



Accounting Policies

2010

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Accounting Policies Extended Version
Volume III

Accounting Policies - Extended version

1 Basis of accounting

The Ageas Consolidated Financial Statements 2010 comply with International Financial Reporting Standards (IFRSs) at 31 December 2010, as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

The accounting policies are consistent with those applied for the year ended 31 December 2009. Amended IFRSs effective on 1 January 2010 with importance for Ageas (and endorsed by the EU) are reproduced in chapter 2.

The financial statements are prepared on a going concern basis. They give a fair presentation of the financial position, financial performance and cash flows of Ageas, with relevant, reliable, comparable and understandable information. The Consolidated Financial Statements are stated in euros, which is the functional currency of the Parent Companies of Ageas.

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

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

2 Changes in accounting policies

The following relevant new or revised standards, interpretations and amendments to standards and interpretations have become effective on 1 January 2010 (and are endorsed by the EU):

1. IAS 27 Consolidated and Separate Financial Statements

The IASB amended IAS 27 (in a package with amendments to IFRS 3 Business Combinations) to reflect changes to the accounting for non-controlling interest (previously minority interest). The amendments deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary. Significant changes include:

- ◆ when an acquisition is achieved in successive share purchases (step acquisition), the identifiable assets and liabilities of the acquiree are recognised at fair value when control is obtained and a gain or loss is recognised in profit or loss for the difference between the fair value of the previously held equity interest in the acquiree and its carrying amount. Any amount relating to previously held equity interests in the acquiree that was recognised directly in other comprehensive income is reclassified and included in the calculation of the gain or loss recognised in profit or loss;
- ◆ changes in a parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners).
- ◆ accordingly, acquisitions of additional non-controlling interests are accounted for as equity transactions and disposals of equity interests while retaining control are accounted for as equity transactions;
- ◆ transactions resulting in a loss of control would cause a gain or loss to be recognised in profit or loss; the gain or loss includes the remeasurement to fair value of any retained equity interest in the investee;
- ◆ losses applicable to the non-controlling interests, including negative "other comprehensive income", are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a negative balance.

2. IFRS 3 Business Combinations

The IASB issued a revised version of the business combinations standard. Some of the main changes to the standard are as follows:

- ◆ the revised standard also applies to business combinations involving only mutual entities and to business combinations achieved by contract alone.
- ◆ the definition of a business combination has been revised to focus on control.
- ◆ the definition of a business has been amended to clarify that it can include a set of activities and assets that are not being operated as a business, as long as an acquirer is capable of operating the set as a business.
- ◆ all items of consideration transferred by the acquirer are measured and recognised at fair value at the acquisition date, including contingent consideration
- ◆ all business combinations are accounted for by applying the acquisition method (previously the purchase method).
- ◆ the acquirer can elect to measure any non-controlling (previously minority) interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Transaction costs incurred by the acquirer in connection with the business combination (finder's fees, advisory, other consulting fees) do not form part of the business combination. As such, they are expensed as incurred, unless they relate to the issuing of debt or equity securities, in which case they are accounted for under the financial instruments standards.

3. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendments specify that:

- ◆ if an entity is committed to a plan to sell a subsidiary (involving the loss of control), then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met; this applies regardless of the entity retaining an interest (other than control) in the subsidiary; and
- ◆ disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation.

4. IAS 39 Financial Instruments

a. *Eligible Hedged Items*

These amendments to IAS 39 clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in two particular situations, being:

- Designation in a hedged item of one-sided risk
- Designation of inflation in a financial hedged item

b. *Embedded Derivatives (related to changes in IFRIC 9 Reassessment of Embedded Derivatives)*

5. The IASB amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in IFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.

6. IFRIC 15 Agreements for the Construction of Real Estate

This interpretation provides guidance on the accounting for revenue arising from agreements for the construction of real estate. The interpretation addresses the applicable accounting standard (IAS 11 Construction Contracts or IAS 18 Revenue) and the timing of revenue recognition.

7. IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The amendments remove the restriction (mentioned in article 14) that prevented a hedging instrument from being held by a foreign operation that itself is being hedged.

3 Accounting estimates

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

Change in assumption

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

In prior years, the liability adequacy test did not result in any significant losses. Applying the new as well as the old assumptions for liability adequacy testing did not lead to loss recognition in 2010.

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

<i>Ultimo 2010</i>	<i>Estimation uncertainty</i>
Assets	
Available for sale securities	
- Corporate debt securities	
- Structured credit 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
Associates	A mix of uncertainties depending on the asset mix
Goodwill	- The valuation model
	- Financial and economic variables
	- Discount rate
Other intangible assets	- The inherent risk premium of the entity
	- Determination of the useful life and residual value
Deferred tax assets	- Interpretation of complex tax regulations
	- Amount and timing of future taxable income
Liabilities	
Liabilities for Insurance contracts	
Life	- Actuarial assumptions
	- Interest rates 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
Deferred tax liabilities	- Interpretation of complex tax regulations

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

4 Events after the reporting period

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

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

Ageas has not identified the type of events mentioned above for the reporting period 2010 (as well as 2009) and therefore has not made any adjustments or additional disclosures.

5 Segment Reporting

The format for reporting segment information is based on operating segments. Ageas' reportable operating segments are based on geographical regions. The regional split is based on the fact that the activities in these regions share the same nature and economic characteristics.

From 1 January 2010 onwards the Insurance operating segments are:

- ◆ Belgium
- ◆ Continental Europe
- ◆ United Kingdom (UK)
- ◆ Asia.

Activities not related to Insurance and elimination differences are reported separately from the Insurance activities in the fifth operating segment: General Account. In addition, the General Account also includes the investment in Royal Park Investments, the call option on BNP Paribas shares and the liabilities related to CASHES (RPN(I)).

The composition of the reportable segments has changed as per 1 January 2010. The corresponding information for earlier periods has been restated.

Transactions or transfers between the operating segments are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

6 Consolidation Principles

Subsidiaries

The Consolidated Financial Statements include those of Ageas sa/nv and Ageas N.V. (the 'Parent Companies') and their subsidiaries. Subsidiaries are those companies, of which Ageas, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities ('control'). Subsidiaries are consolidated from the date on which effective control is transferred to Ageas and are no longer consolidated from the date that control ceases. Subsidiaries acquired exclusively with a view to resale are accounted for as non-current assets held for sale. The result on a sale of a portion of an interest in a subsidiary without a change in control is accounted for in the income statement.

In combining the financial statements of Ageas sa/nv and Ageas N.V., Ageas has opted for consortium accounting in order to reflect its activities in the most reliable manner. The EU 7th Directive, dated 13 June 1983 (83/349/EEC), states that a Member State may require to draw up Consolidated Financial Statements if the relevant entities are managed on a unified basis or if the administrative, management or supervisory bodies of the entities concerned consist for the major part of the same persons in office during the year. This is required in Belgium under art. 111 of the Belgian Company Act and in the Netherlands under the Dutch Civil Code, Part 9, Book 2, article 406.1.

Ageas sponsors the formation of Special Purpose Vehicles ('SPVs') primarily for the purpose of asset securitisation transactions, structured debt issuance, or to accomplish another well-defined objective. Some of the SPVs are bankruptcy-remote companies whose assets are not available to settle the claims of Ageas. SPVs are consolidated if, in substance, they are controlled by Ageas.

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

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

Associates

Investments in associates are accounted for using the equity method. These are investments in which Ageas has significant influence, but does not control. The investment is recorded at Ageas' share of the net assets of the associate. The ownership share of net income for the year is recognised as share in result of associates and Ageas' share in the investments post-acquisition direct equity movements are recognised in equity.

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

7 Foreign currency

For individual entities of Ageas, foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances in foreign currencies at year end are translated at year end exchange rates for monetary items.

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

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

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

Foreign currency translation

On consolidation, the income statement and cash flow statement of entities whose functional currency is not denominated in euros are translated into euros, at average daily exchange rates for the current year (or exceptionally at the exchange rate at the date of the transaction if exchange rates fluctuate significantly) and their statements of financial position are translated using the exchange rates prevailing at the date of the statement of financial position.

Translation exchange differences are recognised in equity. On disposal of a foreign entity, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

Exchange differences arising on monetary items, borrowings and other currency instruments, designated as hedges of a net investment in a foreign entity are recorded in equity, until the disposal of the net investment, except for any hedge ineffectiveness that is immediately recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate on the date of the statement of financial position. All resulting differences are recognised in equity until disposal of the foreign entity when a recycling to the income statement takes place.

The following table shows the rates of the most relevant currencies for Ageas.

	Rates at year end		Average rates
	2010	2009	
1 euro =			
Pound sterling	0.86	0.89	0.89
US dollar	1.34	1.44	1.39
Hong Kong dollar	10.39	11.17	10.81

8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Ageas classifies financial assets and liabilities based on the business purpose of entering into these transactions.

Financial assets

Of all assets not related to unit linked investments, the vast majority are financial assets classified in accordance with IAS 39. The measurement and income recognition in the income statement depend on the IFRS classification of the financial assets, being: (a) loans and receivables; (b) held-to-maturity investments; (c) financial assets at fair value through profit or loss and (d) available-for-sale financial assets. This IFRS classification determines the measurement and recognition as follows:

- ◆ Loans and receivables are initially recognised at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation in the income statement.
- ◆ Held-to-maturity investments consist of instruments with fixed or determinable payments and fixed maturity for which the positive intent and ability to hold to maturity is demonstrated. They are initially recognized at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.
- ◆ Financial assets at fair value through profit or loss include:
 - (i) financial assets held for trading, including derivative instruments that do not qualify for hedge accounting
 - (ii) financial assets that Ageas has irrevocably designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss, because
 - the host contract includes an embedded derivative that would otherwise require separation;
 - it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') or;
 - it relates to a group of financial assets and/or liabilities that are managed and of which the
 - performance is evaluated on a fair value basis.
- ◆ Available-for-sale financial assets are those that are otherwise not classified as loans and receivables, held-to-maturity investments, or financial assets designated at fair value through profit or loss. Available-for-sale financial assets are initially measured at fair value (including transaction costs), and are subsequently measured at fair value with unrealised gains or losses from fair value changes reported in equity.

The majority of these financial assets (being bonds and equity shares) is classified as Available For Sale and measured at fair value. The unrealised gains and losses are reported in shareholders' equity. For the insurance portfolios, where 'realised' gains and losses of bonds have a direct impact on the measurement of the insurance liabilities, Ageas applies shadow accounting' in accordance with IFRS 4. This means that the changes in the unrealised gains and losses will affect the measurement of the insurance liabilities and therefore not be a part of equity.

Financial liabilities

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

- ◆ Financial liabilities at fair value through profit or loss include:
 - (i) financial liabilities held for trading, including derivative instruments that do not qualify for hedge accounting
 - (ii) financial liabilities that Ageas has irrevocably designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss, because:
 - the host contract includes an embedded derivative that would otherwise require separation;
 - it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch'); or
 - it relates to a group of financial assets and/or liabilities that are managed and of which the performance is evaluated on a fair value basis.

- ◆ Other financial liabilities are initially recognised at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement.

Transaction costs

Transaction costs are included in the initial measurement of financial assets and liabilities other than those measured at fair value through profit or loss, in that case transaction costs are directly expensed. For the transaction costs relating to investment contracts with a servicing component, reference is made to paragraph 19 of the accounting policies.

Transaction costs refer to incremental costs directly attributable to the acquisition or disposal of a financial asset or liability. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

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

- ◆ 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 Ageas' 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 standings.

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

Ageas uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ◆ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- ◆ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- ◆ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

A financial instrument is regarded as quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices reflect actual and regularly occurring market transactions on an arm's length basis.

A fair value measurement is classified within level 2 of the hierarchy where fair value in its entirety is determined on the basis of inputs other than the quoted prices referred to in level 1. These inputs are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices, such as interest or exchange rates). Unobservable data is considered to have a significant effect if the quantitative effect of all unobservable data combined on the overall fair value exceeds 20%.

A fair value measurement is classified within level 3 of the hierarchy when the determination of fair value requires significant use of inputs that are not observable on a market (unobservable inputs) or are based on observable inputs that have been adjusted significantly based on unobservable inputs.

Trade and settlement date

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, which is the date when Ageas becomes a party to the contractual provisions of the financial assets.

Forward purchases and sales other than those requiring delivery within the time frame established by regulation or market convention are recognised as derivative forward transactions until settlement.

Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

9 Derivative financial instruments and hedging

Derivatives are financial instruments such as swaps, forward and future contracts, and options (both written and purchased). The value of these financial instruments changes in response to change in various underlying variables, require little or no net initial investment and are settled at a future date.

All derivatives are recognised on the statement of financial position at fair value on the trade date:

- ◆ derivatives held for trading in 'Assets held for trading' and 'Liabilities held for trading'
- ◆ derivatives that qualify for hedge accounting in 'Accrued interest and other assets' and 'Accrued interest and other liabilities'.

Subsequent changes in the 'clean fair value' (i.e. excluding the interest accruals) of derivatives are reported in the income statement under 'Other realised and unrealised gains and losses'.

Financial assets or liabilities can include embedded derivatives. Such financial instruments are often referred to as hybrid financial instruments. Hybrid financial instruments include reverse convertible bonds (bonds whose repayment may take the form of equities) or bonds with indexed interest payments. If the host contract is not carried at fair value through profit or loss and the characteristics and risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative should be separated from the host contract and measured at fair value as a stand-alone derivative. Changes in the fair value are recorded in the income statement. The host contract is accounted for and measured applying the rules of the relevant category of the financial instrument.

However, if the host contract is carried at fair value through profit or loss or if the characteristics and risks of the embedded derivative are closely linked to those of the host contract, the embedded derivative is not separated and the hybrid financial instrument is measured as one instrument.

Embedded derivatives requiring separation are reported as hedging derivatives or derivatives held for trading as appropriate.

Hedging

On the date a derivative contract is entered into, Ageas may designate this contract as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); (2) a hedge of a net investment in a foreign entity or; (3) a hedge of future cash flows attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge). Hedges of firm commitments are fair value hedges, except for hedges of foreign exchange risk, which are accounted for as cash flow hedges.

At the start of the transaction, Ageas documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

Ageas also documents its assessment - both at the start of the hedge and on an ongoing basis - of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to Ageas are designated as hedged items.

The change in fair value of a hedged asset or liability that is attributable to the hedged risk and the change in the fair value of the hedging instrument in a fair value hedge are recognised in the income statement. The change in the fair value of interest-bearing derivative instruments is presented separately from interest accruals.

If the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, the adjustment to the carrying amount of a hedged interest-bearing financial instrument that results from hedge accounting is amortised using the new effective interest rate calculated on the hedge discontinuance date.

Changes in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognised in equity under the caption 'Unrealised gains and losses'. Any hedge ineffectiveness is immediately recognised in the income statement.

When the hedge of a forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of that non-financial asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as profit or loss in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

This also applies if the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, but the hedged forecasted transactions or firm commitments are still expected to occur. If the hedged forecasted transactions or firm commitments are no longer expected to occur, the amounts deferred in equity are transferred to the income statement directly.

For net investment hedges: see section 7 Foreign currency.

10 Leasing

Ageas as a lessor

Assets leased under operating leases are included in the consolidated statement of financial position (1) under investment property (buildings), and (2) under property, plant and equipment (equipment and motor vehicles). They are recorded at cost less accumulated depreciation. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the lease term. Initial direct costs incurred by Ageas are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Ageas has also entered into finance leases, in which substantially all the risks and rewards related to ownership of the leased asset, other than legal title, are transferred to the customer.

When assets held are subject to a finance lease, the present value of the lease payments and any guaranteed residual value is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease interest income is recognised over the term of the lease based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of finance leases. Initial direct costs incurred by Ageas are included in the finance lease receivable and allocated against lease interest income over the lease term.

Ageas as a lessee

Ageas principally enters into operating leases for the rental of equipment and land and buildings. Payments made under such leases are typically charged to the income statement principally on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Any incentives received from the lessor in relation to operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

If the lease agreement transfers substantially all the risks and rewards incident to ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the shorter of its estimated useful life or the lease term. The corresponding lease obligation, net of finance charges, is recorded as borrowings. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each period.

11 Measurement of impaired assets

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

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

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.

12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, freely available balances with (central) banks and other financial instruments with less than three months maturity from the date of acquisition.

Cash flow statement

Ageas reports cash flows from operating activities using the indirect method, whereby the net result is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Interest received and interest paid are presented as cash flows from operating activities in the cash flow statement. Dividends received are classified as cash flows from operating activities. Dividends paid are classified as cash flows from financing activities.

13 Financial Investments

Management determines the appropriate classification of its investment securities at the time of the purchase. Investment securities with a fixed maturity where management has both the intent and the ability to hold to maturity are classified as held to maturity. Investment securities to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available for sale. Investment securities that are acquired for the purpose of generating short-term profits are considered to be held for trading.

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

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

Held-for-trading assets and assets designated as held at fair value through profit or loss are carried at fair value. Changes in the fair value are recognised in the income statement. The (realised and unrealised) results are included in 'Realised and unrealised gains and losses'. Interest received (paid) on assets (liabilities) held for trading is reported as interest income (expense). Dividends received are included in 'Interest, dividend and other investment income'.

Impairment of financial assets

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

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

Depending on the type of financial asset, the recoverable amount can be estimated as follows:

- ◆ the fair value using an observable market price
- ◆ the fair value using non-observable market-data, or
- ◆ based on the fair value of the collateral.

If an available-for-sale investment security is determined to be impaired, the impairment is recognised in the income statement. For impaired available-for-sale investments, unrealised losses previously recognised in equity are transferred to the income statement when the impairment occurs.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, the impairment is reversed, with the amount of the reversal recognised in the income statement. Impairments recognised in the income statement for an investment in an equity instrument classified as available for sale are not reversed through the income statement.

14 Investment property

Classification and measurement

Investment properties are those properties held to earn rental income or for capital appreciation. Ageas may also use certain investment properties for its own use. If the own use portions can be sold separately or leased out separately under a finance lease, these portions are accounted for as property, plant and equipment. If the own use portions cannot be sold separately, the property is treated as investment property only if Ageas holds an insignificant portion for its own use.

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

The residual value and the useful life of investment property are determined for each significant part separately (component approach) and are reviewed at each year end.

Ageas rents its investment property under various non-cancellable rental contracts. Certain contracts contain renewal options for various periods of time; the rental income associated with these contracts is recognised on a straight-line basis over the rental term as investment income.

Transfers to, or from, investment property are only made when there is a change of use:

- ◆ into investment property at the end of owner-occupation, or at the start of an operating lease to a another party, or at the end of construction or development; and
- ◆ out of investment property at the commencement of owner-occupation, or start of development with a view to sale.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the statement of financial position date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment of 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 Ageas assesses whether there is any indication that an asset may be impaired, considering various external (e.g. significant changes in the economic environment) and internal sources of information (e.g. plan to dispose). If any such indication exists (and only then), Ageas shall estimate the recoverable amount of the property. Any impairment loss identified is recognised in the income statement. After the recognition of an impairment, the depreciation for future periods is adjusted based on the revised carrying amount less its residual value over its remaining useful life.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed as part of the cost of that asset.

Capitalisation of borrowing costs should commence when:

- ◆ expenditures for the asset and borrowing costs are being incurred; and
- ◆ activities necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. Where construction occurs piecemeal and use of each part is possible as construction continues, capitalisation for each part ceases upon substantial completion of that part.

For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

For qualifying assets commencing on or before 1 January 2008, borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that necessarily took a substantial period of time to get ready for its intended use or sale) were expensed as incurred.

15 Loans

Loans to banks and loans to customers include loans originated by Ageas by providing money directly to the borrower or to a sub-participation agent and loans purchased from third parties that are carried at amortised cost. Debt securities acquired on the primary market directly from the issuer are recorded as loans, provided there is no active market for those securities. Loans that are originated or purchased with the intent to be sold or securitised in the short-term are classified as assets held for trading. Loans that are designated as held at fair value through profit or loss or available for sale are classified as such at initial recognition.

Loan commitments that allow for a drawdown of a loan within the timeframe generally established by regulation or convention in the market place are not recognised in the statement of financial position.

Incremental costs incurred and loan origination fees earned in securing a loan are deferred and amortised over the life of the loan as an adjustment to the yield.

Impairment

A credit risk for specific loan impairment is established if there is objective evidence that Ageas 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, being the present value of expected cash flows or, alternatively, the collateral value less costs to sell if the loan is secured.

An 'incurred but not reported' (IBNR) impairment on loans is recorded when there is objective evidence that incurred losses are present in components of the loan portfolio, without having specifically identified impaired loans. This impairment is estimated based upon historical patterns of losses in each component, reflecting the current economic climate in which the borrowers operate and taking into account the risk of difficulties in servicing external debt in some foreign countries based on an assessment of the political and economic situation.

Impairments are recorded as a decrease in the carrying value of 'Loans to banks' and 'Loans to customers'.

Impairments on loan commitments recorded off the statement of financial position are classified under 'Provisions'.

When a specific loan is identified as uncollectible and all legal and procedural actions have been exhausted, the loan is written off against the related charge for impairment; subsequent recoveries are credited to change in impairment in the income statement.

16 Sale and repurchase agreements and lending/borrowing securities

Securities subject to a repurchase agreement ('repos') are not derecognised from the statement of financial position. The liability resulting from the obligation to repurchase the assets is included in 'Due to banks' or 'Due to customers' depending on the type of counterparty. Securities purchased under agreements to resell ('reverse repos') are not recognised on the statement of financial position. The right to receive cash from the counterparty is recorded as 'Loans to banks' or 'Loans to customers' depending on the type of counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties remain on the statement of financial position. Similarly, securities borrowed are not recognised on the statement of financial position. If borrowed securities are sold to third parties, the proceeds from the sale and a liability for the obligation to return the collateral are recorded. The obligation to return the collateral is measured at fair value through profit or loss and is classified as a liability held for trading. Cash advanced or received related to securities borrowing or lending transactions is recorded as 'Loans to banks' / 'Loans to customers' or 'Due to banks' / 'Due to customers'.

17 Investments related to unit-linked contracts

Investments related to unit-linked insurance and investment contracts represent funds maintained to meet specific investment objectives of third parties that bear the investment risk. Treasury shares held on behalf of policyholders are eliminated.

18 Reinsurance and other receivables

Reinsurance

Ageas assumes and/or cedes reinsurance in the normal course of business. Reinsurance receivables principally include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from or due to reinsurers are estimated in a manner consistent with the amounts associated with the reinsured policies and in accordance with the reinsurance contract. Reinsurance is presented on the statement of financial position on a gross basis unless a right of offset exists.

Other receivables

Other receivables arising from the normal course of business and originated by Ageas are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method, less impairments.

19 Deferred acquisition costs

General

The costs of new and renewed insurance business, principally commissions, underwriting, agency and policy issue expenses, all of which vary with and primarily are related to the production of new business, are deferred and amortised. Deferred acquisition costs ('DAC') are periodically reviewed to ensure they are recoverable based on estimates of future profits of the underlying contracts.

Amortisation in proportion to anticipated premiums

For insurance Life products and investment products, both without discretionary participation features, DAC is amortised in proportion to anticipated premiums. Assumptions as to anticipated premiums are estimated at the date of policy issuance and are consistently applied during the life of the contracts. Deviations from estimated experience are reflected in the income statement in the period such deviations occur. For these contracts, the amortisation periods generally are for the total life of the policy.

Amortisation in line with Estimated Gross Profit margin (EGP)

For insurance Life products and investment Life products, both with discretionary participation features, DAC is amortised over the expected life of the contracts based on the present value of the estimated gross profit margin or profit amounts using the expected investment yield. Estimated gross profit margin includes anticipated premiums and investment results less benefits and administrative expenses, changes in the net level premium reserve and expected policyholder dividends, as appropriate. Deviations of actual results from estimated experience are reflected in the income statement in the period in which such deviations occur. DAC is adjusted for the amortisation effect of unrealised gains (losses) recorded in equity as if they were realised with the related adjustment to unrealised gains (losses) in equity.

Amortisation in line with earned premiums

For short duration contracts, DAC is amortised over the period in which the related premiums written are earned. Future investment income, at a risk-free rate of return, is considered in assessing the recoverability of DAC.

Amortisation in line with related revenues of service provided

Some investment contracts without discretionary participation features issued by insurance entities involve both the origination of a financial instrument and the provision of investment management services. Where clearly identifiable, the incremental costs relating to the right to provide investment management services are recognised as an asset and are amortised as the entities recognise the related revenues. The related intangible asset is tested for recoverability at each reporting date. Fee charges for managing investments on these contracts are recognised as revenue as the services are provided.

20 Property, plant and equipment

All real estate held for own use and fixed assets are stated at cost less accumulated depreciation (except for land that is not depreciated) and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

The depreciation of buildings is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The useful life of the buildings is determined for each significant part separately (component approach) and is reviewed at each year end. The real estate is therefore 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 have been determined individually.

As a general rule, residual values are considered to be zero.

Repairs and maintenance expenses are charged to the income statement when the expenditure is incurred. Expenditures that enhance or extend the benefits of real estate or fixed assets beyond their original use are capitalised and subsequently depreciated.

For borrowing costs to finance the construction of property, plant and equipment: see section 14. Investment property.

21 Goodwill and other intangible assets

Intangible assets

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably.

Intangible assets with indefinite lives, which are not amortised, are instead tested for impairment at least annually. With the exception of goodwill, Ageas does not have intangible assets with indefinite useful lives. Any impairment loss identified is recognised in the income statement. Intangible assets with definite lives are amortised over the estimated useful life.

Intangibles are recorded on the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses. The residual value and the useful life of intangible assets are reviewed at each year end.

Goodwill

Goodwill from business combinations from 1 January 2010

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

Goodwill from business combinations prior to 1 January 2010

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

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

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

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

Ageas assesses the carrying value of goodwill annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. If such indication exists, the recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of the cash-generating unit and an impairment loss is recognised if the recoverable amount is less than the carrying amount. Impairment losses are recognised immediately in the income statement.

In the event of an impairment loss, Ageas first reduces the carrying amount of goodwill allocated to the cash generating unit and then reduces the other assets in the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash generating unit. Previously recognised impairment losses relating to goodwill are not reversed.

Other intangible assets

Value of business acquired (VOBA)

Value of business acquired represents the difference between the fair value at acquisition date measured using the Ageas's accounting policies and the subsequent carrying value of a portfolio of contracts acquired in a business or portfolio acquisition. VOBA is recognised as an intangible asset and amortised over the income recognition period of the portfolio of contracts acquired. Each reporting date VOBA is part of the Liability Adequacy Test to assess whether the liabilities arising from insurance and investment contracts are adequate.

Internally generated intangible assets

Internally generated intangible assets are capitalised when Ageas can demonstrate all of the following:

- ◆ the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ◆ its intention to complete the intangible asset and use or sell it;
- ◆ its ability to use or sell the intangible asset;
- ◆ how the intangible asset will generate probable future economic benefits;
- ◆ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ◆ its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Only intangible assets arising from development are capitalised. All other internally generated intangible assets are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Software

Software for computer hardware that cannot operate without that specific software, such as the operating system, is an integral part of the related hardware and it is treated as property, plant and equipment. If the software is not an integral part of the related hardware, the costs incurred during the development phase for which Ageas can demonstrate all of the above-mentioned criteria are capitalised as an intangible asset and amortised using the straight-line method over the estimated useful life. In general, such software is amortised over a maximum of 5 years.

Other intangible assets with definite lives

Other intangible assets include intangible assets with definite lives, such as trademarks and licenses that are generally amortised over their useful lives using the straight-line method. Intangible assets with finite lives are reviewed at each reporting date for indicators of impairment. In general, such intangible assets have an expected useful life of 10 years at most.

22 Non-current assets held for sale and discontinued operations

Non-current assets or a group of assets and liabilities held for sale are those for which Ageas will recover the carrying amount from a sale transaction that is expected to qualify as a sale within a year, instead of through continuing use.

A discontinued operation is a part of Ageas that has been disposed of or is classified as held for sale and

- ◆ represents a separate major line of business or geographical area of operations;
- ◆ is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- ◆ is a subsidiary acquired exclusively with a view to resale.

Non-current assets held for sale (and disposal groups) are not depreciated but measured at the lower of its carrying amount and fair value less costs to sell and are separately presented on the statement of financial position.

Results on discontinued operations are presented separately in the income statement.

23 Securitisations

Securitisations may take the form of a sale of the related assets or a credit risk transfer through the use of funded credit derivatives to special purpose entities. These special purpose entities then issue various security tranches to investors. The financial assets included in a securitisation are fully or partially derecognised when Ageas transfers substantially all risks and rewards of the assets or portions thereof or when Ageas neither transfers nor retains substantially all risks and rewards but does not retain control over the financial assets transferred.

24 Liabilities arising from insurance and investment contracts

General

These liabilities relate to insurance contracts, investment contracts with discretionary participation features (DPF) and investment contracts without DPF.

Classification

Insurance contracts are those contracts when Ageas has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, Ageas determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts (with or without discretionary participation features) are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Life insurance

Unbundling

The deposit component of an insurance contract is unbundled when both of the following conditions are met:

1. the deposit component (including any embedded surrender options) can be measured separately (ie without taking into account the insurance component); and
2. Ageas' accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.

Currently, Ageas has recognised all rights and obligations related to issued insurance contracts according to its accounting policies. As a result, Ageas has not recognised an unbundled deposit component in respect of its insurance contracts.

Future policy benefits

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.

Minimum guaranteed returns

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

Embedded derivatives

Embedded derivatives not closely related to the host contracts are separated from the host contracts and measured at fair value through profit or loss. Actuarial assumptions are revised at each reporting date with the resulting impact recognised in the income statement.

Discretionary participation features

Most Life insurance or investment contracts contain a guaranteed benefit. Some of them may also contain a discretionary participation feature. This feature entitles the holder of the contract to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- ◆ that are likely to be a significant portion of the total contractual benefits;
- ◆ whose amount or timing is contractually at the discretion of Ageas;
- ◆ that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract
 - realised and/or unrealised investment returns on a specified pool of assets held by Ageas
 - the profit or loss of Ageas, fund or other entity that issued the contract.

For Life-insurance contracts and investment contracts with discretionary participation features, current policyholder dividends are accrued based on the contractual amount due based on statutory net income, restrictions and payment terms.

Investment contracts without discretionary participation features

Investment contracts without discretionary participation features are valued at amortised cost and reported as a deposit liability.

Shadow accounting

In some of Ageas' accounting models, realised gains or losses on assets have a direct effect on all or part of the measurement of its insurance liabilities and related deferred acquisition costs. Ageas applies 'shadow accounting' to the changes in fair value of the available for sale investments and of assets and liabilities held for trading that are linked to and therefore affect the measurement of the insurance liabilities. These changes in fair value will therefore not be part of equity or net profit.

The whole of the remaining unrealised changes in fair value of the available-for-sale portfolio – after application of 'shadow accounting' – that are subject to discretionary participation features are classified as a separate component of equity.

An additional deferred profit sharing liability ('DPL') is accrued based on a constructive obligation or the amount legally or contractually required to be paid on differences between statutory and IFRS income and unrealised gains or losses recorded in equity.

Non-life insurance

Claims

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. Estimates of claims incurred but not reported are developed using past experience, current claim trends and the prevailing social, economic and legal environments. The liability for Non-life insurance claims and claim adjustment expenses is based on estimates of expected losses (after taking into account reimbursements, recoveries, salvage and subrogation) and takes into consideration management's judgement on anticipated levels of inflation, claim handling costs, legal risks and the trends in claims. Non-life liabilities for workers' compensation business are presented at their net present value. The liabilities established are adequate to cover the ultimate costs of claims and claim adjustment expenses. Resulting adjustments are recorded in the income statement. Ageas does not discount its liabilities for claims other than for claims with determinable and fixed payment terms.

Liability adequacy test (LAT)

The adequacy of insurance liabilities ("liability adequacy test") is tested by each company at each reporting date. The tests are performed on legal fungible level (asset pool level) for life and on a level of homogeneous product groups for non-life. Ageas considers current best estimates of all contractual cash flows, including related cash flows such as (re)investment returns and expenses. The assumptions are internally consistent with those used for other modeling purposes, such as embedded value. For Life Insurance contracts, the tests include cash flows resulting from embedded options and guarantees. The present value of these cash flows has been determined by using a risk-free discount rate, allowing an illiquidity premium. Any shortfall is recognized immediately in the profit or loss account, either as a DAC- or VOBA impairment or as a loss recognition.

Reinsurance

Reinsurance contracts are reviewed to determine if significant insurance risk is transferred within the contract. Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method and included in loans or borrowings as a reinsurance financial asset or liability. A reinsurance financial asset or liability is recognised based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured. Amounts received or paid under these contracts are accounted for as deposits using the effective interest method.

The accounting requirements for liabilities related to accepted reinsurance contracts with significant insurance risk are the same as those that apply to direct written insurance contracts.

Deposits from reinsurers under ceded reinsurance that transfer significant insurance risk equal the amount due at the date of the statement of financial position.

Liabilities relating to accepted or ceded reinsurance business that do not transfer significant insurance risk may be considered to be financial liabilities and the liabilities are accounted for in the same way as other financial liabilities.

Reinsurance liabilities are reported under 'other liabilities'.

25 Liabilities relating to unit-linked contracts

Ageas' non-participating insurance and investment contracts are primarily unit-linked contracts where the investments are held on behalf of the policyholder. Unit-linked contracts are a specific type of Life insurance contracts governed by Article 25 of EU Directive 2002/83/EC, where the benefits are linked to UCITS ('Undertakings for Collective Investment in Transferable Securities'), a share basket or a reference value, or to a combination of these values, or units, laid down in the contract. 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.

26 Debt certificates, subordinated liabilities and other borrowings

Debt certificates, subordinated liabilities and other borrowings are initially recognised at fair value including direct transaction costs incurred. Subsequently, they are measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Debt that can be converted into a fixed number of Ageas' own shares is separated into two components on initial recognition: (a) a liability instrument and, (b) an equity instrument. The liability component is first determined by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into common shares is then determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole.

Preference shares, which carry a mandatory coupon or which are redeemable on a specific date or at the option of the shareholder, including those preferred shares that establish such a contractual obligation indirectly through their terms and conditions, are classified as borrowings. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If Ageas purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in the income statement.

In determining whether preference shares are classified as a financial liability or as an equity instrument, Ageas assesses the particular rights attached to the shares to determine whether they exhibit the fundamental characteristic of a financial liability.

27 Employee benefits

Pension liabilities

Ageas operates a number of defined benefit and defined contribution plans throughout its global activities, in accordance with local conditions or industry practices. The pension plans are generally funded through payments to insurance companies or trustee administered plans, determined by periodic actuarial calculations. Qualified actuaries calculate the pension assets and liabilities at least annually.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age and years of service. A defined contribution plan is a pension plan under which Ageas pays fixed contributions.

For defined benefit plans, the pension costs and related pension assets or liabilities are estimated using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final liability. Under this method, the cost of providing these benefits is charged to the income statement to spread the pension cost over the service lives of employees. The pension liability is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields on high quality corporate bonds that have terms to maturity approximating the terms of the related liability. Net cumulative unrecognised actuarial gains and losses for defined benefit plans exceeding the corridor (greater than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets) are recognised in the income statement over the average remaining service lives of the employees.

Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Assets that support the pension liabilities of an entity, must meet certain criteria in order to be classified as 'qualifying pension plan assets'. These criteria relate to the fact that the assets should be legally separate from Ageas or its creditors. If these criteria are not met, the assets are included in the relevant item on the statement of financial position (such as investments, property, plant and equipment). If the assets meet the criteria, they are netted against the pension liability.

When the fair value of the plan assets is netted against the present value of the obligation of a defined benefit plan, the resulting amount could be negative (an asset). In this case, the recognised asset cannot exceed the total of any cumulative unrecognised net actuarial losses and past service costs, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Benefit plans that provide long-term service benefits, but that are not pension plans, are measured at present value using the projected unit credit method.

Ageas' contributions to defined contribution pension plans are charged to the income statement in the year to which they relate.

Other post-retirement liabilities

Some of the Ageas companies provide post-retirement employee benefits to retirees such as preferential interest rate loans and health care insurance. Entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These liabilities are determined based on actuarial calculations.

Equity options and equity participation plans

Share options and restricted shares are granted to directors and to employees for services received. The fair value of the services received is determined by reference to the fair value of the share options and restricted shares granted. Compensation expense is measured on the grant date based on the fair value of the options and restricted shares and is recognised, either immediately at grant date if there is no vesting period, or over the vesting period of the options and restricted shares.

The fair value of the share options is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the expected volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option. When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the surplus to share premium. If for this purpose own shares have been repurchased, they will be eliminated from treasury stock.

Loans granted at preferential rates

Loans are sometimes provided to employees at an interest rate which is lower than the market rate. The terms of the loans granted at preferential rates state that employees lose the benefit of receiving a preferential rate upon termination of employment, at which time the interest rate on the loan is adjusted to the applicable market rate. However, some Ageas entities allow their employees to keep the preferential rate subsequent to retirement.

For the first category, the difference between the net present value of the loans at preferential rate and the net present value at the prevailing market rate is recognised in the statement of financial position as a deferred compensation expense and recorded under operating and administrative expenses over the period that the employee obtains the benefit. Likewise, interest income is corrected to show the loans at market rate.

When loans continue after retirement and the former employees continue to benefit from preferential rates due to their past service at Ageas, this benefit is taken into account in determining post-retirement benefits other than pensions.

Employee entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees.

A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the date of the statement of financial position.

28 Provisions, contingencies, commitment and financial guarantees

Provisions

Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation (legal or constructive) to transfer economic benefits, such as cash flows, as a result of past events and if a reliable estimate can be made at the date of the statement of financial position. Provisions are established for certain guarantee contracts for which Ageas is responsible to pay upon default of payment. Provisions are estimated based on all relevant factors and information existing at the date of the statement of financial position, and are typically discounted at the risk-free rate.

Contingencies

Contingencies are those uncertainties where an amount cannot be reasonably estimated or when it is not probable that payment will be required to settle the obligation.

Commitments

Loan commitments that allow for draw down of a loan within the timeframe generally established by regulation or convention in the market place are not recognised as derivative financial instruments. Loan commitments that are designated as at fair value through profit or loss or where Ageas has a past practice of selling the assets resulting from its loan commitments are recognised on the statement of financial position at fair value with the resulting change recognised in the income statement. Acceptances comprise undertakings by Ageas to pay bills of exchange drawn on customers. Ageas expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances are not recognised in the statement of financial position and are disclosed as commitments.

Financial guarantees

Financial guarantee contracts that require payments to be made in response to changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables, and non-financial variables which are not specific to a party to the contract, are accounted for as derivatives.

Financial guarantee contracts requiring Ageas to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are accounted for as insurance contracts if significant insurance risk is transferred to Ageas.

29 Equity

Share capital and treasury shares

Share issue costs

Incremental costs directly attributable to the issue of new shares or share options, other than on a business combination, are deducted from equity net of any related income taxes.

Preference shares

Preference shares which are non-redeemable and upon which dividends are declared at the discretion of the directors are classified as equity.

Treasury shares

When the Parent Companies or their subsidiaries purchase Ageas share capital or obtain rights to purchase their share capital, the consideration paid including any attributable transaction costs, net of income taxes, are shown as a deduction from equity.

Dividends paid on treasury shares that are held by Ageas companies are eliminated when preparing the Consolidated Financial Statements.

Ageas shares held by Ageasfinlux S.A. in the framework of FRESH capital securities are also not entitled to dividend or capital. In calculating dividend, net profit and equity per share, these shares are eliminated. The cost price of the shares is deducted from equity.

Compound financial instruments

Components of compound financial instruments (liability and equity parts) are classified in their respective area of the statement of financial position.

Other equity components

Other elements recorded in equity are related to:

- ◆ direct equity movements associates (see section Consolidation principles)
- ◆ foreign currency (see section Foreign currency)
- ◆ available-for-sale investments (see section Financial Investments)
- ◆ cash flow hedges (see section Derivative financial instruments and hedging)
- ◆ discretionary participation features (see section Liabilities arising from insurance and investment contracts).

30 Gross premium income

Short-duration contracts

A short-duration insurance contract is a contract that provides insurance protection for a fixed period of short duration and that enables the insurer to cancel the contract or to adjust the terms of the contract at the end of any contract period.

Long-duration contracts

A long-duration contract is a contract that generally is not subject to unilateral changes in its terms, such as a non-cancellable or guaranteed renewable contracts, and that requires the performance of various functions and services (including insurance protection) for an extended period.

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.

31 Interest income and expense

Interest income and interest expense are recognised in the income statement for all interest-bearing instruments (whether classified as held to maturity, available for sale, held at fair value through profit or loss, derivatives or other assets or liabilities) 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.

32 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 impairment losses recognised in the income statement after adjusting for the impact of any fair value hedge accounting adjustments. Realised gains and losses on sales are included in the income statement in the caption 'Realised capital gains and losses'.

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

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

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

33 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. This is the case for origination fees, received as compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, etc., and also for origination fees received on issuing financial liabilities measured at amortised cost. Both types of fees are deferred and recognised as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value through profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

Fees recognised as services are provided

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

Fees recognised upon completion of the underlying transaction

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

Fee revenue from investment contracts

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

34 Income tax

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and of unused tax credits.

Income tax payable on profits is recognised as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry-forward are recognised as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilised.

Deferred tax is provided in full, using the statement of financial position liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements.

The rates enacted or substantively enacted at the date of the statement of financial position are used to determine deferred taxes.

Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates, and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Current and deferred tax related to fair value re-measurement of available-for-sale investments and cash-flow hedges which are charged or credited directly to equity is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

35 Earnings per share

Basic earnings per share are calculated by dividing net result attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Ageas and held as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt, preferred shares, share options and restricted shares granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

The impact of discontinued operations on the basic and diluted earnings per share is shown by dividing net result before discontinued operations by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Ageas and held as treasury shares.