



Embedded Value Report 2012



Embedded Value Report 2012

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1 HIGHLIGHTS

1.1 Highlights of 2012 Embedded Value

Embedded Value	Total				
	Insurance	Belgium	UK	Continental Europe	Asia
Embedded Value Year-end 2011	3,686	2,446	162	440	638
Opening adjustments	322	160	0	71	91
Previous EV restated (Year-start)	4,008	2,606	162	511	729
Expected return	372	239	2	115	16
Experience variance and assumption changes	(205)	(140)	(3)	(9)	(53)
Value added by New Business	69	44	(1)	1	25
Operating EV Earnings	236	143	(2)	107	(12)
Operating return on EV	5.9%	5.5%	(1.2%)	20.9%	(1.6%)
Variance on Investment income	741	644	0	70	27
Changes in Interest rates and markets conditions	580	584	3	1	(8)
Embedded Value Year-end 2012	5,565	3,977	163	689	736
Total return on Year-start EV	38.8%	52.6%	0.6%	34.8%	1.0%

At year-end, the Embedded Value amounts to EUR 5,565 million, an increase of EUR 1,879 million. This is explained by the following elements:

- Opening adjustments: Mainly related to the changes in the methodology for determining and extrapolating the yield curve (use of an Ultimate Forward Rate of 4.2%, 10 years after the last liquid point) and to a new calibration method of the yield curve. Both changes result to an increase of value by EUR 317 million;
- Operating Embedded value Earnings amounting to EUR 236 million;
- The Variance on Investment income at EUR 741 million reflect the difference in market conditions compared to what was expected at the beginning of the year. The main change is the decrease in credit spread on corporate and government bonds;
- The Changes in Interest and market conditions reflect the difference due to the change in assumptions compared to the ones used in the 2011 Embedded Value calculations. The increase of EUR 580 million is driven by the decrease in interest rate volatilities, compensated by a lower interest. Furthermore, the management action in Belgium to decrease the guaranteed interest rates as from 1 January 2013, down to 1.75% for group life products with guarantee on future premiums and down to 2.25% for group life products without guarantee on future premiums, has an important impact. The lower interest guarantee is not only applicable for New Business but also for salary increases and turnover;
- Given the persistent low interest rate environment and market downturn, management actions have taken place in the course of 2012 in Belgium to protect the value from dropping. The guaranteed interest rates on savings products have been revised several times in line with market evolution. The duration gap between assets and liabilities has been reduced and the de-risking of the balance sheet has continued by decreasing the bond investments in the peripherals.

1.2 High level developments VANB

Value added by New Business	2012	2011	Change
Total Insurance			
Value Added by New Business	69	32	115.6%
Present value New business premiums	5,755	4,690	22.7%
Margin	1.2%	0.7%	
Belgium			
Value Added by New Business	44	51	(13.7%)
Present value New business premiums	4,243	3,248	30.6%
Margin	1.0%	1.6%	
UK			
Value Added by New Business	(1)	(1)	0.0%
Present value New business premiums	291	237	22.8%
Margin	(0.3%)	(0.5%)	
Continental Europe			
Value Added by New Business	1	(15)	***
Present value New business premiums	504	693	(27.2%)
Margin	0.1%	(2.2%)	
Asia			
Value Added by New Business	25	(3)	***
Present value New business premiums	717	512	40.0%
Margin	3.5%	(0.6%)	

The Value added by New Business increased by EUR 32 million to EUR 69 million. The main driver for the increase is the increase in Asia where the Value added by New Business has increased from EUR 3 million negative to EUR 25 million positive. Aside from an EUR 11 million positive impact due to the change in yield curve methodology, this is mostly the result of a successful program to stimulate sales in more profitable products.

Although the guaranteed interest rates for savings products in Belgium have been decreased from 2.75% at the beginning of the year to 1.5% at the end of 2012, the Value added by New Business in Belgium has suffered from the low interest environment.

2

2012 EMBEDDED VALUE RESULTS

2.1 General

This document only covers the Life insurance activities that are controlled by Ageas, e.g. our Asian activities only contain our Hong Kong operations.

The concepts of Embedded Value are further explained in Annex I.

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

2.2 2012 Embedded Value Break Down

The outcome of the Embedded Value as calculated at 2012 year-end is presented in Table 1. The Movement Analysis is explained further in section 2.3.

Table 1 - Embedded Value 2012	Total		Continental		
	Insurance	Belgium	UK	Europe	Asia
EV 2012 year end	5,565	3,977	163	689	736
Total Shareholder's Equity	3,296	2,382	64	620	230
Required Equity	2,580	1,967	46	432	135
Free Surplus	716	415	18	188	95
Value of In-force Business	2,269	1,595	99	69	506
Certainty Equivalent Value	3,337	2,435	106	129	667
Cost of Financial Options and Guarantees	(570)	(412)	0	(27)	(131)
Cost of Non-hedgeable risks	(183)	(144)	(3)	(15)	(21)
Cost of Capital	(315)	(284)	(4)	(18)	(9)
Value of In-force Business 2012 Year-start	970	466	75	(13)	442
Value of In-force Business 2012 Year-end	2,269	1,595	99	69	506
% Change	133.9%	242.2%	32.0%	***	14.5%

The Embedded Value as at 31 December 2012 amounted to EUR 5,565 million, an increase of EUR 1,879 million compared the Embedded Value as at 31 December 2011. The increase is primarily due to:

- Decrease in credit spreads on, in particular, government bonds, that has increased the Certainty Equivalent Value that is part of the Value of In-force Business;
- Decrease in swaption volatilities and the lower interest guarantee of 1.75% or 2.25% in Employee Benefits in Belgium, that has resulted in a decrease of the Cost of Financial Options and Guarantees that is part of the Value of In-force Business.

2.3 Movement Analysis

The Movement Analysis explains the movement in Embedded Value starting from the 2012 year- start to the value at year-end by showing the different underlying components. Background on Value Added by New Business is covered in Section 2.3.4.

Table 2 - Embedded Value	2012					2011				
	Total Insurance	Belgium	UK	Confidental Europe	Asia	Total Insurance	Belgium	UK	Confidental Europe	Asia
Embedded Value Previous Year	3,686	2,446	161	440	638	4,980	3,360	157	814	649
Divestiture						(95)			(95)	
Other opening adjustments	322	160	1	71	91	515	397	1	16	101
Previous EV restated (2012 Year-start)	4,008	2,606	162	511	729	5,400	3,757	158	735	750
Expected return	372	239	2	115	16	229	148	2	64	15
Experience variance and assumption changes	(205)	(140)	(3)	(9)	(53)	38	79	(3)	(23)	(15)
Value added by New Business	69	44	(1)	1	25	32	51	(1)	(15)	(3)
Operating EV Earnings	236	143	(2)	107	(12)	299	278	(2)	26	(3)
Operating return on EV	5.9%	5.5%	(1.2%)	20.9%	(1.6%)	5.5%	7.4%	(1.3%)	3.5%	(0.4%)
Variance on Investment income	741	644	0	70	27	(1,111)	(857)	2	(247)	(9)
Changes in Interest rates and markets conditions	580	584	3	1	(8)	(787)	(617)	4	(74)	(100)
Dividends paid						(115)	(115)			
Embedded Value Year-end	5,565	3,977	163	689	736	3,686	2,446	162	440	638
Total return on EV	38.8%	52.6%	0.6%	34.8%	1.0%	(30.2%)	(32.8%)	2.1%	(40.2%)	(14.9%)

The main elements that explain the movement of the Embedded Value during 2012 are:

- Increase of value due to **Variance on Investment Income** as a result of changes in market conditions, primarily decreases in credit spread on government bonds, for EUR 741 million;
- Increase of value for EUR 580 million from **Changes in market conditions** due to a decrease in interest rate volatilities and the management action in Belgium to decrease the guaranteed interest rates for group life products as from 1 January 2013.;
- Changes in the yield curve methodology, resulting in an **Opening adjustment** increase of value of EUR 317 million.

2.3.1 Restatement 2011 Embedded Value

Table 3 - Restatement of EV	Free Surplus +	Required Equity +	Value of In-force business =	Embedded Value	Belgium	UK	Continental Europe	Asia
2011 Year-end Divestiture	351	2,599	736	3,686	2,446	162	440	638
Other Opening Adjustments	183	(97)	236	322	160	0	71	91
2011 Year-end restated (2012 Year-start)	534	2,502	972	4,008	2,606	162	511	729

The opening adjustments include:

- Change in the yield curve methodology, increasing the embedded value by EUR 317 million. This is further explained in section 4.7.1 of this report;
- Change in the use of the Economic Scenario Generator (external instead of internal calibration), decreasing the embedded value by EUR 102 million;
- Improvements/refinements of cash flow models increasing the Embedded Value by EUR 103 million.

After the restatements, the 2011 embedded value amounted to EUR 4,008 million.

2.3.2 Expected Return

Table 4 - Movement in Embedded Value	Free Surplus +	Required Equity +	Value of In-force business =	Embedded Value	Belgium	UK	Continental Europe	Asia
2012 Year-start	534	2,502	972	4,008	2,606	162	511	729
Expected return reference rate	608	(141)	(95)	372	239	2	115	16
in excess of reference rate	394	(150)	(149)	95	77	2	10	6
transfer to shareholder equity	3	42	232	277	162	0	105	10
Experience variance and assumption changes	211	(33)	(178)	0	0	0	0	0
Value added by new business	35	2	(242)	(205)	(140)	(3)	(9)	(53)
Variance on Investment income	(340)	185	224	69	44	(1)	1	25
Changes in Interest rates and markets conditions	(39)	9	771	741	644	0	70	27
2012 Year-end	(83)	23	640	580	584	3	1	(8)
	715	2,580	2,270	5,565	3,977	163	689	736

Expected return is the after-tax return on the opening embedded value resulting from projections of the assets and liabilities over the year based on expected "real world" returns. The Expected Return is split between the reference rate and the additionally expected return above the reference rate from investing in assets with a higher risk, such as equities, real estate and corporate bonds. It includes the release of risks charges as captured by the CFOG and CNHR. In total, the expected return contributed EUR 372 million.

2.3.3 Experience variances and Assumption changes

Table 5 - Detail on assumption changes and experience variances	Free Surplus +	Required Equity +	Value of In-force business =	Embedded Value	Belgium	UK	Continental Europe	Asia
Experience variances and Operating assumption changes	35	2	(242)	(205)	(140)	(3)	(9)	(53)
Non-economic experience variance	(10)	50	(69)	(29)	(27)	(4)	11	(9)
Impact of operating assumptions	45	(48)	(173)	(176)	(113)	1	(20)	(44)
Mortality/Morbidity		(4)	28	24	14		4	6
Costs (expenses / commissions)	2	(3)	(16)	(17)	(8)	(1)	(6)	(2)
Lapse / renewals	(1)	(3)	(68)	(72)	(38)		(6)	(28)
Tax	(2)		(41)	(43)	(29)	2	(16)	
Premium Persistency	(1)	(3)	(18)	(22)	(24)			2
Level of Required Equity	44	(44)	11	11	11			
Change in target asset mix/asset investment rules	(1)	(3)	(40)	(44)	(40)			(4)
Profit sharing rules			16	16	16			
Cost inflation			(21)	(21)	(25)	1	3	
Other	4	12	(24)	(8)	10	(1)	1	(18)

The negative impact of assumption change for lapse / renewals is due to lower than expected lapses on non-profitable products. Due to a change in tax legislation in France, limiting the use of deferred taxes and tax increases in Belgium, the tax assumptions have been updated which led to a decrease in Embedded Value. As shown in the section 4.7.3, the target asset allocation to shares has been reduced which negatively impacted the Embedded Value, mainly caused by the fact that in Belgium the tax regime for shares is more favourable compared to other financial instruments. The negative impact of the cost inflation is driven by an increase in inflation expectation in the long run.

2.3.4 Value Added by New Business

Table 6 gives a breakdown of the VANB for the various Life insurance entities, including the key indicators for sales and Margins. The reported IRR is calculated based on a traditional deterministic projection using real-world assumptions.

Table 6 - Value Added by New Business	Total	Continental			
	Insurance	Belgium	UK	Europe	Asia
Value Added by New Business	69	44	(1)	1	25
New Business Strain	(155)	(9)	(57)	(9)	(80)
Value of In-force business	224	53	56	10	105
Certainty Equivalent Value	301	109	58	11	123
Cost of Financial Options and Guarantees	(44)	(30)	0	0	(14)
Cost of Non-hedgeable risks	(13)	(9)	(1)	0	(3)
Cost of Capital	(20)	(17)	(1)	(1)	(1)
Value Added by New Business Evolution					
VANB 2012	69	44	(1)	1	25
VANB 2011	32	51	(1)	(15)	(3)
Present Value New Business Premiums (PVNBP)					
PVNBP 2012	5,755	4,243	291	504	717
PVNBP 2011	4,690	3,248	237	693	512
Sales & Margins PVNBP basis					
VANB/PVNBP 2012	1.2%	1.0%	(0.3%)	0.1%	3.5%
VANB/PVNBP 2011	0.7%	1.6%	(0.5%)	(2.2%)	(0.6%)
Annualised premium Equivalent (APE)					
APE 2012	615	417	44	53	101
APE 2011	538	344	37	75	82
Sales & Margins APE basis					
VANB/APE 2012	11.2%	10.5%	(1.6%)	1.3%	25.1%
VANB/APE 2011	6.0%	14.9%	(3.3%)	(20.4%)	(3.7%)
IRR					
IRR 2012	8.8%	11.2%	1.9%	5.8%	7.2%
IRR 2011	8.7%	12.1%	2.3%	(0.0%)	6.2%

The Value added by New Business increased by EUR 32 million to EUR 69 million.

Belgium

Although the guaranteed interest rates for savings products in Belgium have been decreased from 2.75% at the beginning of the year to 1.5% at the end of 2012, the Value added by New Business in Belgium has suffered from the low interest environment.

UK

The Value added by New Business in the UK has remained stable compared to last year. Our start-up business is suffering from strong competition from more established insurance companies who can benefit from certain tax benefits. The tax rules have been changed in the UK and differences in tax treatment will disappear.

Continental Europe

The main change in the Value added by New Business in Continental Europe is that the business is able to partially offset first year business strain against discretionary profit sharing of in force business. This was not possible last year as the available profit sharing reserves was insufficient to off-set the strain. Since the market rates came down, the available reserve for profit sharing has increased sufficiently to off-set the first year strain.

Asia

The Value added by New Business has increased from EUR 3 million negative to EUR 25 million positive, even with interest rates at the same low level as last year. This is the result of a successful program to stimulate sales in more profitable products and the above mentioned change in the yield curve methodology.

2.4 Equity Reconciliation

Table 7 provides an overview of the adjustments made to the IFRS group Shareholder Equity to arrive at the Embedded Value for reporting year 2012.

Table 7 - Equity Reconciliation	2012			2011		
	Life	Non-Life & Other Insurance	General Account	Life	Non-Life & Other Insurance	General Account
Total IFRS shareholder's equity	6,529	1,709	1,673	4,507	1,498	1,756
Activities not included in embedded value ¹	(1,129)	(1,709)	(1,673)	(894)	(1,498)	(1,756)
IFRS shareholder's equity of activities included in embedded value	5,400	0	0	3,613	0	0
Adjustments from IFRS to EEV						
Deduction Deferred Acquisition Costs	(415)			(335)		
Deduction of Other Intangible Assets (Goodwill/VOBA)	(407)			(433)		
Reserve adjustments	1,808			247		
Market value adjustments	1,374			805		
Reallocation of UCG to assets backing provisions	(4,549)			(1,089)		
Adjustments for participation differences	84			144		
Value of Shareholder's Equity	3,296			2,951		
Value of In-Force Business	2,269			735		
Embedded Value	5,565			3,686		

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

The line "reserve adjustments" includes several adjustments amongst others unallocated profit sharing and shadow accounting

¹ Also includes minor allocation differences in capital between IFRS and Embedded Value

3

SENSITIVITY ANALYSIS

The Embedded Value calculations are based on the current market conditions and Ageas's view on best estimate assumptions. The following sensitivities are disclosed in order to understand the impact on the Embedded Value and Value Added by New Business.

Table 8 - Sensitivities - Embedded Value	2012				
	Total Insurance	Belgium	UK	Continental Europe	Asia
Embedded Value	5,565	3,977	163	689	736
Reference rate +100bp	2.2%	1.9%	1.9%	2.7%	3.8%
Reference rate -100bp	(7.1%)	(6.9%)	(2.9%)	(8.7%)	(7.3%)
Asset values shares and real estate -10%	(6.1%)	(7.7%)	0.0%	(3.3%)	(1.6%)
Volatilities equities and properties +25%	0.2%	0.6%	0.0%	(0.7%)	(0.6%)
Volatilities risk-free yields +25%	(4.3%)	(4.9%)	0.0%	(1.3%)	(5.2%)
Liquidity Premium 0 bp	(9.1%)	(10.2%)	(1.0%)	(5.0%)	(9.1%)
Liquidity Premium +10 bp	2.8%	3.3%	0.2%	1.6%	2.0%
Required Equity (minimum regulatory level)	2.1%	2.2%	0.8%	1.4%	2.4%
Costs -10%	3.2%	3.3%	2.1%	3.4%	2.7%
Mortality rates -5%	0.6%	0.3%	1.4%	0.4%	1.9%
Lapse rates -10%	0.7%	1.0%	(1.5%)	1.2%	(0.7%)

The sensitivities as at 31 December 2012 on the In-force business are in line with the sensitivities as at 31 December 2011.

Table 9 - Sensitivities - Value Added by New Business ²	2012				
	Total Insurance	Belgium	UK	Continental Europe	Asia
Value Added by New Business	69	44	(1)	1	25
Reference rate +100bp	46.3%	57.7%	139.1%	(74.6%)	25.0%
Reference rate -100bp	(67.1%)	(78.2%)	(251.8%)	147.0%	(44.9%)
Volatilities equities and properties +25%	0.6%	1.6%	0.0%	(32.0%)	(0.3%)
Volatilities risk-free yields +25%	(28.2%)	(32.8%)	0.0%	(68.1%)	(18.3%)
Liquidity Premium 0 bp	(60.3%)	(81.0%)	(78.3%)	105.7%	(25.3%)
Liquidity Premium +10 bp	24.1%	35.1%	15.4%	(28.7%)	5.4%
Required Equity (minimum regulatory level)	11.8%	11.3%	69.2%	65.2%	8.9%
Costs -10%	20.0%	18.7%	166.5%	141.8%	13.3%
Mortality rates -5%	23.6%	33.7%	83.0%	(51.5%)	5.3%
Lapse rates -10%	28.4%	40.2%	(25.8%)	(112.9%)	11.8%

The sensitivity in changing the reference rates with 100bp does not reflect repricing or redesigning of the products in the Value New Business.

For Continental Europe, sensitivities on the yield curve and LP are counter-intuitive. This is mainly caused by the effect of the partial loss absorption of the technical losses by the future discretionary profit sharing.

For Belgium, the EEV and ViF sensitivity to the yield curve movements has significantly decreased compared to last year as a result of the reduction of the duration gap between assets and liabilities. The VANB remains more sensitive to the yield curve movements, particularly for the savings products, which will be repriced according to the new market conditions. However, as mentioned before, this has not been reflected.

² A negative percentage indicates that the VANB will decrease due to the sensitivity even when the starting VANB is negative.

4

EMBEDDED VALUE at Ageas

4.1 Principles

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

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

In addition to these principles, Ageas has already applied principles 2 – 4, 5.1, 5.2, 6, 7.1, 7.4, 8, 9.1 – 9.3, 10, 11.1 – 11.5, 11.7 – 11.10, 11.13, 11.15 – 11.16, 12 - 16, 17.1 – 17.3.7, 17.3.10 – 17.3.20, 17.3.22 – 17.3.36, 17.3.46 – 17.3.47, 17.4 – 17.8.8 from the Market Consistent Embedded Value Principles issued in October 2009³.

The applied MCEV principles mostly relate to actuarial and economic assumptions and methodologies. Furthermore, some of the applied MCEV principles relate to instructions on the disclosure of results, assumptions and methodologies used.

The applied principles have not changed compared to 2011.

Ageas's Embedded Value reporting is a supplementary reporting to the primary financial statements and represents a measure of the shareholders' interest in Ageas's Life insurance businesses, comprising the market value of the Shareholder's Equity plus the value of the operating business. The components of the Embedded Value are:

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

Annex I gives a detailed description of these elements.

4.2 Statement of directors

We confirm that this Embedded Value Report has been prepared in accordance with the European EV Principles.

³ The 2011 report incorrectly indicates that Ageas applied principle 5.3 in previous years. This has no impact on the comparability of the results.

4.3 Value Added by New Business (VANB)

The VANB represents the value added by new business written in the period, and is calculated in a similar way to the embedded value. It is calculated as the value of the new business written in 2012 and in-force at 31 December 2012 plus the first year losses (New Business Strain).

The Value Added by New Business includes only contracts sold during 2012 and does not include future new business.

VANB is calculated using year-end assumptions.

4.4 Sensitivity analysis

Each of the sensitivity analysis is calculated by changing the relevant assumption in isolation. It does not take into account second order effects this may have on other assumptions underlying the projections.

The Sensitivity analyses include:

- Reference rate + 100 bps – This sensitivity assumes an upward shift of 100 bps in the reference rate and still converging to the UFR of 4.2% following the changed yield curve methodology.
- Reference rate -100 bps – This sensitivity assumes a downward shift of 100 bps in the reference rate still converging to the UFR of 4.2% following the changed yield curve methodology, without taking into account any possible management actions on the guaranteed interest rates.
- Asset values of equities and real estate -10% – This sensitivity assumes a decrease of the asset values of both equities and real estate by 10%.
- Volatilities equities and properties +25% – This sensitivity assumes a 25% increase of both the equity and real estate volatility by multiplying the base assumption by a factor of 125%.
- Volatilities risk-free yields +25% – This sensitivity assumes a 25% increase of the volatility of the risk free yields by multiplying the base assumption by a factor of 125%.
- Liquidity Premium 0 bp – This sensitivity assumes the Credit Spread and Liquidity Premium are set at 0 for all currencies, or in other words, a reference rate equal to the risk free rate.
- Liquidity Premium +10 bp – This sensitivity assumes the Liquidity Premium includes 10bp on the existing Liquidity Premia for Euro, Hong Kong Dollar, US Dollar and Pound Sterling.
- Required Capital on the local regulatory minimum level – This sensitivity assumes that the Required Capital to hold is only to meet the minimum local regulatory requirements. This sensitivity is assumed to impact the Frictional Cost of Capital and the Cost of Non-Hedgeable Risks resulting from a lower level of Shareholders Equity needed to meet the minimum level of Required Capital.
- Costs -10% – all maintenance costs excluding commissions and acquisition expenses decrease by 10%. Cost inflation remains unchanged.
- Lapse -10% – This sensitivity assumes that the lapse rates used in the base scenario are multiplied by a factor of 90%.
- Mortality -5% – This sensitivity assumes that the mortality rates used in the base scenario are multiplied by a factor of 95%. This has been applied on both annuity and life assurance business.

4.5 Scope

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

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

Ageas is organised into five operating segments:

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

4.6 Covered business

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

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

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

The business under scope includes Life business, such as traditional life, term, annuities, unit-linked, universal life and group business. Accident and health products sold through the relevant entities are considered Non-Life products and are therefore treated as not covered business. Only in the event these types of products appear as a policy rider to Life business, their value is included in the Embedded Value calculations.

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

Relations of the covered business with non-covered businesses of Ageas have been treated as third party transactions. E.g. the financing provided to the covered businesses by the non-covered business has been valued based on the credit rating of the covered businesses.

4.7 Economic assumptions

4.7.1 Reference rates

For 2012 reporting purposes, Ageas continued its approach for the reference rates to be in line with the recommendations set out by the CFO/CRO forum to EIOPA under Solvency II and QIS5. The approach taken by Ageas mainly consists of applying the liquidity premium on the risk free forward curve, the methods used to determine the risk free rates and liquidity premiums are described below. Ageas uses these reference rates to extract forward reinvestment yields that are used for all asset classes.

Ageas uses a stochastic economic scenario generator to produce 1,000 arbitrage free scenarios of future investment returns on each asset class, based on the reference rate mentioned above and the volatilities given in section 4.7.2.

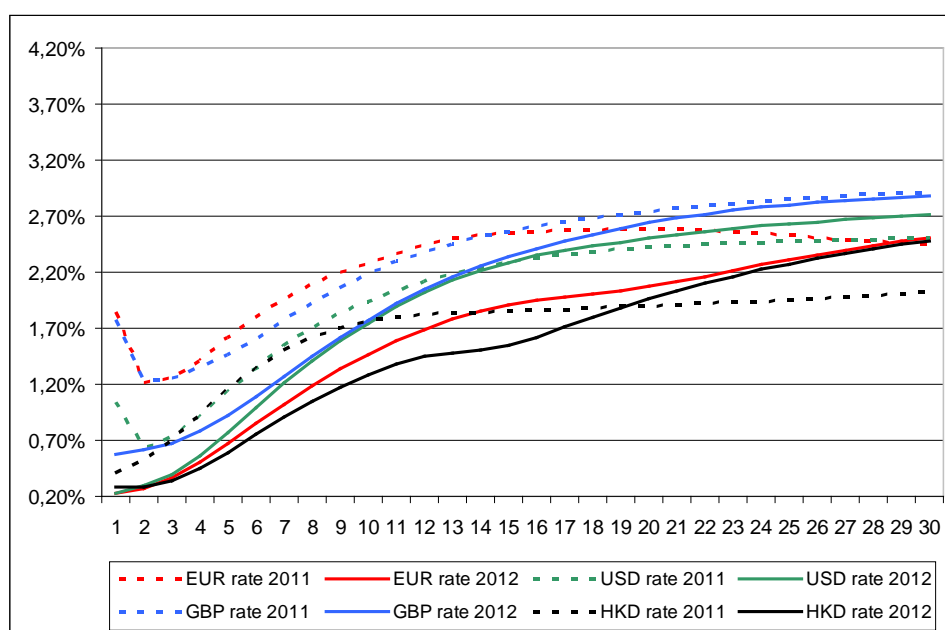
Risk free

The risk free rate is derived from the forward zero coupon yield curve which is reduced by credit spread. This credit spread amounts to 10 bps up to the entry point before extrapolation. The forward zero coupon yield curve is derived from the swap curves at 31 December 2012 for the relevant currencies and these are sourced from market sources for rates up to 20 years for the EUR and up to 15 years for the HKD. For rates beyond these maturities, the CFO/CRO⁴ extrapolation method is used to converge from the last observed liquid market data point to an unconditional ultimate long term forward zero coupon rate. During 2012, Ageas changed the period of conversion to 10 years (previously 60 years) to align the curve with the curves calculated by its peers. Samples of the risk free rates up to year 30 are plotted in the graph below.

⁴ CRO Forum, QIS5 Technical Specification, Risk-free interest rates.

Table 10a – Risk free rates	2012				2011			
	Euro	GBP	HKD	USD	Euro	GBP	HKD	USD
1 yr	0.23 %	0.57 %	0.29 %	0.22 %	1.8 %	1.8 %	0.4 %	1.0 %
5 yr	0.67 %	0.92 %	0.60 %	0.77 %	1.6 %	1.5 %	1.2 %	1.1 %
10 yr	1.47 %	1.77 %	1.28 %	1.74 %	2.3 %	2.2 %	1.8 %	1.9 %
20 yr	2.07 %	2.64 %	1.96 %	2.50 %	2.6 %	2.7 %	1.9 %	2.4 %
30 yr	2.51 %	2.88 %	2.48 %	2.71 %	2.5 %	2.9 %	2.0 %	2.5 %

please note that the table above and chart below show the risk free rate and not the forward zero coupon yield. This explains why e.g. the Euro rates at 30 years are below 4.2%.



Liquidity premium

The liquidity premium is calibrated using the method that has been recommended by the CFO/CRO forum to EIOPA. Depending on the illiquidity of the liabilities, a weight is assigned to the liability buckets (100%, 75% and 50%) per entity and currency. Ageas uses a weighted average liquidity premium for each insurance company based on their liability mix. For EUR, the liquidity premia are fully applied for the first 20 years; all other currencies still follow the QIS5 liquidity premium term structure, until year 30. For the subsequent 5 years the premia decline in a straight-line pattern to zero, significantly impacting the values both as at 31 December 2011 and 31 December 2012 (also refer to Annex II). The liquidity premia used are:

Table 10b – Liquidity premia (in basispoints)	2012	2011
EUR	29 – 35	43 – 53
HKD	35	54
GBP	43	71
USD	46	70

Table 10c – Maturity of the Liquidity premia (in years)	EUR	GBP	HKD	USD
Full liquidity premium	20	30	30	30
Additional amortisation period	0	5	5	5

4.7.2 Volatilities

During 2012, Ageas has transferred from an in house built economic scenario generator to stochastic market consistent scenarios that are provided by Barrie & Hibbert. The scenarios are calibrated to fit to market data at the valuation date with the aim of achieving certain target of accuracy set by the group. Each operating entity has its own set of 1,000 scenarios. For the Belgian, French and Portuguese entities, these are Euro based scenarios. At year end, the swaption volatilities have decreased, in particular for the long term maturities. For AICA, the scenarios are still produced by the previous group tool, as the migration of AICA to the group tool is only foreseen for 2013.

Table 11 - Volatilities			2012	2011
10 yr Sample swaption quote	5yr option / 10yr option	EUR	27.5% / 24.6%	27.5% / 25.4%
		HKD	32.9% / 37.8%	40.0% / 29.7%
15 yr Sample swaption quote	5yr option / 10yr option	EUR	25.9% / 23.5%	27.6% / 25.5%
		HKD	32.8% / 38.4%	40.0% / 29.8%
Real Estate	Imo APFIPP Index	EUR	1.8 %	1.7 %
		EUR	12.6%	11.8 %
		EUR	6.3%	5.9%
		EUR	31.2%	30.9%
		HKD	28.9%	29.9%
Equity	MSCI EMU	EUR	16.6%	18.4%
		USD	12.7%	14.7%
		EUR	15.4%	17.2%
		JPY	21.5%	14.4%
		HKD	17.3%	22.0%
		EUR	17.0%	14.2%
		USD	11.8%	14.0%
		USD	13.1%	16.8%
		HKD	19.3%	24.8%
		Hang Seng	HKD	19.3%

4.7.3 Actual and Target asset mix

Table 12 provides information on the asset mix.

The Actual asset mix is the investment portfolio in the balance sheet as at 31 December 2012. It excludes assets held in funds for which the policyholder bears the investment risks and assets backing shareholder's equity which do not impact the Cost of Financial Options and Guarantees (CFOG). In table 12, the assets are classified according to their economical characteristic, e.g. equities in fixed income funds are classified as fixed income.

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

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

Table 12 - Asset mix - operating business	2012									
	Total Insurance		Belgium		UK		Continental Europe		Asia	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	89.8%	88.8%	89.0%	88.4%	100.0%	100.0%	93.5%	92.3%	98.8%	85.0%
Shares	1.7%	2.0%	1.9%	1.9%	0.0%	0.0%	0.8%	1.5%	1.2%	10.0%
Real Estate	8.5%	9.2%	9.1%	9.7%	0.0%	0.0%	5.7%	6.2%	0.0%	5.0%

	2011									
	Total Insurance		Belgium		UK		Continental Europe		Asia	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Fixed income	89.5%	86.8%	88.8%	86.1%	100.0%	100.0%	92.2%	92.0%	98.7%	85.0%
Shares	1.6%	3.9%	1.5%	3.9%	0.0%	0.0%	2.6%	3.1%	1.2%	10.0%
Real Estate	8.9%	9.2%	9.7%	10.0%	0.0%	0.0%	5.2%	4.9%	0.1%	5.0%

4.7.4 Real world investment return assumptions

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

- **Equities**
The Equity Risk Premium has been assumed to be 300bp above the reference rate.
- **Real Estate**
The real estate risk premium has been assumed to be 200bp above the reference rate.
- **Debt Securities**
The investment return on debt securities real world projections are based on the actual cash flows (coupons and principles)
- Any deviation as a result of defaults or spread changes is included in the "Variance on investment return in the analysis of change".

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

4.8 Operating assumptions

4.8.1 Expenses

Modeled expenses start at the actual 2012 expense level and are modeled taking into account the assumed inflation rate over the projection period. Future commission payments follow the schemes agreed with the parties entitled to the payments. No account is taken of the effect of future expense reduction programs, productivity gains or integration synergies and no material non-recurring expenses have been identified.

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

The total unallocated central overheads in 2012 were EUR 52 million (2011: EUR 57 million). The share for the Life insurance activities of these expenses or any recurrence of these has not been included in the year-end Embedded Value or Value Added by New Business.

4.8.2 Expense inflation

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

4.8.3 Operating assumptions

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

The risks related to the dynamics of insurance business reflecting either policyholder behaviour or flexibility of management actions that create asymmetric movements of cash flows around the best-estimate levels are not captured in the models. This includes dynamic lapsing (i.e. lapses that vary according to economic conditions) and the ability of management to change guarantees on future premiums on certain products. Therefore, the Cost of Non-Hedgeable Risks (CNHR) is an allowance for the uncertainty of shareholder profits around the best-estimate level not currently allowed for in the models.

4.8.4 Tax

Both local corporate tax and local taxes e.g. dividend taxes have been incorporated in the calculation of the Embedded Value based on the local tax position and local applicable tax rates. If this leads to deferred tax assets, an assessment has

been made to determine that appropriate tax rates have been applied to direct and indirect returns on equities, real estate and fixed income. In all other cases the appropriate local corporate tax rate is applied.

4.8.5 Premium persistency

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

4.8.6 Profit sharing

Based on contractual obligations and management actions, profit sharing dividends have been calculated at local level and included in the Embedded Value calculations as a future outgoing cashflow.

4.9 Required equity

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

5

CAUTIONARY STATEMENTS

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

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

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

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

6

LIMITED ASSURANCE REPORT ON THE Ageas 2012 EMBEDDED VALUE REPORT

6.1 Introduction

We were engaged by the Board of Directors of Ageas SA/NV (hereafter: "the Board of Directors") to report in the form of an independent limited assurance conclusion on the Ageas' Embedded Value Report for the covered life insurance business as at 31 December 2012 including the related movements in embedded value, including restatements and operating embedded value earnings (as stated on page 1 to 21), for the year then ended and management assertion thereon (the "Ageas 2012 Embedded Value Report") and that based on our work performed, described in this report, nothing has come to our attention that causes us to believe that the Ageas 2012 Embedded Value Report is not properly prepared, in all material respects, in accordance with the following Principles as set out on page 14 of the Ageas 2012 Embedded Value Report, the "EEV Principles":

- The European Embedded Value Principles and Guidance as developed by the CFO Forum and published on 5 May 2004.
- Additional Guidance on European Embedded Value Disclosures, issued 31 October 2005
- Principles 2 - 4, 5.1, 5.2, 6 7.1, 7.4, 8, 9.1 – 9.3, 10, 11.1 – 11.5, 11.7 – 11.10, 11.13, 11.15 – 11.16, 12 - 16, 17.1 –17.3.7, 17.3.10 – 17.3.20, 17.3.22 – 17.3.36, 17.3.46 – 17.3.47, 17.4 – 17.8.8 from the Market Consistent Embedded Value Principles issued October 2009.

Ageas responsibilities

The Board of Directors is responsible for the preparation of the Ageas 2012 Embedded Value Report in accordance with the EEV Principles that is free from material misstatements and for the determination of the assumptions to be used, and information contained therein.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Ageas 2012 Embedded Value Report that is free from material misstatement, whether due to fraud or error. It also includes selecting and applying the appropriate methodology; and using assumptions that are reasonable in the circumstances; selecting and applying policies; making judgments and estimates that are reasonable in the circumstances; and maintaining adequate records in relation to the Ageas 2012 Embedded Value Report.

The Board of Directors is also responsible for preventing and detecting fraud and for identifying and ensuring that Ageas complies with laws and regulations applicable to its activities. The Board of Directors is responsible for ensuring staff involved with the preparation of the Ageas 2012 Embedded Value Report are properly trained, systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibilities

Our responsibility is to examine the Ageas 2012 Embedded Value Report prepared in accordance with the EEV principles by Ageas and to report thereon in the form of an independent limited assurance conclusion based on the evidence obtained.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance engagements other than audits or reviews of historical financial information, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain a meaningful level of assurance whether nothing has come to our attention that causes us to believe that the Ageas 2012 Embedded Value Report is not properly prepared, in all material respects, in accordance with EEV principles.

The procedures selected depend on our understanding of the preparation of the Ageas 2012 Embedded Value Report, and other engagement circumstances, and our consideration of areas where material deviations to EEV principles are likely to arise. In developing our understanding of the Ageas 2012 Embedded Value Report, we developed an understanding of internal control over the preparation of the Ageas 2012 Embedded Value Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Ageas's internal control over the preparation of the Ageas 2012 Embedded Value Report.

Our engagement also included:

- evaluating the appropriateness of the compilation process of the Ageas 2012 Embedded Value Report and the appropriateness of the methods, policies and procedures used as well as the determination process of the assumptions described on pages 14 to 20,
- verification of the consistent application of the methodology across Ageas. Furthermore we have performed analytical procedures on the results of the calculations of the embedded value as at 31 December 2012 and the 2012 movements.

Limited assurance is less than absolute assurance and reasonable assurance. Evidence-gathering procedures for a limited assurance engagement are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance

engagement. We did not perform model validation procedures and/or reperformance of calculations to assess the reliability of the models involved, nor did we assess the completeness and correctness of the calculations in those models underlying the Ageas 2012 Embedded Value Report, that would have been performed if this were a reasonable assurance engagement.

As part of this engagement, we have not performed any procedures by way of audit or review of the Ageas 2012 Embedded Value Report nor of the underlying records or other sources from which the Ageas 2012 Embedded Value Report was extracted.

Criteria

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

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

Based on our procedures performed, described in this report, nothing has come to our attention that causes us to believe that the Ageas 2012 Embedded Value Report is not properly prepared, in all material respects, in accordance with the EEV principles.

Other matters

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

Brussels, 6 March 2013

KPMG Réviseurs d'entreprises/Bedrijfsrevisoren

Represented by

M. Lange / O. Macq

ANNEX I:

COMPONENTS OF EMBEDDED VALUE

The components of the Embedded Value are:

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

1 Value of Shareholder's Equity (VSE)

The Value of Shareholder's Equity equals the market value of the tangible assets backing Ageas's Life Equity including adjustments to ensure consistency with the calculation of the Value of In-Force Business. For example, unrealised capital gains that originate from assets backing the customer liabilities but appear on the IFRS balance sheet within shareholder equity are modeled within the Value of In-Force Business and therefore are deducted from the value of shareholder equity. Intangible assets such as VOBA and DAC are given no value because the embedded value they represent is valued explicitly within the Value of In Force. See Section 2.3 for an overview of the reconciliation from IFRS to the Value of Shareholder's Equity.

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

1.1 Required Equity (RE)

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

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

As capital and equity measures from various local regulatory regimes differ from a market consistent valuation framework, the translation to Required Capital for valuation purposes follows the subtraction method. The principle of this method is to assume that a surplus in local target capital is really free for distribution and that the remainder is needed to meet the solvency requirements and the amount of free capital should therefore be consistent in any framework. Therefore, by assuming a fixed amount of free surplus any remaining amount of Shareholder's Equity should automatically be locked-in for solvency requirements. Finally, to comply with principle 5.2, Ageas tests that the outcome of this method exceeds the shareholder's portion of the local solvency capital.

1.2 Free Surplus (FS)

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

2 Value of In-Force business (VIF)

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

2.1 Certainty Equivalent Value (PVFP)

Certainty Equivalent Value (Present Value of Future Profits) corresponds to the value of the business without taking credit for any future investment risk premiums and represents the value as if all cash flows are fixed and certain and all investment assets earn a return equal to the reference rate (risk free return), with the cash flows discounted at the same reference rate. This value captures the intrinsic value (or in-the-money value) of the financial options and guarantees. The reference rate is defined in section 4.7.1.

2.2 Cost of Financial Options and Guarantees (CFOG)

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

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

2.3 Cost of Non-Hedgeable Risks (CNHR)

The Cost of Non-Hedgeable Risks is an allowance for risks that are currently not allowed for in the Cost of Financial Options and Guarantees, including those which cannot be hedged as a result of the absence of liquid and well developed markets for these risks.

While within a market consistent framework the financial risks arising from options and guarantees are addressed through the CFOG, an additional separate adjustment is necessary for all other risks. The CNHR is an explicit deduction to the Certainty Equivalent value to place a value on the uncertainty of shareholder profits around the expected insurance and non-hedgeable risks embedded in the insurance cash flows.

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

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

2.4 Frictional Cost of Capital (CoC)

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

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

ANNEX II:

ADDITIONAL SENSITIVITIES

During 2012, Ageas has adjusted its yield curve methodology (as described in section 4.7.1 of this report). To enable users of this report to understand the impact of this change, Ageas has calculated two additional sensitivities. The first sensitivity shows the sensitivity of both the Embedded Value and Value of New Business as at 31 December 2012 if the old methodology would be applied. The second sensitivity shows the sensitivity of Embedded Value and Value of New Business if Ageas would use the Ultimate Forward Rate as from 40 years (instead of 10 years) after the last liquid point in the market.

Additional sensitivity - Embedded Value	Total		Continental		
	Insurance	Belgium	UK	Europe	Asia
2012 Year-end Embedded Value	5,565	3,977	163	689	736
Old Ageas yield curve methodology	(4.1%)	(2.4%)	0.0%	(4.3%)	(14.1%)
Application of UFR as from 40 years after last liquid point	(2.2%)	(2.1%)	0.0%	(0.6%)	(4.8%)
Value Added by New Business	69	44	(1)	1	25
Old Ageas yield curve methodology	(18.6%)	(5.5%)	0.0%	83.8%	(43.5%)
Application of UFR as from 40 years after last liquid point	(8.2%)	(4.9%)	0.0%	26.1%	(14.7%)

ANNEX III:

MARKET CONSISTENT/ TRADITIONAL EMBEDDED VALUE

The New Business is valued on a market consistent basis, using the same methodology as for the Value in Force. This means that economic assumptions are set in a market consistent manner, assuming that all assets earn the risk free rate. However, in reality we would expect equities, real estate, corporate bonds but also government bonds to earn more than the risk free rate on average over time. This is reflected in the traditional accounting figures.

Returns in excess of the reference rate which emerge in the future will appear in the EEV earnings as they arise. However, this future added value is never allocated to new business and is never recognized in the Value Added by New Business. It will represent in the future a Value-in-Force increase of the existing portfolio.

A Market Consistent VANB of zero implies that the price that has been charged for the new business covers all the costs, including the costs of equity cost for risk, without relying on investment risk premiums. Exceeding the break-even price means that all costs and risks are covered and we are adding risk-free (adjusted) value.

A negative VANB does not necessarily mean that the business generates losses. It means that part of the investment risk premiums (the difference at moment of sale between the risk free rate and e.g. the yield on Belgian bonds) will be required in the future to add value⁵.

⁵ Discussions about matching adjustments are on-going in the Solvency II context, allowing for part of this spread (non fundamental spread) in the market consistent value of the liabilities, in order to better reflect the specific (long term) insurance characteristics. In that case, part of the investment risk premiums (on less risky bonds) will be recognized in the MC VANB.