REAAL

ANNUAL REPORT 2011

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Report of the Management Board

1 Key figures

Table 1: Key figures REAAL NV

In € millions	2011	2010	2009	2008	2007
Result					
REAAL Life	222	208	49	(473)	177
REAAL Non-Life	33	16	54	26	23
REAAL Other	1	(18)	(11)	(32)	5
REAAL	**256**	**206**	**92**	**(479)**	**205**
Zwitserleven	(91)	36	104	(71)	
REAAL NV	**165**	**242**	**196**	**(550)**	**205**
Income					
Net premium income	3,450	3,574	4,254	4,302	2,523
Investment income	1,432	1,498	1,695	1,219	834
Investment income for account of policyholders	(39)	815	1,334	(1,716)	96
Other income	277	212	124	346	94
Total income	**5,120**	**6,099**	**7,407**	**4,151**	**3,547**
Total expenses	4,904	5,793	7,163	4,899	3,288
Result before tax	**216**	**306**	**244**	**(748)**	**259**
Taxation	50	63	44	(201)	52
Net result discontinued operations and minority interests	1	1	4	3	2
Net result for the period	**165**	**242**	**196**	**(550)**	**205**
Balance sheet					
Total assets	54,328	53,044	53,062	52,701	34,146
Investments	32,818	33,940	33,061	31,529	21,539
Investments for account of policyholders	12,443	12,641	12,040	10,844	7,349
Loans and advances to banks	499	356	1,831	1,929	539
Total equity	4,358	3,630	3,300	3,156	1,913
Insurance contracts	38,827	38,844	38,060	36,096	24,984
Amounts due to banks	3,154	4,506	4,764	4,676	1,565
Ratios					
New annual premium equivalent (in € millions)	376	328	406	456	207
Operating cost/premium ratio REAAL	11.2%	12.2%	13.0%		
Operating cost/premium ratio Zwitserleven	14.9%	15.4%	14.0%		
Regulatory solvency Insurance activities	203%	195%	230%	176%	198%
Regulatory solvency Life	234%	205%	246%	177%	272%
Regulatory solvency Non-Life	464%	398%	379%	307%	255%

REAAL has implemented shadow accounting in its IFRS reporting as of 1 January 2011. 2010 figures have been restated. For more information see paragraph 17.3.4 Changes in principles, estimates and presentation.

2 Foreword

REAAL NV is a subsidiary of SNS REAAL. SNS REAAL is a financial services provider in the banking and insurance sector. With seven strong brands, SNS REAAL focuses mainly on the Dutch savings, investment, mortgage, property finance, insurance and pensions markets. Our customers are primarily private individuals and small and medium-sized enterprises (SME). In REAAL NV all insurance activities are combined. We manage our brands at the Group level.

A sense of satisfaction at the close of a troubling year

Despite the difficulties that confronted us during financial year 2011, it was nonetheless a year which we feel we were able to conclude with a certain sense of satisfaction. We posted a net result for REAAL NV of € 165 million. At the same time, we retained a sharp focus on our mission and ambition. Through our mission of Simplicity in finance we aim to become the most customer-friendly financial services provider in the Netherlands.

During 2011, we made further important strides towards achieving this. Hard decisions had to be made in positioning our brands more clearly and more consistently to better engage with our customers and ensure that they can be confident that we put their interests first. Our aim is to sell transparent and effective products at a fair price. This is not too lofty and intangible a goal - REAAL NV is a customer-facing company. It can emulate the many other Dutch companies for whom a strong notion of customer confidence forms the basis for its earnings.

Another challenging year

Financial year 2011 initially appeared to be slightly easier than the difficult 2010. Economic forecasts were encouraging, with financial markets appearing to regain stability and show modest improvement. This optimism was quickly quenched as the Greek sovereign debt crisis flared up. Following Greece, Portugal also sought emergency assistance. Soon the continued existence of the entire European Monetary Union was under discussion. This looming threat, in addition to the natural disasters that had engulfed Japan, led to unprecedented volatility in financial markets and to a shrinking economy instead of the growth which had been anticipated in the second half of 2011.

Due to uncertainty about the continued existence of the European currency union, investors in EU bond markets retreated from the weaker Euro countries and sought security in sovereign debts in Germany and other strong member states, including the Netherlands. Bond rates declined to historically low levels. The considerable drop in prices and turnover on the stock exchanges were other negative factors. Recovery in the fourth quarter was unable to compensate for the damage sustained during the previous quarters. The housing market, too, was negatively impacted, due to lower prices and fewer transactions.

Robust financial results

In the face of these chiefly unpredictable negative developments, we managed to achieve strong financial results. REAAL pushed its net profit up to € 256 million. Zwitserleven ended the year with a loss of € 91 million. Main cause of the negative results was a goodwill impairment of € 107 million. Combined with the impact investment portfolio and hedges of € 25 million and the amortisation of VOBA and other intangible assets of € 14 million, as a result of which it ended up € 91 million in the red.

Our capital position throughout 2011 remained solid. The solvency of the Insurance activities was 203%.

Building for the future

Despite the many challenges, we continued to build for the future during 2011. We are devoting strong attention tot corporate responsibility through our mission of Simplicity in finance, our core value CARE! and engagement with the client. We continued to develop new products that made financial affairs simpler and more understandable. This annual report therefore boasts the title Innovation through simplicity.

By way of example, we introduced REAAL Customer Service, which has led to much-improved level of services. REAAL NV initiated the Lijfwacht (body guard) service to help clients avoid work-related disability.

Zwitserleven made improvements to, what by nature, is a complex process for Uniform Pension Statements process so that 199 of every 200 clients now receive their statements on time. Zwitserleven also held pension sessions for clients during the evening, as a way of better meeting their clients' need for information.

Frequent customer satisfaction surveys showed an upward trend in 2011, proving that we are heading in the right direction in meeting our clients' needs. The Net Promoter Score also rose for all brands. This instrument measures how many clients recommend us to their family and friends. With the rise of social media, personal recommendations have also become a crucial factor in restoring consumer trust.

Many new customers

We succeeded in attracting considerable numbers of new clients and achieving a high customer retention level. REAAL concluded more than 70,000 term life insurance policies and sold a record number of 3,000 disability insurance policies. Intermediaries voted Zwitserleven as Best Pension Provider in the Netherlands for the fourth time in a row.

The explicit choice for a multi-brand strategy was an important strategic milestone in 2011. Many of our competitors invest in one strong brand, preferably with an international appeal, and often supported by large budgets for media campaigns and sponsorship. The disadvantage is that these brands are a 'one size fits all' in which individual customers are lost within a broad group with which they cannot identify.

Global brands for financial products have lost a great deal of prestige in this crisis. Nationally and locally, it is clearly defined brands which will inspire confidence. Zwitserleven is also a classic example of brand power. The customer experience 'Het Zwitserleven Gevoel' has become a well-known household expression in the Dutch language.

Three strong brands

REAAL NV has three strong brands: REAAL, Zwitserleven and Proteq. Through sharper brand positioning, we remain closer to different customer groups and reach a greater proportion of Dutch consumers. This is also a good fit with the multiform society of the Netherlands. By sharing as many systems and processes as possible, we can achieve considerable cost-savings and increase economies.

Looking to the future of our company, our capacity to operate cost-effectively is absolutely essential. Only then can we offer good-quality products at a fair price. The company as a whole is participating in a programme to structurally reduce its cost.

Sustainable and responsible

Today's customers not only demand transparent and effective products at a fair price; they also want responsible customer service from an organisation which is part of a sustainable chain. Corporate responsibility is part and parcel of REAAL. Our mission of Simplicity in finance focuses on responsible service provision and our core value CARE! means that our concern is not only with financial results but also the care we exercise with respect to each other, the customer and society. CARE! is the vehicle by which corporate responsibility is integrated into how our people function, the services we offer and our business operations. The pillars of our company strategy are designed to reinforce our foundations and to build for the future of REAAL NV, ambitions which can only be achieved through continual dialogue with our stakeholders. With our efforts guided by the feedback from this dialogue we can be confident of focusing on concrete issues - topics which really matter.

We have made significant progress on sustainability in asset management. From this year, all investments and investment funds of REAAL NV's business units comply with the ESG standards. These are ethical criteria related to Environmental, Social and Governance issues. We set very high standards, which have not gone unnoticed. In 2011, the Dutch Association of Investors for Sustainable Development (VBDO) deemed REAAL's investment policy to be the most sustainable investment policy. According to the Association, Zwitserleven is the runner up.

Corporate responsibility means that in addition to offering responsible services we also aim to operate as a responsible organisation. In concrete terms, it means acting as a responsible employer. REAAL NV offers its personnel an attractive combination of primary and secondary employment conditions. Determining factors are, of course, meeting our financial

possibilities as well as the wishes of society. Three years ago, we therefore introduced a moderate remuneration policy for the senior management. Remuneration is now in line with the recommendations of relevant regulations. We have also tightened up the employment conditions of all REAAL staff by cutting down on various forms of performance-related bonuses.

Continued retrenchment

REAAL NV plans to continue its austerity policy during the current financial year. All financial institutions, REAAL NV included, are moving towards a new yield model involving lower volumes and lower margins. In order to generate a sustainable yield, structurally different employment conditions are essential. This inevitably leads to discussion of the fair price for a financial product.

The year 2011 was not an easy one for REAAL NV personnel. Nonetheless, employee satisfaction rose by half a point to 7.5 (on a scale of 1-10). In spite of the aforementioned retrenchment, REAAL NV remained an attractive and modern employer. Progress with introducing flexible working arrangements (Het Nieuwe Werken)played an important role. This new concept assigns additional responsibility to employees, allowing for a better balance between their working and private lives.

Our mission of Simplicity in finance and our core value CARE! also enhance employee satisfaction. CARE! was further pursued in 2011 through a large number of activities both inside and outside the company. An important theme remained helping people become financially independent. With this aim in mind, we actively participated in organisations such as Stay on Top of Your Spending. We also gave 550 guest lessons at primary schools during Money Smart Week. In these straightened times, financial awareness has taken on a new importance. Old certainties are falling away. People increasingly have to think ahead and take future financial concerns into their own hands. The financial sector and the government both have a responsibility to ensure this is a development that proceeds smoothly.

Ready for the ban on commission

2012 will undoubtedly be another challenging year with continued uncertainty and a decrease in purchasing power. We need to respond to large-scale changes in our product markets. To build up personal wealth we are to switch from integrated insurance products to a combination of bank savings and risk insurances. Furthermore, we are moving towards ruling out commission on complex products, the Customer Agreed Remuneration (CAR), which REAAL NV fully supports. We consider CAR to be an opportunity to offer cost-efficient advisory solutions, and on our own initiative started adopting this working procedure back in 2009.

The pensions market, in which we hold a strong position, is faced with longer life expectancies and low interest rates. It is therefore inevitable that the retirement age will rise further and pension scheme participants will shoulder more risk. Both the general atmosphere of uncertainty and the government's withdrawal will stimulate the demand for savings products and other wealth management products.

Mobilising our strength

Clearly, we once again have to give our best in 2012. We will devote particular attention to preparations for repaying the capital support to the State. This is no minor undertaking in an environment that is bound to be difficult and can change greatly each quarter.

Fortunately, we have significant strength on which to call. In 2011, we proved our capacity to achieve good results with our core activities in difficult circumstances. We managed to attract more clients, reach higher customer satisfaction levels, reduce the cost base and raise more capital. Our employees are increasingly taking on board the implications of the core value CARE! and are motivated by our mission of Simplicity in finance.

I would like to thank all REAAL employees and all those who have devoted themselves to helping achieve our mission and ambitions.

Dick Okhuijsen, CEO

3 Profile and brands

3.1 General

3.1.1 Simplicity in finance

REAAL NV wants to stay close to its customers and society. What matters most is that every client gets the right product at the right time. However different our brands are, they share the same basic principles. REAAL NV wants to keep both feet at the ground and doesn't want to make financial matters more complicated than necessary. All our brands stand for simplicity in finance. We want to increase our clients' financial independence through clear, accessible products and services.

3.1.2 Having an eye for the customer

We want to deserve our customers, both private and business customers. We want to be their financial specialist. We want to be the best at winning, helping and retaining customers. At REAAL, each brand gives its own meaning and direction to this. Our ultimate aim is to build sustainable relationships, not only with our customers, but with other stakeholders in society too.

3.2 Our brands

There is no such thing as a general customer. Everyone has different wishes, requirements and preferences. We want to serve all these people in a way that suits them best. We opt for different brands that each serves its customers in a way that suits them best. Each brand has its own working method, characteristics, mentality and products, from savings and investments to insurance. Thus, Proteq Dier & Zorg (Pet & Care) clients choose the coverage that best suits their pet.

3.2.1 REAAL

REAAL

REAAL wants to offer realistic insurance products. Many things in a person's life can change. REAAL is well aware of this. Its products keep step with all the stages of a client's life. And; the lower the risk, the lower the premium.

Products: insurance (life, individual, non-life, disability), savings, mortgages and investments.

www.reaal.nl

3.2.2 Zwitserleven

ZwitserLeven

Zwitserleven wants to be the pension insurer in the Netherlands. It is Zwitserleven's mission to give every Dutch citizen 'the Zwitserleven feeling': to enable people to enjoy a carefree retired life. Zwiterleven's customers are SME businesses, corporations and owner/managing directors.

Product: pension insurance.

www.zwitserleven.nl

3.2.3 Proteq Dier & Zorg

Proteq Dier&Zorg ROUTE MOBIEL

Zelf.nl / Verzekeren

Proteq Dier & Zorg is market leader in accident and health insurance for cats and dogs in the Netherlands. And deservedly so. For it is the pet owner who chooses the level of coverage that suits his pet best. And if he prefers more security, he can take out a supplementary insurance.

Product: health insurance for pets.

www.proteqdierenzorg.nl

3.2.3.1 Zelf.nl

Zelf.nl is an initiative by Proteq. Zelf.nl does everything to keep costs as low as possible. So, no expensive commercials and a simple office in Heerhugowaard. At Zelf.nl, you conclude your insurance yourselve. Quick and easy.

Products: non-life and funeral insurance.

www.zelf.nl

3.2.3.2 Route Mobiel

Route Mobiel, another Proteq initiative, offers roadside assistance for motorists through an efficient organisation and intricate network of roadside assistance services in the Netherlands and 40 other European countries. Route Mobiel also offers supplementary car and travel insurance that integrate seamlessly with the roadside assistance service.

Product: road assistance services.

www.routemobiel.nl

4 Mission, core value and strategy

REAAL NV's mission is Simplicity in finance. We want to increase the financial independence of our customers. We do so by providing simple and accessible products and by offering assistance in making the right choices.

4.1 Simplicity in finance

Our mission Simplicity in finance follows from the origins of our company over 100 years ago. Even then, openness, simplicity and solidarity were the pillars supporting our operations. Our aim is to use those same pillars to aid today's customers in enhancing their ability to manage their financial affairs. Simplicity in finance is intended to gain and retain consumers' and companies' trust.

4.2 CARE! and corporate responsibility

We wish to operate responsibly for all our stakeholders. Our core value CARE! represents the responsibility we bear for our customers, each other and for society, as well as for the results this produces for our shareholders and other investors. CARE! inspires and helps us to better embed corporate responsibility in our conduct, our organisation and our products.

4.3 Strategy

Our mission, core value and strategy meet in the picture of our strategic house presented. The foundation supporting this house is a tight-knit and effective organisation, filled with committed and ambitious employees. Inspired by our core value CARE!, they define how they put corporate responsibility into practice. Based on our market positioning and a SWOT analysis, we have identified our strategic priorities:

- Winning, helping and retaining clients.
- Reducing the cost base.

We build our future by winning, helping and retaining clients and reducing the cost base.

This strategy fine-tunes the strategic pillars communicated previously: 'deserve customers', 'dare to choose', 'winning, helping and retaining customers' and 'decisive on result'. Accentuating our choices, all these elements are included in the strategic priorities. We have also created a distinction between building the foundation and building the future.

4.3.1 Winning, helping and retaining customers

We aim to provide our customers with suitable products through their preferred distribution channels and brands. Multiple brands and channels generate better effectiveness on our sales and marketing efforts and ensure maximum coverage of our entire target group. In this process, we use IT resources and production and service centres shared within the Group. In pursuing its goal to attract, help and retain customers, it is REAAL NV's ambition to increase the focus on customers' interests, improving customer satisfaction and the sustainable growth of its brands.

Greater attention for customer interests and higher customer satisfaction can be achieved by:

- Measuring customer satisfaction in a better way, targeting specific groups of customers.
- Continuous dialogue with our customers, allowing us to always improve our products and services anytime.
- Improving customer contact and service levels.
- Providing transparent and relevant products and advice.
- Customers can easily determine if a product suits their needs either by themselves or with the help of a financial advisor.

Sustainable growth of our brands can be achieved by:

- New, successful products. Transparent product features and rates are crucial and are achieved by listening attentively to our customers and involving them in the product development process. Before launching new products, we make a careful estimate of the customer value, return and risks.
- Multi-brand strategy. We serve our customers using brands that differ greatly from each other, with each brand focussing on its own target group. The brands are connected through the Group and contribute to REAAL NV's overall performance.
- Attracting new customers. This requires clear brand positioning and targeted marketing and sales efforts.
- Retaining customers and offering them a wider range of products and services. This requires a high level of service, knowledge of individual customer conduct and timely notification of (potentially) relevant products.

4.3.2 Reducing the cost base

Reducing our organisation's cost base improves our capital position and competitiveness, which allows us to generate the return we aim at even in contracting markets and with higher capital requirements.

A major tool in reducing the cost base is standardisation and alignment of IT systems and service centres. Combined with our multi-brand strategy, this allows us to quickly and efficiently respond to changing customer needs or simply broaden our product range.

4.4 Basis: Corporate responsibility and CARE!

Our employees form the basis of our strategic house. Inspired by our core value CARE!, they define how they put corporate responsibility into practice.

4.4.1 Strategic corporate responsibility

In 2011, REAAL NV added focus to its corporate responsibility strategy and rephrased it. Based on an integral vision that serves our stakeholders, we aim to better manage initiatives in this area and bring these together. As a result, our business units are responsible for achieving their own results - within preset frameworks - more than previously.

Dutch financial institutions are subject to an extensive system of laws and regulations safeguarding the quality and safety of financial products and services. To REAAL NV, proper compliance with those laws and regulations comes natural. Corporate responsibility, however, takes things a step further, allowing us to do business on the basis of our own convictions and our own responsibilities. We aim to take the interests of customers, each other, shareholders and society into account. We have defined four themes to make measurable progress in these areas. The themes apply to all business units and staff departments:

- Personal leadership. If you want to change the world, you must be the first to change, which is why we expect our managers and employees to take the lead in making our products and services more sustainable. Setting an example to others, we all propagate the core value CARE! in a recognisable way.
- Responsible services. When developing, improving and offering our products and services, we place our customers' interests first. 'Responsible' means that we acknowledge any positive and negative effects on people and the environment in all aspects of our daily work.
- Responsible organisation. We want to be a responsible employer that our employees enjoy working for. We encourage the development of their personality and talents, wish to offer a good work-life balance and give responsible remuneration. We encourage our employees to assume responsibility for their work and career development.
- Sustainable supply chain and the environment. We, as REAAL NV, are part of numerous product and service chains. As a major buyer, we exercise influence to make the supply chain more sustainable in cooperation with our partners. We do so by focussing on the responsible use of energy, housing, waste disposal and mobility.

REAAL NV is working on measurable results using corporate responsibility performance indicators. The Corporate

Responsibility department and other staff departments support these business units in developing and implementing their plans. REAAL NV regularly assesses its policy and results on the basis of its stakeholders' opinion and the Global Reporting Initiative standards.

4.5 Business units' strategies

In implementing REAAL NV's strategy, the business units REAAL and Zwitserleven make their own choices regarding the best possible products and services. For the strategies pursued by the business units, see Chapter 9 Developments REAAL and Chapter 10 Developments Zwitserleven.

5 SWOT analyses, strategic challenges and ambitions

REAAL NV's strategic challenges are based in part on the organisation's market position and an analysis of its strengths and weaknesses and the opportunities and threats in the market.

5.1 Market position

REAAL NV focuses primarily – and, in the future, solely – on the Dutch markets for insurance and pensions. Our customers are especially private individuals and small and medium-sized enterprises (SME). In case of pensions, REAAL NV also focuses on larger companies.

We want to stand out with:

- Several brands, allowing us to offer our customers the most suitable products through their preferred brands and distribution channels.
- Our focus on clients interests by developing and offering simple and accessible products combined with good service and advice.
- Strong market positions based on simple products with attractive price/quality ratios;
- A simple and cost-efficient organisation with shared IT systems and service centres to achieve economies of scale.

5.2 SWOT analysis

5.2.1 Strengths

- Focus on the Netherlands, customer groups and core products.
  This means bundling resources, management focus and expertise in developing, selling and distributing financial products in the Netherlands. REAAL NV shall solely be active in the Netherlands. REAAL NV is one big players in the Dutch markets for life insurance and pensions.
- Several brands.
  Our broad range of distinctive brands allows us to optimise our services to customers with different customer needs and thus increase our customer coverage. We manage our brands at the Group level.
- Efficient organisation.
  This refers to our short time-to-market, our ability to perform integrations quickly and efficiently, and our relatively low cost base.
- Corporate responsibility.
  We are committed to responsible products, service and operations.

5.2.2 Weaknesses

- Limited strategic flexibility due to capital support.
  In 2008 SNS REAAL issued core Tier 1 capital securities to the State and foundation in order to increase its core capital. Repurchase of this capital support has high priority, resulting in reduced strategic flexibility until the moment the capital securities are repurchased in full.
- Rating and financing costs.
  Due to the financial crisis of recent years, rating agencies have lowered the credit rating. This leads to higher financing costs and reduced access to the capital market.
- Dependence on individual life insurance and mortgages.
  The strong market position in these product groups means that a disappointing performance could have a relatively strong adverse effect on the results. Moreover, the results in individual life insurance strongly depend on cost reductions and market share, as this market has been structurally declining.
- Brand recognition.

Compared to the brands of the major players, some of REAAL NV's brands are lesser-known.

5.2.3 Opportunities

- Risk spreading and customer diversification.
  Growing numbers of customers purchase their financial products from different providers and brands. They do not always stick to the same brand and/or distribution channel. Customers also look for added value in brands they can identify with. Our multi-brand strategy allows us to capitalise on this aspect.
- Restoring confidence in financial institutions.
  Through our mission of Simplicity in finance and our core value CARE!, REAAL NV shows it attaches great importance to restoring consumers' confidence in REAAL NV and in the financial sector as a whole. We can not only achieve this by changing the culture, but also by bringing about concrete changes that will lead to placing (even) more emphasis on putting the client's interest first.
- Rise of communities.
  New social media make it easier to set up communities of people with shared interests, for example on the basis of age, lifestyle, hobbies or social issues. REAAL NV's multi-brand strategy allows it to capitalise on this aspect. Each of the brands can focus on the things relevant to their target groups.
- Ageing.
  The increasing number of elderly people in the Netherlands is leading to a greater demand for pensions and other asset growth products as provision for old age.
- Personal responsibility for wealth creation for the future.
  As a result of cutbacks in group benefits, private individuals and entrepreneurs will increasingly have to take out (supplementary) insurance and build up capital themselves. REAAL NV can capitalise on this development, for example by offering disability insurance, bank savings products and pension products.
- SME market.
  The SME market is a steadily growing market with often attractive margins on account of the specific services provided. REAAL NV can particularly build on its leading position in SME pensions and growth in disability insurance.
- Sustainability.
  Zwitserleven responds well to the increasing demand for sustainable products.
- Distribution of third-party products.
  The sale of third-party banking and insurance products in some product groups is unique in the Dutch market. This enhances our total product range and profitable growth and does not entail any additional demands on capital.

5.2.4 Threats

- Downward pressure on margins.
  Legislative and regulatory changes, increasing market transparency and the demand for affordable and simple products lead to new terms of competition and new market entrants, such as Defined Contribution Pension Institutions (premiepensioeninstellingen, or PPIs). All market parties will have to bring their cost prices even more in line with the value of products and customer advice.
- Lack of confidence in financial institutions.
  The financial crisis has shaken consumer trust in financial institutions. If the financial sector does not succeed in restoring consumer trust, the demand for financial products will decline even further.
- Vulnerability in the event of capital market developments.
  Insurance companies are dependent on the developments in the money and capital markets and are exposed to changes in interest rates, risk surcharges and share prices. These markets are very volatile at the moment, in part because of their dependence on euro-related political policies and the high debts of a number of European countries. Financing our activities through the capital market is becoming more difficult and expensive as a result.
- New capital requirements, contribution to deposit guarantee scheme (DGS) and taxes.
  Regulations of regulatory authorities and developments in the financial markets lead to stricter requirements with

regard to the amount and quality of the required capital. This will lead to higher capital and liquidity costs and possibly lower returns. Numerous legislative and regulatory changes. The laws and regulations applicable in the financial sector put material pressure on the sector and REAAL NV's organisation. Expectations are that this pressure will continue. In this respect think for instance of adjustments to products and product terms and conditions, data management, the risk management framework, reports and further education and training of employees. The increased regulatory pressure and the current climate in which the financial sector now finds itself also result in a more (pro)active approach of national and international regulators. Their questions, consultations and requests, including an increased number of (stress) tests, put pressure on the organisation. This could come at the expense of productivity, innovation and results of financial institutions. Moreover, the risk of legal claims is increasing.

- Products sold in the past are evaluated on current standards.
  In the past, financial institutions sold a number of products that, if judged by today's standards, one could deem to be non-transparent, too expensive and/or ill-suited.

5.3 Strategic challenges

Based on the SWOT analysis, REAAL NV has established the following strategic challenges:

- Strong capital management with a focus on terminating the capital support received from the State and foundation in a responsible manner. The goal is to enhance the organisation's strategic flexibility and to maintain and enhance the trust that customers, lenders and other stakeholders place in REAAL NV.
- Winning, helping and retaining customers in order to raise our brands' vitality and the scale of our activities to a level that safeguards the implementation of our mission 'Simplicity in finance', including in the long term.
- Reducing the cost base in order to further enhance the organisation's competitive edge and capital position. Structural cost reductions are necessary on account of
  - the growing demand for affordable, simple products
  - new market entrants such as Defined Contribution Pension Institutions
  - increased market transparency
  - more stringent capital and liquidity requirements.

We build our future by winning, helping and retaining clients and reducing the cost base. These strategic challenges determine our priorities in the years ahead. Chapter 6 Strategy update presents the results we achieved in 2011 when facing our strategic challenges.

5.4 Ambitions

5.4.1 Net profit

Given the volatile and challenging market conditions, REAAL NV currently does not have any specific profit ambitions. We continue to build on an organisation returning to healthy profitability.

5.4.2 Capital ratios

Our ambitions is a regulatory solvency ratio for the insurer of at least 175%.

5.4.3 Cost reductions

We aim to reduce our overall cost base by 20% in 2012.

5.4.4 Market share ambitions

Table 2: Market share ambitions

	2011 market share	Ambition
Individual life insurance, regular premiums, inflow	21.9%	17%
Pension, regular premiums, inflow	17.1%	16%-18%
Non-life, gross premiums	5.0%	6%

Market shares Non-life, gross premiums are SNS REAAL's own estimate

Pension APE market share 2011 is not yet available. It concerns marketshare 2010; given the fact that our market share in new production 2011 is above the APE percentage of 2010, expectations are that the actual realised APE market share 2011 will be above the 2010 level.

5.4.5 Aiming for measurable results

We want to reinforce our aim on measurable results. We have primary performance indicators that dovetail with our core value CARE! These are the following:

- Result and capital: net profit, value creation (Value New Business (VNB)), efficiency ratios, solvency ratios.
- Customers: Net Promoter Score, market shares.
- Each other: employee satisfaction, absenteeism.

5.4.6 Leading in corporate responsibility

It is REAAL NV's ambition to be leading in the Dutch market leader in financial services in corporate responsibility as from 2014. This means that REAAL NV will focus on the following for 2012 and beyond:

- Integrating corporate responsibility throughout the organisation's operations, in other words in the governance structure and at the management and control levels of all of REAAL NV's business units and staff departments;
- Clear recognition and appreciation of corporate responsibility from our customers and other stakeholders;
- Market share growth achieved in part through corporate responsibility.

6 Strategy update

REAAL NV is continuously working on the execution of its strategy. This chapter gives an overview of the progress made in our strategic priorities and the extent to which our ambitions for 2011 have been realised.

REAAL NV established its strategic priorities and ambitions on the basis of its market position and a SWOT analysis. For the SWOT analysis, strategic challenges and ambitions see chapter 5. We are fixing the foundations of REAAL NV through the priority of strong capital management aimed at repaying the Dutch State (the State). We are building for the future through winning, helping and retaining customer and reducing the cost base.

6.1 Strong capital management

Strong capital management increases our strategic flexibility and the confidence of customers, investors and other stakeholders in REAAL NV.

6.1.1 Independent, solid capital position

We want to repurchase the capital support by means of core Tier 1 capital securities received from the State in a responsible manner, with a key focus on maintaining our capital position despite the difficult circumstances. It is our ambition to repay the Dutch State at the latest by the end of 2013.

In light of this premise – maintaining our capital position - we did not repurchase any core Tier 1 capital securities in 2011. This is partly related to the increased capital requirements,

6.1.2 Strong risk management

REAAL NV pursues a prudent risk management policy in line with the requirements of the Insurance Code. In 2011, the main indicators were:

- A conservative investment policy by REAAL and Zwitserleven. This included the reduction for exposure to sovereign debt in peripheral euro countries was reduced and defensive measures were successfully taken against declining markets.
- Strong regulatory solvency of the Insurance activities stood at 203%.

6.2 Winning, helping and retaining clients

By winning, helping and retaining clients, we bring the vitality of our brands on to a level that secures the execution of our mission Simplicity in finance – also in the long term. The same applies to the scale and costs of our activities. We want to put our customers' interests first, structurally improve customer satisfaction and grow our brands in a long-term sustainable manner.

6.2.1 Customers' interests and satisfaction

6.2.1.1 *Improved and more focused measurement*

In 2011, REAAL NV brands collaborated on better methods to measure and monitor customer satisfaction. An important step was the introduction of the NPS (Net Promoter Score) measurement method for all retail brands. We use this method to measure the number of clients that is positive about a brand so that they would recommend it to family and friends. From this result, we deduct the number of clients that would advise against the brand. The NPS statistics, based on a representative sample, are conducted twice a year by an external agency. By standardising measurements, we can combine efforts to make improvements and learn from each other. We saw progress in all brands through the course of the year.

The most important scores, in percentages:

- REAAL from -58 at the start of 2011 to -44 year-end 2011
- Zwitserleven from -65 at the start of 2011 to -47 year-end 2011

Customer satisfaction in the entire financial sector has come under increased pressure in recent years as a result of the developments surrounding the financial crisis. Among all surveyed Dutch banks and insurers, few had a positive NPS score in 2011.

6.2.1.2 Learning from the client dialogues

REAAL NV organised interviews and discussions with clients on various topics, through initiatives such as the so-called Parliamentary sessions. Zwitserleven started a broad dialogue with different groups of stakeholders, including clients and their employees. The aim was to give Zwitserleven's management advice on how to further develop corporate responsibility in the organisation. In 2011, Zwitserleven involved clients in improving the information on its investment funds' performance.

6.2.1.3 Improving customer contact and service levels

Measurements showed that most of our brands' service levels improved in 2011. REAAL in particular made good progress in this respect, also thanks to a programme aimed at making the organisation leaner and more customer-oriented.

REAAL NV set up REAAL Customer service with one central information number. Previously clients usually went to their intermediary for questions on products or administrative matters. By strengthening and monitoring the client relationship, REAAL gains more insight in her clients' needs and wishes. On top of this, the central customer service meets the recommendations of the Insurance Codes. REAAL implemented various improvements with respect to client relationships and service in Non-life insurance.

REAAL NV retained the 'Keurmerk Klantgericht Verzekeren' (Customer-oriented Insurance Quality Mark), despite the more extensive assessment. REAAL received this quality mark – set by the foundation insurer's assessment - as one of the first insurance companies in 2010.

Annual surveys among pension intermediaries once again showed that Zwitserleven excelled in its customer service and support.

6.2.1.4 Simple, relevant products and appropriate advice

Offering simple products is an assignment for all our business units. However, simplification is process which takes time, and furthermore not possible to apply to products already sold. In developing new simple products and services we use feedback from our clients. The main results were:

Zwitserleven switched to the non-commission fee based sale and extension of pension contracts and is also ahead of the prohibition in 2013. REAAL is a great advocate of the new tariff structure. It enhances transparency in the market and objective and expert advice.

REAAL eliminated the so-called 'en block clause' from the terms of its term life insurance policies. This gives clients certainty that the price and terms of a contract can no longer be adjusted during the term.

Zwitserleven introduced MijnZwitserlevenPensioen.nl, a personal environment on the website which collects tailor-made information.

REAAL and Zwitserleven offer their clients comprehensive information on the content and execution of the compensation

scheme for unit-linked insurance policies. Clients also get tips how to best deal with current policies.

6.2.2 Sustainable growth of our brands

6.2.2.1 Multi-brand strategy

REAAL NV distinguishes itself in the Dutch market through a multi-brand strategy. This allows us to efficiently and effectively respond to new market developments. It allows us to direct common indicators, minimise brand overlap and take advantage of specific market opportunities.

We enhanced our formula policy in 2011 by ongoing segmentation and a stronger focus on growth opportunities and value creation. When positioning the brands, we pay more attention to the social-economic status, personal values and self reliance. For these determine the client's preferred distribution channel.

This multi-brand strategy brings us closer to our clients' needs and desired brand perception than one brand would allow us to. Partly due to this, it resulted in an increase of our market share in the savings market from 9.5% to 10.0%. Various product improvements and marketing and communication initiatives contributed to the strengthening of the brands. You will find more information in chapters 9 Developments REAAL and 10 Developments Zwitserleven.

6.2.2.2 Attracting new clients

REAAL NV attracted many new clients specifically in disability insurance, term life insurance and mortgages. Zwitserleven attracted both new SME and corporate clients and strengthened its market position.

6.2.2.3 Retaining clients and offering a broader range of products

An improved Customer Service Centre allowed REAAL to draw product quality and service more to the attention of customers and to strengthen the brand experience.

Being a bank-insurer, SNS REAAL can retain clients who would be lost if they could either only take out banking products or insurance products. In 2011, we took advantage of the growing bank savings market. REAAL, cooperates closely with SNS Bank and RegioBank in the field of product development and distribution. Many REAAL clients find bank savings a good alternative on expiry or renewal of their unit-linked policy. .

The customer retention rate at Zwitserleven remained high, both in the SME and corporate market.

6.2.2.4 Successful new products

At the end of 2010, REAAL launched a new range of disability insurance products with much simpler and improved conditions. In 2011, REAAL also simplified the process of acceptance. In many cases a medical check is no longer required.

Zwitserleven's innovative Exclusief Pensioen, launched in 2010, saw a satisfactory development. The product caught on in both the SME and corporate market.

6.3 Reducing the cost base

A cost base reduction will result in an improved capital position and competitiveness, allowing the organisation to make a profit even in shrinking markets and with higher capital requirements.

REAAL benefited from a programme to make the back office leaner and more customer-oriented and the completion of integration programmes. Zwitserleven continued its programme to reduce the operating expenses. Essential in this respect are: improvements in processes and organisational structures, fewer products and fewer systems.

Other important contributions to the cost reductions were cost synergy through the harmonisation and standardisation of IT-systems, more sharp procurement and adjustment of employment conditions.

Investments made by REAAL NV were mainly aimed at the continued improvement of the cost base in the coming years. The most important investments were related to the New World of Work (NWW) and IT, in particular standardisation of back office and IT systems at Zwitserleven.

6.4 Realisation of ambitions

6.4.1 Net profit

At this moment REAAL NV has no concrete profit ambition, given the volatile and challenging market circumstances. In November 2011, SNS REAAL abandoned its medium-term profit ambition. The changing circumstances on the financial markets, the deteriorated economic prospects and heavily modified laws and regulations made this necessary. We will continue to build an organisation that returns to healthy profit levels.

6.4.2 Market share ambitions

See Chapter 5 SWOT analyses, strategic challenges and ambitions for our financial and other targets for 2012.

6.4.3 Capital ratio

Our ambition for 2011 was a minimum regulatory solvency ratio for our Insurance activities of 175%. At year-end 2011, it stood at 203%.

6.4.4 Management by performance indicators

REAAL NV wants to enhance management by means of quantifiable results. REAAL has key performance indicators that are in line with our core value CARE!.

In 2011 we launched the Net Promoter Score (NPS) to measure and monitor customer satisfaction.

7 Outlook 2012

The debt crisis in Europe has led to government cuts, low consumer confidence, and shortages on the capital market. Banks must take precautions and retain a lot of liquidity and capital as a result of stricter requirements. This puts profitability in the sector under pressure and limits lending. REAAL NV is focusing on improving its capital position and risk profile, and increasing its profitability. We are doing this by continuing to reduce property financing, achieving growth in savings, increasing returns on sales, and lowering costs. We distinguish ourselves with simple, accessible products and good service.

7.1 Financial markets in 2012

7.1.1 Equities: moderately positive with many uncertainties

The Netherlands and the majority of other European countries will probably be confronted by a mild recession. Unemployment is expected to increase and the disposable income of many Dutch people will decrease. However, the forecast for global economic development is moderately positive, despite the problems in Europe. The economic recovery in the United States appears to be continuing, and the monetary policy of central banks is no longer restraining growth in emerging markets. At the start of 2012, equities appeared to be inexpensive in relation to current and anticipated profits. Although the macroeconomic developments are moderately positive, prudence is recommended. The risks are extremely high due to the major uncertainties arising from the euro crisis.

7.1.2 Interest rates low, risk surcharges high and volatile

Economic growth slowed down in the euro zone at the end of 2011. The European Central Bank (ECB) then cut its official interest rate in two steps to 1.00%. As a result of the uncertainties in the financial markets, the risk surcharges that investors charge banks and peripheral euro countries are, however, very high. These risk surcharges will remain high as long as there are no political solutions or clear economic improvements in the debt positions of the peripheral euro countries. Due to the high borrowing charges on the capital market, banks will focus even more sharply on the savings market and lending at the ECB. Competition between banks may result in lower savings margins.

The ECB's interest rate policy depends mainly on the inflation trend. With a deepening of the debt crisis, inflation may turn out to be moderate. With returning confidence in the euro as a result of political solutions, inflation and thus the ECB's interest rate can increase somewhat. But, in that case, the risk surcharges can decrease again.

7.2 Trend: changes in the distribution landscape

The financial sector's distribution landscape is changing significantly under pressure from laws and social trends. Major changes that REAAL has had to face – and will have to cope with in future – are:

- Tax benefits via bank savings products.
  Up until 2008, it was mainly the life insurers that provided the distribution of products for tax-assisted capital growth. Bank savings products were introduced in 2008, which provide customers with banking alternatives. Bank savings products have grown strongly since then, at the expense of more complex life insurance products that combine capital growth with guarantees and/or insurance policies. Bank savings products are often combined with pure life insurance products, such as term insurance policies and immediate annuities. REAAL is well positioned in this market with its combination of banking and insurance operations. Bank savings products are expected to remain a growth market for the time being.
- Remuneration via agreement between customer and advisor.
  With effect from 1 January 2013, commission will be prohibited for complex products for capital growth, mortgages, and complex non-life insurance policies, such as occupational disability insurance for entrepreneurs. Instead of this commission, the advising body (bank, insurer, or intermediary) will receive remuneration on the basis of an agreement with the customer. The separation between product price and advisors' fee means more transparency for the customer. For producers and advisors this means that, to remain competitive, they must align the prices they

offer more strictly to the customer value they deliver. REAAL has already partly changed over to this new pricing and is adapting the organisation further in order to respond properly to this development.

- Stricter requirements for pension advisors.
  The requirements for professional competence of pension advisors have been considerably tightened, with effect from 1 January 2012. It is expected this that this will mean that many advisors will stop their pension activities, thus releasing portfolios. Zwitserleven has therefore already reinforced its direct approach to employers.
- Increase in direct selling of simple products.
  For simple products, consumers are increasingly opting for purchasing a product without the intervention of an intermediary. Gathering information and comparing products oneself has become increasingly easier as a result of the improvement and expansion of websites. This trend is clearly visible, especially with savings and private non-life insurance policies. REAAL NV can respond well to this development with its multi-brand strategy and diversification of distribution channels. For example, the selling of non-life insurance via SNS Bank is increasing considerably.

7.3 Product markets in 2012

REAAL NV mainly expects growth in the markets pensions and occupational disability insurance policies. The markets for non-life and life insurance policies are not likely to show growth.

- Market for life insurance policies shrinking
- Non-life stable, growth in occupational disability insurance
- Growth prospects in pension market

7.3.1 Market for life insurance policies shrinking

The total market for individual life insurance policies is shrinking systematically due to the maturity of unit linked insurance policies that were concluded many years ago. The market has also suffered in recent years from the decline in sales of new mortgages, which often require additional insurance policies. We expect a continuation of this decline in 2012. Further growth is anticipated for modern capital growth products, such as bank savings. These are simple and inexpensive, and can be customised in combination with guarantee products and term life insurance policies. The market for immediate annuities, for insuring investment risk, will remain stable in 2012.

The profitability in the market for (partly) insured capital growth is largely determined by reputation, scale, and efficiency. As the second largest life insurer in the Netherlands, REAAL NV is well positioned to remain successful in this market.

In 2012, REAAL NV will mainly focus on:

- Bank savings products and traditional risk insurance, especially term insurance policies.
- Further reduction of costs for administration and management of the underlying portfolio.

7.3.2 Non-life stable, growth in occupational disability insurance

We expect stable development of the non-life insurance market in 2012. The shift to the direct channel in private non-life will continue. The market for occupational disability insurance continues to grow substantially due to the increasing number of self-employed entrepreneurs and the increasing risk awareness of entrepreneurs.

REAAL NV will mainly concentrate on:

- Further improvement of products and services in occupational disability and SME non-life insurance policies
- Increased selling of private and SME non-life insurance policies via SNS Bank.
- Supporting intermediaries so that they can provide cost-efficient advice and are properly enabled to retain customers who purchase REAAL products.

7.3.3 Growth prospects on pension market

We expect a stable to slightly rising pension market in 2012, because companies are increasingly outsourcing their pensions for their employees to specialised pension insurers. Factors that will negatively affect the growth of contribution income in 2012 are rising unemployment, increasing number of bankruptcies, and limited salary increases. Persistently low interest rates in 2012 can keep the obligations high and thus put pressure on the solvency and profitability of all parties in the pension market.

7.3.3.1 *Cost discipline*

The harmonisation of laws and regulations for pension funds and pension insurers offers healthy growth prospects in the longer term. Moreover, there are still a number of parties operating in the market for pension insurers that do not have sufficient scale to be competitive. Larger pension insurers, such as Zwitserleven, can benefit from this. Scale alone is not decisive.

Cost discipline will be a significant strategic issue in the coming years. This means that the cost and risks for each product must be properly estimated and priced. The challenging market conditions, increasing market transparency, and new entrants to the market mean that it is very risky to assume that any losses on one product can be offset by large gains on another product. The cost of products must be properly related to the value that can be offered to customers.

7.3.3.2 *Market entry PPIs*

A legal amendment enabled Pension Premium Institutions (PPIs) to enter the market in 2011. PPIs start with new systems and products and therefore have lower costs. The entry of the PPIs into the pension market creates a new dynamic and a downward pressure on margins of direct contribution products.

7.3.3.3 *Focus of Zwitserleven*

Zwitserleven mainly concentrates on:

- Continuing to improve the cost structure with system and process standardisations including enhancing fee based income.
- Distinctive, sustainable products and outstanding service.
- A commercial focus on SMEs, with director-major shareholders as a separate target group.

8 Financial outlines

REAAL NV reported a net profit of € 165 million. REAAL showed a fine profit increase, while also Zwitserleven's contribution was positive.

8.1 Results 2011 compared to 2010

For the year 2011, REAAL NV reported a net profit of € 165 million, compared to a net profit of € 242 million for the year 2010.

At REAAL, net profit was significantly up driven by higher results on derivatives used for protecting solvency against declining interest rates. REAAL's underlying result was markedly up.

Zwitserleven posted a net loss due to a goodwill impairment of € 107 million net. Zwitserleven's underlying net result increased slightly due to an improved technical result.

For REAAL as a whole, the net result was supported by a decline in operating expenses.

8.2 Impact of one-off items

At REAAL NV, the net impact of one-off items amounted to € 18 million positive recorded at REAAL Other. This consisted of a gain from the sale of REAAL Reassurantie SA, a small reinsurance subsidiary.

At Zwitserleven, the net impact of one-off items was € 107 million negative (€ 131 million pre-tax), consisting of a goodwill impairment. This related to the difficult circumstances in the pensions markets, as evidenced by the continued low interest rate environment, the longer life expectancy and the expected higher future capital requirements. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

8.3 Operating expenses

Total operating expenses in 2011 declined by € 33 million (-7%). Total adjusted operating expenses decreased by € 24 million (-5%). This decrease was driven by lower expenses at REAAL (-€ 39 million). At Zwitserleven, adjusted operating expenses were € 6 million higher due to the absence of a release of a provision for pension commitments which had impacted the 2010 cost base positively by € 15 million.

At the Insurance activities, the integration of AXA NL was completed by the end of 2010 and the integration of Zwitserleven is underway. Total annual cost savings from the integration of AXA NL, DBV and Zwitserleven were originally targeted at € 95 million; € 119 million was already achieved by year-end 2011.

8.4 Underlying result Insurance activities

Table 3: Underlying result REAAL NV

	REAAL		Zwitserleven	
In € millions	**2011**	2010	**2011**	2010
Net result for the period	256	206	(91)	36
Realised gains, losses and impairments on equity	(18)	2	3	7
Realised gains, losses and impairments on fixed-income securities	48	55	11	35
Result on financial instruments	115	60	21	13
Changes in insurance contracts due to movements of fair value items	(33)	(18)	(60)	(21)
Total net impact investment portfolio and hedges	**112**	**99**	**(25)**	**34**
Impact of one-off items	18	20	(107)	(25)
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**126**	**87**	**41**	**27**
Amortisation VOBA and other intangible assets	(76)	(96)	(14)	(25)
Underlying results	**202**	**183**	**55**	**52**

Results on equity hedges are included in realised gains/loses on equity portfolio in stead of result on financial instruments.

Amortisation VOBA and other intangible assets are net of capitalised external and internal acquisition costs.

Changes in insurance contracts due to movements of fair value items includes releases/additions provisions for interest rate guarantees in unit-linked portfolio and separate accounts, the impact of shadow accounting and the impact of the hedging of inflation. Comparative figures of Zwitserleven are restated, reflecting the net impact of the hedging of inflation.

8.4.1 REAAL

In 2011 REAAL net profit rose by € 50 million to € 256 million.

The total net impact from realised gains, losses and impairments on the investment portfolio and hedges increased to € 112 million positive (2010: € 99 million) as higher gains on interest rate derivatives more than offset a lower contribution from realised gains, losses and impairments on the investment portfolio.

The impact of one-off items in 2011 of € 18 million was slightly lower than the € 20 million in 2010.

Amortisation of Value of Business Acquired (VOBA) and other intangibles decreased as lower premium income and lower deferred acquisition costs of more recent life policies led to lower amortisation of acquisition costs.

Adjusted for the above items, REAAL's underlying result of € 202 million was € 20 million higher compared to 2010 driven by lower operating expenses. At REAAL Life, the underlying result was slightly up. At Non-Life it rose sharply, due to a release of provisions for unearned premiums and acquisition costs and a lower claims ratio in fire.

8.4.2 Zwitserleven

In 2011 Zwitserleven posted a net loss of € 91 million compared to a profit of € 36 million in 2010.

The total net impact from realised gains, losses and impairments on the investment portfolio and hedges was € 25 million negative (2010: € 34 million positive). The fall was mainly due to an addition to provisions for interest rate guarantees. The contribution from realised gains, losses and impairments on the investment portfolio was lower as well.

The impact of one-off items in 2011 of € 107 million negative was due to an impairment of goodwill. In 2010 the impact of one-off items amounted to € 25 million negative.

Amortisation of VOBA and other intangibles decreased due to lower actuarial amortisation of VOBA and higher capitalised costs of software.

Adjusted for the above items, Zwitserleven's underlying result of € 55 million was slightly up compared to € 52 million for 2010. This was mainly due to higher technical results partly offset by higher operating expenses following the release of

a provision for pension commitments in 2010.

9 Developments REAAL

Table 4: Net result REAAL

In € millions	2011	2010	Change
REAAL Life	222	208	7%
REAAL Non-life	33	16	106%
REAAL Other	1	(18)	106%
REAAL	**256**	**206**	**24%**

9.1 Strategy

REAAL's vision is to be the most service-oriented, lean insurance company offering excellent value for money. Optimally serving our customers, that's what it's all about. To achieve this, we have set up a variety of programmes, such as Darwin, Putting the client's interests first and Lean. Through these programmes, we aim to change processes and systems as well as behaviour towards the client. The introduction of REAAL Customer Service is an important step in this direction. REAAL searched for a new advertising agency 2011. We attach great importance to creating a 'warmer' brand image for REAAL through advertising and to engaging more closely with the client.

REAAL produces and distributes individual life insurance, non-life insurance and disability insurance policies. Besides this REAAL offers its clients banking products purchased from SNS Bank or from third parties. REAAL aims to provide transparent and accessible products, to intensify its contacts with customers and to improve its services. REAAL aims to be efficient and competitive by keeping its costs low and to promote sales through good collaboration within REAAL. In this manner we show putting clients' interests first, in line with the Insurance Code recommendations.

Indirect distribution mainly takes place through intermediaries. Mortgage distribution chains, service providers, banks and underwriting agents also play a major role. REAAL aims to increasingly use SNS Bank's direct channel. It is essential to continually respond alertly and creatively to new opportunities in each of the distribution channels.

Direct distribution is focused on advanced internet marketing, monitoring consumer behaviour, database management, information management and controlling costs per order. Zelf.nl and Proteq offer a complete range of individual non-life insurance products, including the pet accident and health insurance by Dier en Zorg, while also offering REAAL savings products.

REAAL aims to maintain its strong market position in individual life insurance and to grow in the SME non-life market and disability insurance.

9.2 Organisation and commercial developments

9.2.1 Life insurance product range simple and comprehensive

REAAL aims to provide transparent and accessible products and a simple product range. REAAL's term insurance, bank savings products and mortgage products complement each other well. REAAL's bank savings products are life annuity products for building and distributing capital and for postponing capital distribution. Developed jointly with SNS Bank, these products have low costs, low risks and simple terms and conditions. They are a good follow-up solution for many customers in case their unit linked insurance expires. Sales were up 29% in 2011. The simplification and adjustment of term insurance rates in the third quarter of 2010 contributed significantly to this.

Bank savings products do not provide death risk mortality coverage cover. That is why REAAL's term insurance products are a sound addition to the asset growth products, particularly with regard to mortgage redemption. In a survey conducted by the Dutch Consumers' Association in August 2011 comparing a large number of term insurance products, REAAL took fourth position on account of the good price/quality ratio. REAAL is one of the major providers of these

products in the Netherlands.

REAAL sells a large part of its risk and asset growth products in combination with mortgages, which are purchased from third parties. REAAL distributed mortgage loans with a total value of approximately € 1.9 billion, approximately the same as in 2010. Purchasing mortgages became more difficult during the year due to the situation on the capital market. One of REAAL's suppliers of mortgages, BNP Paribas, decided to withdraw from the Dutch market.

9.2.2 Unit linked insurance

In 2011 REAAL started executing the compensation scheme for clients who had purchased unit linked insurance in the past. The final agreement with the parties involved included a fund for clients in distressed situations. The compensation scheme applies to clients of REAAL, SNS Bank, Zwitserleven and all their legal predecessors. The scheme applies to over 1 million individual unit linked insurance policies, an estimated 40% of which are eligible for compensation. REAAL and the other brands will inform their clients on an annual basis of the current amount of their compensation, which depends on the situation on the financial markets.

Late 2011, REAAL decided to adjust the compensation scheme. In the original compensation scheme the amount of compensation would be recalculated each year and added to the value of the insurance policy only on the expiry date. Instead, REAAL now deposits the accrued compensation directly into the insurance policy. For the period thereafter until the expiry date of your insurance, we will add a constant amount every year.

And REAAL wants to do more; REAAL wants to help and satisfy clients with unit linked insurances. Behind the scenes we are working for transparency, online information, alternative products, a telephone advice team and financial advisors. REAAL offers clients insight in the current product and the possibilities and alternatives. REAAL does not charge any surrender costs if customers want to switch to another product.

On its website, REAAL offers an interactive theme page with all information regarding the substance and execution of the unit linked insurance compensation scheme. Here clients can find tips about the best ways to proceed with current unit linked insurance policies and what they can expect from REAAL for further help. REAAL improved the returns on many current unit linked insurance policies by switching to newer and cheaper investment funds.

9.2.3 Disability insurance

Occupational disability is a growth segment in the non-life insurance market. At the end of 2010, REAAL introduced considerable improvements to the product conditions and service it provides to customers and intermediaries. Partly as a result of this, new sales rose by 44%, giving REAAL a market share in 2011 of approximately 6.8% (based on figures up to and including the third quarter).

In 2011, REAAL again simplified a number of terms and conditions. With regard to applications, REAAL introduced teleacceptance, making a medical check-up often unnecessary. The customer answers a number of questions during a telephone conversation of about 30 minutes, after which the customer receives a conversation report and is informed whether a medical check-up is necessary. Introducing this procedure, REAAL was the first insurer in the Netherlands to abandon standard criteria for medical check-ups, such as the insured amount, age or occupation. By doing so, REAAL aims to increase the accessibility and attractiveness of its disability insurance products, also for self-employed persons.

Thanks to an attractive ratio between conditions and premiums, REAAL received top rankings on various disability insurance comparison sites. REAAL scored well on aspects including attention to prevention, reaction time, acceptance by telephone and a no-claims arrangement allowing for additional discounts.

REAAL was nominated for a Gouden Schild award for its prevention programme REAAL Lijfwacht, introduced in 2010. REAAL Lijfwacht comprises a number of occupational experts who give tips to disability insurance policyholders about how to prevent disability. If disability could not be prevented, the experts examine how the policyholder can get back to work as quickly as possible. The Gouden Schild is an award for financial institutions with innovative ideas.

9.2.4 Customer contact and service

9.2.4.1 Customer engagement

REAAL organised a large number of interviews and sessions with clients and employees on the theme of customer experience. During 2011, we held eight 'Voice of the Customer' sessions led by a panel chairman in which dozens of clients talked about what they think of insurance companies' customer service, and REAAL in particular. Managers and employees also attended these client sessions. Topics included the customer promises formulated on the basis of a comprehensive qualitative and quantitative survey in 2010. Employee awareness was the primary goal. The results were further incorporated within REAAL through line management, daily kick-offs and other meetings.

The follow-up to this in 2011 comprised the 'House of Commons' sessions in which employees entered into debate with clients on assertions and questions. This gave a cross section of REAAL employees great insight in the extent to which clients look around before they consult their intermediary on products or brands. REAAL puts the client's interests first. To focus even more on moments that matter in our clients' perception, we started the 'customer journey' approach in November.

9.2.4.2 Employee-manager dialogue

Additionally, we started dialogue sessions in the fourth quarter of 2011. Each session, REAAL's management team entered into discussion with some thirty REAAL employees on a great variety of topics (direction, strategy, current and future situation and any other topics employees wished to talk about). These sessions reduce the degree of distance between management and employees. We held ten sessions in 2011 and will continue to hold them in 2012.

9.2.4.3 Customer-Oriented Insurance Quality Mark (Keurmerk Klantgericht Verzekeren)

REAAL retained the Customer-Oriented Insurance Quality Mark despite the more comprehensive assessment, which now also includes the assessment of published follow-up periods, results in bodily injury claims processing, performance and publication of customer satisfaction surveys and internal product quality audits. Upon the introduction in 2010, REAAL was part of the first group being granted this quality mark. The Customer-Oriented Insurance Quality Mark is based on fifteen standards, divided into five themes: understandable and clear information, accurate and expedient service, good telephone access, customer satisfaction surveys, and a company quality assurance policy and quality management.

9.2.4.4 Service improvements and customer satisfaction

REAAL introduced various service improvements in respect of non-life insurance. Incoming customer telephone calls were better regulated, so that customers received more attention without other activities being disrupted. When accepting a quote, customers can immediately receive temporary cover for their commercial non-life insurance, and in the event of a growing number of claim events, REAAL now informs its customers by e-mail instead of by letter. The processing of applications and cancellations of individual non-life insurance policies was accelerated.

Overall customer satisfaction at REAAL, based on the NPS measurement method, rose from -58% at the beginning of 2011 to -44% at the end of 2011. The improvements to the service provided to customers and intermediaries were rewarded with a number 3 ranking in the annual non-life performance survey, a survey in which intermediaries rate insurers for their service in the area of non-life insurance.

9.2.5 Transparent rates and conditions, appropriate advice

REAAL dispensed with the so-called 'en bloc clause', the clause stipulating the right to change premium rates or conditions for term life insurance policies. As from the third quarter of 2011, REAAL thus offers customers the certainty that a contract's price and terms and conditions will not be amended during the contractual term. This clause, which was previously included in the terms and conditions, did not give customers the certainty that the terms and conditions and/or price would remain unchanged.

In recent years, the market for consultancy products became a lot more transparent as bonus fees for intermediaries were cancelled and information about products' cost prices became more transparent. In 2013, the commission fees for complex products will also be banned. Intermediaries will then have to agree a rate with their customers in respect of the advice they provide. This further increases price transparency, which forces intermediaries to prove their added value even more clearly. REAAL helps intermediaries particularly by coaching them on attracting customers and making better use of regional market data. A well-considered advice is in the interest of consumers, intermediaries and REAAL. We take our leave of intermediaries who do not meet the statutory and internal REAAL requirements.

9.2.6 Direct channel gaining ground

Direct sales comprise 28% of REAAL's total non-life sales. In the direct channel, REAAL sells its non-life products through the brands Proteq, Zelf.nl, Route Mobiel and Proteq Dier & Zorg. Sales showed a limited increase and the total portfolio grew by 12% to € 69 million. In part on account of advanced online marketing, the growth did not result in an increase in operating costs. Proteq Dier & Zorg introduced 'direct payment' for the veterinary practice, as a result of which customers no longer need to advance the invoices. Route Mobiel added motor and travel insurance to its product range. At the end of 2011, Proteq introduced new motor insurance rates based on the latest insights from claims and online statistics.

In December 2010, the Dutch Central Bank (DNB) voiced its concerns about the premium rates for motor third party liability insurance. According to DNB, many market parties offered low rates without taking adequate measures. This investigation had a positive impact on the premium rates in the market, leading to better results.

9.2.7 Customer-driven and efficient organisation

REAAL introduced many integrations, standardisations and simplifications to its organisation in recent years. Cutting costs continues to be necessary in order to adjust to changing market conditions. The key principle is that efficiency should go hand in hand with customer focus. Key measures in 2011 included the following:

- Further separation of the closed life portfolio and the sales activities for new policies.
- More central standards for the IT infrastructures of the Insurance activities, which contributed to higher individual non-life insurance sales through SNS Bank.
- More efficiency and customer focus at the sales and customer administrations, including by means of better consultation structures, better allocation of responsibilities, better work scheduling and a focus on performance indicators.
- Streamlining of work processes at REAAL Non-Life, in which respect superfluous activities were eliminated and customer-related aspects were improved.

9.2.8 Responsible investment of premiums received

REAAL handles the money it receives from its customers for insurance premiums in a responsible manner. This was revealed by a survey into responsible investment by insurers conducted by VBDO, the Association of Investors for Sustainable Development, at the end of 2011. REAAL took top position again among the 30 Dutch insurers that were assessed during the survey.

9.3 Financial developments at REAAL Life

Table 5: REAAL Life

In € millions	2011	2010	Change
Result			
Regular life premiums	1,306	1,364	(4%)
Single life premiums	381	470	(19%)
Premium income	**1,687**	**1,834**	**(8%)**
Reinsurance premiums	187	82	128%
Net premium income	**1,500**	**1,752**	**(14%)**
Net fee and commission income	49	56	(13%)
Share in result of associates	(2)	4	(150%)
Investment income	1,010	1,017	(1%)
Investment income for account of policyholders	(241)	364	(166%)
Result on financial instruments	155	78	99%
Other operating income	3	28	0%
Income invested collateral securities lending	2	1	
Total income	**2,476**	**3,300**	**(25%)**
Technical claims and benefits	1,697	2,619	(35%)
Acquisition costs for insurance operations	89	124	(28%)
Impairment charges	35	(4)	975%
Total operating expenses	155	188	(18%)
Other interest expenses	210	109	93%
Total expenses	**2,186**	**3,036**	**(28%)**
Result before tax	**290**	**264**	**10%**
Taxation	67	55	22%
Minority interest	1	1	0%
Net result for the period	**222**	**208**	**7%**
One-off items	--	20	(100%)
Adjusted net result for the period	**222**	**188**	**18%**
Operating cost/premium ratio	8.0%	8.8%	
New annual premium equivalent Life	91	68	34%
Value New Business	22	15	47%

9.3.1 Result 2011 compared to 2010

REAAL Life's net profit was up markedly compared to 2010 and adjusted for one-off items in 2010, net profit increased significantly, driven by higher results on derivatives used for protecting solvency against declining interest rates and lower operating expenses.

The underlying net result of REAAL Life increased slightly to € 185 million from € 180 million in 2010. This increase was driven by lower operating expenses, partly compensated by a lower direct investment income.

Table 6: Underlying result REAAL Life

In € millions	2011	2010	Change
Net result for the period	222	208	7%
Realised gains, losses and impairments on equity	(18)	3	(700%)
Realised gains, losses and impairments on fixed-income securities	44	54	(19%)
Result on financial instruments	115	61	89%
Changes in insurance contracts due to movements of fair value items	(33)	(18)	(83%)
Total net impact investment portfolio and hedges	**108**	**100**	**8%**
Impact of one-off items	--	20	(100%)
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**114**	**88**	**30%**
Amortisation VOBA and other intangible assets	(70)	(92)	24%
Underlying result REAAL Life	**184**	**180**	**2%**

Results on equity hedges are included in realised gains/loses on equity portfolio in stead of result on financial instruments

Net of capitalised external and internal acquisition costs

Includes changes in provision for interest rate guarantees in unit-linked portfolio and seperate accounts and the impact of shadow accounting.

In 2011, realised gains, losses and impairments on equities were € 18 million negative compared to € 3 million positive in 2010. This decrease was due to higher impairments partly compensated by higher unrealised gains on put options, both driven by lower equity markets. Realised gains, losses and impairments on the fixed-income portfolio had a positive net impact of € 44 million compared to € 54 million in 2010.

Decreasing interest rates in 2011 led to substantial unrealised gains on interest rate derivatives. As a consequence, the result on financial instruments was € 115 million positive. In 2010, declining interest rates had led to a net positive result on financial instruments of € 61 million, including a realised gain on interest rate swaps of € 41 million.

Changes in insurance contracts due to movements of fair value items amounted to € 33 million negative, mainly consisting of the net impact of shadow accounting. In 2010, the net impact of shadow accounting amounted to € 16 million negative.

Amortisation of VOBA and other intangibles decreased as lower premium income and lower deferred acquisition costs of more recent life policies led to lower amortisation of acquisition costs.

Amortisation of Value of Business Acquired (VOBA) and other intangibles decreased as lower premium income and lower deferred acquisition costs of more recent life policies led to lower amortisation of acquisition costs.

9.4 Income

Regular life premiums of REAAL Life showed a modest decline. In a shrinking Dutch market, the market share of individual new regular premiums increased to 21.9% (2010: 13.7%). The Dutch market is shifting away from savings insurance products towards mortality coverage insurance, in which REAAL has strengthened its position. Single life premiums decreased strongly and market share in single life premiums fell from 9.8% in 2010 to 8.8% due to the continued focus on protecting profitability. However, new annual premium equivalent (NAPE) rose to € 91 million.

REAAL Life continued to focus on growth in the most value creating segments, term life and offset mortgage products, where Value of New Business (VNB) margins are sound. The focus on the product mix together with the impact of cost control measures led to a sharp improvement of the VNB from € 15 million in 2010 to € 22 million.

Reinsurance premiums paid increased due to the new traditional life reinsurance transaction entered into in the first quarter of 2011. This reinsurance transaction also led to decreased technical claims and benefits, decreased operating and acquisition costs and increased other interest expenses. It had a net negative effect on earnings of € 7 million in 2011 and impacted solvency positively by 18%-points by releasing approximately € 225 million of capital.

Table 7: Breakdown Investment income for own account REAAL Life

Gross amounts in € millions	2011	2010	Change
Total investment income	1,010	1,017	(1%)
Realised gains/losses on equities	11	15	27%
Realised gains/losses on fixed income securities	59	52	13%
Other realised gains/losses	1	(1)	(200%)
Realised gains/losses	**71**	**66**	**8%**
Unrealised gains/losses	(16)	(10)	(60%)
Direct investment income	**955**	**961**	**(1%)**

Both total and direct investment income for own account were only marginally lower compared to 2010. De-risking measures (reducing exposure to financials and peripheral European sovereigns) led to a lower direct investment income. This was compensated by higher results on private loans linked to savings accounts, as part of direct investment income, which are offset by higher technical charges. Furthermore, higher realised gains compensated the increased unrealised losses.

Other operating income in 2010 had consisted mainly of a subsequent payment from AXA following the acquisition of AXA NL in 2007.

9.5 Expenses

Technical claims and benefits declined, driven by lower charges for account of policyholders corresponding to the decreased investment income for risk of policyholders and by the decrease in single life premiums. Furthermore, the new reinsurance transaction led to lower technical claims and benefits.

Acquisition costs for insurance operations declined due to lower amortisation of acquisition costs and due to the new reinsurance transaction.

Table 8: Breakdown impairment charges REAAL Life

Gross amounts in € millions	2011	2010	Change
Impairment charges on equities	38	7	443%
Impairment charges in fixed income securities	--	(20)	(100%)
Other impairment charges	(3)	9	(133%)
Total impairment charges	**35**	**(4)**	**(975%)**

At REAAL Life, total impairment charges were € 35 million due to impairments on equities. In 2010, reversals of earlier impairments in the fixed-income portfolio had compensated for the impairments on equities and other assets.

Operating costs were down significantly due to cost reduction measures. As a result, the operating cost/premium ratio improved from 8.8% to 8.0%. The reinsurance transaction led to a decrease in operating costs of € 8 million, which is not taken into account in the cost/premium ratio.

Other interest expenses increased by € 111 million, of which € 106 million was due to the reinsurance transaction. In addition to other abovementioned benefits, this was offset by lower technical claims and benefits.

9.6 Financial developments at REAAL Non-Life

Table 9: REAAL Non-Life

In € millions	2011	2010	Change
Result			
Non-Life premiums	848	809	5%
Reinsurance premiums	54	67	(19%)
Net premium income	**794**	**742**	**7%**
Net fee and commission income	1	2	(50%)
Share in result of associates	1	2	(50%)
Investment income	66	62	6%
Other operating income	--	--	0%
Total income	**862**	**808**	**7%**
Technical claims and benefits	490	476	3%
Acquisition costs for insurance operations	192	178	8%
Impairment charges	--	--	0%
Total operating expenses	128	120	7%
Other interest expenses	9	13	(31%)
Other expenses	--	--	0%
Total expenses	**819**	**787**	**4%**
Result before tax	43	21	105%
Taxation	10	5	100%
Net result for the period	**33**	**16**	**106%**
One-off items	--	--	0%
Adjusted net result for the period	**33**	**16**	**106%**
Combined ratio Non-Life operations	96.0%	98.5%	
Claims ratio	57.8%	60.8%	

9.6.1 Adjusted for various effects

REAAL Non-Life posted a sharply higher net profit due to lower claims in fire and a release of provisions for unearned premiums and acquisition costs held for authorised agents of € 12 million net. The underlying net profit of REAAL Non-Life increased for the same reasons.

Table 10: Underlying result REAAL Non-Life

In € millions	2011	2010
Net result for the period	33	16
Realised gains, losses and impairments on equity	--	(2)
Realised gains, losses and impairments on fixed-income securities	3	1
Total net impact investment portfolio and hedges	**3**	**(1)**
Impact of one-off items	--	--
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**30**	**17**
Amortisation intangible assets	(6)	(1)
Underlying result REAAL Non-Life	**36**	**18**

Results on equity hedges are included in realised gains/losses on equity portfolio in stead of result on financial instruments

In 2011, realised gains, losses and impairments on fixed-income securities had a small positive impact on investment income, while in 2010 losses and impairments on equities had a small negative impact.

Amortisation of intangible assets increased to € 6 million due mainly to higher amortisation of the customer's portfolio.

9.7 Income

In a stable non-life market, REAAL Non-Life's premium income increased slightly in almost all business lines. Disability insurance premiums increased modestly to € 105 million (+3%), 12% of total Non-Life premiums. VNB of Disability increased to € 14 million compared to € 4 million in 2010.

Furthermore, premium income was higher due to the release of the provision for premiums for authorised agents. In 2011 REAAL changed the calculation of the provision for these unearned underwriting premiums to a modified, more accurate method, taking into account the fact that in recent years policyholders switched more and more to payments on a monthly or quarterly basis instead of annual payments, and authorised agents provide more timely information, enabling more accurate estimates. Due to the change, an amount of € 16 million was released to the pre-tax result in 2011 (€ 24 million in premium income partly offset by € 8 million in acquisition costs).

Reinsurance premiums decreased due to lower reinstatement premiums as a result of fewer large claims in 2011. Furthermore, positive run-off results in 2010 led to a decreased ability to claim from reinsurers and therefore to lower reinsurance premiums.

Table 11: Breakdown Investment income REAAL Non-Life

Gross amounts in € millions	2011	2010
Total investment income	66	62
Realised gains/ losses on equities	--	(3)
Realised gains/losses on fixed income securities	5	2
Realised gains	**5**	**(1)**
Unrealised gains/losses	--	--
Direct investment income	**61**	**63**

Total investment income showed a limited increase compared to 2010, due to higher realised gains on fixed-income securities and the absence of realised losses on equities which impacted the 2010 result. Direct investment income decreased only modestly.

9.8 Expenses

Technical claims were down due to lower claims in fire, partly offset by higher claims in motor. The lower claims resulted in an improvement of the overall claims ratio to 57.8%.

Acquisition costs were markedly up compared to 2010 mainly due to the € 8 million release of accrued acquisition costs as part of the release of provision for unearned premiums and acquisition costs. The acquisition ratio was almost stable (24.2% compared to 23.7% in 2010). Operating expenses were up due mainly to higher amortisation of capitalised costs of the customers' portfolio. However the operating cost/premium ratio of 14.0% was in line with 2010 due to the higher premium income. The lower combined ratio of 96.0% was due to the lower claims ratio.

9.9 REAAL Other

The Other activities of REAAL comprise the activities not directly managed by REAAL Life or REAAL Non-Life and holding activities. The net result of € 1 million was € 19 million up compared to 2010, due to the sale of the subsidiary REAAL Reassurantie SA, REAAL's reinsurance company. The result achieved on the sale amounted to € 18 million net and is part of the capital release programme of SNS REAAL. The underlying net result of REAAL Other, excluding the result of the sale, amounted to € 18 million negative and was in line with the € 15 million negative result in 2010.

As at 1 January 2011, € 2.2 billion of securitised retail DBV mortgages were transferred from REAAL Other to SNS Retail Bank. This transfer did not have a material impact on the net result of REAAL Other.

10 Developments Zwitserleven

Underlying net result was higher due to improved technical results. Net result fell from a € 36 million profit to a € 91 million loss, mainly due to the net impairment on goodwill of € 107 million and a provision for guarantee products as a result of lower interest rates. Premium income increased by 7% due to strong market presence.

10.1 Strategy

Zwitserleven wants to be the leading pension insurer in the Netherlands. Its clients are director-shareholders, SME companies and large companies. In this respect, Zwitserleven uses market teams that focus on specific market segments.

10.1.1 Sales and brand experience

Sales and distribution are effected through specialised intermediaries and professional consultants. Zwitserleven aims for profitable growth on the basis of high-quality products, excellent service and close collaboration with intermediaries and professional advisors. The brand experience of 'het Zwitserleven Gevoel' is substantiated and sustained by means of good communication with intermediaries, professional advisors, employers and employees, and excellent service.

10.1.2 Sustainability and satisfaction

Zwitserleven wants to invest its customers' pension money only in companies who pass a sustainability test based on ESG criteria (environmental, social and governance). Client and employee satisfaction are important long-term objectives. Zwitserleven considers the professionalism and commitment of its employees one of the cornerstones of the company's success. Zwitserleven wants to optimise the organisation's efficiency and effectiveness by teaming up with other SNS REAAL business units.

10.2 Financial developments

Table 12: Zwitserleven

In € millions	2011	2010	Change
Result			
Regular life premiums	820	776	6%
Single life premiums	341	309	10%
Premium income	1,161	1,085	7%
Reinsurance premiums	5	5	0%
Net premium income	**1,156**	**1,080**	**7%**
Net fee and commission income	14	6	133%
Investment income	359	375	(4%)
Investment income for account of policyholders	202	451	(55%)
Result on financial instruments	28	18	56%
Income invested collateral securities lending	2	2	0%
Other operating income	--	9	
Total income	**1,761**	**1,941**	**(9%)**
Technical claims and benefits	1,527	1,680	(9%)
Acquisition costs for insurance operations	26	27	(4%)
Impairment charges	145	32	353%
Total operating expenses	137	131	5%
Income invested collateral securities lending	1	1	0%
Other interest expenses	37	25	48%
Total expenses	**1,873**	**1,896**	**(1%)**
Result before tax	(112)	45	(349%)
Taxation	(21)	9	(333%)
Net result for the period	**(91)**	**36**	**(353%)**
One-off items	(107)	(25)	(328%)
Adjusted net result for the period	**16**	**61**	**(74%)**
Operating cost/premium ratio	14.9%	14.9%	
New annual premium equivalent Life	258	249	4%
Value New Business	8	13	(38%)

10.2.1 Result 2011 compared to 2010

Zwitserleven posted a significant net loss due to a goodwill impairment of € 107 million net (€ 131 million pre-tax). This related to the difficult circumstances in the pensions market, as evidenced by the continued low interest rate environment, the longer life expectancy and the expected higher future capital requirements. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

Adjusted for one-off items, Zwitserleven's net result also decreased sharply due to additions to provisions for interest rate guarantees and lower realised gains on the fixed-income portfolio.

However, mainly due to higher technical results on mortality, Zwitserleven's underlying net result increased compared to 2010, even though the release of a provision for pension commitments had impacted the underlying result positively in 2010.

Table 13: Underlying result Zwitserleven

In € millions	2011	2010	Change
Net result for the period	(91)	36	(353%)
Realised gains, losses and impairments on equity	3	7	(57%)
Realised gains, losses and impairments on fixed-income securities	11	35	(69%)
Result on financial instruments	21	13	62%
Changes in Insurance contracts due to movements of fair value items	(60)	(21)	(186%)
Total net impact investment portfolio and hedges	**(25)**	**34**	**(174%)**
Impact of one-off items	(107)	(25)	(328%)
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**41**	**27**	**52%**
Amortisation VOBA and other intangible assets	(14)	(25)	44%
Underlying result Zwitserleven	**55**	**52**	**6%**

Results on equity hedges are included in realised gains/losses on equity portfolio in stead of result on financial instruments

Net of capitalised external and internal acquisition costs

Including changes in provisions for interest rate guarantees in unit-linked portfolio and seperate accounts, the impact of shadow aacounting and the impact of the hedging of inflation. Comparative figures of Zwitserleven are restated, reflecting the net impact of hedging inflating.

In 2011, realised gains, losses and impairments on equities were limited to € 3 million positive compared to € 7 million positive for 2010. Realised gains, losses and impairments on the fixed-income portfolio decreased to € 11 million positive compared to € 35 million positive for 2010.

The result on financial instruments of € 21 million positive increased by € 8 million compared to 2010. The increase was mainly due to higher results on derivatives related to interest rate guarantees and higher results on inflation swaps, largely offset by sharply lower unrealised gains on interest rate derivatives. The result on inflation swaps was partly mirrored in changes in insurance contracts due to movements of fair value items.

Changes in insurance contracts due to movements of fair value items amounted to € 60 million negative in 2011. This consisted of the net impact of additions to provisions for interest rate guarantees (€ 74 million), due mainly to the low interest environment, the net impact of shadow accounting (€ 19 million positive) and higher technical expenses due to the impact of inflation (€ 5 million).

In 2010, changes in insurance contracts due to movements of fair value items had amounted to € 21 million negative. This consisted of higher provisioning for inflation (€ 2 million) and the net impact of shadow accounting (€ 19 million negative).

Amortisation of VOBA and other intangibles decreased due to lower actuarial amortisation of VOBA and higher capitalised costs of software.

10.3 Income

Both regular and single premium income increased compared to 2010, supported by high retention rates. Market share of new regular pension premium income increased from about 17% year-end 2010 to 29% as at end September 2011. Single pension premium income benefitted from new large group contracts. Zwitserleven successfully attracted new clients in the corporate and SME segment and was voted ‘best pension insurer in The Netherlands’ for the fourth year in a row.

As a result of the new client contacts, NAPE was significantly up to € 258 million. The Value of New Business (VNB) was € 8 million compared to € 13 million in 2010 due to the low interest rate environment and pressure on margins. To increase profitability, a number of products with a negative margin was classified as non-selling during 2011. From mid November 2011 proposals for new clients and renewals of contracts use a reduced technical interest of 2.5% and unit linked guarantees are limited to 2%.

Table 14: Breakdown Investment income for own account Zwitserleven

Gross amounts in € millions	2011	2010	Change
Total investment income	359	375	(4%)
Realised gains/losses on equities	7	15	53%
Realised gains/losses on fixed income securities	22	47	(53%)
Realised gains/losses	**29**	**62**	**(53%)**
Unrealised gains/losses	(2)	(1)	(100%)
Direct investment income	**332**	**314**	**6%**

Total investment income for own account was modestly down compared to 2010 due to lower realised gains on equities and fixed-income securities. Direct investment income was positively affected by the acquisition of retail mortgages from SNS Bank at the end of 2010. However, interest expenses also increased due to the funding of these mortgages.

Investment income for risk of policyholders decreased due to widened credit spreads which led to negative revaluations of fixed-income securities and due to lower equity markets.

The result on financial instruments increased as lower unrealised gains on interest rate derivatives were more than compensated by higher results on derivatives used for hedging risks related to interest rate guarantees and higher results on inflation swaps.

10.4 Expenses

Operating expenses increased by € 6 million. However, expenses in 2010 had included a € 12 million release of a provision for pension commitments related to the harmonisation of employment conditions. Adjusted for this provision release, operating expenses showed a limited decline. Acquisition costs for insurance operations were in line with the level of 2010.

Table 15: Breakdown Impairment charges Zwitserleven

Gross amounts in € millions	2011	2010	Change
Impairment charges of equities	2	7	(71%)
Impairment charges of fixed income securities	8	--	--
Other impairment charges	135	25	440%
Total impairment charges	**145**	**32**	**353%**

Impairment charges increased sharply due to the abovementioned goodwill impairment (€ 131 million pre-tax). Other impairment charges in 2010 were related to the distribution network. Impairments on the investment portfolio were somewhat higher, as lower impairments of equities did not wholly compensate for higher impairments on fixed-income securities.

10.5 Market position reinforced

Zwitserleven's share in the overall pension insurance market, based on new business and income from inflow of regular premiums, rose to about 23.5%. Zwitserleven maintained its position on the SME market. Customer retention remained very high. Key success factors were the growth of the Exclusief Pensioen ('Exclusive Pension') and the simplification of products, which had already begun in 2010. The changes to Zwitserleven.nl enhanced its accessibility for clients and their employees. New quote software also made the services more accessible for intermediaries.

10.5.1 Retention and quality in the large corporate market

With a retention rate of more than 90%, the large corporate market also retained much of its client base. Total new premiums grew by 154%, facilitated to a significant extent by the Exclusive Pension in this segment as well. Zwitserleven furthermore distinguishes itself in this segment by its high-quality services, its understanding of the client's situation, tailor-made solutions and good communication with its employees. The customer forums and brainstorming sessions about product innovation and the seminars for consultants and clients underscore the accessibility of Zwitserleven.

10.5.2 Good position with Exclusive Pension

Introduced in 2010, the Exclusive Pension is unique in its clarity of the communication and transparent costs for employers and employees. Thanks to the Exclusive Pension, Zwitserleven is well-positioned to compete with so-called Defined Contribution Pension Institutions (premiepensioeninstellingen, or PPIs), which have gained access to the market. In 2011, it also became possible for companies other than pension funds and insurers to obtain a licence for executing a pension scheme. These PPIs are able to operate efficiently because they start with new systems and new products, but they may also be faced with high costs for outsourcing insurance and investment activities. In 2011, PPIs still had a limited effect on Zwitserleven's market share.

10.6 Corporate responsibility

Zwitserleven's social responsibility is inherently motivated. Also, Zwitserleven believes that commitment to society is key to restoring trust in the financial sector. Zwitserleven is furthermore convinced that responsible investment generates at least as much return in the long term for all stakeholders.

That is why all of Zwitserleven's investments satisfy the ESG criteria (environmental, social and governance) developed by SNS Asset Management, the investment manager of SNS REAAL.

10.6.1 Corporate responsibility Leadership Journey

Under the title 'Leadership Journey', Zwitserleven started a broad dialogue with various groups of stakeholders: clients and their staff, social institutions, leading customer service companies and other SNS REAAL business units. The goal was to advise the Management Board on how corporate responsibility (CR) should be developed further within Zwitserleven. Personal leadership is a key CR objective of SNS REAAL and Zwitserleven. Over a period of three months, nineteen employees spent two days per month on this aspect. In order to be allowed to take part, they had to state their motivation and set a personal learning goal for their 'journey'. Part of the journey was made in the employee's own time. During their journey, the staff members sought to establish a link between their own personal motivation and the challenges facing Zwitserleven as a company.

10.6.2 Quality mark and Gouden Schild

Zwitserleven was the first Dutch pension insurer to receive the Eurosif quality mark for its transparent and social investment policy. The objective of this European organisation is to promote corporate sustainability in the financial sector.

Zwitserleven won a Gouden Schild award for its CR policy. The jury particularly praised Zwitserleven's investment policy and operations. Including initiatives such as Zorgen met Gevoel and the Leadership Journey a number of employees made in 2011. Zorgen met Gevoel is an annual project as part of which Zwitserleven staff work as volunteers in the Amstelveen region, where Zwitserleven is located.

10.7 Changes to own costs and customers' pension contributions

Zwitserleven continued its programme to reduce its operating costs. Essential elements are the improvement of processes and organisational structures, fewer products and fewer systems. This way, Zwitserleven is adapting to a changing market situation. Commitments towards policyholders are increasing because of the – happy – fact that our life expectancy has risen. The low actuarial interest rate, resulting from the situation in the financial markets, also led to more commitments in 2011. Because of this, Zwitserleven raised its pension contributions as from October 2011 in respect of new pension contracts based on defined benefits. Zwitserleven determined the higher contributions on the basis of an assumed 0.5% drop in the actuarial interest rate.

10.8 Ban on commission fee promotes quality of advice

As from the beginning of 2011, the Zwitserleven intermediaries can only receive regular commission for new group contracts, group contracts to be renewed and pensions for director-shareholders. With this, Zwitserleven anticipates the government decision to ban commission fees on complex products in 2013. The intermediary collaborating with Zwitserleven can earn back the income lost by means of a fixed fee agreed with his client and a regular commission. The point of departure here is that this will not have any adverse financial consequences for the client. Zwitserleven supports the new pricing structure, which warrants objective and expert advice and promotes market transparency.

10.9 Accessible and clear information

In 2011, Zwitserleven informed its clients and their staff through its website and personal letters about the substance and execution of the compensation scheme for the costs of unit linked insurance policies. With regard to a small part (approximately 15%) of unit linked insurance taken out previously at Zwitserleven or one of its predecessors, Zwitserleven reimburses part of the costs charged at the time. The scheme is part of an overall agreement that SNS REAAL concluded with several stakeholders in 2010. According to the guideline of the Dutch Association of Insurers, Zwitserleven must provide compensation no later than on the retirement date. Zwitserleven decided not to wait until this date, but to incorporate the compensation into its policy administration systems and value statements as quickly as possible. This will likely be completed in 2012.

Zwitserleven asked visitors to Zwitserleven.nl for suggestions to improve the information on investment funds. Partly based on the outcome, the graphs on price developments and information on historical prices, returns and comparisons between funds have been improved. In addition, Zwitserleven enhanced its information about its own responsible investment policy.

Zwitserleven introduced 'MijnZwitserlevenPensioen.nl', a personal environment on the website bringing together information that applies specifically to each individual. Employers can request this additional service, giving their employees an easier way to find relevant and up-to-date information about their pensions and investments.

10.9.1 Information on internet site, in brochure and (digital) reference book

Zwitserleven received reactions from worried employers following problems about the cover ratios of a large number of pension funds. The media speculated that this could result in pension benefit cuts. Zwitserleven explained on her website that she is not a pension fund, but a pension insurer. This means that not the cover ratio, but solvency is the determining factor of its financial position. The assurance of payment of guaranteed nominal pensions is substantially higher at an insurer than what applies for many pension funds.

In 2011, new clients received the brochure 'Mijn Zwitserleven Pensioen', written by Annemarie van Gaal on behalf of Zwitserleven. Mijn Zwitserleven Pensioen accompanies the reader in an accessible manner along ten important moments in life that affect pension accrual.

Every year Zwitserleven provides its clients with 'Zwitserleven's Mini-Update', a work of reference about pensions and taxes. The first digital version for smart phones and tablet PCs appeared in 2011.

10.10 Awards underscore quality of services

A leading pension insurer in the Netherlands, Zwitserleven again received a large number of awards and high ratings in surveys in 2011. Although market surveys rate Zwitserleven top of the market, Zwitserleven aims for even better services. The following awards underscored the high quality of services:

- Number one in the Performance Onderzoek Pensioen survey, in which intermediaries rate pension insurers on aspects including services (digital or otherwise), accessibility and knowledge of office staff, and the transparency and quality of products.
- Best insurer in the Group Life Insurance category according to Adfiz, an organisation representing intermediaries. The aspects assessed by Adfiz included the quality of products, pricing, and quality and accuracy of quotes and contracts.

The satisfaction of pension fund members, clients' staff, was measured on the basis of the NPS measurement method and rose from -65% at the beginning of 2011 to -47% at the end of 2011. This is based on measurements with clients that both recent or distant contact with Zwitserleven. Although this represents a substantial improvement and is good compared to the peers, we are working hard to improve on this figure.

10.11 Introduction of advertising campaign 'thinking ahead'

Zwitserleven launched a new advertising campaign: the advantage of thinking ahead. In this campaign, rationale is combined with known intuition. The goal is to show that a pension insurer almost always thinks about the future of its customers and to encourage the Dutch population to make proper arrangements for their pensions now. Then it shows 'Het Zwitserleven Gevoel' is still feasible. This campaign builds on 'Het Zwitserleven Gevoel', one of the longest running campaigns in the Netherlands.

11 Risk and capital management

Risk levels rose in 2011. This was mainly due to the uncertainty in Europe (particularly related to the euro), volatility in the financial markets and the deteriorating economic situation.

11.1 Key risks for REAAL

The main risks for REAAL NV end of 2011 were:

- Growing uncertainty over credit losses caused by a deterioration of the macro-economic environment.
- Potentially higher losses on foreclosures caused by developments on the housing market. Uncertainties in the market, for example with regard to economic developments and possible limitations on the mortgage interest deduction, negatively impacts people's readiness to buy a house, home moving and the development of house prices.
- All euro-related risks including the risk of a partial default of a European Union member state are considerable.
- The long-term interest rate in Germany and the Netherlands is very low. In addition, the relationships between the interest rate levels of government bonds, corporate bonds and derivatives in Europe are very volatile. REAAL NV is fairly well protected against generic interest rate fluctuations, but remains vulnerable for mutual relationships of the interest rate levels, especially for differences in interest rates between countries in Europe and various fixed-income instruments.
- Impact on the Insurance activities' capital position in the years to come due to changes in life expectancy.
- Changing supervisory regulations and uncertainty over the rate of implementation make it difficult to manage the balance sheet of a financial institution and as a result the profitability.
- Given the pressure on the revenue models within REAAL NV in the Insurance activities, the ability to generate capital has been affected negatively. This is enhanced by the volatility in the financial markets in combination with the developments of the real economy.

11.2 Risk management in exceptional circumstances

Numerous external developments have affected the choice for more or less risk tolerance:

- Since the end of 2009, the risk in the investment portfolio of European government bonds increased substantially because partial defaults of European Union member states are no longer considered unfeasible. Increasingly, market participants question the viability of the euro in its present form. As a consequence, REAAL NV has implemented additional risk indicators and limits. This resulted in an exposure reduction to peripheral countries which reduced the risk appetite for this type of risk.
- Managing the balance sheet of the Insurance activities required considerable attention in 2011 in connection with the uncertainties surrounding the euro, extreme volatility in the financial markets, falling interest rates and increasing risk premiums. As a consequence, the risk profile of the Insurance activities was further reduced. Due to the big fluctuations on the capital markets, the internal stress indicator for solvency at the Insurance activities fell outside the internally defined limits several times. At year-end, all risks are within the limits again.

All things considered, risks related to the conditions in which REAAL NV is operating significantly increased REAAL NV's risk profile. On the other hand, risks were reduced as a result of measures taken by REAAL NV's management.

11.3 New regulation and implementation thereof

11.3.1 Solvency II preparations for Insurance activities

In 2011, REAAL NV devoted a great deal of attention to the preparations for the coming into force of Solvency II. The internal programme for this is in full progress. However, the execution of this extensive programme is made more difficult because both content and schedules of the regulations are subject to change.

REAAL NV uses the period to the introduction of Solvency II to make a number of processes more future proof and to link the internal data to the external reporting models.

11.4 Change to the risk management organisation

Since 2009, REAAL NV has a risk management organisation which has been aiming at strengthening the corporate policy and the framework within which the risk policy is shaped. Key elements are quality improvement and achieving risk management efficiency. In 2010 and in 2011, we looked at ways to improve the existing structure.

Developments in the financial markets have led to an increased need for a more decisive risk management organisation. The cultural change in the financial services industry demands increased attention to putting the customer's best interests first. An analysis of the risk management organisation led to recommendations for further improvements. This resulted in a plan to optimise the existing structure. Changes were set in motion in the course of 2011 and implemented at the end of 2011. The new structure guarantees that the risk framework and escalation procedures are univocal.

The following basic principles of the governance structure remained unaltered:

- The management of the Insurance activities is divided into two business units, REAAL and Zwitserleven.
- Within the Group frameworks for risk policy, the business unit management teams achieve the corporate objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels.
- Asset & Liability management is managed at the Group level.

A summary of the changes made to the risk management organisation in 2011 are described below.

11.4.1 Structure of the Group Risk Committee

The Group Risk Committee (GRC) was designed as the highest and primary policy formulating risk management body. The GRC defines the desired risk profile for financial and non-financial risks and defines the risk appetite, risk policy frameworks and risk management framework. The GRC also defines REAAL's liquidity and capital plans.

11.4.2 Restructuring of other Group committees under the Group Risk Committee

The Group risk committees shifted their focus to optimisation of risks and returns within the scope of the GRC. Where necessary, the Group committees work out the frameworks as defined by the GRC in more detail. The Group Credit Committee (GCC) was set up to draw up the Group policy and decision making on credit extension beyond local authorities.

11.4.3 Restructuring of local risk committees

The local risk committees make and execute decisions within the frameworks of the higher-level risk committee and ultimately the GRC.

11.5 Developments in capital and solvency

11.5.1 Solvency Insurance activities

Regulatory solvency of the Insurance activities improved from 195% at year-end 2010 to 203%, supported by the traditional reinsurance transaction and profit retention. This was partly offset by an € 80 million dividend (six percentage points of solvency). In addition, solvency was negatively impacted by changes in the financial markets, particularly the decline in long-term interest and the widening of credit spreads. Based on the average yield curve in the fourth quarter of 2011, the solvency of the Insurance activities stood at approximately 229%

The ECB-AAA government yield used in the regulatory liability adequacy test showed a downward shift for all maturities. This positively impacted the fair value reserve of the fixed-income portfolio. However, the decrease of the yield curve had a negative impact on the capital surplus based on the regulatory liability adequacy test due to a higher market value of the technical provisions.

11.6 ORSA 2011

The capital adequacy of the Insurance activities is assessed by means of the Solvency II supervisory framework in the Own Risk and Solvency Assessment (ORSA). There is uncertainty as to the future ICAAP and ORSA regulations and the applicability thereof.

11.6.1 Capital assessment Insurance activities according to ORSA

The Insurance activities' capital adequacy is as yet evaluated within the Solvency I regulatory framework. In 2011, REAAL carried out an ORSA of its Insurance activities, to prepare for the coming Solvency II supervisory framework. The ORSA, like ICAAP at the Banking activities, is an internal process to evaluate the capital adequacy of an insurance company.

REAAL voluntarily participated in the EIOPA stress test for its Insurance activities in 2011. The results show that REAAL remains well above the solvency standard for its Insurance activities in a stress scenario.

11.7 Funding, liquidity position

11.7.1 Insurance activities

In the first half of 2011, SRLEV, the legal entity comprising most of the life Insurance activities of REAAL NV, successfully placed € 400 million of 30-year Tier 2 notes. Furthermore, in June, SRLEV placed CHF 105 million of perpetual subordinated notes. The proceeds were used by SRLEV to repay subordinated loans placed by SRLEV at SNS REAAL.

11.8 Developments in market risk of Insurance activities

Value-at-Risk models and stress scenarios are used for measuring market risks at the Insurance activities of REAAL. REAAL does not only calculate the total risk, but also calculates the breakdown into every individual source of market risk (interest, spread, etc.) as well. At year-end 2010, the VaR was 46% based on a 99.5% confidence interval. In 2011, the VaR decreased to 25% which is within the current limit of 45%.

In 2011, in connection with the euro crisis, the limited exposure of the Insurance activities to Southern European sovereign debt was reduced further for reasons of risk reduction to € 329 million, 2% of the total portfolio in government bonds. There was no exposure to Greek and Portuguese bonds.

The positions in government bonds of France and Belgium were also reduced. These were primarily reinvested in the Netherlands and Germany. The majority of the sovereign debt exposure of the Insurance activities still concerns Germany and the Netherlands.

Solvency at the Insurance activities is the most sensitive to interest rate fluctuations and changes in credit risk surcharges. Thus, the focus in 2011 was on these two risk sources.

The Insurance activities' balance sheet has become more sensitive to declines in interest rates and the impact of interest rate increases became slightly more favourable in particular as a result of the declining yield curve. The sensitivity of the solvency to 1% parallel decreases in interest rates, developed from around -20% at year-end 2010 to about -26% at year-end 2011, also caused by the decreasing yield curve.

The credit risk in the bond portfolio was further reduced in 2011. To reduce the interest risk on the balance sheet of the Insurance Activities, REAAL also purchased interest rate derivatives.

The above-mentioned measures were also taken in connection with the interest rate hedging programme. This programme, which was launched in 2009, is aimed at strongly reducing interest rate sensitivity of the solvency. Because of the following reasons, a cautious schedule is of great importance because:

- The hedging project may lead to many transactions, which could have a potentially large impact on the IFRS result.
- Good timing can prevent securing income from investments at too low a rate for a longer period of time, negatively impacting the profit generating capital of the Insurance activities.

11.9 Developments in technical claims and benefit risks

11.9.1 Development in technical claims and benefits risks

REAAL NV includes the excess or deficit in the book value of the technical provisions with respect to the fair value of these in the available solvency. The excess or deficit of the technical provisions is determined by performing a Liability Adequacy Test (LAT) for the Dutch Central Bank.

The outcome of the LAT strongly depends on the term structure of interest rates. The term structure for the LAT fluctuated strong in 2011 with a rise in the first half and a considerable fall in the third quarter. The LAT showed a substantial deficit at that time. In the months of October and November, the risk-free term structure went up again after which the curve went down again in December to September's low point.

Besides the effects of the low risk-free term structure, other principles, such as accounting principles, costs, mortality, and early surrender, also play a role in the LAT developments.

11.9.2 Adjustment of life expectancies

To forecast the life expectancies of the entire population, REAAL NV uses the model published by the Pension and Annuity Rate Tables (PART) Committee of the Dutch Association of Insurers. In 2011 the data of the PART model 2008 were updated to reflect the most recent data from the Dutch Government Central Bureau of Statistics CBS. No adjustments were made in the model. The up-to-date CBS data, pointed to a slight flattening of the acceleration of the life expectancy. The update of this data in 2011 resulted in an increase of the best estimate market values of the insurance liabilities and consequently had a negative impact on the outcome of the LAT.

11.9.3 Developments in reassurance

Reinsurances cover insurance risks within the various portfolios of the Life and Non-Life insurance operations. The reinsurance contracts of the various business units are being integrated within the (combined) REAAL NV reinsurance programmes as much as possible.

Reinsurance contracts are not only entered into in view of risks, but also increasingly for capital management purposes. Following on the reinsurance of October 2009, another reinsurance contract was concluded effective 1 January 2011 for a portion of the REAAL NV individual term life portfolio. Both transactions aim to use capital as efficiently as possible.

11.10 Management of non-financial risks

The Financial crisis and the subsequent public debate on the financial services industry has revealed that culture en behaviour are essential to restore trust in the financial services industry. In 2009, REAAL formulated a new mission, core value and strategy with a focus on putting the client's best interests first. Besides the conditions imposed on financial robustness, the emphasis on non-financial risk management based on 'lessons learned' has increased. Non-financial risk management is based on compliance with external and internal regulation and having and maintaining corporate integrity.

11.10.1 Existing factors

The main existing factors for managing of non-financial risks are:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, boosted/supported by the new risk management structure. REAAL NV implemented a so-called 'Three Lines of Defence' model, making line management primarily responsible for recognising and managing risks and taking decisions in that respect. Along with several other Group staff departments, CS&O has an important role to play in the second Line of Defence. The third Line of Defence is formed by Group Audit, which tests the set-up and operation of the system as a whole.
- Compliance, Security & Operational Risk Management (CS&O) annually executes a monitoring programme in consultation with Group Audit. On the basis of the risk-based analysis, they decide which means are used for what issues each year.
- CS&O draws up a non-financial risk report on a quarterly basis, giving an overview of the main developments in non-financial risks, progress in the follow-up of action items and the implementation of new/adjusted regulations and an analysis of the developments in incidents.
- In addition to other Group staff departments, CS&O provides advice in the business units' product development, approval and periodic review processes.
- The training & awareness programme comprises information meetings, e-learning programmes, presentations and 'train the trainer' workshops.
- As second Line of Defence, CS&O formulates the Group (wide) policy on operational integrity with respect to non-financial risks. The first Line is responsible for the implementation (and compliance) of this policy and will draw up an implementation plan. If required, CS&O provides advice on the implementation in the business units.
- By means of semi-annual in-control statements (ICSs), the management teams of each business unit reports about how the real risks are managed, providing demonstrable foundations. In the ICS, management reports on the main

risks and accompanying control measures, the improvements realised over the previous period and the progress on improvement measures.

- For the Insurance activities, the standardised approach of Solvency II is used to calculate the capital requirement in Pillar I. In 2011, a first step was taken with regard to the internal ORSA process to test this Pillar I capital. This process will be further worked out in more detail in 2012.

11.10.2 New developments

The main new developments to manage non-financial risks are:

- The risk committee structure was adjusted in 2011 to create an efficient and well-functioning organisation structure. To achieve this, responsibilities were univocally defined and a clear division was brought about between policy formulation and policy execution. A Group Risk Committee was set up, which is the primary policy-formulating body within REAAL NV.
- An operational risk framework was developed. The aim is to support REAAL NV's management in the managing of operational risks within the scope of the regulations and objectives of REAAL NV.
- In 2011, a study into the corporate integrity climate within REAAL NV was conducted. The results of the study in 2011, which was once more conducted in collaboration with KPMG, show that corporate integrity and compliance have improved compared to the study in 2010. Employees are very committed to integrity and compliance. On all counts, REAAL scored better than other respondents in the Financial Industry Benchmark 2011.
- Employees can now report irregularities such as fraud, undesirable behaviour and information security breaches to the newly set up compliance hotline. Here, they can also anonymously report irregularities (Whistle blowing procedure). The aim is to get risks reported in a timely manner to prevent or limit consequential loss and to be able to take adequate measure to prevent similar irregularities.
- A social development that also has consequences for REAAL NV is the increasing threat of cybercrime. Suitable measures are taken to avert this threat.

12 Funding and credit ratings

12.1 Public funding strategy

Our public funding strategy focuses on funding the activities of REAAL NV at competitive levels, i.e. at minimum cost while reducing/limiting risks. This strategy is based on two pillars. The first pillar comprises measures to ensure sufficient and prompt liquidity. In this manner we can avoid the risk that, at a later stage, we will need to obtain money at unfavourable conditions. The second pillar is the diversification in terms of funding instruments, types of investors and geographical areas.

12.2 Funding transactions in 2011

The debt crisis in Europe dominated the financial markets in 2011. The uncertainties increased. This applied to both the political solutions for the debt positions of the peripheral euro countries, and for the exposure of European banks to bonds issued by these countries. The mutual distrust between banks increased as a result of this, and led to further deterioration of the accessibility to the capital market.

SNS Bank did place a 30-year Tier 2 bond loan worth EUR 400 million and a subordinated perpetual bond loan worth 105 million Swiss franc on the market, both for SRLEV, the legal entity that contains the life operations of REAAL and Zwitserleven. The first bonds identified above were priced at 101.0%, and have a fixed coupon of 7.00% per year until the first call date. The 30-year Tier 2 bonds were priced at 100.0% and have a fixed coupon of 9.00% per year until the first call date on 15 April 2021. These transactions were part of the capital management of SRLEV and were related to the replacement of internal funding by external funding.

12.3 Risk loadings increased

Risk loadings increased further in 2011 due to the uncertainties surrounding the debt crisis. When, in addition to Greece, other peripheral euro countries were affected by higher risk loadings, the risk loadings of financial institutions across Europe also increased sharply.

13 Our people

Many employees are satisfied with their jobs and with REAAL NV as their employer. Employee satisfaction rose from 7.0 to 7.5. To fixing our foundation and to build for our future, we reorganised activities in many parts of the company. This often resulted in the loss of jobs and positions. Despite these changes it appears that most employees are pleased with the way we adapt ourselves to changing circumstances.

13.1 Responsible employer

It is our personnel that carries out our mission Simplicity in finance. They shape corporate responsibility within REAAL NV, motivated by our core value CARE!. Therefore, we believe it is very important that our employees are professional, dedicated and motivated. REAAL expects their employees to demonstrate responsible employee ship. We demand from them personal leadership and expect our employees to assume individual responsibility for the planning and execution of their work and management of their own career.

Employees can expect REAAL NV to be a responsible employer. In REAAL NV's vision, this first and foremost means an inspirational management style driven by CARE!, stimulating and giving feedback to one another. In practically all our HR instruments we pay particular attention to CARE! behaviour, from acquisition and selection to management development. Thus, CARE! forms part of employees' performance appraisals.

CARE! is also incorporated in the many social initiatives in which REAAL NV employees participated in 2011. Such as volunteer work by employees from REAAL and Zwitserleven.

Being a responsible employer also means an attractive package of employment conditions. Programmes directed at diversity and sustainable employability of employees are another requirement. We consider good training and development opportunities a necessity, as well as a good work-life balance. For the latter, the New World of Work (NWW) is an important tool. Moderate remuneration for the management is also part of being a responsible employer.

The HR Department took initiatives to give meaning to responsible employment practices in the following areas.

13.2 Sustainable employability

13.2.1 From work to work

At REAAL and Zwitserleven considerable reorganisations took place in 2011. We offered employees who were looking for a new position support, after they lost their job because of a reorganisation. They were given intensive guidance and support by a mobility manager and a career advisor. The Social Plan's basic principle is 'from work to work', preferably within REAAL NV or else outside the organisation. To encourage internal transfers, we organised career events. Well over half of the reassignment candidates found a new suitable position within the reassignment term.

Especially for reassignment candidates of 58 years and older, we set up a Pluspool, an internal employment agency for temporary work or projects. This way, we continue to utilise their know-how and experience.

13.2.2 In the interest of everyone

In an organisation such as REAAL NV, which focuses on efficiency and customers, changes occur frequently. Sustainable employability is therefore important for everyone, not only for reassignment candidates. On the one hand, REAAL wants to strengthen cooperation between her brands and on the other, it wants to give the brands a clearer brand identity. Thus, cross-brand career development is a great opportunity for both REAAL NV and many of our employees. It improves the exchange of information and our people will get an opportunity to further develop themselves. HR has several instruments to increase employees' employability. The Performance and Competency Assessment, a performance management cycle, is directed at the employee's current performance as well as at his or her employability and career opportunities in the future. If necessary, a Personal Development Plan can be drawn up, or (external) career counselling called in. Our training courses and Talent Development and Management Development programmes are part

of this policy too.

In 2011, we introduced a tool for integral personnel planning. It enables managers to map out the impact of internal and external developments on the number of employees, both quantitatively and qualitatively. Through increased insight into the future need for personnel, managers will be able to plan the employability of their employees in a more timely and efficient way.

13.3 The New World of Work (NWW) offers more flexibility and job satisfaction

The primary reason to switch to the NWW is to achieve a higher level of employee satisfaction and higher productivity. The investments, in particular the office renovation project and the purchase of technical aids, will be recovered by operating more economically and more effective. We will considerably save on office space costs and productivity is expected to increase. More than two years after the start, over 2,000 staff employees are now working according to the new concept. In 2012, the remaining employees at our head office in Utrecht will switch to the NWW. If everything goes according to plan, a new office building, especially fitted out for this new way of working, will be put into use in Alkmaar in 2013.

The annual employee satisfaction survey among REAAL NV employees is an important instrument to get Group-wide insight into the general satisfaction and into issues that require adjustment or improvement. In 2011, employee satisfaction rose from 7.0 to 7.5 (on a 10 point scale). Employees were especially positive about:

- The NWW. Although this innovative concept of working has not yet been introduced throughout the organisation, employees consider it a significant advance, for example for a better work-life balance.
- The work environment within the company, which is viewed as informal.
- Improvements in the organisation's customer and result-driven approach.

Points of improvement are career opportunities and the work pressure, which is high in many parts of the organisation. Collaboration between the various business units is another improvement point according to the employees. The response rate to the survey was very high, 85%, an indication of the overall level of commitment towards the organisation.

13.4 Education and training

13.4.1 CARE! for one another, learn from one another

We offer our people many opportunities to develop themselves professionally and personally, thus improving their performance and employability inside and outside the company. Through new working methods and through development, exchange and retention of know-how, we create surplus value for our customers. It also improves our competitiveness. HR supports employees with a variety of professional training courses, the Performance and Competency Appraisal cycle, generic training programmes, traineeships, Talent Development and Management Development programmes.

In 2011, REAAL highlighted the opportunities for personal and career development even more than before. We held career events with resume checking services and vacancy overviews in various locations. Workshops were also held on subjects such as personal branding, social media and managing your own career. Furthermore, colleagues from different business units described and talked about their work. In addition, a community of internal coaches was set up, enabling employees to get acquainted with coaching in an accessible way.

The management style which employees encounter is important for the personal and professional development. How do you evaluate a customer interview? How do you give each other feedback after something has gone wrong? And how can you learn from your own mistakes and from those of others? A good manager does not hesitate to discuss a customer interview that did not go well with his staff; to learn from it for himself and the others. We call this CARE! for one another. And if we learn something from it, it means that we also CARE! for the customer and CARE! for the result.

13.4.2 Internships and traineeships

To attract talent, REAAL NV organises workshops and guest lectures in REAAL NV locations and at both colleges of higher education and universities. In collaboration with the latter two, we use REAAL NV ambassadors for campus recruitment. These colleagues share their expertise and experience with enthusiasm to students. An internship remains a good way for students to truly experience working at REAAL NV. We have many trainees working on all kinds of projects in our organisation. In 2011, we organised an event especially for trainees, with workshops and interviews with Dick Okhuijsen, member of the Executive Board of REAAL NV, and professionals who recently started to work for REAAL NV. REAAL NV can offer new talent a management traineeship or a financial traineeship. For the management traineeship we recruit graduates who have the capabilities to grow into a key position at REAAL NV at the minimum. The management traineeship is a three-year development scheme. The trainee swaps jobs at least three times between the business units. After that, he or she can make a well-balanced decision about which job suits best. Financial trainees follow a two-year training programme to become a financial specialist. During this programme, they get acquainted with the work in the various financial departments of REAAL NV.

13.4.3 Talent Development

REAAL NV has a Talent Development programme for talented employees. It is intended for managers and specialists that perform very well and have growth potential. The outflow rate of these employees is below average and they transfer to other positions more frequently. This helps us achieve important goals: developing, binding and retaining talented employees.

13.4.4 Management Development

The Management Development programme focuses on senior level employees. The aim is to help them move up to the most senior management levels. An important target group are the MD potentials: managers and specialists with the potential to grow to the level of director. This MD programme has been developed especially for this group in collaboration with Nyenrode Business University.

13.5 Feeling good

REAAL NV greatly values prevention and restricting of absenteeism. Our health policy consists of a prevention policy, an absenteeism policy and follow-up care. REAAL NV makes use of external professional services, such as a health and safety service company, for an effective absenteeism policy and high-quality follow-up care. REAAL NV continued a health campaign started in 2010. It primarily focuses on prevention: getting more exercise, not smoking, moderating alcohol consumption, healthier eating and finding sufficient time to relax. REAAL NV also encouraged company fitness, health food in the company restaurant and cycling to work.

13.6 Moderate remuneration Executive Board and senior management

The sustainable remuneration policy for the Executive Board and senior management, started in 2010, was adapted to the new European legislation in 2011. The new remuneration policy entered into force with retroactive effect from 1 January 2011, entails adjustments in the variable remuneration:

- The variable Remuneration is made up of a direct component and a deferred component.
- The variable part of the remuneration will be paid half in cash and half in shares. Formerly, 100% was paid in cash.
- 60% of the variable remuneration will be paid after one year, of which half in cash and half in shares. The latter stay in retention for three years in case of the Management Board, and one year in case of senior management. Formerly, 33% was paid after one year.
- The deferred and conditional component is 40% of the total variable remuneration. Upon unconditionally granting, half of the amount in question will be paid in cash, three years after the period to which the awarded variable remuneration relates to has lapsed. The other half will be distributed in SNS REAAL shares, five years after the period to which the awarded variable remuneration relates to has lapsed in case of the Management Board, and four years in case of senior management.

The management did not receive variable remuneration over 2011. Irrespective of REAAL NV's level of profit, they will not be awarded variable remuneration until the capital support has been fully repaid to the Dutch State.

13.7 Room for Wajong youngsters

We want our organisation to reflect the pluralism of our society. This means that we want to hire more people with a handicap. It is in line with our core value CARE! to hire more Wajonger youngsters. Wajong stands for the Invalidity Insurance Act for Young Disabled Persons and its objective is to support disabled persons in finding and retaining paid work. Wajong youngsters are usually very motivated to work. Our company can get something out of these youngsters. We do not create jobs especially for them, but we look for the right candidate for the available vacancies and for specific coaching of the candidate as well as the manager and the colleagues.

With regard to the gender ratio too, REAAL NV aims at diversity. We want to encourage more women to move into top-level management positions. For instance by informing relevant bodies such as management teams of the percentage of women per management level and the gender ratio. We make sure that this topic is regularly on the agenda and that its progress is discussed. The percentage of women in management positions rose.

13.8 Employment conditions

13.8.1 Present Collective Labour Agreement and Social Plan

The present Collective Labour Agreement (CAO) will continue to be in force until 31 May 2012. With effect from 1 January 2011, the salaries were increased by 1% and on 1 January 2012 there will be another increase of 1%. In the CAO agreements were made on job security and sustainable employability. The Social Plan will continue to be in force until 31 December 2012 and is aimed primarily at keeping older employees at work.

13.8.2 Retrenchment key theme in new CAO

Customers are increasingly demanding cheap and simple products. Price competition in the financial services industry will continue to increase and the yields are structurally lower. In the course of 2011 the management announced that the cost must go down further. For a sustainable revenue model for the future we also can not escape the retrenchment of employee conditions.

In practice this means that a moderate performance bonus is paid in relation to 2011. In 2012 and 2013 probably no performance bonuses will be paid as long as the capital support of the Dutch state has not been repaid in full and market conditions improve significantly. The Central Workers Council (CWC) is deeply involved in this decision. In the upcoming collective bargaining discussions retrenchment, including salary reduction, will be an important starting point of us.

13.8.3 Simplification and flexibilisation

In 2011, REAAL NV simplified its extensive package of employment conditions to help employees get better insight into all the possibilities. It is now easier to attune their employment conditions to their personal situation.

The new Employment Conditions Knowledge Base is easy to use and has four themes: my work, my time, my money and my career. With a simple search engine, employees will find answers to questions on employment conditions. Moreover, there are links to forms, related subjects, corporate schemes and relevant external sites. In 2011, we organised meetings on the simplification and flexibilisation of our employment conditions. The vast majority of those present welcomed the changes. More than half of them actually expected they would deal with the employment conditions more flexibly. Consequently, we will draw up an implementation proposal to discuss with the trade unions in 2012.

13.9 SNS REAAL Pension Fund

Per 1 January 2011, the SNS REAAL Pension Fund granted an indexation of 0.25%. As a result, the commenced pension payments and accrued pension entitlements rose by 0.25%. Inflation was thus partly mitigated.

In the course of 2011, the cover ratio of the pension fund dipped under the required cover ratio level. In the fourth quarter of 2011, the (nominal) cover ratio of the SNS REAAL Pension Fund rose from 109.7% to 115.1% (preliminary figure), with a required cover ratio of around 112%. At the end of 2011 there was no shortfall. The pension fund has sufficient means to pay the pensions, also for the longer term. There is, however, insufficient buffer available to cope well with (further) setbacks. Therefore, no indexation was granted per 1 January 2012.

13.10 Employee participation

An important topic about which REAAL in 2011 was the retrenchment of the employment conditions. One of the issues discussed was the profit sharing scheme. Besides employee conditions, they also talked about several requests for advisory opinions on the organisational changes. Together with the decentralised works councils, the CWC kept looking for socially justified solutions for employees faced with an organisational change. To enable all employees to join the discussion on REAAL NV's future, we organised debates on our future throughout the country.

In 2011, the outflow of personnel remained below the level of 2010. The size of the work force nevertheless decreased because the outflow of employees was higher than the inflow of new employees. About half of the outflow was the result of reorganisations, which took place throughout almost the entire organisation.

Report of the Supervisory Board

14 Report of the Supervisory Board

Members of the Supervisory Board of SNS REAAL are also member of the Supervisory Board of REAAL. For this reason, meetings of the Supervisory Board of SNS REAAL are combined meetings, and the agenda of the Supervisory Board includes items specifically relevant to REAAL. As a result, the following paragraphs are an extraction of the specific items in relation to REAAL of the meetings of the members of the Supervisory Board.

For a full version of the Report of the Supervisory Board of SNS REAAL we refer to the annual report of SNS REAAL, available on www.snsreaal.nl.

In 2011, the European debt crisis left a big mark on the economy, the financial sector and, consequently, also on REAAL. Although it looked as though 2010 showed the first signs of economic recovery, in the second half of 2011, Europe was faced with the consequences of having (too) high a level of sovereign debts.

In the Netherlands there was a great deal of attention to the unit-linked insurance policies, changes to the pension system and - especially in the first six months of 2011 - to the variable remuneration for executives in the financial services industry. Unfortunately, judging from critical public opinion, confidence in the financial services industry does not yet seem to have been restored.

14.1 Main topics and discussions

In these turbulent times a wide variety of issues and developments required the attention of the Supervisory Board. REAAL was faced with a persistent low interest rate, rising and very volatile risk surcharges, turmoil over the euro, a tight funding market, a great deal of media attention for pensions, prolonged difficult real estate market conditions, changing legislative and regulatory requirements and changes in the supervisory and political climate. The Supervisory Board regularly discussed the manner in which REAAL should adapt itself to these conditions and the pressure this is causing on the organisation. The main themes were REAAL's capital position, risk management and risk appetite, REAAL's business model, the changing and especially the more stringent regulatory environment, a large number of projects, good customer service and optimising the focus on customers and customers' interests.

These themes are also included in the management letter of the external and internal auditor.

14.2 Composition of the Supervisory Board

As per 20 April 2011, the number of Supervisory Board members is reduced to nine. Hans van de Kar and Henk Muller stepped down and Jaap Lagerweij and Robert-Jan van de Kraats were reappointed. Piero Overmars succeeded Hans van de Kar as Deputy Chairman of the Supervisory Board.

During 2011 Jan Nijssen was appointed as member of the Supervisory Board. With the appointment of Jan Nijssen, the knowledge and experience in the area of financial services was further expanded on the Supervisory Board.

14.3 Meetings of the Supervisory Board

14.3.1 Main topics

In 2011, the Supervisory Board met twelve times, two of which via telephone conference: in February, March, April, May, June, August, September, October, November and December. None of the Supervisory Board members were frequently absent. More detailed information on the main topics discussed can be found in the annual accounts of SNS REAAL 2011, chapter Report of the Supervisory Board.

14.3.2 Presence of the external auditor

The external auditor is present during all the meetings of the Audit Committee and at least once a year during a meeting of the Risk Committee. Optionally, the external auditor attends meetings of the Supervisory Board, once during 2011 at the meeting in March. During this meeting, amongst other subjects, the Annual Report 2010 was discussed.

14.4 Committee meetings

The Supervisory Board has four committees:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Risk Committee

In the course of 2011, the Credit Committee was merged with the Risk Committee. More detailed information on the topics discussed in and developments of the committees can be found in the Annual accounts of SNS REAAL 2011, chapter Report of the Supervisory Board. More detailed information on the composition of the committees and the regulations of each committee can be found on www.snsreaal.nl.

Every committee prepares the decision-making of the Supervisory Board in respect of the duties assigned to it and reports to the Supervisory Board.

14.5 Closing words

The Supervisory Board would explicitly like to express its gratitude and appreciation to all REAAL employees for the work performed over the past year, and especially for their involvement and commitment. Unfortunately, economic and financial conditions in 2011 were once again turbulent. This situation forced the management to ask not just senior management, but all employees to take a step back in their variable remuneration. Moderation of the fixed annual income will come up for discussion with the trade unions in 2012. Despite these developments and the persistent negative sentiment towards the financial services industry, REAAL personnel continue to dedicate themselves with great enthusiasm to REAAL. The Supervisory Board is well aware that this is not self-evident and wishes to express its deepest gratitude to them.

REAAL's management again faced a great deal of pressure this year. Despite the occasional instances in which the pressure under which management had to perform was exceptionally high, cooperation with the Supervisory Board remained outstanding. We would like to express our gratitude to them for that too.

Finally, the Supervisory Board would like to express its gratitude for the work performed by Hans van de Kar and Henk Muller in their many years of service as Supervisory Board members and for the work performed by Rien Hinssen in his years as member of the management of REAAL.

Utrecht, 5 March 2012

On behalf of the Supervisory Board,

Rob Zwartendijk, Chairman

Corporate governance

15 Corporate governance

This chapter contains a review of the members of the Supervisory Board, followed with an outline of the application of the Dutch Governance Principles of the Dutch Association of Insurers (Insurance Code) that apply to REAAL. The chapter concludes with the statement required pursuant to the law.

For more detailed information with respect to SNS REAAL N.V. on Corporate Governance, the Executive Board, the Supervisory Board, shareholders and shares, reference is made to SNS REAAL's Annual Report 2011.

15.1 The Supervisory Board

The Supervisory Board of REAAL comprises the following members as per 31 December 2011:

- Rob Zwartendijk (Chairman)
- Piero Overmars (Vice Chairman)
- Charlotte Insinger
- Robert Jan van de Kraats
- Jaap Lagerweij
- Jos Nijhuis
- Jan Nijssen
- Herna Verhagen
- Ludo Wijngaarden

The Supervisory Board has set up four committees that comprised the following members on 31 December 2011:

- the Audit Committee, consisting of Robert-Jan van de Kraats (Chairman), Charlotte Insinger, Jos Nijhuis, Piero Overmars and Ludo Wijngaarden.
- the Nomination Committee, consisting of Rob Zwartendijk (Chairman), Jaap Lagerweij and Herna Verhagen.
- the Remuneration Committee, consisting of Herna Verhagen (Chairman), Ludo Wijngaarden and Rob Zwartendijk.
- the Risk Committee, consisting of Piero Overmars (Chairman), Charlotte Insinger, Robert-Jan van de Kraats, Jaap Lagerweij and Rob Zwartendijk.

In view of the Credit Committee's limited tasks, the Supervisory Board decided in 2011 to merge this committee with the Risk Committee.
The Supervisory Boards of REAAL and SRLEV are composed of the same individuals as the Supervisory Board of SNS REAAL.

15.2 Insurance Code

This section contains an outline of the application of the Dutch Insurance Code. More details can be found in the annual accounts 2011 of SNS REAAL.

15.2.1 Mission, core value and strategy REAAL emphasise Insurance Code principles

The mission, core value and strategy of REAAL confirm the principles of the Insurance Code (referred to as the Code). Since 2009, REAAL has been implementing the recommendations of the Codes within its organisation where appropriate.

15.2.2 Contributions to restoring trust in the financial sector

The Insurance Code is aimed towards restoring trust in the financial sector. Naturally this is also the commitment of REAAL. In applying this Code and its mission, core value and strategy, REAAL makes a contribution to restore trust in the Dutch financial sector and the improvement of its proper functioning.

15.2.3 REAAL adopts Code before coming into force

The Insurance Code applies to all of REAAL's Insurance activities and came into force in 2010. Even before 2010, in 2009, REAAL started applying the Code. From that moment on, REAAL aimed at applying the Code to all its activities.

15.2.4 REAAL applies Code to all activities

Right from the start, REAAL has applied the Code to all of its activities almost completely.

Some examples are:

- REAAL's mission Simplicity in finance starts from putting its clients and its clients' best interests first in accordance with the Code.
- The remuneration policy of the senior management complies with the Code and the applicable laws and regulations.
- The senior management of REAAL signed the moral-ethical statement in February 2010. The principles included in this statement provide all REAAL personnel with an ethical framework to guide them in their conduct and behaviour.
- In 2011, the management teams of the various business units participated in continuing education under the Code.
- The Product Approval Process has been implemented in all relevant business units under the Code and will be audited per business unit every year.
- REAAL has a risk management structure that is compliant with the Code and that is constantly in development.
- The internal audit function is organised at Group level and is compliant with the Code.

15.2.5 Application of the Code in practice

On the website of SNS REAAL an up-to-date overview is provided of the manner in which REAAL and its business units implement and apply the principles of the Code.

15.2.6 Compliance with the Code

REAAL applies the Code to all its activities almost completely. On some points, full implementation could only take place in the course of 2011 and could, therefore, only come into force with retroactive effect from 1 January 2011:

Recommendation 6.2.1, 6.3.2, 6.3.3, 6.3.4: In 2011, the remuneration policy for the senior management has, in close cooperation with the regulatory authorities, been amended in connection with the taking effect of the CRD III remuneration rules and the Decree on Controlled Remuneration Policies (Wft 2011). Subsequently, a remuneration policy for these officers came into force at the end of 2011 that is compliant with the aforementioned recommendations. This policy is applicable with retroactive effect from 1 January 2011. In 2011 some managers received a severance payment of more than 100% of the annual salary based on existing contractual arrangements.

15.2.7 Putting clients first

The Code's recommendations aimed at the culture of the activities, such as putting clients first and carefully considering the interests of all REAAL's stakeholders concerned are abstractly formulated. Implementation and compliance with these recommendations can therefore - by definition – only be objectively verified to a limited extent.

REAAL is convinced that these recommendations are embedded in the culture of all of its business units and receive constant attention from senior management and employees of REAAL. One of the elements of REAAL's strategy is putting clients and clients' interests first, which is embedded in the mission Simplicity in finance and the core value CARE! Due care is exercised when considering the interests of all of REAAL's stakeholders. Putting clients first is part of employees' performance appraisal and of the product approval process for existing and new products. Business units must report to the Executive Board on the way in which they put the clients first.
The implementation of these recommendations from the Codes is discussed in more detail in other sections of this Annual Report:

- Our brands
- Winning, helping and retaining customers
- Customer's interests and satisfaction
- Sustainable growth of our brands
- Life insurance product range simple and comprehensive
- Unit linked insurance
- Disability insurance
- Customer contact and service

15.2.8 Continuing education and competence Supervisory Board and senior management

In 2011, the members of the Supervisory Board and senior management attended several training courses in line with the recommended topics in the Code. Together with the HR Department, the Company Secretary organises a range of in-house training courses with internal and external speakers. Some examples of topics addressed in the continuing education programme are financial reporting, risk management, putting clients' interests first, sanctions legislation, Solvency II and dealing with price-sensitive information. HR keeps an attendance record of the internal and external training courses attended by aforementioned officers.

The know-how of the members of the senior management is part of their performance appraisal.

15.3 Management statement

The members of the Management Board of REAAL N.V. state the following:

15.3.1 Managing financial reporting

The financial reporting management and control systems are an integral part of REAAL N.V.'s overall risk management and control systems. Key elements in respect of the control over financial reporting are:

- The Financial Committee, which is responsible for setting policy frameworks as well as the organisation of financial and actuarial administrations and processes.
- The business units and staff departments, which are responsible for carrying out the business units' and departments' work, and thus for an accurate, complete and timely recording of the transactions and the reporting thereon.
- A system of financial key controls within the financial accounting and reporting departments, in order to monitor the soundness of financial reporting management and control systems.
- The Financial Committee's assessment of financial statements, which assessment is amongst other things based on the key controls' results. After approval by the management of REAAL N.V. , the findings of the financial

reporting process, together with the financial accountability, is discussed in the Audit Committee.

- The review of the functioning of these systems by the internal and external auditors. The external auditor reports thereon insofar as it relates to the audit of the financial statements. The findings are discussed with the Financial Committee, the Executive Board and the Audit Committee.

Utrecht, 5 March 2012

Dick Okhuijsen
Maarten Edixhoven
Ference Lamp
Wim Henk Steenpoorte

Financial statements

16 Consolidated financial statements

16.1 Consolidated balance sheet

Consolidated balance sheet

Before result appropriation and in € millions	Notes	31-12-2011	31-12-2010
Assets			
Intangible assets	1	2,009	2,260
Property and equipment	2	171	170
Investments in associates	3	38	55
Investment properties	4	255	252
Investments	5	32,818	33,940
Investments for account of policyholders	6	12,443	12,641
Invested collateral securities lending	7	117	176
Derivatives	8	539	225
Deferred tax assets	9	282	199
Reinsurance contracts	16	3,426	355
Loans and advances to banks	10	499	356
Corporate income tax		214	105
Other assets	11	329	256
Cash and cash equivalents	12	1,188	2,054
Total assets		**54,328**	**53,044**
Equity and liabilities			
Share capital		--*	--*
Other reserves		3,791	2,660
Retained earnings		165	242
Shareholders' equity	**13**	**3,956**	**2,902**
Equity attributable to securityholders	13	400	725
Minority interests	13	2	3
Total equity		**4,358**	**3,630**
Subordinated debt	14	1,002	960
Debt certificates	15	--	1,771
Insurance contracts	16	38,827	38,844
Provision for employee benefits	17	363	333
Other provisions	18	39	34
Securities lending liabilities	7	120	182
Derivatives	8	53	84
Deferred tax liabilities	9	727	490
Other amounts due to customers	19	4,015	774
Amounts due to banks	20	3,154	4,506
Corporate income tax		312	143
Other liabilities	21	1,358	1,293
Total equity and liabilities		**54,328**	**53,044**

** The issued and paid up share capital of REAAL NV is € 238,500*

The references next to the balance sheet items relate to the notes to the consolidated balance sheet starting from paragraph 22.1

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

16.2 Consolidated income statement

Consolidated income statement

In € millions	Notes	2011	2010
Income			
Premium income		3,696	3,728
Reinsurance premiums		246	154
Net premium income	25	**3,450**	**3,574**
Fee and commission income		92	103
Fee and commission expense		20	33
Net fee and commission income	26	**72**	**70**
Share in result of associates	27	(1)	6
Investment income	28	1,432	1,498
Investment income for account of policyholders	29	(39)	815
Result on financial instruments	30	183	96
Income invested collateral securities lending		2	3
Other operating income	31	3	37
Result assets and liabilities held for sale	32	18	--
Total income		**5,120**	**6,099**
Expenses			
Technical claims and benefits	33	2,624	3,222
Charges for account of policyholders	34	1,090	1,553
Acquisition costs for insurance operations	35	306	327
Staff costs	36	178	179
Depreciation and amortisation of fixed assets		84	80
Other operating expenses	37	186	222
Impairment charges	38	180	29
Interest expense securities lending		1	1
Other interest expenses	39	255	178
Other expenses		--	2
Total expenses		**4,904**	**5,793**
Result before tax		**216**	**306**
Taxation	40	50	63
Net result continued operations		**166**	**243**
Net result discontinued operations		--	--
Net result for the period		**166**	**243**
Attribution:			
Net result attributable to shareholders		165	242
Net result attributable to securityholders		--	--
Net result attributable to shareholders and securityholders		**165**	**242**
Net result attributable to minority interests		1	1
Net result for the period		**166**	**243**

The references next to the income statement items relate to the notes to the consolidated income statement starting from paragraph 22.25

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

Consolidated statement of comprehensive income

In € millions	2011	2010
Net result for the period	**166**	**243**
Unrealised revaluations property and equipment	(3)	1
Impairments property and equipment	3	--
Change in revaluation reserve	**--**	**1**
Unrealised revaluations from cash flow hedges	31	22
Deferred interest income from cash flow hedges	(6)	(2)
Realised revaluations through profit or loss	(11)	(45)
Change in cash flow hedge reserve	**14**	**(25)**
Unrealised revaluations investments available for sale	886	307
Impairments fair value	35	(12)
Realised revaluations through profit or loss	(76)	(95)
Change in shadow accounting	(214)	(27)
Change in fair value reserve	**631**	**173**
Change in other reserves	(81)	1
Change in minority interests	(2)	(11)
Change in other comprehensive income (after tax)	**562**	**139**
Total comprehensive income	**728**	**382**
Attribution:		
Total comprehensive income attributable to shareholders and security holders	729	391
Total comprehensive income to security holders	--	--
Total comprehensive income attributable to shareholders and security holders	**729**	**391**
Total comprehensive income to minority interests	(1)	(9)
Total comprehensive income	**728**	**382**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

16.3 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

In € millions	2011	2010
Net result for the period	**166**	**243**
Unrealised revaluations property and equipment	(3)	1
Impairments property and equipment	3	--
Change in revaluation reserve	**--**	**1**
Unrealised revaluations from cash flow hedges	31	22
Deferred interest income from cash flow hedges	(6)	(2)
Realised revaluations through profit or loss	(11)	(45)
Change in cash flow hedge reserve	**14**	**(25)**
Unrealised revaluations investements available for sale	886	307
Impairments fair value	35	(12)
Realised revaluations through profit or loss	(76)	(95)
Change in profit sharing reserve	--	(67)
Change in shadow accounting	(214)	40
Change in fair value reserve	**631**	**173**
Change in other reserves	(81)	1
Change in minority interests	(2)	(11)
Change in other comprehensive income (after tax)	**562**	**139**
Total comprehensive income	**728**	**382**
Attribution:		
Total comprehensive income attributable to shareholders and securityholders	729	391
Total comprehensive income to security holders	--	--
Total comprehensive income attributable to shareholders and securityholders	**729**	**391**
Total comprehensive income to minority interests	(1)	(9)
Total comprehensive income	**728**	**382**

16.4 Consolidated statement of changes in equity

Consolidated statement of changes in total equity 2011

In € millions	Issued share capital ordinary shares	Share premium reserve ordinary shares	Sum revaluation reserves	Sum other reserves	Equity attributable to share-holders	Securities capital	Minority interests	Group equity
Balance as at 1 January 2011	--	1,730	521	651	2,902	725	3	3,630
Transfer of net result 2010	--	--	--	--	--	--	--	--
Transfers 2010	--	--	--	--	--	--	--	--
Unrealised revaluations from cash flow hedges	--	--	31	--	31	--	--	31
Deferred interest income from cash flow hedges	--	--	(6)	--	(6)	--	--	(6)
Unrealised revaluations	--	--	883	--	883	--	--	883
Impairments	--	--	38	--	38	--	--	38
Realised revaluations through profit or loss	--	--	(87)	--	(87)	--	--	(87)
Change in shadow accounting	--	--	(214)	--	(214)	--	--	(214)
Dividend	--	--	--	(80)	(80)	--	--	(80)
Other movements	--	--	--	(1)	(1)	--	(2)	(3)
Amounts charged directly to total equity	--	--	645	(81)	564	--	(2)	562
Net result 2011	--	--	--	165	165	--	1	166
Total result 2011	--	--	645	84	729	--	(1)	728
Capital issue	--	325	--	--	325	--	--	325
Securities issue / repurchase	--	--	--	--	--	(325)	--	(325)
Transactions with shareholders and security holders	--	325	--	--	325	(325)	--	--
Total changes in equity 2011	--	325	645	84	1,054	(325)	(1)	728
Balance as at 31 December 2011	--	2,055	1,166	735	3,956	400	2	4,358

Statement of revaluation reserves and other reserves 2011

In € millions	Reva-luation pro-perty and equip ment	Cash flow hedge reserve	Fair value reserve	Sum reva-luation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2011	7	62	452	521	409	242	651
Transfer of net result 2010	--	--	--	--	242	(242)	--
Transfers 2010	--	--	--	--	242	(242)	--
Unrealised revaluations from cash flow hedges	--	31	--	31	--	--	--
Deferred interest income from cash flow hedges	--	(6)	--	(6)	--	--	--
Unrealised revaluations	(3)	--	886	883	--	--	--
Impairments	3	--	35	38	--	--	--
Realised revaluations through profit or loss	--	(11)	(76)	(87)	--	--	--
Change in shadow accounting	--	--	(214)	(214)	--	--	--
Dividend	--	--	--	--	(80)	--	(80)
Other movements	--	--	--	--	(1)	--	(1)
Amounts charged directly to total equity	--	14	631	645	(81)	--	(81)
Net result 2011	--	--	--	--	--	165	165
Total result 2011	--	14	631	645	(81)	165	84
Transactions with shareholders and security holders	--	--	--	--	--	--	--
Total changes in equity 2011	--	14	631	645	161	(77)	84
Balance as at 31 December 2011	7	76	1,083	1,166	570	165	735

For more information, please refer to the paragraph Shareholders, shares and core Tier 1 capital securities in the chapter on Corporate Governance.

REAAL NV declared and paid an interim dividend of € 167,715 per ordinary share.

For more information on the statement of changes in equity please refer to the statement of changes in equity in paragraph 17.5.10 of the accounting principles for the consolidated financial statements.

Consolidated statement of changes in total equity 2010

In € millions	Issued share capital ordinary shares	Share premium reserve ordinary shares	Sum revaluation reserves	Sum other reserves	Equity attributable to shareholders	Securities capital	Minority interests	Group Equity
Balance as at 1 January 2010	--	1,730	372	408	2,510	725	13	3,248
Unrealised revaluations from cash flow hedges	--	--	22	--	22	--	--	22
Deferred interest income from cash flow hedges	--	--	(2)	--	(2)	--	--	(2)
Unrealised revaluations	--	--	308	--	308	--	--	308
Impairments	--	--	(12)	--	(12)	--	--	(12)
Realised revaluations through profit or loss	--	--	(140)	--	(140)	--	--	(140)
Change in shadow accounting	--	--	(27)	--	(27)	--	--	(27)
Other mutations	--	--	--	1	1	--	(11)	(10)
Amounts charged directly to total equity	**--**	**--**	**149**	**1**	**150**	**--**	**(11)**	**139**
Net result 2010	**--**	**--**	**--**	**242**	**242**	**--**	**1**	**243**
Total result 2010	**--**	**--**	**149**	**243**	**392**	**--**	**(10)**	**382**
Transactions with shareholders and security holders	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Total changes in equity 2010	**--**	**--**	**149**	**243**	**392**	**--**	**(10)**	**382**
Balance as at 31 December 2010	**--**	**1,730**	**521**	**651**	**2,902**	**725**	**3**	**3,630**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

Statement of revaluation reserves and other reserves 2010

In € millions	Revaluation reserve	Cash flow hedge reserve	Fair value reserve	Sum revaluation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2010	6	87	279	372	219	189	408
Transfer of net result 2009	--	--	--	--	196	(196)	--
Transfer of coupon paid on securities 2009	--	--	--	--	(7)	7	--
Transfers 2009	**--**	**--**	**--**	**--**	**189**	**(189)**	**--**
Unrealised revaluations from cash flow hedges	--	22	--	22	--	--	--
Deferred interest income from cash flow hedges	--	(2)	--	(2)	--	--	--
Unrealised revaluations	1	--	307	308	--	--	--
Impairments	--	--	(12)	(12)	--	--	--
Realised revaluations through profit or loss	--	(45)	(95)	(140)	--	--	--
Change in shadow accounting	--	--	(27)	(27)	--	--	--
Other movements	--	--	--	--	1	--	1
Amounts charged directly to total equity	**1**	**(25)**	**173**	**149**	**1**	**--**	**1**
Net result 2010	**--**	**--**	**--**	**--**	**--**	**242**	**242**
Total result 2010	**1**	**(25)**	**173**	**149**	**1**	**242**	**243**
Transactions with shareholders and security holders	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Total changes in equity 2010	**1**	**(25)**	**173**	**149**	**190**	**53**	**243**
Balance as at 31 December 2010	**7**	**62**	**452**	**521**	**409**	**242**	**651**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

16.5 Consolidated cash flow statement

Consolidated cash flow statement

In € millions	2011	2010
Cash flow from operating activities		
Operating profit before taxation	216	306
Adjustments for:		
Depreciation and amortisation of fixed assets	233	269
Changes in technical provisions own risk	(3,249)	111
Changes in other provisions	190	(29)
Impairment charges / (reversals)	180	29
Unrealised results on investments through profit or loss	(131)	(164)
Retained share in the result of associates	1	17
Change in operating assets and liabilities:		
Change in loans and advances to customers	3,270	(45)
Change in loans and advances to banks	(1,209)	1,217
Change in other operating activities	5	(1,508)
Net cash flow from operating activities	**(494)**	**203**
Cash flow from investment activities		
Sale of property and equipment	--	7
Sale of subsidiaries	(114)	--
Sale of investment property	1	--
Sale and redemption of investments and derivatives	17,942	16,571
Purchase of intangible fixed assets	(100)	(94)
Purchase of property and equipment	(27)	(8)
Purchase of investment property	--	(1)
Purchase of investments and derivatives	(17,925)	(15,768)
Net cash flow from investment activities	**(223)**	**707**
Cash flow from finance activities		
Issue of shares and share premium	325	--
Issue of subordinated loans	481	--
Repurchase of securities	(325)	--
Redemption of subordinated loans	(488)	(3)
Redemption of debt certificates	(62)	(576)
Dividends paid	(80)	--
Net cash flow from financing activities	**(149)**	**(579)**
Cash and cash equivalents 1 January	2,054	1,723
Effect of exchange rate fluctuations on cash held	--	--
Change in cash and cash equivalents	(866)	331
Cash and cash equivalents as at 31 December	**1,188**	**2,054**
Additional disclosure with regard to cash flows from operating activities		
Interest income received	1,312	1,483
Dividends received	160	204
Interest paid	323	197

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

17 Accounting principles for the consolidated financial statements

17.1 Adoption of the financial statements

The consolidated financial statements of REAAL NV for the year ended on 31 December 2011 were authorised for publication by the Executive Board following their approval by the Supervisory Board on 5 March 2012. The financial statements will be submitted to the General Meeting of Shareholders for adoption on 25 April 2012.

17.2 General information

REAAL NV, (REAAL) incorporated and established in the Netherlands, is a public limited liability company incorporated under the laws of the Netherlands. REAAL's registered office is located at Croeselaan 1, 3521 BJ Utrecht. The consolidated financial statements of REAAL comprise the accounts of all the companies controlled by REAAL and the interest of REAAL in associated companies and entities.

REAAL NV is a 100% subsidiary of SNS REAAL NV.

The main accounting principles used in the preparation of the consolidated financial statements and the company financial statements are set out in this section.

17.3 Basis of preparation

17.3.1 Statement of IFRS compliance

REAAL prepares the annual accounts in accordance with International Financial Reporting Standards (IFRS), as adopted within the European Union. Pursuant to the option offered under Book 2, Title 9 of the Dutch Civil Code, REAAL prepares its company financial statements in accordance with the same accounting principles as those used for the consolidated financial statements.

17.3.2 Changes in published Standards and Interpretations effective in 2010

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2011, the following standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee respectively, became mandatory, and are adopted by the EU. Unless stated otherwise, the changes will have no material effect on the consolidated financial statements of REAAL.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters'.
- Revision of IAS 24 Related Party Disclosures.
- Amendments to IAS 32 Financial Instruments: Presentation – 'Classification of Rights Issues'.
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.
- Improvements to IFRSs' 2010.

17.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2011

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2012 and effective for accounting periods beginning on or after 1 January 2012, were not early adopted by REAAL.

- IFRS 9 Financial Instruments.
- IFRS 10 Consolidated Financial Statements.
- IFRS 11 Joint Arrangements.
- IFRS 12 Disclosures of Interests in Other Entities.
- IFRS 13 Fair Value Measurement.
- IAS 27 Separate Financial Statements.
- IAS 28 Investments in Associates and Joint Ventures.
- Amendment to IFRS 7 Financial Instruments: Disclosures – 'Transfer of Financial Assets'.
- Amendment to IAS 12 Income Tax – 'Recovery of Underlying Assets'.
- Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards – 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adoptors'.
- Amendment to IAS 1 Presentation of Financial Statements – 'Presentation of Items of Other Comprehensive Income'.
- Amendment to IAS 19 Employee Benefits.
- Improvements to IFRS 2011.

IFRS 9 Financial Instruments: Classification and Measurement, will be effective 1 January 2015. This IFRS is phase 1 of a complete revision of IAS 39 Financial Instruments. The new standard has not yet been adopted by the EU. Expectations are that the standard will affect the classification and measurement of financial assets and liabilities. Its full impact will not become clear until this IASB project has been completed in full, and published.

In June 2011 the amendment to IAS 19 Employee Benefits was published. The main changes are the elimination of the use of the corridor approach of the defined benefit plans and deviations from actuarial assumptions to be recognised directly in equity (OCI). The amendment will be effective for accounting periods beginning on or after 1 January 2013. The change is limited, since the REAAL staff pension entitlements are, to the largest extent, part of a defined contribution plan. The corridor of the defined benefit plan amounts to € 75 million at year-end 2011 (€ 18 million at year-end 2010).

IFRS 10 "Consolidated financial statements" effective for accounting periods beginning on or after 1 January 2013, introduces a single recognition model for all entities, based on control, regardless of the type of entity consolidated. Although this new requirement is still being analysed REAAL does not expect the adoption of the new standard to have a significant effect on the consolidated financial statements.

17.3.4 Changes in principles, estimates and presentation

17.3.4.1 *Changes in accounting principles*

REAAL has implemented shadow accounting as of 1 January 2011. This accounting change reduces the existing asymmetry in the liability adequacy test of the Insurance activities, and ensures that REAAL's financial statements better reflect the economic relationship of insurance assets and liabilities.

Shadow accounting is applied on gains and losses on (derivative) assets that match insurance liabilities, regardless of whether these have or have not been realised and regardless of whether the unrealised gains and losses are recognised in the income statement or directly in the fair value reserve (OCI).

A gain and loss on assets recognised in OCI has a mirrored movement in the insurance liabilities. A gain and loss on assets recognised in the income statement has a mirrored change in the gains and losses presented in the technical claims and benefits. As a consequence, the volatility in the income statement and OCI will be mitigated.

This change in principle will not materially impact regulatory solvency of the Insurance activities.

As a result of the change, REAAL's restated net result for the year 2010 decreases by € 35 million and the restated equity end of 2010 decreases by € 114 million.

The accompanying statements present the impact of the aforementioned changes in the segmental balance sheet as at 31 December 2010 and the segmented income statement for 2010 of the Insurance activities.

Reported balance sheet Insurance activities by segment 31 December 2010

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Deferred tax assets	93	44	2	21	--	160
Total assets	**17,060**	**32,558**	**2,765**	**6,211**	**(5,589)**	**53,005**
Equity and liabilities						
Shareholders' equity	1,518	2,092	623	(1,217)	--	3,016
Equity attributable to securityholders	47	108	--	570	--	725
Minority interests	--	3	--	--	--	3
Total equity	**1,565**	**2,203**	**623**	**(647)**	**--**	**3,744**
Insurance contracts	12,402	24,984	1,373	--	(68)	38,691
Total equity and liabilities	**17,060**	**32,558**	**2,765**	**6,211**	**(5,589)**	**53,005**

Adjusted balance sheet Insurance activities by segment 31 December 2010

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Deferred tax assets	119	57	2	21	--	199
Total assets	**17,086**	**32,571**	**2,765**	**6,211**	**(5,589)**	**53,044**
Equity and liabilities						
Shareholders' equity	1,443	2,053	623	(1,217)	--	2,902
Equity attributable to securityholders	47	108	--	570	--	725
Minority interests	--	3	--	--	--	3
Total equity	**1,490**	**2,164**	**623**	**(647)**	**--**	**3,630**
Insurance contracts	12,503	25,036	1,373	--	(68)	38,844
Total equity and liabilities	**17,086**	**32,571**	**2,765**	**6,211**	**(5,589)**	**53,044**

Reported income statement Insurance activities by segment 2010

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Income						
Total income	**1,941**	**3,300**	**808**	**65**	**(15)**	**6,099**
Expenses						
Technical claims and benefits	811	1,888	476	--	--	3,175
Other expenses	1,058	1,128	311	89	(15)	2,571
Total expenses	**1,869**	**3,016**	**787**	**89**	**(15)**	**5,746**
Result before tax	**72**	**284**	**21**	**(24)**	**--**	**353**
Taxation	16	60	5	(6)	--	75
Net result continued operations	**56**	**224**	**16**	**(18)**	**--**	**278**
Net result discontinued operations	--	--	--	--	--	--
Net result for the period	**56**	**224**	**16**	**(18)**	**--**	**278**
Minority interests	--	1	--	--	--	1
Net result attributable to shareholder and securityholder	**56**	**223**	**16**	**(18)**	**--**	**277**

Adjusted income statement Insurance activities by segment 2010

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Income						
Total income	**1,941**	**3,300**	**808**	**65**	**(15)**	**6,099**
Expenses						
Technical claims and benefits	838	1,908	476	--	--	3,222
Other expenses	1,058	1,128	311	89	(15)	2,571
Total expenses	**1,896**	**3,036**	**787**	**89**	**(15)**	**5,793**
Result before tax	**45**	**264**	**21**	**(24)**	**--**	**306**
Taxation	9	55	5	(6)	--	63
Net result continued operations	**36**	**209**	**16**	**(18)**	**--**	**243**
Net result discontinued operations	--	--	--	--	--	--
Net result for the period	**36**	**209**	**16**	**(18)**	**--**	**243**
Minority interests	--	1	--	--	--	1
Net result attributable to shareholder and securityholder	**36**	**208**	**16**	**(18)**	**--**	**242**

17.3.4.2 Changes in estimates

In 2011 REAAL changed the calculation of the provision for unearned underwriting premiums to a modified, more accurate method, taking into account the fact that in recent years policyholders switched more and more to term payments (payments on a monthly or quarterly basis) instead of annual payments, and authorised agents provide more timely information, enabling more accurate estimates.

Due to the change in estimate, a one-off release of the provision for unearned premiums has been taken to the result in 2011 in the amount of € 16 million gross (€ 12 million net).

17.3.4.3 Changes in presentation

Presentation has not been changed.

17.3.4.4 Change in accounting principles financial statement 2012

As a result of the changed economic and social circumstances, the prudence in the current accounting treatment of deferred acquisition costs (DAC) has declined. New legislation prohibits payment of commission to intermediaries as of 1 January 2013. Demand for unit-linked products has declined and products with low cost structures are being introduced to the market. REAAL's view is that by taking the acquisition costs directly to the result prudence will be restored and transparency of the financial statements enhanced.

REAAL has therefore decided on a change in accounting treatment. With effect from 1 January 2012, internal and external acquisition costs will no longer be deferred, but instead charged directly to the results. This change in accounting treatment will be applied in the annual accounts of 2012. The book value of the DAC, taking into account the corporate tax effect, will be charged directly to Shareholder's equity. The effect on solvency will be marginal.

17.3.5 Accounting principles used in the preparation of the financial statements

The accounting principles set out below have been applied consistently to all the periods presented in these consolidated financial statements. All group entities have applied the accounting principles consistently to all periods.

17.3.5.1 Accounting principles applied to balance sheet items

In preparing the financial statements, the accounting principles 'fair value', 'amortised cost' and 'historic cost' are used

Fair value is used for land and buildings in own use and investment property, part of the loans and advances to customers, investments classified at fair value through profit or loss, investments classified as available for sale, invested collateral securities lending, derivatives and for investments and liabilities on behalf of policyholders.

All other financial assets (including loans and advances) and liabilities are measured at amortised cost. The book value of assets and liabilities measured at amortised cost that are part of a fair value hedge is restated to reflect the change in fair value that is attributable to the hedged risk.

Non-financial assets and liabilities are generally measured at historical cost. Except for the cash flow information, the financial statements have been prepared on an accrual basis.

17.3.5.2 Functional currency and reporting currency

The consolidated financial statements have been prepared in millions of euros (€). The euro is the functional currency of REAAL. All financial data presented in euros are rounded off to the nearest million unless stated otherwise. Counts are based on unrounded figures. Their sum may differ from the sum of the rounded figures.

17.3.6 Main accounting principles, estimates and assumptions

17.3.6.1 The use of estimates and assumptions in the preparation of the financial statements

The preparation of the consolidated financial statements requires REAAL to make estimates and assumptions based on complex and subjective opinions and estimates. These estimates have a significant impact on the reported amounts of assets and liabilities and the contingent assets and liabilities at the balance sheet date, and the reported income and expenses for the financial year. This involves assessing the situations on the basis of available financial data and information. Although these estimates are made to the best of the management's knowledge, actual results may differ from the estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision impacts both the reporting period and future periods. The main accounting principles involving the use of estimates concern the methods for determining the provisions for insurance contracts, determining the provisions for bad debts, determining the fair value of assets and liabilities and determining impairments.

For detailed information and disclosure of the accounting estimates and assumptions we refer to the next paragraphs and the notes to the financial statements items.

17.3.6.2 Life insurance provision

The provision for insurance contracts is determined on the basis of a sufficiently conservative prospective actuarial method taking into account all future benefit payments and premiums to be received, to the extent applicable. The calculation deviates from using a prospective method if the nature of the relevant type of life insurance does not allow the application of this method.

Actual payments and the timing of payments depend on factors such as social, economic and demographic trends, inflation, investment returns, the behaviour of policyholders and other factors, and, for life insurance contracts, assumptions about developments in mortality and disability rates. Lapse, like early surrender or a waiver of premium, is also taken into account for some risk products. The assumptions used in the valuation of life insurance policies at the balance sheet date are based on the calculation principles set at the time of the issue of the policy. Using different assumptions for these factors than have been used in preparing these accounts could have a significant effect on the technical provisions and related expenses for insurance contracts.

Most policies have a fixed discount rate, which is 3% for contracts issued after 1999 and a maximum of 4% for contracts prior to this time. For offset mortgages and other guaranteed products, the rate of return guaranteed in the contract is used. The actuarial interest for these products equals the investment return achieved on the corresponding investments.

IFRS liability adequacy test on Insurance liabilities

The insurance liabilities reported at the balance sheet date are valued using premium calculation principles for interest and mortality (for life insurance contracts) or historically observed claim development patterns (non-life insurance). A combination of both methods is used in relation to the disability insurance contracts. The adequacy of the provisions is tested periodically during the reporting period by means of the IFRS liability adequacy test.

IFRS liability adequacy test life insurance

In accordance with IFRS an IFRS liability adequacy test is performed to establish whether the balance sheet provision less the related capitalised acquisition costs and Value of Business Acquired (VOBA) is adequate to meet the commitments vis-à-vis the policyholders with a large degree of certainty. When performing this test, best estimate future contractual cash flows are projected, taking into account current and future developments of mortality, disability, the behaviour of policyholders, claims handling and management costs, and differences in the valuation of investments (to the extent they are not recognised at fair value). Valuation of the future expected profit sharing and the time value of embedded derivatives is included in these cash flows. The estimate is increased by a risk margin. The Cost of Capital method is used in calculating the risk margin. Finally the cash flows are discounted. If the thus calculated provision turns out to be higher than the book value of the technical provision present in the balance sheet, VOBA is impaired or this shortfall is added to the provision and charged directly to the income statement.

This IFRS liability adequacy test is performed every quarter for the entire life insurance portfolio to determine whether the reported technical provision, based on the most current assumptions, is still adequate.

The following current assumptions were used in performing the IFRS liability adequacy test as at 31 December 2011:

- Discount rate calculated on the Dutch Central Bank curve with an add-on to ECB all-government yields.
- Profit allocation where surplus interest exceeds the assumed interest plus 0.5%, with tranches of surplus interest running off over time.
- Cost allocation and distribution of efficiency advantages based on internal assessment.
- Projected mortality data for the entire population (CBS statistics Netherlands data from 2010) adjusted for experience in the company's portfolio based on internal research.
- Lapse and early surrender data based on internal research.
- Inflation derived from market data.
- Salary increases in collective labour agreements in accordance with the inflation assumption.

The primary discount rate is the ECB all-government curve. Due to the volatile interest rate developments in 2011, the sensitivity of interest decreases was assessed with an additional test. This showed that even at lower interest rates the provision was adequate.

Mortality tables are used in the test on the provision for insurance contracts. These tables contain historical information (data) on mortality. REAAL uses what is referred to as the PLT tables prepared by the Dutch Association of Insurers. The model as was used by REAAL to forecast the mortality development has been updated to the most recent mortality observations as taken by CBS up to and until 2010.

The mortality rates used in the projection of the liabilities is the probability according to the population mortality rate multiplied by a portfolio factor. The portfolio factor measures the difference between population mortality and mortality in the insurance portfolio. Within the framework set by REAAL, this factor is individually determined for each business unit and is also dependent on product characteristics, gender, and elapsed time / age. This portfolio factor is revised annually based on internal research and the mortality rates of the latest CBS observations.

Liability adequacy test non-life insurance

A test is carried out twice a year to establish the adequacy of the provisions for non-life claims. This test is performed on the provision for non-life claims, the provision for unearned premiums and the provision for claims-handling expenses.

The test first determines a best estimate, followed by a risk margin. The best estimate serves as a realistic estimate of future claim payments, claims-handling expenses and future expenses arising from insurance contracts. The risk margin is based on the cost of capital method.

The test is performed on individual portfolios. The classification in portfolios (by use of branches and distribution channels) has been carried out in such a manner that the portfolios can be considered homogenous as far as risk is concerned. Practically the entire portfolio is subjected to a quantitative test, only part of the incoming reinsurance contracts is subjected to a qualitative test.

The test takes into account the effects that the reserve policy for case provisions has on the amount of the claims provision and the possibility of inadequacy of premiums. The adequacy of the technical provisions for the entire non-life portfolio is assessed by combining these various test elements. Any shortfall is charged directly to the income statement.

17.3.6.3 Provision for bad debts

As far as the loans and advances with or without mortgage collateral are concerned, a provision for impairment is made if there are objective indications that REAAL will not be able to collect all the amounts in accordance with the original contract. For loans and advances that are individually significant, the provision made equals the difference between the book value and the recoverable value. The recoverable value equals the expected future cash flows, including the amounts realised by virtue of guarantees and collateral, discounted at the initial effective interest rate of the loans and advances.

The criteria for impairment are applied to the entire loan portfolio. Homogenous groups of loans and advances with smaller amounts per individual loan or advance (and corresponding credit risk), such as mortgages are tested collectively for impairment.

The provision for impairment also covers losses where there are objective indications of losses likely to be incurred in the loan portfolio (IBNR: incurred but not reported). Mortgages and mortgage-backed property finance losses are estimated on the basis of historical loss patterns of loans and advances that carry similar risk characteristics as the loans and advances held in the portfolio. Losses on other loans and advances are estimated on the basis of historic loss patterns and the creditworthiness of the borrowers. Both estimates take into account the current economic climate in which the borrowers operate.

If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the previously recognised impairment loss is reversed in the income statement. When a loan is uncollectable, it is written off against the

relevant provision for impairment. Amounts that are subsequently collected are deducted from the addition to the provision for impairment in the income statement.

17.3.6.4 Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is determined on the basis of list prices where available. Such list prices are primarily derived from trade prices for listed instruments. If trade prices are not available, market prices from independent market traders or other experts are used. Financial assets are recognised at their bid prices and financial liabilities at their offer prices.

In markets where activity has decreased considerably or the market is inactive, the range of the prices from different sources can be large to one and the same investment. Selecting the most appropriate price valuation requires sound judgement. Using a different price may lead to a materially different valuation.

For some financial assets and liabilities, no prices are available. The fair value of these financial assets and liabilities is determined with valuation techniques, which may vary from net present value calculation to valuation models that use accepted economic methods. Input in the models is as far as possible based on observable market data. All valuation methods used are assessed and approved in-house according to internal governance procedures.

17.3.6.5 Impairment charges of intangible assets and financial instruments

Intangible fixed assets

An asset is subject to impairment if its book value exceeds the realisable value from continued use (value in use) or sale of the asset. The realisable value of assets not classified at fair value through profit or loss is estimated if there are indications of impairment of the asset. Goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use are tested at least once a year. If such intangible assets are initially recognised during the reporting period, they are tested for impairment before the end of the reporting period.

Goodwill

Goodwill created with the acquisition of subsidiaries, associated companies and joint ventures is allocated to cash-generating units. The book value of the cash-generating unit (CGU) (including goodwill) is compared to the calculated recoverable value, determined on the basis of value in use. If the recoverable value is lower than the book value, the difference will be recognised as impairment in the income statement. Assumptions used in these goodwill impairment tests:

- The value in use is determined for CGU individually.
- The value in use is based on the business plans of the CGU concerned.
- The discount rate is determined on the capital asset pricing model, in which the beta is calculated on the basis of a group of comparable companies. This reference group is determined individually per CGU.

Capitalised acquisition costs and Value of Business Acquired (VOBA)

The acquisition costs and VOBA are tested simultaneously using the IFRS liability adequacy test for insurance contracts. If, on the balance sheet date, the combined book value of the VOBA and the capitalised costs is higher than the difference between the book value of the provision for insurance contracts and the test provision (best estimate market value provision for insurance contracts plus a risk margin), the shortfall will be charged to the results.

Software and other intangible assets

On each reporting date, the capitalised costs for software, distribution channels and client portfolios are reviewed for indications of possible impairments.

The Zwitserleven brand name is tested for impairment once every year. The recoverable value is determined by a value in use calculation. The key assumptions used herein are the discount rate and the royalty rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Reversal of impairments on intangible fixed assets
Except for goodwill, VOBA and internal acquisition costs, impairment losses on intangible fixed assets are reversed if there is proof that a change to the estimates of the realisable value occurred after the impairment loss was recognised. The reversal is included under 'impairment charges' in the income statement. The book value after reversal can never exceed the amount before recognition of the impairment loss.

Financial assets

At each reporting date, REAAL assesses whether there are objective indications of impairment of investments classified as loans and receivables and available for sale. Impairment losses are recognised directly in the income statement under 'impairment charges'. With investments available for sale, any positive revaluation reserve of shareholders' equity is first deducted.

Investments in debt securities
Investments in debt securities measured at amortised cost or available for sale are tested for impairment if there are objective indications of financial problems with the counterparty, dwindling markets for the product of the counterparty or other indications. This test comprises both quantitative and qualitative considerations. Debt securities are assessed on aspects including expected credit losses and credit losses already incurred (for example due to default), market data on credit losses and other evidence of the issuer of the instrument's inability to meet its payment commitments.

Equity investments
An investment in equity instruments (an investment in shares), it is considered to have been subject to impairment if its book value exceeds the recoverable value for an extended period, which means that the fair value:

- Decreased 25% or more below cost, or
- has been below cost for 9 months or more.

The fair value of investments in the form of unlisted shares is determined according to the following criteria, depending on the availability of data:

- The price of the most recent transaction as an indication.
- Current fair values of other, similar investments (in entities).
- Using valuation methods that use market data as much as possible, and in accordance with accepted economic methods.

Reversal of impairments on debt securities and equity investments
If the amount of the impairment decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised, the previously recorded impairment loss is reversed in the income statement. This does not apply to investments in shares, where an increase in value is always recognised through shareholders' equity.

17.4 Accounting principles used for consolidation

17.4.1 Subsidiaries

Subsidiaries, i.e. all companies and other entities (including special purpose entities) in respect of which REAAL has the power to determine the financial and operating policies, whether directly or indirectly, are consolidated. This is the case if more than half of the voting rights may be exercised, or if REAAL has control in any other manner.

Subsidiaries are fully consolidated from the date on which control is transferred to REAAL. They are de-consolidated from the date control ceases. The financial statements of these group companies are fully consolidated, with REAAL accounting principles being applied. The interests of third parties are separately included in the consolidated balance sheet and income statement.

17.4.2 Associated companies and joint ventures

Investments in associated companies (associates) are entities in which REAAL generally has between 20% and 50% of the voting power, or over which REAAL can exercise significant influence on the operational and financial policies, but she has no control.

Joint ventures are entities over which REAAL has joint control, which control is laid down in an agreement, and strategic decisions on the financial and operational policies are taken unanimously.

The consolidated financial statements include REAAL's share in the total results of associates and joint ventures, from the date that REAAL acquires significant influence to the date that significant influence ceases. The result is accounted for using the equity method, after adjusting the result to comply with REAAL's accounting principles, if needed.

Upon recognition, associates and joint ventures are initially accounted for at the cost price (including the transaction costs) and subsequently according to the equity method. The item also includes goodwill paid upon acquisition less accumulated impairment losses, where applicable.

Under the equity method, the share of REAAL in the result of associates and joint ventures is recognised in the income statement under 'share in the result of associates'. The share of REAAL in changes in the reserves of associates or joint ventures is recognised directly in shareholders' equity (change in share of associates in other comprehensive income).

If the book value of the associate falls to zero, no further losses are accounted for, unless REAAL has entered into commitments or made payments on its behalf.

Associates and joint ventures held for sale are classified as 'held for sale'. These associates and joint ventures are measured at the lower of the book value and the sales price less sales costs. The result on the sale of an investment in an associate or joint venture is presented in the income statement as a total amount, consisting of the sales price less the transaction costs and the book value of the associate.

17.4.3 Elimination of group transactions

Intra-group transactions, intra-group balances and unrealised gains arising from intra-group transactions were eliminated in the preparation of the consolidated financial statements.

Unrealised gains on transactions between REAAL and its associates and joint ventures are eliminated to the extent of REAAL's interest in these investments.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

17.4.4 Foreign currencies

Upon initial recognition, transactions in foreign currencies are converted into euros at the exchange rate at the transaction date. Monetary balance sheet items denominated in foreign currencies are translated into euros at the exchange rate applicable on the reporting date. Exchange rate differences from these transactions and from converting monetary balance sheet items expressed in foreign currency are recorded in the income statement under 'investment income' or 'result on financial instruments', depending on the balance sheet item to which they relate.

The exchange rate differences of non-monetary balance sheet items measured at fair value, with changes in the fair value being taken to the income statement, are accounted for as part of these changes in the value of the asset in question. Exchange rate differences of non-monetary balance sheet items measured at fair value, with changes in the fair value being taken to shareholders' equity, are incorporated in shareholders' equity. Non-monetary items measured at historical cost are measured at the exchange rate applicable on the initial transaction date.

17.4.5 Accounting based on transaction date and settlement date

All purchases and sales of financial instruments, which have been settled in accordance with standard market practices, are recognised on the transaction date, in other words, the date on which REAAL commits itself to buy or sell the asset or liability. All other purchases or sales are recorded as forward transactions until they are settled.

17.4.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle the items on a net basis, or to settle the asset and the liability simultaneously. If these conditions are not fulfilled, amounts will not be offset.

17.4.7 Discontinued operations or assets held for sale

Assets and liabilities that are part of operations to be discontinued and assets held for sale, of which it is highly probable that the discontinuation or sale is within 12 months, are recognised at the lower of the book value and fair value less expected sales costs.

17.4.8 Information by segment

The primary business segments of REAAL are clearly distinctive organisational components, and carry out activities that generate income and expenses. It encompasses also the operational segment Group Activities that primarily performs transactions and activities with and on behalf of other parts of REAAL. The Management Committee defines the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management of each business unit defines the policy of that business unit, in accordance with the strategy and the performance targets as formulated by the Management Committee. The business segments are:

- Zwitserleven
- REAAL

The segment REAAL has three subsegments, REAAL Life, REAAL Non-life and REAAL Other. More information on the different segments can be found in the paragraph 18.1 (Information by segment).

17.4.9 Insurance contracts

Insurance contracts are contracts that bear significant insurance risks. These contracts can also involve investment risks. REAAL has insurance contracts for Life and Non-Life. For detailed information reference is made to paragraph 17.5.13 (Insurance contracts) and chapter 24 (Notes to the company financial statements).

17.5 Specific balance sheet principles

17.5.1 Intangible fixed assets

17.5.1.1 *Goodwill*

Acquisitions are accounted for according to the purchase method, with the cost of the acquisitions being allocated to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Goodwill, being the difference between the cost of the acquisition and REAAL's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities on the acquisition date, is capitalised as an intangible fixed asset. Any negative goodwill is recognised directly in the income statement.

If the provisionally determined fair value of acquired assets or liabilities is adjusted within a year of the acquisition date, the adjustment is recognised as an adjustment charged to goodwill. Adjustments that occur after a period of one year are recognised in the income statement. Adjustments to the purchase price that are contingent on future events and insofar these are not already included in the purchase price, are included in the purchase price of the acquisition at the time when the adjustment is likely and can be measured reliably.

Goodwill is not amortised. Instead, an impairment test is performed annually or more frequently if there are indications of impairment (see 'Impairment of intangible fixed assets and financial instruments').

17.5.1.2 *Software*

Costs that are directly related to the development of identifiable software products that REAAL controls, and that are likely to generate economic benefits that exceed these costs, are capitalised as intangible fixed assets. The direct costs comprise external costs and staff costs directly attributable to software development. All the other costs associated with the development or maintenance of computer software are included as an expense in the period during which they are incurred.

The capitalised development costs for computer software are amortised on a straight-line basis over the useful life, with a maximum of three years. Every reporting date an assessment is carried out for possible impairments.

17.5.1.3 *Capitalised acquisition costs from Insurance activities*

Acquisition costs are the direct or indirect costs related to activities necessary for the production of new life insurance business and disability insurance business and modification of existing contracts. Acquisition costs comprise non-commission (internal) and commission (external) expenses.

Non-commission acquisition expenses are capitalised to the extent that they can be recovered from the projected gross profits of the underlying new business in a given year. Non-commission acquisition expenses are amortised based on the expected average term over which premiums will be received.

Commission acquisition expenses (capitalised commissions) are amortised over the period over which they are earned i.e. either 5 or 10 years, and this varies by product. These terms are re-assessed on a regular basis.

An impairment test is performed at each reporting date. Capitalised acquisition costs are included as part of the technical provision in the IFRS liability adequacy test. For a more detailed explanation and recognition of any deficits demonstrated by this test, please refer to 'Provision for insurance contracts'.

17.5.1.4 Value of Business Acquired (VOBA)

VOBA is the net present value of estimated future cash flows from current insurance contracts of a business or insurance portfolio acquired as at the acquisition date and represents the difference between the fair value and the book value on REAAL principles of the insurance portfolios acquired.

REAAL amortises the VOBA on the basis of the established release pattern of the value of the actuarial calculated surplus value at the date of purchase of the underlying portfolios at the acquisition date. The amortisation charge is thus in line with the results from the underlying portfolios.

As part of the IFRS liability adequacy test, an impairment test is performed at each balance sheet date, For a more detailed explanation on this please refer to 'Provision for insurance contracts and Impairment of intangible fixed assets and financial instruments'.

17.5.1.5 Other intangible fixed assets

The other intangible fixed assets include assets with a definite and an indefinite useful life, such as distribution channels, trademarks, client portfolios stemming from acquisitions. The assets with a definite useful life are either amortised in accordance with the straight-line method over their useful life or on the basis of the profit flows from the underlying portfolios, in general between five and fifteen years. If objective indications so require, an impairment test will be performed. The assets with an indefinite useful life are not amortised. These intangible fixed assets are assessed for impairment at each balance sheet date.

17.5.2 Property and equipment

17.5.2.1 Land and buildings in own use

Property in own use primarily comprises offices (land and buildings) and is measured at fair value (revaluation model) based on appraisals, less depreciation of buildings and any accumulated impairment losses. Once a year, at least one-third of the properties in own use are appraised by external appraisers. If there are indications that the buildings' fair value is considerably different from their book value, additional appraisals may be performed.

Property in own use is valued at market value on an unlet or let basis. If arm's length lease agreements have been concluded between REAAL group companies, the building is recognised at its value as a let property. If there is no lease agreement, the property is recognised as vacant property. In determining the market value, use is made of observable prices of recent transactions.

Increase in the fair value exceeding the cost price is added to the revaluation reserve in shareholders' equity, less deferred taxes. Positive revaluations, insofar as these result in the reversal of earlier write-downs on the same asset, are credited to the income statement. Decreases in the fair value, insofar as these result in the reversal of prior positive revaluations of the same asset, are charged to the revaluation reserve. All other decreases in the fair value are accounted for in the income statement.

Buildings are depreciated over their economic life using the straight-line method, with a maximum of 50 years, taking into account the possible residual value. Land is not depreciated. Regular impairment tests are carried out on land and buildings.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of land and buildings in own use in relation to their original use are capitalised and then amortised.

Upon the sale of a property, the part of the revaluation reserve related to the sold property is transferred to 'other reserves'.

17.5.2.2 IT equipment and other tangible fixed assets

All other tangible fixed assets included in this item are measured at cost net of accumulated depreciation and, if applicable, accumulated impairment losses.

The cost price comprises the expenses directly attributable to the acquisition of the asset and is depreciated on a straight-line basis over the useful life, taking into account any residual value. The estimated useful life can vary three to ten years.

Regular impairment tests are performed on the other tangible fixed assets. If the book value of the tangible asset exceeds the realisable value, it is written down to the realisable value.

Repairs and maintenance expenses are recognised under 'other operating expenses' the moment the expense is incurred. Expenses incurred after the acquisition of an asset that increase or extend the future economic benefits of the other tangible fixed assets in relation to their original use are capitalised and then amortised.

Results on the sale of tangible fixed assets are defined as the balance of the realisable value less transaction costs and the book value. These results are recognised as part of 'other operating income'.

17.5.3 Investment properties

Investment properties, comprising retail and office properties and land, are held to generate long-term rental income. If property is held partly as investment property and partly for own use, the property is included under tangible fixed assets, unless the part in own use is less than 20% of the total number of square metres.

Investment properties are measured at fair value, including the transaction costs, upon initial recognition. Property investments are treated as long-term investments and measured at fair value, being the value of the property in a let state. The fair value is based on the appraisals performed every year by independent external appraisers with sufficient expertise and experience in property locations and categories. These appraisals are based on recent market transactions. The valuation of the fair value of investment properties depends on the location, quality, age and marketability of the relevant property. Changes in the fair value of investment property are recognised in the income statement under 'investment income'.

17.5.4 Financial assets

REAAL classifies its financial instruments in one of the following categories: (1) loans and receivables, (2) available for sale and (3) at fair value through profit or loss. The category depends on the purpose for which the financial assets were acquired. The management decides in which category they will be placed.

Upon initial recognition, financial instruments are measured at fair value including transaction costs, with the exception of the category 'at fair value through profit or loss', where transaction costs are taken directly to the income statement. The fair value of financial assets is based on listed bid prices or derived from cash flow models.

The categories are explained in more detail in the following section.

17.5.4.1 Investments

Loans and receivables (amortised cost)

This category comprises unlisted investments with a fixed term, measured at amortised cost using the effective interest method, less a provision for impairment if necessary.

Available for sale (fair value through other comprehensive income)

Investments that do not meet the criteria defined by management for 'loans and receivables' or 'fair value through profit or loss' are classified as available for sale.

After initial recognition, investments available for sale are restated at fair value in the balance sheet. Unrealised gains and losses resulting from fair value adjustments of these investments are recognised in other comprehensive income (shareholders' equity), taking account of deferred taxes.

When the investments are sold, the related accumulated fair value adjustments are recognised in the income statement as 'investment income'. REAAL uses the average cost method to determine the results.

Fair value through profit or loss

An investment is classified at fair value through profit or loss if it is held for trading purposes ('held for trading') or if it was designated as such upon initial recognition ('designated'). Investments are only designated as valued at fair value through profit or loss if:

a This eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
b REAAL manages and assesses the investments on the basis of fair value.

The investments are recognised at fair value. Realised and unrealised gains and losses are recognised directly in the income statement under 'investment income'.

Interest income earned on securities is recognised as interest income under 'interest income' at the Banking activities and under 'investment income' at the Insurance activities. Dividend received is recorded under investment income.

17.5.4.2 Investments for account of policyholders (fair value through profit or loss)

Investments on behalf of policyholders are classified as measured at fair value through profit or loss. They are designated as such, as the corresponding financial liabilities are also measured at fair value (see 'Life insurance contracts on behalf of policyholders'). Amounts due by policyholders in this context are recognised in the income statement as 'premium income'. Adjustments in the value of investments and results on the sale of investments are recorded in the income statement under 'investment income for account of policyholders'.

17.5.4.3 Invested collateral securities lending (fair value through other comprehensive income)

REAAL has programmes in which financial assets are pledged, and collateral is obtained which is sometimes invested by REAAL. These investments are not freely available. The investments can only be used to redeem the collateral provided by the borrower in connection with the lending and borrowing transaction. The obligation to repay the collateral provided in cash is included in the balance sheet under 'securities lending liabilities'. These investments are classified as available for sale and are treated as such.

17.5.4.4 Derivatives

General

Derivatives are derivative financial instruments and are measured at fair value upon entering into the contract. The fair value of publicly traded derivatives is based on listed bid prices for assets held or liabilities to be issued, and listed offer prices for assets to be acquired or liabilities held.

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a present value model or an option valuation model. REAAL recognises derivatives with a positive market value as assets and derivatives with a negative market value as liabilities.

Adjustments in the fair value of derivatives that do not qualify for cash flow hedge accounting (see 'Hedge accounting') are accounted for in the income statement under 'result on financial instruments'.

Embedded derivatives

An embedded derivative is treated as a separate derivative if there is no close relationship between the economic characteristics and risks of the derivative and the host contract, if the host contract is not measured at fair value through profit or loss and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value, while changes in value are recognised in the income statement.

Hedge accounting

REAAL uses derivatives as part of asset and liability management and risk management. These instruments are used for hedging interest rate and foreign currency risks, including the risks of future transactions. REAAL can designate certain derivatives as either:

1. A hedge of the risk of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedge); or

2. A hedge of the possible variability of future cash flows that can be attributed to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Hedge accounting is applied for derivatives that are thus designated and are in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A hedge relationship is considered to be effective if REAAL, at the inception of and during the term, can expect that adjustments in the fair value or cash flows of the hedged position will be almost fully offset by adjustments in the fair value or cash flows of the hedging instrument, insofar as they are attributable to the hedged risk, and the actual results remain within a bandwidth of 80% to 125% of the expected outcome.

REAAL ceases the hedge relationship after a management decision to this end or as soon as it has been established that a derivative is no longer an effective hedging instrument, or when the derivative expires, is sold, terminated or exercised; when the hedged item expires, is sold or redeemed; or when an expected transaction is no longer deemed highly likely to occur.

Fair value hedge accounting

Derivatives designated as a hedge of the fair value of recognised assets or of a firm commitment are stated as fair value hedges. Changes in the fair value of the derivatives that are designated as a hedge are recognised directly in the income statement and reported together with corresponding fair value adjustments to the hedged item attributable to the hedged risk.

If the hedge no longer meets the conditions for hedge accounting, an adjustment in the book value of a hedged financial instrument is amortised and taken to the income statement during the expected residual term of the hedged item.

If the hedged item is no longer recognised, in other words, if it is sold or redeemed, the non-amortised fair value adjustment is taken directly to the income statement.

Cash flow hedge accounting

Derivatives can be designated as a hedge of the risk of future variability of the cash flows of a recognised asset or liability or highly probable forecast transaction. Adjustments in the fair value of the effective portion of derivatives that are designated as a cash flow hedge and that meet the conditions for cash flow hedge accounting are stated in the cash flow hedge reserve as a separate component of shareholders' equity. The underlying measurement of the hedged item, which is designated as part of a cash flow hedge, does not change.

If the forecast transaction leads to the actual inclusion of an asset or a liability, the accumulated gains and losses that were previously taken to the cash flow hedge reserve are transferred to the income statement and classified as income or expense in the period during which the hedged transaction influences the result.

When determining the portion of the fair value adjustment of the hedging instrument that is included in the cash flow hedge reserve, the portion of the gain or loss on the hedging instrument that is considered an effective hedge of the cash flow risk is included in shareholders' equity, while the ineffective portion is recognised in the income statement.

If the hedging instrument itself expires or is sold, terminated or exercised, or no longer satisfies the conditions for hedge accounting, the accumulated result that was included in the cash flow hedge reserve remains in the cash flow hedge reserve (OCI) until the expected transaction actually takes place.

If the transaction in question is no longer expected to take place, the accumulated result reported in OCI is directly taken to the income statement.

17.5.5 Taxes

17.5.5.1 Deferred tax assets

Deferred tax assets and liabilities are recognised for tax loss carry forwards and for temporary differences between the tax base of assets and liabilities and the book value. This is based on the tax rates applicable as at the balance sheet date and the tax rates that will apply in the period in which the deferred tax assets or tax liabilities are settled. Deferred taxes are measured at nominal value.

Deferred tax assets are only recognised if sufficient tax profits are expected to be realised in the near future to compensate these temporary differences. A provision for deferred taxes is made for temporary differences between the book value and the value for tax purposes of investments in group companies and associates, unless REAAL can determine the time at which these temporary differences are realised or settled and if it is likely that these differences will not be realised or settled in the near future.

Deferred tax assets are assessed at the balance sheet date and if it is no longer likely that the related tax asset can be realised, the asset is reduced to the recoverable value.

The most significant temporary differences arise from the revaluation of tangible fixed assets, certain financial assets and liabilities, including derivatives contracts and the application of hedge accounting, provisions for pensions and other post-retirement employee plans, technical provisions, deductible losses carried forward and, as far as acquisitions are concerned, from the difference between (a) the fair value balance of the acquired assets and obligations entered into and (b) the book value.

Deferred taxes with respect to the revaluation of the aforementioned assets and liabilities of which value adjustments are recognised directly in shareholders' equity are also charged or credited to shareholders' equity and upon realisation included in the income statement together with the deferred value adjustments.

17.5.5.2 Deferred tax liabilities

Deferred tax liabilities concern tax payable in future periods in connection with taxable temporary differences. The treatment is in accordance with the previous section.

17.5.5.3 Corporate income tax

Corporate income tax relates to payable or recoverable tax on the taxable profit for the period under review, and taxes due from previous periods, if any. Current tax receivables and payables are measured at nominal value according to the tax rate applicable at the reporting date.

17.5.6 Reinsurance contracts

Contracts entered into with reinsurance companies and by virtue of which REAAL receives compensation for losses on insurance contracts REAAL has issued are designated as ceded reinsurance contracts. Insurance contracts entered into where the contract holder is another insurance company are classified as incoming reinsurance contracts and are recognised as insurance contracts.

Reinsurance premiums, commissions, payments and technical provisions for reinsurance contracts are accounted for in the same way as the direct insurance policies that are reinsured. The share of reinsurance companies in the technical provisions and the benefits to which REAAL is entitled by virtue of its reinsurance contracts are accounted for as a reinsurance asset. These assets comprise short-term receivables from reinsurance companies (presented under 'other assets'), and long-term receivables (presented under 'reinsurance contracts'). These receivables depend on the expected claims and benefits arising from the insurance contracts that REAAL has reinsured. Deposit components of (re)insurance contracts that are within the scope of IFRS 4 Insurance Contracts will be recognised in the balance sheet under 'insurance contracts'.

The amounts receivable from, and payable to, reinsurance companies are valued in accordance with the terms and conditions of each reinsurance contract. Reinsurance obligations relate primarily to premiums payable for reinsurance contracts. These premiums are recognised as an expense over the period in which they are due.

Reinsurance receivables are assessed for impairment at the reporting date.

17.5.7 Loans and advances to banks

These concern receivables to banks not in the form of interest-bearing securities. These receivables are measured at amortised cost using the effective interest method, if necessary less any impairment losses.

17.5.8 Other assets

Other assets consist of receivables from direct insurance policies, other taxes (including VAT, payroll tax), other receivables and accrued assets. The net amount of advances and provisions in relation to the deposit guarantee scheme (DGS) is accounted for under other receivables. Accrued assets also include the accumulated interest on financial instruments measured at amortised cost, as well as other accruals, which item includes amounts receivable by REAAL from clients and the clearing house in respect of option positions.

17.5.9 Cash and cash equivalents

Cash and cash equivalents include the non-restricted and restricted demand deposits with the Dutch Central Bank, amounts held by the Insurance activities at other banks and advances from the Banking activities to credit institutions with a remaining maturity of less than one month.

17.5.10 Equity

17.5.10.1 Issued share capital and share premium reserve

The share capital comprises the issued and paid-up ordinary shares. The share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued ordinary shares. Costs directly attributable to the issue of equity instruments are deducted net of tax from the share issue income.

17.5.10.2 Dividend

Dividend for a financial year, which is payable after the balance sheet date, is disclosed in 'Provisions regarding profit or loss appropriation' under 'Other information'.

17.5.10.3 Revaluation reserve

Revaluations of property in own use (see paragraph 17.5.2.1 Land and buildings in own use) are included in the revaluation reserve.

17.5.10.4 Cash flow hedge reserve

The cash flow hedge reserve consists of the effective part of cumulative changes to the fair value of the derivatives used in the context of the application of cash flow hedge accounting, net of taxes, providing the hedged transaction has not yet taken place; see paragraph 17.5.4.4 (Derivatives).

17.5.10.5 Fair value reserve

Gains and losses as a result of changes in the fair value of assets that are classified as available for sale are taken to the fair value reserve, net of taxes. If the particular asset is sold or redeemed, in other words, the asset is no longer recognised, the corresponding cumulative result will be transferred from the fair value reserve to the income statement (see paragraph 17.5.4.1 Investments). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are stated in this reserve.

17.5.10.6 Other reserves

Other reserves mainly comprise REAAL's retained profits.

17.5.10.7 Capital securities and capital securities share premium reserve

The securities capital comprises of the share of REAAL in the capital securities issued by SNS REAAL and paid up by the Dutch State and Stichting Beheer SNS REAAL. The capital securities share premium reserve concerns the paid-in surplus capital in addition to the nominal value of the issued securities. Costs directly attributable to the issue of the capital securities are deducted net of tax from the share issue income of the securities.

17.5.10.8 Securities dividend

The securities dividend amount for a financial year, which is payable after the balance sheet date, is disclosed in the paragraph 26.1.2 (Provisions regarding profit or loss appropriation for core Tier 1 capital securities under 'Other information').

17.5.11 Subordinated debt and final bonus account

17.5.11.1 Subordinated debt

The subordinated (bond) loans issued by SRLEV are included under the subordinated debt. The Dutch Central Bank includes these loans Tier 2 capital at SRLEV. They are initially measured at fair value, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method.

17.5.11.2 Final bonus account

The final bonus account concerns final bonus commitments in relation to certain life insurance policies. Entitlement to a final bonus applies only to specific individual policies that become payable upon expiry of the agreed term or upon the death of the insured party. Entitlement to a final bonus is cancelled when the policy is surrendered. Entitlements to final bonuses not yet paid out are subordinated to all other debts. It is also stipulated that entitlement to a final bonus is cancelled if and insofar as the results erode the capital base to the extent that the regulatory solvency requirements can or may no longer be complied with.

The final bonus account is determined actuarially based on the same accounting principles that are applied for determining the profit additions, which form part of the provision for insurance contracts. In addition, the estimated probability of early termination of insurance contracts is taken into account.

Part of the final bonus account is converted annually, according to a fixed method, into an unconditional right of the policyholder and added to the provision for insurance contracts.

The obligations arising from the final bonus scheme are classified as debt capital in the financial statements. This item is part of the available regulatory capital in the solvency reports to the Dutch Central Bank of the Insurance activities.

17.5.12 Debt certificates

Outstanding debt certificates are measured at fair value upon initial recognition, in other words, the issue income (the fair value of the received payment) net of the transaction costs incurred. Thereafter, they are measured at amortised cost, using the effective interest method.

After initial recognition a specific category of outstanding debt certificates (the securitised mortgages through Holland Homes transactions) remains measured at fair value whereby subsequent value adjustments are accounted for in the income statement so that any inconsistency in the valuation is eliminated that would otherwise arise from the different valuation of assets and liabilities.

When REAAL purchases its own debt securities, these debt certificates are derecognised

17.5.13 Insurance contracts

17.5.13.1 Life insurance

Life insurance contracts can be separated into individual policies and group contracts. These contracts provide mostly long-term insurance for events that lead to a payment in cash, or of the counter value of investment units, upon maturity or death of the insured.

Life insurance in cash

REAAL's individual life insurance contracts in cash can be divided into the following product groups: offset mortgages, annuities, term insurance policies, savings policies, and funeral insurance policies. These contracts concern life insurance whereby the risk is borne by REAAL.

In addition to non-profit sharing insurance contracts, the insurance portfolio also contains insurance contracts with discretionary or contractual profit-sharing rights. Discretionary profit sharing schemes are connected to the contractual right of individual policyholders to receive additional benefit payments over and above any insured or guaranteed capital. The determination of the amount and timing of these additional benefits is at the discretion of REAAL's Executive Board. As regards future distributable profit sharing, a designated amount has been included in the provision for insurance contracts. The profit-sharing obligations already granted are also included in the provision for insurance contracts.

In addition to discretionary profit sharing, there are also individual and group contracts with contractual profit sharing. These include profit-sharing based on a share of any surplus interest profits and profit sharing based on a share of any insurance profits. The obligations of these are included in the provision for insurance contracts.

Unit linked life insurance

The claims from these insurance contracts are directly linked to the underlying investments. Given this link, the technical provisions held in respect of these policies move in line with movements in the value of these investments. The policyholder determines how REAAL should invest the amount of any premiums paid after deduction of costs and risk premium. To this end, REAAL has created separate investment funds.

The investment risk is borne by the unit linked policyholders. In addition to deciding how funds should be invested, policyholders are also free to alter the policy at any time depending upon their personal and/or financial situation.

Within investment insurance, REAAL issues guarantees on returns for a limited number of investment funds.

Group insurance contracts with segregated pools are recognised under unit linked group insurance contracts.

17.5.13.2 Life insurance policies for own account

An obligation to make future contractual payments is recognised as soon as the policy takes effect. The provision for life insurance policies for own account and risk consists of the discounted value of expected future benefits payments to policyholders or other beneficiaries, less future premiums (net premium method).

The assumptions used in the valuation of life insurance policies at the balance sheet date are based on the calculation principles set at the time of the issue of the policy. Furthermore, a periodic IFRS liability adequacy test is performed. For estimates, assumptions and an explanation of the test, please refer to Provision for insurance contracts.

Particularly with regard to the pension portfolio, the provisions may become insufficient on this item due to the extended life expectancy of the insured persons. For this longevity risk, additional allocations were made to the provision in the past and provisions of acquired insurance companies have been maintained. Since 2008, in conjunction with the legal merger of different life entities and the increased possibility of compensation with short-life risk, the provisioning policy has been differently shaped, with no additions to the provision for longevity risks if the outcome of the IFRS liability adequacy test indicates that the total amount of the provision is adequate.

Gross premiums include loadings to cover expenses. When the premiums are received or fall due, the amount of any expenses loading is released and is then available to cover actual expenses, including renewal expenses, acquisition costs and the amortisation of capitalised acquisition costs. The provisions are net of capitalised interest rate rebates. These interest rate rebates are amortised on an actuarial basis.

A provision is maintained for the entitlement to a waiver of premium in the event of disability and for the no-claim

disability annuities. This provision is based on a factor times the annual premium that applies for the disability risk. The level of the factor is determined, inter alia, based on IBNR techniques derived from empirical data for claim behaviour. The principles for valuation of disability cover that has entered into force, including the waiver of premium, are the same as the principles for the main insurance policy.

17.5.13.3 Life insurance contracts on behalf of policyholders

These contracts concern insurance policies where the is borne by the policyholders. The technical provisions for these insurance policies are set equal to the book value at the balance sheet date of the related underlying investments. As a result, these technical provisions are recorded at through profit or loss. Transaction costs and commission are not included in the initial valuation but charged to the income statement as these transactions are concluded.

These contracts concern insurance policies where the investment risk is borne by the policyholders. The technical provisions for these insurance policies are set equal to the book value at the balance sheet date of the related underlying investments. As a result, these technical provisions are recorded at fair value through profit or loss. Transaction costs and commission are not included in the initial valuation but charged to the income statement as these transactions are concluded.

17.5.13.4 Non-life insurance

Non-life insurance policies are insurance policies that provide cover that is not related to the life or death of the insured persons. These contracts generally provide cover for a relative short period. REAAL's non-life insurance contracts can be divided into the following product groups: accident and health, motor vehicles, fire, transport and other.

Payments made after the occurrence of a specified insured event are either fixed (e.g. in the event of disability) or linked to the scale of the economic loss suffered by the policyholder (in accordance with the indemnity principle).

The provision for unearned premiums reflects premiums related to the period of any unexpired cover as at the balance sheet date. The provision is equal to the unearned gross premiums, whereby the commission paid is deducted from the gross premium. The provision for unearned premiums is calculated separately for each insurance contract in proportion to the unexpired risk period, adjusted where necessary for variations in risk and claim frequencies over the term of the insurance contract.

The change in the provision for unearned premiums is recorded in the income statement in order to recognise income over the period of exposure to risk.

The provision for current risks is made to meet obligations stemming from:

- Claims and claims-handling expenses that may arise after the balance sheet date and which are covered by contracts issued prior to that date, insofar as the amount estimated in connection with this exceeds the provision for unearned premiums and the premiums claimable in relation to these contracts.
- The premiums received, be they single or regular, for contracts where the underlying risk increases over time. This is particularly the case for disability insurance.

The provision for claims payable has been set aside to meet claims arising from the current and preceding years that have not been settled as at the reporting date. The provision is determined systematically on a claim by claim basis. In the case of disability claims, this provision is referred to as the 'provision for regular payments'.

REAAL holds co-insurance contracts, mainly relating to the transport sector. In the calculation of the technical provision, all risks entered into as of the reporting date are accounted for, as are claims, both reported and unreported, incurred during the financial year. The expected balances for risks covered and losses incurred arising from transport insurance are determined on an underwriting-year basis.

The provision for claims incurred but not reported (IBNR) is intended for events that occurred prior to the reporting date but have not yet been reported as at that date. Upon measurement, projected subrogation amounts are deducted from this experience-based provision.

A separate provision for internal claims handling costs is formed as part of the provision for claims payable. This provision provides an estimate of the expenses involved in dealing with payments to be made in respect of claims arising from insured events that have already occurred.

Contrary to the Liability Adequacy Test – which uses actuarial analyses – the IBNR and claims handling costs provisions in the balance sheet are measured by reference to the book value of the previous month, adjusted (if needed) for large developments during the month. Twice a year these provisions are reassessed, based inter alia on business information as well as the actuarial analyses from the most recent Liability Adequacy Test.

In accordance with general practice in the industry, REAAL does not discount the non-life provisions mentioned in this paragraph, with the exception of disability claims provisions. This also applies with regard to the provision for claims handling costs. Changes in estimates are reflected in the result in the period during which the estimates are adjusted.

17.5.13.5 Derivatives embedded in insurance contracts

REAAL does not separately recognise derivatives embedded in insurance contracts, or options to surrender insurance contracts at a fixed amount, or at a fixed amount and an interest rate, and thus closely linked to the basic insurance contract but recognises these under the main contract from which they stem. The embedded derivatives are measured as soon as the technical provision made for the host contract drops below the guaranteed minimum. The time value is not included in the measurement.

17.5.13.6 Profit sharing, bonuses and rebates

The present value of any profit sharing that has been awarded but not yet distributed is included under the provision for profit sharing, bonuses and rebates.

17.5.13.7 Shadow accounting

REAAL has implemented shadow accounting in accordance with IFRS 4, which reduces the asymmetry in the liability adequacy test of the Insurance activities, and therefore ensures that REAAL's financial statements better reflect the economic matching of insurance assets and liabilities. Shadow accounting is applied on:

- Insurance contracts with profit sharing.
- Insurance contracts without profit sharing, in and insofar the current market interest rate is below the interest rate used in pricing the contract when it was entered into, seen at portfolio level.
- Certain interest related derivatives embedded in insurance contracts.

The assets on which shadow accounting is applied concern fixed income investments available for sale and interest derivatives.

Shadow accounting is applied on gains and losses on (derivative) assets that match insurance liabilities, regardless of whether these have or have not been realised and regardless of whether the unrealised gains and losses are recognised in the income statement or directly in the fair value reserve (shareholders' equity).

The gains and losses on assets recognised in shareholders' equity have a mirrored change as gains and losses in the insurance liabilities. The gains and losses on assets recognised in the income statement have a mirrored change in the gains and losses presented in the technical claims and benefits.

17.5.14 Employee benefits

17.5.14.1 Short-term remunerations for employees

Short-term remunerations for employees include, inter alia, salaries, short paid leave, profit sharing and bonus schemes. These short-term remunerations are accounted for in the income statement over the period in which the services are rendered. In the event that employees have not made use of their entitlements at the end of the period, a liability is formed for the nominal amount.

17.5.14.2 Pension benefits

REAAL has different pension plans, most of which are collective defined contribution plans. A defined contribution plan is a pension plan in which fixed contributions are paid to a separate entity, such as the independent Stichting Pensioenfonds SNS REAAL (the pension fund). REAAL has no legally enforceable or actual obligation to pay extra contributions if this fund has insufficient assets to make all the benefit payments.

The regular contributions in the defined contribution plans are considered to be net periodic costs for the year in which they are due, and are recognised as such in the staff costs. Employee contributions are deducted from the net periodic costs.

REAAL also has a number of defined benefit pension plans relating to acquisitions. The pension rights of the employees of Property Finance and the pension rights of (former) employees continuing under the old acquired pension schemes of AXA, Winterthur, Zwitserleven, Zürich, NHL and DBV can be designated as defined benefit schemes. REAAL's net commitments arising from defined benefit pension plans are calculated separately for each plan by making an assessment of the pension entitlements that staff have accrued in exchange for their services during the reporting period and prior periods. These pension entitlements are discounted in order to determine the present value, and the fair value of the plan assets is deducted from this. The discount rate represents the return as at the balance sheet date of bonds with an AA credit rating whose maturities approach the term of REAAL's commitments. The present value of the pension entitlements for self-administered pension plans is included separately in the balance sheet. The investments related to these pension plans are recognised under 'investments'.

The actuarial gains and losses arising from defined benefit pension plans, insofar as any non-recognised accumulated actuarial gains and losses exceed 10% of the higher of the present value of the defined benefit obligation, or the fair value of the plan assets, are recognised in the income statement for the average expected remaining period of services rendered of the employees participating in the plan. Other actuarial gains or losses are not included in the income statement.

When the calculation results in a positive balance for REAAL, the asset is stated at an amount no higher than the balance of any non-recognised actuarial losses and past service pension charges and the present value of any future repayments by the fund or lower future premiums.

17.5.14.3 Other employee commitments

The other employee commitments refer mostly to discounts granted for bank and insurance products to (former) employees after the date of their retirement. The size of the provision is based on the present value of the discounts offered after the retirement date, taking into account actuarial assumptions about mortality and interest. Furthermore, a provision has been made for reimbursement of medical expenses.

To qualify for these benefits, the employment contract of the employee should normally have continued until the retirement age, and it should have lasted for a specified minimum period. A liability is taken for the estimated costs of these benefits during the term of employment using a method that corresponds with that used for defined benefit pension plans.

17.5.14.4 Share-based remunerations

SNS REAAL introduced a share based payment plan in which a number of employees of REAAL or its group entities may participate. This share-based remuneration is settled in SNS REAAL shares. The costs of share-based remunerations are accounted for over the period in which the services are rendered as for the part that is unconditionally granted. As for the part granted on the condition of continuation of employment during a number of years (the loyalty period) the cost are partly taken into account in the current service period and partly during the loyalty period up to the date of settlement, unless (in principle) the employment is ended before the end of the loyalty period. In the latter case the cost already expensed are reversed to profit an loss

The cost of these shares will be charged to REAAL NV or its group entities.

17.5.15 Provisions

17.5.15.1 General

Provisions are made if there is a legally enforceable or present obligation arising from events in the past, the settlement of which is likely to require an outflow of assets, and a reliable estimate of the size of the obligation can be made. Provisions are measured at the present value of the expected future cash flows. Additions and any subsequent releases are recorded in the income statement.

17.5.15.2 Restructuring provision

The restructuring provision is a specific provision that consists of anticipated severance payments and other costs that are directly related to restructuring programmes. These costs are accounted for in the period in which a legally enforceable or actual obligation to make the payment arises. No provision is formed for costs or future operating losses stemming from continuing operations.

REAAL recognises severance payments if REAAL has demonstrably committed itself, either through a constructive or legally enforceable obligation, to:

- The termination of the employment contracts of current employees in accordance with a detailed formal plan without the option of the plan being withdrawn; or
- The payment of termination benefits as a result of an offer to encourage voluntary redundancy.

Benefits that are due after more than twelve months after the balance sheet date are discounted.

17.5.15.3 Legal provisions

REAAL makes a provision for legal proceedings at the balance sheet date for the estimated liability with respect to ongoing legal proceedings. The provision comprises an estimate of the legal costs and payments due during the course of the legal proceedings, to the extent that it is more likely than not that an obligation exists at the balance sheet date, and a reliable estimate can be made of the obligation.

17.5.16 Financial liabilities

17.5.16.1 Securities lending liabilities

The requirement to repay the pledged collateral in cash (see paragraph 17.5.4.3 Invested collateral from securities lending) is recognised in the balance sheet as 'securities lending liabilities'. These liabilities are stated at amortised cost.

17.5.16.2 Derivatives

See note 17.5.4.4 Derivatives.

17.5.17 Other liabilities

Other liabilities primarily consist of interest accrued on financial instruments that are stated at amortised cost. This item also includes creditors, other taxes and accrued liabilities.

17.6 Specific income statement accounting principles

Income and expenditure are allocated to the period to which they relate. Costs are recognised in the cost category to which they relate. Costs are capitalised insofar as they pertain to the acquisition of insurance contracts. For more information, please refer to paragraph 17.5 (Specific balance sheet principles).

A number of SNS REAAL's corporate staff departments are shared. The costs of the corporate staff departments are charged to the segments on the basis of the services provided, and, if more appropriate, proportionally allocated to SNS REAAL's subsidiaries. The costs of the Executive Board and other specific company costs are not allocated to SNS REAAL's subsidiaries.

17.6.1 Income

Income represents the fair value of the services, after elimination of intra-group transactions within REAAL. Income is recognised as described in the following paragraphs:

17.6.1.1 Premium income

The premium income from insurance contracts, excluding taxes and other charges, is divided into regular life (including pensions), single-premium life and non-life premiums.

Regular Life premiums, single-premium contracts and limited-premium life insurance policies from life insurance contracts are recognised as income when payment by the policyholder falls due. Interest rate rebates and rate rebates are included in gross premium income and charged to claims and benefits during the amortisation period.

Premium income from non-life insurance contracts is recognised as income (earned premium) during the term of the contract in proportion to the elapsed insurance term, taking into account the movement in the provision for unearned premium. In general it concerns insurance contracts with a maximum term of twelve months.

17.6.1.2 Reinsurance premiums

This item represents the premiums on reinsurance contracts. These are recognised as a charge to the income statement in proportion to the term of the contract.

17.6.1.3 Fee and commission income

Fee and commission income include income from securities transactions for clients, asset management, commission from the insurance operations and other related services offered by REAAL. These are recognised in the reporting period in which the services are performed. Commission related to transactions in financial instruments for own account are incorporated in the amortised cost of this instrument, unless the instrument is measured at fair value through profit or loss, in which case the commission is included in the result.

17.6.1.4 Fee and commission expenses

Commission and management fees due are included under 'fee and commission expense'. These costs are recognised in the reporting period in which the services are provided.

17.6.1.5 Share in the result of associates

The share of REAAL in the results of the associates is here accounted for. If the book value of the associated company falls to zero, no further losses are accounted for, unless REAAL has entered into commitments or made payments on its behalf.

Where necessary, the accounting principles applied by the associated companies have been adjusted to ensure consistency with the accounting principles applied by REAAL.

17.6.1.6 Investment income

The investment income consists of interest, dividend, rental income and revaluations.

Interest

The item interest comprises the interest income in respect of group activities and the interest income from investments of the Insurance activities.

Interest on financial assets is accounted for using the effective interest method based on the actual purchase price. The effective interest method is based on the estimated future cash flows, taking into account the risk of early redemption of the underlying financial instruments and the direct costs and income, such as the transaction costs charged, brokerage fees and discounts or premiums. If the risk of early redemption cannot be reliably determined, REAAL calculates the cash flows over the full contractual term of the financial instruments.

Commitment fees, together with related direct costs, are deferred and recognised as an adjustment of the effective interest on a loan if it is likely that REAAL will conclude a particular loan agreement. If the commitment expires without REAAL extending the loan, the fee is recognised at the moment the commitment term expires. If it is unlikely that a particular loan agreement will be concluded, the commitment fee is recognised pro rata as a gain during the commitment term.

Interest income on monetary financial assets that have been subject to impairment and written down to the estimated recoverable value or fair value is subsequently recognised on the basis of the interest rate used to determine the recoverable value by discounting the future cash flows.

Dividend

Dividend income is recognised in the income statement as soon as the entity's right to payment is established. In the case of listed securities, this is the date on which these securities are quoted ex-dividend.

Rental income

Rental income consists of the rental income from investment property and property projects. This rental income is recognised as income on a straight-line basis for the duration of the lease agreement.

Revaluations

Realised and unrealised increases and decreases in the value of investments in the category fair value through profit or loss are recognised here. The revaluations concern the difference between on the one hand the fair value at the end of the reporting period or net proceeds from the sale during the reporting period, and on the other hand the fair value at the beginning of the reporting period or the purchase price during the reporting period.

Realised revaluations of investments in the other categories are recognised here, being the difference between sales price and amortised cost.

17.6.1.7 Investment income for account of policyholders

This is the investment income on investments held on behalf of life insurance policyholders and measured at fair value. Increases and decreases in the value of investments are recognised in the income statement as 'investment income for account of policyholders'. The dividend and interest on behalf of policyholders are also accounted for in this item.

17.6.1.8 Result on financial instruments

The result on derivatives and other financial instruments is recognised under this item. Derivatives are measured at fair value. Gains and losses from revaluations to fair value are taken directly to the income statement under 'result on financial instruments'. However, if derivatives are eligible for hedge accounting, the recognition of a resulting gain or a resulting loss depends on the nature of the hedged item. The ineffective portion of any gains or losses of a cash flow hedge is recognised directly under 'result on financial instruments'.

This item also includes the profit or loss from the revaluation of the outstanding debt certificates, which are measured at fair value after initial recognition, with value adjustments taken in the income statement.

In addition, buy back results on own funding paper and results from the sale of loans are accounted for under this item.

17.6.1.9 Other operation income

This comprises all the income that cannot be accounted for under other headings.

17.6.2 Expenses

Expenses are recognised in the income statement on the basis of a direct relationship between the costs incurred and the corresponding economic benefits. If future economic benefits are expected to be derived across different reporting periods, expenses are recognised in the income statement using a systematic method of allocation. Expenses are directly included in the income statement if they are not expected to generate any future economic benefits.

17.6.2.1 Technical claims and benefits

Net movements in technical provisions are recorded under this item. This includes mainly the addition of required interest and premium payments to cover future benefit payments, less payments due (life and non-life), developments in the portfolio, such as benefit payments and surrenders, the actuarial result on surrender, cancellation and mortality, and the VOBA amortisation costs

17.6.2.2 Charges for account of policyholders

The changes in provisions for insurance contracts for the account and risk of policyholders are accounted for under this item (see paragraph 17.5.13.3 Life insurance contracts on behalf of policyholders). Payments to policyholders are also recorded under this item.

17.6.2.3 Acquisition costs for insurance activities

Acquisition costs comprise the direct and indirect costs associated with acquiring an insurance contract or the conclusion of a mortgage in combination with an insurance product, including brokerage fees, the costs of medical check-ups and administrative costs for administering new policies in the portfolio. Amortisation of capitalised acquisition costs for Insurance activities is included in this item, to the extent that the charge relates to capitalised external costs. The amortisation of capitalised internal costs is included in depreciation and amortisation on tangible and intangible fixed assets. The change in the provision for unearned premiums, insofar this change relates to the related paid commissions, is also accounted for under acquisition costs.

17.6.2.4 Impairment charges / reversals

This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Intangible fixed assets, tangible fixed assets, associated companies, investments, property projects, receivables and other assets may be subject to impairment. As soon as impairment is identified, it is included in the income statement. The specific principles for impairment are explained in more detail in paragraph 17.5 (Specific balance sheet principles under the applicable items).

17.6.2.5 Staff costs

These costs concern all costs that pertain to the personnel. This includes, inter alia, salaries, social security costs and pension costs.

17.6.2.6 Depreciation and amortisation of fixed assets

This item comprises all depreciation and amortisation of tangible and intangible fixed assets, with the exception of VOBA amortisation. The specific principles for depreciation and amortisation are explained in more detail in section 5 under the applicable items.

17.6.2.7 Other operating expenses

This includes office, accommodation and other operating costs.

17.6.2.8 Other interest expenses

Other interest expenses comprise the interest expenses in respect of financial obligations arising from insurance operations and group operations. The interest expenses are recognised in the income statement under the effective interest method.

17.6.2.9 Other expenses

Other expenses comprise all the expenses that cannot be accounted for under other headings in the income statement. These expenses have no direct relation with the primary and secondary business operations, happen occasionally, and occur in a single financial year, or arise in a single financial year, and are amortised over multiple financial years.

17.7 Contingent liabilities and commitments

Contingent liabilities are liabilities not recognised in the balance sheet because the existence is contingent on one or more uncertain events that may or may not occur in the future not wholly within the control of REAAL. It is not possible to make a reliable estimate of such liabilities.

The maximum potential credit risk arising from pledges and guarantees is stated in the notes. In determining the maximum potential credit risk, it is assumed that all the counterparties will no longer live up to their contractual obligations and that all the existing collateral is without value.

17.8 Cash flow statement

The cash flow statement is prepared according to the indirect method, and distinguishes between cash flows from operational, investment and financing activities. Cash flows in foreign currency are converted at the exchange rate applicable on the transaction date. With regard to cash flow from operations, operating results before taxation are adjusted for gains and losses that did not result in income and payments in the same financial year and for movements in provisions and accrued and deferred items.

Investments in (consolidated) subsidiaries and associates are stated under cash flow from investing activities. The cash and cash equivalents available at the acquisition date are deducted from the purchase price.

In the context of the cash flow statement, cash and cash equivalents are equal to the balance sheet item cash and cash equivalents.

18 Segmented financial statement

18.1 Information by segment

REAAL is a Dutch financial services provider that focuses mainly on insurance service on the Dutch retail and SME markets. The product range consists of four core products: Life, Non-life, disability and pensions. The services to private individuals and the SME clients are mostly rendered through the main brands REAAL and Zwitserleven and through several distribution channels.

REAAL is a 100% subsidiary of SNS REAAL NV and therefore uses the structure of SNS REAAL NV In addition to the Executive Board, a Management Committee is in place, comprising of the Executive Board, the chairmen of the boards of SNS Bank, REAAL and Zwitserleven, the Chief Information Officer and the director of Human Resource Management. The Executive Board defines the strategy, the performance targets and authorises and monitors the budgets that have been prepared by these business units. The management boards of the business unit determine the business unit policy, in accordance with the strategy and performance targets.

The business unit structure follows this approach, consisting of two segments (REAAL and Zwitserleven). Within the business unit REAAL the focus of REAAL Leven is on the life-portfolio. The business unit Zwitserleven focuses on the pension-portfolio.

For a segment, the same principles for valuation and determination of the result are used as set out in the accounting principles for the consolidated balance sheet and the income statement of SNS REAAL. For the settlement of transactions between business units, the prices are used that would ensue from regular market conditions ('at arm's length'), excluding the specific transactions referred to underrelated parties. Intercompany common control transactions are accounted for using book value accounting.

18.1.1 Zwitserleven

This segment, as a specialist pension insurer, offers products aimed at future income: ranging from pensions to mortgages and investment products. Zwitserleven focuses on both business and private customers. For distribution purposes, Zwitserleven works closely together with intermediaries, which play a vital role in advising consumers and businesses.

18.1.2 REAAL

The segment REAAL has three subsegments:

18.1.2.1 REAAL Life

This segment offers life insurance to the retail and SME markets. The segment includes REAAL Levensverzekeringen and Proteq Levensverzekeringen.

18.1.2.2 REAAL Non-life

This segment offers non-life insurance for property, mobility, bodily injury, invalidity and disability. The segment includes the units REAAL Schadeverzekeringen, Proteq Schadeverzekeringen and until the end of December REAAL Reassurantie SA. All shares in REAAL Reassurantie SA in Luxembourg were resold by REAAL NV to Amtrust Holdings Limited on 29 December 2011.

18.1.2.3 REAAL Other

This segment includes the activities of REAAL which are managed separately from the segments REAAL Life and REAAL Non-life. These principally include activities of SNS Verzekeringen, Route Mobiel and DBV Finance. End of January 2011, the shares in DBV Finance BV were transferred to SNS Bank NV, with effect of 1 January 2011. DBV Finance BV then legally merged with SNS Bank NV. DBV Finance is included in the segment SNS Retail Bank.

18.1.3 Allocation of group costs

A number of group staff departments of SNS REAAL NV are shared. The costs of the corporate staff are charged based on the services provided or proportionally allocated to the group's subsidiaries. The costs of the Executive Board and other specific holding company costs are not allocated to group subsidiaries.

18.2 Balance sheet by segment

Balance sheet by segment 31 December 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Intangible assets	519	1,275	213	2	--	2,009
Property and equipment	32	107	--	32	--	171
Investments in associates	--	33	5	--	--	38
Investment properties	30	225	--	--	--	255
Investments	9,507	21,720	1,855	521	(785)	32,818
Investments for account of policyholders	6,799	5,644	--	--	--	12,443
Invested collateral securities lending	117	--	--	--	--	117
Derivatives	148	391	--	--	--	539
Deferred tax assets	136	137	3	6	--	282
Reinsurance contracts	2	3,248	176	--	--	3,426
Loans and advances to customers	--	--	--	--	--	--
Loans and advances to banks	33	458	--	8	--	499
Corporate income tax	18	53	1	142	--	214
Other assets	46	866	320	830	(1,733)	329
Cash and cash equivalents	152	978	45	13	--	1,188
Total assets	**17,539**	**35,135**	**2,618**	**1,554**	**(2,518)**	**54,328**
Equity and liabilities						
Shareholders' equity	1,780	2,616	731	(1,171)	--	3,956
Equity attributable to securityholders	17	41	--	342	--	400
Minority interests	--	2	--	--	--	2
Total equity	**1,797**	**2,659**	**731**	**(829)**	**--**	**4,358**
Subordinated debt	212	704	86	--	--	1,002
Debt certificates	--	--	--	--	--	--
Insurance contracts	13,345	24,389	1,311	--	(218)	38,827
Provision for employee benefits	194	12	--	8	149	363
Other provisions	6	8	--	25	--	39
Securities lending liabilities	120	--	--	--	--	120
Derivatives	38	15	--	--	--	53
Deferred tax liabilities	205	469	50	3	--	727
Other amounts due to customers	202	3,796	30	772	(785)	4,015
Amounts due to banks	961	1,561	6	626	--	3,154
Corporate income tax	1	--	--	311	--	312
Other liabilities	458	1,522	404	638	(1,664)	1,358
Total equity and liabilities	**17,539**	**35,135**	**2,618**	**1,554**	**(2,518)**	**54,328**

Balance sheet by segment 31 December 2010

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Intangible assets	675	1,359	218	8	--	2,260
Property and equipment	35	108	--	27	--	170
Investments in associates	--	50	5	--	--	55
Investment properties	32	220	--	--	--	252
Investments	9,312	21,772	1,789	2,998	(1,931)	33,940
Investments for account of policyholders	6,442	6,199	--	--	--	12,641
Invested collateral securities lending	176	--	--	--	--	176
Derivatives	107	117	--	1	--	225
Deferred tax assets	119	57	2	21	--	199
Reinsurance contracts	1	150	204	--	--	355
Loans and advances to banks	8	335	5	8	--	356
Corporate income tax	1	94	10	--	--	105
Other assets	126	542	233	2,998	(3,643)	256
Cash and cash equivalents	52	1,568	299	150	(15)	2,054
Total assets	**17,086**	**32,571**	**2,765**	**6,211**	**(5,589)**	**53,044**
Equity and liabilities						
Shareholders' equity	1,443	2,053	623	(1,217)	--	2,902
Equity attributable to securityholders	47	108	--	570	--	725
Minority interests	--	3	--	--	--	3
Total equity	**1,490**	**2,164**	**623**	**(647)**	**--**	**3,630**
Participation certificates and subordinated debt	119	705	162	141	(167)	960
Debt certificates	--	110	--	1,766	(105)	1,771
Insurance contracts	12,503	25,036	1,373	--	(68)	38,844
Provision for employee benefits	191	15	--	127	--	333
Other provisions	4	6	--	24	--	34
Securities lending liabilities	182	--	--	--	--	182
Derivatives	1	2	--	81	--	84
Deferred tax liabilities	142	289	52	7	--	490
Other amounts due to customers	1,051	534	31	819	(1,661)	774
Amounts due to banks	1,073	2,363	76	994	--	4,506
Corporate income tax	7	--	--	136	--	143
Other liabilities	323	1,347	448	2,763	(3,588)	1,293
Total equity and liabilities	**17,086**	**32,571**	**2,765**	**6,211**	**(5,589)**	**53,044**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

18.3 Income statement by segment

Income statement by segment 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Income						
Premium income	1,161	1,687	848	--	--	3,696
Reinsurance premiums	5	187	54	--	--	246
Net premium income	**1,156**	**1,500**	**794**	**--**	**--**	**3,450**
Fee and commission income	15	58	1	18	--	92
Fee and commission expense	1	7	--	12	--	20
Net fee and commission income	**14**	**51**	**1**	**6**	**--**	**72**
Share in result of associates	--	(2)	1	--	--	(1)
Investment income	359	1,010	66	23	(26)	1,432
Investment income for account of policyholders	202	(241)	--	--	--	(39)
Result on financial instruments	28	155	--	--	--	183
Income invested collateral securities lending	2	--	--	--	--	2
Other operating income	--	3	--	--	--	3
Result assets and liabilities held for sale	--	--	--	18	--	18
Total income	**1,761**	**2,476**	**862**	**47**	**(26)**	**5,120**
Expenses						
Technical claims and benefits	604	1,530	490	--	--	2,624
Charges for account of policyholders	923	167	--	--	--	1,090
Acquisition costs for insurance operations	26	89	192	(1)	--	306
Staff costs	49	53	55	21	--	178
Depreciation and amortisation of fixed assets	26	40	17	1	--	84
Other operating expenses	62	62	56	6	--	186
Impairment charges	145	35	--	--	--	180
Interest expense securities lending	1	--	--	--	--	1
Other interest expenses	37	210	9	25	(26)	255
Total expenses	**1,873**	**2,186**	**819**	**52**	**(26)**	**4,904**
Result before tax	**(112)**	**290**	**43**	**(5)**	**--**	**216**
Taxation	(21)	67	10	(6)	--	50
Net result continued operations	**(91)**	**223**	**33**	**1**	**--**	**166**
Net result discontinued operations	--	--	--	--	--	--
Net result for the period	**(91)**	**223**	**33**	**1**	**--**	**166**
Minority interests	--	1	--	--	--	1
Net result attributable to shareholder and securityholder	**(91)**	**222**	**33**	**1**	**--**	**165**

Income statement by segment 2010

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Share capital						
Premium income	1,085	1,834	809	--	--	3,728
Reinsurance premiums	5	82	67	--	--	154
Net premium income	**1,080**	**1,752**	**742**	**--**	**--**	**3,574**
Fee and commission income	13	66	2	22	--	103
Fee and commission expense	7	10	--	16	--	33
Net fee and commission income	**6**	**56**	**2**	**6**	**--**	**70**
Share in result of associates	--	4	2	--	--	6
Investment income	375	1,017	62	59	(15)	1,498
Investment income for account of policyholders	451	364	--	--	--	815
Result on financial instruments	18	78	--	--	--	96
Income invested collateral securities lending	2	1	--	--	--	3
Other operating income	9	28	--	--	--	37
Total income	**1,941**	**3,300**	**808**	**65**	**(15)**	**6,099**
Expenses						
Technical claims and benefits	838	1,908	476	--	--	3,222
Charges for account of policyholders	842	711	--	--	--	1,553
Acquisition costs for insurance operations	27	124	178	(2)	--	327
Staff costs	44	67	45	23	--	179
Depreciation and amortisation of fixed assets	28	39	13	--	--	80
Other operating expenses	59	82	62	19	--	222
Impairment charges	32	(4)	--	1	--	29
Interest expense securities lending	1	--	--	--	--	1
Other interest expenses	25	109	13	46	(15)	178
Other expenses	--	--	--	2	--	2
Total expenses	**1,896**	**3,036**	**787**	**89**	**(15)**	**5,793**
Result before tax	**45**	**264**	**21**	**(24)**	**--**	**306**
Taxation	9	55	5	(6)	--	63
Net result continued operations	**36**	**209**	**16**	**(18)**	**--**	**243**
Net result discontinued operations	--	--	--	--	--	--
Net result for the period	**36**	**209**	**16**	**(18)**	**--**	**243**
Minority interests	--	1	--	--	--	1
Net result attributable to shareholder and securityholder	**36**	**208**	**16**	**(18)**	**--**	**242**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 17.3.4 Changes in principles, estimates and presentation.

19 Risk management REAAL

19.1 Key points risk profile REAAL

The risk management organization of REAAL NV and its subsidiaries are integrated in the risk management organization of SNS REAAL. The chapter on risk and capital management, which amongst others include the risk management and business framework, thus covering SNS REAAL as a whole. The remaining chapters are focussed on REAAL.

19.1.1 Maintaining a moderate risk profile

REAAL emphasises the importance of mitigating its risk profile. This means that the balance sheet risks will be further limited and capital levels will be increased on a trend basis.

REAAL's commercial activities, such as offering accessible insurance products, involve risks, whereby the exposure to high-risk activities, such as proprietary trading, complex products or foreign currencies, is limited. The mainly Dutch customers are well-diversified within the retail and SME market segments.

REAAL's investment portfolios have relatively limited exposure to government bonds from countries that were severely affected by the eurozone crisis. In 2011 the positions in government bonds from the periphery of the Eurozone were substantially reduced. The impact of negative market developments, including declining interest, on the investment portfolios is mitigated by various hedging strategies.

At year-end 2011, the total investment portfolio of the Insurance activities amounted to € 29.8 billion (2010: € 29.3 billion), largely invested in fixed-income investments (96%) and partly invested in shares (4%). 76% of the fixed-income portfolio had an A rating or higher.

During 2011, additional hedging activities were undertaken to further de-risk the balance sheet of the Insurance activities. The maturity of the fixed-income portfolio was adjusted, interest rate swaptions were purchased and the equity portfolio was protected following the purchase of put options. The purpose of these measures is to reduce the volatility of the Insurance activities' solvency.

19.1.2 Main developments

The most important developments are:

Capital and solvency

- At the end of the year, the capital ratios for the Insurance activities were strong. The double leverage is within the internal standard. Regulatory solvency Insurance activities to 203% (year-end 2010: 195%).
- REAAL's capital position is sensitive to the developments in interest and the life expectancy of insured persons. In 2011 REAAL updated its mortality rates on the basis of the most recent CBS statistics. In the years to come changes in views of life expectancy may also affect its capital position.

Market risk

- The market risk position is actively managed within the Insurance activities. The sensitivity to downward developments in the share prices was reduced and the maturities of the investments were better aligned with those of its insurance liabilities. In addition, interest rate swaptions were purchased to better hedge the guarantees issued to policyholders.
- As a result of the eurozone crisis, during 2011 the government bond portfolio was positioned more defensively by substantially reducing exposure to government loans from countries in the European periferre.

19.1.3 Risk management organisation

The SNS REAAL Business and Risk Governance is aimed at strengthening Group policy and the frameworks within which risk policy is defined. The key issues are improving quality and achieving efficient risk management.

The activities of the legal entities SNS Bank NV and REAAL NV are organised into three business units. The business unit of the Banking activities is SNS Bank, the business units of the Insurance activities are REAAL and Zwitserleven.

SNS REAAL risk management organisation

This structure was implemented year-end-2011.

The business units' responsibility is defined using the (risk) policy frameworks which the Group Risk Committee (GRC) established.

The business unit management boards are responsible for achieving the commercial, operational and financial objectives by choosing the best possible products, services, product/market combinations, labelling and distribution channels. In this context, the business units operate within the established group frameworks for credit risk, insurance risk, integrity risk and operational risk and report to the Executive Board. It should be noted here that the former business unit Property Finance no longer has its own status as a business unit, but is maintained as a separate business in order to phase out the non-core portfolio.

Responsibility levels in risk management

SNS REAAL distinguishes three risk management responsibility levels, also referred to as the 'Three Lines of Defence':

- the first line is the line organisation, which is responsible for the risk and the management of the risk.
- the second line is formed by the risk management departments, which support the first line in policy matters and have a monitoring role with regard to risk positions and the quality of risk management.
- the third line is the independent internal auditor (the Group Audit department), which reviews the planning, the process and the performance of the risk organisation.

The responsibilities within the risk management organisation have been clearly defined, with the Group Risk Committee (GRC) being the highest risk management body reporting to the Executive Board and primarily setting frameworks. SNS REAAL's Chief Financial Officer is also the Chief Risk Officer. Risk owners have been appointed within the Executive Board and the management boards of the three business units. These risk owners are responsible for the formulation and execution of the risk policy for their designated areas of attention.

The risk principles used for the risk management structure, which aim at a consistent risk management approach, remain unchanged. These principles aim for an integral risk management geared to maintaining a moderate risk profile and include:

- One shared Group-wide risk type classification.
- A pre-set risk tolerance for each type of risk we have identified.
- Scenario analyses for stress situations and measures for emergency situations with regard to the key risks.
- Testing and validating the models that are used for risk management.
- Allocating risk owners to all identified risks.
- Monitoring and assessment of risks independently of commercial operations.

19.1.4 Risk committees

The risk committees have an operational role and, if necessary, they determine frameworks within the set of frameworks established by the GRC. The Group committees have an equal status in the risk committee structure. Their primary focus is on optimising risk and return. In their framework-establishing role, they ensure that the frameworks set by the GRC are enforced and are further elaborated where necessary. All committees have a clear reporting line and escalation line to the higher risk committee, both for powers and for decisions.

In their operational role, the Group committees decide on matters concerning the Banking and Insurance activities, as well as on matters that go beyond the powers of the Banking activities or the Insurance activities.

Risk Committee

The Supervisory Board delegated five of its members to a Risk Committee, which assesses SNS REAAL's risk profile and management in respect of all risks (financial and non-financial). Special areas of attention include capital allocation, investment policy and liquidity requirement. In addition, the Risk Committee assesses the design and operation of the risk management organisation, including supervision of compliance with the relevant laws and regulations and codes of conduct, as well as the use of information technology in risk control.

Group Risk Committee

In their ratifying role, SNS REAAL's Executive Board and the managing directors of SNS Bank NV and REAAL NV have ultimate responsibility for the risk management within the Group, the Banking activities and the Insurance activities.

The GRC is the highest risk management body reporting to the Executive Board and primarily setting frameworks. The Executive Board and the managing directors of the Banking and Insurance activities are represented in the GRC, which makes statutory decision-making possible. The GRC furthermore consists of the chairman of SNS Asset Management, the CFO of Group Finance, as well as the heads of compliance departments for financial and non-financial risks (Group Risk Management and Compliance, Security & Operational Risk Management). The latter compliance departments have an advisory role in the GRC.

The GRC defines the desired risk profile for financial and non-financial risks, and determines the risk appetite, risk policy frameworks and risk management framework for SNS REAAL and its business units. In addition, the GRC approves the liquidity plan and the capital management plan.

Risk Committees at Group level

At Group level, SNS REAAL also has the following risk committees:

- **Model Governance Committee (MGC)** to approve internal models;
- **Group Financial Committee (FinCo)** to manage the financial and actuarial administration, consolidation, processes and infrastructure, ensuing management information and internal/external financial reporting;
- **Group Asset & Liability Committee (ALCO Group)** to manage all financial risks. ALCO Group comprises ALCO Bank and ALCO Insurance;
- **Group Counterpart & Credit Risk Committee (GCC)** to manage the credit risks, including the counterparty credit risks, or related policies, and to approve loans and revisions. The SNS Bank Credit Risk Committee and the PF Credit Risk Committee operate under the GCC;
- **Governance, Operational Risk & Compliance Committee (GORCC)** to manage the non-financial risks.

Risk Committees at Business Unit level

Within the business units local risk committees operate, either within the policy frameworks of the group committees or solely in an advisory role. The BU-level risk committees are:

- **Product Market Pricing Committee (PMPC)** for the formal approval of products, one per BU (BU SNS Bank; BU REAAL and BU Zwitserleven). The PMPC 's have a direct escalation line to the GRC;
- **Asset & Liability Committee Insurance (ALCO Insurance)** to control financial risks in the insurance balance (excluding credit to customers);
- **Asset & Liability Committee Bank (ALCO Bank)** to control the ALM risks of the bank balance;
- **Credit Risk Committee SNS Bank (CC SNS Bank)** to control all forms of credit risks in the banking balance (with the exception of credit to customers in PF);
- **Credit Risk Committee PF (CC PF)** to control credit to customers of PF.

In parallel, there is the advisory committee for the group and for the BU's REAAL and Swiss Life: the Actuarial Risk Committee (ARC). This committee advises include the influence of parameters on rates and models, hedging advice and underwriting risk.

Decision-making processes
The general rule is that consensus is aimed for and decisions are taken by a majority of the votes present, subject to a quorum that has been set in advance. In the event of a tie, the chairman shall decide.

The highest-level risk officer present has a right of veto, and if this right is exercised, there is a clear escalation line to the next higher risk committee. Every member of the Group committees has an equal right to vote, and in addition to the voting right, a right to escalate the decision taken within the committee to a higher committee.

In the GRC, decisions can only be taken within the powers allocated to the parties present under the Articles of Association.

19.1.5 Risk management departments
The risk management departments advise on risk management and report on the risk profile in order to promote efficiency and uniformity. They act as shared service centres for the Banking and Insurance activities and, with regard to the risks, they are responsible for modelling, measuring, monitoring, reporting and advising. They are not responsible for determining the policy, but have an advisory role.

This advisory role does not only entail a supporting role in setting up and implementing policy, but also a role monitoring quality of risk control.

SNS REAAL has the following risk management departments in place:

- Group Risk Management (GRM)
- Group Actuarial department and BU Actuarial departments
- Compliance, Security & Operational Risk Management (CS&O)
- Legal Affairs (LA)
- Credit Risk Management (CRM)
- Insurance Treasury & Investment Management (IT&IM)
- Group Audit (GA)

Group Risk Management (GRM)
GRM supports the Executive Board and the management boards in:

- Identifying changing market conditions and regulations that are relevant to the strategy and policy;
- Determining the desired risk profile and translating it into internal standards and limits;
- Choosing products and services that correspond with the desired risk profile;
- Valuation of portfolios for steering structural value creation;
- Determining the prices of products and services on the basis of risk-weighted return;
- Structuring and implementing asset & liability management for the Group and the Banking and Insurance activities;
- Structuring and implementing the capitalisation and funding policies;
- Portfolio management and modelling credit risk and insurance risks;
- Setting frameworks for drawing up models and techniques used and independent implementation of model validation;
- Implementing the reinsurance policy;
- Coordinating strategic projects related to the management of financial risks, including stress test, Basel III and Solvency II programmes.

Group Actuarial department and BU Actuarial departments
The actuarial duties are allocated across Group Actuarial Risk Management within GRM and the actuarial departments of REAAL and Zwitserleven. Group Actuarial Risk Management's areas of attention include drawing up policies, drawing

up standards and frameworks, and monitoring the risk/return ratio. Data are also consolidated and reported to the various parties involved. Important focal points are the supervisory role and advising on developments to the Group and the business. In addition, GRM fleshes out the areas of attention pertaining to Reinsurance and Economic Capital: drawing up policies and frameworks, modelling, implementing and monitoring/advising.

The operational actuarial duties are vested in the actuarial departments of REAAL and Zwitserleven. Besides reporting, the duties are modelling and carrying out analyses, providing the business with advice on insurance risk management and implementing the adopted policies.

The Insurance activities manage their insurance risk using a system of procedures and criteria for product development and acceptance. Risks that do not meet the criteria or risks that exceed pre-set limits – if accepted – are transferred to a reinsurance company as much as possible.

A panel consisting of representatives of the management boards of the Insurance activities, the Finance & Control department and the Actuarial department regularly monitor the portfolio's development. For life Insurance activities, this includes monitoring developments in expenses, interest and turnover; for the non-life Insurance activities, the developments of premiums and loss ratios are analysed by segment.

Compliance, Security & Operational Risk Management (CS&O)
CS&O advises the Executive Board and the management boards of the business units on the control of non-financial risks. These are the risks that are related to human behaviour and the structure of the business processes. The main duties of the department are providing recommendations for ethical and controlled business conduct, and coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, monitoring the functioning of processes and reporting in this respect.

The scope of non-financial risks is divided into seven themes: employee, client, business process, product, information, risk control, and partnership. These themes serve as guidance for the risk analyses to be performed periodically and provide the structure for supervision and risk reporting.

Legal Affairs
Legal Affairs (LA) prepares policy and supports operational activities for risk management. The main responsibilities of the department in this area are:

- Identifying and advising on present and future legislation and regulations;
- Advising on products and product documentation;
- Handling impending and current legal disputes;
- Advising on cooperation agreements.

Credit Risk Management (CRM)
The CRM department consists of two separate and independent departments for credit risk management (Mid Office and a Special Credits department for loans in arrears and in default). These departments focus on operational support of credit risk management and report to the CFROs of the business units SNS Retail Bank and Property Finance. In addition, the CRM department plays an important role in the following tasks:

- Advising on the credit risk policy;
- Independent analysis of and advice on credit proposals;
- Performing the secretarial duties for the SNS Bank Credit Committee;
- Serving as a voting member on the credit committee.

Mid Office Mortgages and Corporate Credits:

- A separate mid-office has been established for credit facilities for residential mortgages and the SME within SNS

Retail Bank that issues (binding) recommendations for credit facilities that satisfy the standard acceptance criteria.
- The mid-office manages and keeps record of credit facilities and (retail and corporate) collateral.

Special Credits department for loans in arrears and in default

- The Special Credits department for loans in arrears and in default manages and settles loans in arrears and loans in default. Within Property Finance, a Restructuring & Recovery (R&R) department was set up in 2009, independent of Risk Management. R&R manages the default portfolio (this includes the management of the collateral and property projects of which SNS REAAL has taken effective control). The R&R department prepares the settlement and restructuring plan and presents a proposal for the provision amount, which is to be approved by the Management Board.
- The Special Credits department for loans in arrears and in default also prepares reports on the operational management relating to credit risk.

Insurance Treasury & Investment Management

The duties and responsibilities of Insurance Treasury & Investment Management (IT&IM) are primarily aimed at investments for own account and risk of SNS REAAL's Insurance activities. In the risk governance structure, IT&IM has become the central point of contact of the operationally responsible investment managers. On 1 January 2011, the director of IT&IM became a member of ALCO Insurer and ALCO Group as advisor on the investment policy and its implementation.

The main responsibilities of IT&IM are:

- Advising and supporting the ALCO Group and the management boards of the insurance activities in their investment policy preparations;
- Providing operational support in the implementation of the investment policy;
- Drawing up and monitoring investment mandates approved by the ALCO Group, given the ALM and investment policies;
- Monitoring if the actions of investment managers are within the mandates given, and assessing their performance;
- Monitoring security lending and repo activities in the insurance portfolios, the execution of which has been outsourced to professional and specialised parties.

Group Audit

Group Audit (GA) reports to the chairman of the Executive Board and also has a reporting line to the Audit Committee of the Supervisory Board. In this way, the department is able to perform its activities independently of the business units and the departments of SNS REAAL.

Group Audit carries out its audits on behalf of the Executive Board based on a dynamic risk analysis. This risk analysis was discussed with the external auditor and the Dutch Central Bank in accordance with the Banking Code and the Insurers' Code. The audits focus on the internal risk management and control system, related processing procedures and (reliability of) management information.

Group Audit is also responsible for carrying out the differentiated internal audit activities on behalf of the Business Unit management boards and line management. These audits focus on the (permanent) effect of the control measures included in procedures. In addition, various types of audits are performed at the request of the management boards, including certification activities for external parties.

19.1.6 Risk classification

Financial risks

Credit risk	The risk that a borrower and/or counterparty does not comply with a financial or other contractual obligation. Credit risk is split into default risk, counterparty risk and transfer risk.
Liquidity risk	The risk that there are insufficient liquid assets available in the short term to meet financial obligations, whether under normal circumstances or in time of stress, without this leading to unaccepted costs or losses.
Market risk	The risk of movements in the level and/or volatility of market prices. Market risk is split into price risk, interest rate risk and currency risk.
Insurance risk	The risk of abnormalities occurring in timing and extent of the cash flows resulting from assumed mortality, disability insurance claims or behavior of policyholders, or due to the impact of catastrophes on mortality, disability, insurance claims and policyholder behavior.

Non-financial risks

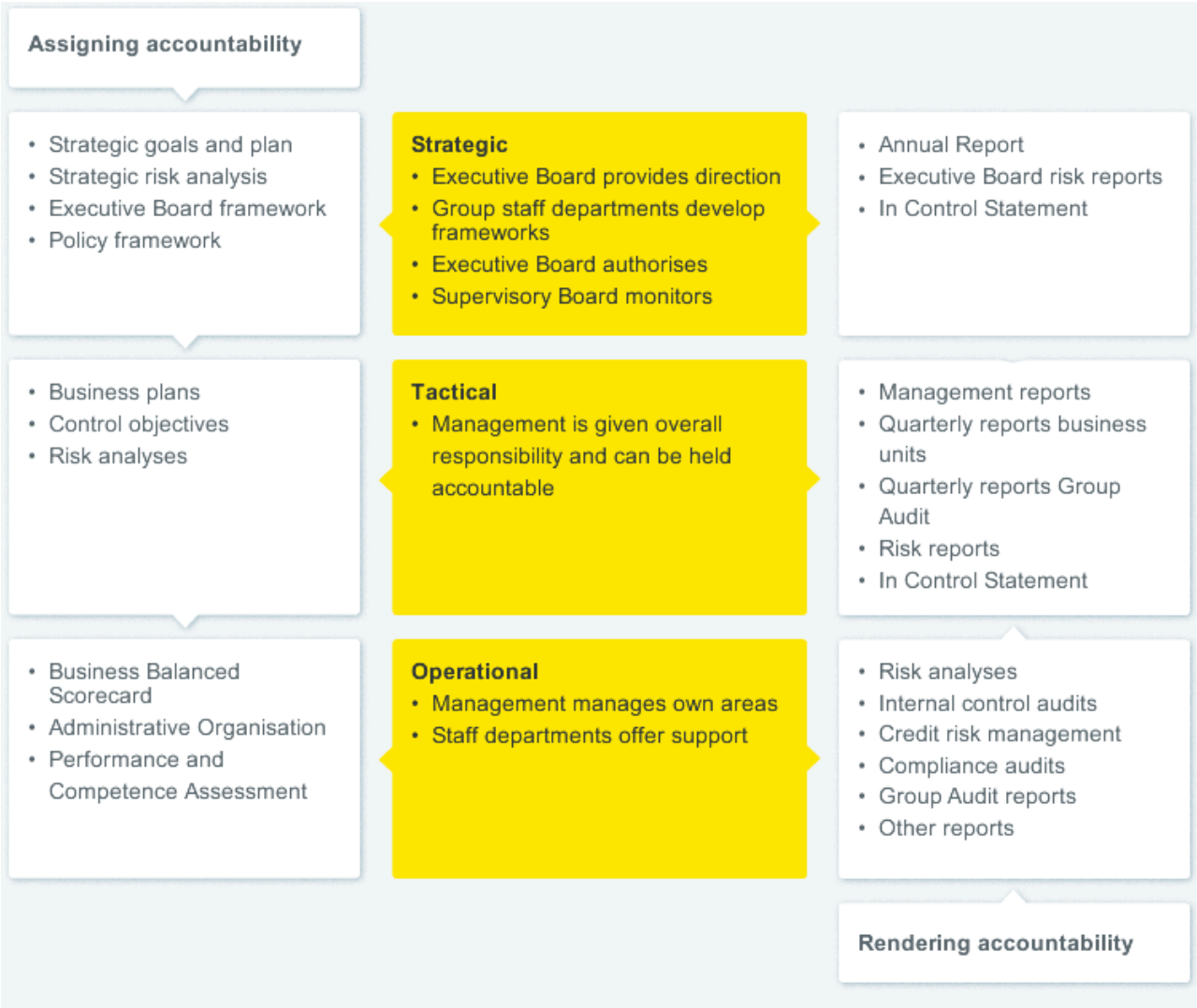
Strategic risk	The risk that strategic objectives are not achieved due to lack of response or inadequate response to changes in the environment and business climate.
Integrity risk	The risk that the codes of conduct emanating from SNS REAAL standards, social standards and laws and regulations are insufficiently observed by the Executive Board or employees of the company.
Operational risk	The risk due to unreliability of information or due to unforeseen losses arising from fraud, inadequate or failed internal processes, external events, systems or security.

19.1.7 Framework for business control

Doing business requires taking risks and demands a consistent and transparent assessment of opportunities and risks, aimed at growth and the continuity of the Company. The Executive Board of SNS REAAL has established frameworks for the management boards of the business units in order to properly steer such assessments. The most important frameworks are:

- The strategy and strategic risk analyses, to direct the activities of the business units and the organisation as a whole.
- The moderate risk profile, which sets limits for taking risks in order to manage risks with respect to the capital requirements and other laws and regulations applicable to SNS REAAL.
- The management structure, which includes the risk committees, to streamline management focus, to allocate duties and responsibilities, and to deal with new or external impulses (e.g. through takeovers and reorganisations);
- Traineeships, talent and management development programmes, to manage staff quality and appointments ('the right person in the right place');
- A remuneration structure that gives substance to the mission and the realisation of SNS REAAL's (long term) strategy;
- Requirements for internal processes, to steer predictability of performance, prevent unforeseen losses and ensure the reliability of information.

Framework for business control



The management boards of the business units are responsible for day-to-day operations within these frameworks and each year draw up operational plans that are approved by the Executive Board.

The framework for business control sets out how responsibility is awarded within SNS REAAL and how this must be accounted for. This framework forms the basis for controlling the risk management processes.

The framework for business control thus offers a reasonable, but not an absolute guarantee that risks are excluded. It does not guarantee, for instance, that human error, the deliberate circumvention of control procedures by employees and third parties acting in concert, or the evasion of control mechanisms by management will not occur.

SNS REAAL has set up a procedure to determine biannually the extent to which the management boards of each business unit control essential risks. This particularly concerns the discussions between the layers of management on the risks in the business operations and the measures taken for the purpose of controlling these risks. Key input for this procedure are the regular in-control statements per business unit. The outcome of this procedure contributes to the management statement that is included in the SNS REAAL annual report.

In each in-control statement the management board of each business unit states, with due observance of changes to internal and external factors, whether it has identified the main risks and corresponding control measures with a reasonable degree of certainty, which improvements have been made to the (risk) management procedures, whether the established control measures function adequately, whether the provision of information is sufficient and which aspects the relevant business unit intends to improve further. The management board of each business unit states whether it expects the risk management system to work adequately during the next one-year period.

The Executive Board assesses the internal statements by the various business units and Group staff departments. This assessment includes a strategic risk analysis. This information forms the basis for the internal statement that every Executive Board member prepares. The statements from the management boards translate into the external in-control statement, which is discussed with the Audit Committee and the Risk Committee.

19.1.8 Non-financial risk management

As described in the risk classification REAAL recognizes, in addition to the financial risks, also non-financial risks, including strategic, integrity and operational risk. The Department of Compliance Safety & Operational Risk Management (CS&O) advises on the management of these non-financial risks.

The key components for controlling non-financial risks are:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures. For this purpose REAAL implemented the 'Three Lines of Defence' model, making line management primarily responsible for recognising and managing risks and taking decisions in that respect. Along with several other Group staff departments, CS&O has an important role to play in the second Line of Defence. Its role is partly determined by means of a compliance monitoring programme to be established and implemented each year, the results of which are included in CS&O's quarterly report to the Executive Board and the Supervisory Board. The third Line of Defence is formed by Group Audit, which tests the set-up and functioning of the system as a whole.
- The risk committee structure was adjusted in 2011 in order to achieve an efficient and properly functioning organisational structure. To this end the responsibilities are unequivocally allocated and a clear distinction has been made between the determination of policies (setting frameworks) and the implementation of policies.
  A Group Risk Committee (GRC) was set up, which reports to the Executive Board and is primarily the body setting frameworks within SNS REAAL. This committee's objective is to define the risk appetite regarding financial and non-financial risks, to establish risk policy frameworks and the risk control framework and to monitor those frameworks.
- Every year, CS&O carries out a monitoring programme in coordination with Group Audit. Based on a risk-based analysis, the means to be used for which subjects are annually determined.
- A non-financial risk report is drawn up on a quarterly basis. This quarterly report provides an overview of the main developments in non-financial risks, progress in the follow-up of action points and the implementation of new/amended laws and regulations, and an analysis of the developments in incidents. After consultation with the Governance Operational Risk & Compliance Committee (GORCC) and the Executive Board, this report will be sent to the Risk Committee of the Supervisory Board. In addition, the Director of CS&O will consult with the chairman of the Risk Committee.
- In addition to other staff departments, the CS&O department provides advice in the processes for the development, approval and periodic review of products by the business units.
- The training & awareness programme includes information meetings, e-learnings, presentations and 'train-the-trainer' workshops, and its purpose is to promote ethical business conduct by influencing conduct and culture and by taking the specific know-how of groups of employees to the required level and maintaining this level.
- With KPMG's support, an assessment is annually performed among the management and employees in respect of the integrity and compliance climate at SNS REAAL. The 2011 results of this assessment show that the integrity and compliance climate at SNS REAAL as a whole has further strengthened compared to the measurement in 2010. The employees have a great level of commitment with regard to the subject of integrity and compliance. On

all points, SNS REAAL's scores are higher compared to the respondents in the Benchmark Financial Sector 2011. Actions are formulated based on the results of the assessment, including in the area of training & awareness.

- As the second line, CS&O formulates Group policy or group-wide policy in the field of ethical business conduct as regards non-financial risks. The first line is responsible for the implementation of (and compliance with) this policy and draws up an implementation plan. If desired, CS&O can provide recommendations on the practical translation to the specific application within the business units.
- Every six months, the management board of every business unit issues an in-control statement about controlling essential risks, which is done by providing demonstrable substantiation. In the statement, the management reports on the main risks and corresponding control measures, the improvements made compared to the previous period and the improvement measures in progress. The Executive Board assesses the internal statements by the various business units and Group staff departments. This assessment includes a strategic risk analysis. This information forms the basis for the internal statement that every Executive Board member prepares.
- To calculate the capital requirement in pillar I the standardised approach of Solvency II is used for the Insurance activities. In 2011, a first onset was developed with regard to the internal process of the Own Risk and Solvency Assessment (ORSA) for assessing this pillar I capital. This will be further developed in 2012.

19.1.9 Capital management

SNS REAAL's capital management is aimed to obtain again a solid A rating at the rating agencies, as well as on permanent compliance with regulatory requirements. Through active capital management, SNS REAAL aims for optimum capital allocation among the various business units to achieve maximum returns on its activities.

19.1.9.1 *Objectives and standards framework*

SNS REAAL's capitalisation policy focuses on the optimisation of the capital structure in such a manner that it contributes to the realisation of SNS REAAL's strategic objectives. At the same time, SNS REAAL also seeks to maintain a healthy balance between the amount of capital and the risks it runs.

The restrictions set by the Dutch Central Bank, European regulations, rating agencies and internal requirements regarding capital adequacy are taken into account in determining the capital structure.

The double leverage ceiling is 115%. This target limits the degree to which debt raised by the Group can be reallocated to subsidiaries as shareholders' equity. This double leverage fell from 115.0% at year-end 2010 to 114.2% at year-end 2011. SNS REAAL aims for a further reduction of double leverage in the years ahead. The double leverage decreased amongst others by an upstream € 80 million capital from the insurer.

Solvency standards

SNS REAAL strives for solvency standards as outlined in the table below.

Solvency standards REAAL

Standard	Target	Realisation	
in percentages		**2011**	2010
Regulatory solvency	> 175%	203%	195%

Regarding the Insurance activities, the solvency ratios for the various insurance units all exceeded the internal standards as at year-end 2011: 234% for Life and 464% for Non-Life. After consolidation, the solvency ratio amounted to 203% year-end. The available solvency includes (part of) the available excess value of the technical provisions in the life Insurance activities. This excess value is determined in the adequacy test performed in accordance with DNB guidelines.

19.1.9.2 Capital management framework

In assessing capital adequacy, SNS REAAL takes into account the economic risks of the underlying activities. These risks are assessed using stress tests, regulatory capital calculations as prescribed in the Solvency I regulatory framework, and economic capital calculations. SNS REAAL's capitalisation is aimed at holding and maintaining a single A rating. SNS REAAL's capital management comprises the following main activities: determining the minimum level of required capital, performing stress tests on the capital adequacy and a qualitative capital adequacy assessment and ,maintaining the available capital at the required level.

19.1.9.3 Required economic capital

SNS REAAL uses economic capital to support the management of the Company and the business units in long-term value creation. To this end, the economic capital must first be calculated as precisely as possible, without incorporating a margin of conservatism in the estimate of the economic capital formula components and the economic capital calculations themselves. The economic capital thus calculated provides a basis for value creation and performance management. In assessing capital adequacy, SNS REAAL takes into account possible uncertainties in the economic capital models. These uncertainties are translated into separate surcharges and added to the unadjusted economic capital.

A confidence level of 99.96% is used in determining the economic capital. This confidence level is calibrated to the default probability of a company with an AA rating. SNS REAAL deliberately chooses this higher confidence level over the level related to the rating ambition in order to be more confident that it will achieve the single A rating. In the economic capital calculation, diversification effects between risk categories are taken into account. These diversification effects occur because not all risks manifest themselves simultaneously. In the calculation of the economic capital of both the Banking and the Insurance activities, diversification effects between the Banking and Insurance activities are not taken into account. The capital adequacy of the Banking activities and the Insurance activities is assessed separately.

The economic capital for SNS REAAL as a whole, as well as for the Banking and Insurance activities, is calculated on a quarterly basis. After these figures have been analysed, the conclusions are discussed in the various allocation committees and with the Supervisory Board. Furthermore, the economic capital at the Banking activities is used to determine the value of our customers. Finally, the risk appetite was further fleshed out in 2011, in which process economic capital plays a substantial role.

19.1.9.4 Results of European and Dutch stress tests

EIOPA stress test

On 23 March 2011, the European Insurance and Occupational Pensions Authority (EIOPA) launched a stress test for the European insurance industry in cooperation with the national supervisory authorities. SNS REAAL was not asked to participate in this stress test, but decided to voluntarily participate. The stress test is aimed at the Insurance activities of SNS REAAL and based on Solvency II principles. The purpose of the stress test is to gain insight into the resilience of individual organisations and the insurance industry as a whole. The calculations were based on the figures as at year-end 2010. With a view to this stress test, EIOPA set out three core scenarios (baseline, adverse and inflation) and a satellite scenario aimed at sovereign exposure. The effects of these scenarios are instantaneously deducted from the starting position (no projections made). The results of this stress test show that the Insurance activities of REAAL remain well above the solvency standard following stress.

ORSA stress test on Insurance activities

In the first half of 2011, SNS REAAL performed its Own Risk & Solvency Assessment (ORSA). An important part of an ORSA is the performance of an internal stress test. For this purpose, REAAL used the calculations for the EIOPA stress test. The calculations were based on the balance sheet as at year-end 2010. The results of the stress test show that REAAL is adequately capitalised to absorb stress scenarios.

19.1.9.5 Going concern capital management

SNS REAAL prepares operational plans each year with a three-year horizon. At the same time it prepares the Capitalisation and Funding plan with the same horizon, in which the capital and funding requirements and their fulfilment are set such that SNS REAAL can satisfy the internal and external standards. Instruments to lower the risks and to increase the available capital are used for control. The capital of the Insurance activities is a combination of various types of capital, with the emphasis on shareholders' equity. Different bandwidths are applied per entity for the other classes of capital. SNS REAAL capitalises its business units and subsidiaries in accordance with the internal and external solvency standards that apply to the Banking activities, the Insurance activities and the Group. This allows the Group to manage any capital surplus, if necessary. For more details on funding, please refer to Chapter 12 'Funding and credit ratings'.

SNS REAAL's Group ALCO assesses the results of the economic capital calculations, the requirements of supervisory authorities and rating agencies, the outcomes of stress tests and capital planning. Based on these assessments, it is decided whether additional measures are needed. In terms of the abovementioned standards, SNS REAAL is adequately capitalised.

Capital adequacy assessment

The assessment of capital adequacy comprises the following elements:

A solvency sensitivity analysis is performed for the Insurance activities on a monthly basis, with close involvement of senior management to determine the capital adequacy; Every year, the Insurance activities are also subjected to an ORSA.

As part of ORSA, the capital requirements ensuing from stress testing are compared to the existing qualifying capital.

The results of the stress tests are annually compared with the economic capital required. The economic capital is calculated and reported to the Group ALCO on a quarterly basis. Every month, sensitivity analyses are performed and forecasts of capital development are made.

19.1.9.6 Value creation

Long-term value creation requires activities that generate sufficient return in view of the corresponding risk and required capital. The current new regulations result in more capital being required for the same activities. This leads to tighter decisions regarding the business activities to be performed. For example, every business unit has budgets with a three-year horizon. These budgets also comprise targets with regard to return and required capital.

19.1.9.7 Preparations for Solvency II

In 2011, a Risk Based Metric was developed for the Insurance activities, which is in line with the RAROC and EVA principles used by the bank. An important difference with the current method of measuring value creation is that there is a much more sophisticated and more explicit connection with the risks involved with activities. The new metric is also based on current-value bases and meets the requirements and expectations set out in Solvency II. Next few years, the Key Performance Indicators will be more systematically linked to the Risk Based Metric.

20 Financial risk management Insurance activities

20.1 Insurance risk Life

The insurance portfolio has a moderate risk profile. The life portfolio contains insurance policies with both short-life risk and longevity risk. The individual life insurance portfolios focuses on the retail and SME markets in the Netherlands. REAAL's group life insurance portfolio focuses on the entire corporate market in the Netherlands.

20.1.1 Content of the life insurance portfolio

The life insurance portfolio contains individual and group insurance policies. Individual insurance policies are sold as policies with cash benefits (traditional policies) and with payment in units (unit linked insurance policies). The individual life insurance portfolio primarily focuses on unit linked policies, mortgage-related endowment policies and life annuity insurance policies. The group insurance portfolio consists of both traditional contracts, for which the insurer bears the investment risk, as well as separate accounts and unit linked insurance contracts, for which the policyholder bears the investment risk.

Content of the life insurance portfolio	Main conditions	Main risks	Policyholders guarantees	Policyholder profit sharing / interest rate
Individual insurance policies in cash				
Savings mortgages	Premium (sum of risk premium, savings premium and cost loadings) is fixed as of the commence-ment date of the contract. With the exception of the savings mortgage: for which the savings premium is based on the mortgage interest rate. When the mortgage interest rate changes, the savings premium also changes.	Mortality, expenses	Interest rate equal to mortgage interest rate	No
Life annuity		Interest, mortality, expenses	Life annuity is fixed	Interest rate rebate upon one-off payment of single premium
Risk		Mortality, expenses	Total mortality benefit upon death and / or maturity is fixed	Partially company profit sharing
Savings insurance		Interest, mortality, expenses		Partially company profit sharing; partially interest rate rebate; and partially share in surplus interest
Funeral insurance		Interest, mortality, expenses		Partially company profit sharing at payment of single premium: on occasion interest rate rebate
Individual insurance policies in investment units	Variable premium, cost and risk loading fixed	Mortality, expenses	A number of insurance contracts carry a minimum guaranteed return on the maturity date	No
Group insurance policies in cash	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Interest, mortality, expenses	Guaranteed minimum return	Partially sharing in surplus interest; partially interest rate rebate
Group insurance policies in investment units	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Mortality, expenses	A number of insurance contracts carry a minimum guaranteed return on the maturity date	No
Collective separate accounts	Premiums and cost loading are set for the duration of the contract (usually 5 years)	Interest, mortality, expenses	On maturity date of contract the premium can be waived	No

20.1.2 Concentration of risk

In life insurance, concentration of risks mainly exists in the group insurance portfolio. The participants in a group contract often work at the same location or undertake joint activities, which brings about a concentration of risks.

Such concentration of risk was partly offset in 2011 by the use of reinsurance. For more information, please refer to paragraph 20.3 'Reinsurance'.

Scope of various insurance categories 2011

In € millions	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	382	20,033	--	5,131	14,819
Life annuity	1	--	592	4,257	353
Risk	160	39,121	12	364	40,300
Savings insurance	166	11,199	37	7,378	3,192
Funeral insurance	41	2,462	--	1,026	1,736
Individual insurance policies in cash	**750**	**72,815**	**641**	**18,157**	**60,400**
Individual insurance policies in investment units	711	43,056	536	6,175	39,507
Group insurance policies in cash	296	12,410	1,906	6,397	28,150
Group insurance policies in investment units	515	23,641	1,004	6,823	26,819
Subtotal	**2,273**	**151,921**	**4,087**	**37,551**	**154,876**
Reinsurance risk	(6)	(87)	--	(1)	(2,270)
Proportional reinsurance	(149)	(5,422)	(20)	(3,249)	(71,448)
Total	**2,118**	**146,412**	**4,067**	**34,301**	**81,157**

Scope of various insurance categories 2010

In € millions	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	384	20,764	6	4,875	15,901
Life annuity	--	--	681	4,461	380
Risk	140	31,867	49	340	32,315
Savings insurance	185	12,206	40	6,468	2,909
Funeral insurance	42	2,473	--	2,393	1,782
Individual insurance policies in cash	**751**	**67,310**	**776**	**18,537**	**53,287**
Individual insurance policies in investment units	268	14,828	49	7,734	41,421
Group insurance policies in cash	288	11,501	1,828	5,924	26,187
Group insurance policies in investment units	333	11,687	997	5,468	15,019
Subtotal	**1,640**	**105,326**	**3,650**	**37,663**	**135,914**
Reinsurance risk	(8)	(308)	--	(4)	(10,042)
Proportional reinsurance	(94)	(376)	--	(147)	(48,888)
Total	**1,538**	**104,642**	**3,650**	**37,512**	**76,984**

20.1.3 Co-insurance

REAAL concludes co-insurance contracts with one or more other insurers. In general, risk assessments are based on the information provided by the administrating company. In the event of co-insurance, each co-insurer is, in principle, liable for its part of the total obligations. If a co-insurer defaults, its insurance liabilities will be transferred to the remaining co-insurers. The total size of the provisions for incoming co-insurance amounts to € 139 million (2010: € 171 million). In view of the limited interest and the spread over several insurers, the risk is limited.

20.1.4 Insurance risks for the life insurance portfolio

A life insurance policy entitles the policyholder to death benefits and/or a benefit payable on the maturity date of the policy.

The most distinctive risk with respect to life insurance policies is the mortality risk. This risk mainly affects the duration and timing of the payment of the insured cash flows. The mortality risk indicates the death benefit risk of the policyholder dying earlier than expected (short-life risk). In case of an annuity insurance policy, the mortality risk for the insurer is that the policyholder might live longer than expected (longevity risk). The financial impact of the difference between the calculated timing of mortality and the realised mortality can be substantial, particularly with longevity risk.

REAAL periodically reviews the level of longevity-mortality and short-life risk compensation that is inherent in its portfolios. For an adequate assessment of these compensation effects, REAAL monitors the profit/loss development in time of its mortality assumptions for the entire portfolio. The liability adequacy test largely depends on the movements of the risk-free interest rate curve. Therefore, the life insurance liability adequacy test does not function as an adequate basis to assess longevity and short-life compensation. Furthermore, a comparison of the current present value of surpluses and deficits does not imply a guarantee that there will be no future deficits.

Other insurance risks that affect the life insurance portfolio are the risk of disability (the policyholder becomes incapacitated for work) and risks associated with policyholders' behaviour , such as early surrender (the policyholder terminates the policy before the maturity date), and conversion to a non-contributory status (the policyholder terminates the regular premium payment before the maturity date). For more information on disability risk, please refer to 20.2.5 'Insurance risk Non-Life'.

20.1.5 Life insurance portfolio - Investment risk and interest rate guarantees

With both traditional and unit linked insurance contracts, the policyholder pays regular premiums and/or a single premium. For traditional policies, the insurer bears the investment risk of its commitments to policyholders. When a benefit or annuity payment is due, the insurer pays the policyholder a predetermined nominal amount. In contrast, on unit linked contracts the insurer does, as for the investment component, not run a risk for the amount paid out. This insured amount is dependent on the value of the funds in which the units have been invested. The policyholder therefore bears the investment risk.

In a number of cases, interest rate guarantees were issued for individual unit linked insurance contracts. At REAAL Life, these interest rate guarantees relate to a provision amounting to € 0.8 billion. In this case, a guaranteed minimum return at maturity applies to the individual unit linked insurance policies with interest rate guarantee.

In the case of group insurance policies with separate accounts, the contracting party bears in principle the investment risk. On the expiry date of the contract, however, there should at least be a minimum investment value to cover a provision for contractual accrued rights. To compensate for investment losses up to a certain amount, an additional provision (buffer) is created from premium loadings for the relevant contracts if stipulated by contract. If this buffer turns out to be insufficient on the expiry date of the contract, the remaining shortfall is then for risk of the insurer.

20.1.6 Managing insurance risks in the life insurance portfolio

Risks are managed by means of risk policy (see also paragraph 20.3 Reinsurance and 20.4 Market risk Insurance activities), by understanding the factors involved and by review.

Developments in the insurance risks of mortality are investigated annually and developments in early surrender biannually. The results of this investigation are used for setting prices for new life insurance contracts and for the valuation of the insurance portfolio including embedded value. Risk diversification in the composition of the life insurance portfolio is another goal. Furthermore, an active reinsurance policy is pursued.

To gain insight into the sensitivity of the insurance portfolio resulting from changes in parameters used in calculating the technical provisions, the effects of changes in mortality, surrender probabilities (including non-contributory) and costs on solvency were investigated. Hereby the changes in the parameters for the entire life portfolio were calculated and expressed in the solvency of REAAL N.V.

The solvency sensitivity to changes in the insurance technical parameters is mostly stable in comparison with last year, except for the sensitivity to the longevity risk. The longevity risk increases in case of a decreasing interest rate. The sensitivity to the risks of surrender, including premium free continuation, and short-life risk is strongly mitigated by the surrender floor in the Liability Adequacy Test.

Sensitivity solvency as a result of changes in technical parameters

In € millions	**2011**	2010
Solvency ratio	203%	195%
Impact of the sensitivities:		
- 50% increase in surrender rates	(3%)	(4%)
- 15% higher mortality rates (short-life risk)	(4%)	(3%)
- 20% lower mortality rates (longevity risk)	(30%)	(25%)
- 10% increase in renewal expenses + 1% higher cost inflation	(18%)	(16%)

The sensitivity of the solvency of the insurance changes in the financial markets is explained in the chapter 11 Risk and capital management in the annual report.

20.2 Insurance risk of Non-life business

All major non-life sectors are represented in the non-life portfolio. The non-life insurance portfolio focuses on the retail and SME markets in the Netherlands. REAAL Non-Life focuses on the medium-sized and large business segments of the corporate insurance market.

Contents of the non-life insurance portfolio

The emphasis of the insurer's non-life insurance portfolio is on the main segments: Fire, Motor Vehicles, and Accident and Health. Apart from these segments, the insurer also operates in the Marine segment, mainly within the co-insurance unit. The insurance policies are mostly sold through authorised agents, intermediaries and SNS Bank's distribution channel to retail and SME clients.

Combined ratio and claims ratio

In 2011, the combined ratio was 96.0% (2010: 98.5%) and the claims ratio was 57.8% (2010: 60.8%).

20.2.1 Co-insurance

REAAL Non-Life is represented at the Rotterdam Insurance Exchange through its co-insurance unit. Risks in the segments Fire, Marine and Miscellaneous are underwritten there. REAAL Non-Life focuses on the medium-sized and large business segments of the corporate insurance market. In 2011, the REAAL Non-Life co-insurance portfolio posted a gross earned premium income of € 108 million (2010: € 105 million).

20.2.2 Catastrophe

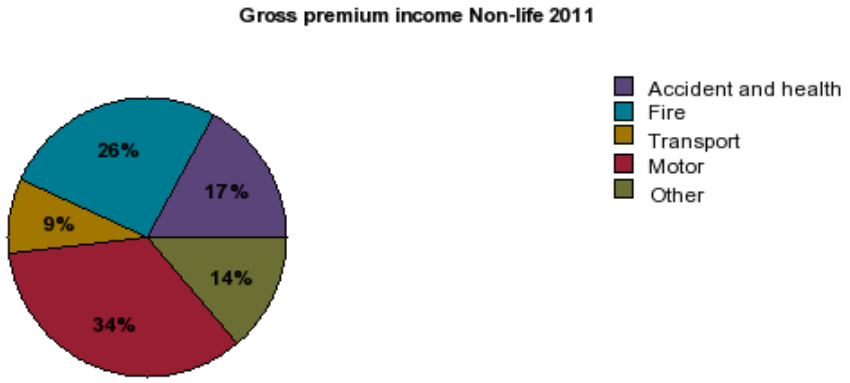
The insurer reinsures catastrophe risks resulting from perils of nature, such as storms, and terrorism (see paragraph on Insurance risk reinsurance). Catastrophes resulting from acts of violence, nuclear incidents or flooding are excluded under the standard policy conditions.

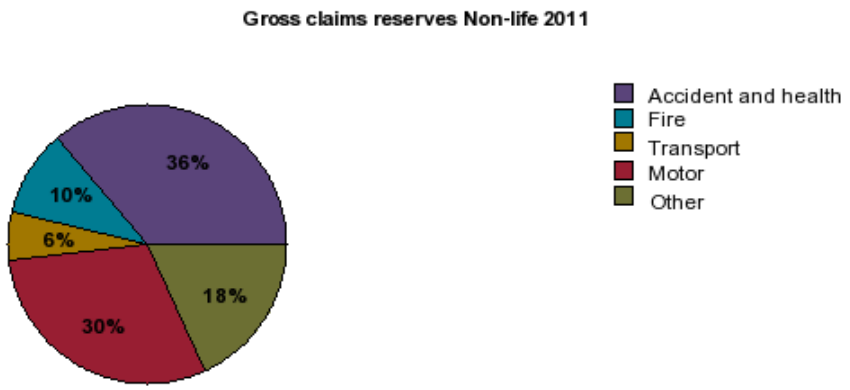
20.2.3 Concentration of risks

Geographically, the insurer's non-life portfolio risk is almost entirely concentrated in the Netherlands. The concentration of insurance risks is in the Fire segment, where storm risk plays an important role. In addition, the concentration of risks can occur in blocks of flats, rows of houses and office buildings.

The concentration of risk is also present in the group accident portfolio and the group disability schemes. The underwriting of group disability policies related to the Work and Income disability act (WIA - Wet werk en inkomen naar arbeidsvermogen) is effectuated through an alliance with another Dutch insurer. In this alliance, each insurer bears half of the insurance risk and the other insurer carries out the administration. See Insurance risk reinsurance for more information about retention and reinsurance of these risks.

20.2.4 Premium income and claims reserve





The diagrams above illustrate the distribution of gross premium income and gross claims reserves across the various segments. The premium volume and the claims reserves for the Transport segment come almost entirely from co-insurance. The diagrams illustrate the long-term non-life obligations of disability insurance policies compared to the limited share the Accident and Health segment has in the gross premium income. A relatively large part of the gross claims reserve relates to the disability insurance policies. The opposite applies to the Fire segment. Due to the rapid settlement of fire claims, this segment, which generates more than a quarter of the premium income, only represents a small part of the total claims reserve.

The total gross premium income of the non-life Insurance activities in 2011 amounted to € 848 million (2010: € 809 million). In 2011, € 54 million (2010: € 67 million) was paid in reinsurance premium. This is 6.4% (2010: 8.3%) of the gross premium income. At year-end 2011, the gross claims reserve amounted to € 1,175 million (2010: € 1,224 million). For more information on retention and incoming reinsurance, see paragraph 20.3 Reinsurance.

Analysis technical results Non-life 2011

In € millions	Fire	Accident and health	Motor vehicles	Transport	Other segments	Total
Gross earned premium	224	143	286	75	120	848
Gross claims incurred	123	51	221	48	59	502
	101	**92**	**65**	**27**	**61**	**346**
Reinsurance balance	(13)	(8)	1	(7)	(15)	(42)
	88	**84**	**66**	**20**	**46**	**304**
Operational expenses and profit sharing	(86)	(59)	(110)	(25)	(38)	(318)
Other technical expenses	--	--	--	--	--	--
Operating result	**2**	**25**	**(44)**	**(5)**	**8**	**(14)**
Investment income	8	23	14	4	9	58
Technical result	**10**	**48**	**(30)**	**(1)**	**17**	**44**

Analysis technical results Non-life 2010

In € millions	Fire	Accident and health	Motor vehicles	Transport	Other segments	Total
Gross earned premium	219	138	267	74	111	809
Gross claims incurred	158	57	182	52	55	504
	61	**81**	**85**	**22**	**56**	**305**
Reinsurance balance	(10)	(6)	(3)	(5)	(10)	(34)
	51	**75**	**82**	**17**	**46**	**271**
Operational expenses and profit sharing	(87)	(49)	(105)	(21)	(35)	(297)
Other technical expenses	--	--	(1)	--	(1)	(2)
Operating result	**(36)**	**26**	**(24)**	**(4)**	**10**	**(28)**
Investment income	4	19	10	2	7	42
Technical result	**(32)**	**45**	**(14)**	**(2)**	**17**	**14**

The claims incurred (claim payments including changes to claims reserves) per segment is compared to the gross premium, while the development of the ratio between the two, the claims ratio, serves as an indicator.

20.2.5 Insurance risk Non-Life

The insurance risk for the insurer's non-life portfolio is primarily concentrated on covering the risks resulting from third-party liability (WA), bodily injury, general third party liability, catastrophe and disability claims. This is mainly because of the size and the long-term nature of the claims.

- **Motor vehicle third-party injury liability**
  Motor vehicle liability is a third-party liability insurance to cover bodily injury, medical care and/or healthcare expenses and loss of income following a road traffic accident. The insurer sells these products through all of its distribution channels.
- **General third party liability (GTPL)**
  The insurer provides general third party liability insurance for both private individuals and the business segment; the latter may go together with professional indemnity coverage. The insurer sells these products through all of its distribution channels.
- **Disability**
  The disability coverage in the insurer's portfolio includes both individual coverage for self-employed people and semi-group coverage for employees. The latter group also includes additional cover to the WIA disability act, which is offered through the abovementioned co-insurance partnership with another Dutch insurer. The insurer sells these products through all of its distribution channels.
- **Fire and other damage to property**
  Fire insurance offers policyholders financial protection against damage to their property and material consequences of interruption of operations as a result of the damage sustained. The insurer sells these products through all of its distribution channels.

Insurance risk management for the non-life insurance portfolio

Risks are managed by means of risk policy (see also paragraph 20.3 Reinsurance and 20.4 Market risk Insurance activities), by understanding the factors involved and by review.

Every year, the developments in the non-life insurance risks are examined and Economic Capital calculations are made. The results of the examination are used to determine rates and the acceptance conditions of non-life insurance policies. Furthermore, an active reinsurance policy is pursued.

The effects of changes in parameters, which can be observed in connection with the Economic Capital calculations, provide insight into the degree of risk. The table below shows the sensitivity of the profit after tax in the event of a 10% increase or a 10% decrease in non-life claims. The sensitivities are based on a one-off increase or decrease of the

claims incurred (claim payments including mutations in claims reserves) in the relevant financial year of non-life insurance policies.

Sensitivity Non-life

	Result		Shareholders' equity	
In € millions	**2011**	2010	**2011**	2010
Claims +10%	(37)	(36)	(37)	(36)
Claims -10%	37	36	37	36

The IBNR and the provision for settlement costs are evaluated at least twice a year and, where necessary, adjusted.

The technical provisions are completely reviewed every year, which includes a quantitative assessment of the majority of the portfolio.

Non-life insurance portfolio fraud risks management
Fraudulent claims are defined as claims submitted by policyholders for non-events or claims in which the extent of the damage is exaggerated. Fraud prevention and detection is the responsibility of Fraud Coordination, a separate operational department. In addition, decentralised supervision of fraud is conducted by means of an automated process of pattern recognition by various departments, such as Acceptance and Claims Handling.

Realised claims with a run-off of more than one year
The insurer has assigned specialised departments to the handling and run-off of (bodily injury) claims. The experts in these departments handle claims on an item-by-item basis, make estimates on the size of the claim and monitor the progress of claims settlement. Claims with a run-off period of more than one year include disability claims, bodily injury claims and liability claims.

Characteristics of the provision for recurrent disability annuity benefits
For non-life, disability liabilities include in-force payments for claims that stem from the individual and the semi-group insurance portfolios. Disability benefits in actual payment relating to life insurances concern coverages within a life insurance contract.

Characteristics provision for recurrent disability annuity benefits

	Life insurance		Non-life insurance		Total	
In € thousands	**2011**	2010	**2011**	2010	**2011**	2010
Provision for periodic payments	55,825	52,232	253,802	253,498	309,626	305,730
Number of commenced annuities	995	1,089	4,110	4,153	5,105	5,242
Average annual annuity	10.0	9.5	19.5	17.9	17.6	11.9

Characteristics of the claims reserve for other claims with a run-off of more than one year
Other claims with a run-off longer of than one year generally comprise bodily injury and liability claims. These risks are more diverse than disability risks. This diversity also applies to the expected duration of the claims payments. REAAL Non-Life pursues a strict policy with regard to the settlement of these claims. The aim is to settle them within a maximum of five years. In addition, claims on earlier claim years undergo accelerated settlement. This has resulted in the settlement of a large number of claim files that had been pending for some time.

20.2.6 Claims development history

The table below provides a summary of the run-off on claims reserves for earlier claim years.

Claims development history 2011

In € thousands	Provision as of 1 January	Interest added	Payments	Provision as of 31 December	On balance release / run-off
Claim years:					
2002 and earlier	322,250	4,400	53,320	233,789	39,541
2003	39,981	576	6,044	33,091	1,422
2004	29,589	299	4,963	26,044	(1,119)
2005	34,520	369	6,763	29,032	(906)
2006	38,147	377	8,072	33,193	(2,741)
2007	67,972	766	12,751	57,003	(1,016)
2008	89,116	814	15,922	70,183	3,825
2009	136,423	1,138	27,931	93,240	16,390
2010	263,661	1,350	136,561	139,046	(10,596)
Total through 2010	**1,021,659**	**10,089**	**272,327**	**714,621**	**44,800**
Total 2011	--	842	252,125	285,612	--
Total net of reinsurance	**1,021,659**	**10,931**	**524,452**	**1,000,233**	**44,800**

In 2011, the IBNR has been reallocated for accident years, which increased the release / run off for 2002 and earlier.

Claims development history 2010

In € thousands	Provision as of 1 January	Interest added	Payments	Provision as of 31 December	On balance release / run-off
Claim years:					
2001 and earlier	327,342	4,302	32,768	290,489	8,387
2002	28,676	379	4,531	31,761	(7,237)
2003	45,313	449	4,890	39,981	891
2004	40,968	550	7,321	29,589	4,608
2005	48,580	467	6,735	34,520	7,792
2006	54,554	489	11,933	38,147	4,963
2007	90,555	878	16,755	67,972	6,706
2008	138,210	1,072	30,698	89,116	19,468
2009	254,521	1,411	114,191	136,423	5,318
Total through 2009	**1,028,719**	**9,997**	**229,822**	**757,998**	**50,896**
Total 2010	--	737	250,591	263,661	--
Total net of reinsurance	**1,028,719**	**10,734**	**480,413**	**1,021,659**	**50,896**

20.3 Reinsurance

20.3.1 Reinsurance policy

The reinsurance policy provides protection against technical insurance risks in the various insurance portfolios of both the life insurance and the non-life insurance business. Reinsurance can be divided into two main fields: traditional reinsurance that is taken out based on a risk perspective and reinsurance from the perspective of capital management.

Until recently, the reinsurance policy was mainly aimed at minimising losses ensuing from calamities to a level befitting the risk profile, which means that traditional reinsurance was emphasised.

We see a market-wide trend towards reinsurance for capital management purposes, which is also acknowledged at the Insurance activities. For example, following the proportional reinsurance contract concluded on 1 October 2009, a new proportional reinsurance was concluded for the Insurance activities' individual life portfolio effective 1 January 2011.

The reinsurance policy is determined based on risk analyses for the various portfolios, the size of the portfolios, the nature of the insurance risks, the results, the risk appetite and the financial strength of the Company.

The risk of terrorism is reinsured through the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden (Netherlands Terrorism Risk Reinsurance Company (NHT)). In order to align the cover in the policy and the reinsurance cover through the NHT, the cover for the terrorism risk in the policy has been limited to the maximum capacity of the NHT, € 1 billion.

20.3.2 REAAL Reassurantie SA

Up to and including 2011, a number of risks from the non-life portfolio in particular were partially reinsured with the Luxembourg-based reinsurance captive REAAL Reassurantie SA. The captive offered reinsurance cover for risks of REAAL Non-Life and Proteq Non-Life. The retentions and reinsured parts as indicated below reflect the figures of REAAL Reassurantie after consolidation in the Insurance activities.

REAAL decided to sell REAAL Reassurantie SA, a small reinsurance subsidiary, as at year-end 2011. Part of the dismantling process was that REAAL Non-Life and SRLEV took over from the captive the run-off of the contracts for which the captive acted as the reinsurer. As the captive no longer participates in the various reinsurance contracts effective 2012, the shares have been placed with external reinsurers effective that date.

20.3.3 REAAL Life reinsurance

The Insurance activities have a thoroughly integrated reinsurance programme for the mortality and disability portfolio. In 2011, separate reinsurance contracts were again purchased for the individual and group portfolios. The catastrophe reinsurance contract was concluded Group-wide for the various subportfolios.

The Insurance activities purchase reinsurance for every risk separately from a relatively high level upwards (see the table below). In view of the risk profile and the size of the portfolio, the retention of both the mortality and disability risks can be considered to be in accordance with the underlying portfolio.

The structure of the 2012 reinsurance programme has not changed as compared to the 2011 programme. The various subportfolios are reinsured by means of reinsurance contracts for the individual portfolio, the group portfolio and the catastrophe risk. Furthermore, a reinsurance contract is in place for the disability portfolio. The retention of the mortality reinsurance contract of the individual life portfolio of the Insurance activities is proportionally reinsured by two quota share contracts. The retention of the reinsurance contract for the group portfolio is increased to € 1.2 million of risk capital effective 1 January 2012.

With the proportional reinsurance concluded as per 1 January 2011, there are two quota share reinsurance contracts in

place for REAAL's individual life portfolio. The quota share reinsurance contract on risk capital concluded as of October 2009 is in effect for the product groups risk, savings mortgages and unit linked policies. The quota shares reinsurance contract that took effect as of 1 January 2011 reinsures both risk capital and provisions, and applies to the traditional savings portfolio.

The Insurance activities have concluded their reinsurance contracts at reinsurance companies that have at least an AA-rating (S&P).

Life insurance retention

		2011		2010	
In € thousands		**REAAL**	**Zwitserleven**	REAAL	Zwitserleven
Coverage:					
Mortality (quota share - risk capital)	per risk; savings mortgages. risk and unit linked portfolio	19%	--	30%	--
Mortality (quota share - gross)	per risk; savings insurance portfolio	19%	--	--	--
Mortality (risk capital)	per risk (DBV. concluded before 1 January 2007 respectively 2009)	58% / 70%	--	58% / 70%	--
Mortality (risk capital)	per risk; individual portfolio	1,500	1,500	1,500	1,500
Mortality (risk capital)	per risk; group portfolio	900	900	900	900
Disability (risk capital)	per risk; individual portfolio	1,500	1,500	1,500	1,500
Disability (risk capital)	per risk; group portfolio	900	900	900	900
Catastrophe	per event	15,000	2,000	15,000	2,000

20.3.4 REAAL Non-Life reinsurance

The non-life insurance operations have set the retention of the reinsurance contracts in line with the size of the various portfolios. The reinsurance programme makes no specific distinction between the various sales channels, but large risks are reinsured at segment level.

In addition to the regular protection of individual portfolios, REAAL Non-Life has a catastrophe contract for natural perils (storm, hail) and accumulation within the fire portfolio.

Where applicable, Proteq Non-Life is included in the reinsurance programme of REAAL Non-Life for segments. In addition, Proteq has purchased a number of underlying reinsurance covers from REAAL Reassurantie, the Insurance activities' reinsurance captive, for 2011.

The 2012 reinsurance programme is largely a continuation of the programme as it was in 2011. The capacity of the catastrophe programme has been expanded due to the increased underlying exposure. The external retention of the catastrophe programme was € 35 million effective 2012. By using an external reinsurer (instead of REAAL Reassurantie), the retention is lower at the consolidated level compared to 2011. The retentions in the other contracts remain unchanged compared to 2011. The sublayer for Fire, which was formerly purchased from REAAL Reassurantie, is now concluded with an external reinsurer. As a result, net retention amounts to € 1 million. To keep the Fire programme in line with the Catastrophe reinsurance contract, the capacity has been adjusted to the retention of Catastrophe. As regards Accidents, the reinsurance capacity was expanded in connection with the underlying exposure.

Non-life insurance retention

In € thousands		2011	2010
Coverage:			
Fire	per risk	2,500	2,500
Motor third-party liability	per risk	2,500	2,500
Personal / business liability	per risk	1,000	750
Accidents	per risk	750	500
Transport (up to 2006 NHL)	per risk	1,000	1,000
Disability (risk capital)	per risk	1,500	1,500
Catastrophe	per event	45,000	40,000

The non-life insurer pursues an active policy with regard to placing its reinsurance contracts. A distinction is made in the panel of reinsurers as to the property programme (Fire and Catastrophe) and the casualty programme (Motor Liability, General Liability and Accidents). In the casualty programme, the claims settlement is characterised by its long lead time. Because of this long-term nature, the continuity of the panel is the main consideration in the placement of this programme. The minimum rating of this reinsurance panel is A. A minimum rating of A- applies for the reinsurance of Fire and Catastrophe. The price aspect plays an important role in this.

20.3.5 Proteq Non-Life: incoming disability reinsurance

Proteq Non-Life has an incoming reinsurance contract that covers a portfolio of disability pensions related to the WAO (Law on Disability). This contract is not renewed since 2004 and is located in run-off. The premium in 2011 is therefore nil (2010: nil). The gross claims reserve at the end of 2011 amounts to € 65 million (2010: € 78 million), after retrocession, the provision amounts € 25 million (2010: € 29 million).

20.4 Market risk Insurance activities

The market risk of the Insurance activities is created by the fact that when the financial markets change, the value changes of investments (equities, property, fixed-income investments) do not change with the same amount as the liabilities. This means that changes in financial markets affect the results and capital position of the Insurance activities.

The market risks are measured and managed by the Asset & Liability Management (ALM) department. This department reports monthly to the Group ALCO through the Asset & Liability Committee Insurance. The main objective in 2011 was to further reduce the insurer's interest rate risk. Within this framework, interest rate derivatives were purchased to better hedge the guarantees issued to policyholders. Despite the purchase of interest rate derivatives the sensitivity to interest rate cuts increased in the last quarter as a result of the very low interest rate environment at the end of 2011.

The table below shows the investment mixes. It should be noted that, within the fixed-income investment portfolio, a strategic mix is determined based on the various fixed-income rating categories.

Investment mix Insurance activities

In € millions	2011		2010	
Interest bearing investments	28,542	86%	27,995	82%
Equities and options	1,217	4%	1,345	4%
Property	255	1%	252	1%
Mortgages	3,063	9%	4,616	13%
Total	**33,077**	**100%**	**34,208**	**100%**

The point of departure for the ALM policy is the ALM plan, which is drawn up annually and sets out the strategic investment policy. The ALM plan seeks a balance between risk and return within the preconditions that apply with regard to the Value-at-Risk (VaR), solvency, profitability and IFRS results.

The financial market risks of the portfolio for own account and risk are ,amongst others, managed using the VaR system. VaR is a risk indicator that records the balance of all market risks (interest, equities, etc.). The VaR, expressed as a percentage of the market value of shareholders' equity, was 46% as at year-end 2010. In 2011 the VaR decreased from 46% as at year-end 2010 to 25% as at year-end 2011, dropping below the current limit of 45%. The decrease was mainly caused by the reduction of credit spread exposure in 2011 and a better protection of the equity position.

Portfolio Insurance activities

In € millions	**2011**	2010
Property investments	255	252
Interest bearing investments	28,542	27,995
Equities and options	1,217	1,345
Invested collateral securities lending	117	176
Derivatives	572	225
Reinsurance contracts	3,426	355
Loans and advances to customers	3,063	4,616
Loans and advances to banks	499	356
Other assets, no lending operations	3,056	3,006
Cash and cash equivalents	1,188	2,054
Total	**41,935**	**40,380**

20.4.1 Market sensitivity regulatory solvency ratio

The solvency of the insurer is most sensitive to interest rate changes and changes in credit spreads, this is seen in the table market sensitivity regulatory solvency ratio. In 2011 the focus was therefore on these two sources of risk.

Market sensitivity regulatory solvency ratio

In € millions	**2011**	2010
Interest rates -1%	(26%)	(33%)
Interest rates +1%	8%	8%
Credit spreads Corporate Bonds +0.5%	(10%)	(12%)
Credit spreads Sovereign Bonds +0.5%	(2%)	(5%)
Equity prices -10%	(2%)	(2%)

In 2011 the balance of the insurance activities has become more sensitive to interest rate cuts and the impact of increases in interest rates has remained the same. These changes have mainly been caused by the decrease of the yield curve. The sensitivity of the solvency of parallel interest rate reductions of 1% has evolved from -33% end 2010 to -26% end 2011.

The yield curve REAAL used in determining its solvency is the ECB AAA government curve. This showed such a downward trend that the DNB allowed to use the average yield curve in the fourth quarter. REAAL did not use this opportunity. Based on the ECB AAA government curve end 2011, the deficit in the DNB adequacy test is € 1,292 million. However, this is more than offset by the positive impact of the decrease in interest rate levels on the revaluation reserve in available capital.

The credit risk in the bond portfolio was further reduced in 2011. Here the emphasis was not only on government bonds of the Southern European countries and Ireland, but also on reduction of government bonds of France and to a lesser extent, Austria. In addition, we purchased interest rate derivatives to hedge the balance of the insurer to further reduce the interest rate risk.

20.4.2 Interest rate risk Insurance activities

Interest rate risk is a significant component of the Insurance activities market risk profile. There is an interest rate risk when the interest rate sensitivities of the assets and liabilities are not completely equal and it is expressed as movements in the result and/or capital position if market rates fluctuate. Main sources for interest rate risk are the return guarantees given to policyholders. This risk is partly mitigated by the use of interest rate derivatives to hedge the guarantees in traditional life insurance with guarantees and profit sharing. See paragraph 21.2.1 Hedging for more information.

For products without profit sharing, the fixed-income investments are matched with liabilities as closely as possible.

Breakdown provision for own account and risk

In € millions	2011	2010
With profit sharing (company or surplus interest)	8,172	10,021
With interest rate rebate	5,664	6,387
Without profit sharing	5,654	4,718
Savings mortgages balance	1,814	3,193
Total	**21,304**	**24,319**

The most significant quantification of interest rate risk is done by using duration analyses, scenario analyses and VaR analyses.

The duration of equity indicates the impact on the fair value of shareholders' equity in the event of a minor parallel shift in the yield curve. In this analysis, those investments and liabilities that are already nearly matched to each other. This category particularly includes savings policies built up with savings mortgages and the part of the balance sheet items that is kept for account and risk of the policyholders.

Market rate movements rapidly change both the value and interest rate sensitivity of the return guarantees given to customers. This makes the duration of equity extremely volatile and hard to interpret, which is why it was decided not to conduct management based on this indicator. The actual interest rate management (and accompanying hedging policy) is driven by the results of the sensitivity calculations related to solvency.

Duration fixed assets and liabilities Insurance activities

	2011	2010
Duration of fixed income investments	8.5	7.9
Duration of provision for insurance contracts	11.6	9.8

Scenario analyses periodically test the impact of changes in market rates on solvency and results. The table below shows the indicative impact of parallel shifts in interest rates of 1% on the various balance sheet items.

In economic reality, all balance sheet items (both assets and liabilities) with an underlying cash flow schedule change in value when the interest rate changes. With a 1% decrease in interest rates, the fair value of shareholders' equity decreases by € 155 million (2010: decrease of € 93 million). With a 1% interest rate increase, the fair value of shareholders' equity increases by € 87 million (2010: decrease of € 3 million).

Interest rate sensitivity fair value shareholders' equity Insurance activities

	Interest +1%		Interest -1%	
In € millions	**2011**	2010	**2011**	2010
Investments	(1,766)	(1,487)	1,926	1,801
Technical provisions	1,647	1,323	(2,304)	(1,719)
Other assets and liabilities	207	161	222	(175)
Shareholders' equity	**87**	**(3)**	**(155)**	**(93)**

The accounting result and shareholders' equity change as a result of value changes in interest rate derivatives and the fixed-income portfolio classified as available for sale. The effect of a 1% increase in interest rates on the result is € 20 million negative (2010: € 21 million negative) and the effect of a 1% decrease in interest rates on the result is € 112 million positive (2010: € 69 million positive). In respect of shareholders' equity, this is € 1,787 million negative in the event of a 1% increase in interest rates (2010: € 1,489 million negative). A 1% decrease in interest rates has an effect of € 2,259 million positive (2010: € 1,527 million positive).

The increase in interest rate sensitivity of the result is due to the addition of interest rate derivatives to the portfolio, which was enhanced in 2010 to hedge the impact of options and guarantees in the provisions.

The overview below shows the average effective interest rates of the financial assets, the financial liabilities and the technical provisions of the Insurance activities as at the balance sheet date.

Average effective interest rates Insurance activities

In percentages	**2011**	2010
Financial assets (not valued at fair value through profit or loss):		
Investments for own account:		
- Available for sale (excluding equities)	4.3%	4.6%
- Loans and receivables	4.1%	3.4%
Loans and advances to customers	4.9%	5.3%
Financial liabilities at amortised cost:		
Subordinated debt	7.8%	7.2%
Debt certificates	1.7%	1.1%
Technical provisions insurance operations for own account and risk:	4.0%	4.0%
Individual insurance policies in cash	4.0%	4.0%
- Savings mortgages	5.3%	5.4%
- Life annuity	3.1%	3.3%
- Other	3.5%	3.5%
Group insurance policies in cash	3.6%	3.6%

The effective interest rates of the technical provisions are before any deferred interest rate rebates and acquisition costs.

Insurance contracts on behalf of policyholders

For insurance policies for which policyholders carry the investment risk, the insurer does not, in principle, bear any risk relating to interest rates, prices, exchange rates or credit. Nevertheless, for some portfolios, policyholders have a minimum return guarantee. For these cases, if required, a provision is formed. The value of the guarantees within the portfolio 'on behalf of policyholders' is measured periodically. In 2011, an equity hedge was purchased to protect the equity exposure in Zwitserleven's Separate Accounts.

Breakdown technical provision on behalf of policyholders

In € millions	2011	2010
Without guarantee	8,518	8,442
With guarantee	4,479	4,752
Total	**12,997**	**13,194**

Equity and investment property risk Insurance activities

The equity and similar investments of the Insurance activities amounted to € 1,217 million at year-end 2011 (2010: € 1,345 million). The decline in 2011 was caused in particular by the lower equity markets.

The IFRS equities classification also includes participations in funds that invest in other types of securities. The ALM policy is adjusted accordingly.

The Insurance activities periodically calculate the impact of changes in equity markets and property markets on the result and on shareholders' equity. As is the case for the interest rate risk, scenario analyses are used here as well. The table below shows the indicative results of this analysis at the balance sheet date net of taxation.

Sensitivity equities and property Insurance activities

	Result		Shareholders' equity	
In € millions	2011	2010	2011	2010
Equities +10%	--	--	79	109
Equities -10%	(80)	(66)	(79)	(103)
Property +10%	25	25	19	18
Property -10%	(25)	(25)	(19)	(18)

20.4.3 Exchange rate risk Insurance activities

The Insurance activities face exchange rate risk through a combination of investments and liabilities in foreign currencies that are not perfectly matched.

With respect to the fixed-income investments, the policy of the Insurance activities is to permit only a very limited exchange rate risk. The exchange rate risk on fixed-income investments with a foreign currency denomination is therefore, in principle, hedged completely with currency swaps.

Exchange rate risk also manifests itself in the equity investments of the Insurance activities. This exchange rate risk, after netting the exchange rate risk in other non-fixed income investments and liabilities, is structurally hedged using forward exchange rate contracts if the net exposure exceeds € 10 million. The table below gives an indication of the Insurance activities' exchange rate position.

Foreign exchange positions Insurance activities (net exposure)

	Balance		Hedge derivatives	
In € millions	2011	2010	2011	2010
US dollar	100	107	(93)	(67)
Pound Sterling	59	77	(58)	(66)
Swiss franc	(71)	12	72	--
Australian dollar	(33)	(24)	46	--
Other	3	5	--	--
Total	**57**	**177**	**(34)**	**(133)**

The impact of changes in foreign exchange markets on the result, on shareholders' equity and on solvency are measured periodically using scenario analyses. The table below shows the results of these analyses net of taxation.

Sensitivity foreign exchange rates Insurance activities

	Result		Shareholders' equity	
In € millions	**2011**	2010	**2011**	2010
Currencies +10%	2	4	2	3
Currencies -10%	(2)	(4)	(2)	(3)

20.5 Credit risk Insurance activities

The Insurance activities are exposed to various types of credit risk. The main types are the credit risks in the investment portfolio and in the loan portfolio to intermediaries. The mortgage loans of REAAL are well covered and it concerns a relatively aged portfolio. Consequently, the likelihood of non-payment is low and therefore the risk profile of the mortgage portfolio of REAAL is very low.

In the policy documents for the specific credit risk categories, the roles, powers and responsibilities of employees and committees are established, following a successively more senior layer of authorisation.

20.5.1 Management of credit risk within the fixed-income investment portfolio

The credit risk within the fixed-income investment portfolios of the Insurance activities is the risk that an issuer of a bond or a debtor of a private loan can no longer meet its obligations. The strategic scope of the various investment grade categories within the fixed-income portfolio is determined in an ALM context and laid down in mandates with the investment managers. Periodically, Insurance Treasury & Investment Management checks whether the investment managers adhere to the mandates and reports on this.

The fixed-income investment portfolios of the Insurance activities have predominantly European and North American debtors, whereby no one represents an interest of more than 10% in the fixed-income investment portfolio.

Fixed income investments Insurance activities by industry 2011

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Sovereign	109	16,168	74	16,351
Banks	907	4,084	5,963	10,954
Trade, industry and other services	--	1,071	103	1,174
Other	--	28	35	63
Total	**1,016**	**21,351**	**6,175**	**28,542**

Fixed income investments Insurance activities by industry 2010

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Sovereign	148	14,227	34	14,409
Banks	888	3,967	4,214	9,069
Trade, industry and other services	--	963	1	964
Other	8	1,120	2,425	3,553
Total	**1,044**	**20,277**	**6,674**	**27,995**

Breakdown fixed income portfolio (industry)

In € millions	2011		2010	
Sovereign	16,351	57%	14,222	51%
Financials	4,730	17%	5,831	21%
Mortgages	4,895	17%	4,872	17%
Corporates	1,246	4%	1,697	6%
Mortgage backed securities	1,231	4%	1,013	4%
Other	89	0%	360	1%
Total	**28,542**	**100%**	**27,995**	**100%**

The following overview provides a breakdown of the fixed-income investment mix (excluding mortgages) across the various rating categories. The strategic mix of the various categories within the fixed-income portfolio is set annually in the ALM investment plan. The category without any rating mainly consists of investments related to savings mortgages.

Fixed income investments Insurance activities by rating 2011

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
AAA	501	17,320	210	18,031
AA	157	1,163	13	1,333
A	337	1,874	254	2,465
BBB	21	803	33	857
Below BBB	--	155	66	221
Unrated	--	36	5,599	5,635
Total	**1,016**	**21,351**	**6,175**	**28,542**

Fixed income investments Insurance activities by rating 2010

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
AAA	548	14,412	83	15,043
AA	159	2,365	1	2,525
A	317	2,334	291	2,942
BBB	20	1,047	1,111	2,178
Below BBB	--	87	64	151
Unrated	--	32	5,124	5,156
Total	**1,044**	**20,277**	**6,674**	**27,995**

Breakdown fixed income portfolio (rating)

In € millions	2011		2010	
AAA	18,031	63%	15,135	54%
AA	1,333	5%	2,571	9%
A	2,465	9%	2,856	10%
BBB	857	3%	2,182	8%
< BBB	221	1%	151	1%
No rating	5,635	20%	5,100	18%
Total	**28,542**	**100%**	**27,995**	**100%**

Breakdown fixed income portfolio insurance activities (geography)

In € millions	2011		2010	
Ireland	317	1%	412	1%
Portugal	25	0%	50	0%
Italy	370	1%	823	3%
Spain	403	1%	718	3%
Subtotal GIIPS	1,115	4%	2,003	7%
Germany	7,000	25%	6,219	22%
France	1,342	5%	3,507	13%
The Netherlands	14,264	50%	11,117	40%
Austria	1,696	6%	1,379	5%
Belgium	253	1%	688	2%
Other	2,872	10%	3,082	11%
Total	**28,542**	**100%**	**27,995**	**100%**

Breakdown fixed income portfolio (maturity)

In € millions	2011		2010	
< 3 Months	472	2%	892	3%
< 1 Year	1,108	4%	1,498	5%
< 3 Years	2,229	8%	2,152	8%
< 5 Years	2,379	8%	1,898	7%
< 10 Years	6,230	22%	5,833	21%
< 15 Years	3,025	11%	2,332	8%
> 15 Years	13,099	46%	13,390	48%
No maturity	--	0%	--	0%
Total	**28,542**	**100%**	**27,995**	**100%**

Breakdown sovereign fixed income portfolio Insurance activities (for own account)

In € millions	2011		2010	
Ireland	47	0%	89	1%
Italy	232	1%	563	4%
Spain	50	0%	286	2%
Subtotal GIIPS	329	2%	938	7%
Germany	6,470	40%	5,668	40%
France	804	5%	2,803	20%
The Netherlands	6,515	40%	2,764	19%
Austria	1,684	10%	1,315	9%
Belgium	226	1%	602	4%
Other	323	2%	132	1%
Total	**16,351**	**100%**	**14,222**	**100%**

20.5.2 Securities Lending Programme

Zwitserleven has a Securities Lending Programme, under which securities are lent in exchange for compensation. The counterparties provide collateral as security in the form of liquidities, government bonds and other bonds with high ratings. At the end of 2011, € 117 million in securities were lent and € 119 million of collateral was received in return. The collateral received fully concerns liquidities. The Lending Agent reinvests the aforementioned liquidities, on behalf of Zwitserleven, in Money Market Funds with investments with a certain credit risk. The margin between the returns from the Money Market Funds and the compensation to the other parties accrues to Zwitserleven. Any losses from the Money Market Funds will also be borne by Zwitserleven. The current programme made a positive contribution to Zwitserleven's result in the amount of € 1 million. The programme was further reduced in 2011, from € 0.2 billion at year-end 2010 to € 0.1 billion at year-end 2011.

20.5.3 Management of credit risk in the portfolio with loans to intermediaries

The Insurance activities manage the process of providing loans to intermediaries by a credit committee and the application of strict acceptance criteria.

20.5.4 Management of credit risk with regard to derivative positions

The credit risk on the market value of all derivatives held by REAAL with a counterparty is managed through a so-called Credit Support Annex, or CSA, agreement. In accordance with standard industry practice, this agreement stipulates that the underlying value of the derivatives in liquid instruments, such as cash and government bonds, must be held as collateral to cover the credit risk.

20.5.5 Management of credit risk relating to advances to the reinsurer

To reinsure motor vehicle third party liability insurance and general third party liability insurance for individuals and companies, the Insurance activities use a panel that consists of reinsurers with a minimum credit rating of A. For the reinsurance of fire and catastrophe risks, the Insurance activities use reinsurers with a minimum credit rating of A-. A minimum rating of A also applies for the reinsurance of Life and Disability, although the reinsurance panel in question consists of reinsurers with a minimum credit rating of AA-.

20.5.6 Management of credit risk in the mortgage portfolio

The Insurance activities run a limited credit risk on their mortgage portfolio. Part of this portfolio is guaranteed by the National Mortgage Guarantee fund. The residential property price increases in the past have led to a strong increase in the foreclosure value of the collateral. Although house prices decreased in the past few years, this was not enough to offset past price increases. In the event of non-payment by a debtor, the loans can in many cases be recouped through the sale of the collateral.

Mortgages Insurance activities by security type

In € millions	2011	2010
Mortgages < 75% of foreclosure value	1,231	1,913
Mortgages > 75% of foreclosure value	781	1,418
Mortgages with National Mortgage Guarantee	1,045	1,278
Residential property in the Netherlands:	**3,057**	**4,609**
Corporate mortgages	5	7
Specific provision for bad debts	(4)	(6)
Total	**3,059**	**4,610**

The securitized section of the mortgage portfolio of the insurance activities was part of DBV Finance BV. In January 2011, DBV Finance BV was transferred to SNS Bank NV, as a result of which these mortgages are now included in the segment SNS Retail Bank.

The credit risk of the mortgages of the Insurance activities is limited, partially due to NHG guarantees and low Loan-to-Foreclosure Values, but mainly due to the prudent acceptance policy of the Insurance activities. Furthermore, a large part of the portfolio stems from the period 2000-2005, so that the foreclosure values of the properties that serve as collateral have increased. The table below shows a breakdown of the portfolio of the Insurance activities into securitised and not securitised:

Securitisation mortgages Insurance activities

In € millions	2011	2010
Securitised	--	1,883
Not securitised	3,059	2,727
Total	**3,059**	**4,610**

20.6 Liquidity risk Insurance activities

The Insurance activities must have sufficient cash to be able to meet claims arising from its insurance portfolio. The table below presents cash flows arising from investments, derivatives (assets) and insurance obligations, net of reinsurance (liabilities) per maturity bucket. The figures provide insight into the liquidity risk management that is part of the ALM policy.

The table only includes the portfolio for own account and risk. The portfolio on behalf of policyholders is not relevant in this context, since the value accumulated in the investment funds are paid to the policyholders at the maturity date. The accrued balances of savings policies and savings mortgages are also not taken into account as these are perfectly matched. The cash flows from investments presented in the table include interest flows. The cash flows arising from the technical provisions are estimated on a best-estimate basis pursuant to European Embedded Value principles. Assumptions are made of mortality, disability, surrender and costs. A change in assumptions can alter the view of the cash flows in the table below. In increase or decrease of 10% of the assumptions results in materially different cash flows.

The cash flows do not include future profit sharing. Equity and other non-fixed income investments are not included in the table.

The table shows that the net cash flows of the Insurance activities will be positive for the technical provisions in the coming years. Since, moreover, the investment portfolios largely comprise liquid investments, such as German and Dutch government bonds, which can easily be liquidated in times of stress, the insurer runs only a limited liquidity risk.

Liquidity calendar financial liabilities REAAL 2011

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated debt	--	--	(73)	(377)	(3,735)	(4,185)
Debt certificates	--	--	--	--	--	--
Securities lending liabilities	(120)	--	--	--	--	(120)
Total	**(120)**	**--**	**(73)**	**(377)**	**(3,735)**	**(4,305)**

Liquidity calendar financial liabilities REAAL 2010

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated loans	--	--	(68)	(336)	(3,080)	(3,484)
Debt certificates	(18)	(38)	(176)	(1,583)	(70)	(1,885)
Securities lending liabilities	(182)	--	--	--	--	(182)
Total	**(200)**	**(38)**	**(244)**	**(1,919)**	**(3,150)**	**(5,551)**

The Insurance activities have a potential liquidity requirement caused by margin requirements on derivatives. This is because the Insurance activities, in the context of credit risk mitigation with its main counterparts, has agreed to settle changes in the fair value of derivatives periodically. As a result there may well be amounts received as amounts paid. At year-end 2011, a net amount of € 551 million is received from counterparties. In relation to the total financing needs this

risk is limited.

21 Financial instruments and hedge accounting

21.1 Disclosures on financial instruments

21.1.1 Fair value accounting of financial assets and liabilities

The following table shows the fair value of the financial assets and liabilities of REAAL. In a number of cases, estimates are used. The balance sheet items not included in this table do not meet the definition of a financial asset or liability. The total of the fair value presented below does not reflect the underlying value of REAAL and should therefore not be interpreted as such.

Value of financial assets and liabilities REAAL

In € millions	Fair value 2011	Book value 2011	Fair value 2010	Book value 2010
Financial assets				
Investments				
- Fair value through profit or loss: designated	1,017	1,017	1,054	1,054
- Available for sale	22,570	22,570	21,611	21,611
- Loans and receivables	6,188	6,173	6,687	6,665
Investments for account of policyholders	12,443	12,443	12,640	12,640
Invested collateral securities lending	117	117	176	176
Derivatives	539	539	225	225
Loans and advances to customers	2,991	3,059	4,656	4,610
Loans and advances to banks	508	499	360	355
Other assets	285	285	257	257
Cash and cash equivalents	1,189	1,189	2,054	2,054
Total financial assets	**47,847**	**47,891**	**49,720**	**49,647**
Financial liabilities				
Participation certificates and subordinated debt	715	1,002	1,092	960
Debt certificates	--	--	1,771	1,771
Securities lending liabilities	120	120	182	182
Derivatives	53	53	84	84
Other amounts due to customers	4,014	4,014	775	775
Amounts due to banks	3,154	3,154	4,507	4,507
Other liabilities	1,315	1,315	1,293	1,293
Total financial liabilities	**9,371**	**9,658**	**9,704**	**9,572**

The fair values represent the amounts at which the financial instruments could have been traded between knowledgeable, willing parties in at arm's length transactions on the balance sheet date. The fair values of financial assets and liabilities are based on quoted market prices, where observable. If market prices are not observable, various techniques are developed in order to arrive at an approximation of these instruments' fair values. These techniques are subjective and use various assumptions based on the discount rate and the timing and size of expected future cash flows. Changes in these assumptions can significantly influence the estimated fair values. The main assumptions for each balance sheet category are explained in the section below.

For financial assets and liabilities valued at amortised cost, the fair value is shown excluding accrued interest. The accrued interest from these investments is recorded in other assets or other liabilities.

21.1.1.1 Financial assets

The following methods and assumptions are used to determine the fair value of financial instruments.

Investments

The fair values of equities are based on quoted market prices. The fair values of interest-bearing securities, excluding mortgage loans, are also based on quoted market prices or – in the event that quoted market prices do not provide a reliable fair value – on the present value of expected future cash flows. These present values are based on the prevailing market interest rate, taking into consideration the liquidity, creditworthiness and maturity of the relevant investment.

Derivatives

The fair value of non-publicly traded derivatives depends on the type of instrument and is based on a discounted cash flow model or an option valuation model.

Loans and advances to customers and banks

The valuation of loans and advances to customers to fair value has been made to the best estimate of management. In the current volatile market environment, the bandwidth in the valuation is large due to wide variations in interest rates and risk premiums and limited availability of market transactions.

The fair value of loans and advances to customers has been established by determining the present value of the expected future cash flows and extensive market research. Various surcharges on the yield curve were used for the calculation of the present value. In this respect, a distinction was made by type of loan and advance and by type of client group to which the loan/advance relates. In determining the expected cash flows, the effect of any future early redemptions is taken into account.

The yield curve used to determine the present value of the cash flows of mortgage loans is the swap rate, increased by risk surcharges derived from the development of mortgage rates compared to the swap rate. The effect of very low interest rates at year-end 2011 exceeds the impact of increased risk premiums.

For other loans and advances to customers and loans and advances to banks, the REAAL cost-of-fund curve is applied.

Other assets

Because of the predominantly short-term nature of other assets the book value is considered to be a reasonable approximation of their fair value.

Cash and cash equivalents

The book value of the liquid assets is considered to be a reasonable approximation of their fair value.

21.1.1.2 Financial liabilities

Participation certificates and subordinated debt

The fair value of the participation certificates was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge for similar instruments. Subordinated debt surcharges are defined as the coupon rate less the swap rate as at the issue date. The cash flows of the subordinated debts are then converted into cash at the current swap rate, plus the risk surcharge applicable specifically to REAAL.

Debt certificates

The fair value of debt certificates was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate for similar instruments.

Amounts due to customers and banks

The fair values of demand deposits and deposits without specified maturities were determined by the use of a discount factor, which takes into account the observable lapse and the prevailing interest rates for these instruments. The fair values of deposits with specified maturities were estimated on the basis of the expected present value of future cash

flows, using the interest rate currently applicable to deposits with a similar remaining life.

The fair values of amounts due to banks were estimated on the basis of the present value of the future cash flows, using the interest rate currently applicable to amounts due to banks with similar conditions.

Other liabilities
The book value of the other commitments is considered to be a reasonable approximation of their fair value.

Interest rate
The discount rate used in determining fair value is based on market yield curves on the balance sheet date.

21.1.2 Hierarchy in determining the fair value of financial instruments

A major part of the financial instruments is included in the balance sheet at fair value. The table below distributes these instruments among level 1 (the fair value is based on published stock prices in an active market), level 2 (the fair value is based on observable market data) and level 3 (the fair value is not based on observable market data).

Hierarchy financial instruments

	Level 1		Level 2		Level 3		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Financial assets								
Investments	16,747	14,873	6,769	7,721	70	71	23,586	22,665
Investments for account of policyholders	7,571	6,470	4,872	6,171	--	--	12,443	12,641
Invested collateral securities lending	--	--	117	176	--	--	117	176
Derivatives	23	18	516	207	--	--	539	225
Loans and advances to customers	--	--	--	2,305	--	--	--	2,305
Financial liabilities								
Fair value through profit or loss: debt certificates	--	--	--	1,771	--	--	--	1,771
Derivatives	--	--	53	84	--	--	53	84

Level 1 – Fair value based on published stock prices in an active market
For all financial instruments in this valuation category, published stock prices are observable from stock exchanges, brokers or pricing institutions. In addition, these financial instruments are traded on an active market, which allows for the stock prices to accurately reflect current and regularly recurring market transactions between independent parties. The investments in this category mainly include listed shares and government bonds.

Level 2 – Fair value based on observable market data
This category includes investments for which market quotes have been issued by brokers, but whose markets are also identified as being inactive. In that event, the available market prices are largely supported and validated using market data including market rates and current risk surcharges related to the various credit ratings and sector distinction. These concern mainly corporate bonds.

The category also comprises financial instruments for which no issued stock prices are available, but whose fair value was determined using models with observable market data as their input variables. These instruments mainly include

non-publicly traded interest rate derivatives.

The loans and advances to customers relate to the mortgages of witch the fair value is calculated on the basis of the current swap curve increased by risk surcharges that have been derived from the development in mortgage rates compared to the swap rate. In addition, estimates of early redemption are taken into account.

Level 3 – Fair value not based on observable market data

The financial instruments in this category have been individually assessed. The valuation is based on management's best estimate, taking into account the most recently known prices. In many cases analyses prepared by external valuation agencies were used. These analyses used information unavailable to the market, such as assumed default rates belonging to certain ratings.

Change in level 3 financial instruments

	Available for sale	
In € millions	**2011**	2010
Balance as at 1 January	71	80
Total gains or losses recognised in profit or loss	2	21
Total gains or losses recognised in other comprehensive income	--	(21)
Unrealised revaluations recognised in equity	--	6
Sale/settlements	(3)	(15)
Balance as at 31 December	**70**	**71**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	2	21

Breakdown level 3 financial instruments

In € millions	**2011**	2010
Collateralised debt obligation	31	32
Collateralised loan obligation	39	39
Total	**70**	**71**

The fair value of financial instruments classified in level 3 is partly based on non-observable market data. The fair values of CDO's and CLO's classified in level 3 are determined by calculating scenarios with the use of best estimates of the non-observable market data. The main non-observable market data are the expected development of defaults in the underlying portfolios and the implied discount rate. When assuming a stress scenario, with for instance a higher assumed principal loss, this would result in a significant decrease of the fair value of the instrument.

Impairments on financial instruments by category

	Level 1		Level 2		**Level 3**		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Equities	32	40	8	--	--	--	40	40
Bonds issued by financial institutions	8	--	--	--	--	--	8	--
CDOs / CLOs	--	--	--	--	--	(21)	--	(21)
Total	**40**	**40**	**8**	**--**	**--**	**(21)**	**48**	**19**

REAAL recognises impairments on equity instruments if the fair value has declined to 25% or more below cost price, or has declined below cost price for at least 9 months.

REAAL recognises impairments on financial instruments if there is a loss event with regard to the financial instrument. To identify this, the financial instruments are periodically assessed on the basis of a number of criteria set by the Group ALCO. Financial instruments meeting one or more of the above criteria are analysed and assessed individually to determine whether there is a loss event.

Reclassifications between levels 1, 2 and 3

Compared to the previous financial year, a movement occurred of Greek government bonds moving from level 1 to level 2 due to the sharp decline in liquidity in the market for Greek government bonds.

21.1.3 Liquidity maturity calendar for financial liabilities

The table below shows the non-discounted cash flows ensuing from the most important financial liabilities, other than derivatives, broken down according to contractual maturity date.

Liquidity calendar financial liabilities REAAL 2011

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated debt	--	--	(73)	(377)	(3,735)	(4,185)
Debt certificates	--	--	--	--	--	--
Securities lending liabilities	(120)	--	--	--	--	(120)
Total	**(120)**	**--**	**(73)**	**(377)**	**(3,735)**	**(4,305)**

Liquidity calendar financial liabilities REAAL 2010

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Participation certificates and subordinated loans	--	--	(68)	(336)	(3,080)	(3,484)
Debt certificates	(18)	(38)	(176)	(1,583)	(70)	(1,885)
Securities lending liabilities	(182)	--	--	--	--	(182)
Total	**(200)**	**(38)**	**(244)**	**(1,919)**	**(3,150)**	**(5,551)**

The table below shows the non-discounted cash flows ensuing from all derivates contracts, broken down according to maturity date.

Liquidity calendar derivatives REAAL 2011

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	--	--	(36)	(9)	(45)
Currency contracts	(6)	--	(2)	--	--	(9)
Total	**(6)**	**--**	**(2)**	**(36)**	**(9)**	**(53)**

Liquidity calendar derivatives REAAL 2010

In € millions	< 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Interest rate derivatives	--	--	(6)	(17)	(21)	(44)
Currency contracts	--	--	(2)	--	--	(2)
Total	**--**	**--**	**(8)**	**(17)**	**(21)**	**(46)**

For a further explanation with regard to the management of the liquidity risk of the Insurance activities, we refer to paragraph 20.6 (Liquidity risk Insurance activities).

21.2 Hedging and hedge accounting

REAAL uses various strategies for the Insurance activities to hedge its interest rate, market value and exchange rate risks with regard to its solvency. In 2011, this strategy was further fleshed out, e.g. by acquiring interest rate options. In addition, interest rate swaps and currency swaps were used. The hedging strategies of the Banking activities are mostly aimed at controlling the interest rate risk. Under IFRS, derivatives are valued at fair value in the balance sheet and any changes in the fair value are accounted for in the income statement. In the event that changes in fair value of hedged risks are not recognised through the income statement, an accounting mismatch occurs, making the results more volatile. In these cases, hedge accounting is applied as much as possible to mitigate accounting mismatching and volatility.

The notional amounts of the derivatives for hedging purposes presented in the table below reflect the degree to which REAAL is active in the relevant markets. Derivatives held for trading purposes are not included in this overview.

Derivatives for hedging purposes REAAL 2011

	Notional amounts				Fair value	
In € millions	**< 1 year**	**1 - 5 years**	**> 5 years**	**Total**	**Positive**	**Negative**
Interest rate contracts						
- Swaps and FRAs	1,745	801	1,917	4,463	227	(36)
- Options	1,195	1,263	1,553	4,011	319	(9)
Index contracts						
- Options	350	6	--	356	23	--
Currency contracts						
- Swaps	7	86	--	93	-	--
- Forwards	204	--	--	204	2	(9)
Total	**3,501**	**2,156**	**3,470**	**9,126**	**572**	**(53)**

Derivatives for hedging purposes REAAL 2010

	Notional amounts				Fair value	
In € millions	< 1 year	1 - 5 years	> 5 years	Total	Positive	Negative
Interest rate contracts						
- Swaps and FRAs	61	893	2,544	3,498	22	82
- Options	4,300	2,482	1,530	8,312	180	--
Index contracts						
- Options	131	255	--	386	18	--
Currency contracts						
- Swaps	6	--	--	6	1	--
- Forwards	200	--	--	200	4	(2)
Total	**4,698**	**3,630**	**4,074**	**12,402**	**225**	**80**

The notional amounts show the units of account that relate to the derivatives, indicating the relationship with the underlying values of the primary financial instruments. These notional amounts provide no indication of the size of the cash flows or of the market and credit risks attached to the transactions.

21.2.1 Hedging

The Insurance activities use derivatives to protect the market value of shareholders' equity and solvency from undesired market developments. Examples of this are:

- To hedge exchange rate risks on investments denominated in foreign currencies;
- To hedge interest rate risks resulting from return guarantees issued to policyholders;
- To hedge interest rate risks resulting from obligations to share surplus interest with policyholders.

21.2.2 Hedge accounting

With regard to the majority of the hedge strategies explained above, REAAL applies hedge accounting. In addition to the main distinction between fair value hedges and cash flow hedges, there is also a distinction between micro hedges and macro hedges in hedge accounting. In micro hedges, risks on separate contracts are hedged. In macro hedges, the risk of a portfolio of contracts is hedged. REAAL applies the following hedge accounting methods:

Fair value hedges

Hedging the interest rate risk on funding (micro hedge)
REAAL uses micro hedges to convert fixed-rate funding with interest rate swaps into floating interest rates. If the funding is in foreign currency, foreign exchange swaps are applied. In addition to converting the foreign currency into euros and the fixed rate into a floating rate, REAAL also uses derivatives to swap structured funding to floating-rate funding. In structured funding, the funding charge is related to, for example, developments in an equity index or inflation. Interest rate structures such as floating-rate coupons with a multiplier or a leverage factor also fall under the funding programme. REAAL fully hedges the interest rate risk on these structures.

Hedging the foreign exchange risk in the equity portfolio
The Insurance activities hedged the foreign exchange risk in their equity portfolio at the macro level using foreign exchange futures contracts.

Cash flow hedges

Hedging the interest rate risk in future reinvestments
The Insurance activities have lengthened the effective maturity of two investment portfolios at the macro level with the use of interest rate swaps. This fixes interest income over a longer period of time. The risk that is hedged here is the variability of the interest rate at the time of reinvestment. The cash flow hedge consists of a combination of a short-term payer swap and a long-term receiver swap. At the time of reinvestment (in this case, the end of the maturity of the short-term swap), the long-term swap is sold, and the proceeds are reinvested in fixed-income assets. The characteristics of this reinvestment (maturity, coupon dates) are largely similar to those of the sold swap.

At year-end 2011, 5 of these combinations were outstanding (year-end 2010: 3 combinations). As the hedge relationship was terminated, the positive result of € 0.2 million was recognised in the income statement.

Reinvestment calendar REAAL (notional amounts)

In € millions	**2011**	2010
< 1 year	--	61
1 - 5 years	58	--
> 5 years	550	--
Total	**607**	**61**

At year-end 2011, positive realised and unrealised market values and deferred interest income of € 52 million (2010: € 62 million) had been built up in shareholders' equity. These positive market value and interest are released to the income statement at the reinvestment points indicated above, over a period that is equal to the remaining maturity of the long-term swap in question.

No hedge accounting is applied to the equity options of REAAL, nor is it applied to the swaptions of REAAL.

22 Notes to the consolidated financial statements

22.1 Intangible assets

Specification intangible assets

In € millions	2011	2010
Goodwill	422	554
Software	31	30
Capitalised acquisition costs	451	486
Value of Business Acquired (VOBA)	863	939
Other intangible fixed assets	242	251
Total	**2,009**	**2,260**

Internal developed and capitalised software amount to € 23 million (2010: € 14 million). The internal acquisition cost of the Insurance activities amount to € 305 million (2010: € 298 million).

Statement of change in intangible assets 2011

In € millions	Goodwill	Software	Capitalised acquisition costs	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	554	56	1,292	1,224	293	3,419
Accumulated amortisation and impairments	(131)	(25)	(841)	(361)	(51)	(1,409)
Balance as at 31 December	**422**	**31**	**451**	**863**	**242**	**2,009**
Balance as at 1 January	554	30	486	939	251	2,260
Capitalised costs	--	--	55	--	--	55
Purchases	--	13	32	--	--	45
Depreciation capitalised costs	--	(2)	(45)	--	--	(47)
Depreciation purchases	--	(7)	(74)	(77)	(9)	(167)
Impairments	(131)	(3)	--	--	--	(134)
Other	--	--	(3)	1	--	(2)
Balance as at 31 December	**422**	**31**	**451**	**863**	**242**	**2,009**

Statement of change in intangible assets 2010

In € millions	Goodwill	Software	Capitalised acquisition costs	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	554	41	1,208	1,226	292	3,321
Accumulated amortisation and impairments	--	(11)	(722)	(287)	(41)	(1,061)
Balance as at 31 December	**554**	**30**	**486**	**939**	**251**	**2,260**
Balance as at 1 January	554	32	541	1,028	281	2,436
Capitalised costs	--	--	61	--	--	61
Purchases	--	7	26	--	--	33
Depreciation purchases	--	(9)	(142)	(89)	(10)	(250)
Impairments	--	--	--	--	(20)	(20)
Balance as at 31 December	**554**	**30**	**486**	**939**	**251**	**2,260**

The Value of Business Acquired (VOBA) is mainly caused by the acquisition of AXA, Winterthur and Zwitserleven. The average remaining amortisation period based on the underlying profit sources is 25-27 years, depending on the business unit.

Client relations and brand names are recognised in other intangible fixed assets. REAAL has capitalised € 215 million

(2010: € 222 million) worth of client relations and brand names.

The amortisations mainly concern the client portfolios from ex-AXA, Winterthur and DBV worth € 89 million (2010: € 96 million). The remaining amortisation period of client relations is 10 years.

REAAL has one brand name capitalised with an indefinite use. This concerns the brand name Zwitserleven which is bought back as from 2009 from SNS REAAL in the amount of € 126 million (2010: € 126 million). In December 2011 REAAL hired an external consultant who performed an impairment test on the value of the brand name Zwitserleven. The realisable value according to this test exceeds the book value.

In 2010 there has been an impairment related to Zwitserleven's distribution network of € 19 million in the light of announced changes in legislation. These changes prohibit the payment of commission fees to Independent Financial Advisors (IFAs) within the Pension business.

22.1.1 Recoverable amount of goodwill

Goodwill is not amortised. Instead, an impairment test is performed annually and more frequently if there are indications of impairment. The book value of the related cash flow generating units (including goodwill) is compared to the calculated recoverable amount. The recoverable amount of a cash flow generating unit is determined by value in use calculations. The double leverage at SNS REAAL level is not allocated to the cash generating units.

Goodwill cash flow generating units

In € millions	2011	2010
Zwitserleven	--	131
REAAL Life	312	313
REAAL Non-life	110	110
Total	**422**	**554**

As a result of the goodwill impairment test which has been prepared by an independent consultancy firm, the goodwill of the cash generating unit Zwitserleven was charged with an impairment for the amount of € 131 million. This related to the difficult circumstances in the pensions markets, as evidenced by the continued low interest rate environment, the longer life expectancy and the higher future capital requirements. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

The goodwill impairment tests on the other cash generating units do not lead to an impairment.

22.1.2 Principles value-in-use calculations

Specification principles value-in-use calculations

	Zwitserleven	REAAL Life	REAAL Non-life	Group Activities
Terminal growth rate	2.0%	2.0%	2.0%	2.0%
Available solvency	175.0%	175.0%	200.0%	0.0%
Pre-tax discount rate 2011	11.6%	11.0%	9.5%	12.5%
Pre-tax discount rate 2010	11.3%	11.1%	8.9%	12.5%

The key assumptions used in the goodwill impairment test per cash generating unit are based on various financial and economic variables, including operational budgets, interest rates, tax rates and inflation forecasts. These variables are determined by the management. The results and assumptions have been reviewed by an independent external consultancy firm. Assumptions are made in the models with regard to:

- Interest income, premium income and return on (re)investments.
- Long-term net interest income on property finance loan portfolio.
- (Credit) provisions and risk weighted assets.
- (Operating) expenses.
- Assumptions regarding technical provisions.
- Available and required solvency.
- Discount rate.

The assessment of these parameters differs for each cash-generating unit.

The value in use calculations have been prepared on the basis of operational plans for the three year period 2012-2014 and a steady state growth to normalised returns. The assumptions are based on expected future market developments and past experience and on the long term characteristics of the markets in which the various cash generating units of REAAL operate.

At REAAL Life the key value drivers of the recoverable value are the cost of equity (CoE), the terminal value income growth, the reinvestment return in combination with the technical result on investment for own account and the available solvency. A deterioration within reasonable limits on one of the abovementioned drivers in isolation would not lead to an impairment. The buffer is large and is capable of absorbing a combination of negative factors also. However, should circumstances on multiple factors deteriorate significantly, it could lead to a negative outcome for the buffer (the difference between the recoverable value and the book value)

Management believes that any reasonable possible change in the key assumptions on which the other cash generating units recoverable amounts are based would not cause the carrying amounts to exceed their recoverable amounts.

22.2 Property and equipment

Specification property and equipment

In € millions	2011	2010
Land and buildings in own use	157	143
IT equipment	2	6
Other assets	12	21
Total	**171**	**170**

Statement of change in property and equipment 2011

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	173	9	23	205
Accumulated revaluations	(5)	(7)	(11)	(23)
Accumulated amortisation and impairments	(11)	--	--	(11)
Balance as at 31 December	**157**	**2**	**12**	**171**
Balance as at 1 January	143	6	21	170
Revaluations	1	--	--	1
Investments	27	--	--	27
Depreciation	(5)	(4)	(10)	(19)
Impairments	(4)	--	--	(4)
Other	(5)	--	1	(4)
Balance as at 31 December	**157**	**2**	**12**	**171**

In 2011 an amount of € 38 million is under construction regarding new office buildings. The contractual obligations amount to € 32 million.

Statement of change in property and equipment 2010

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	155	41	68	264
Accumulated revaluations	--	--	--	--
Accumulated amortisation and impairments	(12)	(35)	(47)	(94)
Balance as at 31 December	**143**	**6**	**21**	**170**
Balance as at 1 January	150	12	29	191
Reclassifications	(1)	--	1	--
Investments	8	--	--	8
Divestments	(7)	--	--	(7)
Depreciation	(4)	(6)	(9)	(19)
Other	(3)	--	--	(3)
Balance as at 31 December	**143**	**6**	**21**	**170**

22.2.1 Valuation of land and buildings in own use

The land and buildings in own use are valued by an external surveyor at least once every three years on a rotation based schedule.

Valuation of land and buildings in own use

	in € millions	in percentages
2011	137	87%
2010	133	93%
2009	96	64%

22.3 Investments in associates

Statement of change in associates

In € millions	2011	2010
Balance as at 1 January	55	65
Share in result of associates	(1)	2
Revaluations	(17)	5
Dividend received	--	(19)
Other movements	1	2
Balance as at 31 December	**38**	**55**

The reporting dates of all material associates are consistent with the reporting date of REAAL.

Overview most significant investments in associates 2011

In € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Investment fund Ducatus	NL	35%	33	(3)	134	--	15
CED Holding BV	NL	23%	5	1	56	25	106
Other	Divers	20-50%	--	1	6	--	6
Total			**38**	**(1)**	**196**	**25**	**127**

Overview most significant investments in associates 2010

In € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Investment fund Ducatus	NL	33%	50	4	146	--	14
CED Holding BV	NL	23%	5	2	57	26	101
Other	Divers	20-50%	--	--	12	9	6
Total			**55**	**6**	**215**	**35**	**121**

22.4 Investment properties

Statement of change in investment properties

In € millions	2011	2010
Balance as at 1 January	252	259
Reclassifications	9	--
Investments	--	1
Divestments	(1)	--
Revaluations	(5)	(7)
Other movements	--	(1)
Balance as at 31 December	**255**	**252**

22.5 Investments

Investments: overview

In € millions	2011	2010
Fair value through profit or loss: Designated	1,017	1,054
Available for sale	22,569	21,611
Loans and receivables	9,232	11,275
Balance as at 31 December	**32,818**	**33,940**

Listing fair value through profit or loss

	Designated					
	Shares and similar investments		Fixed income		Total	
In € millions	2011	2010	2011	2010	2011	2010
Listed	--	1	982	953	982	954
Unlisted	--	9	35	91	35	100
Total	**--**	**10**	**1,017**	**1,044**	**1,017**	**1,054**

Part of the investments is lent or pledged to third parties. The book value of the lend investments amount to € 0.6 billion as at 31 December 2011 (2010: € 0.2 billion).

Statement of change in fair value through profit or loss

	Designated					
	Shares and similar investments		Fixed income		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Balance as at 1 January	11	11	1,043	1,080	1,054	1,091
Purchases and advances	--	2	778	1,084	778	1,086
Disposals and redemptions	(2)	(2)	(790)	(1,116)	(792)	(1,118)
Revaluations	--	--	(13)	(5)	(13)	(5)
Other	(9)	--	(1)	--	(10)	--
Balance as at 31 December	**--**	**11**	**1,017**	**1,043**	**1,017**	**1,054**

Listing investments available for sale

	Shares and similar investments		Fixed income investments		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Listed	470	498	21,164	20,080	21,634	20,578
Unlisted	747	836	188	197	935	1,033
Total	**1,217**	**1,334**	**21,352**	**20,277**	**22,569**	**21,611**

Statement of change in investments available for sale

	Shares and similar investments		Fixed income investments		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Balance as at 1 January	1,334	1,672	20,277	19,702	21,611	21,374
Purchases and advances	219	257	7,800	6,988	8,019	7,245
Disposals and redemptions	(290)	(659)	(7,976)	(6,731)	(8,266)	(7,390)
Revaluations	(25)	76	1,217	331	1,192	407
Impairments	(22)	(14)	--	20	(22)	6
Amortisation	--	--	11	13	11	13
Other	1	2	23	(46)	24	(44)
Balance as at 31 December	**1,217**	**1,334**	**21,352**	**20,277**	**22,569**	**21,611**

Valuation available for sale

In € millions	**2011**	2010
Shares and similar investments		
Cost price	1,037	1,138
Revaluation	180	196
Fixed income investments		
(Amortised) cost price	19,249	19,324
Revaluation	1,614	477
Accrued interest	489	476
Balance as at 31 December	**22,569**	**21,611**

Investments: loans and receivables

In € millions	2011	2010
Mortgages	3,063	4,616
Private loans linked to savings mortgages	4,895	4,638
Private loans	1,280	2,037
Total	**9,238**	**11,291**
Provision for bad debts	(6)	(16)
Total	**9,232**	**11,275**

Statement of change in loans and receivables

In € millions	2011	2010
Balance investments as at 1 January	11,291	10,609
Purchases and advances	2,583	3,631
Changes in the composition of group companies	--	855
Disposals and redemptions	(4,616)	(4,022)
Amortisation	1	2
Other	(21)	216
Balance investments as at 31 December	**9,238**	**11,291**
Balance provisions as at 1 January	(16)	(13)
Addition	--	(3)
Release	10	--
Balance provisions as at 31 December	**(6)**	**(16)**
Total	**9,232**	**11,275**

22.6 Investments for accounts of policyholders

Investments for account of policyholders include separate deposits for the account and risk of policyholders, investments for unit linked insurances and separate investment deposits for large group pension contracts.

Listing investments for account of policyholders

In € millions	2011	2010
Shares and similar investments:		
- Listed	4,980	4,200
- Not listed	4,340	5,750
Fixed income investments		
- Listed	2,590	2,275
- Not listed	533	416
Total	**12,443**	**12,641**

Statement of change in investments for account of policyholders

In € millions	2011	2010
Balance as at 1 January	12,641	12,040
Reclassifications	(52)	--
Purchases and advances	6,971	3,707
Disposals and redemptions	(6,849)	(3,610)
Revaluations	(282)	565
Other movements	14	(61)
Balance as at 31 December	**12,443**	**12,641**

22.7 Investments collateral and liabilities securities lending

Specification invested collateral and liabilities securities lending

In € millions	2011	2010
Invested collateral securities lending	117	176
Securities lending liabilities	(120)	(182)
Total (liability)	**(3)**	**(6)**

Statement of change in invested collateral securities lending

In € millions	2011	2010
Balance as at 1 January	176	540
Disposals/redemptions	(62)	(370)
Revaluations	3	5
Other	--	1
Balance as at 31 December	**117**	**176**

REAAL lends securities to third parties in return for cash or securities collateral. Requirements for the collateral vary according to the type of facility. The minimum level varies according to the type of collateral: more risky facilities require a higher level of collateral.

The collateral obtained in cash is invested in money market funds. These funds are set up for the investment and reinvestment of such collateral. The purpose of these investment funds is to provide investors with the highest possible return which can be reconciled with the retention of capital and maintaining sufficient liquidity to meet the expected wishes of the investor. REAAL is running the economic risk and obtains the risks and rewards from the investments in these funds.

The investments are characterised by a limited risk of value movement. Approximately 30% (2010: 53%) of the investments in these funds has a Standard & Poor's rating of AAA, 9% AA (2010: 0%), 19% A (2010: 0%), while 42% (2010: 47%) has no rating.

REAAL cannot freely dispose over the investments in the funds. The investments can only be used for the redemption of the collateral provided by the borrower on the basis of lending and borrowing agreements. The obligation to repay the collateral is included in the balance sheet under securities lending liabilities.

The agent effecting the lending and borrowing transaction and investing the collateral has indemnified REAAL against the borrower in default. If the borrower defaults in returning the securities lent under a lending and borrowing transaction, the agent will be subrogated and assume all right and legal remedies that are exercised on the collateral invested in these money market funds.

Statement of change in securities lending liabilities

In € millions	**2011**	2010
Balance as at 1 January	182	550
Disposals/redemptions	(62)	(369)
Other	--	1
Balance as at 31 December	**120**	**182**

The fair value of the liabilities does not differ from the book value.

22.8 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Derivatives held for cash flow hedge accounting	53	5	36	--	17	5
Derivatives held for fair value hedge accounting	67	--	--	--	67	--
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	419	220	17	84	402	136
Total	**539**	**225**	**53**	**84**	**486**	**141**

Derivatives are financial instruments whose value depends on one or more underlying primary financial instruments. Derivatives contain rights and obligations whereby one or more of the financial risks to which the underlying primary financial instruments are subject, are exchanged between parties. The transactions do not lead to the transfer of the underlying primary financial instrument at the conclusion of the agreement, neither does the transfer have to take place when the agreement expires. Most derivatives are held to hedge against undesired markets risks. This is explained in Risk management's paragraph 21.2 Hedging and hedge accounting. The derivatives are unlisted.

Statement of change in derivatives

In € millions	**2011**	2010
Balance as at 1 January	141	119
Purchases	180	99
Disposals	(81)	(67)
Revaluations	249	(9)
Exchange rate differences	(3)	(1)
Balance as at 31 December	**486**	**141**

22.9 Deferred tax assets and liabilities

Specification deferred tax assets and liabilities

In € millions	2011	2010
- Deferred tax assets	282	199
- Deferred tax liabilities	(727)	(490)
Total (liability)	**(445)**	**(291)**

Origin of deferred tax assets and tax liabilities 2011

In € millions	1 January	Change through profit or loss	Change through shareholders' equity	Other movements	31 December
Intangible assets	(93)	48	--	--	(45)
Value of business acquired	(167)	(7)	--	--	(174)
(Investment) property and equipment	(48)	4	--	--	(44)
Investments	(143)	257	(504)	--	(390)
Derivatives	(15)	(62)	13	(3)	(67)
Insurance contracts	102	28	71	--	201
Provision for employee benefits	72	(23)	--	--	49
Tax-deductible losses	1	--	--	1	2
Other	--	20	--	3	23
Total liabilities	**(291)**	**265**	**(420)**	**1**	**(445)**

Origin of deferred tax assets and tax liabilities 2010

In € millions	1 January	Change through profit or loss	Change through shareholders' equity	Other movements	31 December
Intangible assets	(97)	2	--	2	(93)
Value of business acquired	(214)	43	--	4	(167)
(Investment) property and equipment	(52)	3	--	1	(48)
Investments	(161)	126	(110)	2	(143)
Derivatives	(10)	(15)	10	--	(15)
Insurance contracts	91	(8)	21	(2)	102
Provision for employee benefits	75	(2)	--	(1)	72
Tax-deductible losses	79	(78)	--	--	1
Other	(1)	2	--	(1)	--
Total liabilities	**(290)**	**73**	**(79)**	**5**	**(291)**

Specification tax-effect changes shareholders' equity

In € millions	2011	2010
Change in revaluation reserve	(8)	--
Change in cash flow hedge reserve	(13)	(10)
Change in fair value reserve	441	89
Total liabilities	**420**	**79**

The deferred tax assets related to tax-deductible losses amounts to € 2 million (2010: € 1 million). This amounts to 25% of the total tax-deductible losses of € 8 million. A deferred loss compensation is only recognised if sufficient tax profits are expected to be realised in the next nine years following the year of the loss.

22.10 Loans and advances to banks

This item relates to loans and advances to banks, excluding interest-bearing securities, with a remaining maturity longer than three months.

22.11 Other assets

Specification other assets

In € millions	2011	2010
Policyholders	162	76
Intermediaries	114	65
Reinsurers	3	5
Amounts due from direct insurance	**279**	**146**
Accrued interest	25	20
Other accrued assets	21	4
Accrued assets	**46**	**24**
Other advances	4	86
Total	**329**	**256**

22.12 Cash and cash equivalents

Specification cash and cash equivalents

In € millions	2011	2010
Short-term bank balances	1,188	2,054
Total	**1,188**	**2,054**

22.13 Equity

Specification equity

In € millions	**2011**	2010
Equity attributable to shareholders	3,956	2,902
Equity attributable to securityholders	400	725
Minority interest	2	3
Balance as at 31 December	**4,358**	**3,630**

For further information on total equity, see paragraph 16.4 Consolidated statement of changes in equity.

22.14 Subordinated debt

Specification subordinated debt

In € millions	2011	2010
Bonds	532	--
Private loans	452	940
Final bonus account	18	20
Total	**1,002**	**960**

22.14.1 Bonds

Bonds

	Coupon rate	Period	Book value	Nominal Value	Book value	Nominal value
In € millions			2011	2011	2010	2010
SRLEV	9.000%	2011-2041	397	400	--	--
SRLEV	7.010%	2011-2049	86	86	--	--
Total			**483**	**486**	**--**	**--**
Change in fair value as a result of hedge accounting			49	--	--	--
Total			**532**	**486**	**--**	**--**

In 2011, SRLEV, the legal entity comprising most of REAAL's life Insurance activities, issued two subordinated loans. It concerns an issuance of notes with a nominal value of € 400 million and 30-year loan term and an issuance of perpetual notes nominal € 86 million. These subordinated loans form, to the extent permitted by law, part of the available equity in determining the solvency position of SRLEV.

22.14.2 Private loans

The subordinated private loans have a maturity of longer than five years and have been concluded by group companies. The private loans have an average interest rate of 6.8% (2010: 7.2%).

22.14.3 Final bonus account

The subordinated final bonus account commitments were entered into by SRLEV and form part of the solvency test in determining the solvency position of SRLEV. The final bonus account is largely of a long term nature.

22.15 Debt certificates

Specification Holland Homes securitisation programme

	Initial principal	Date of securitisation	Book value	Book value	Date put-option	Contractual date of expiry
In € millions			2011	2010		
Holland Homes (MBS 2000-1)	350	11-2000	--	135	n/a	24-09-2030
Holland Homes (MBS 2003-1)	435	12-2003	--	192	30-12-2013	31-12-2080
Holland Homes (MBS 2005-1)	757	11-2005	--	550	20-12-2015	31-12-2083
Holland Homes (MBS (Oranje) 2005-1)	1,601	04-2006	--	894	20-01-2018	31-12-2083
Total	**3,143**		**--**	**1,771**		

The securitised part of the mortgages by means of the Holland Homes transactions were transferred to SNS Bank as at

1 January 2011.

22.16 Insurance and reinsurance contracts

Specification insurance and reinsurance contracts by segment

In € millions	Gross 2011	Gross 2010	Reinsurance 2011	Reinsurance 2010
REAAL Life, for own risk	17,955	18,110	3,248	150
Zwitserleven, for own risk	6,524	5,996	2	1
Life, for own risk	**24,479**	**24,106**	**3,250**	**151**
REAAL Life, for account of policyholders	6,434	6,926	--	--
Zwitserleven, for account of policyholders	6,821	6,507	--	--
Life, for account of policyholders	**13,255**	**13,433**	**--**	**--**
Non-life	1,311	1,373	176	204
Eliminations and Reclassification to provision for employee benefits	(218)	(68)	--	--
Total	**38,827**	**38,844**	**3,426**	**355**

Specification insurance and reinsurance contracts by type of contract

In € millions	Notes	Gross 2011	Gross 2010	Reinsurance 2011	Reinsurance 2010
Provision for life insurance obligations	a	24,792	24,435	3,250	151
Unamortised interest rate discounts	b	(445)	(471)	--	--
Provision for profit sharing, bonuses and discounts	c	132	142	--	--
Life, for own risk		**24,479**	**24,106**	**3,250**	**151**
Technical provisions for insurance on behalf of policyholders	d	13,255	13,433	--	--
Life, for account of policyholders		**13,255**	**13,433**	**--**	**--**
Provision for premium shortfalls and current risks	e	7	7	--	--
Provision for unearned premiums	f	128	142	1	2
Provision for claims payable	g	882	898	131	138
Provision for claims incurred but not reported	h	294	326	44	64
Non-life		**1,311**	**1,373**	**176**	**204**
Reclassification to provision for employee benefits		(218)	(68)	--	--
Total		**38,827**	**38,844**	**3,426**	**355**

Insurance contracts are largely of a long term nature. Part of the pension rights of the employees, especially the entitlements of (former) employees built up in previous years, are administered in-house at REAAL. These entitlements are included in the consolidated figures under the provision for employee benefits. The increase in 2011 is the result of a number of contracts for which the related investments have not been put into separate accounts, as a result of which the entitlements presented are gross.

a. Statement of change in provision for life insurance obligations for own risk

	Gross		Reinsurance	
In € millions	**2011**	2010	**2011**	2010
Balance as at 1 January	24,435	24,416	151	158
Portfolio reclassification	56	(13)	--	--
Reinsurance contracts	--	--	3,295	--
Benefits paid	(2,208)	(2,281)	(465)	(90)
Premiums received	1,506	1,606	246	161
Interest added	1,041	945	122	9
Technical result	(122)	(119)	(65)	(79)
Release of expense loading	(213)	(168)	(34)	(8)
Change in shadow accounting	296	83	--	--
Other movements	1	(34)	--	--
Balance as at 31 December	**24,792**	**24,435**	**3,250**	**151**

In the first quarter of 2011 a new traditional life reinsurance transaction was entered into with a large reinsurer, releasing approximately € 225 million of capital. This transaction increased both reinsurance contracts and other amounts due to customers by € 3.3 billion.

b. Statement of change in unamortised interest rate discounts

	Life own risk	
In € millions	**2011**	2010
Balance as at 1 January	471	500
Discounts given in the financial year	28	21
Amortisation	(51)	(58)
Other movements	(3)	8
Balance as at 31 December	**445**	**471**

c. Statement of change in provision for profit sharing, bonuses and discounts

	Life own risk	
In € millions	**2011**	2010
Balance as at 1 January	142	152
Profit sharing, bonuses and discounts granted in the financial year	(10)	(10)
Balance as at 31 December	**132**	**142**

d. Statement of change in technical provisions for insurance on behalf of policyholders

In € millions	**2011**	2010
Balance as at 1 January	13,433	12,749
Portfolio reclassification	(56)	13
Premiums received	1,342	1,313
Benefits paid	(1,100)	(1,035)
Exchange (rate) differences	(149)	663
Technical result	(62)	(105)
Release of expense loading	(176)	(206)
Other movements	23	41
Balance as at 31 December	**13,255**	**13,433**

e. Statement of change in provision for premium shortfalls and current risks

In € millions	Gross 2011	Gross 2010
Balance as at 1 January	7	5
Additions during the year	--	2
Balance as at 31 December	**7**	**7**

f. Statement of change in provision for unearned premiums

In € millions	Gross 2011	Gross 2010	Reinsurance 2011	Reinsurance 2010
Balance as at 1 January	142	141	2	3
Additions during the year	128	142	1	2
Added to the results	(142)	(141)	(2)	(3)
Balance as at 31 December	**128**	**142**	**1**	**2**

Due to a change in estimate, a one-off release of the provision for unearned premiums has been taken to the result in 2011 in the amount of € 16 million gross (€ 12 million net).

g. Statement of change in provision for claims payable

In € millions	Gross 2011	Gross 2010	Reinsurance 2011	Reinsurance 2010
Balance as at 1 January	898	886	138	137
Reported claims, current period	492	488	26	43
Reported claims, prior periods	29	26	(4)	(11)
Claims paid, current period	(270)	(269)	(18)	(18)
Claims paid, prior periods	(281)	(248)	(14)	(17)
Interest added	14	15	3	4
Balance as at 31 December	**882**	**898**	**131**	**138**

h. Statement of change in provision for claims incurred but not reported

In € millions	Gross 2011	Gross 2010	Reinsurance 2011	Reinsurance 2010
Balance as at 1 January	326	349	64	68
Additions during the year	75	71	4	1
Added to the results	(107)	(94)	(24)	(5)
Balance as at 31 December	**294**	**326**	**44**	**64**

22.17 Provision for employee benefits

Specification provision for employee benefits

In € millions	2011	2010
Pension commitments	355	323
Other employee commitments	8	10
Total	**363**	**333**

From 2011, the pension provision for SNS REAAL's commitments to employees under the defined benefits, is presented at holding company level. SNS REAAL has placed some of these pension contracts with its own Insurance activities. The provision formed for this purpose at the Insurance activities is included in the technical provision. In the balance sheet, this provision is reclassified into the provision for employee benefits (€ 80 million). In 2011, the extra pension provision, calculated under the IFRS rules, is also transferred to SNS REAAL (€ 30 million).

Statement of change of pension commitments

In € millions	2011	2010
Balance as at 1 January	323	333
Reclassification of technical provisions	80	--
Increase and interest accrual	26	27
Investment income	(11)	(12)
Adjustment pension plan (curtailment)	--	(15)
Benefits paid	(13)	(9)
Contributions by the employer	(22)	(4)
Transfer to Group	(30)	--
Other movements	2	3
Balance as at 31 December	**355**	**323**

Statement of change in other employee commitments

In € millions	2011	2010
Balance as at 1 January	10	8
Allocation to other employee benefits	--	2
Other movements	(2)	--
Balance as at 31 December	**8**	**10**

22.18 Other provisions

Specification other provisions

In € millions	2011	2010
Restructuring provision	26	24
Other provisions	13	10
Total	**39**	**34**

The restructuring provision mainly relates to the finalisation of additional cost reduction programmes.

The other provisions are mainly of a long term nature and were made partly with a view to the risk that (legal) claims may not be settled. The timing of expected outflow of means is uncertain.

Statement of change in other provisions

	Restructuring provision		Other provisions		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Balance as at 1 January	24	21	10	17	34	38
Additions / release	13	12	2	(6)	15	6
Withdrawal	(11)	(9)	--	(1)	(11)	(10)
Other movements	--	--	1	--	1	--
Balance as at 31 December	**26**	**24**	**13**	**10**	**39**	**34**

22.19 Other amounts due to customers

Specification other amounts due to customers

In € millions	**2011**	2010
Non-current debt	3,941	728
Mortgage deposits	20	5
Savings deposits	54	41
Total	**4,015**	**774**

22.20 Amounts due to banks

Specification amounts due to banks

In € millions	**2011**	2010
Due on demand	687	1,350
Deposits and certificates	2,467	3,156
Total	**3,154**	**4,506**

The debts to banks comprise liabilities ensuing from repo agreements and structured transactions. These liabilities are offset by investments, mainly including government bonds with the highest rating. These debts will be settled at the same time as the corresponding investments.

22.21 Other liabilities

Specification other liabilities

In € millions	**2011**	2010
Debts in relation to direct insurance	490	448
Debts to reinsurers	(47)	(86)
Other taxes	40	42
Debts to group companies	--	2
Other liabilities	823	845
Accrued interest	52	42
Total	**1,358**	**1,293**

22.22 Off balance sheet commitments

22.22.1 Contingent liabilities

Specification contingent liabilities

In € millions	2011	2010
Liabilities from pledges and guarantees given	23	46
Liabilities from (ir)revocable facilities	13	--
Repurchase commitments	--	1,691

To meet customer requirements, REAAL offers loan related products such as pledges and guarantees. The underlying value of these products is not included as assets or liabilities in the balance sheet. The amounts stated above indicate the maximum potential credit risk REAAL faces through these products, assuming that all counterparties are no longer able to meet their commitments and all existing securities will have no value. The guarantees relate to guarantees that do and do not replace the credit amount. Most guarantees are expected to expire without any claim being made and therefore are not expected to give rise to any future cash flows.

The irrevocable facilities consist mainly of credit facilities that are pledged to clients, but against which no claim has been made. These facilities are pledged for a set period and at a variable interest rate. Collateral has been obtained for the majority of the irrevocable credit facilities that have not been called.

The collateralised loans and advances that were sold or securitised under the Holland Homes programme were transferred to SNS Bank as at 1 January 2011.

Maturity calendar repurchase commitments

In € millions	2011	2010
< 1 year	--	81
1 - 5 year	--	728
> 5 year	--	882
Total	**--**	**1,691**

22.22.2 Netherlands Terrorism Risk Reinsurance Company

In 2012, REAAL will take a 14.36% (2011: 16.16%) share in the cluster life and 5.35% (2011: 5.37%) in the cluster non-life of the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV (Netherlands Terrorism Reinsurance Company). In 2012 the extent of the guarantee is € 79 million (2011: € 86 million) and the obliged premium € 1 million (2011: € 2 million).

22.22.3 Lease commitments

Maturity calendar future minimum payments based on irrevocable operational leases

In € millions	2011	2010
< 1 year	4	14
1 - 5 year	6	36
> 5 year	--	56
Total	**10**	**106**

22.22.4 Legal proceedings

REAAL is involved in legal proceedings. Although it is impossible to predict the result of pending or threatening legal proceedings, on the basis of information currently available and after consulting legal advisors, the Executive Board believes that the outcome of these proceedings is unlikely to have any material adverse effects on the financial position or operating results of REAAL.

22.23 Related parties

22.23.1 Identity of related parties

Parties are considered to be related if one party can exert control or significant influence over the other party in deciding financial or operational matters. As a part of its ordinary operations, REAAL maintains various sorts of ordinary business relations with related companies and parties, particularly in the areas of insurance, banking, and asset management. Other parties related with REAAL are the Dutch Ministry of Finance, subsidiaries, associated companies, joint ventures, managers in key positions and close family members of these managers.

Transactions with related parties are conducted at arm's length. The Responsible living (Verantwoord Wonen) transaction is based on market rates, with adjustments made based on agreements between SRLEV NV and SNS Bank NV. This transaction is explained below in detail. In the transactions with related parties, Best Practices provisions II.3.2, II.3.3, II.3.4, III.6.1, III.6.3 and III.6.4 of the Dutch Corporate Governance Code were complied with.

22.23.2 Transactions and positions between REAAL NV, SNS REAAL NV and associated companies

Transactions and positions between REAAL NV with SNS REAAL NV and associated companies

	SNS REAAL NV		Associated companies	
In € millions	**2011**	2010	**2011**	2010
Positions				
Loans and advances	464	1,069	511	375
Other debt	484	987	273	240
Transactions				
Mutation loans and advances	(605)	(196)	136	(127)
Mutation other debt	503	10	33	(162)
Income	19	21	22	14
Other paid costs	203	257	18	16

The main related party transactions for this reporting period are the transfer of part the core Tier 1 capital securities held by SNS REAAL as a contribution of share premium in the equity of REAAL. The transfer concerns the core Tier 1 capital securities of Stichting Beheer SNS REAAL pushed through to REAAL. The transaction took place on 1 January 2011.

REAAL NV paid a dividend of € 80 million to SNS REAAL NV.

REAAL NV redeemed € 488 million and SRLEV NV redeemed € 95 million of private loans provided by SNS REAAL NV.

In 2011 an amount of € 518 million of mortgages (face value € 504 million) was sold by SNS Bank NV to SRLEV NV. In 2011 an amount of € 518 million of mortgages (face value € 504 million) was sold by SNS Bank NV to SRLEV NV. They concern mortgages issued in the first half of 2011 by SNS Bank as part of the Responsible living program. In this program mortgages were sold through the distribution channels of REAAL that were temporarily financed by SNS Bank NV.

The sales price between SRLEV NV and SNS Bank NV is based on arm's length rates. Hereby, some normal cost surcharges on the one hand, like servicing costs, are excluded since they were expensed already by SRLEV NV upon issue of the mortgages. On the other hand SNS Bank NV has been compensated for the cost of hedge positions that

resulted from taking this temporary position on balance.

22.23.3 Transactions and positions with managers in key positions of REAAL

Managers in key positions with REAAL comprise the members of the Executive Board of SNS REAAL, the CIO, the HRM director and the boards of the business units (REAAL and Zwitserleven), in total 12 persons (2010: 18 persons). Transactions with ad interim directors also constitute related-party transactions.

Specification remuneration managers in key positions

	Statutory board		Other managers in key positions		Total	
In € thousands	**2011**	2010	**2011**	2010	**2011**	2010
Short-term employee benefits	2,104	1,998	1,922	3,491	4,026	5,489
Post-employment benefits	328	311	323	437	651	748
Other long-term benefits	--	2	8	18	8	20
Termination benefits	--	--	--	476	--	476
Total	**2,432**	**2,311**	**2,253**	**4,422**	**4,685**	**6,733**

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate		Redemptions		Advances	
In € thousands	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Mortgage loans	4,898	5,726	3.85%	4.24%	705	--	584	--

Transactions with individual members of the Executive Board and the Supervisory Board of REAAL are explained in paragraph 19.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

22.24 Subsequent events

As of 2012 REAAL changed the accounting treatment of the internal and external deferred acquisition costs (DAC). As a result the book value of the DAC (€ 451 million gross), taking into account the tax effect, will be charged directly to shareholder's equity (€ 338 million net). The change in accounting treatment has a limited effect on solvability. For further details we refer to paragraph 17.3.4.4 (Change in accounting principles financial statements 2012) in the accounting principles of the financial statements.

22.25 Net premium income

The net premium income concerns insurance premiums less reinsurance premiums.

Specification net premium income

	Own account		For account of policyholders		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Regular premiums Life	752	738	554	626	1,306	1,364
Regular premiums Zwitserleven	299	266	521	510	820	776
Total gross regular premiums Life	**1,051**	**1,004**	**1,075**	**1,136**	**2,126**	**2,140**
Single premiums Life	374	456	7	14	381	470
Single premiums Zwitserleven	93	146	248	163	341	309
Total gross single premiums	**467**	**602**	**255**	**177**	**722**	**779**
Total gross premium income	**1,518**	**1,606**	**1,330**	**1,313**	**2,848**	**2,919**
Total reinsurance premiums Life	192	87	--	--	192	87
Total net premium income Life	**1,326**	**1,519**	**1,330**	**1,313**	**2,656**	**2,832**
Total net premium income Non-Life					**794**	**742**
Total net premium income					**3,450**	**3,574**

Specification regular life premiums

	Own account		For account of policyholders		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Individual						
Without profit sharing	538	503	554	373	1,092	876
With profit sharing	214	235	--	400	214	635
Total individual	**752**	**738**	**554**	**773**	**1,306**	**1,511**
Group						
Without profit sharing	--	5	521	350	521	355
With profit sharing	299	261	--	13	299	274
Total group	**299**	**266**	**521**	**363**	**820**	**629**
Total gross regular premiums	**1,051**	**1,004**	**1,075**	**1,136**	**2,126**	**2,140**

Specification single life premiums

	Own account		For account of policyholders		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Individual						
Without profit sharing	365	246	7	55	372	301
With profit sharing	9	208	--	--	9	208
Total individual	**374**	**454**	**7**	**55**	**381**	**509**
Group						
Without profit sharing	--	3	248	120	248	123
With profit sharing	93	145	--	2	93	147
Total group	**93**	**148**	**248**	**122**	**341**	**270**
Total gross single premiums	**467**	**602**	**255**	**177**	**722**	**779**

Specification premium income non-life

	Gross		Reinsurance		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Fire	224	218	9	16	215	202
Accident and health	143	138	6	6	137	132
Motor vehicle	286	267	7	7	279	260
Transport	75	74	5	11	70	63
Other segments	120	112	27	27	93	85
Net premium income Non-life	**848**	**809**	**54**	**67**	**794**	**742**

22.26 Net fee and commission income

This item includes fees from services provided, insofar as not interest related.

Specification net fee and commission income 2011

In € millions	2011	2010
Fee and commission income:		
- Securities activities	2	3
- Insurance agency activities	18	17
- Management fees	29	22
- Other activities	43	61
Total fee and commission income:	**92**	**103**
Fee and commission expense	20	33
Total	**72**	**70**

22.27 Share in result of associates

This item represents the share in result of associated companies. In 2011 the negative result of € 1 million (2010: € 6 million positive) over the financial year relates to the impact of the results of associates.

22.28 Investment income

Specification investment income 2011

In € millions	2011	2010
Fair value through profit or loss: Held for trading	--	(2)
Fair value through profit or loss: Designated	23	82
Available for sale	906	969
Loans and receivables	488	435
Investment property	15	14
Total	**1,432**	**1,498**

Composition of investment 2011

	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
In € millions	Held for trading	Designated				
Interest	--	35	770	487	--	1,292
Dividend	--	--	33	--	--	33
Rental income	--	--	--	--	20	20
Total interest dividend and rental income	**--**	**35**	**803**	**487**	**20**	**1,345**
Realised revaluations	--	1	103	1	--	105
Unrealised revaluations	--	(13)	--	--	(5)	(18)
Total revaluations	**--**	**(12)**	**103**	**1**	**(5)**	**87**
Total	**--**	**23**	**906**	**488**	**15**	**1,432**

Composition of investment 2010

In € millions	Fair value through profit or loss		Available for sale	Loans and receivables	Investment property	Total
	Held for trading	Designated				
Interest	--	156	805	433	--	1,394
Dividend	--	--	37	--	--	37
Rental income	--	--	--	--	21	21
Total interest dividend and rental income	**--**	**156**	**842**	**433**	**21**	**1,452**
Realised revaluations	(2)	(77)	127	2	--	50
Unrealised revaluations	--	3	--	--	(7)	(4)
Total revaluations	**(2)**	**(74)**	**127**	**2**	**(7)**	**46**
Total	**(2)**	**82**	**969**	**435**	**14**	**1,498**

Rental income from investment property includes both rental income and directly allocated operating expenses. The operating expenses amounted to € 7 million (2010: € 6 million).

The recognised interest income on the devaluation of investments amounts to € 2 million (2010: € 1 million).

22.29 Investment income for account of policyholders

Specification investment income for account of policyholders

In € millions	2011	2010
Interest	86	89
Dividend	126	148
Total interest and dividend	**212**	**237**
Revaluations	(251)	578
Total	**(39)**	**815**

22.30 Result on financial instruments

Specification result on financial instruments

In € millions	2011	2010
Revaluations transferred from shareholders' equity	--	28
Interest income transferred from shareholders' equity	16	31
Result on derivatives held for cash flow hedge accounting	**16**	**59**
Fair value movements in hedging instruments	17	(2)
Fair value movements in hedged item attributable to hedged risks	4	5
Fair value movements in derivatives held for fair value hedge accounting	**21**	**3**
Fair value movements of derivatives maintained for ALM not classified for hedge accounting	143	37
Share options	3	(3)
Total	**183**	**96**

22.31 Other operating income

The other operating income amount to € 3 million. In 2010 this income mainly included a subsequent payment from AXA of € 27 million related to the acquisition of AXA NL in 2007.

22.32 Result assets and liabilities held for sale

All shares in REAAL Reassurantie SA in Luxembourg were sold by REAAL NV to Amtrust Holdings Limited on 29 December 2011 for an amount of € 54 million. The result on this transaction amounts to € 18 million.

22.33 Technical claims and benefits

Technical claims and benefits include benefits paid, surrenders, claims paid, claim handling costs and changes in insurance contracts. This item also includes profit sharing and discounts.

Specification technical claims and benefits

In € millions	2011	2010
Benefits paid and surrenders from own account	1,820	2,280
Change in technical provisions for own risk gross	27	280
Change in technical provisions for own risk reinsurance	196	7
Profit sharing and discounts	81	132
Change in shadow accounting	10	47
Life insurance	**2,134**	**2,746**
Claims paid for own account	524	481
Change in provision for reported claims	(30)	11
Change in provision for claims incurred but not reported	(4)	(19)
Other technical expenses	--	3
Non-life insurance	**490**	**476**
Total	**2,624**	**3,222**

Benefits paid and surrenders for own account include an amount for amortisation of VOBA of € 77 million (2010: € 89 million). Profit sharing and discounts include an amount for amortisation of interest rate discounts of € 65 million (2010: € 51 million).

As at 17 November 2010, REAAL reached a final agreement with the Stichting Verliespolis on the compensation scheme. In 2010 Technical claims and benefits included € 43 million), consisting of accrued interest and the building up of rights in relation to the compensation of policyholders of unit linked investments.

In 2011 REAAL increased the provision for unit-linked insurance contracts with the accretion of interest (€ 22 million). The provision has been tested for developments in 2011, and this did not result in costs in addition to the accretion of the liability.

The provision for defined contribution pensions amounts to € 33 million end of 2011. In 2011, this provision was increased with the accretion of interest (€ 5 million), represented in the technical claims and benefits. The provision will be used to adjust the amount of policy costs in the policy contracts to a maximum, in accordance with the advice of the Verbond van Verzekeraars. The compensation scheme is the result of insufficient transparent communication with participants in pension contracts on the costs in these insurance policies and the implications for the prognoses of the pensions.

22.34 Charges for account of policyholders

Charges for account of policyholders include benefits paid, surrenders and changes in insurance contracts. This item also includes profit sharing and discounts.

Specification charges for account of policyholders

In € millions	2011	2010
Benefits paid and surrenders for life insurance contracts for account of policyholders	1,100	1,035
Change in technical provisions for life insurance contracts for account of policyholders	(10)	518
Total	**1,090**	**1,553**

22.35 Acquisition costs for insurance activities

Specification acquisition costs for insurance operations

In € millions	2011	2010
REAAL Life	89	124
Zwitserleven	26	27
REAAL Non-Life	205	192
Reinsurance	(13)	(14)
REAAL Other	(1)	(2)
Total	**306**	**327**

Acquisition costs include amortisation of capitalised external acquisition costs for the amount of € 74 million (2010: € 101 million).

22.36 Staff costs

Specification staff costs

In € millions	2011	2010
Salaries	120	123
Pension costs	37	24
Social security	16	16
Other staff costs	5	16
Total	**178**	**179**

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and training and education costs. The other staff costs related to lease commitments of the fleet, amount to € 3 million (2010: € 4 million).

Transactions with individual members of the Executive Board and the Supervisory Board of REAAL are explained in paragraph 19.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

Breakdown pension costs

In € millions	2011	2010
Pension schemes based on defined contribution	21	19
Pension schemes based on defined benefit	16	5
Total	**37**	**24**

Composition pension costs

In € millions	2011	2010
Pension premiums defined contribution plans	26	26
Employee contributions	(4)	(4)
Curtailment	--	(15)
Increase of present value defined benefit plans	26	29
Expected return on investments	(11)	(12)
Total	**37**	**24**

Average number of FTE's

In numbers	2011	2010
Average number of FTE's	2,322	2,483

22.37 Other operating expenses

Specification other operating expenses

In € millions	2011	2010
Housing	16	20
IT systems	121	138
Marketing and public relations	9	14
External advisors	9	10
Other costs	31	40
Total	**186**	**222**

22.38 Impairment charges / (reversals)

Specification impairment charges / (reversals) by class of asset

	Impairments		Reversals		Total	
In € millions	**2011**	2010	**2011**	2010	**2011**	2010
Through profit or loss						
Intangible assets	135	20	--	--	135	20
Property and equipment	4	3	--	--	4	3
Investments	48	14	--	20	48	(6)
Other debts	1	12	8	--	(7)	12
Total through profit or loss	**188**	**49**	**8**	**20**	**180**	**29**
Through equity						
Property and equipment	3	--	--	--	3	--
Investments	35	4	--	16	35	(12)
Total through equity	**38**	**4**	**--**	**16**	**38**	**(12)**

22.39 Other interest expenses

Specification other interest expenses

In € millions	**2011**	2010
Bonds	28	22
Private loans	66	92
Interest on reinsurance deposits	121	24
Other interest and investments expenses	40	40
Total	**255**	**178**

The interest on the deposit reinsurer has risen to € 124 million, € 106 million was related in the first quarter of 2011 ended new traditional reinsurance transaction. Against this interest is the return on the investments held for this contract.

22.40 Taxation

Specification taxation

In € millions	**2011**	2010
In financial year	51	77
Corporate income tax due	**51**	**77**
Due to temporary differences	(1)	(14)
Deferred tax	**(1)**	**(14)**
Total	**50**	**63**

Reconciliation between the statutory and effective tax rate

In € millions	**2011**	2010
Statutory income tax rate	25.0%	25.5%
Result before tax	216	305
Statutory corporate income tax amount	**54**	**78**
Effect of participation exemption	--	(14)
Due to temporary differences	(3)	--
Prior year adjustments (including tax provision release)	(1)	--
Other, mainly non-deductible expenses	--	(1)
Total	**50**	**63**
Effective tax rate	23.1%	20.6%

Utrecht, 5 March 2012

Supervisory Board
R. Zwartendijk (Chairman)
P.S. Overmars (Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijhuis
J.A. Nijssen
H.W.P.M.A. Verhagen
L.J. Wijngaarden

Management Board
D.J. Okhuijsen (Chairman)
M.J.P. Edixhoven
F.K.V. Lamp
W.H. Steenpoorte

23 Company financial statements

23.1 Company balance sheet

Company balance sheet

Before result appropriation and in € millions	*Notes*	**2011**	2010
Assets			
Intangible assets	*1*	379	420
Property and equipment	*2*	32	27
Subsidiaries	*3*	5,151	4,314
Investments	*4*	532	863
Deferred tax assets		10	61
Corporate income tax		142	133
Other assets	*5*	870	3,102
Cash and cash equivalents	*6*	13	17
Total assets		**7,129**	**8,937**
Equity and liabilities			
Issued share capital		--*	--*
Share premium reserve		2,055	1,730
Statutory reserves associates		1,399	818
Other reserves		337	112
Retained earnings		165	242
Shareholders' equity	*7*	**3,956**	**2,902**
Equity attributable to securityholders	*7*	400	725
Subordinated debt	*8*	357	750
Capital base		**4,713**	**4,377**
Provision for employee benefits		8	127
Other provisions	*9*	26	24
Deferred tax liabilities		7	8
Other amounts due to customers	*10*	772	790
Amounts due to banks	*11*	626	990
Corporate income tax		312	284
Other liabilities	*12*	665	2,337
Total equity and liabilities		**7,129**	**8,937**

** The issued and paid up share capital of REAAL NV is € 238,500*

The references next to the balance sheet items relate to the notes to the company balance sheet starting from paragraph 24.1

23.2 Company income statement

Company income statement

In € millions	**2011**	2010
Result on subsidiaries after taxation	219	296
Other results after taxation	(54)	(54)
Net result for the period	**165**	**242**

23.3 Principles for the preparation of the company financial statements

REAAL prepares the company financial statements in accordance with the statutory provisions of Book 2, Section 402 of the Dutch Civil Code. Based on this, the result on associated companies after taxation is the only item shown separately in the income statement. Use has been made of the option offered in Book 2, Section 362 (8) of the Dutch Civil Code to use the same principles for valuation and the determination of the result that are used in the consolidated financial statements for the company financial statements. Reference is made to chapter 17 (Accounting principles for the consolidated financial statements).

For additional information on items not explained further in the notes to the company balance sheet, reference is made to chapter 22 (Notes to the consolidated financial statements).

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

Subsidiaries are all companies and other entities in respect of which REAAL has the power to govern the financial and operating policies, whether directly or indirectly, and which are controlled by REAAL. The subsidiaries are accounted for using the equity method.

Changes in balance sheet values of subsidiaries due to changes in the revaluation, cash flow, fair value and profit sharing reserve of the subsidiaries are reflected in the statutory reserve associates, which forms part of shareholders' equity.

Statutory reserves that have been formed for the capitalised costs of research and development of software and capitalised internal acquisition costs of the subsidiaries are also presented in the statutory reserve associates. Changes in balance sheet values due to the results of these subsidiaries, accounted for in accordance with REAAL accounting policies, are included in the profit and loss account. The distributable reserves of subsidiaries are included in other reserves.

Cash and cash equivalents include the non-restricted amounts held at credit institutions.

24 Notes to the company financial statements

24.1 Intangible assets

Specification intangible assets

In € millions	2011	2010
Goodwill	337	369
Software	5	12
Value of Business Acquired (VOBA)	37	39
Total	**379**	**420**

Internal developed and capitalised software amount to € 23 million (2010: € 14 million). The internal acquisition cost of the Insurance activities amount to € 305 million (2010: € 298 million).

Statement of change in intangible assets 2011

In € millions	Goodwill	Software	VOBA	Total
Accumulated acquisition costs	337	8	40	385
Accumulated amortisation and impairments	--	(3)	(3)	(6)
Balance as at 31 December	**337**	**5**	**37**	**379**
Balance as at 1 January	369	12	39	420
Reclassification	--	--	--	--
Changes in the composition of group companies	--	(4)	--	(4)
Capitalised costs	--	--	--	--
Purchases	--	3	--	3
Depreciation capitalised costs	--	(3)	--	(3)
Depreciation purchases	--	(3)	(2)	(5)
Impairments	(32)	--	--	(32)
Balance as at 31 December	**337**	**5**	**37**	**379**

Statement of change in intangible assets 2010

In € millions	Goodwill	Software	VOBA	Total
Accumulated acquisition costs	369	12	46	427
Accumulated amortisation and impairments	--	--	(7)	(7)
Balance as at 31 December	**369**	**12**	**39**	**420**
Balance as at 1 January	369	7	42	418
Capitalised costs	--	--	--	--
Purchases	--	5	--	5
Depreciation capitalised costs	--	--	--	--
Depreciation purchases	--	--	(3)	(3)
Impairments	--		--	--
Balance as at 31 December	**369**	**12**	**39**	**420**

24.2 Property and equipment

Specification property and equipment

In € millions	2011	2010
Land and buildings in own use	20	3
IT equipment	2	6
Other assets	10	18
Total	**32**	**27**

Statement of change in property and equipment 2011

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	18	6	19	43
Accumulated revaluations	2	--	--	2
Accumulated amortisation and impairments	--	(4)	(9)	(13)
Balance as at 31 December	**20**	**2**	**10**	**32**
Balance as at 1 January	3	6	18	27
Investments	15	--	--	15
Depreciation	(2)	(4)	(9)	(15)
Other	4	--	1	5
Balance as at 31 December	**20**	**2**	**10**	**32**

Statement of change in property and equipment 2010

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	5	39	64	108
Accumulated amortisation and impairments	(2)	(33)	(46)	(81)
Balance as at 31 December	**3**	**6**	**18**	**27**
Balance as at 1 January	1	11	26	38
Reclassifications	(1)	--	1	--
Investments	3	--	--	3
Depreciation	--	(5)	(9)	(14)
Balance as at 31 December	**3**	**6**	**18**	**27**

24.3 Subsidiaries

Statement of change in subsidiaries

In € millions	2011	2010
Balance as at 1 January	4,314	4,283
Disposals and divestments	(42)	--
Securities issue / repurchase	(97)	(175)
Capital issue	148	20
Revaluations	689	(90)
Result	219	296
Dividend received	(80)	(20)
Balance as at 31 December	**5,151**	**4,314**

24.4 Investments

Specification investments

In € millions	2011	2010
Investments available for sale	4	4
Loans and receivables	528	859
Total	**532**	**863**

Investments: loans and receivables

In € millions	2011	2010
Private loans	528	858
Business loans	--	1
Total	**528**	**859**

Statement of change in loans and receivables

In € millions	2011	2010
Balance investments as at 1 January	859	196
Purchases and advances	972	1,100
Disposals and redemptions	(1,303)	(437)
Total	**528**	**859**

24.5 Other assets

Specification other assets

In € millions	2011	2010
Receivables from subsidiaries	856	3,066
Accrued interest	--	8
Other accrued assets	15	21
Amounts due from direct insurance	1	--
Other	(2)	7
Total	**870**	**3,102**

24.6 Cash and cash equivalents

Specification cash and cash equivalents

In € millions	2011	2010
Short-term bank balances	13	14
Short-term bank balances from subsidiaries	--	3
Total	**13**	**17**

24.7 Equity

Statement of changes in equity 2011

In € millions	Issued capital ordinary shares	Share premium reserve ordinary shares	Statutory reserves associates	Other reserves	Retained earnings	Equity attributable to share-holders	Securities capital
Balance as at 1 January 2011	--	1,730	818	112	242	2,902	725
Transfer of 2010 net result	--	--	--	242	(242)	--	--
Transfers 2010	**--**	**--**	**--**	**242**	**(242)**	**--**	**--**
Unrealised revaluations from cash flow hedges	--	--	31	--	--	31	--
Deferred interest income from cash flow hedges	--	--	(6)	--	--	(6)	--
Unrealised revaluations	--	--	883	--	--	883	--
Impairments	--	--	38	--	--	38	--
Realised revaluations through profit or loss	--	--	(87)	--	--	(87)	--
Change in shadow accounting	--	--	(214)	--	--	(214)	--
Dividend paid			--	(80)		(80)	
Other movements	--	--	(64)	63	--	(1)	--
Amounts charged directly to equity	**--**	**--**	**581**	**(17)**	**--**	**564**	**--**
Net result 2011	**--**	**--**	**--**		**165**	**165**	**--**
Total result 2011	**--**	**--**	**581**	**(17)**	**165**	**729**	**--**
Capital issue	--	325	--			325	
Securities issue / repurchase	--	--	--			--	(325)
Transactions with shareholders and securityholders	**--**	**325**	**--**	**--**	**--**	**325**	**(325)**
Total changes in equity 2011	**--**	**325**	**581**	**225**	**(77)**	**1,054**	**(325)**
Balance as at 31 December 2011	**--**	**2,055**	**1,399**	**337**	**165**	**3,956**	**400**

Statement of changes in equity 2010

In € millions	Issued capital ordinary shares	Share premium reserve ordinary shares	Statutory reserves associates	Other reserves	Retained earnings	Equity attributable to share-holders	Securities capital
Balance as at 1 January 2010	--	1,730	651	(60)	189	2,510	725
Transfer of 2009 net result	--	--	--	196	(196)	--	--
Transfer of distributed interim dividend 2009	--	--	--	(7)	7	--	--
Transfers 2009	**--**	**--**	**--**	**189**	**(189)**	**--**	**--**
Unrealised revaluations from cash flow hedges	--	--	22	--	--	22	--
Deferred interest income from cash flow hedges	--	--	(2)	--	--	(2)	--
Unrealised revaluations	--	--	308	--	--	308	--
Impairments	--	--	(12)	--	--	(12)	--
Realised revaluations through profit or loss	--	--	(140)	--	--	(140)	--
Change in shadow accounting	--	--	(27)	--	--	(27)	--
Other movements	--	--	18	(17)	--	1	--
Amounts charged directly to equity	**--**	**--**	**167**	**(17)**	**--**	**150**	**--**
Net result 2010	**--**	**--**	**--**	**--**	**242**	**242**	**--**
Total result 2010	**--**	**--**	**167**	**(17)**	**242**	**392**	**--**
Transactions with shareholders and securityholders	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Total changes in equity 2010	**--**	**--**	**167**	**172**	**53**	**392**	**--**
Balance as at 31 December 2010	**--**	**1,730**	**818**	**112**	**242**	**2,902**	**725**

24.7.1 Issued share and capital securities

The share capital issued is fully paid and comprises ordinary shares.

The nominal value of the ordinary shares is € 500.00. The number of issued shares as at 31 December 2011 is 477 ordinary shares.

The securities are issued to the Dutch State.

The Dutch State holds 76,190,475 securities, each with a nominal value of € 1.63.

Specification issued share capital

	Number of ordinary shares		Amount of ordinary shares (in € millions)	
	2011	2010	**2011**	2010
Authorised share capital	2,385	2,385	1	1
Share capital in portfolio	1,908	1,908	1	1
Issued share capital as at 31 December	**477**	**477**	**--**	**--**

Specification issued shares / securities

	Ordinary shares		State-like'		**Foundation-like'**	
SNS Verzekeringen BV	**2011**	2010	**2011**	2010	**2011**	2010
Outstanding as at 1 January	477	477	3,250,000	3,250,000	76,190,475	76,190,475
Issues in the financial year	--	--	(3,250,000)	--	--	--
Repurchased in the financial year	--	--	--	--	--	--
Outstanding as at 31 December	477	477	--	3,250,000	76,190,475	76,190,475

Specification capital securities

In € millions	2011	2010
Securities capital Stichting Beheer SNS REAAL	--	325
Securities capital Dutch State	400	400
Total	**400**	**725**

Statement of change in capital securities

	Securities capital Stichting Beheer SNS REAAL		Securities capital Nederlandse Staat	
In € millions	**2011**	2010	**2011**	2010
Balance as at 1 January	325	325	400	400
Repurchase securities	(325)	--	--	--
Balance as at 31 December	**--**	**325**	**400**	**400**

24.8 Subordinated debt

The subordinated debt from subsidiaries have a maturity of longer than five years. the private loans have an average interest rate of 6.3% (2010: 7.0%).

24.9 Other provisions

Specification other provisions

In € millions	2011	2010
Restructuring provision	26	24
Other provisions	--	--
Total	**26**	**24**

Statement of change in other provisions

	Restructuring provision	
In € millions	2011	2010
Balance as at 1 January	24	21
Additions	15	17
Released to results	(2)	(14)
Balance as at 31 December	**26**	**24**

24.10 Other amounts due to customers

Specification other amounts due to customers

In € millions	2011	2010
Private loans	772	790
Total	**772**	**790**

Time to maturity other amounts due to customers

In € millions	2011	2010
< 3 months	--	--
3 months - 1 year	772	790
1 - 5 year	--	--
> 5 year	--	--
Total	**772**	**790**

The private loans are private loans from subsidiaries and have an average interest rate of 3.6% (2010: 3.0%).

24.11 Amounts due to banks

This item relates to amounts owed to subsidiaries.

Time to maturity amounts due to banks

In € millions	2011	2010
Due on demand	626	990
Total	**626**	**990**

24.12 Other liabilities

Specification other liabilities

In € millions	2011	2010
Debts to subsidiaries	647	2,297
Other liabilities	18	8
Accrued interest	--	25
Accruals and deferred income	--	7
Total	**665**	**2,337**

The debt to subsidiaries pay the 1 month Euribor-interest. The accrued interest is the accrued interest of loans with subsidiaries.

24.13 Guarantees

REAAL NV has provided such guarantees for some of its subsidiaries, with the exception of SNS Verzekeringen BV for which a 403-statement has been provided by SNS REAAL NV.

REAAL NV, together with most of its subsidiaries, constitutes a single tax entity for corporate income tax and a single tax entity for VAT purposes. All companies within this single tax entity are jointly and severally liable for corporate income tax debts and VAT debts stemming from the single tax entity.

24.14 Audit fees

According Book 2, Section 382A of the Dutch Civil Code we refer to the annual report of SNS REAAL NV for an overview of the fees charged by the audit firm KPMG Accountants NV and the other KPMG companies.

Utrecht, 5 March 2012

Supervisory Board
R. Zwartendijk (Chairman)
P.S. Overmars (Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijssen
J.A. Nijhuis
H.W.P.M.A. Verhagen
L.J. Wijngaarden

Management Board
D.J. Okhuijsen (Chairman)
M.J.P. Edixhoven
F.K.V. Lamp
W.H. Steenpoorte

25 Overview of principal subsidiaries

An overview is provided below of the main subsidiaries of REAAL, participation in the subsidiaries is 100%.

Overview of principal subsidiaries Insurance activities

SRLEV NV	Alkmaar
REAAL Schadeverzekeringen NV	Zoetermeer
Proteq Levensverzekeringen NV	Alkmaar
Proteq Schadeverzekeringen NV	Alkmaar
SNS Verzekeringen BV	Zoetermeer
RM BV	Utrecht

During 2011 SRLEV NV sold subsidiary DBV Finance BV to SNS BANK NV.

Other capital interests

For information on the most significant other capital interests, reference is made to the notes to the consolidated balance sheet in paragraph 22.3 (Investments in associates).

The overview as referred to in Book 2, Sections 379 and 414 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

26 Other information

26.1 Provision regarding profit or loss appropriation

Result 2011: € 165 million

26.1.1 Provisions of the Articles of Association regarding profit or loss appropriation for shares

Article 33

1. The net result shall be at the free disposal of the General Meeting of Shareholders.

2. The company may only make distributions to shareholders and the other persons entitled to the distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves which are to be maintained pursuant to the law.

3. Distribution of profits shall take place following the adoption of the financial statements from which it appears that such distribution is allowed.

Article 34

1. Dividends shall be due and payable fourteen days after having been declared, unless upon the proposal of the general management, the General Meeting of Shareholders determines another date thereof.

2. Dividends that have not been collected within five days after they became due and payable shall revert to the company.

3. If the General Meeting of Shareholders so determines on the proposal of the general management, an interim dividend will be distributed, including an interim dividend from reserves, but only with due observance of what is provided in section 2:105, subsection 4, Civil Code.

4. A loss may only be applied against reserves maintained pursuant to the law to the extent permitted by law.

26.1.2 Provisions regarding profit or loss appropriation for core Tier 1 capital securities

The distribution of a coupon to the holders of the core Tier 1 capital securities issued on 22 December 2008 (to SNS REAAL NV, also called the 'State-like' securities) is dependent on distribution of (interim) dividend to the ordinary shareholders of SNS REAAL . If no dividend is declared on SNS REAAL ordinary shares, no coupon will be distributed on the State-like securities.

The core Tier 1 capital securities 'State-like' are not subject to a loss absorption clause.

The Executive Board of SNS REAAL has resolved, with the approval of the Supervisory Board of SNS REAAL, to pass over the dividend for 2011 and to fully reserve the distributable profit of SNS REAAL.

26.1.3 Profit appropriation

The profit for the financial year 2011 is credited to the profit reserves of REAAL NV.

26.2 Independent auditor's report

To the Annual General Meeting of Shareholders of REAAL NV

Report on the financial statements

We have audited the accompanying financial statements 2011 of REAAL NV in Utrecht, as included in chapters 16 to 24 of this report. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2011, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of REAAL NV as at 31 December 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of REAAL NV as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, as included in chapter 1 through 15, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 5 March 2012
KPMG ACCOUNTANTS NV

W. Teeuwissen RA