistical analysis. To ensure that the risk of being unable to meet policyholder and other obligations is reduced to extremely low levels, AG Insurance holds additional solvency capital.

The relative variability of the expected outcomes is lower for larger and more diversified portfolios. Factors that would increase insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location, type of industry as well as negative changes in the public domain (such as legislative changes, etc.) and extreme events such as hurricanes.

Whenever such factors materialise, the level of risk is brought back down to risk appetite levels by means of a risk transfer mechanism such as reinsurance. This includes, but is not limited to, European weather events.

Overview of Insurance Liabilities

Life liabilities

Life liabilities are established to ensure that sufficient funds are set aside to meet future obligations and commitments as they fall due.

Non-Life Liabilities

Non-Life claims liabilities are made for claims that have occurred but have not yet been settled (i.e. expired risk). In general, AG Insurance defines claims liabilities by product category, cover and year, and takes into account undiscounted prudent forecasts of pay-outs on reported claims and estimates of unreported claims. Allowances for claims expenses and inflation are also included.

Unexpired risks – contracts for which premiums have been received but for which the risk has not yet expired – are covered by unearned premiums within Liabilities.

The table below provides an overview of insurance liabilities by segment.

31 December 2012	Non-life gross liability split			Life gross liability split		
	Total	Unearned premium	Claims outstanding	Total	Life	Unit-linked
	Non-life					Traditional Life
Insurance total	3.405,7	355,4	2.949,5	52.702,4	6.035,2	46.667,2

31 December 2011	Non-life gross liability split			Life gross liability split		
	Total	Unearned premium	Claims outstanding	Total	Life	Unit-linked
	Non-life					Traditional Life
Insurance total	3.195,9	347,9	2.848,0	49.093,0	5.894,3	43.198,7

Loss reserve development table

The loss reserve development table below shows movements in accounting reserves from 31 December 2003 until 31 December 2012. All contracts in question are insurance contracts as defined by IFRS.

Accounting Year as at 31 December 2012 All material figures quoted are undiscounted	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Gross Ultimate Claims (Cumulative) for both Property & Casualty and Accident & Health										
Gross reserves for unpaid claims and claims expenses developed initially at initial recognition	721,4	754,8	792,6	822,7	880,5	940,1	963,3	1.060,8	1.068,4	1.125,6
Cumulative payments at:										
2004	153,8									
2005	224,1	160,3								
2006	277,0	232,0	167,9							
2007	318,0	285,5	241,8	188,0						
2008	353,1	330,5	299,2	271,8	216,7					
2009	387,4	373,0	352,6	338,7	312,8	237,9				
2010	411,2	402,7	390,7	387,9	377,0	332,6	258,9			
2011	432,6	428,5	424,5	430,4	432,4	406,3	361,7	316,6		
2012	453,0	454,0	455,9	470,8	481,2	466,8	438,5	427,7	296,8	
Reserves re-estimated at:										
2004	685,8									
2005	680,2	723,0								
2006	658,8	699,0	750,5							
2007	654,9	688,2	736,1	797,9						
2008	657,1	693,7	744,0	803,1	884,0					
2009	635,3	668,6	716,8	774,9	853,7	896,5				
2010	625,7	658,1	704,1	761,8	842,4	894,2	939,7			
2011	621,8	656,4	700,4	756,5	832,3	880,0	933,4	1.033,1		
2012	633,9	673,8	720,2	777,1	859,7	911,0	967,3	1.075,4	1.073,6	
Gross Outstanding Claims Liabilities (including IBNR)	180,9	219,8	264,2	306,3	378,5	444,2	528,8	647,7	776,8	1.125,6
Cumulative redundancy/deficiency										
from initial claims versus re-estimated reserves										
- Nominal	87,5	81,1	72,4	45,6	20,8	29,1	(4,0)	(14,6)	(5,2)	
- Percentage	12,1	10,7	9,1	5,5	2,4	3,1	(0,4)	(1,4)	(0,5)	
Other claims liabilities (not included in table)										645,6
Claims with regard to workers' compensation and health care										1.170,0
Total claims balance sheet										2.941,2

The row "Gross reserves for unpaid claims and claim expenses developed initially at the booking date" represents the liabilities reported in the balance sheet on the reporting date for the year indicated in the column heading. As such, each amount in this row reflects the outstanding claim liabilities for all years of occurrence prior to and including the reporting year.

The first part of the runoff table related to "Cumulative Payments" reports the cumulative amount of claim payments made per development period since the first of January of the year indicated. The payments relate to the years of occurrence prior to and including the year of liability reporting.

The second part of the runoff table entitled "Reserves re-estimated at" shows an estimate of the final liabilities carried on 31 December of the year indicated in respect of all years of occurrence prior to and including this year at each future development period. The further the claims have developed, the more reliable the valuation of the liabilities becomes.

The row "Gross outstanding claim liabilities (including IBNR)" represents the amount reported at year-end 2012.

More information on the amount listed as Total claims balance sheet is further disclosed in note 28.

7.7 Operational risk

All companies including financial institutions are subject to operational risk due to inadequately controlled internal processes or systems, human error or non-compliance as well as from external events and in general due to the uncertainty inherent in all business undertakings.

Like any business, AG Insurance must have a process in place to manage operational risk. This process is an integral part of the risk management framework and needs to be approved by the appropriate bodies. The operational risk management framework consists of company-wide processes designed to identify, assess, manage, monitor and report on operational risks. These company-wide processes are:

- ◆ Operational Risk Event Reporting
- ◆ Loss Data Collection
- ◆ Large Loss Exposure Analysis
- ◆ Key Risk Report and CRSA (Control Risk Self Assessment).

7.8 Strategic risks

Strategic risks cover external and internal factors that can impact AG Insurance's ability to meet the objectives set out in its current business plan and to position itself to achieve ongoing growth and value creation. This includes changes in the regulatory, legal or competitive landscape, distribution risk and reputation risk. Business strategies need to incorporate such risks, and AG Insurance is pro-active about identifying and responding to these risks.

AG Insurance includes strategic risks as part of its regular risk identification and assessment processes and publishes all findings in a Key Risk Report. Strategic risks are also explicitly considered throughout the strategic review and planning processes and closely monitored afterwards.

7.9 Total Risk

AG Insurance has a quarterly Key Risk Identification process in place to identify key risks that could impact the achievement of its objectives. It also assesses the control framework in place to ensure that these risks are managed on an ongoing basis. Each business follows up on its key risks on at least a quarterly basis. A wide range of internal and external sources are used to identify the key risks. In addition to being a core part of AG Insurance's risk framework, this process leads to the management control statements made by each business and signed by the CEO.

8 Supervision and solvency

AG Insurance is subject to prudential supervision by its insurance regulator, the National Bank of Belgium (BNB). Among other checks and balances, prudential supervision includes a quarterly review to ensure AG Insurance meets its solvency requirements. Accordingly, on the basis of the rules and regulations for insurance companies applicable in Belgium, AG Insurance reports on a quarterly basis to the BNB its available regulatory capital and required solvency. Both are assessed on a non-consolidated basis based on local accounting principles. The figures below reflect the results of a similar assessment on a consolidated IFRS basis.

The table below gives an overview of the key capital indicators:

	31 December 2012	31 December 2011
Total available capital	4.184,7	3.940,2
Minimum solvency requirements	2.379,5	2.262,5
Amount of total capital above minimum	1.805,1	1.677,7
 Total solvency ratio	 175,9%	 174,1%

AG Insurance's shareholders' equity reconciles to total available solvency capital as follows:

	31 December 2012	31 December 2011
Share capital and reserves	2.706,9	3.142,5
Net result attributable to shareholders	432,6	(435,9)
Unrealised gains and losses	2.231,5	468,2
Shareholders' equity	5.371,0	3.174,8
Add:		
Non-controlling interests	129,5	127,6
Subordinated liabilities	896,5	894,5
Revaluation of real estate to fair value (90%), net of tax	748,6	703,1
Less:		
Revaluation of AFS debt securities, net of tax and shadow accounting	(2.142,8)	(501,3)
Revaluation of HTM debt securities, net of tax	11,1	11,5
10 % of Revaluation of equity securities, net of tax and shadow accounting	(11,7)	
Goodwill and other intangible assets	(364,9)	(357,6)
Equalisation Reserve	(148,7)	(123,7)
Expected dividend	(324,5)	
Unrealised gains and losses on Cash flow hedges, net of tax	26,1	16,4
Pension adjustment	(5,3)	(5,2)
Total available capital	4.184,7	3.940,2

8.1. Regulatory asset pledge

Belgian Insurance Control law requires the insurer's assets to be pledged in order to secure policyholder liabilities. Accordingly, on 31 December 2012, EUR 57.918 million of assets were formally assigned to this regulatory pledge.

8.2. Capital management

AG Insurance views a strong capital base a necessity, both as a competitive advantage and as a key tool to fund growth.

AG Insurance is further required to maintain a minimum level of qualifying capital relative to premiums collected for non-life insurance contracts and life insurance liabilities arising from insurance and investment contracts.

AG Insurance is of the opinion that capitalisation levels must appropriately reflect the specific characteristics of its businesses, including commitments resulting from agreements with partners. AG Insurance targets an aggregate solvency ratio of 200% of the minimum regulatory requirements at total insurance level. AG Insurance will review this target by the launch of Solvency II at the latest.

9 Employee benefits

This note covers post-employment benefits, other long-term employee benefits and termination benefits. Post-employment benefits are employee benefits, such as pensions and post-employment medical care, which are payable after the end of employment. Other long-term employee benefits are employee benefits which do not fall fully due within twelve months of the period in which the employees rendered the related service, including long-service awards and long-term disability benefits. Termination benefits are employee benefits payable as a result of the premature end of the employee's employment contract.

9.1 Post-employment benefits

9.1.1 Defined benefit pension plans and other post-employment benefits

For the majority of its employees AG Insurance operates defined benefit pension plans. Only a limited number of employees are covered by a defined contribution plan.

Under defined benefit pension plans, benefits are calculated based on years of service and level of salary. Pension obligations are determined on the basis of mortality tables, employee turnover, wage drift and economic assumptions such as inflation and discount rate. Discount rates are set on the basis of the yield (at closing date) of debt securities of similar duration, issued by blue-chip companies or by the government in the absence of a representative corporate market.

In addition to pensions, post-employment benefits may also include other expenses such as reimbursement of part of health insurance premiums which continue to be granted to employees after retirement.

The following table provides details of the amounts shown in the statement of financial position as at 31 December regarding defined-benefit pension obligations and other post-employment benefits.

	Defined benefit pension plans		Other post-employment benefits	
	2012	2011	2012	2011
Present value of funded obligations	26,2	21,8		
Present value of unfunded obligations	361,8	317,8	79,5	62,0
Defined benefit obligation	388,0	339,6	79,5	62,0
Fair value of plan assets	(21,4)	(18,8)		
	366,6	320,8	79,5	62,0
Unrecognised actuarial gains (losses)	(58,4)	(29,7)	(25,5)	(10,2)
Net defined benefit liabilities (assets)	308,2	291,3	54,0	51,8
Amounts in the statement of financial position:				
Defined benefit liabilities	313,5	296,5	54,0	51,8
Defined benefit assets	(5,3)	(5,2)		
Net defined benefit liabilities (assets)	308,2	291,3	54,0	51,8

Defined benefit liabilities are classified under Accrued interest and other liabilities (see Note 34) and defined benefit assets are classified under Accrued interest and other assets (see Note 22).

As AG Insurance is a financial institution specialising in the management of employee benefits, most of its employees' pension plans are insured by itself. Under IFRS, the assets backing these pension plans are non-qualifying and consequently may not be considered as plan assets.

The following table reflects the changes in net defined benefit liabilities (assets) as recognised in the statement of financial position.

	Defined benefit pension plans		Other post- employment benefits	
	2012	2011	2012	2011
Net defined benefit liabilities as at 1 January	291,3	276,5	51,8	51,0
Total defined benefit expense	28,4	28,7	4,0	2,3
Employers' contributions	(2,0)	(1,5)		
Benefits directly paid by the employer	(9,5)	(13,5)		
Acquisitions and disposals of subsidiaries				
Transfer		0,5		
Other		0,4	(1,8)	(1,5)
Net defined benefit liabilities as at 31 December	308,2	291,3	54,0	51,8

Benefits directly paid by the employer relate to defined benefit pension plans that are directly held within AG Insurance.

The table below shows the changes in defined benefit obligation.

	Defined benefit pension plans		Other post- employment benefits	
	2012	2011	2012	2011
Defined benefit obligation as at 1 January	339,6	306,7	62,0	58,5
Current service cost	17,9	18,3	1,4	1,4
Interest cost	11,9	11,7	2,4	2,4
Past service cost - vested benefits				(1,5)
Settlements	(0,8)			
Actuarial losses (gains) on defined benefit obligation	29,5	16,3	15,5	2,9
Participants' contributions	0,1	0,1		
Benefits paid	(0,6)	(1,0)		
Benefits directly paid by the employer	(9,5)	(13,5)	(1,8)	(1,6)
Acquisitions and disposals of subsidiaries				
Transfer		0,5		
Other		0,4		
Defined benefit obligation as at 31 December	388,0	339,6	79,5	62,0

Actuarial losses (gains) on defined benefit obligation mainly reflect the change in discount rate and other actuarial assumptions and the experience adjustment on defined benefit obligations.

The following table shows the changes in the fair value of plan assets.

	<i>Defined benefit pension plans</i>	
	2012	2011
Fair value of plan assets as at 1 January	18,8	17,1
Settlements		0,8
Expected return on plan assets	0,9	0,7
Actuarial gains (losses) on plan assets	0,4	(0,4)
Employers' contributions	1,9	1,5
Participants' contributions	0,1	0,1
Benefits paid	(0,6)	(1,0)
Acquisitions and disposals of subsidiaries		
Transfer		
Fair value of plan assets as at 31 December	21,4	18,8

Actuarial gains (losses) on plan assets are mainly the difference between actual and expected return. The following table shows the actual return on plan assets for defined benefit pension plans.

	<i>Defined benefit pension plans</i>	
	2012	2011
Actual return on plan assets	1,2	0,3

The following table shows the changes in the total of unrecognised actuarial gains (losses) on liabilities and assets.

	<i>Defined benefit pension plans</i>		<i>Other post- employment benefits</i>	
	2012	2011	2012	2011
Unrecognised actuarial gains (losses) as at 1 January	(29,7)	(13,1)	(10,2)	(7,4)
Settlements				
Amortisation of unrecognised actuarial losses (gains) on defined benefit obligation	0,2	0,1	0,2	0,1
Amortisation of unrecognised actuarial losses (gains) on plan assets	0,1	0,1		
Actuarial gains (losses) on defined benefit obligation	(29,5)	(16,3)	(15,5)	(2,9)
Actuarial gains (losses) on plan assets	0,4	(0,4)		
Unrecognised actuarial gains (losses) as at 31 December	(58,4)	(29,7)	(25,5)	(10,2)

Experience adjustments are actuarial gains and losses that arise because of differences between the actuarial assumptions made at the beginning of the year and actual experience during the year.

The following table shows experience adjustments to plan assets and defined benefit obligations.

	Defined benefit pension plans		Other post- employment benefits	
	2012	2011	2012	2011
Experience adjustments to plan assets, gain (loss)	0,4	(0,4)		
As % of plan assets as at 31 December	1,9%	(2,1%)		
Experience adjustments to defined benefit obligation, loss (gain)	3,4	0,7	0,5	0,9
As % of defined benefit obligation as at 31 December	0,9%	0,2%	0,6%	1,5%

The following table shows the components of expenses related to the defined benefit pension plans and other post-employment benefits for the year ended 31 December.

	Defined benefit pension plans		Other post- employment benefits	
	2012	2011	2012	2011
Current service cost	17,9	18,3	1,4	1,4
Interest cost	11,9	11,7	2,4	2,4
Expected return on plan assets	(0,9)	(0,7)		
Past service cost - vested benefits				(1,5)
Amortisation of unrecognised actuarial losses (gains) on defined benefit obligation	0,2	0,1	0,2	0,1
Amortisation of unrecognised actuarial losses (gains) on plan assets	0,1	0,1		
Settlements	(0,8)	(0,8)		
Total defined benefit expense	28,4	28,7	4,0	2,3

The current service cost, past service cost, amortisation of unrecognised actuarial losses (gains) on the defined benefit obligation and losses (gains) on curtailments and settlements impacting liabilities are included in Staff expenses (see Note 49). All other defined benefit expense items are included in Finance costs (see Note 45).

The table below shows the expected and actual return on non-qualifying assets for defined benefit pension plans. In accordance with IFRS, the expected return on non-qualifying assets cannot be deducted from the defined benefit expense.

	2012	2011
Expected return on non-qualifying assets	10,5	9,5
Actual return on non-qualifying assets	10,5	7,5

The following table shows the principal actuarial assumptions.

	Defined benefit pension plans				Other post- employment benefits			
	2012		2011		2012		2011	
	Low	High	Low	High	Low	High	Low	High
Discount rate	2,1%	2,8%	3,2%	4,0%	2,8%	2,8%	3,9%	4,0%
Expected return on plan assets as at 31 December	3,7%	3,7%	4,0%	4,4%				
Future salary increases (price inflation included)	2,5%	4,3%	2,9%	5,2%				
Future pension increases (price inflation included)	2,0%	2,0%	2,4%	2,4%				
Medical cost trend rates					3,8%	3,8%	3,8%	3,8%

AG Insurance uses the government bond curve and AA-graded corporate bonds as references for the expected return on bonds and adds a risk premium to that return for equity securities and real estate.

A one-per-cent change in assumed medical cost trend rates would have the following effect on the defined benefit obligation and defined benefit expense for medical costs:

	Medical care	One-percent increase	One-percent decrease
Effect on the defined benefit obligation - medical costs	79,5	23,0%	(17,6%)
Effect on the total defined benefit expense - medical costs	4,0	32,8%	(23,9%)

The plan assets comprise predominantly equity securities, fixed-income securities and investment contracts with insurance companies. AG Insurance's internal investment policy stipulates that investment in derivatives and emerging markets for the purpose of funding pension plans is to be avoided. AG Insurance gradually adjusts its asset allocation policy to ensure a close match between the duration of assets and that of pension liabilities.

The asset mix of the plan assets for pension obligations is as follows:

	31 December 2012	31 December 2011
Equity securities	15,4%	15,5%
Debt securities	36,9%	37,0%
Insurance contracts	43,6%	43,4%
Real estate	0,0%	0,0%
Other	3,0%	3,0%
Cash	1,1%	1,1%

The mix of the unqualified assets for pension obligations is as follows:

	31 December 2012	31 December 2011
Equity securities	3,3%	2,8%
Debt securities	89,1%	78,6%
Insurance contracts	0,0%	0,0%
Real Estate	7,3%	7,2%
Other	0,3%	11,4%

The employer's contributions expected to be paid to post-employment benefit plans for the year ending 31 December 2012 are as follows:

	Defined benefit pension plans
Expected contribution next year to plan assets	0,3
Expected contribution next year to unqualified plan assets	18,2

9.1.2 Impact of IAS19R as from 2013

On 16 June 2011, the International Accounting Standards Board has published the final version of the IAS19 Amendments coming into effect on January 2013. This will impact the post-employment benefits as follows:

- As the corridor principle is abolished and replaced with the OCI methodology as from 2013, the recognition of any actuarial gains and losses for post-employment benefits according to the corridor will be applied for the last time in 2012.
- The pension costs will include net interest expense, calculated by applying the discount rate to the net pension liability. There will be no change in the discount rate, which remains a high quality corporate bond rate where there is a deep market in such bonds, and a government bond rate in other markets.
- In 2013 a tax liability due to the recognition of future premium taxes and social security contributions will be added to the Defined Benefit Obligation.

The impact of the introduction of the new IAS19 rules will result on 1 January 2013 in a decrease of Shareholders' Equity by EUR 72 million.

9.1.3 Defined-contribution plans

AG Insurance operates a number of defined contribution plans. The employer's commitment to a defined contribution plan is limited to the payment of contributions calculated in accordance with the plan's regulations. Employer contributions to defined-contribution plans are included in Staff expenses (see Note 49).

9.2 Other long-term employee benefits

Other long-term employee benefits include long-service awards. The table below shows net liabilities. The liabilities related to other long-term employee benefits are included in the statement of financial position under Accrued interest and other liabilities (see Note 34). The assets are included in the statement of financial position under Accrued interest and other assets (see Note 22).

	2012	2011
Defined benefit obligation	12,0	10,9
Other amounts recognised in the statement of financial position		
Net defined benefit liabilities (assets)	12,0	10,9
Amounts shown in the statement of financial position:		
Defined benefit liabilities	12,0	10,9
Defined benefit assets		
Net defined benefit liabilities (assets)	12,0	10,9

The following table shows the changes in liabilities for other long-term employee benefits during the year.

	2012	2011
Net liability as at 1 January	10,9	8,5
Total expense	1,9	2,9
Benefits directly paid by the employer	(0,8)	(0,5)
Net liability as at 31 December	12,0	10,9

The table below provides the range of actuarial assumptions applied when calculating the liabilities for other long-term employee benefits.

	2012		2011	
	Low	High	Low	High
Discount rate	2,2%	2,3%	3,4%	3,4%
Future salary increases	2,5%	4,3%	2,9%	5,2%

Expenses related to other long-term employee benefits are shown below. Interest cost is included in Finance costs (see Note 45), all other expenses are included in Staff expenses (see Note 49).

	2012	2011
Current service cost	0,5	0,4
Interest cost	0,4	0,3
Net actuarial losses (gains) recognised immediately	1,1	0,5
Past service costs recognised immediately		1,7
Losses (gains) of curtailments or settlements		
Total expense	1,9	2,9

9.3 Termination benefits

Termination Benefits are employee benefits payable as a result of either an enterprise's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The table below shows liabilities related to termination benefits included in the statement of financial position under Accrued interest and other liabilities (see Note 34).

	2012	2011
Defined benefit obligation	14,7	20,3
Other amounts recognised in the statement of financial position		
Net defined benefit liabilities (assets)	14,7	20,3

The following table shows the changes in liabilities for termination benefits during the year.

	2012	2011
Net liability as at 1 January	20,3	24,7
Total expense	(0,5)	2,3
Employers' contributions		
Benefits directly paid by the employer	(5,1)	(6,2)
Transfer		(0,5)
Net liability as at 31 December	14,7	20,3

Expenses related to termination benefits are shown below. Interest cost is included in Finance costs (see Note 45). All other expenses are included in Staff expenses (see Note 49).

	2012	2011
Current service cost	0,3	2,4
Interest cost	0,2	0,4
Net actuarial losses (gains) recognised immediately	(1,0)	(0,5)
Losses (gains) of curtailments or settlements		
Total expense	(0,5)	2,3

10 Employee share option and share purchase plans

AG Insurance's 2011 and 2012 remuneration packages for employees do not include own share related-instruments.

11 Remuneration of Board of Directors members

Total consideration paid to executive and non-executive members of the Board of Directors in 2012 amounted to EUR 4,3 million. On 31 December 2012, outstanding loans to the Board members amounted to EUR 0,3 million.

12 Audit fees

Fees paid to AG Insurance's auditors can be broken down into the following components:

- ◆ audit fees, which include fees for auditing the statutory and Consolidated Financial Statements as well as the embedded value report, and quarterly and other reports;
- ◆ audit-related fees, which include fees for work performed on prospectuses, non-standard auditing and advisory services not related to statutory auditing;
- ◆ fees for tax advice;
- ◆ other non-audit fees, which include fees for support and advice.

The breakdown of audit fees for the year ended 31 December is as follows:

	2012		2011	
	Statutory Auditors	Other Auditors	Statutory Auditors	Other Auditors
Audit fees	1,5	0,1	1,5	0,2
Audit-related fees	0,1		0,4	
Tax fees	0,1			
Other non-audit fees	0,1	0,1	0,1	0,2
Total	1,8	0,2	2,0	0,4

13 Related parties

Parties related to AG Insurance include associates, Ageas companies and their key personnel and minority shareholder BNP Paribas Fortis nv-sa.

AG Insurance frequently enters into transactions with related parties in the course of its business operations. Such transactions mainly concern distribution agreements and regular financial operations with BNP Paribas Fortis, service level agreements with Ageas and other regular business operations that are entered into under similar commercial and market terms that would apply to non-related parties:

- ◆ **Bankinsurance Distribution Agreement with BNP Paribas Fortis :**
AG Insurance has a historical partnership with BNP Paribas Fortis relating to the distribution of AG Insurance products through the retail channel of BNP Paribas Fortis.
The existing agreements provide for the practical and legal aspects of the distribution strategy and operations with BNP Paribas Fortis. They regulate the parties' mutual obligations in terms of marketing, sales management, sales support, distribution channels, liabilities, compliance, products offering, trademark use, complaints management, etc. The agreements also stipulate that BNP Paribas Fortis will distribute AG Insurance products exclusively.
The global partnership agreement runs until at least 31 December 2020. However, until 31 December 2017, either party can terminate the agreement by giving the other party at least three years' prior notice.
- ◆ **Service agreement:**
Following the dismantling of the Fortis group, AG Insurance and BNP Paribas Fortis entered into a long-term mainframe outsourcing service agreement that allows AG Insurance to use BNP Paribas Fortis's mainframe to conduct its business. As of 1 January 2012, either party can terminate the agreement for convenience by giving the other 30 days' prior notice.

In December 2012 AG Insurance has sold a building, currently already rented by BNP Paribas Fortis, through a financial lease, for a consideration of EUR 51 million.

In December 2011, AG Insurance issued DTH Partners LLC and NB 70 Pine LLC (joint and several borrowers), both real estate investment companies in the U.S., a convertible bridge loan of USD 70 million (EUR 53.1 million) to help finance the acquisition of a landmark building in New York City on 70 Pine Street in Manhattan. The loan has a maturity of one year, bears an interest rate of 12% and benefits from a security package that features (i) pledges over shares of the special purpose vehicle owning the building, (ii) guarantee agreements, (iii) pledges over receivables and (iv) options for AG Insurance to convert into entities holding residential rental properties in downtown Manhattan.

In September 2012, AG Insurance signed an Operating Agreement with Westbridge SARL to subscribe to:

- a USD 97.5 million (EUR 78 million) capital contribution for DTH Partners LLC, representing a 33% participation in DTH Partner LLC and
- a Mezzanine Loan Agreement with DTH Partners LLC granting a USD 97.5 million (EUR 78 million) loan to DTH Partners LLC at an initial interest rate of 10.5%.

These commitments are subject to several conditions precedent related to the 70 Pine Street development project. As DTH Partners LLC is an entity affiliated with Mr. Ronny Brückner, a member of the Ageas Board of Directors,

the aforementioned transactions and commitments are regarded as a related party transaction under IFRS rules, and as such are hereby disclosed. The relevant amounts are included in the next table in the “Ageas” column.

Although these are unique circumstances, management considers the transaction to be concluded at arm's length.

	2012				2011			
	Associates	Ageas	BNP Paribas Fortis	Total	Associates	Ageas	BNP Paribas Fortis	Total
Income and expenses - related parties								
Interest income	3,1	6,7	9,2	19,0	2,3	0,2	22,6	25,1
Interest expense		(55,0)	(3,2)	(58,2)		(54,9)	(7,4)	(62,3)
Premiums					0,1			0,1
Dividend and other investment income			23,4	23,4			27,9	27,9
Fee and commission income	12,6		19,8	32,4	5,7		22,0	27,7
Realised gains			44,9	44,9			13,4	13,4
Other income	0,5	16,8	1,0	18,3	0,5	15,9	0,9	17,3
Fee and commission expense			(234,9)	(234,9)			(238,8)	(238,8)
Realised losses			(2,6)	(2,6)			(5,5)	(5,5)
Operating, administrative and other expenses	(18,0)	(4,0)		(22,0)	(18,5)	(4,6)	(0,1)	(23,2)
Statement of financial position - related parties								
Cash and cash equivalents			418,9	418,9			652,3	652,3
Trading assets			(0,3)	(0,3)			6,4	6,4
Due from banks			161,1	161,1			130,1	130,1
Investments in associates	8,0		152,1	160,1	8,0		31,5	39,5
Due from customers	47,4	53,1	39,4	139,9	33,4	54,1	45,7	133,2
Other assets	1,0	73,4		74,4	1,5			1,5
Reinsurance share, trade and other								
receivables	56,8	4,0	53,1	113,9	6,4	3,3	3,6	13,3
Accrued income and and deferred charges			4,5	10,4		0,7	19,0	19,7
Investments on behalf of policyholders				1.610,8			1.279,6	1.279,6
Trading liabilities			(0,1)	(0,1)			2,1	2,1
Due to banks			315,0	315,0			291,1	291,1
Liabilities arising from insurance and								
Investment contracts								
Debt certificates, subordinated liabilities and								
other borrowings	4,9	896,5		901,4	4,6	894,5		899,1
Deferred revenues and accrued interest and								
expenses	1,7	27,1	15,7	44,5	2,2	27,1	16,7	46,0
Other liabilities	5,2	73,4	1,0	79,6	13,7		1,0	14,7

14 Information on segments

14.1 AG Insurance

AG Insurance sells its products, a comprehensive range of Life and Non-Life cover, through several distribution channels. Independent brokers serve the private market as well as small and medium-sized enterprises. AG Insurance addresses the needs of the bank retail banking market through branches of BNP Paribas Fortis Bank in Belgium. Life insurance includes both savings, with investment-focused unit-linked contracts, and traditional products with a guaranteed interest rate. Non-Life insurance includes a retail and business-targeted Property & Casualty product range (Motor, Fire and Liability) as well as Workers' Compensation and Accident & Health products.

Additionally, the primary format for reporting segment information to management is based on operating segments. AG Insurance's reportable operating segments consist of groups of assets and operations that provide financial products or services subject to different levels of risk and return. AG Insurance's current operating segments are as follows:

- ◆ Individual Life and Health;
- ◆ Non-Life (other than Health Care);
- ◆ Employee Benefits and Health Care.

14.2 Income statement split into Life and Non-life

2012	Life	Non-life	Other	Total
Income				
Gross premium income	4.644,1	1.759,0		6.403,2
- Change in unearned premiums		(7,5)		(7,5)
- Ceded earned premiums	(4,2)	(53,3)		(57,5)
Net earned premiums	4.639,9	1.698,2		6.338,2
Interest, dividend and other investment income	2.290,0	192,8	(17,6)	2.465,2
Realised and unrealised gains and losses	233,0	35,7		268,6
Income related to investments for unit-linked contracts	608,4			608,4
Share of result of associates	(0,3)			(0,3)
Fee and commission income	97,2	3,8		100,9
Other income	102,5	56,9		159,4
Total income	7.970,6	1.987,4	(17,6)	9.940,5
Expenses				
- Insurance claims and benefits, gross	(5.596,8)	(1.133,3)		(6.730,1)
- Insurance claims and benefits, ceded	1,0	31,2		32,2
Insurance claims and benefits, net	(5.595,8)	(1.102,1)		(6.697,9)
Charges related to unit-linked contracts	(628,6)			(628,6)
Finance costs	(90,0)	(10,3)		(100,3)
Change in impairments	(94,3)	(7,0)		(101,3)
Change in provisions	(4,1)	(2,7)		(6,8)
Fee and commission expense	(289,4)	(344,4)		(633,8)
Staff expenses	(285,7)	(161,7)		(447,4)
Other expenses	(453,1)	(227,7)	17,6	(663,3)
Total expenses	(7.441,0)	(1.856,0)	17,6	(9.279,5)
Profit before taxation	529,6	131,4		661,0
Income tax expenses	(179,1)	(44,5)		(223,6)
Net profit for the period	350,5	86,9		437,4
Attributable to non-controlling interests	4,3	0,5		4,8
Net profit attributable to shareholders	346,2	86,3		432,6
Non-cash expenses (excl. depreciation & amortisation)	(135,9)	(25,5)		(161,4)
Gross premium income	4.644,1	1.759,0		6.403,2
Inflow deposit accounting	482,5			482,5
Gross inflow	5.126,6	1.759,0		6.885,7

2011	Life	Non-life	Other	Total
Income				
Gross premium income	4.263,0	1.670,9		5.934,0
- Change in unearned premiums		(9,0)		(9,0)
- Ceded earned premiums	(4,3)	(60,8)		(65,1)
Net earned premiums	4.258,7	1.601,1		5.859,8
Interest, dividend and other investment income	2.249,6	184,2	(18,2)	2.415,6
Realised and unrealised gains and losses	270,4	13,6		284,1
Income related to investments for unit-linked contracts	(177,3)			(177,3)
Share of result of associates	6,9	0,7		7,6
Fee and commission income	89,1	2,6		91,7
Other income	103,7	56,0		159,7
Total income	6.801,1	1.858,3	(18,2)	8.641,1
Expenses				
- Insurance claims and benefits, gross	(5.064,5)	(1.090,0)		(6.154,5)
- Insurance claims and benefits, ceded	1,8	24,9		26,7
Insurance claims and benefits, net	(5.062,8)	(1.065,1)		(6.127,8)
Charges related to unit-linked contracts	166,0			166,0
Finance costs	(97,0)	(11,8)		(108,7)
Change in impairments	(1.315,1)	(55,8)		(1.370,9)
Change in provisions	(0,1)	(1,4)		(1,5)
Fee and commission expense	(277,0)	(324,3)		(601,3)
Staff expenses	(268,3)	(156,8)		(425,2)
Other expenses	(438,6)	(221,6)	18,2	(641,9)
Total expenses	(7.292,9)	(1.836,8)	18,2	(9.111,3)
Profit before taxation	(491,8)	21,5		(470,2)
Income tax expenses	57,6	(17,2)		40,4
Net profit for the period	(434,2)	4,4		(429,8)
Attributable to non-controlling interests	5,4	0,7		6,1
Net profit attributable to shareholders	(439,6)	3,7		(435,9)
Non-cash expenses (excl. depreciation & amortisation)	(1.277,1)	(49,8)		(1.327,0)
Gross premium income	4.263,0	1.670,9		5.934,0
Inflow deposit accounting	244,8			244,8
Gross inflow	4.507,8	1.670,9		6.178,8

14.3 Technical result insurance

AG Insurance uses the concept of technical result and operating margin to analyse its insurance results.

The technical result includes premiums, fees and allocated financial income, less claims and benefits and less operating expenses. Realised capital gains and losses on investments backing insurance liabilities, such as separate accounts, are part of financial income and are thus included in the technical result. Financial income, net of the related investment costs, is allocated to the various Life and Non-Life branches based on the investment portfolios backing the insurance liabilities of these branches.

Realised and unrealised capital gains and losses on investments backing other insurance liabilities are included in the operating margin.

The reconciliation of the operating margin and profit before taxation, includes all income and costs, not allocated to insurance or investment contracts and thus not reported in the operating margin.

AG Insurance is managed through three business segments, identified by reporting line: Individual Life & Health, Non-Life other than Health Care and Employee Benefits & Health Care. The Individual Life & Health business includes insurance contracts covering risks related to the life and death of individuals as well as individual health care insurance. The Individual Life & Health business also includes individual investment contracts with and without discretionary participation features (DPF) as well as individual unit-linked contracts. Non-Life is composed of four lines of business: Accident, Motor, Fire and Other (including Third Party Liability). The Employee Benefits & Health Care business includes group insurance and health care contracts with employers as well as a small group insurance unit-linked portfolio.

The technical results for the different segments and their reconciliation with profit before taxation are shown below.

2012	Life & Health	Non-Life (other than Health Care)	Employee Benefits & Health Care	Total AG Insurance
Gross inflow Life	4.022,7		1.103,9	5.126,6
Gross inflow Non-life	34,5	1.494,4	230,2	1.759,0
Operating costs	(118,3)	(250,4)	(102,2)	(471,0)
Life technical result	273,1		80,9	354,0
Accident & Health	6,3	12,7	23,1	42,1
- Motor		26,8		26,8
- Fire and other damage to property		31,7		31,7
Other		(4,8)		(4,8)
Non-Life technical result	6,3	66,3	23,1	95,7
Total technical result	279,5	66,3	103,9	449,7
Capital gains (losses) allocated to operating margin	65,5	22,2	40,7	128,4
Operating margin	344,9	88,5	144,6	578,1
Other result, including brokerage	54,8	8,3	19,8	82,9
Profit before taxation	399,7	96,8	164,4	661,0
Key performance indicators				
Expense ratio	44,4%	39,4%	19,3%	36,8%
Claims ratio	36,8%	61,8%	72,4%	62,7%
Combined ratio	81,2%	101,2%	91,7%	99,5%
Life cost in % of Life FUM (annualised)	0,3%		0,5%	0,4%
Funds under management	39.230,0	2.914,3	13.964,2	56.108,6

Claims ratio: the cost of claims, net of reinsurance, as a percentage of net earned premiums, excluding the internal costs of handling claims.

Expense ratio: expenses as a percentage of net earned premiums, net of reinsurance. Expenses include the internal costs of handling claims, plus net commissions charged to the year, less internal investment costs.

Combined ratio: the sum of the claims ratio and the expense ratio.

2011	Life & Health	Non-Life (other than Health Care)	Employee Benefits & Health Care	Total AG Insurance
Gross inflow Life	3.477,3		1.030,6	4.507,8
Gross inflow Non-life	34,8	1.412,7	223,5	1.670,9
Operating costs	(117,3)	(240,3)	(99,5)	(457,0)
Life technical result	129,9		54,1	183,9
Accident & Health	12,3	(4,5)	22,0	29,8
- Motor		56,2		56,2
- Fire and other damage to property		(33,9)		(33,9)
Other	3,7			3,7
Non-Life technical result	12,3	21,4	22,0	55,8
Total technical result	142,2	21,4	76,1	239,7
Capital gains (losses) allocated to operating margin	(234,6)	(10,8)	(259,8)	(505,3)
Operating margin	(92,4)	10,6	(183,8)	(265,6)
Other result, including brokerage	(133,8)	(18,6)	(52,3)	(204,6)
Profit before taxation	(226,2)	(7,9)	(236,0)	(470,2)
Key performance indicators				
Expense ratio	46,7%	39,5%	18,7%	36,8%
Claims ratio (*)	16,4%	64,6%	72,8%	64,8%
Combined ratio (*)	63,0%	104,2%	91,5%	101,6%
Life cost in % of Life FUM (annualised)	0,3%		0,5%	0,4%
Funds under management	36.673,4	2.721,4	12.893,8	52.288,9

(*) restated

Claims ratio: the cost of claims, net of reinsurance, as a percentage of net earned premiums, excluding the internal costs of handling claims.

Expense ratio: expenses as a percentage of net earned premiums, net of reinsurance. Expenses include the internal costs of handling claims, plus net commissions charged to the year, less internal investment costs.

Combined ratio: the sum of the claims ratio and the expense ratio.

Notes to the consolidated statement of financial position

15 Cash and cash equivalents

Cash includes cash on hand, current accounts and other financial instruments with a term of less than three months from the date on which they were acquired. The composition of cash and cash equivalents as at 31 December is as follows:

	31 December 2012	31 December 2011
Cash on hand	2,1	2,1
Due from banks	881,3	1.745,6
Other	5,6	123,5
Total	889,0	1.871,2

16 Financial investments

The composition of financial investments is as follows:

	31 December 2012	31 December 2011
Financial investments		
- Held to maturity	4.367,8	4.373,5
- Available for sale	45.716,0	40.438,8
- Held at fair value through profit or loss	222,9	173,8
- Derivatives held for trading	23,2	18,2
Total, gross	50.329,8	45.004,4
Impairments:		
- of investments Held to maturity	(210,9)	(1.408,8)
- of investments available for sale	(210,9)	(1.408,8)
Total impairments	50.118,9	43.595,6
Total	50.118,9	43.595,6

16.2 Investments held to maturity

	31 December 2012			31 December 2011		
	Government bonds	Corporate debt securities	Total	Government bonds	Corporate debt securities	Total
Historical/amortised cost at recognition	4.373,5		4.373,5	4.248,1		4.248,1
Acquisition				125,7		125,7
Amortisation	(5,7)		(5,7)	(0,3)		(0,3)
Total investments held to maturity	4.367,8		4.367,8	4.373,5		4.373,5
Fair value	5.510,6		5.510,6	4.553,0		4.553,0

In 2011, and in accordance with IFRS, AG Insurance reclassified EUR 4.3 billion in Belgian government bonds from "Available for sale" to "Held to maturity". The investments were reclassified at their fair value on the date of reclassification. The difference between the fair value and the amortised cost, which amounted to EUR 17 million, remains included in Unrealised gains and losses in Shareholders' equity and will be amortised over the remaining maturity of the investments. The amortisation is offset in the income statement against the amortised difference between the book value and the nominal value of the bonds, with no impact on the income statement.

16.2 Investments available for sale

The fair value and amortised cost of available-for-sale investments including gross unrealised gains, gross unrealised losses, and impairments are as follows:

31 December 2012	Historical/ amortised cost	Gross unrealised gains	Gross unrealised losses	Total gross	Impairments	Fair value
Government bonds	22.824,5	3.206,1	(69,0)	25.961,6		25.961,6
Corporate debt securities	15.905,6	1.629,6	(27,9)	17.507,3		17.507,3
Structured credit instruments	259,0	15,7	(6,4)	268,3	(2,3)	266,0
Available for sale investments in debt securities	38.989,1	4.851,4	(103,3)	43.737,2	(2,3)	43.734,9
Private equities and venture capital	33,5	0,6		34,1		34,1
Equity securities	1.755,9	205,2	(20,5)	1.940,6	(208,6)	1.732,0
Other investments	4,1			4,1		4,1
Available for sale investments in equity securities and other investments	1.793,5	205,8	(20,5)	1.978,8	(208,6)	1.770,2
Total investments available for sale	40.782,6	5.057,2	(123,8)	45.716,0	(210,9)	45.505,1

31 December 2011	Historical/ amortised cost	Gross unrealised gains	Gross unrealised losses	Total gross	Impairments	Fair value
Government bonds	23.471,1	880,3	(637,4)	23.714,0	(1.209,1)	22.504,9
Corporate debt securities	14.262,8	781,5	(131,9)	14.912,4	(6,4)	14.906,0
Structured credit instruments	384,2	13,4	(13,1)	384,5	(0,1)	384,4
Available for sale investments in debt securities	38.118,1	1.675,2	(782,4)	39.010,9	(1.215,6)	37.795,3
Private equities and venture capital	14,5		(0,4)	14,1		14,1
Equity securities	1.407,5	93,8	(89,8)	1.411,5	(193,2)	1.218,3
Other investments	2,2			2,2		2,2
Available for sale investments in equity securities and other investments	1.424,2	93,8	(90,2)	1.427,8	(193,2)	1.234,6
Total investments available for sale	39.542,3	1.769,0	(872,6)	40.438,7	(1.408,8)	39.030,0

AG Insurances uses the following classification of fair value measurement within the fair value hierarchy:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets.

Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.

Level 3: Fair values measured using inputs that are not based on observable data.

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Valuation investments available for sale								
Government bonds	25.961,6			25.961,6	22.504,7			22.504,9
Corporate debt securities	17.498,8	8,5		17.507,3	14.898,0	8,1		14.906,0
Structured credit instruments	152,3	45,9	67,8	266,0	267,1	43,8	73,6	384,4
Private equities and venture capital			34,1	34,1			14,1	14,1
Equity securities	1.418,9	311,3	1,5	1.732,0	1.098,8	118,0	1,5	1.218,3
Other investments		2,4	1,8	4,1	0,4		1,8	2,2
Balance as at 31 December	45.031,6	368,1	105,2	45.505,1	38.769,0	169,9	91,0	39.030,0

The changes in level 3 valuation are as follows:

	2012		2011	
	Level 1	Level 3	Level 1	Level 3
Balance as at 1 January			91,0	54,3
Maturity / Redemption				(0,1)
Acquisitions/divestment of subsidiaries				
Acquired			23,0	10,4
Proceeds from sales			(5,1)	(20,5)
Realised losses (gains)				2,0
Reversal of impairments				
Impairments				
Unrealised gains			(3,0)	(0,4)
Transfers between valuation categories				45,4
Foreign exchange differences and other adjustments			(0,7)	
Balance as at 31 December		105,2		91,0

The level 3 positions are mainly sensitive to a change in the level of credit spreads. If the general level of credit spreads increases by 1 basis point, it is estimated that the market value of these positions drops by 3 basis points. This would translate into a loss of value by approximately EUR 3 million for every basis point widening of the level of credit spreads. The changes in value of the level 3 instruments are accounted for within shareholders' equity within unrealised gains and losses.

Government bonds detailed by country of origin as at 31 December are as follows:

<i>31 December 2012</i>	<i>Historical/ amortised cost</i>	<i>Gross unrealised gains (losses)</i>	<i>Impairments</i>	<i>Fair value</i>
Belgian national government	12.178,8	1.760,3		13.939,1
French national government	3.756,1	556,2		4.312,4
Austrian national government	2.284,6	358,3		2.642,9
German national government	1.093,1	264,3		1.357,4
Italian national government	1.121,2	(1,0)		1.120,2
Dutch national government	489,5	57,8		547,3
Irish national government	370,5	21,3		391,8
Czech republic national government	243,8	34,5		278,3
Spanish national government	296,2	(22,8)		273,3
Slovakian national government	213,3	31,5		244,8
Finnish national government	203,7	30,6		234,3
Slovenian national government	62,0	(0,2)		61,7
United States of America national government	29,9	5,4		35,3
Portuguese national government	14,1	(2,0)		12,2
Other national governments	467,7	42,9		510,6
Total	22.824,5	3.137,1	0,0	25.961,6

<i>31 December 2011</i>	<i>Historical/ amortised cost</i>	<i>Gross unrealised gains (losses)</i>	<i>Impairments</i>	<i>Fair value</i>
Belgian national government	9.461,5	111,1		9.572,6
French national government	3.769,3	162,4		3.931,7
Austrian national government	2.003,5	130,9		2.134,4
German national government	1.290,4	215,0		1.505,4
Dutch national government	1.179,5	113,2		1.292,7
Italian national government	1.359,4	(313,5)		1.045,9
Spanish national government	916,9	(89,7)		827,2
Greek national government	1.563,0	8,7	(1.209,1)	353,8
Irish national government	404,8	(54,5)		350,3
Finnish national government	260,3	22,5		282,8
Czech republic national government	244,2	5,0		249,2
Slovenian national government	229,4	(18,7)		210,7
Slovakian national government	212,6	(2,3)		210,3
Portuguese national government	81,1	(26,1)		55,0
United States of America national government	31,0	6,5		37,5
Other national governments	464,2	(27,6)		445,4
Total	23.471,1	242,9	(1.209,1)	22.504,9

Net unrealised gains and losses on available for sale investments included in equity

	<i>31 December 2012</i>	<i>31 December 2011</i>
Available for sale investments in debt securities:		
Carrying amount	43.734,9	37.795,3
Gross unrealised gains and losses	4.748,1	892,8
Related tax	(1.613,0)	(301,9)
Shadow accounting	(1.503,1)	(135,7)
Related tax	510,9	46,1
Net unrealised gains and losses	2.142,9	501,3
Available for sale investments in equity securities and other investments		
Carrying amount	1.770,2	1.234,6
Gross unrealised gains and losses	185,3	3,6
Related tax	(32,5)	(5,8)
Shadow accounting	(59,4)	(12,4)
Related tax	20,2	4,2
Net unrealised gains and losses	113,6	(10,4)

Available for sale investments in equity securities and other investments also include private equities and venture capital and all other investments, excluding debt securities.

Impairments of investments available for sale

The following table shows the breakdown of impairments of investments available for sale.

	31 December 2012	31 December 2011
Impairments of investments available for sale:		
- on debt securities	(2,3)	(1.215,6)
- on equity securities and other investments	(208,6)	(193,2)
Total impairments of investments available for sale	(210,9)	(1.408,8)

The changes in impairments of available for sale investments are as follows:

	2012	2011
Balance as at 1 January	1.408,8	178,9
Acquisitions/divestment of subsidiaries		
Increase in impairments	96,4	1.381,9
Release of impairments		
Reversal on sale/disposal	(1.294,0)	(151,9)
Foreign exchange differences and other adjustments	(0,2)	(0,1)
Balance as at 31 December	210,9	1.408,8

16.3 Investments held at fair value through profit or loss

The following table provides information as at 31 December about the investments held at fair value, for which unrealised gains or losses are recorded through profit or loss.

	31 December 2012	31 December 2011
Corporate debt securities	152,1	75,0
Structured credit instruments	49,0	85,7
Debt securities	201,1	160,7
Equity securities	21,8	13,1
Equity securities and other investments	21,8	13,1
Total	222,9	173,8

AG Insurances uses the following classification of fair value measurement within the fair value hierarchy:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets.
- Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.
- Level 3: Fair values measured using inputs that are not based on observable data.

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Valuation investments held at fair value through profit or loss								
Government bonds								
Corporate debt securities		152,1		152,1		75,0		75,0
Structured credit instruments			49,0	49,0			85,7	85,7
Private equities and venture capital								
Equity securities		21,8		21,8		13,1		13,1
Other investments								
Balance as at 31 December	173,9	49,0	222,9		88,1	85,7	173,8	

The changes in level 3 valuations are as follows:

	2012		2011	
	2012	2011	2012	2011
Balance as at 1 January			85,7	96,3
Acquisitions/divestment of subsidiaries				
Acquired				
Maturity / Redemption		(50,0)		(5,0)
Proceeds from sales				(18,3)
Realised losses (gains)	0,6			
Reversal of impairments				
Impairments				
Unrealised gains	12,8			12,7
Transfers between valuation categories				
Foreign exchange differences and other adjustments				
Balance as at 31 December	49,0		85,7	

The level 3 positions are mainly sensitive to a change in the general level of credit spreads. If the general level of credit spreads increases by 1 basis point, it is estimated that the market value of these positions drops by 3 basis points. This would translate into a loss of value by approximately EUR 1,5 million, for every basis point widening of the general level of credit spreads. The change in value of Structured credit instruments

between 2012 and 2011 is due to revaluation which is classified under realised and unrealised gains and losses.

16.4 Derivatives held for trading (assets)

The following table provides a specification of the derivatives held for trading (assets).

	<i>31 December 2012</i>	<i>31 December 2011</i>
Over the counter (OTC)	23,2	18,2
Total derivatives held for trading (assets)	23,2	18,2

Derivatives held for trading are in 2012 and 2011 based on a level 2 valuation.

17 Investment property

Investment property mainly comprises residential, commercial and mixed-use real estate.

	31 December 2012	31 December 2011
Investment property (gross)	2.423,8	2.054,7
Impairments of investment property	(32,2)	(33,9)
Total investment property	2.391,6	2.020,9

The following table shows the changes in investment property for the year ended 31 December.

	2012	2011
Acquisition cost as at 1 January	2.585,2	2.425,3
Acquisitions/divestment of subsidiaries	48,3	16,2
Additions/purchases	269,5	215,2
Disposals	(78,8)	(68,0)
Transfer from (to) property, plant and equipment		
Other	164,2	(3,6)
Acquisition cost as at 31 December	2.988,4	2.585,2
Accumulated depreciation as at 1 January	(530,4)	(504,8)
Acquisitions/divestment of subsidiaries		
Depreciation expense	(72,4)	(60,2)
Reversal of depreciation due to disposals	20,8	34,6
Other	17,3	
Accumulated depreciation as at 31 December	(564,7)	(530,4)
Impairments as at 1 January	(33,9)	(46,3)
Acquisitions/disposals of subsidiaries		
Increase in impairments charged to income statement	(0,5)	(1,6)
Reversal of impairments credited to the income statement	1,1	14,1
Reversal of impairments due to disposals	1,1	
Other		
Impairments as at 31 December	(32,2)	(33,9)
Net investment property as at 31 December	2.391,6	2.020,9
Fair values supported by market evidence	2.634,4	2.419,1
Fair values subject to an independent valuation	619,5	333,3
Total fair value of investment property at 31 December	3.253,9	2.752,4
Cost of investment property under construction	106,9	88,7

The fair value of investment property is set out below.

	31 December 2012	31 December 2011
Fair values supported by market evidence	2.634,4	2.419,1
Fair values subject to an independent valuation	619,5	333,3
Total fair value of investment property	3.253,9	2.752,4
Total carrying amount	2.391,6	2.020,9
Gross unrealised gain/loss	862,3	731,5
Taxation	(293,1)	(248,6)
Net unrealised gain/loss (not recognised in equity)	569,2	482,9

Fair value of investment property is subject to an independent external appraisal every five years, on a rotating basis. Accordingly, about 20% of the property portfolio is externally appraised each year. Between successive appraisals, fair value of investment property/buildings held for own use is updated using internal models that are constantly calibrated with available market data and/or transactions.

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Real estate is split into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful life of the components is as follows:

- ◆ Structure 50 years for offices and retail; 70 years for residential
- ◆ Closing 30 years for offices and retail; 40 years for residential
- ◆ Techniques and equipment 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Heavy finishing 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Light finishing 10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT, office and equipment are depreciated over their respective useful lives, which are determined individually. As a general rule, residual values are considered to be zero.

Property rented out under operating lease

AG Insurance rents certain assets – mainly property held for investment purposes – to external parties based on operating lease agreements. At 31 December the minimum payments to be received from irrevocable lease agreements amounted to:

	2012	2011
Less than 3 months	51,6	45,0
3 months to 1 year	146,3	138,8
1 year to 5 years	629,2	584,3
More than 5 years	940,1	895,1
Total	1.767,2	1.663,2

18 Loans

The composition of Loans is as follows:

	31 December 2012	31 December 2011
Loans to banks	171,7	201,1
Loans to customers	3.587,4	2.685,8
Total	3.759,1	2.886,9
Less impairments:		
- Specific credit risk	(9,8)	(7,2)
- Incurred but not reported (IBNR)	(1,0)	(0,7)
Total loans	3.748,2	2.879,0

18.1 Loans to banks

Loans to banks consists of the following:

	31 December 2012	31 December 2011
Interest-bearing deposits	3,1	1,6
Reverse repurchase agreements		66,6
Other	168,6	133,0
Total	171,7	201,1

18.2 Loans to customers

The composition of Loans to customers is as follows:

	31 December 2012	31 December 2011
Residential mortgage	1.527,3	1.582,1
Commercial loans	261,9	96,8
Policyholder loans	126,7	111,1
Financial lease receivables	0,3	2,1
Corporate loans	1.671,2	893,7
Total	3.587,4	2.685,8
Less impairments:		
- Specific credit risk	(9,8)	(7,2)
- Incurred but not reported (IBNR)	(1,0)	(0,7)
Loans to customers	3.576,5	2.677,8

Corporate loans mainly relate to loans to regional authorities and Governmental organisations.

Credit risk on Loans to customers is mitigated because of EUR 2.682,4 million (EUR 2.574,1 million as at 31 December 2011) received collateral – mainly residential real estate.

Financial lease receivables

Receivables related to financial lease agreements as at 31 December comprise:

	Minimum lease		Present value of the minimum lease payments receivable	
	2012	2011	2012	2011
Gross investment in financial leases:				
Less than 3 months		2,1		2,1
3 months to 1 year				
1 year to 5 years				
More than 5 years	1,4		0,3	
Total	1,4	2,1	0,3	2,1

Impairments of loans to customers

The following table shows the changes in impairments on Loans to customers.

	2012		2011	
	Specific credit risk	IBNR	Specific credit risk	IBNR
Balance as at 1 January	7,2	0,7	5,0	0,9
Acquisitions/divestment of subsidiaries				
Increase in impairments	5,6	0,3	3,2	
Release of impairments	(0,7)		(1,0)	(0,2)
Write-offs of uncollectible loans	(2,3)			
Foreign exchange differences and other adjustments				
Balance as at 31 December	9,8	1,0	7,2	0,7

19 Investments in associates

The following table provides an overview of the most significant investments in associates as at 31 December.

	% interest	2012		2011	
		Carrying amount		Carrying amount	
BITM	50,0%	27,4		32,2	
Aviabel	24,7%	25,3		22,7	
Credimo	34,2%	18,9		16,1	
Regatta-lo	50,0%	8,4		8,4	
Kanaalkom	50,0%	5,5		5,5	
DBFM	37,5%	4,8		5,1	
Association Westland Shopping center	45,9%	2,9		34,5	
Other (including Interparking associates)		34,3		26,3	
Total		127,5		150,8	

The details of the associates are as follows:

2012	Total assets	Total liabilities	Total income	Total expenses
Association Westland Shopping center	6,9	0,7	3,9	6,2
BITM	111,0	33,1	16,8	26,8
Aviabel	213,8	111,2	10,9	
Credimo	977,9	922,4	127,0	126,0
Regatta-lo	25,7	0,3		
Kanaalkom	29,3	13,9	0,8	0,8
DBFM	101,4	88,6	21,9	24,2
2011				
Association Westland Shopping center	77,0	1,5	7,4	5,2
BITM	124,3	59,9	17,2	15,9
Aviabel	197,3	105,5	62,1	51,7
Credimo	933,8	887,1	120,5	119,2
Regatta-lo	25,7	8,9		
Kanaalkom	28,9	17,8	0,2	0,1
DBFM	67,4	53,9	7,2	6,7

20 - 21 Reinsurance and other receivables

The table below shows the components of reinsurance and other receivables as at 31 December.

	31 December 2012	31 December 2011
Reinsurers' share of liabilities arising from insurance and investment contracts	180,6	173,6
Receivables from policyholders	251,2	235,9
Fees and commissions receivable	63,6	47,6
Operating lease receivables	2,0	2,2
Receivables from intermediaries	82,6	83,0
Reinsurance receivables	15,6	0,0
Other	145,8	143,0
Total gross	741,3	685,2
Impairments	(4,7)	(4,9)
Net total	736,6	680,2

The line Other includes receivables related to VAT and other indirect taxes.

Changes in impairments of reinsurance and other receivables

The following table shows the changes in the impairments of reinsurance and other receivables.

	2012	2011
Balance as at 1 January	4,9	6,3
Acquisitions/divestment of subsidiaries		
Increase in impairments	0,2	0,2
Release of impairments	(0,3)	(1,5)
Write-offs of uncollectible amounts	(0,1)	(0,1)
Foreign exchange differences and other adjustments		
Balance as at 31 December	4,7	4,9

Changes in the reinsurer's share of liabilities arising from insurance and investment contracts

Changes in the reinsurer's share of liabilities arising from insurance and investment contracts are shown below.

		2012	2011
Balance as at 1 January		173,6	163,1
Acquisitions/divestment of subsidiaries			
Change in liabilities current year		38,3	27,2
Change in liabilities prior years		(7,3)	(4,9)
Claims paid current year		(7,6)	(2,8)
Claims paid prior years		(15,7)	(8,7)
Other net additions through income statement		(0,5)	(0,4)
Foreign exchange differences and other adjustments			
Balance as at 31 December		180,6	173,6

22 Accrued interest and other assets

The table below shows the components of Accrued interest and other assets as at 31 December.

	31 December 2012	31 December 2011
Deferred acquisition cost	158,8	162,5
Deferred other charges	73,3	67,6
Accrued income	1.121,4	1.068,4
Derivatives held for hedging purposes	0,7	1,3
Buildings held for sale	107,5	146,0
Defined benefit assets	5,3	5,2
Other	27,3	30,4
Total gross	1.494,4	1.481,5

For details of pension plans and related pension assets (see Note 9).

Deferred acquisition costs

Changes in deferred acquisition costs related to insurance and investment contracts are shown below.

	2012	2011
Balance as at 1 January	162,5	164,7
Capitalised deferred acquisition costs	301,3	285,4
Depreciation expense	(305,0)	(287,6)
Balance as at 31 December	158,8	162,5

23 Property, plant and equipment

The table below shows the carrying amount for each category of Property, plant and equipment as at 31 December.

	31 December 2012	31 December 2011
Land and buildings held for own use	971,8	972,1
Leasehold improvements	14,4	13,5
Equipment	49,7	49,0
Total	1.035,8	1.034,6

Changes in Property, plant and equipment are shown below.

2012	Land and buildings held for own use	Leasehold improvements	Equipment	Total
Acquisition cost as at 1 January	1.430,3	34,2	152,6	1.617,1
Acquisitions/divestment of subsidiaries				
Additions	32,7	2,8	17,3	52,8
Reversal of cost due to disposals	(0,1)		(6,3)	(6,4)
Other			(3,5)	(3,5)
Acquisition cost as at 31 December	1.462,9	37,0	160,1	1.660,0
Accumulated depreciation as at 1 January	(452,2)	(20,2)	(103,5)	(575,9)
Acquisitions/divestment of subsidiaries				
Additions				
Depreciation expense	(33,5)	(2,3)	(16,6)	(52,4)
Reversal of depreciation due to disposals	0,1		6,0	6,1
Foreign exchange differences				
Other	0,1	(0,1)	3,7	3,8
Accumulated depreciation as at 31 December	(485,4)	(22,6)	(110,4)	(618,4)
Impairments as at 1 January	(6,0)	(0,5)		(6,5)
Increase in impairments charged to income statement				
Reversal of impairments credited to the income statement	0,3	0,5		0,8
Other				
Impairments as at 31 December	(5,7)			(5,7)
Property, plant and equipment as at 31 December	971,8	14,4	49,7	1.035,8

2011	<i>Land and buildings held for own use</i>	<i>Leasehold improvements</i>	<i>Equipment</i>	<i>Total</i>
Acquisition cost as at 1 January	1.392,7	31,7	145,1	1.569,5
Acquisitions/divestment of subsidiaries	29,4	0,6	0,3	30,3
Additions	18,2	2,5	17,8	38,5
Reversal of cost due to disposals	(8,7)	(0,6)	(10,4)	(19,7)
Other	(1,4)		(0,2)	(1,5)
Acquisition cost as at 31 December	1.430,3	34,2	152,6	1.617,1
Accumulated depreciation as at 1 January	(421,7)	(18,6)	(100,9)	(541,1)
Acquisitions/divestment of subsidiaries				
Depreciation expense	(31,2)	(2,2)	(15,0)	(48,4)
Reversal of depreciation due to disposals		0,6	10,0	10,7
Foreign exchange differences				
Other	0,7	(0,1)	2,2	2,9
Accumulated depreciation as at 31 December	(452,2)	(20,2)	(103,5)	(575,9)
Impairments as at 1 January	(8,1)	(0,8)		(8,9)
Reversal of impairments credited to the income statement	2,1	0,3		2,4
Impairments as at 31 December	(6,0)	(0,5)		(6,5)
Property, plant and equipment as at 31 December	972,1	13,5	49,0	1.034,6

The fair value of owner-occupied property is set out below.

	<i>31 December 2012</i>	<i>31 December 2011</i>
Total fair value of Land and buildings held for own use	1.369,5	1.424,1
Total carrying amount	971,8	972,1
Gross unrealised gain/loss	397,7	452,0
Taxation	(135,2)	(153,6)
Net unrealised gain/loss (not recognised in equity)	262,6	298,4

Fair value of buildings held for own use is subject to an independent external appraisal every five years, on a rotating basis. Accordingly, about 20% of the property portfolio is externally appraised each year. Between successive appraisals, fair value of investment property/buildings held for own use is updated using internal models that are constantly calibrated with available market data and/or transactions.

Depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Real estate is split into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful lives of the components are as follows:

- ◆ Structure 50 years for offices and retail; 70 years for residential
- ◆ Closing 30 years for offices and retail; 40 years for residential
- ◆ Techniques and equipment 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Heavy finishing 20 years for offices; 25 years for retail and 40 years for residential
- ◆ Light finishing 10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT, offices and equipment are depreciated over their respective useful lives, determined individually. As a general rule, residual values are considered to be zero.

24 Goodwill and other intangible assets

Goodwill and other intangible assets as at 31 December are as follows:

	31 December 2012	31 December 2011
Goodwill	23,8	23,8
Purchased software	0,5	0,3
Internally developed software	1,8	6,3
Other intangible assets	338,8	327,2
Total	364,9	357,5

Other intangible assets mainly include car park service concessions. These have an expected useful life depending upon the duration of the related service concession and are amortised in accordance with their expected lives.

In general, software is amortised over a maximum of five years.

With the exception of goodwill, AG Insurance does not have any intangible assets with indefinite useful lives.

Impairment testing of goodwill is performed annually at the end of the year by comparing the recoverable amount of cash-generating units (CGU) with their carrying amount. The recoverable amount is determined by the higher of the value in use and fair value less costs to sell.

The recoverable amount of a CGU is assessed using a discounted cash-flow model of anticipated future cash flows. The key assumptions used in the cash-flow model depend on input reflecting various financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the entity being evaluated.

Changes in goodwill and other intangible assets for the years 2012 and 2011 are shown below.

2012	Goodwill	Purchased software	Internally developed software	Other intangible assets	Total
Acquisition cost as at 1 January	23,8	2,1	22,5	503,3	551,7
Acquisitions/divestment of subsidiaries				1,5	1,5
Additions	0,3			31,0	31,3
Reversal of cost due to disposals	(0,2)			(0,3)	(0,5)
Other	0,1			0,1	0,2
Acquisition cost as at 31 December	23,8	2,2	22,5	535,6	584,1
Accumulated amortisation as at 1 January	(1,8)	(16,2)	(170,9)	(188,9)	
Acquisitions/divestment of subsidiaries					
Amortisation expense	(0,2)	(4,4)	(19,6)	(24,2)	
Reversal of amortisation due to disposals	0,2			0,2	0,5
Other	(0,0)			3,0	3,0
Accumulated amortisation as at 31 December	(1,7)	(20,7)	(187,2)	(209,6)	
Impairments as at 1 January				(5,2)	(5,2)
Acquisitions/divestment of subsidiaries					
Increase in impairments charged to income statement				(1,3)	(1,3)
Reversal of impairments credited to the income statement					
Other				(3,1)	(3,1)
Impairments as at 31 December				(9,6)	(9,6)
Goodwill and other intangible assets as at 31 December	23,8	0,5	1,8	338,8	364,9

2011	<i>Goodwill</i>	<i>Purchased software</i>	<i>Internally developed software</i>	<i>Other intangible assets</i>	<i>Total</i>
Acquisition cost as at 1 January	25,8	2,0	22,5	495,1	545,4
Acquisitions/divestment of subsidiaries				4,1	4,1
Additions		0,1		2,5	2,6
Reversal of cost due to disposals				(0,1)	
Other	(2,0)			1,8	(0,1)
Acquisition cost as at 31 December	23,8	2,1	22,5	503,3	551,7
Accumulated amortisation as at 1 January		(1,6)	(11,8)	(141,7)	(155,1)
Acquisitions/divestment of subsidiaries		(0,1)	(4,4)	(26,2)	(30,8)
Amortisation expense		0,0		0,0	0,1
Reversal of amortisation due to disposals				(3,1)	(3,1)
Other					
Accumulated amortisation as at 31 December		(1,8)	(16,2)	(170,9)	(188,9)
Impairments as at 1 January		(0,4)		(1,7)	(2,0)
Acquisitions/divestment of subsidiaries					
Increase in impairments charged to income statement				(3,5)	(3,5)
Reversal of impairments credited to the income statement					
Other					
Impairments as at 31 December				(5,2)	(5,1)
Goodwill and other intangible assets as at 31 December	23,8	0,3	6,3	327,2	357,5

25 Liabilities arising from Life insurance contracts

The following table provides an overview of the liabilities arising from Life insurance contracts as at 31 December.

	31 December 2012	31 December 2011
Liability for future policyholder benefits	21.110,5	20.493,0
Reserve for policyholder profit sharing	131,2	117,6
Shadow accounting adjustment	644,6	109,9
Gross	21.886,3	20.720,5
Reinsurance	(2,2)	(2,4)
Net	21.884,1	20.718,1

Changes in the liabilities arising from Life insurance contracts (gross of reinsurance and before eliminations) are shown below.

	2012	2011
Balance as at 1 January	20.720,5	20.077,8
Acquisitions/divestment of subsidiaries		
Gross inflow	1.873,1	1.762,2
Time value	806,0	687,6
Payments due to surrenders, maturities and other	(1.577,3)	(1.533,7)
Transfer of liabilities	(41,1)	(0,6)
Foreign exchange differences		
Shadow accounting adjustment	534,7	59,2
Net changes in group contracts	(17,5)	96,1
Other changes, including risk coverage	(412,1)	(428,1)
Balance as at 31 December	21.886,3	20.720,5

26 Liabilities arising from Life investment contracts

The following table provides an overview of the liabilities arising from Life investment contracts as at 31 December.

	31 December 2012	31 December 2011
Liability for future policyholder benefits	23.832,5	22.374,6
Reserve for policyholder profit sharing	131,4	65,3
Shadow accounting adjustment	817,1	38,2
Gross	24.781,1	22.478,2
Reinsurance		
Net	24.781,1	22.478,2

Changes in the liabilities arising from Life investment contracts are shown below.

	2012	2011
Balance as at 1 January	22.478,2	21.433,9
Acquisitions/divestment of subsidiaries		
Gross inflow	2.701,4	2.432,0
Time value	581,5	550,0
Payments due to surrenders, maturities and other	(1.757,2)	(1.834,2)
Transfer of liabilities	102,7	(11,9)
Foreign exchange differences		
Shadow accounting adjustment	778,9	4,0
Net changes in group contracts		(0,1)
Other changes, including risk coverage	(104,4)	(95,5)
Balance as at 31 December	24.781,1	22.478,2

The adequacy of insurance liabilities ('liability adequacy test') is tested at each reporting date. The tests are performed on legal fungible level (asset pool level) for life.

AG Insurance considers current best estimates of all contractual cash flows, including related cash flows such as (re)investment returns and expenses. The assumptions are internally consistent with those used for other modelling purposes. For Life Insurance contracts, the tests include cash flows resulting from embedded options and guarantees. The present value of these cash flows has been determined by using a risk-free discount rate. Any shortfall is recognised immediately in the income statement.

27 Liabilities related to unit-linked contracts

The liabilities related to unit-linked contracts are broken down into insurance and investment contracts as follows:

	31 December 2012	31 December 2011
Insurance contracts	773,5	683,7
Investment contracts	5.261,7	5.210,6
Total	6.035,2	5.894,3

The following table shows the changes in liabilities related to unit-linked insurance contracts.

	2012	2011
Balance as at 1 January	683,7	708,8
Acquisitions/divestment of subsidiaries		
Gross inflow	73,0	71,7
Time value		
Payments due to surrenders, maturities and other		
Transfer of liabilities		
Foreign exchange differences		
Shadow accounting adjustment		
Net changes in group contracts	17,5	(96,1)
Other changes, including risk coverage	(0,7)	(0,7)
Balance as at 31 December	773,5	683,7

The following table shows the changes in liabilities related to unit-linked investment contracts.

	2012	2011
Balance as at 1 January	5.210,6	5.978,4
Acquisitions/divestment of subsidiaries		
Gross inflow	479,1	241,9
Time value	468,9	(203,3)
Payments due to surrenders, maturities and other	(779,4)	(801,4)
Transfer of liabilities	(108,7)	2,4
Foreign exchange differences		
Shadow accounting adjustment		
Net changes in group contracts		0,1
Other changes, including risk coverage	(8,8)	(7,5)
Balance as at 31 December	5.261,7	5.210,6

28 Liabilities arising from Non-life insurance contracts

The following table provides an overview of the liabilities arising from Non-life insurance contracts as at 31 December.

	31 December 2012	31 December 2011
Claims reserves	2.941,2	2.839,1
Unearned premiums	355,4	347,9
Reserve for policyholder profit sharing	8,3	8,9
Shadow accounting	100,8	
Gross	3.405,7	3.195,9
Reinsurance	(178,5)	(171,2)
Net	3.227,2	3.024,7

Changes in the liabilities arising from insurance contracts for Non-life insurance contracts (gross of reinsurance and before eliminations) are shown below.

	2012	2011
Balance as at 1 January	3.195,9	3.141,5
Acquisitions/divestment of subsidiaries		
<i>Addition to liabilities current year</i>	<i>1.179,3</i>	<i>1.185,6</i>
<i>Addition to shadow accounting current year</i>	<i>100,8</i>	
<i>Claims paid current year</i>	<i>(598,3)</i>	<i>(595,5)</i>
Change in liabilities current year	681,8	590,1
<i>Addition to liabilities prior years</i>	<i>(46,0)</i>	<i>(95,5)</i>
<i>Claims paid prior years</i>	<i>(427,6)</i>	<i>(441,9)</i>
Change in liabilities prior years	(473,6)	(537,4)
	208,2	52,7
Change in unearned premiums	7,5	9,0
Transfer of liabilities	5,3	6,0
Foreign exchange differences	(0,6)	0,3
Other changes	(10,6)	(13,6)
Balance as at 31 December	3.405,7	3.195,9

The adequacy of insurance liabilities ('liability adequacy test') is tested by each company at each reporting date. The tests are performed on a level of homogeneous product groups for Non-life. Any shortfall is recognised immediately in the income statement.

29 - 30 Subordinated liabilities

The following table provides a specification of the subordinated liabilities as at 31 December.

	<i>31 December 2012</i>	<i>31 December 2011</i>
Sub-loan	150,0	150,0
Hybrone I	496,9	496,1
Nitsh II	249,5	248,4
Total subordinated liabilities	896,5	894,5

These perpetual subordinated and pari passu liabilities were issued by Ageas SA/NV (the Sub-loan) and Ageas Hybrid Financing S.A. (Hybrone I and Nitsh II).

The Sub-loan generates a yield of 4.80% until its first call date on 30 September 2014, followed by 5.80% thereafter. Hybrone I generates a yield of 5.16% until its first call date on 20 June 2016 and the three-month EURIBOR plus 2.03% thereafter. Nitsh II yields generates a yield of 8.03% until its first call date on 2 June 2013 and remains unchanged thereafter.

31 Borrowings

The table below shows the components of borrowings as at 31 December.

	31 December 2012	31 December 2011
Due to banks	1.510,0	1.652,4
Due to customers	85,1	76,2
Other borrowings	62,6	59,3
Total borrowings	1.657,7	1.787,9

31.1 Due to banks

The table below shows the components of Due to banks.

	31 December 2012	31 December 2011
Demand deposits	2,2	2,3
Total deposits	2,2	2,3
Repurchase agreements	908,2	1.067,1
Other	599,7	583,0
Total due to banks	1.510,0	1.652,4

Contractual terms of deposits held by banks

Deposits held by banks by year of contractual maturity as at 31 December are as follows:

	2012	2011
2012		2,3
2013	2,2	
Total deposits	2,2	2,3

31.2 Due to customers

The components of Due to customers are as follows:

	31 December 2012	31 December 2011
Funds held under reinsurance agreements	78,1	70,8
Other borrowings	7,1	5,4
Total due to customers	85,1	76,2

31.3 Other borrowings

The table below shows the components of other borrowings as at 31 December.

	31 December 2012	31 December 2011
Finance lease obligations	27,6	32,5
Other	35,0	26,8
Total other borrowings	62,6	59,3

The Other item relates mainly to the financing of real estate investments.

Finance lease obligations

AG Insurance's obligations under finance lease agreements are detailed in the table below.

	Minimum lease payments		Present value minimum lease payments	
	2012	2011	2012	2011
Less than 3 months	1,3	1,6	0,9	1,0
3 months to 1 year	4,4	4,7	2,8	3,1
1 year to 5 years	9,3	11,6	5,6	9,5
More than 5 years	60,0	62,3	18,3	18,9
Total	75,0	80,2	27,6	32,5
Future finance charges	47,4	47,7		

Other

Other borrowings, excluding financial lease obligations, are classified by remaining maturity in the table below.

	2012	2011
Less than 3 months		5,3
3 months to 1 year	14,4	
1 year to 5 years	14,3	13,1
More than 5 years	6,3	8,3
Total	35,0	26,8

32 - 33 Deferred tax assets and liabilities

The components of deferred tax assets and deferred tax liabilities as at 31 December are shown below.

	Statement of financial position		Income statement	
	2012	2011	2012	2011
Deferred tax assets related to:				
Financial investments (available for sale)	92,1	93,1	2,5	113,0
Investment property	11,6	19,4	(7,8)	7,1
Property, plant and equipment	44,1	41,2	3,5	(0,3)
Intangible assets (excluding goodwill)	6,1	6,1		(23,8)
Insurance policy and claim reserves	754,4	271,9	1,8	(19,9)
Provisions for pensions and post-retirement benefits	41,6	42,5	(0,9)	(1,1)
Other provisions	5,7	4,8	0,9	0,6
Accrued expenses and deferred income	1,5	2,6	(1,1)	(1,7)
Unused tax losses	15,9	82,2	(66,3)	72,3
Other	38,5	31,8	6,7	4,6
Net deferred tax assets	1.011,3	595,5	(60,8)	150,7
Deferred tax liabilities related to:				
Derivatives held for trading (assets)	0,5	1,9	1,4	(0,7)
Financial investments (available for sale)	1.725,9	385,5	(5,9)	(93,6)
Unit-linked investments	3,4	2,7	(0,7)	(2,7)
Investment property	122,2	113,1	1,3	5,6
Loans to customers	1,4	3,0	1,6	
Property, plant and equipment	179,0	190,9	11,2	27,1
Intangible assets (excluding goodwill)	76,4	76,4		
Other provisions				
Deferred policy acquisition costs	32,3	32,3		0,9
Deferred expense and accrued income	1,5	1,5	0,1	0,1
Tax exempt realised reserves	39,9	42,4	2,5	3,0
Other	97,0	79,6	(18,2)	(1,1)
Total deferred tax liabilities	2.279,6	929,4	(6,7)	(61,4)
Deferred tax income (expense)			(67,5)	89,3
Net deferred tax	(1.268,3)	(333,9)		

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The amounts offset in the statement of financial position are:

	31 December 2012	31 December 2011
Deferred tax assets	18,1	27,8
Deferred tax liabilities	1.286,3	361,6
Net deferred tax assets (liabilities)	(1.268,3)	(333,9)

Deferred tax assets are recognised to the extent that it is probable that there will be sufficient future taxable profit against which the deferred tax asset can be utilised

Deferred tax assets depending on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences have been recognised based on the expectation that sufficient taxable income will be generated in future years to utilise these deferred tax assets.

On 31 December 2012, unrecognised deferred tax assets amounted to EUR 89 million (EUR 65 million on 31 December 2011).

34 Accrued interest and other liabilities

The composition of Accrued interest and other liabilities as at 31 December is as follows:

	31 December 2012	31 December 2011
Deferred revenues	54,2	53,5
Accrued finance costs	46,1	52,8
Accrued other expenses	10,0	7,5
Derivatives held for hedging purposes	28,1	17,8
Defined benefit pension liabilities	313,5	296,5
Defined benefit liabilities other than pension	54,0	51,8
Termination benefits	14,7	20,3
Other long-term employee benefit liabilities	12,0	10,9
Short-term employee benefit liabilities	87,8	84,4
Accounts payable	91,8	114,8
Due to agents, policyholders and intermediaries	343,8	252,0
VAT and other taxes payable	75,4	64,6
Dividends payable	2,5	0,1
Due to reinsurers	7,9	4,9
Derivatives held for trading	0,0	2,1
Other liabilities	326,8	392,8
Total	1.468,5	1.426,7

Details of employee benefit liabilities can be found in Note 9.

Derivatives held for trading are valued based level 2. All purchases and sales of financial assets requiring delivery within the time frame established by regulation or market convention are recognised on the trade date, i.e. the date when AG Insurance becomes a party to the contractual provisions of the instrument.

35 Provisions

Provisions consist of provisions for litigations. The year-end provisions are based on best estimates and reflect management judgement and, in most cases, the opinion of legal and tax advisors. The timing of the outflow of cash related to these provisions is by nature uncertain given the unpredictability of the outcome and the time involved in concluding litigation.

Changes in provisions during the year are as follows:

	2012	2011
Balance as at 1 January	15,6	16,7
Acquisition and divestment of subsidiaries		
Increase in provisions	7,7	2,3
Reversal of unused provisions	(0,9)	(0,7)
Utilised during the year	1,1	(2,7)
Balance as at 31 December	23,5	15,6

36 Fair value of financial assets and financial liabilities

The following table shows the carrying amounts and fair value of those classes of financial assets and financial liabilities not reported at fair value on the AG Insurance consolidated statement of financial position. A description of the methods used to determine the fair value of financial instruments is given below.

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and cash equivalents	889,0	889,0	1.871,2	1.871,2
Loans to banks	171,7	171,7	201,1	201,1
Loans to customers	3.576,5	3.864,8	2.677,8	2.806,3
Reinsurance and other receivables	736,6	736,6	680,2	680,2
Total financial assets	5.373,9	5.662,1	5.430,3	5.558,8
Liabilities				
Debt certificates				
Subordinated liabilities	896,5	823,5	894,5	626,7
Loans from banks	1.510,0	1.513,3	1.652,4	1.649,2
Loans from customers	85,1	85,1	76,2	76,2
Other borrowings	62,6	62,6	59,3	59,3
Total financial liabilities	2.554,3	2.484,5	2.682,4	2.411,4

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.

AG Insurance uses the following methods, in the order listed, when determining the fair value of financial instruments:

- ◆ quoted price in an active market;
- ◆ valuation techniques;
- ◆ cost.

When a financial instrument is traded in an active and liquid market, its quoted market price or value provides the best evidence of fair value. No adjustment is made to the fair value of large holdings of shares, unless there is a binding agreement to sell the shares at a price other than the market price. The appropriate quoted market price for an asset held or a liability to be issued is the current bid price, and for an asset to be acquired or a liability held, the ask price. Mid-market prices are used as a basis for establishing the fair value of assets and liabilities with offsetting market risks.

If no active market price is available, fair values are estimated using present value or other valuation techniques based on market conditions existing at the reporting date. If there is a valuation technique commonly used by market participants to price an instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, AG Insurance applies that technique.

Valuation techniques that are well established in financial markets include recent market transactions, discounted cash flows and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider when setting a price, and should be consistent with accepted economic methodologies for pricing financial instruments.

The basic principles for estimating fair value are:

- ◆ maximise market inputs and minimise internal estimates and assumptions;
- ◆ change estimating techniques only if an improvement can be demonstrated or if a change is necessary because of changes in the availability of information.

The fair value presented is the 'clean' fair value, which is the total fair value or 'dirty' fair value less interest accruals. Interest accruals are reported separately.

Methods and assumptions used in determining fair value are largely dependent on whether the instrument is traded on financial markets and the information that is available to be incorporated into the valuation models. A summary of different financial instrument types along with the fair value treatment is included below.

Quoted market prices are used for financial instruments traded on a financial market with price quotations.

Non-exchange-traded financial instruments are often traded in over-the-counter (OTC) markets by dealers or other intermediaries from whom market prices are obtainable.

Quotations are available from various sources for many financial instruments traded regularly in the OTC market. Those sources include the financial press, various publications and financial reporting services, and also individual market makers.

Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative.

Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade.

Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered.

The fair value (FV) calculation of financial instruments not actively traded on financial markets can be summarised as follows:

Instrument Type	AG Insurance Products	FV Calculation
Instruments with no stated maturity	Current accounts, saving accounts, etc.	Nominal value.
Instruments without optional features	Straight loans, deposits, etc.	Discounted cash flow methodology; discounting yield curve is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on commercial margin computed based on the average of new production during last 3 months.
Instruments with optional features	Mortgage loans and other instruments with option features	Product is split and linear (non-optional) component is valued using a discounted cash flow methodology and option component valued based on option pricing model.
Subordinated liabilities and related receivables	Subordinated liabilities	Valuation is based on broker quotes in an in-active market (level 3).
Private equity	Private equity and non-quoted participations investments	In general based on the European Venture Capital Association's valuation guidelines, using enterprise value/EBITDA, price/cash flow and price/earnings, etc.
Preference shares (non-quoted)	Preference shares	If the share is characterised as a debt instrument, a discounted cash flow model is used.

AG Insurance pursues a policy aimed at quantifying and monitoring pricing uncertainties related to the calculation of fair values using valuation techniques and internal models. Related uncertainties are a feature of the 'model risk' concept.

Model risk arises when the product pricing requires valuation techniques which are not yet standardised or for which input data cannot be directly observed in the market, leading to assumptions about the input data themselves.

The introduction of new, sophisticated products in the market has resulted in the development of mathematical models to price them. These models in turn depend on assumptions regarding the stochastic behaviour of underlying variables, numerical algorithms and other possible approximations needed to replicate the complexity of the financial instruments.

Furthermore, the underlying hypotheses of a model depend on the general market conditions (e.g. specific interest rates, volatilities) prevailing at the time the model is developed. There is no guarantee that the model will continue to yield adequate results should market conditions change drastically.

Any related model uncertainty is quantified as accurately as possible and is the basis for adjusting the fair value calculated by the valuation techniques and internal models.

Notes to the consolidated income statement

37 Insurance premiums

The following table provides an overview of the composition of gross inflow and net earned premiums for the year ended 31 December.

	2012	2011
Gross inflow Life	5.126,6	4.507,8
Gross inflow Non-life	1.759,0	1.670,9
Total gross inflow	6.885,7	6.178,8

	2012	2011
Net premiums Life	4.639,9	4.258,7
Net earned premiums Non-life	1.698,2	1.601,1
Total net earned premiums	6.338,2	5.859,8

Life

The table below shows the details of Life premiums for the year ended 31 December.

	2012	2011
Unit-linked insurance contracts		
Single written premiums	7,7	11,1
Periodic written premiums	64,6	59,9
<i>Group business total</i>	<i>72,3</i>	<i>71,0</i>
Single written premiums	0,7	0,7
Periodic written premiums		
<i>Individual business total</i>	<i>0,7</i>	<i>0,7</i>
Total unit-linked insurance contracts	73,0	71,7
Non unit-linked insurance contracts		
Single written premiums	335,3	317,9
Periodic written premiums	696,3	641,6
<i>Group business total</i>	<i>1.031,7</i>	<i>959,6</i>
Single written premiums	559,1	512,0
Periodic written premiums	282,3	290,7
<i>Individual business total</i>	<i>841,5</i>	<i>802,7</i>
Total non unit-linked insurance contracts	1.873,1	1.762,2
Investment contracts with DPF		
Single written premiums	2.346,0	2.091,9
Periodic written premiums	352,0	337,1
Total investment contracts with DPF	2.698,0	2.429,0
Gross premium income Life insurance	4.644,1	4.263,0
Single written premiums	434,2	196,2
Periodic written premiums	48,3	48,6
Premium inflow deposit accounting	482,5	244,8
Total gross inflow Life	5.126,6	4.507,8

Total premium inflow Life insurance is gross premiums received by insurance companies for issued insurance and investment contracts. Premium inflow of insurance contracts and investment contracts with DPF is recognised in the income statement. Premium inflow of investment contracts without DPF, mainly unit-linked contracts, is – after deduction of fees – directly recognised as liabilities (deposit accounting). Fees are recognised as fee income in the income statement.

	2012	2011
Gross premium income Life	4.644,1	4.263,0
Change in unearned premiums, gross		
Ceded reinsurance premiums	(4,2)	(4,3)
Net premiums Life	4.639,9	4.258,7

Non-life

The table below shows the details of Non-life insurance premiums for the year ended 31 December. Premiums for motor, fire and other damage to property and other are grouped in Property & Casualty.

2012	Accident & Health	Property & Casualty	Total
Gross written premiums	483,5	1.275,6	1.759,1
Change in unearned premiums, gross	(0,3)	(7,2)	(7,5)
Gross earned premiums	483,1	1.268,4	1.751,6
Ceded reinsurance premiums	(3,1)	(50,1)	(53,2)
Reinsurers' share of unearned premiums		(0,1)	(0,1)
Net earned premiums Non-Life insurance	480,0	1.218,2	1.698,2

2011	Accident & Health	Property & Casualty	Total
Gross written premiums	462,2	1.208,7	1.670,9
Change in unearned premiums, gross	(0,2)	(8,7)	(8,9)
Gross earned premiums	462,0	1.200,0	1.662,0
Ceded reinsurance premiums	(11,0)	(49,8)	(60,8)
Reinsurers' share of unearned premiums			
Net earned premiums Non-Life insurance	451,0	1.150,2	1.601,1

38 Interest, dividend and other investment income

The table below provides details of Interest, dividend and other investment income for the year ended 31 December.

	2012	2011
Interest income:		
Interest income on cash equivalents	5,5	12,2
Interest income on loans to banks	0,3	0,7
Interest income on investments	1.703,7	1.697,7
Interest income on loans to customers	133,3	115,9
Interest income on derivatives held for trading	0,3	9,3
Other interest income	9,7	5,8
Total interest income	1.852,8	1.841,5
Dividend income from equity securities	67,6	73,9
Rental income from investment property	189,1	165,9
Revenues car parks	277,1	268,4
Other investment income	78,7	65,9
Total interest, dividend and other investment income	2.465,3	2.415,6

39 Realised and unrealised gains and losses

Realised and unrealised gains and losses for the year ended 31 December are broken down as follows:

	2012	2011
Debt securities classified as available for sale	127,3	312,4
Equity securities classified as available for sale	38,4	(53,3)
Derivatives held for trading	(7,9)	(38,4)
Investment property	66,1	49,9
Investments in subsidiaries	17,1	
Property, plant and equipment	0,3	0,3
Assets and liabilities held at fair value through profit or loss	26,4	10,1
Hedging results	(0,6)	0,4
Other	1,6	2,6
Total Result on sales and revaluations	268,7	284,1

Derivatives held for trading are initially recognised at acquisition cost, including any transaction costs to acquire the financial instrument. Subsequent measurement is at fair value with changes in fair value recorded in the income statement.

All changes in fair value of the assets and liabilities held at fair value through profit or loss are reported above. This includes unrealised gains and losses from revaluations and realised gains and losses upon derecognition of the assets or liabilities.

Hedging results contain the changes in fair value attributable to the hedged risk – mainly interest-rate risk – of hedged assets and liabilities and the changes in fair value of the hedging instruments.

40 Investment income related to unit-linked contracts

The income related to unit-linked contracts is composed of:

	2012	2011
(Un)realised gains (losses) - insurance contracts	91,0	(26,8)
(Un)realised gains (losses) - investment contracts	495,6	(173,6)
(Un)realised gains (losses)	586,5	(200,3)
Investment income - insurance contracts	4,5	4,0
Investment income - investment contracts	17,4	19,0
Realised investment income	21,9	23,0
Total investment income related to unit-linked contracts	608,4	(177,3)

41 Share of result of associates

Share of result of associates for the year ended 31 December is specified in the table below, for the main associates.

	<i>Total income (100% interest)</i>	<i>Total expenses (100% interest)</i>	<i>Net income (100% interest)</i>	<i>% AG Insurance interest</i>	<i>Share of result of associates (AG Insurance share)</i>
2012					
Association Westland Shopping center	3,9	6,2	(2,4)	45,9%	(1,1)
BITM	16,8	26,8	(10,0)	50,0%	(5,0)
Aviabel	10,9		10,9	24,7%	2,7
Credimo	127,0	126,7	0,4	34,2%	0,1
Regatta-lo				50,0%	
Kanaalkom	0,8	0,8		50,0%	
DBFM	21,9	24,2	(2,4)	37,5%	(0,9)
Other (including IPK associates)					3,9
Total share of result of associates					(0,3)
2011					
Association Westland Shopping center	7,4	5,2	2,2	45,8%	1,0
BITM	17,2	15,9	1,3	50,0%	0,6
Aviabel	62,1	51,7	10,4	24,7%	2,6
Credimo	120,5	119,2	1,3	34,1%	0,4
Regatta-lo				50,0%	
Kanaalkom	0,2	0,1	0,1	50,0%	0,1
DBFM	7,2	6,7	0,5	37,5%	0,2
Other (including IPK associates)					2,7
Total share of result of associates					7,6

42 Fee and commission income

Fee and commission income for the year ended 31 December is specified in the table below.

	2012	2011
Reinsurance commissions	1,7	1,3
Insurance and investment fees	64,4	64,8
Asset management	18,3	16,2
Guarantees and commitment fees	1,5	1,5
Other service fees	15,0	7,8
Total fee and commission income	100,9	91,7

The line Other service fees mainly relates to commissions received from brokerage companies for the sale of insurance policies.

43 Other income

Other income includes the following elements for the year ended 31 December.

	2012	2011
Proceeds of sale of buildings held for sale		11,6
Other	159,4	148,1
Total other income	159,4	159,7

The line Other mainly includes revoicing of service costs related to rental activities and recovery of staff and other expenses from third parties.

44 Insurance claims and benefits

The details of insurance claims and benefits for the year ended 31 December are shown in the table below.

	2012	2011
Life insurance	5.595,8	5.062,8
Non-life insurance	1.102,1	1.065,1
Total insurance claims and benefits, net	6.697,9	6.127,8

Details of Life insurance claims and benefits, net of reinsurance, are shown below.

	2012	2011
Benefits and surrenders, gross	3.559,3	3.476,2
Change in liabilities arising from insurance and investment contracts, gross	2.037,5	1.588,3
Total Life insurance claims and benefits, gross	5.596,8	5.064,5
Reinsurers' share of claims and benefits	(1,0)	(1,8)
Total Life insurance claims and benefits, net	5.595,8	5.062,8

Details of Non-Life insurance claims and benefits, net of reinsurance, are shown in the following table.

	2012	2011
Claims paid, gross	1.025,9	1.037,4
Change in liabilities arising from insurance contracts, gross	107,4	52,7
Total Non-life insurance claims and benefits, gross	1.133,3	1.090,1
Reinsurers' share of change in liabilities	(7,8)	(10,7)
Reinsurers' share of claims paid	(23,4)	(14,3)
Total Non-life insurance claims and benefits, net	1.102,1	1.065,1

45 Finance costs

The following table shows the breakdown of finance costs by product for the year ended 31 December.

	2012	2011
Subordinated liabilities	55,0	54,9
Borrowings - due to banks	27,9	36,0
Other borrowings	1,2	1,1
Derivatives	0,3	0,1
Other liabilities	16,0	16,6
Total finance costs	100,3	108,7

46 Change in impairments

The Change in impairments for the year ended 31 December is as follows:

	2012	2011
Investments in debt securities	2,3	1.224,3
Investments in equity securities and other	94,1	157,5
Investment property	(0,6)	(12,4)
Loans to customers	5,2	2,0
Reinsurance and other receivables	(0,1)	(1,3)
Property, plant and equipment	(0,8)	(2,4)
Goodwill and other intangible assets	1,3	3,1
Total change in impairments	101,3	1.370,9

47 - 48 Fee and commission expenses

The components of fee and commission expenses for the year ended 31 December are as follows:

	2012	2011
Securities	1,1	1,9
Intermediaries	589,0	556,0
Custodian fees	2,8	3,1
Other fee and commission expenses	41,0	40,2
Total fee and commission expenses	633,8	601,3

49 Staff expenses

Staff expenses for the year ended 31 December are as follows:

	2012	2011
Salaries and wages	308,9	289,8
Social security charges	87,8	83,8
Pension expenses relating to defined benefit plans	17,3	17,7
Defined contribution plan expenses	8,2	8,3
Other	25,2	25,6
Total staff expenses	447,4	425,2

Other includes cost of leased cars, meal tickets and non-monetary benefits such as medical costs.

Note 9 Post-employment benefits, other long-term employees benefits and termination benefits contains further details of post-employment benefits and other long-term employee benefits, including pension costs related to defined benefit plans and defined contribution plans.

50 Other expenses

Other expenses for the year ended 31 December are as follows:

	2012	2011
Depreciation on tangible assets		
Buildings held for own use	33,5	31,2
Leasehold improvements	2,3	2,2
Investment property	72,4	60,2
Equipment	16,6	15,0
Amortisation of intangible assets		
Purchased software	0,2	0,1
Internally developed software	4,4	4,4
Other intangible assets	19,6	26,2
Other		
Operating lease rental expenses and related expenses	7,7	9,2
Operating and other direct expenses relating to investment property	76,9	70,3
Professional fees	47,5	46,6
Capitalised deferred acquisition costs	(301,3)	(285,4)
Depreciation deferred acquisition costs	305,0	287,6
Marketing and public relations costs	11,2	10,4
Information technology costs	66,7	65,6
Other investment charges	170,9	155,1
Maintenance and repair expenses	6,4	6,3
Cost of sale of buildings held for sale	0,0	9,1
Other	123,3	127,9
Total other expenses	663,3	641,9

Other includes expenses for travel, post, telephone, temporary staff and training.

51 Income tax expenses

The components of income tax expenses for the year ended 31 December are:

	2012	2011
Current tax expenses for the current period	148,8	44,7
Current tax - prior period adjustments	7,3	4,2
Total current tax expenses	156,1	48,9
Deferred tax arising from the current period	77,4	(86,0)
Temporary differences reducing deferred tax expense	(9,8)	(3,3)
Total deferred tax expenses (income)	67,5	(89,3)
Total income tax expenses (income)	223,6	(40,4)

Below is a reconciliation of expected and actual income tax expense.

	2012	2011
Profit before taxation	661,0	(470,2)
Nominal income tax rate	33,99%	33,99%
Expected income tax expense (income)	224,7	(159,8)
Increase (decrease) in taxes resulting from:		
Tax exempt income including capital losses	3,3	71,9
Share in result of associates		(1,3)
Disallowable expenses	7,8	7,3
Change in provision for impairments on deferred tax assets		64,8
Previously unrecognised tax losses and temporary differences	(9,8)	(3,3)
Write-down and reversal of write-down of deferred tax assets		
Impact of changes in tax rates on temporary differences	17,6	(3,7)
Foreign tax rate differential	(0,4)	
Adjustments for tax payable in respect of previous years	7,3	4,2
Notional interest deduction	(23,5)	(9,1)
Other	(3,4)	(11,5)
Total income tax expenses (income)	223,6	(40,4)

**Notes to items not recorded on the
consolidated statement of financial position**

52 Contingent liabilities

Due to the nature of its recurrent operations, AG Insurance is engaged in various stages of legal proceedings initiated by policyholders or other business parties. These contingent liabilities have been provided for (see Note 35) when management is of the opinion that it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. There are no other contingent liabilities of significance.

The table below details collateral and commitments given as a part of the ordinary course of business.

	2012	2011
Collateral given:		
- REPO agreements	976,0	1.093,0
- Credit insurance	3,0	79,0
- Credit Lines	397,0	390,0
- Inward reinsurance	17,0	18,0
Total collateral given	1.392,0	1.580,0
 Other commitments:		
- Real estate purchase commitments	308,0	333,0
- Credit lines given	273,0	151,0
- Capital commitments	233,0	37,0
- Outstanding credit bids	137,0	
- Guarantees and Financial letters of credit	46,0	14,0
Total other commitments	997,0	535,0

53 Lease agreements

AG Insurance has entered into lease agreements to provide for office space, office equipment, vehicles and parking facilities. The following table reflects future commitments to non-cancellable operating leases as at 31 December.

		2012	2011
Less than 3 months		11,8	10,6
3 months to 1 year		36,5	32,9
1 year to 5 years		155,2	130,5
More than 5 years		228,1	256,4
Total		431,6	430,3
Annual rental expense:			
Lease payments		6,6	8,3

54 Assets under management

Assets under management include investments for own account, unit-linked investments on behalf of insurance policyholders and funds held for third parties. Funds under management include investments that are managed on behalf of clients, either private or institutional, and on which AG Insurance earns a management or advisory fee.

The following table provides a breakdown of assets under management by investment type and origin.

	31 December 2012	31 December 2011
Investments for own account:		
Debt securities	48.303,8	42.329,5
Equity securities	1.753,8	1.231,4
Real estate	2.391,6	2.020,9
Other	165,6	167,1
Total investments for own account	52.614,8	45.749,1
Investments related to unit-linked contracts	6.035,2	5.894,3
Funds held for third parties:		
Debt securities		
Equity securities		
Real estate	307,5	1.303,3
Total funds held for third parties	307,5	1.303,3
Total assets under management	58.957,5	52.946,7

Changes in funds held for third parties are shown below.

	2012	2011
Balance as at 1 January	1.303,3	1.395,9
In-/outflow	46,7	73,4
Market gains/losses	(98,2)	(166,0)
Other	(944,4)	
Balance as at 31 December	307,5	1.303,3

55 Events after the date of the statement of financial position

There have been no material events since the date of the Consolidated statement of financial position that would require adjustment to the Consolidated Financial Statements of AG Insurance as at 31 December 2012.

Statutory auditor's report to the general meeting of AG Insurance SA/NV for the year ended 31 December 2012



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Statutory auditor's report to the general meeting of AG Insurance SA/NV for the year ended 31 December 2012

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report includes our report on the consolidated financial statements for the year ended 31 December 2012, as defined below, as well as our report on other legal and regulatory requirements.

Report on the consolidated financial statements

We have audited the consolidated financial statements of AG Insurance SA/NV ("the company") and its subsidiaries (jointly "the group" or "AG Insurance"), prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to EUR 66.961,1 million and the consolidated income statement shows a profit for the year of EUR 432,6 million.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines, is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated 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

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*Statutory auditor's report to the general meeting of AG Insurance
SA/NV for the year ended 31 December 2012*

effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

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

Unqualified Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's equity and consolidated financial position as at 31 December 2012 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the Annual Report on the consolidated financial statements.

In the framework of our mandate our responsibility is, in all material aspects, to verify compliance with certain legal and regulatory requirements. On this basis, we provide the following additional comment which does not modify our opinion on the consolidated financial statements:

- The annual report on the consolidated financial statements includes the information required by law, is consistent, in all material aspects, with the consolidated financial statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 27 February 2013

KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren
Statutory Auditor
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