VOLUME III

Accounting Policies 2018

ageas

CONTENT

Accounting Policies

Accounting Policies

Extended Version

01

Basis of accounting

The Ageas Consolidated Financial Statements 2018, including all the notes, comply with the International Financial Reporting Standards (IFRS) as at 1 January 2018, as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) on that date.

The accounting policies applied in the Ageas Consolidated Financial Statements 2018 are consistent with those applied for the year ended at 31 December 2017. Amendments to the accounting policies for new and endorsed IFRS standards that are effective on 1 January 2018 are listed in chapter 2.

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

Assets and liabilities recorded in the statement of financial position of Ageas usually have a duration of more than 12 months, except for cash and cash equivalents, reinsurance and other receivables, accrued interest and other assets, non-life insurance liabilities, accrued interest and other liabilities and current tax assets and liabilities.

The most significant IFRS standards applied for the measurement of the assets and liabilities are:

- IAS 1 for presentation of financial statements;
- IAS 16 for property, plant and equipment;
- IAS 19 for employee benefits;
- IAS 23 for borrowing costs (loans);
- IAS 28 for investments in associates;
- IAS 32 for written put options on non-controlling interests;
- IAS 36 for the impairment of assets;
- IAS 38 for intangible assets;
- IAS 39 for financial instruments – recognition and measurement;
- IAS 40 for investment property;
- IFRS 3 for business combinations;
- IFRS 4 for insurance contracts;
- IFRS 7 for disclosures of financial instruments;
- IFRS 8 for operating segments;
- IFRS 10 for consolidated financial statements;
- IFRS 12 for disclosure of interests in other entities;
- IFRS 13 for fair value measurements; and
- IFRS 15 for revenue from contracts with customers.

02

Changes in accounting policies

In 2018, the following new or revised IFRS standards, interpretations and amendments to IFRS standards and interpretations became effective, as adopted by the EU.

IFRS 9 Financial Instruments

The IASB issued the completed version of IFRS 9 'Financial Instruments' in July 2014. IFRS 9 has been endorsed by the EU in November 2016 and applies for annual reporting periods beginning on or after 1 January 2018. As Ageas is eligible to apply the temporary exemption from applying IFRS 9, it has decided to not apply IFRS 9 in 2018. More information about this exemption is included in the section below under 'Amendment to IFRS 4 for applying IFRS 9 with IFRS 4'.

IFRS 9 replaces most of the current IFRS standard IAS 39 'Financial Instruments: Recognition and Measurement'. The classification and measurement of financial assets under IFRS 9 will depend on both the instruments's contractual cash flow characteristics and the entity's business model. The classification of financial liabilities remains unchanged. Under IFRS 9, impairment losses will be recognised earlier compared to the actual practice. This is because the recognition and measurement of impairments under IFRS 9 is based on an expected credit loss model, compared to the actual current incurred loss model under IAS 39. The hedge accounting requirements under IFRS 9 aim at simplifying the general hedge accounting.

Amendments to IFRS 4 for Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In order to address the implementation challenges of IFRS 9 'Financial Instruments' before the effective date of IFRS 17 'Insurance Contracts' (January 2022), the IASB issued in September 2016 the 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. These amendments were endorsed by the EU in November 2017. In November 2018, the IASB voted, together with a one-year deferral of the effective date of IFRS 17, to extend to 2022 the temporary exemption for insurers to apply IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time.

These amendments to IFRS 4 offer two options to minimize the effect of the different effective dates. These options are the overlay approach and the temporary exemption from applying IFRS 9.

The temporary exemption from applying IFRS 9 is an optional temporary exemption from applying IFRS 9 no later than reporting periods beginning on or after 1 January 2022 for entities whose activities are predominantly connected with issuing contracts within the scope of IFRS 4. This means that:

- The carrying amount of the liabilities arising from contracts within the scope of IFRS 4 is significant compared to the total carrying amount of all liabilities of the reporting entity; and
- The percentage of the total carrying amount of the liabilities connected with insurance relative to the total carrying amount of all the liabilities of the reporting entity is greater than 90 per cent or less than or equal to 90 per cent but greater than 80 per cent, provided that the reporting entity does not engage in a significant activity unconnected with insurance.

Ageas performed such a predominance analysis at the reference date of 31 December 2015 and concluded being eligible to apply the temporary exemption from applying IFRS 9; the percentage of the total carrying amount of the liabilities connected with insurance relative to the total carrying amount of all the liabilities of Ageas as per 31 December 2015 is greater than 90 percent. No reassessment of this analysis has been performed at a subsequent date because there were no substantial changes in the business of Ageas that would require such a reassessment.

Since Ageas is eligible to apply the temporary exemption from applying IFRS 9, Ageas decided to do so. A combined implementation project on the implementation of IFRS 9 and IFRS 17 is ongoing.

As Ageas decided to apply the temporary exemption from applying IFRS 9, information on fair value disclosure and credit risk exposure is disclosed in note 2 of the Ageas Consolidated Financial Statements 2018, in order to facilitate the comparison between the Ageas Consolidated Financial Statements 2018 and other companies applying IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 'Revenue from Contracts with Customers' in May 2014. IFRS 15 has been endorsed by the EU in September 2016 and applies for annual reporting periods beginning on or after 1 January 2018. The application of IFRS 15 includes the amendments to IFRS 15 on the effective date of IFRS 15 (issued by the IASB in September 2015) and the clarifications to IFRS 15 (issued by the IASB in April 2016). Both have been endorsed by the EU and shall be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 replaces the existing revenue requirements in IAS 11 'Construction Contracts', IAS 18 'Revenue' and several IFRIC (IFRIC 13, IFRIC 15 and IFRIC 18) and SIC (SIC 31) interpretations.

IFRS 15 applies to all revenue and cash flows arising from contracts with a customer, except if the contract is in the scope of IFRS 16 or IFRS 17 or for financial instruments and other contractual rights or obligations that are within the scope of IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28.

The impact of IFRS 15 on the Ageas Consolidated Financial Statements 2018 is limited since the main sources of income for Ageas are related to income from insurance contracts and income from financial instruments, which are out of scope of IFRS 15. More specific, a limited impact was noted within the Belgian operating segment for the sale of apartments and within the United Kingdom operating segment for the instalment contracts. Under IFRS 15, the revenue under those contracts is recognised over time as performance obligations are satisfied compared to fully up-front or at the completion of the contract in the past.

Other changes

Other changes in IFRS standards, interpretations and amendments to IFRS standards and interpretations in 2018 were not relevant to Ageas or did not impact the statement of financial position or income statement in a significant way:

- Annual improvements to IFRS standards (2014-2016 cycle), including IFRS 1 for first-time adoption of International Financial Reporting Standards and IAS 28 for investments in associates and joint ventures;
- Amendments to IFRS 2 for the classification and measurement of share-based payment transactions;
- Amendments to IAS 40 for transfers of investment property; and
- IFRIC 22 for foreign currency transactions and advance consideration.

Upcoming changes in IFRS EU

Following new or revised IFRS standards, interpretations and amendments to IFRS standards and interpretations, with important impact for Ageas, have been published by the IASB and become effective for annual reporting periods beginning on 1 January 2019 or later.

IFRS 16 Leases

The IASB issued IFRS 16 'Leases' in January 2016. IFRS 16 has been endorsed by the EU in October 2017 and applies for annual periods beginning on or after 1 January 2019. As such, IFRS 16 has not yet been applied for the Ageas Consolidated Financial Statements 2018 but will be fully implemented as from 1 January 2019.

IFRS 16 replaces the current standards IAS 17 'Leases', SIC 15 'Operating Leases – Incentives', SIC 27 'evaluating the substances of transactions involving the legal form of a lease' and IFRIC 4 'determining whether an arrangement contains a lease'.

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The principles in IFRS 16 provide guidance to both the lessees as the lessors. The main change brought by IFRS 16 compared to IAS 17 relates to the measurement and presentation of leases as a lessee. In order to ensure a faithful representation of its leases in its financial statements, a lessee shall recognise a right-of-use asset and a lease liability. The lease liability shall be discounted using the lessee's incremental borrowing rate and the interest expense on the lease liability is presented separately from the depreciation expense of the right-of-use asset.

As an exception to the measurement model for lessees described above, IFRS 16 provides lessees the possibility to recognise the lease payments of short-term leases (≤ 12 months) and of leases for which the underlying asset is of low value to the entity as an expense on a straight-line basis over the lease term. Both exceptions to the lessee measurement model are applied to the leases fulfilling the respective criteria. The lease payments related to those leases will be disclosed separately in the Ageas Consolidated Financial Statements 2019.

Ageas will apply IFRS 16 retrospectively, with recognition of the cumulative effect of initially applying IFRS 16 to all leases as an adjustment to the opening balance as per 1 January 2019, without restatement of comparative information of prior reporting periods.

As a practical transition expedient, IFRS 16 does not require an entity to reassess whether, at initial recognition date of IFRS 16, a contract is or contains a lease as defined under IFRS 16. As such, IFRS 16 has been applied to all contracts entered into force before 1 January 2019 and that were identified as leases applying IAS 17 and IFRIC 4.

For leases that were classified as an operating lease applying IAS 17, a right-of-use asset will be recognised at the date of the initial application date of IFRS 16 (i.e. 1 January 2019) at an amount equal to the lease liability at the same date. For leases that were classified as a finance lease applying IAS 17, the carrying amount of the right-of-use asset and the lease liability as per 1 January 2019 equals the carrying amount of the lease asset and lease liability as per 31 December 2018, applying IAS 17.

Based on Ageas' actual portfolio of non-cancellable operating leases, the implementation of IFRS 16 leads to an increase of the total assets and total liabilities in the statement of financial position of Ageas with approximately EUR 511 million as per 1 January 2019. This amount mainly relates to leases of real-estate and leases of employee company cars.

In determining the lease liability as per 1 January 2019 of leases previously classified as operating leases applying IAS 17, following practical expedients provided by IFRS 16 will be used:

- Grandfathering of the definition of a lease;
- Application of a single discount rate to portfolios of leases with reasonably similar characteristics;
- Non-lease components have not been separated;
- For leases of which the lease term ends within the calendar year 2019, no right-of-use asset nor lease liability has been recognised. Instead, the lease payments of those contracts will be recognised as expense and disclosed separately in the Ageas Consolidated Financial Statements 2019, in line with the exemption provided for short-term leases; and
- Application of the exemptions to the measurement model for short-term leases and leases for which the underlying asset is of low value to the entity. For those leases, no right-of-use asset nor lease liability has been recognised. Instead, the lease payments of those contracts will be recognised as expense and disclosed separately in the Ageas Consolidated Financial Statements 2019.

Apart from the impact of the recognition of the right-of-use assets and the lease liability for the leases of real-estate and employee company cars, that are actually classified as an operating lease under IAS 17, the implementation of IFRS 16 will not lead to a significant impact on Shareholder's Equity, OCI and net result.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 'Insurance Contracts' in May 2017. IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 'Insurance Contracts', which was issued in 2005.

In November 2018, the IASB voted a one-year deferral of the effective date of IFRS 17, requiring the application of IFRS 17 for annual reporting periods beginning on or after 1 January 2022. Together with the one-year deferral of IFRS 17, the IASB also decided to extend to 2022 the temporary exemption for insurers to apply IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time.

In view of the decision of the IASB to align the effective dates of IFRS 9 and IFRS 17, a combined implementation project on IFRS 9 and IFRS 17 is ongoing. The effect of implementing IFRS 9 and IFRS 17 will result in a significant change to the accounting and presentation in the IFRS financial statements and also the impact on Shareholder's Equity, Net Result and/or Other Comprehensive Income is expected to be important.

The IASB is currently undertaking an number of activities to support the implementation of IFRS 17, including a Transition Resource Group (TRG) and assessing a re-opening of IFRS 17 for modifications to the standard as decided by the IASB Board in the second half of 2018 and the beginning of 2019. In view of the current developments at the level of the IASB and the fact that IFRS 17 may still be modified in 2019, it is actually not possible to provide an impact analysis of IFRS 17.

IFRS 17 has not yet been endorsed by the EU. In the context of this endorsement, the EU has asked to the EFRAG to prepare an endorsement advice on IFRS 17. The timing of this endorsement advice will depend on the decisions the IASB will take to re-open and modify IFRS 17.

IFRS 17 introduces a current value accounting model for insurance contracts. The IASB expects that IFRS 17 will result in a more consistent accounting of insurance contracts compared to IFRS 4, which is largely based on grandfathering previous local accounting policies.

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM), that is deferring any day one gain in the fulfilment cash flows of a group of insurance contracts, representing the unearned profitability of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, depending on the entity's accounting policy choice;
- A simplified Premium Allocation Approach (PAA) may be applied for contracts that meet specific conditions;
- For insurance contracts with direct participation features, the general measurement model is modified in a Variable Fee Approach (VFA), by adjusting the CSM with changes in financial variables that adjust the variable fee;
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non distinct investment components), are not presented in the income statement, but are recognised directly on the balance sheet;
- Insurance services results are presented separately from the insurance finance income or expense; and
- Extensive disclosures will provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Other changes

Other forthcoming changes in IFRS standards, interpretations and amendments to IFRS standards and interpretations, that become applicable in 2019 or later, and of which not all changes have yet been endorsed by the EU, are not expected to impact the statement of financial position or income statement of Ageas in a significant way.

Those changes relate to:

- Amendment to IFRS 9: prepayment features with negative compensation;
- IFRIC 23: uncertainty over income tax treatments;
- Amendments to IAS 28: long-term interest in associates and joint ventures;
- Annual improvements to IFRS (2015-2017 cycle): IFRS 3 business combinations, IFRS 11 joint arrangements, IAS 12 income taxes and IAS 23 borrowing costs;
- Amendments to IAS 19: plan amendment, curtailment or settlement;
- Amendments to references in the conceptual framework in IFRS standards;
- Amendment to IFRS 3: business combinations; and
- Amendments to IAS 1 and IAS 8: definition of material.

03 Accounting estimates

The preparation of the Ageas Consolidated Financial Statements in conformity with IFRS requires the use of certain estimates at the end of the reporting period. Each estimate by its nature carries a significant risk of material adjustments (positive or negative) to the carrying amounts of assets and liabilities in the next financial year.

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

31 December 2018

Assets	Estimation uncertainty
Available for sale securities	
Financial instruments	
- Level 2	- The valuation model - Inactive markets
- Level 3	- The valuation model - Use of non-market observable input - Inactive markets
Investment property	- Determination of the useful life and residual value
Loans	- The valuation model - Parameters such as credit spread, maturity and interest rates
Associates	- Various uncertainties depending on the asset mix, operations and market developments
Goodwill	- The valuation model used - Financial and economic variables - Discount rate - The inherent risk premium of the entity
Other intangible assets	- Determination of the useful life and residual value
Deferred tax assets	- Interpretation of tax regulations - Amount and timing of future taxable income
Liabilities	
Liabilities for insurance contracts	
- Life	- Actuarial assumptions - Yield curve used in liability adequacy test (LAT-test) - Reinvestment profile of the investment portfolio, credit risk spread and maturity, when determining the shadow LAT adjustment
- Non-life	- Liabilities for incurred but not reported claims - Claim adjustment expenses - Final settlement of outstanding claims
Pension obligations	- Actuarial assumptions - Discount rate - Inflation/salaries
Provisions	- The likelihood of a present obligation due to events in the past - The calculation of the best estimated amount
Deferred tax liabilities	- Interpretation of tax regulations - Amount and timing of future taxable expenses

For more detailed information on the application of these estimates, please refer to the applicable notes in the Ageas Consolidated Financial Statements. Note 5 'Risk Management' of the Ageas Consolidated Financial Statements 2018 describes the way Ageas mitigates the various risks of the insurance operations.

04

Events after the reporting period

Events after the reporting period relate to favourable and unfavourable events that occur between the end of the reporting period and the date when the Consolidated Financial Statements are authorised for issue by the Board of Ageas.

Two types of events can be identified:

- Events leading to an adjustment of the Consolidated Financial Statements if they provide evidence of conditions that existed at the reporting date;
- Events result in additional disclosures if they are indicative of conditions that arose after the date of the statement of financial position, and if relevant and material.

An overview of events after the reporting period is included in note 48, Events after the date of the statement of financial position, of the Ageas Consolidated Financial Statements 2018.

05

Segment reporting

Ageas's reportable operating segments are primarily 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 and are managed as such.

The operating segments are:

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

Activities not related to insurance and group elimination differences are reported separately from the core insurance activities. Those non-insurance activities are reported in the operating segment General Account, which includes such as group financing and other holding activities. In addition, the General Account also includes the investment in Royal Park Investments and the liabilities related to CASHES/RPN(I).

Transactions or transfers between the operating segments are made under normal commercial terms and conditions that would be available to unrelated third parties. Eliminations are reported separately.

06 Consolidation principles

Subsidiaries

The Ageas Consolidated Financial Statements include the financial statements of ageas SA/NV (the parent company) and its subsidiaries. Subsidiaries are those companies, over which Ageas, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from the activities ('control'). Subsidiaries are consolidated from the date on which effective control is transferred to Ageas and are no longer consolidated from the date on which 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 equity.

Intercompany transactions, balances and gains and losses on transactions between Ageas companies are eliminated.

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 over which Ageas has significant influence, but does not control. The investment is recorded as Ageas's share of the net assets of the associate. The initial acquisition is valued at cost. At subsequent measurement, the share of net income for the year is recognised as share in result of associates and Ageas's share of the investments post-acquisition direct equity movements is recognised in equity.

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

Disposal of subsidiaries, businesses and non-current assets

A non-current asset (or disposal group, such as subsidiaries) is classified as 'held for sale' if it is available for immediate sale in its present condition and if its sale is highly probable. A sale is highly probable where:

- There is evidence of management commitment;
- There is an active programme to locate a buyer and complete the plan;
- The asset is actively marketed for sale at a reasonable price compared to its fair value;
- The sale is expected to be completed within 12 months of the date of classification; and
- Actions required to complete the plan indicate that it is unlikely that there will be significant changes to the plan or that it will be withdrawn.

The probability of shareholder's approval is considered as part of the assessment of whether the sale is highly probable. If regulatory approval is needed, a sale is only considered to be highly probable after this approval.

Non-current assets (or disposal groups) classified as held for sale are:

- Measured at the lower of the carrying amount and fair value less costs to sell (except for the assets that are exempt from this rule such as IFRS 4 insurance rights, financial assets, deferred taxes and pension plans);
- Current assets and all liabilities are measured in accordance with the applicable IFRS;
- Not depreciated or amortised; and
- Presented separately in the balance sheet (assets and liabilities are not offset).

The date of disposal of a subsidiary or disposal group is the date on which control passes. The consolidated income statement includes the results of a subsidiary or disposal group up to the date of disposal. The gain or loss on disposal is the difference between (a) the proceeds of the sale and (b) the carrying amount of the net assets plus any attributable goodwill and amounts accumulated in other comprehensive income (for example, foreign translation adjustments and available-for-sale reserves).

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.

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

07 Foreign currency

For individual entities of Ageas, foreign currency transactions are accounted for using the exchange rate at the date of the transaction.

For monetary items, outstanding balances in foreign currencies at year-end are translated at year-end exchange rates.

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 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 change in foreign currency differences, 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

Upon 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). The statement of financial position of the entities whose functional currency is not denominated in euro is 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 exchange rates of the most relevant currencies for Ageas.

	Rates at end of period		Average rates	
1 euro =	31 December 2018	31 December 2017	2018	2017
Pound sterling	0.89	0.89	0.88	0.88
US dollar	1.15	1.20	1.18	1.13
Hong Kong dollar	8.97	9.37	9.26	8.80
Turkey lira	6.06	4.55	5.71	4.12
China yuan renminbi	7.88	7.80	7.81	7.63
Indian rupee	79.73	76.60	80.74	73.53
Malaysia ringgit	4.73	4.85	4.76	4.85
Philippines peso	60.11	59.79	62.21	56.97
Thailand baht	37.05	39.12	38.17	38.30
Vietnamese dong	26,316	27,027	27,027	25,641

08 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 and measures financial assets and liabilities based on the nature of the underlying transactions.

Financial assets

Management determines the appropriate classification of its investment securities at the time of purchase:

- Held-to-maturity: include investment securities with a fixed maturity where management has both the intent and the ability to hold the securities to maturity;
- Loans and receivables: include investment securities with fixed or determinable payments that are not quoted in an active market and that, upon initial recognition, are not designated as held-for-trading nor as available-for-sale;
- Available-for-sale: include investment securities to be held for an indefinite period of time, which may be sold in response to needs for liquidity or to changes in interest rates, exchange rates or equity prices; and
- Held-for-trading: include investment securities that are acquired for the purpose of generating short-term profits.

Held-to-maturity assets are carried at amortised cost less any impairment changes. Any difference with 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 asset is determined to be impaired, the impairment is recognised in the income statement.

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

Held-for-trading assets, derivatives 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 'Result on sale and revaluations'. Interest received (paid) on assets (liabilities) held for trading is reported as interest income (expense). Dividends received are included in 'Interest, dividend and other investment income'.

The majority of Ageas's financial assets (being bonds and equity shares) are classified as available-for-sale and are measured at fair value. Changes in the fair value are recognised directly in equity (Other Comprehensive Income (OCI)) until the asset is sold, unless the asset is hedged by a derivative. These investments hedged by a derivative 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.

For those insurance portfolios, where unrealised gains and losses on 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, implying why those changes will therefore not be part of equity.

Impairment of financial assets

A financial asset (or group of financial assets) classified as either available-for-sale, loans and receivables or held-to-maturity is deemed to be impaired if there is an objective evidence of one or more loss events or triggers, e.g. significant financial difficulty of the issuer, that occurred after the initial recognition of the asset, and if that loss event (or events) has (or have) 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 (365 consecutive days) 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 asset is determined to be impaired, the impairment is recognised in the income statement. For impaired available-for-sale assets, 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 on an investment in an equity instrument classified as available-for-sale are not reversed through the income statement but through 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.

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

Transaction costs

Transaction costs on financial instruments refer to the 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.

Those transaction costs are included in the initial measurement of the financial asset or liability, except if those are measured at fair value through profit or loss, in which case transaction costs are directly expensed.

Fair value of financial instruments

The fair value is the amount for which an asset or granted equity instrument could be exchanged and a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

In determining the fair value, following hierarchy for determining and disclosing the fair value is used in the order listed:

- (Unadjusted) quoted price in an active market for identical assets or liabilities (level 1);
- Valuation techniques based on in the (market) observable inputs, either directly or indirectly, other than quoted prices included in level 1 (level 2);
- Valuation techniques not based on observable inputs (level 3);
- Cost.

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. When a financial instrument is traded in an active and liquid market, its quoted market price or value provides the best evidence of its fair value. No adjustment is made to the fair value of large holdings of shares, unless there is a binding agreement to sell the shares at a price other than the market price. The appropriate quoted market price for an asset held or a liability to be issued is the current bid price, and for an asset to be acquired or a liability held, the ask price. Mid-market prices are used as a basis for establishing the fair value of assets and liabilities with offsetting market risks.

If no active market price is available, fair values are estimated using present value or other valuation techniques based on market observable inputs, existing at the reporting date. Inputs can be either directly observable (i.e. prices) or indirectly observable (i.e. derived from prices, such as interest or exchange rates).

If there is a valuation technique commonly used by market participants to price an instrument and that technique demonstrated to provide reliable estimates of prices obtained in actual market transactions, Ageas applies that valuation technique. Valuation techniques that are well established in financial markets include recent market transactions, discounted cash flows and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider when setting a price, and should be consistent with accepted economic methodologies for pricing financial instruments.

The basic principles for estimating the fair value are:

- Maximise of the use of market inputs and minimise of the use of internal estimates and assumptions;
- Change of estimating techniques only if an improvement can be demonstrated or if a change is necessary because of the availability of information.

The fair value presented is the 'clean' fair value, which is the total fair value or 'dirty' fair value less interest accruals. Interest accruals are reported separately.

Methods and assumptions used in determining the fair value are largely dependent on whether the instrument is traded on financial markets and on the information that is available to be incorporated into the valuation models. A summary of different financial instrument types along with the fair value treatment is included below:

(I) Fair values for securities classified at 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 a swap curve plus a spread reflecting the risk characteristics of the instrument. Fair values for securities classified at held-to-maturity (only necessary for disclosures) are determined in the same way.

(II) Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.

(III) 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.

(IV) Fair values for loans are determined using discounted cash flow models based upon Ageas's current incremental lending rates for similar type loans. For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. Option pricing models are used for valuing caps and prepayment options embedded in loans that have been separated in accordance with IFRS.

(V) Fair values for off-balance-sheet commitments or guarantees are 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.

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.

09

Derivatives and financial instruments used for 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;
- derivatives for hedging purposes.

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.

Hedge accounting

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.

Assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to Ageas are designated as hedged items. A hedged item can also be a particular risk that is a portion of the total risk of the hedged item.

The change in fair value of a hedged item 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'. The amount in equity is reclassified to the income statement when the hedged item affects the income statement. 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 paragraph 7 Foreign currency of these Accounting policies.

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 asset is derecognised and the present value of the lease payments and any guaranteed residual value is recognised as a receivable. The difference between the asset 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 non-financial assets

A non-financial asset is impaired when its carrying amount exceeds its recoverable amount. Ageas reviews all of its non-financial 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.

The recoverable amount is measured as the higher of the fair value less cost of disposal and the value in use. Fair value less cost of disposal is the price that would be received to sell an asset in an orderly transaction between market participants, 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.

If in a subsequent period the amount of the impairment on non-financial 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.

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 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 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 own use.

For reasons of comparability of the performance in the financial statements Ageas applies a cost model, both for investment property and for property held for own use. After recognition as an asset, all property is carried at its cost less any accumulated depreciation (using a straight-line method) and any accumulated impairment losses. Consequently, 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:

(I) 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

(II) 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 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:

(I) expenditures for the asset and borrowing costs are being incurred; and

(II) 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.

14 Loans

Loans to banks, loans to governments 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 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.

15

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. 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'.

16

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. Please refer to paragraph 22 of these Accounting policies for the measurement of unit linked contracts.

17

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 to 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.

18

Deferred acquisition costs

General

The costs of new and renewed insurance business, all of which vary with and primarily are related to the production of new business, are deferred and amortised. The costs of new and renewed insurance business principally includes commissions, underwriting, agency and policy issue expenses. The method for amortisation is based on expected earned premium or estimated gross profit margins. Deferred Acquisition Costs ('DAC') are periodically reviewed to ensure they are recoverable based on estimates of future profits of the underlying contracts. Refer to paragraph 21, Liabilities arising from (re)insurance and investment contracts, of these Accounting policies.

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 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.

19

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.
- 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 paragraph 13 Investment property.

20 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 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.
Intangible assets with definite lives are amortised over the estimated useful life. Intangible assets with indefinite lives are not amortised, but 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.

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:

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

Any acquisition costs are directly expensed, except for the costs of issuing debt or equity securities, which are 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.

A contingent consideration was recognised if, and only if, Ageas had a present obligation, 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' accounting policies and the subsequent carrying value of a portfolio of insurance and investment contracts acquired in a business or portfolio acquisition.

VOBA is recognised as an intangible asset and is 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:

(I) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(II) Its intention to complete the intangible asset and use or sell it;

(III) Its ability to use or sell the intangible asset;

(IV) How the intangible asset will generate probable future economic benefits;

(V) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(VI) 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 finite lives

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

21

Liabilities arising from (re)insurance and investment contracts

General

These liabilities relate to (re)insurance contracts, investment contracts with Discretionary Participation Features (DPF) and investment contracts without DPF.

Classification

Insurance contracts are those contracts in which Ageas has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). 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 (i.e. without taking into account the insurance component); and
2. Ageas's 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 remeasured 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:

(I) That are likely to be a significant portion of the total contractual benefits;

(II) Whose amount or timing is contractually at the discretion of Ageas;

(III) 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 benefits are accrued based on the contractual amount due based on statutory net income, restrictions and payment terms. The DPF component concerns a conditional promise related to unrealized gains and losses. This promise remains therefore part of the unrealised gains and losses as included in equity. Once the promise becomes unconditional, the related amount is transferred to Liabilities arising from Life insurance contracts.

Investment contracts without Discretionary Participation Features

Investment contracts without Discretionary Participation Features are initially recognised at fair value and subsequently measured at amortised cost and reported as a deposit liability.

Shadow accounting

In some of Ageas's businesses, realised gains or losses on assets have a direct effect on 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 that are linked to, and therefore affect, the measurement of the insurance liabilities.

Shadow accounting means that unrealised gains or losses on the assets, which are recognised in equity without affecting profit or loss, are reflected in the measurement of the insurance liabilities (or deferred acquisition costs or value of business acquired) in the same way as realised gains or losses. This adjustment also covers the situation when market rates drop below any guaranteed rates. In that case an additional shadow accounting adjustment is made. This adjustment is also referred to as shadow-LAT (Liability Adequacy Test). This adjustment is calculated based on the expected investment returns of the current portfolio till maturity and a risk free reinvestment rate after maturity.

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 periodic payment terms.

Liability Adequacy Test (LAT)

The adequacy of insurance liabilities ('Liability Adequacy Test') is tested by each company at each reporting date. The test is generally performed on legal fungible level for the Life activities and on the level of line of business for the Non-life activities. Ageas considers current best estimates of all contractual cash flows, including related cash flows such as commissions, reinsurance and expenses. For Life Insurance contracts, the test includes cash flows resulting from embedded options and guarantees and investment income. The present value of these cash flows is determined by (a) using the current book yield of the existing portfolio, based on the assumption that reinvestments after the maturity of the financial instruments will take place at a risk-free rate allowing a company specific volatility adjustment based on EIOPA methodology and (b) a risk-free discount rate allowing a company specific volatility adjustment based on EIOPA methodology (after the last liquid point; the so called Ultimate Forward Rate extrapolation is used). The contract boundaries of Solvency II are applied. Local insurance companies can apply stricter local requirements for the Liability Adequacy Test.

The net present value of the cash flows is compared with the corresponding technical liabilities. Any shortfall is recognised immediately in profit or loss, either as a DAC or VOBA impairment or as a loss recognition. If, in a subsequent period, the shortfall decreases, the decrease is reversed through profit or loss.

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 financial asset or liability. Such 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.

Reinsurance contracts that transfer significant insurance risk are accounted according 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 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'.

22

Liabilities relating to unit-linked contracts

Ageas's non-participating insurance and investment contracts are primarily unit-linked contracts, where the investments are held on behalf of the policyholder and are measured at fair value. 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 of 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 financial guarantees, which are also valued at fair value and included in liabilities related to unit-linked contracts, with the change in the fair value recognised in the income statement. Insurance risks are taken into account on basis of actuarial assumptions.

23

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's 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.

If Ageas redeems the debts, subordinated liabilities and other borrowings these are 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.

24 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.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs.

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 present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan ('asset ceiling').

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's 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, both equity settled and cash settled plans, 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. Expense is measured on the grant date based on the fair value of the options and restricted shares and is recognised in the income statement, either immediately at grant date if there is no vesting period, or over the vesting period of the options and restricted shares. Equity settled plans are accounted for as an increase in equity and are remeasured for the number of shares till the vesting conditions are met.

Cash settled plans are accounted for as an increase in liabilities and are remeasured both for the number of shares till the vesting conditions are met and the change in the fair value of the restricted shares.

Remeasured expenses are recognised in the income statement during the vesting period. Expenses related to current and past periods is directly recognised in the income statement.

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.

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.

25 Provisions and contingencies

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.

26 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.

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:

(I) direct equity movements associates (see note 6 Consolidation principles);
(II) foreign currency (see note 7 Foreign currency);
(III) available-for-sale investments (see note 8 Financial instruments);
(IV) cash flow hedges (see note 9 Derivatives and financial instruments used for hedging);
(V) discretionary participation features (see note 21 Liabilities arising from (re)insurance and investment contracts);
(VI) actuarial gains and losses of defined benefit plans (see note 24 Employee benefits);
(VII) share options and restricted share plans (see note 24 Employee benefits);
(VIII) dividend, treasury shares and cancellation of shares.

27 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 contract, 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 offset 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.

28

Interest, dividend and other investment income

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.

Dividends are recognised in the income statement when they are declared.

Rental income and other income is recognised on an accrual basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

29

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 adjustment for the impact of any hedge accounting. Realised gains and losses on sales are included in the income statement in the caption 'Result on sales and revaluations'.

For financial instruments carried at fair value through profit or loss, the difference between the carrying value at the end of the current reporting period and the previous reporting period is included in 'Result on sales and revaluations'.

For derivatives, the difference between the 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 'Results on sales and revaluations'.

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

30 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 from investment contracts

These fees relate 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. Fees are recognised as revenue as the services are provided. Expenses include mortality claims and interest credited.

31 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 remeasurement of balance sheet items which are charged or credited directly to equity (such as available-for-sale investments and cash-flow hedges) is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

32
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.

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