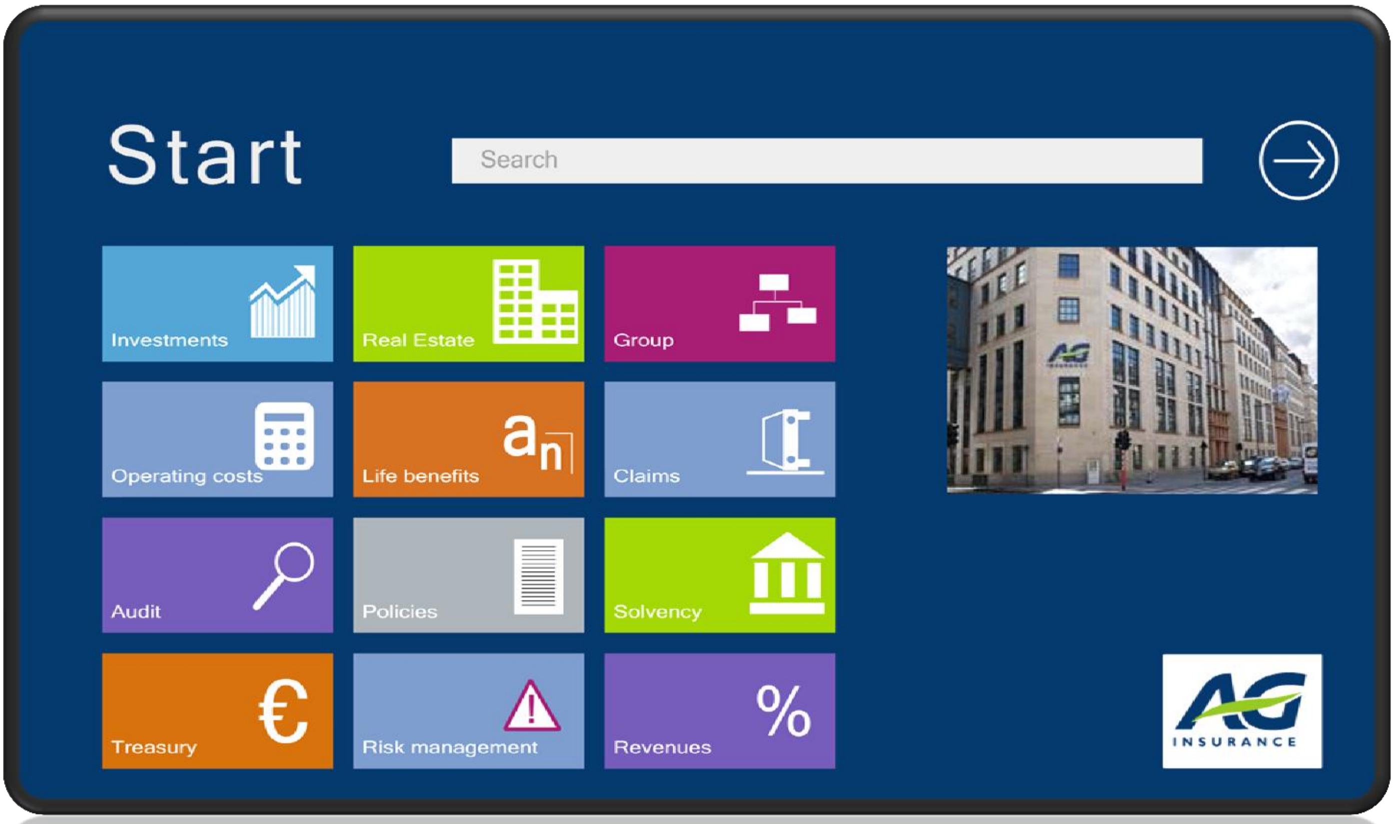
Consolidated Financial Statements

As of 31 December 2012

(in EUR millions)



INSURANCE

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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

	Note	2012	2011
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.*

	Note	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 attributable to share-holders*	*Unrealised gains and losses*	*Share-holders' 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)**
Adjustments to non-cash items included in profit before taxation:			
(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
Changes in operating assets and liabilities:			
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)**

	Note	2012	2011
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)

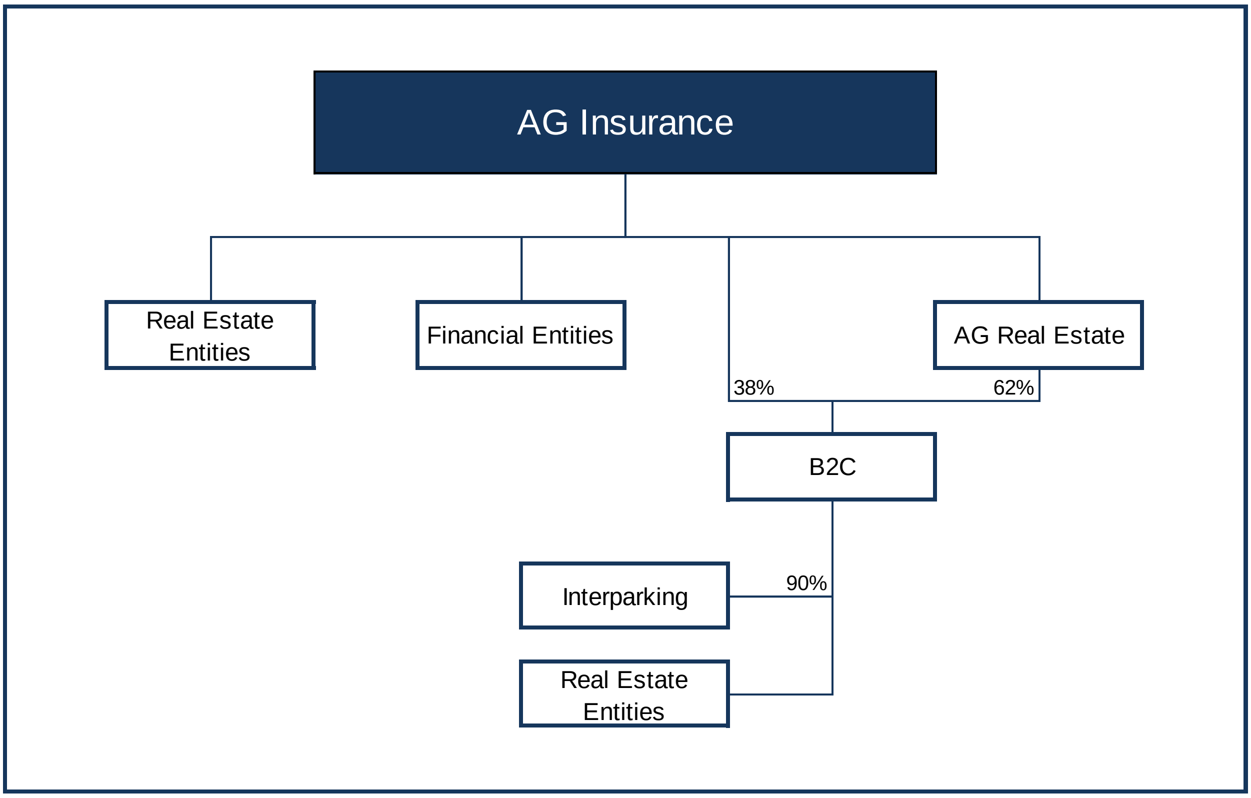
General Notes

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.

31 december 2012	
Assets	***Estimation uncertainty***
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 - The credit spread - Interest rates
Associates	A mix of uncertainties depending on the asset mix
Goodwill	- The valuation model - Financial and economic variables - Discount rate
Other intangible assets	Determination of the useful life and residual value
Deferred tax assets	- Interpretation of complex tax regulations - Amount and timing of future taxable income
Liabilities	
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 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:
(a) 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 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 re-price 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**

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**

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).

31 December 2012	*Available for sale investments*	*Held to maturity*	*Revaluation of associates*	*Cash flow hedges*	*Total*
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**
31 December 2011					
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.

	Available for sale investments	*Held to maturity investments*	*Revaluation of associates*	*Cash flow hedges*	*Total*
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.

	% of non-controlling interest	*Amount as at 31 December 2012*	*% of non-controlling interest*	*Amount as at 31 December 2011*
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.

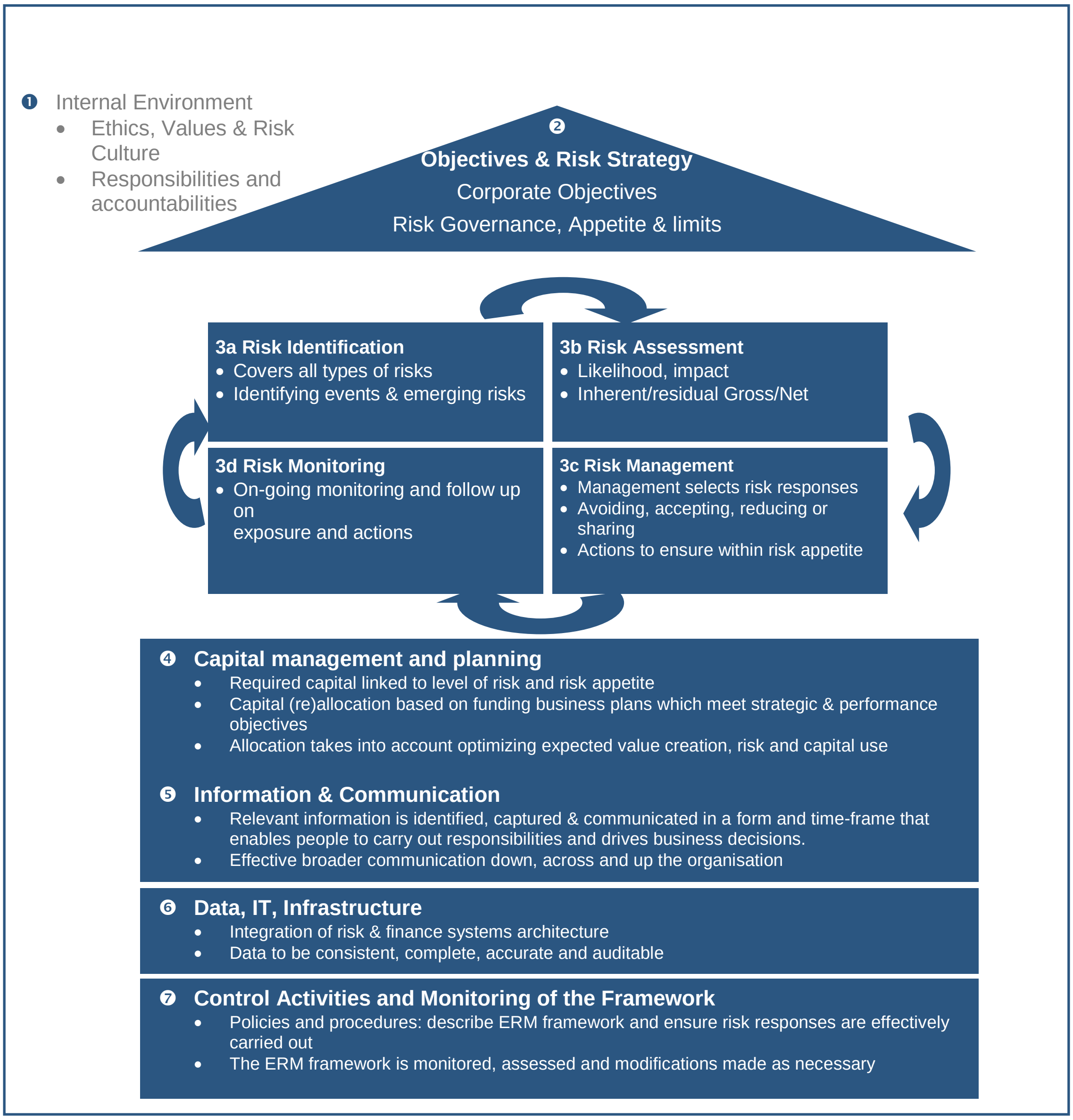
7.2 Risk management organisation and governance

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

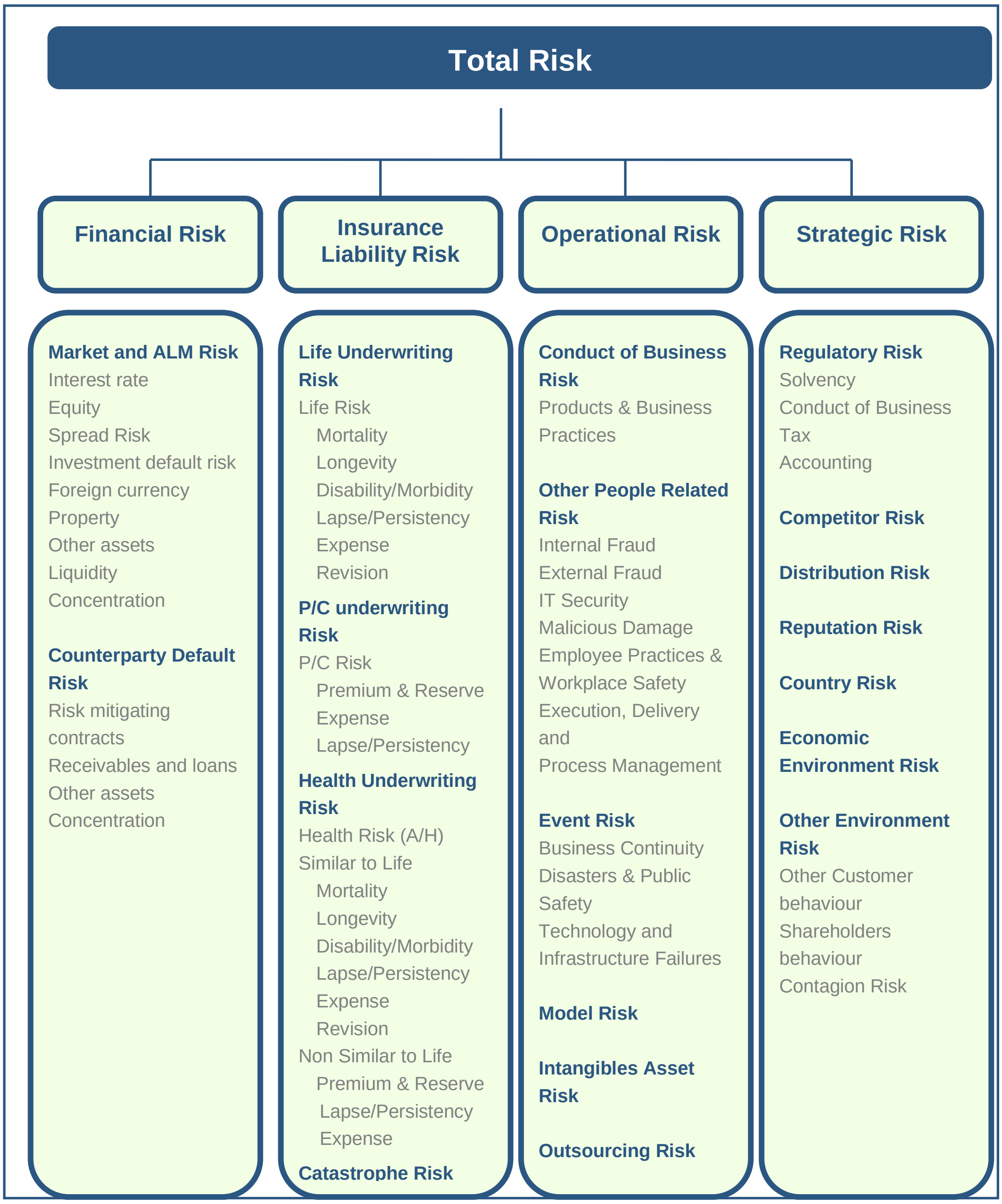
In terms of risk structure and governance, AG Insurance has set up the following lines of defence:

- 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 equities[1]). 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.

	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.

[1] *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.*

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		
	Impaired outstanding	Impairments for specific credit risk	Coverage ratio	Impaired outstanding	Impairments for specific credit risk	Coverage ratio
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.

	31 December 2012	31 December 2011
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).

At 31 December 2012	*USD*	*GBP*	*RON*	*PLN*	*HUF*	*CHF*	*AUD*
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)
At 31 December 2011							
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*	*Year 2*	*Year 3*
	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.

31 December 2012	*Government*	*Corporate*	*Bank and Finance*	*Structured Credit Instruments*	*Total*
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**

31 December 2011	Government	Corporate	Bank and Finance	Structured Credit Instruments	Total
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)%

	Impact on income statement	*Impact on fair value*
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.

	Non-life gross liability split			*Life gross liability split*		
31 December 2012	*Total Non-life*	*Unearned premium*	*Claims outstanding*	*Total Life*	*Unit-linked*	*Traditional Life*
Insurance total	**3.405,7**	**355,4**	**2.949,5**	**52.702,4**	**6.035,2**	**46.667,2**

	Non-life gross liability split			*Life gross liability split*		
31 December 2011	*Total Non-life*	*Unearned premium*	*Claims outstanding*	*Total Life*	*Unit-linked*	*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.

	Defined benefit pension plans	
	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.

	Defined benefit pension plans	
	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.

	Defined benefit pension plans		Other post- employment benefits	
	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	14,9		0,7	19,0	19,7
Investments on behalf of policyholders			1.610,8	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		
- of investments available for sale	(210,9)	(1.408,8)
Total impairments	**(210,9)**	**(1.408,8)**
Total	**50.118,9**	**43.595,6**

16.1 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*
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:

31 December 2012	*Historical/ amortised cost*	*Gross unrealised gains (losses)*	*Impairments*	*Fair value*
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**

31 December 2011	*Historical/ amortised cost*	*Gross unrealised gains (losses)*	*Impairments*	*Fair value*
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

	31 December 2012	31 December 2011
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
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).

	31 December 2012	*31 December 2011*
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.

		2012	2011
	% interest	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	Land and buildings held for own use	Leasehold improvements	Equipment	Total
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.

	31 December 2012	31 December 2011
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	Goodwill	Purchased software	Internally developed software	Other intangible assets	Total
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					
Amortisation expense		(0,1)	(4,4)	(26,2)	(30,8)
Reversal of amortisation due to disposals		0,0		0,0	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)**
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				
Addition to liabilities current year	*1.179,3*		*1.185,6*	
Addition to shadow accounting current year	*100,8*			
Claims paid current year	*(598,3)*		*(595,5)*	
Change in liabilities current year	681,8		590,1	
Addition to liabilities prior years	*(46,0)*		*(95,5)*	
Claims paid prior years	*(427,6)*		*(441,9)*	
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.

	31 December 2012	31 December 2011
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
Group business total	*72,3*	*71,0*
Single written premiums	0,7	0,7
Periodic written premiums		
Individual business total	*0,7*	*0,7*
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
Group business total	*1.031,7*	*959,6*
Single written premiums	559,1	512,0
Periodic written premiums	282,3	290,7
Individual business total	*841,5*	*802,7*
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			
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.

2012	Total income (100% interest)	Total expenses (100% interest)	Net income (100% interest)	% AG Insurance interest	Share of result of associates (AG Insurance share)
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 reinvoicing 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)
Disallowed 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.