REAAL

ANNUAL REPORT

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Key figures

Table 1: Key figures REAAL NV

In € millions	**2012**	2011	2010	2009	2008
Result					
REAAL Life	72	246	208	49	(473)
REAAL Non-Life	(84)	32	16	54	26
REAAL Other	(15)	1	(18)	(11)	(32)
REAAL	**(27)**	**279**	**206**	**92**	**(479)**
Zwitserleven	(122)	(87)	36	104	(71)
REAAL NV	**(149)**	**192**	**242**	**196**	**(550)**
Income					
Net premium income	3,232	3,450	3,574	4,254	4,302
Investment income	1,593	1,432	1,498	1,695	1,219
Investment income for account of policyholders	1,511	(39)	815	1,334	(1,716)
Other income	101	277	212	124	346
Total income	**6,437**	**5,120**	**6,099**	**7,407**	**4,151**
Total expenses	6,579	4,868	5,793	7,163	4,899
Result before tax	**(142)**	**252**	**306**	**244**	**(748)**
Taxation	4	59	63	44	(201)
Net result discontinued operations and minority interests	3	1	1	4	3
Net result attributable to shareholders and security holders	**(149)**	**192**	**242**	**196**	**(550)**
Balance sheet					
Total assets	56,464	53,990	53,044	53,062	52,701
Investments	34,768	32,818	33,940	33,061	31,529
Investments for account of policyholders	13,265	12,443	12,641	12,040	10,844
Loans and advances to banks	452	499	356	1,831	1,929
Total equity	2,932	4,020	3,630	3,300	3,156
Insurance contracts	42,102	38,827	38,844	38,060	36,096
Amounts due to banks	3,745	3,154	4,506	4,764	4,676
Ratios					
New annual premium equivalent (in € millions)	315	384	328	406	456
Operating cost/premium ratio REAAL	11.9%	11.2%	12.2%	13.0%	
Operating cost/premium ratio Zwitserleven	14.5%	14.9%	15.4%	14.0%	
Regulatory solvency Insurance activities	176%	203%	195%	230%	176%
Regulatory solvency Life	211%	234%	205%	246%	177%
Regulatory solvency Non-Life	490%	464%	398%	379%	307%

With effect from 1 January 2012, internal and external acquisition costs are no longer deferred, but charged directly to the results. Comparative figures have been adjusted accourdingly.

Regulatory solvency figures at the end of June and the end of December 2012 are calculated based on the adjusted method for extrapolating the interest rate curve using an Ultimate Forward Rate (UFR). The inclusion of Tier 2 debt is capped at 50% of required capital for perpetual Tier 2 debt and at 25% for Tier 2 debt with a definitive maturity (formerly 100% of both types of Tier 2 debt had been included at Insurance activities level). Comparative figures have not been adjusted.

Regulatory solvency figures Life are in comparison with previous publications replaced by Regulatory solvency figures SRLEV, the legal entity. This is excluding Proteq, which was included in the figures of Life.

Report of the Management Board

1 Foreword

REAAL NV is a subsidiary of SNS REAAL NV (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.

The period that lies behind us leaves us with mixed feelings. 2012 was a year of contrast for SNS REAAL. In the first six months, the focus was still on the execution of our strategic priorities. The second half of the year however, SNS REAAL entered into an intensive period of close cooperation with the Dutch Central Bank (DNB) and the Ministry of Finance to arrive at a comprehensive solution for the credit risks of the Property Finance real estate finance portfolio and the capital base of SNS REAAL. In the end, on 1 February 2013, the Dutch Minister of Finance, after consultation with DNB, decided to nationalise SNS REAAL and expropriate the shareholders of SNS REAAL and the subordinated creditors of SNS REAAL and SNS Bank. The shareholdings of the Foundation SNS REAAL were also expropriated. This was a drastic decision, with far-reaching consequences for society, for our customers and for our shareholders and subordinated creditors. We feel that going forward modesty is a key word for us.

LOOKING BACK

REAAL NV started 2012 with the continued execution of its strategic prioritie: ‘building for the future’. Under ‘building for the future’ we grouped our efforts to win, help and retain customers in a cost-efficient manner.

In spite of all the turbulence, our core activities remained focussed on the needs and interests of our customers. We found ways to more adequately measure the needs and satisfaction levels of our clients. We reduced the diversity of products, made improvements to existing products, and simplified product specifications. We also introduced new products that meet higher corporate responsibility standards.

In the second half of 2012, market conditions worsened considerably. Interest rates in the core euro zone countries fell to historically low levels, negatively impacting our Insurance activities.

REAAL NV ended the year 2012 with a net loss of € 149 million.

CORE ACTIVITIES IN 2012

The capital position and earnings development of the Insurance activities did not play a role in the decision to nationalise SNS REAAL. However, being a 100% subsidiary of SNS REAAL, REAAL NV and its subsidiaries were also nationalised.

Continued difficult market circumstances, increased competition and margin pressure led to a substantial amount of one-off items, mainly in the form of goodwill impairments at REAAL Life and REAAL Non-Life in 2012. We also impaired the brand name of Zwitserleven and took a partial impairment of VOBA. Combined, the impairments of intangible assets at the Insurance activities amounted to € 493 million net. The total impact of one-off items, including an additional provisioning for the unit-linked policies settlement, was € 549 million negative in 2012, resulting in a net loss for the Insurance activities of € 149 million. However, as intangible assets are not included in solvency capital, the impairments did not affect the solvency ratios of the Insurance activities.

At the end of 2012, the capital position of the Insurance activities had declined to 176%, mainly due to lower interest rates, higher capital requirements and increased longevity. Net profit excluding one-off items of the Insurance activities increased with 42% to € 400 million, mainly driven by capital gains on bonds. Net profit excluding one-off of Life

insurance items increased with 46% to € 389 million. Net profit before one-off items of Non-Life insurance decreased with 19% to € 26 million. Underlying results of the Insurance activities (excluding both one-off items and the impact of the investment portfolio and hedges) were lower but remained profitable in 2012.

NATIONALISATION

The nationalisation encompasses the recapitalisation of SNS REAAL and SNS Bank, as well as the isolation of the Property Finance real estate finance portfolio in a separate asset management organisation. This will take place through the transfer of Property Finance. The recapitalisation consists of a € 2.2 billion capital injection by the Dutch State and the expropriation of shares of SNS REAAL and subordinated debt totalling € 1 billion of SNS REAAL and SNS Bank. Moreover, the Dutch State provided a bridge loan to SNS REAAL of € 1.1 billion to redeem senior debt and internal loans.

The regulatory solvency of the Insurance activities is not affected by the nationalisation. At the end of 2012, it stood at 176%.

RESPONSIBILITY

The nationalisation of SNS REAAL has far-reaching consequences for society, for our shareholders and subordinated creditors, our customers and our organisation, including our staff. REAAL NV has a responsibility to these parties. Even though this responsibility varies per group, REAAL NV will give meaning to this responsibility to the best of its ability. By pursuing transparency, simplicity and sustainability, or, in other words: by conducting business in a responsible way, in the broadest sense of the word. With our mission of Simplicity in finance and our core value of CARE!, we continue to strive to represent the interests of society, our customers, each other and the result as best as we can.

In this effort, REAAL NV will take its responsibility to restore confidence in its own organisation and contribute to restoring confidence in the financial services industry as a whole. The starting point in this endeavour is the integrity and professionalism of our employees

We are convinced there is room in the Dutch financial services sector for a player that supports the Dutch economy with a human touch, offers transparent, simple and fairly priced products, is clear and realistic about expected returns and that delivers on promises. REAAL has taken its responsibility in our society. We will strive to continue to do so, especially in the new reality in which we find ourselves. Simplicity, transparency and sustainability remain paramount in this effort.

Dick Okhuijsen (Chairman)

2 Nationalisation of SNS REAAL

2.1 Nationalisation

In January 2013, De Nederlandsche Bank (DNB) informed SNS REAAL of its conclusion that SNS Bank's capital base was inadequate to guarantee controlled coverage of the company's current and possible future risks. SNS Bank was obliged to present DNB with a final solution by 31 January 2013. DNB required a solution that would provide sufficient assurance of success and supplement the capital deficit in the short term. In DNB's opinion SNS REAAL's proposal offered insufficient certainty that said capital deficit could be supplemented in the short term. DNB subsequently informed the Ministry of Finance that it no longer considered it justified that SNS Bank should continue to carry out its banking operations.

On 1 February 2013 the Minister of Finance decreed on the basis of Articles 6:2 and 6:4 of the Financial Supervision Act to expropriate:

- all issued shares in the share capital of SNS REAAL NV
- all Stichting Beheer SNS REAAL core Tier 1 capital securities issued by SNS REAAL NV (Stichting securities)
- all subordinated bonds of SNS REAAL NV and SNS Bank NV
- subordinated private debts of SNS REAAL NV and SNS Bank NV

In April 2011, SRLEV NV, a subsidiary of REAAL NV, has issued subordinated bonds € 400 million maturing in 2041. The terms and conditions are contained in a prospectus dated April 12, 2011. The European Commission has decided to give SRLEV NV no permission to pay the Coupon due on the subordinated bonds on the interest payment date (April 15, 2013). For that reason, SRLEV NV used its optional right according to Condition 4 (e) of the terms and conditions to defer the payment of the coupon.

In arriving at his decision the Minister set out that he is of the opinion that the stability of the financial system had been placed at serious and imminent risk due to the situation in which SNS REAAL found itself prior to 1 February 2013. SNS REAAL is aware that the decision to expropriate has a profound impact on society, customers, investors and employees.

All shares, Stichting securities and subordinated bonds have been expropriated for the benefit of the Dutch State. The expropriation of subordinated private debts has been effected by expropriating the corresponding debts relating to passive capital components of SNS REAAL NV and SNS Bank for the benefit of Stichting Afwikkeling Onderhandse Schulden SNS REAAL (Private Debt Settlement Foundation SNS REAAL). In the decree the Minister indicated that the capital components of the subordinated private debts had been expropriated on behalf of a separate entity (Foundation) in order to avoid these debts being transferred to the Dutch State. The Foundation is responsible for handling the settlement of these matters (most likely by filing for bankruptcy, according to the decree). In line with urgent provisions under Article 6:1 of the Financial Supervision Act, SNS REAAL has been appointed as sole director of the Foundation. The nationalisation has no direct implications for the Insurance activities of REAAL. Exception is the promulgation by the European Commission for a provisional acquisition ban and the temporary ban to make interest payments on hybrid instruments issued by the insurer.

The decree concerning expropriation came into effect at 08.30 hrs on 1 February 2013. At this moment the expropriated securities and capital components were legally transferred, respectively, to the Dutch State and to the Private Debt Settlement Foundation SNS REAAL.

Management Board member Ference Lamp and the Chairman of the Supervisory Board, Rob Zwartendijk, resigned from their positions on 1 February 2013. As of 26 April 2013, Maurice Oostendorp entered office. For the time being, the Vice Chairman of the Supervisory Board, Piero Overmars, has taken on the role of Chairman of the Supervisory Board. For

more details on nationalisation and the next steps we refer to Chapter 2 Nationalisation of SNS REAAL in the Annual Report 2012 SNS REAAL.

3 Profile and brands

3.1 General

3.1.1 Simplicity in finance

REAAL NV aims to make business simple, understandable and transparent. We do this by actively engaging our customers in developing our products and services. But also with the assistance of committed employees, who believe in these products and services.

3.1.2 Customer focus

We work hard to earn our customers, who encompass both private individuals and business customers. By providing a sound service, we favour an optimal relationship with each and every customer - a service that is accessible and fairly priced. Every REAAL brand gives shape to this in its own way. We ultimately aim for sustainable relationships with our customers but also with society.

3.2 Our brands

There is no such thing as the average customer. Everyone has different desires, needs and preferences. And we want to serve our customers in the way that suits them best. That is why, instead of one brand for all customers, we have opted for different brands that each serve their customers in the way that suits them. Each brand has its own way of working, image, mentality and products. For example, Proteq Dier & Zorg enables customers to choose the best insurance cover for their pet.

3.2.1 REAAL

REAAL believes that financial services can be improved upon and puts all its efforts into helping its customers to get ahead. Putting the interests of the customer first, our service is personal, clear and equal, whether you are buying a house, running a business or managing your financial future. We work with financial advisors who guarantee objective advice.

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

www.reaal.nl

3.2.2 Zwitserleven

Zwitserleven has been the leading Dutch pension provider since 1901. Zwitserleven looks after the pension capital of 765,000 people and applies its knowledge and expertise to give its customers a responsible future. By thinking ahead now, Zwitserleven aims to enable its customers to enjoy an unconcerned retirement and to experience the Zwitserleven Feeling.

Product: pension insurance.

www.zwitserleven.nl

3.2.3 Proteq Dier & Zorg

Proteq Dier & Zorg is the largest provider of accident and health insurance for cats and dogs in the Netherlands. And with good reason. For example, customers choose the type of insurance cover that best suits their pet, while supplementary coverage provides even greater security.

Product: accident and health insurance for dogs and cats.

www.proteqdierenzorg.nl

3.2.4 Zelf.nl

Zelf.nl is intent on keeping costs as low as possible. It therefore shuns costly commercials and has just one simple office. And with Zelf.nl, you arrange your own insurance. Quickly and easily.

Products: non-life and funeral insurance.

www.zelf.nl

3.2.5 Route Mobiel

Route Mobiel, an initiative by Proteq, offers roadside assistance for motorists through an efficient organisation and an extensive network of roadside assistance services in the Netherlands and more than 40 other European countries. Route Mobiel also provides supplementary car and travel insurance which fits seamlessly with its roadside assistance cover.

Products: road assistance services, car and travel insurance.

www.routemobiel.nl

4 Strategy

REAAL NV's mission is Simplicity in finance. We achieve this through the responsible provision of services that are simple, accessible and reliable. We aim to offer our customers the insight, overall picture and perspective to enable them to make the right decisions, whether they involve choices with major or minor financial implications.

4.1 Mission, core value and responsibility

Our mission Simplicity in finance is in keeping with the origins of our company, which is now more than 100 years ago. Even then, transparency, simplicity and solidarity were the pillars for our operations. We care about the fundamentals in people's lives, such as living, education, a buffer for unexpected expenses, compensation in the event of losses and sufficient pension provisions. We endeavour to ensure this with our mission of Simplicity in finance.

We also wish to operate responsibly for all our stakeholders and in fact our core value CARE! represents the responsibility we want to take for our customers, for one another and for society.

4.2 Corporate responsibility

Dutch financial institutions are subject to an extensive system of laws and regulations safeguarding the quality and security of financial products and services. Proper compliance with those laws and regulations is something that comes naturally to REAAL NV. Corporate responsibility (CR) goes beyond this. On the basis of our conviction, our own responsibility and in consultation with our stakeholders, we aim to add sustainable value by means of:

- Responsible service
  We place our customers' interests first in developing, improving and providing our products and services. 'Responsible' also means that we account for (potential) positive and negative impacts on people and the environment of our everyday work. We endeavour to create a chain of responsibility within financial services, in which our business units primarily focus on:
  - offering useful and valuable products and services with limited risks, based on simplicity and convenience;
  - using customer experiences and complaints to help us to improve, i.e. based on engagement with customers and other stakeholders;
  - enable customers to make responsible choices by providing comprehensible product information and/or appropriate advice;
  - measure and improve customer satisfaction;
  - responsible lending and responsible investment of customers' funds and our own funds;
  - with systematic assessment of customer interests and customer integrity as a starting point.

  We believe that responsible services help us win more customers, as well as enabling us to be more commercially successful, but also that they are ultimately better for our customers and for society of which we are all part. Our practical approach to providing services responsibly, ties in well with our strategic pillar Winning, helping and retaining our customers.
  REAAL NV endeavours to achieve a more responsible balance. A significant portion of the balance sheet consists of customer investments and our own investments. By making conscious choices and exclusions, we aim to make a difference. This way, we aim to make a visible contribution to a society that faces great problems such as climate change, pollution and raw materials shortages through a more sustainable investment and distribution chain.
  Personal leadership of our employees, inspired by our mission and core value, is crucial for the further development of responsible service provision. That, too, is something we are continually working on.

- Responsible organisation
  Providing responsible services and working on customer interests and satisfaction is not possible without consistent attention for our own staff. That is why we want to be a committed employer whom our employees enjoy working for. We want to offer a healthy work-life balance and reward them in a responsible way and we want to encourage our employees to take responsibility for their own work and their career, their development and demonstrating involvement in the community.

- Sustainable chain and environment
  As a large company, REAAL NV forms part of many product and service chains. As a major buyer, we exert influence to make the supply chain more sustainable in co-operation with our partners – think of our suppliers. We do this by focussing on the responsible use of energy, accommodation, waste disposal and mobility.

4.3 Strategy

Our mission, core value and strategy meet in the our strategic house. 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 Market position

REAAL NV focuses its activities on the Dutch market for insurance and pensions. Our customers are primary private individuals and small & medium-sized enterprises (SMEs). With respect to pensions, REAAL NV also focuses on larger companies. We want to distinguish ourselves with:

- Multiple brands, allowing us to offer our customers the most suitable products through their preferred brand and distribution channel.
- Placing the customer and the customer’s interests first by developing and offering simple and accessible products combined with high-quality service and advice.
- Strong market positions based on simple, useful products with an attractive price/quality ratio.
- A simple and cost-efficient organisation.

4.3.2 Strategic priorities 2012

4.3.2.1 Capital management

Our ambition for 2012 was a minimum regulatory solvency ratio for our Insurance activities of 175%.
We will continue to give priority to further strengthening financial buffers and capital ratios, both for protection against volatility in the financial markets as well as against a potential impact on the results of our core markets due to the economic downturn.

4.3.2.2 Helping, winning and retaining customers

By helping, winning and retaining customers, we will increase our brands' vitality and the scale of our activities to a level that safeguards the implementation of our mission 'Simplicity in finance', also in the long term. We aim to provide our customers with useful and valuable products through their preferred distribution channel and brand. A range of brands and channels enable us to increase our effectiveness in sales and marketing and to access our overall target group more easily. Shared IT resources, production and service centres within the Group and staff departments also promote efficiency.
In order to win, help and retain our customers, we are paying greater attention to customer interests and customer satisfaction. We achieve this by means of:

- Continuous dialogue with our customers, allowing us to continuously improve our services;
- Measuring customer satisfaction more effectively;
- Improving customer interaction and service levels;
- Providing transparent and relevant products and appropriate advice.

Customers can easily determine if a product suits their needs either by themselves or with the help of a financial advisor.

In order to win, help and retain our customers, we also strive to ensure the sustainable growth of our brands. We are achieving this by means of:

- New, simple and useful products.
  Transparent product features and rates are essential. These are achieved by listening attentively to our customers and involving them in the product development process. Before launching new products, we make carefully assessment of customer value, return and risk. We also aim to guarantee the provision of reliable and appropriate advice, including that provided by our distribution partners. This is how we are working to create long-term added value for our customers.
- Multi-brand strategy.
  We serve our customers with brands that vary broadly from one another. Each brand is geared towards its own target group. The brands benefit from shared product development, processes and systems. This enables the brands to make the most effective contribution towards the overall performance of REAAL NV.
- Winning 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 behaviour and timely notification of (potentially) relevant products.

4.3.2.3 Reducing the cost base

Structural cost reduction is necessary for reasons including the following: the increasing demand for cheap, simple products, new market entrants, such as Pension Premium Institutions, increased market transparency and higher capital and liquidity requirements.

It is our aim to further reduce the operating costs. In doing so, the loss of jobs cannot be ruled out. We will achieve this through greater efficiency in all Core activities, including lean programmes. In addition, we will reduce costs by hiring less external staff, reducing the number of office locations and structurally adjusting the terms and conditions of employment to the social requirements of today.

4.3.3 Strategies of the business units

In implementing REAAL NV's strategy, the business units REAAL and Zwitserleven make their own choices regarding the best possible products and services. These choices are based on our mission Simplicity in finance. For the strategies of the business units see chapter 8 Developments REAAL and chapter 9 Developments Zwitserleven.

4.4 Initiatives Corporate Responsibility

REAAL NV aims to set the standard when it comes to corporate responsibility (CR) in the Dutch financial services market. In 2013, REAAL NV will dedicate itself to:

- Integration of CR in the entire business operations, that is to say in the management objectives and KPIs of our own brands and Group staff departments.
- Continue to improve the quality (simplicity, convenience) of our products, so that our customers are in an even better position to make the choices that are most suited for their options and objectives;
- Continue to improve the sustainability of the distribution chain, also by expanding our contacts with stakeholders as customers and distribution partners to (jointly) achieve improvements with our partners also by more effectively guaranteeing the quality of advice provided by intermediaries with whom we co-operate.

5 Strategy update

REAAL NV formulated strategic priorities for 2012. In 2012, we structurally worked toward the execution of this strategy. This chapter covers the progress we made in 2012.

In 2012, REAAL NV aimed to strengthen its foundation with strong capital management. We are building for the future with the priorities of Winning, helping and retaining customers and Reducing the cost base. We are doing this in a way that we believe is responsible, which we will explain in relation to each business unit in chapters 8 and 9.

5.1 Winning, helping and retaining customers

In 2012, turmoil in the financial markets continued. Customer satisfaction, nevertheless, remained stable at the 2011 level, supported by new initiatives taken in 2012.

Winning, helping and retaining customers ensures that our brands are full of vitality and provides us with the economies of scale and cost base that enable us to ensure the execution of our mission, also in the longer term. It is always our objective to:

- improve our services, with the meaning of customers' interests for our brands in mind, which we do in consultation with our customers;
- achieve greater customer satisfaction;
- create sustainable growth of our brands.

5.1.1 Customers' interests and satisfaction

In our view, putting customers' interests first is about orientation towards the customer. This seems obvious, but is not always so. When weighing interests between our various stakeholders, customers and their interests are always key. It is not about doing everything the customer wants. It is about giving substance to the actual needs of the customer in an appropriate and responsible way. In order to do so, we need to embed this in our working methods and procedures and pay steady attention to this. Our brands systematically assess customers' interests in all new products and product adjustments. On the basis of a group-wide standards framework within the scope of the Product Approval and Review Process (PARP), products are assessed against so-called CUSC criteria: cost-efficient, usefulness, secure and comprehensible. Customers' interests also formed a guiding principle in the many improvements carried out by REAAL and Zwitserleven in the service they provided to customers. REAAL and Zwitserleven intensified the online communication with holders of unit-linked insurance policies, to enable them to make responsible decisions regarding their current or expiring insurance. Many initiatives were geared towards making information more accessible, for instance by simplifying product terms and conditions and use of language, as well as by referring customers to intermediaries for advice and providing support in this regard. These improvements make it easier for customers to choose the products that are appropriate to their situation and their objectives. We want to emphasise customers' interest even further by adressing this point more clearly in the assessment of our employees.

Improved and more focused measurement
All brands invested in systems and/or procedures to gather, analyse and utilise customer data more effectively. This information is essential in order to continue to improve the service and customer satisfaction.

REAAL NV's retail brands are using the NPS method (Net Promotor Score) to measure customer satisfaction. This method is used to measure the number of customers who feel so positive about a brand that they would recommend it to family and friends. From this figure we deduct the number of customers who would advise family and friends against the brand. Uniform NPS statistics, based on a representative sample, are gathered twice a year by an external agency.

Customer satisfaction in the entire financial services sector has come under increased pressure in recent years as a result of the developments relating to the financial crisis. Among all surveyed Dutch banks and insurers, a limited number had a positive NPS score in 2012, Statistics also show that customers who recently had contact with the brand, via the helpdesk for instance, were on average more satisfied than other customers. Measurements at the business units confirmed this outcome. The brands therefore strive to intensify customer interaction, also by means of various forms for dialogue such as panel discussions.

The NPS for REAAL as a whole went down from -44 at year-end 2011 to -51 at year-end 2012. The NPS of customers with a REAAL life insurance remained constant at -53 compared to the 2011 survey. Customers value regular contact, but that contact should, however, be relevant. And customers want to be found important. The NPS of customers with a REAAL non-life insurance rose slightly the past six months, but not significantly, from -35 to -31. The overall satisfaction about REAAL among these customers remained stable.

Zwitserleven's NPS score went from -47 at year-end 2011 to -41 at year-end 2012 among pension scheme participants. The NPS of employers, another important target group for Zwitserleven, rose from -28 to -15.

In 2012, REAAL and Zwitserleven expanded their customer satisfaction surveys by conducting them more often and in more sub-areas.

Learning from the client dialogues

REAAL brands use a variety of media and/or events to enter into dialogue with their customers. REAAL organised interviews and chat sessions with customers on a variety of topics. So-called Voice of the customer sessions featured discussions on topics including unit-linked insurance policies and the triangular relationship between REAAL, the customer and the intermediary. Zwitserleven involves its customers specifically in the development of products and services by conducting surveys and holding discussion and information evenings with employees. In 2012, Zwitserleven also started building up a community.

Improving customer contact and service levels

Based both on systematic analysis of customer interaction and personal input from employees, REAAL took new improvement measures that made the organisation more customer-focused and efficient. It was partly thanks to these improvements that REAAL received the Customer-Oriented Insurance Quality Mark, the requirements for which had been tightened. Zwitserleven improved its customer service by training employees of the employee desk and by recording and analysing interaction with employees and director-shareholders. The complaint registration system was also improved, as a result of which the number of registered complaints increased, despite the improvements.

Simple, relevant products and appropriate advice

Offering simple products is the mission for our business units. However, simplification is a process that takes time, and it is often problematic or not possible to apply to products already sold. We also use the feedback from our customers for the benefit of the Product Approval Process of existing and new products when developing new simple products and services. The most important improvements achieved in 2012 were:

- simplification and reduction of terms and conditions associated with non-life insurance policies provided by REAAL, making it easier to take out products; and automating and speeding up the application process;
- converting the numerous old disability insurance products provided by REAAL NV for the self-employed into simpler modern versions;
- abrogation of the budget disability insurance product provided by REAAL NV, which included the exception of psychological therapy;
- reducing the number of products for active sale and further reducing the number of old products and systems at Zwitserleven.

All brands also paid attention to simplifying and clarifying product information, making it easier for customers to make responsible choices. REAAL and Zwitserleven offer customers comprehensive information on the content and implementation of the compensation scheme for unit-linked insurance policies and unit-linked pension plans. Customers are also given tips as to the best way of dealing with unit-linked insurance policies and unit-linked pension plans that are still running.

5.1.2 Sustainable growth of our brands

Multi-brand strategy
REAAL NV distinguishes itself in the Dutch market through its multi-brand strategy. This allows us to respond to new market developments efficiently and effectively. We manage performance using common indicators, minimise brand overlap and take direct advantage of market opportunities. This strategy also enables us to gain a more detailed understanding of the needs and perception of our customers, as a result of which they feel more comfortable with their brand.

In 2012, the positioning of brands in relation to one another was further refined, so that they better complement one another in the market of potential customers. The total customer coverage is thus extended whilst the overlap is reduced. The differences between the brands focus on three main aspects: personal values, social status and the level of financial self-reliance.

Winning new customers
REAAL NV won many new customers mainly for term life insurance. Zwitserleven won a limited number of new SME and large corporation customers due to difficult conditions in the pensions market.

Retaining clients and offering a broader range of products
REAAL NV successfully carried out tests in order to improve the retention of customers with life insurance products. Retention more than doubled in some tests. The tests are expanded.

5.2 Reducing the cost base

Reducing the cost base of our organisation contributes towards improving the company's competitiveness and capital position.

An important factor with respect to operating expenses was a reduction in the average number of FTEs. The cost reduction at REAAL amounted to € 12 million and Zwitserleven € 6 million. Programmes to increase efficiency in the administration systems also significantly contributed towards the reduction. Also, REAAL NV implemented many customer-oriented process improvements that in most cases also immediately resulted in savings. Zwitserleven continued its programme to improve and reduce processes and systems and to harmonise its products.

Other important contributions to the cost reductions were cost synergy through the harmonisation and standardisation of IT systems, tightened procurement and adjustment of the terms of employment.

Investments made by REAAL NV were mainly aimed at further cost base improvements in the coming years, but also at long-term ICT solutions. The main investments in 2012 were:

- A new platform for the administration of non-life insurance policies was successfully put into production.
- At Zwitserleven a new platform has been developed that is ready for testing.

5.3 Realisation of ambitions

5.3.1 Net result

The objective for REAAL NV is to be an organisation with a healthy level of profitability.

5.3.2 Capital and liquidity ratios

Our 2012 target for Regulatory solvency ratio for our Insurance activities was 175%. Solvency of the insurance activities at the end of 2012 amounted to 176% compared to 203% at the end of 2011. A decline of 19% was due to an increase in required capital mainly related to a change of the solvency requirements for a part of the separate accounts and due to the downward shift of the yield curve which led to both an increase of the liabilities as well as an increase of required capital. Furthermore, solvency mainly declined due to narrowing of credit spreads of French sovereign debts which resulted in a stronger increase of the liabilities than the investment portfolio, because the liabilities are valuated by using the ECB AAA + UFR, in which French sovereign debts represent a greater share than in the investment portfolio. Finally, solvency decreased due to a dividend upstream by REAAL Non-Life to REAAL in the first half of 2012 and due to the impact of model and parameter changes mainly related to mortality. Underlying results partly offset the negative impact on solvency.

5.3.3 Corporate responsibility update

In 2012, corporate responsibility (CR) was more effectively integrated into the governance structure, including management and audit, of the business units. In addition to the financial and other criteria, the CR criteria form part of the employees' performance and appraisal cycle. The retail brands focused sharply on customers' interests, which resulted in a great deal of improvements in the service provided to customers and communication with them. We also made progress in making the investment chain more sustainable. Our demands with regard to CR will be discussed in detail in chapters 8 and 9.

5.3.4 Performance management

REAAL NV wants to enhance management performance-based management by means of quantifiable results. Four new CR performance indicators were developed in 2012 that will be effective from 2013. At REAAL and Zwitserleven management based on customer satisfaction was enhanced. The number of measurement moments and measurement areas was increased.

6 Outlook 2013

The Netherlands and the rest of the eurozone are faced with a ongoing recession. Although the euro crisis seems to be under control, the scarcity in the capital market is persisting and there is great uncertainty and risk of volatility in the financial markets. Corporate financials are retaining ample liquidity and capital because of precaution and more strict requirements. With regard to capital, these markets are still not entirely open, other than for cash. The Dutch housing market remains weak and the number of mortgage holders experiencing payment difficulties is steadily increasing. Unemployment is rising and the number of bankruptcies is increasing. These conditions are placing profitability in our sector under even greater pressure.

6.1 Financial markets in 2013

6.1.1 General explanation

Stimulus measures for the global economy will primarily need to come from the United States of America, China and other emerging markets. It seems likely that growth in the USA will continue, despite new taxation measures being introduced by the federal government. The delay in the growth of the Chinese economy seems to have passed and the demand for products from Europe, particularly Germany, will probably pick up. The eurozone is still dealing with the burden of the recovery of government finances, the necessary shrinking of the financial sector and loss absorption due to the depreciation of collateral and increasing risk of default (unemployment and bankruptcy). The permanent threat of crisis has diminished however, due to the willingness of the ECB to purchase government bonds without limit at sharply rising interest rates, but under conditions. The pressure upon southern European countries is likely to ease somewhat. The mild recession being experienced in the Netherlands and in many other European countries will continue in 2013.

6.1.2 Interest rates low, risk surcharges volatile

In February 2013, the ECB lowered its growth forecast for the eurozone to zero and kept its most important interest rates at the same low level. Due to the low growth forecast, the ECB will possibly keep the interest rate low. The low inflation forecast makes it possible for the ECB to apply a stimulus policy. The interest rate spreads of southern European countries in particular have recently fallen sharply. However, due to the continuing poor economic conditions, the risk of increasing credit spreads remains, which could cause a repetition of the sovereign debt turmoil in the eurozone.

6.2 Impact of laws and regulations

New laws and regulations give rise to higher costs in the financial sector, in relation to maintaining capital, risk management, internal organisation, resolution levy and/or taxation. The capital requirements and the timing of Solvency II are still creating a great deal of uncertainty, but are indicating higher costs.

6.3 Changes in the distribution landscape

Laws and regulations combined with social trends have also had an impact on the distribution landscape in the financial services sector. The most important changes are outlined below.

6.3.1 Fixed advisors' fees

From January 2013, a ban on commissions will apply to complex financial products. Instead of this commission, the advisory body (bank, insurer, or intermediary) will receive a fee based on an agreement with the customer. The separation between product price and advisors' fee creates greater transparency in the total cost price for the customer. Even so, all parties, the provider, advisor and customer, need to get used to the new situation. Advisors are able to use different advice models and different types of rates. The price of advisory services will also often depend on the information that customers are able to gather and contribute themselves. In this respect, the market for complex products will therefore not become transparent immediately as far as consumers are concerned. Furthermore, many consumers will try to save on costs by purchasing a complex product without seeking advice, which can result in the wrong choices being made. Self-managed products are gaining ground. The regulatory requirements imposed on advisory services providers are being tightened. As a result of these developments, combined with falling volumes, the number of intermediaries will fall sharply, particularly in the field of pensions and life insurance.

In the new market conditions, providers of both products and advisory services will need to adopt a flexible and very precise approach in anticipating the opportunities and limitations of the different distribution channels. REAAL NV is in a favourable position in this regard due to the multi-brand strategy with a mix of direct and indirect distribution channels, a variety of service models and brands that make it possible to provide different direct sales offers and product advice combinations.

The implications of the ban on commissions are greater for REAAL NV than for the other brands as the intermediary channel is REAAL NV's only distribution channel. REAAL NV aims to assist its customers in getting to grips with the new market situation, including by further improving and expanding the customer service and interaction with customers. It will profile itself more emphatically as a directing party in the triangle between REAAL NV, customer and intermediary and aims for better guarantees of the quality of the advice provided by intermediaries.

6.3.2 Increase in direct sales of simple products

The trend in which consumers are increasingly purchasing products without the intervention of an intermediary has already existed for a long time in relation to simple products such as non-life insurance for private individuals. This trend is continuing. Gathering information and comparing products oneself has become easier as a result of the improvement and expansion of websites. REAAL NV is responding effectively to this development with its multi-brand strategy and diversification of distribution channels.

6.3.3 Tax benefits on bank savings

Until 2008, only life insurers were permitted to offer products for wealth creation with tax incentives. However, since the introduction of bank savings in 2008, the consumer has alternatives available via the banks. Bank savings products have grown strongly since then, at the expense of more complex life insurance products that combined asset growth with guarantees and/or insurance policies. Bank savings products are often combined with life insurance products, such as term insurance policies and immediate annuities. The tax advantage of bank savings has been restricted with effect from 2013. Although growth will decline, this market will continue to have a healthy growth potential for the time being.

6.4 Product markets in 2013

Under the influence of the weak economy and new regulations, the markets of REAAL NV will see no or negligible growth and some markets are expected to contract (further).

6.4.1 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 the decline to continue in 2013. We foresee further growth in modern wealth creation products, such as bank savings. These products are simple and can be tailored to the customer in combination with term life insurance policies.

Sales in 2013 of term life insurance policies will be affected by the introduction of the ban on commissions. We expect that consumers will be more likely to attempt to conclude their own term life insurance policies, without intervention by an intermediary. Price comparison websites will help them to do this and forms one of the reasons that prices remain under pressure. REAAL NV aims to remain competitive and is focusing on continuing to improve efficiency in the process from quotation to policy issue. REAAL NV is also primarily focusing its activities on bank savings, expanding distribution via SNS Bank and RegioBank and continuing to reduce the costs of administration and management of the existing life insurance portfolio.

6.4.2 Non-life and disability insurance relatively stable

We expect to see a relatively stable development in the non-life insurance market in 2013. In the retail non-life insurance sector, the shift to the direct channel is persisting. The sharp rise in insurance premium tax from 9% to 21% is likely to drive down sales. REAAL NV improved its product range at the start of 2013 with the introduction of the Goed Geregeld Pakket (a full-coverage insurance package) for retail customers. SNS Bank is also increasingly playing a role in new sales.

The market for occupational disability insurance has good potential to grow over the long term due to the increasing number of self-employed entrepreneurs and the increasing risk awareness of entrepreneurs in general. In 2013, we expect that growth will stagnate as a result of the weak economy and pressurised turnover of the self-employed. REAAL NV aims to make disability insurance accessible to more people and will improve accessibility in various ways in 2013.

6.4.3 Pensions market under pressure

We expect to see the pension market declining slightly in 2013. The growth in premium income will be adversely affected by the new fiscal restrictions on pension accrual, increasing levels of unemployment, increasing bankruptcy rates and limited salary increases. The long-term interest rate is expected to remain low in 2013 and as a result the insurance liabilities will remain at a high level, whilst solvency and profitability of pension insurers will remain under pressure.

Zwitserleven is developing many initiatives to further increase its competitiveness, including:

- the introduction of a Pension Premium Institution, which will give companies a cost-efficient means of building up pension for their employees, in which the technical insurance risks are not covered;
- the introduction of savings products and the expansion of service concepts for employers;
- cost reductions by standardising systems and processes and managing cost prices more effectively, including by splitting composite products and services;
- continued improvement of the service, primarily for employees and director-shareholders, and increasing the ways in which we ensure corporate responsibility via the entire service.

- the facilitation of the migration of ‘defined benefit’ to ‘benefit contribution’ schemes, which will make pensions more sustainable and affordable.

Zwitserlevens' management recently chose and communicatied a new strategic direction. This direction is aimed at an increased focus on the Defined Contribution (DC) market and increased number of products outside the second pillar. The result is a new balance between a focus on new markets in which DC, PPI and individual products prevail, and the more traditional markets. It will also have organisational conseqences.

7 Financial outlines

7.1 Result

7.1.1 Results 2012 compared to 2011

For the year 2012, REAAL NV reported a net loss of € 149 million, compared to a net profit of € 192 million for the year 2011.

At REAAL NV, net profit was sharply lower due to one-off items, mainly consisting of impairments of goodwill, and a lower underlying result at both REAAL Life and Non-Life. At REAAL Life the underlying profit was down mainly due to lower direct investment income and an impairment on property for own use, while at REAAL Non-Life the underlying result was negatively impacted by high claims ratios at fire and marine.

Zwitserleven posted a net loss due to an impairment of its brand name and a partial impairment of the Value of Business Acquired (VOBA). The 2011 net result had been negatively impacted by a goodwill impairment. Zwitserleven's underlying profit showed a strong decline due to lower technical results and lower direct investment income.

7.2 Impact of one-off items

The impact of one-off items on REAAL NV's net result amounted to € 549 million negative.

At REAAL, the net impact of one-off items amounted to € 325 million negative. This consisted mainly of an impairment of the entire goodwill at REAAL Non-life of € 110 million net and a partial impairment of the goodwill at REAAL Life of € 141 million net. The goodwill impairments were driven by the increased competition and the ongoing difficult market circumstances in the Life and Non-Life market. Furthermore, there was a charge of € 18 million net consisting of an impairment of REAAL Life's distribution network in the light of legislation changes related to commission fees for Independent Financial Advisors (customer agreed remuneration). Finally, an additional € 56 million net charge was taken for the unit linked policies settlement reached in 2008. The additional provision is based on the experience built up with the calculations of the compensation amounts for the various products under the settlement.

At Zwitserleven, the net impact of one-off items was € 224 million negative, fully related to the impairment of the brand name and a partial impairment of VOBA. The impairment of the Zwitserleven brand name of € 95 million net was driven by difficult circumstances in the pensions market as evidenced by the continued low interest environment, longer life expectancy, expected higher future capital requirements and the increased competition due to new entrants with low cost profile, creating pressure on prices and margins. In addition, the lower risk profile of the investment portfolio implies lower future investment income. The partial impairment of € 129 million net of the VOBA related to the shortfall of the IFRS liability adequacy test (LAT). This LAT compares the market value and the IFRS carrying amount of insurance liabilities and related assets. The use of the ECB AAA + UFR curve and the general decline of interest rates in 2012 led to an IFRS LAT shortfall in the insurance liabilities of € 1,619 million net. By using shadow accounting , the positive fair value reserve of the related fixed-income portfolio was used to increase the IFRS carrying amount of the insurance liabilities by € 1,986 million. However, the fair value reserve of the related fixed-income portfolio could not fully compensate the entire LAT shortfall. The remaining shortfall of € 129 million net was charged to the income statement as a partial impairment of the VOBA.

One-off items in 2011 of € 89 million negative consisted of an impairment of goodwill at Zwitserleven of € 107 million which was partly compensated by a net gain at REAAL Other of € 18 million from the sale of REAAL Reassurantie S.A, a small reinsurance subsidiary.

7.3 Operating expenses

Total operating expenses in 2012 decreased by € 11 million (-2%).The operating expenses included charges of € 8 million related to several lean and efficiency initiatives at REAAL (€ 4 million) and Zwitserleven (€ 4 million).

Total adjusted operating expenses decreased by € 19 million (-4%), supported by a decrease in the number of internal staff. Both business units contributed to the decrease: REAAL (€ 12 million) and Zwitserleven (€ 6 million).

REAAL NV will strive for a further reduction of costs driven by ongoing efficiency programmes and a structural moderation of collective labour agreements.

7.4 Underlying result Insurance activities

Table 3: Underlying result REAAL NV

	REAAL		Zwitserleven	
In € millions	**2012**	2011	**2012**	2011
Net result attributable to shareholders and security holders	(27)	279	(122)	(87)
Realised gains, losses and impairments on equity	16	(20)	6	3
Realised gains, losses and impairments on fixed-income securities	75	36	114	9
Result on financial instruments	79	114	(60)	21
Changes in insurance contracts due to movements of fair value items	(20)	(33)	14	(59)
Total net impact investment portfolio and hedges	**150**	**97**	**74**	**(26)**
Impact of one-off items	(325)	18	(224)	(107)
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**148**	**164**	**28**	**46**
Amortisation VOBA and other intangible assets	(48)	(53)	(16)	(18)
Underlying results	**196**	**217**	**44**	**64**

As of 1 January 2012 the definition of underlying result has been adjusted. The share in results of associates is included in Gains, losses and impairments on equity porfolio and unrealised results of fixed-income securities at fair value through profit and loss and of investment properties are included in Gains, losses and impairments on fixed-income securities. Comparative figures have been adjusted accordingly.

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

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

7.4.1 REAAL

In 2012 REAAL's net result declined sharply by € 306 million to € 27 million negative driven by the negative impact of one-off items. The total net impact from gains, losses and impairments on the investment portfolio and hedges increased to € 150 million positive (2011: € 97 million positive) driven by higher realised gains on bonds and equities and lower impairments on equities, partly offset by the impact of shadow accounting, included in the line 'Changes in insurance contracts due to movements of fair value items'. The result on financial instruments was substantial, although lower than in 2011, with both years positively impacted by high gains on interest rate derivatives due to the strong decline in interest rates.

7.4.2 Zwitserleven

In 2012 Zwitserleven's net result declined by € 35 million to € 122 million negative, more than wholly due to one-off items of € 224 million net, consisting of impairments on intangible assets (2011: € 107 million negative). The total net impact from gains, losses and impairments on the investment portfolio and hedges was € 74 million positive (2011: € 26 million negative) driven by sharply higher realised gains on bonds and a sharply lower addition to provisions for interest rate guarantees. This was partly offset by lower results on financial instruments, mainly consisting of negative unrealised results on derivatives used for hedging interest rate risk and inflation.

Zwitserleven's underlying result of € 44 million was € 20 million lower. The decline was mainly driven by lower direct investment income due to derisking measures and lower technical results partly compensated by lower operating expenses.

8 Developments REAAL

Table 4: Net result REAAL

In € millions	2012	2011	Change
REAAL Life	72	246	(71%)
REAAL Non-life	(84)	32	(363%)
REAAL Other	(15)	1	(1600%)
REAAL	**(27)**	**279**	**(110%)**

8.1 Strategy of REAAL

REAAL's profession is to know and bear customer risks. As an insurer, REAAL wants to remove customers' concerns about income continuity and calamities. REAAL achieves this with simple, clear and efficient services. Inspired by its core value CARE! REAAL employees strive for continuous improvement in customer focus and efficiency with simpler and more accessible products and result-oriented projects in which employees propose organisational improvements themselves.

REAAL develops and distributes individual life insurance, non-life insurance and disability insurance policies, as well as bank savings products. REAAL focuses mainly on consumers who wish to be advised on financial matters. Customers may obtain advice from intermediaries who work together with REAAL. REAAL aims for sustainable, intensive cooperation with intermediaries and continually works on a proper safeguarding of the quality of advice. Zelf.nl is the brand for consumers who wish to take care of their financial affairs themselves.

REAAL wants to develop itself towards an efficient and appreciated service organisation, putting the customers' interests first. Based on its contacts with customers, REAAL always seeks to continually improve its services to customers and intermediaries. The central point of customer contact, REAAL Customer Service, plays an important part in this respect.

8.2 Commercial developments and organisation

8.2.1 Life: focus on term life insurance and bank savings products

REAAL offers its customers a transparent and complete range of life insurance products. The risk insurance policies and bank savings products complement each other. REAAL leads the market in terms of life insurance products. New sales declined, in part because of the crisis in the residential market. In December 2012, REAAL made its term insurance products free of commission and gender-neutral.

REAAL benefited from the strong growth in demand for bank savings products. Sales were up by more than 100%. REAAL's bank savings products are life annuity products to accumulate and return capital and to postpone returns on capital. Developed jointly with SNS Bank, these products have low costs and simple terms and conditions.

REAAL sells part of its risk and asset growth products in combination with mortgages, which are purchased from third parties. In view of the residential market crisis, REAAL intensified its focus on the sale of term insurance to customers who took out their mortgage loans somewhere else. In addition, new methods to improve customer retention were successful. In the life annuity-related test, retention almost doubled in 2012. The tests will be expanded.

8.2.2 Unit-linked insurance policies

In 2012 REAAL made significant progress in executing the compensation scheme for customers who had purchased unit-linked insurance policies in the past. In addition, REAAL offered these customers additional services and options at a customised website for terminating their policies before maturity and/or exchanging their policy for products with better terms and conditions.

In 2010, REAAL started executing the compensation scheme with compensation on the expiry date, switching to time-weighted compensation in the middle of 2012. Until the end of 2012, REAAL calculated the compensation earned thus far for almost half of all (former) policyholders and deposited those amounts into the policies. In the period until the expiry date of the insurance contract, REAAL annually deposits a fixed amount into the policy. In the first quarter of 2013, REAAL informed more than 95% of its customers on the compensation. The compensation scheme applies to customers of REAAL, Zwitserleven and their legal predecessors. Our brands sold over one million individual unit-linked insurance policies.

REAAL improved its communication and services regarding these unit-linked insurance policies to provide more assistance to customers. REAAL informed its customers by letter of an Insurance Check which is available to them on REAAL's website. The website gives customers clear information about their current products, including compensation, and all relevant options and alternatives. At year-end 2012, REAAL had written to 60% of its customers. The other customers will be contacted in the first half of 2013. REAAL improved the accessibility of information, also by means of videos and animation. For example Seada van den Herik, REAAL's Director of Life, Mortgages and Banking, tells customers in video messages what they can do to possibly improve their position. Approximately 16% of the customers receiving a letter from REAAL used the Insurance Check in 2012. Despite REAAL's efforts to lower the thresholds, it proved difficult to convince customers to take action, even though it relates to their own financial future. This is also experienced by other insurers. In 2013, REAAL will introduce new initiatives to try and move its customers into action. REAAL set up a special information desk for all questions regarding unit-linked insurance, allowing customer requests to be dealt with as best as we can.

REAAL draws customers' attention to the importance of good advice and assists and supports intermediaries to serve customers well. When a customer no longer has a consultant or prefers a different consultant, REAAL reimburses the consultancy costs up to an amount of € 150. Customers who want to switch to a different product pay no costs for terminating the unit-linked insurance. A change of product or fund switch does not involve any costs either.

Especially for customers with a current policy, REAAL introduced a new, alternative endowment insurance product. This product is transparent and has no leverage and depletion effect. Customers can choose from five investment mixes with each its own risk profile. Based on an investment mix meter, customers decide which investment mix is most suitable for them, for example the lifecycle variety, in which the risk of investments decreases during the term of the policy.

Executing the compensation scheme and the additional policy for service and product improvement is a very substantial project. The numerous acquisitions in the past created a broad range of products, which were also included in diverse administration systems. REAAL gives key priority to executing this scheme. In 2012, approximately 150 FTEs per annum were deployed for this purpose. This work not only involves calculating and depositing sums of money. REAAL wants to make it as easy as possible for every customer to understand their current products and subsequently choose the best solution. REAAL has completely stopped the sale of new unit-linked insurance products.

8.2.3 Disability insurance

With its disability insurance products, REAAL focuses on self-employed persons and highly educated professionals in paid employment. After years of growth, the disability insurance market contracted sharply in 2012 due to the weak economy, which particularly made self-employed individuals cautious. At REAAL, new disability insurance sales showed a limited decline, but the market share grew slightly to 8.7% at year-end 2012, compared with 8.4% at year-end 2011. Anticipating the ban on commissions for complex products in 2013, REAAL already discontinued the portfolio commission to intermediaries in 2012.

REAAL distinguishes itself in the disability insurance market with its prevention programme called REAAL Lijfwacht. This programme consists of services aimed at preventing disability. Disability has a major impact on the lives of entrepreneurs who become disabled and could also pose a threat to the future existence of their business. REAAL Lijfwacht offers services aimed at keeping the entrepreneur healthy and at preventing or limiting problems.

Preventive care is important for everyone

REAAL supports customers with specialist employees, the information desk and a network of specialist service providers. The initiative for support may come from both REAAL and the customer. REAAL Lijfwacht is available for coaching 24/7. In 2012, the programme was further enhanced and more tailored to the target groups. Interest increased particularly for services rendering immediate results to customers, such as requests for assistance at the information desk, waiting list mediation, contributions to medical procedures that are not fully refunded in the Netherlands, ergonomic advice and psychological guidance. Interest did not increase for long-term prevention by means of healthy living. That is why REAAL is setting up test projects in order to improve disability prevention in this way too. Healthy living and early detection of factors that could harm a person's health are in everyone's interests: customers, REAAL and society. Disability prevention can be a major contributor to controlling healthcare costs in the Netherlands as well as to long-term employability up to (rising) retirement age.

Participation in prevention services showed a strong increase after communications. REAAL publishes a Lijfwacht magazine and gives information to intermediaries via the REAAL College and various information sessions. Targeted mailings are sent via partnering service providers.

REAAL sets great store by customers being able to properly assess whether a product will live up to its purpose. It is for this reason that REAAL withdrew its disability insurance policy with limited cover from the market in April 2012. This product did not cover psychological assistance. The portfolio is now exclusively managed.

Simple products, clear information

In 2012, REAAL introduced new, updated product varieties for self-employed individuals. That meant to all these customers: more clarity about product components, fewer and sometimes better terms and conditions and simpler language. No one was worse off. All accompanying information, including the website, was amended. REAAL is enjoying the benefits of saving costs on policy administration. It is REAAL's goal to convert the other customers' products into up-to-date product varieties by the end of 2013.

8.2.4 Multi-brand strategy succesful in difficult non-life market

The size of the non-life market remained stable. Margins continued to be under pressure, particularly in the retail market. The market share in non-life, including direct distribution, showed limited growth from 4.3% to 4.5%. The limited growth was mainly attributable to the strong increase of sales to private individuals through SNS Bank. New sales of non-life insurance policies through SNS Bank rose by 86%. Currently selling 44% of REAAL's individual non-life insurance policies, SNS Bank has good potential for further growth. Hereby REAAL and SNS Bank have demonstrated the strength of our multi-brand strategy. New sales via Zelf.nl, REAAL's own direct channel, were under pressure. The insurance for dogs and cats (Proteq Dier & Zorg) is a product that moves along with the economy. Due to the difficult economic situation, people consider more thoroughly whether to insure a certain risk or not. This affected the Dier & Zorg product as more and more owners of dogs and cats decided not to insure the medical risk. In addition, in the summer of 2012, a change was implemented in the build-up of the car rate. The introduction of a new car rate temporarily resulted in a lower production following the necessary optimisation of the various sales channels.

There were no striking shifts among the various product groups. At the end of 2011, the Dutch Central Bank called on insurers to make car insurance more profitable. It resulted in various price increases, but also in many changes to insurers' terms and conditions. This did little to improve transparency in the market. The effects of changes to prices and terms and conditions for REAAL were still unclear at the beginning of 2013, in part due to after effects that will only become visible in 2013.

In January 2013, REAAL introduced a new Goed Geregeld Pakket for the non-life market, aimed at private individuals and self-employed persons. To customers, the new products entail greater simplicity, convenience and security about cover and no additional policy costs or surcharges for payment in instalments. The terms and conditions were extended and improved as to their substance and the number of options was reduced so that customers are left with fewer difficult choices and can fill out the application form more quickly. Home insurance, for example, no longer requires complicated calculations of the home content. Underinsurance is no longer possible. The language used in the terms and conditions was simplified. The fully automated process from application to policy creation is faster than before, as is the process of paying benefits following a claim.

8.2.5 Providing customers with clear information

REAAL applies three key objectives to providing customers with clear information:

- Clear products, structured according to a fixed and recognisable framework, that clarify what a product can and cannot do for the customer.
- Clear product information based on REAAL's style guide, aligning REAAL's style with the manner of communication by the other brands.
- Good contactability of Customer Service via a central telephone number and answering as many questions of customers as possible in one call.

REAAL frequently measures these three aspects, which are partly based on assessments by customers and customer panels. In 2012, REAAL made preparations to achieve its objective that at least 50% of the assessments from customer panels is positive about the translation of customers' interests into permanent information material, such as new brochures and quotation models.

8.2.6 Customer service and customer contact

Aiming for long-term customer value

REAAL's service organisation is undergoing considerable changes. These changes were initiated as far back as 2011, when a central REAAL Customer Service opened its doors. Customer Service primarily provides for good accessibility. Customer questions can be answered better and faster. In addition, customers find the direct contact with REAAL a positive experience, which greatly contributes to customer retention. REAAL has more than one million customers with products they purchased some time ago. Customers who are satisfied about the way in which REAAL assists them will be more inclined than other customers to keep their products and/or buy new ones.

Furthermore, via REAAL Customer Service, REAAL obtains a lot of valuable information from customers to continually improve services, products and processes. The point of departure for every change to the process chain is long-term customer value, and not for instance the capacity available at that time. That leads to other questions on the shop floor. How many employees are needed to process the new customer requests within the maximum lead time? How do we organise that and how do we safeguard quality, with the right understanding of the customer's situation? REAAL expects personal leadership of its employees. REAAL expects them to personally experience how customers wish to be treated. That is why they also propose possible improvements. These improvements are introduced if they have proven successful. This way, all REAAL employees contribute to the permanent improvement of customer focus and efficiency in all processes involved in the provision of services.

This personal input by employees and the systematic analysis of customer interaction jointly rendered many improvement measures at practically all departments in 2012, including:

- smarter work processes, reduction of forms to be completed by customers, product changes and a strong reduction of lead times in the event of adjustments;
- better explanation of products and working methods on the website;
- proactive customer approach, including an increased offering of alternatives when a customer is not satisfied with a product;
- passing on customer contacts and information to intermediaries to better enable them to provide good-quality advice and improve sales.

Nevertheless, between 2011 and 2012, the average claims processing time for correspondence on ongoing claims increased, from 10 to 30 working days on average for car insurance and from 12 to 19 working days on average for home insurance.
Between 2011 and 2012, the average claims processing time for the handling of new claims also increased, from 1 to 3 working days on average for car insurance and from 3 to 9 days for home insurance.
The processing time for the surrender of a life insurance averaged 9 working days in 2011, compared to 10 working days in 2012.
However, in the last quarter of 2012, the claims processing time improved to 13 working days on average for new claims for home insurance and 3 working days on average for new car claims.
In the last quarter, the processing time for life insurance improved to 7 days on average.
The shorter claims processing times often lead to an improvement of customer satisfaction in the relevant subareas.

Engagement with customers and other stakeholders

REAAL engages with its stakeholders in various ways. The discussions are used to intensify the focus on customers' interests, further improve the quality of products and services and, ultimately, to become more successful commercially. Besides REAAL Customer Service, REAAL mainly receives feedback from customers via 'Voice of the Customer' sessions, customer panels and the NPS customer satisfaction surveys. REAAL also uses the feedback from the Netherlands Authority for the Financial Markets and the Customer-Focused Insurance Quality Label to this end.

REAAL has been organising 'Voice of the Customer' sessions since 2011. During these sessions, 15 customers headed by a chairman engage with 15 managers and other REAAL employees. Customers are asked open and specific questions about REAAL and its services. These questions result in lively discussions. A report and a video compilation is made of every session, which are distributed within the organisation. In 2012, two sessions were held: one about contacts with REAAL Customer Service and one about the execution of the unit-linked insurance compensation scheme.

Preparations for statutory ban on commissions in 2013

As from 2013, a ban on commissions applies with regard to complex products, forcing intermediaries to charge their customers a separate consultancy fee upon sale. Based on the Dutch Financial Supervision Act, complex products include mortgages, pension insurance, life insurance and income insurance, including disability insurance for entrepreneurs and funeral insurance. Many intermediaries already allowed customers to choose in 2012. These options and the different payment models applied by intermediaries based on service and price sometimes led to confusion among consumers. To create order and clarity in this area, REAAL asked customers via panels about their opinion of the upcoming legislation in 2012 and asked intermediaries during a workshop about their position in the chain. In this context, REAAL also actively engaged with Adfiz, an interest organisation for intermediaries, about the consequences of the new legislation and the impact on the commission paid.

Customer satisfaction

Customer satisfaction and service levels improved in practically all areas involving interaction with customers, but not for REAAL as a whole. Thus, the NPS score of REAAL Customer Service improved from -11 to -8 in 2012. At the end of December, the NPS score for handling non-life claims, after a slight drop in the spring, was back at 36, the same level as at the start of 2012. The average customer satisfaction mark remained stable at 7.6. The NPS scores for disability insurance and other non-life products exceed those for life and banking products. Each department has its own improvement plan, in part based on their NPS scores.

The general NPS fell from -44 at year-end 2011 to -51 at year-end 2012. This figure is measured among all customers, including those who have never had any contact with REAAL. Among customers who did have contact with REAAL, average satisfaction was higher. In part for that reason, REAAL will continue the expansion of customer contact and the further improvement of communication by telephone.

8.2.7 REAAL retains Customer-focused Insurance Quality Label

For the third year in a row, REAAL retained the Customer-focused Insurance Quality Label ("Keurmerk Klantgericht Verzekeren"), which is awarded by Dutch Insurers Assessment Foundation. This quality label warrants the continuous quality of services and customer focus, but does not concern the substance and level of insurance premiums. The foundation periodically checks all the insurance companies that bear the quality label. In 2012, the requirements for the quality label became even stricter. The stricter requirements related to such aspects as understandable language (including in web texts and emails), clear information (customers' interests first in all written communications), follow-up periods, complaint reporting, processing of bodily injury claims, external assessment of legal assistance insurance quality system, fraud control, contact by telephone and email, customer satisfaction and quality policy. The minimum score on committed maximum follow-up periods for customer applications was raised from 80% to 90%, in accordance with the requirements of the Customer-focused Insurance Quality Label.

The quality label requirements include an up-to-date report about the product approval process and recent product reassessments. The Netherlands Authority for the Financial Markets tests all products of insurers in active sales against the following criteria: cost-efficiency, usefulness, reliability and understandability. REAAL itself then checks again whether these products still meet the criteria at least once every three years. In addition, REAAL reassesses products when internal or external factors change, for example as a result of legislative amendments. It also verifies whether its marketing and product communication with customers meets all in-house and external regulations. This approval and reassessment process is applied to all products and all brands of REAAL NV.

8.2.8 Contributions to society

REAAL contributed to the national Money Smart Week ("Nationale Week van het Geld"), aimed at the financial education of children. A total of around 70 employees gave 87 lectures at primary schools.

REAAL staff collected € 10,500 in a so-called overtime marathon for Stichting Alpe d'Huzes, whose objective is to facilitate and inspire people with cancer to live an optimally good, happy and healthy life with cancer. REAAL doubled the amount. Another overtime day revolved around the theme of the core value CARE! about each other and was for the benefit of the Mutual Aid Fund. This fund provides financial support to employees who, without any fault of their own, are confronted with substantial costs due to illness. REAAL doubled this sum of more than € 39,000, too.

REAAL sponsors a chair at the Earth and Life Sciences faculty of the Free University for research into water management risks and insurance. The period runs from July 2007 to July 2013. The contribution in 2012 was approximately € 50,000.

8.2.9 Customer-focused and efficient organisation

A number of the many customer-focused process improvements required one-off investments, but most improvements yielded cost benefits right away. In addition, REAAL saved costs through the central product development in the context of the multi-brand strategy. In 2012, REAAL devoted much capacity to executing the unit-linked insurance compensation scheme. As a result, the focus on the rationalisation of the life insurance portfolio was reduced. REAAL made limited progress here. The rationalisation process will be intensified in 2013.

REAAL's total operating costs fell from € 318 million in 2011 to € 309 million in 2012.

8.2.10 Responsible investment of premiums received

REAAL manages the funds it receives from its customers for insurance premiums in a responsible manner. This was revealed again by a survey into responsible investment by insurers conducted by VBDO, the Association of Investors for Sustainable Development, at the end of 2012. Outperformed only by Zwitserleven, REAAL took second place among the 30 Dutch insurers that were assessed in the survey. In 2010 and 2011, REAAL took top position. The responsible management of the investments of REAAL and its customers is performed by SNS Asset Management.

8.3 Financial developments at REAAL Life

Table 5: REAAL Life

In € millions	2012	2011	Change
Result			
Regular life premiums	1,218	1,306	(7%)
Single life premiums	218	381	(43%)
Premium income	**1,436**	**1,687**	**(15%)**
Reinsurance premiums	151	187	(19%)
Net premium income	**1,285**	**1,500**	**(14%)**
Net fee and commission income	52	49	6%
Share in result of associates	10	(2)	600%
Investment income	1,047	1,010	4%
Investment income for account of policyholders	694	(241)	388%
Result on financial instruments	93	155	(40%)
Income invested collateral securities lending	4	3	0%
Other operating income	-	2	
Total income	**3,185**	**2,476**	**29%**
Technical claims and benefits	2,479	1,697	46%
Acquisition costs for insurance operations	76	51	49%
Impairment charges	228	35	551%
Total operating expenses	160	160	0%
Other interest expenses	126	210	(40%)
Total expenses	**3,069**	**2,153**	**43%**
Result before tax	**116**	**323**	**(64%)**
Taxation	41	76	(46%)
Minority interest	3	1	200%
Net result attributable to shareholders and security holders	**72**	**246**	**(71%)**
One-off items	(215)	-	0%
Adjusted net result attributable to shareholders and security holders	**287**	**246**	**17%**
Operating cost/premium ratio	9.2%	8.4%	
New annual premium equivalent Life	41	91	(55%)

8.3.1 Result 2012 compared to 2011

REAAL Life posted a sharply lower net profit of € 72 million mainly due to a partial impairment of the goodwill at REAAL Life of € 141 million net (€ 162 million pre-tax). The goodwill impairment was driven by the increased competition and ongoing difficult market circumstances in the Life market. Furthermore, there was an impairment of € 18 million net (€ 24 million pre-tax) related to REAAL Life's distribution network in the light of changes in legislation concerning commission fees for Independent Financial Advisors (customer agreed remuneration). Finally, there was an additional € 56 million net charge (€ 75 million pre-tax) related to the unit-linked policies settlement reached in 2008.

Adjusted for one-off items, REAAL Life's net result increased significantly to € 287 million. This was more than wholly due to the total net impact from realised gains, losses and impairments on the investment portfolio and hedges which increased sharply to € 142 million as higher realised gains on bonds and equities more than offset a lower contribution from interest rate derivatives.

The underlying net profit of REAAL Life showed a marked decrease to € 183 million driven by lower direct investment income due to de-risking measures and an impairment on property for own use.

Table 6: Underlying result REAAL Life

In € millions	**2012**	2011	Change
Net result attributable to shareholders and security holders	72	246	(71%)
Gains, losses and impairments on equity portfolio	18	(20)	190%
Gains, losses and impairments on fixed-income securities	65	32	103%
Result on financial instruments	79	114	(31%)
Changes in insurance contracts due to movements of fair value items	(20)	(33)	39%
Total net impact investment portfolio and hedges	**142**	**93**	**53%**
Impact of one-off items	(215)	-	0%
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**145**	**153**	**(5%)**
Amortisation VOBA and other intangible assets	(38)	(43)	12%
Underlying net result REAAL Life	**183**	**196**	**(7%)**

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.

Gains, losses and impairments on equities were € 18 million positive compared to € 20 million negative in 2011. The increase was due to higher gains and lower impairments, partly offset by lower results on equity options. Gains, losses and impairments on fixed-income securities increased to € 65 million positive compared to € 32 million in 2011.

Decreasing interest rates in 2012 led to substantial net gains on interest rate derivatives. As a consequence, the result on financial instruments was € 79 million positive. In 2011, decreasing interest rates had led to an even higher net result on financial instruments of € 114 million.

Changes in insurance contracts due to movements of fair value items, mainly consisting of the net impact of shadow accounting, amounted to € 20 million negative (2011: € 33 million negative).

One-off items in 2012 consisted of the net impact of impairments of goodwill and the distribution network and the charge related to the investment-based life insurance policies settlement.

8.4 Income

Regular life premiums of REAAL Life showed a limited decline. In a shrinking Dutch market, the market share of new individual regular premiums was below the level of 2011 (21.8%) but at 18.2% it remained high, in particular in the term life insurance market where REAAL retained its market position.
There was a considerable decrease in single life premiums due to the continued focus on protecting profitability, and the market share in this segment fell to 5.5% from 8.8% in 2011. As a consequence, New Annual Premium Equivalent (NAPE) more than halved to € 41 million.

The implementation of the agreement on cost loadings of investment-based life insurance policies is underway. In the second quarter of 2012, REAAL started informing holders of investment-based life insurance policies about their personal situation and the possibilities to switch to another product, a process in which it actively supports customers. At this stage, REAAL has informed about 95% of its policyholders about the compensation amount they are entitled to. The additional provision of € 75 million pre-tax is based on the experience built up with the calculations of the compensation amounts for the various products under the settlement.

Reinsurance premiums paid were lower, driven mainly by a decrease in the portfolio that is proportionally reinsured, due to expirations and lower single life premiums.

Table 7: Breakdown Investment income for own account REAAL Life

Gross amounts in € millions	2012	2011	Change
Total investment income	1,047	1,010	4%
Realised gains/losses on equities	41	11	(273%)
Realised gains/losses on fixed income securities	107	59	81%
Other realised gains/losses	5	1	400%
Realised gains/losses	**153**	**71**	**115%**
Unrealised gains/losses	(15)	(16)	6%
Direct investment income	**909**	**955**	**(5%)**

Total investment income for own account showed a limited increase as higher realised gains on fixed-income securities and equities more than compensated for lower direct investment income following de-risking measures (reduced exposure to peripheral European sovereigns) and lower reinvestment yields.

Investment income for account of policyholders was sharply higher, due mainly to positive revaluations of fixed-income securities following the decrease in interest rates. In 2011, investment income for account of policyholders had been negatively impacted by lower equity markets.

8.5 Expenses

Technical claims and benefits increased, driven by higher charges for account of policyholders corresponding to the increased investment income for account of policyholders. Furthermore, technical claims and benefits included an additional charge related to the unit linked policies settlement of € 75 million pre-tax. On the other hand the decrease in premium income led to lower technical claims and benefits.

Acquisition costs for insurance operations increased mainly due to lower recoverable costs allocated to a reinsurance transaction.

Table 8: Breakdown impairment charges REAAL Life

In € millions	2012	2011	Change
Impairment charges on equities	17	38	(55%)
Impairment charges in fixed income securities	9	-	-
Impairment charges of intangible assets	186	-	-
Other impairment charges	16	(3)	633%
Total impairment charges	**228**	**35**	**551%**

Impairment charges were high in 2012 due to impairments on intangible assets regarding goodwill (€ 162 million pre-tax) and the distribution network (€ 24 million pre-tax).
Compared to 2011, impairment charges on equities decreased. Impairment charges on fixed-income securities and impairments on property for own use, included in other impairment charges, increased.

Operating expenses were in line with 2011 as cost reduction measures were offset by higher costs related to the implementation of the agreement on cost loadings of investment-based life insurance policies. However, the fall in

premium income and the shift from capital growth to term life products led to an increase of the operating cost/premium ratio from 8.4% to 9.2%.

Other interest expenses fell by € 84 million, with € 70 million of the decrease due to a reinsurance transaction. The lower interest expenses due to the reinsurance contract were compensated by other items related to the reinsurance transaction (lower reinsurance premiums, higher technical claims and benefits and higher acquisition costs), with a net negative effect on the result of € 7 million (2011: € 7 million negative). Furthermore, interest expenses decreased due to lower short term funding costs of repos.

8.6 Financial developments at REAAL Non-Life

Table 9: REAAL Non-Life

In € millions	2012	2011	Change
Result			
Non-Life premiums	819	848	(3%)
Reinsurance premiums	66	54	22%
Net premium income	**753**	**794**	**(5%)**
Net fee and commission income	1	1	0%
Share in result of associates	1	1	0%
Investment income	67	66	2%
Total income	**822**	**862**	**(5%)**
Technical claims and benefits	473	490	(3%)
Acquisition costs for insurance operations	180	192	(6%)
Other operating expenses	110	-	0%
Total operating expenses	128	130	(2%)
Other expenses	7	9	(22%)
Total expenses	**898**	**821**	**9%**
Result before tax	(76)	41	(285%)
Taxation	8	9	(11%)
Net result for the period	**(84)**	**32**	**(363%)**
One-off items	(110)	-	0%
Adjusted net result for the period	**26**	**32**	**(19%)**
Combined ratio Non-Life operations	97.3%	96.2%	
Claims ratio	59.5%	57.8%	

8.6.1 Results 2012 compared to 2011

REAAL Non-Life posted a net loss of € 84 million compared to a € 32 million net profit for 2011. The loss was due to a goodwill impairment of € 110 million net (€ 110 million pre-tax), driven by the increased competition and the ongoing difficult market circumstances in the Non-Life market.

Adjusted for this one-off item, net profit decreased with € 6 million to € 26 million. This decrease was driven by a € 13 million lower underlying result due to higher claims, most notably in fire and marine, partly compensated by a € 7 million higher net impact from gains, losses and impairments on the investment portfolio and hedges. The underlying result in both 2012 and 2011 has been positively impacted by a release of provisions for unearned premiums and acquisition costs held for authorised agents of € 11 million and € 12 million net respectively.

Table 10: Underlying result REAAL Non-Life

In € millions	**2012**	2011
Net result for the period	(84)	32
Gains, losses and impairments on fixed-income securities	10	3
Total net impact investmentportfolio and hedges	**10**	**3**
Impact of one-off items	(110)	-
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**16**	**29**
Amortisation intangible assets	(6)	(6)
Underlying net result	**22**	**35**

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

In 2012, gains, losses and impairments on fixed-income securities had a positive impact of € 10 million, while in 2011 this was € 3 million, mainly due to realised gains on bonds.

One-off items in 2012 consisted of the goodwill impairment mentioned above.

8.7 Income

In a competitive non-life market, REAAL Non-Life's gross premium income decreased modestly.

In both 2011 and 2012, premium income was positively impacted by a release of the provision for premiums for authorised agents. In 2011 REAAL NV had changed the calculation of the provision for these unearned underwriting premiums, adopting a more accurate method which takes into account the fact that in recent years policyholders have switched more and more to payments on a monthly or quarterly basis instead of annual payments. As a result, in 2011 an amount of € 16 million was released to the pre-tax result (€ 24 million in premium income partly offset by € 8 million in acquisition costs). During 2012, the information provided by authorised agents improved, enabling more accurate estimates. Consequently, an additional amount of € 14 million was released to the pre-tax result (€ 19 million in premium income partly offset by € 5 million in acquisition costs).

Disability insurance premiums declined by 7% to € 98 million due to lapses in the portfolio and represented 12% of total Non-Life premiums. Furthermore, premium income decreased in the branches marine, motor and accident due to termination of some major contracts.

Reinsurance premiums increased by € 12 million. In 2011 premiums had been exceptionally low as a result of good results of reinsurers due to fewer large claims in that year and positive run-off results from 2010.

Table 11: Breakdown Investment income REAAL Non-Life

Gross amounts in € millions	**2012**	2011
Total investment income	67	66
Realised gains/ losses on equities	1	-
Realised gains/losses on fixed income securities	14	5
Realised gains	**15**	**5**
Direct investment income	**52**	**61**

Total investment income showed a modest increase, due to higher realised gains on fixed-income securities. However, direct investment income decreased due to a smaller investment portfolio following a dividend payment to the Group and the redemption of an intercompany loan.

8.8 Expenses

Technical claims increased due to higher claims in fire and marine partly offset by an improvement in motor. The overall claims ratio increased to 59.5% (2011: 57.8%).

The acquisition expense ratio decreased slightly to 23.3% compared to 24.2% in 2011. Acquisition costs were limitedly down due to the lower premium level and also because REAAL Non-Life offered intermediaries the choice for non-commission fee-based arrangements for the sale of disability insurance products, ahead of the implementation of the prohibition of commission fees on complex products in 2013. This was partly offset by a release of accrued acquisition costs as part of the release of the provision for unearned premiums and acquisition costs.

Impairment charges were high due to an impairment charge on goodwill (€ 110 million pre-tax).

Operating expenses were marginally lower due to cost reduction measures. The operating cost/premium ratio of 14.5% increased slightly compared to 2011 (14.3%) because of a relatively strong fall in premium income. Due to this and the higher claims ratio, the combined ratio increased to 97.3% (2011: 96.2%).

8.9 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 € 15 million negative was € 16 million lower compared to 2011 due to the absence of a € 18 million gain from the sale of the subsidiary ‘REAAL Reassurantie S.A.’ (REAAL’s reinsurance company) and an impairment of an associate company in 2012. The underlying net result of REAAL Other was € 9 million negative compared to € 14 million negative for 2011.

9 Developments Zwitserleven

9.1 Strategy

Zwitserleven feels responsible for the future of people and in particular for the future of its customers and their employees. Zwitserleven's customers are managing director/owners, small and medium-sized enterprises (SME) and large corporations. Zwitserleven offers its customers 'The advantage of thinking ahead', but urges its customers to think about their own future too. For, if you do, you will be able to enjoy the well-known Zwitserleven Feeling now and later on in life.

Zwitserleven wants to stand out in the pensions market with understandable and accessible products and excellent service. Inspired by our core value of CARE! and mission of Simplicity in finance, Zwitserleven employees put the interests of customers and society first in their daily work and new initiatives. The multi-brand strategy gives Zwitserleven the space to give substance to our own Group strategy that is relevant for the pension products. Zwitserleven thus gives meaning to its responsibility for the future of the people by means of four sustainability principles, i.e.: My conscience, Together you & I, Transparent & Good, and Free & Secure. Zwitserleven is at the heart of society and has an eye for people and the environment.

Zwitserleven adapts its organisation, products, services and customer service to the rapidly changing market environment. This means that Zwitserleven primarily focuses on:

- simple and transparent products, inter alia by splitting complex products and providing customers and their employees realistic expectations about the costs and benefits of products;
- multiple distribution based on close co-operation with customer advisors and the development of direct sales and advice;
- added value through excellent service and communication, additional services and recognisable social responsibility;
- significant cost savings through enhanced process and systems efficiency.

Through its activities, Zwitserleven strives to contribute to the financial self-reliance of our customers and a greater practical sustainability impact, also by actively engaging with its stakeholders, including customers, advisors, regulators and the media. Zwitserleven only invests its customers' pension contributions in companies that pass our ESG criteria (Environmental, Social and Governance).

9.2 Financial developments

Table 12: Zwitserleven

In € millions	2012	2011	Change
Result			
Regular life premiums	865	820	5%
Single life premiums	335	341	(2%)
Premium income	**1,200**	**1,161**	**3%**
Reinsurance premiums	6	5	20%
Net premium income	**1,194**	**1,156**	**3%**
Net fee and commission income	13	14	(7%)
Investment income	479	359	33%
Investment income for account of policyholders	817	202	304%
Result on financial instruments	(80)	28	(386%)
Income invested collateral securities lending	1	2	(50%)
Total income	**2,424**	**1,761**	**38%**
Technical claims and benefits	2,272	1,527	49%
Acquisition costs for insurance operations	15	19	(21%)
Impairment charges	134	145	(8%)
Total operating expenses	137	139	(1%)
Interest expense securities lending	-	1	(100%)
Other interest expenses	29	37	(22%)
Total expenses	**2,587**	**1,868**	**38%**
Result before tax	(163)	(107)	(52%)
Taxation	(41)	(20)	(105%)
Net result for the period	**(122)**	**(87)**	**(40%)**
One-off items	(224)	(107)	(109%)
Adjusted net result for the period	**102**	**20**	**410%**
Operating cost/premium ratio	14.5%	15.2%	
New annual premium equivalent Life	269	285	(6%)

9.2.1 Result 2012 compared to 2011

Zwitserleven posted a net loss of € 122 million wholly due to an impairment of the brand name of € 95 million net and a partial impairment of the value of business acquired (VOBA), included in the technical results, of € 129 million net.

Although the Zwitserleven brand name is highly recognized in the market, the impairment test no longer supports its capitalisation. The full impairment of the brand name of € 95 million net (€ 126 million pre-tax) is related to difficult circumstances in the pensions market as evidenced by the continued low interest environment, longer life expectancy, expected higher future capital requirements and the increased competition due to new entrants with a low cost profile, creating pressure on prices and margins. In addition, the lower risk profile of the investment portfolio implies lower future investment income.

The partial impairment of the VOBA is related to the shortfall in the IFRS liability adequacy test (LAT). This LAT compares the market value and the IFRS carrying amount of the insurance liabilities and related assets. The use of the ECB AAA + UFR curve and the general decline of interest rates in 2012 led to an IFRS LAT shortfall in the insurance liabilities of € 1,619 million net. By using shadow accounting, the positive fair value reserve of the related fixed-income portfolio was used to increase the IFRS carrying amount of the insurance liabilities by € 1.986 million. However, the fair value reserve of the related fixed-income portfolio could not fully compensate the entire shortfall. The remaining shortfall

of € 129 million net (€ 172 million pre-tax) was charged to the income statement as a partial impairment of VOBA.

Adjusted for these one-off items, Zwitserleven's net result increased sharply due to the higher total net impact of the investment portfolio and hedges. The positive impact of realised gains on bonds and equities and a lower addition to provisions for interest rate guarantees was only partly offset by lower results on financial instruments.

The underlying net profit of Zwitserleven declined with 31% to € 44 million driven by lower direct investment income due to de-risking measures and lower technical results, partly compensated by lower operating expenses.

Table 13: Underlying result Zwitserleven

In € millions	**2012**	2011	Change
Net result for the period	(122)	(87)	(40%)
Realised gains, losses and impairments on equity	6	3	100%
Realised gains, losses and impairments on fixed-income securities	114	9	1167%
Result on financial instruments	(60)	21	(386%)
Changes in Insurance contracts due to movements of fair value items	14	(59)	124%
Total net impact investment portfolio and hedges	**74**	**(26)**	**385%**
Impact of one-off items	(224)	(107)	(109%)
Net result excluding impact of one-off items and impact of investment portfolio and hedges	**28**	**46**	**(39%)**
Amortisation VOBA and other intangible assets	(16)	(18)	11%
Underlying result Zwitserleven	**44**	**64**	**(31%)**

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.

Gains, losses and impairments on bonds were € 114 million positive compared to € 9 million positive in 2011. In order to lengthen the duration of the fixed-income portfolio, short-duration fixed-income securities were sold and long duration fixed-income securities were purchased, leading to realised gains. The improved matching of maturities of the fixed-income portfolio and associated insurance liabilities has reduced the sensitivity to changes in interest rates.

The loss on financial instruments of € 60 million net was mainly due to unrealised losses on derivatives used for hedging interest rate risks (€ 38 million) and inflation (€ 17 million).

Changes in insurance contracts due to movements of fair value items amounted to € 14 million positive. This consisted of the net impact of additions to provisions for interest rate guarantees related to separate accounts due to the low interest environment (€ 7 million negative, compared to € 74 million negative in 2011), the net impact of shadow accounting (€ 14 million positive compared to € 19 million positive in 2011) and lower technical expenses due to the impact of inflation (€ 7 million positive, compared to € 4 million negative in 2011).

9.3 Income

Regular pension premium income showed a limited increase due to the more disciplined pricing of premiums in which the low level of interest rates and longevity risk were included. There was also an increase in the number of policyholders from existing insurance contracts. Market share of new regular premium income decreased from 23.5% at year-end 2011 to 10.9% at year-end 2012. Single pension premium income showed a marginal decrease. As a consequence, total premium income was only modestly higher and New Annual Premium Equivalent (NAPE) was lower at € 269 million.

Zwitserleven is one of the first insurance companies to subscribe to the recently launched Principles for Sustainable Insurance (PSI) of the United Nations, underpinning its aim to embed sustainability in the heart of its business.

Table 14: Breakdown Investment income for own account Zwitserleven

Gross amounts in € millions	**2012**	2011	Change
Total investment income	479	359	33%
Realised gains/losses on equities	15	7	(114%)
Realised gains/losses on fixed income securities	151	22	586%
Other realised gains/losses	(1)	-	0%
Realised gains/losses	**165**	**29**	**469%**
Unrealised gains/losses	2	(2)	200%
Direct investment income	**312**	**332**	**(6%)**

Total investment income for own account was up considerably due mainly to higher realised gains on fixed-income securities. Direct investment income was somewhat lower due to de-risking measures and a lower dividend income.

Investment income for risk of policyholders was sharply higher, due mainly to positive revaluations of fixed-income securities following the decrease in interest rates, while in 2011 it was negatively impacted by lower equity markets and widened credit spreads.

9.4 Expenses

Technical expenses increased due to higher additions to the reserve for compensation of investment based policies and due to lower results on disability insurance and due to the partial impairment of the VOBA for an amount of € 172 million.

Acquisition costs for insurance operations decreased strongly because Zwitserleven switched to non-commission fee-based arrangements for the sale and extension of pension contracts, ahead of the implementation of the government decision to prohibit commission fees on complex products as per January 2013.

Table 15: Breakdown Impairment charges Zwitserleven

Gross amounts in € millions	**2012**	2011	Change
Impairment charges of equities	7	2	250%
Impairment charges of fixed income securities	-	8	(100%)
Impairment charges of intangible assets	126	131	(4%)
Other impairment charges	1	4	(75%)
Total impairment charges	**134**	**145**	**(8%)**

Impairment charges were high in both 2012 and 2011 due to impairment charges on intangible assets, consisting of the brand name (€ 126 million pre-tax) in 2012 and an impairment charge on goodwill (€ 131 million pre-tax) in 2011. Impairment charges on equities increased compared to 2011, while no impairments on fixed-income securities were necessary in contrast to last year.

Operating expenses decreased marginally to € 137 million and included € 4 million of restructuring charges. This decrease is the result of a substantial decrease in external FTE and the positive impact of cost reduction programmes.

Other interest expenses decreased strongly due to lower funding costs for the retail mortgage portfolio acquired at the end of 2010.

9.5 Commercial developments and organisation

9.5.1 Pension market in flux and under pressure

In 2012, the pension market was under substantial pressure. The low long-term interest rate, a higher life expectancy, rising unemployment and continued legal uncertainty were the main causes. The low interest rate increased both the values of insurance liabilities and the bond portfolio. On balance, this caused pressure on the solvency of insurers. Like other insurers, Zwitserleven subsequently had to increase its premiums, particularly for the average and final pay defined benefit plans, which have a high percentage of guaranteed accrual. Hedging against investment risk on every euro to be paid in the distant future became more expensive. Higher life expectancy has led to higher costs. Zwitserleven expects these higher costs to ultimately lead to further premium increases.

In 2012, the pensions market was in flux, for the most part as a result of the preparations for the ban on commissions that went into effect in 2013 and the tightened competency requirements for new advisors. Existing advisors also have to meet these new requirements from 2014. As a consequence, the number of advisors declined and will continue to decline in the next few years. Zwitserleven anticipated to these developments by transferring contracts that no longer have an advisor assigned to them to Zwitserleven Pension Services (ZPS), thus offering SME employers continuity of service. For explanations, refer to 9.5.2. Customised and quality of service.

There was an increasing demand for low-priced products. This benefitted providers of products without guarantees, such as Premium Pension Institutions (PPI). REAAL NV's low credit rating had a detrimental effect on the confidence in Zwitserleven's business continuity in the wholesale market. Nevertheless, total sales of regular premiums and single premiums rose slightly by 2%. Zwitserleven's market share in new regular premiums fell from 23.5% over 2011 to approximately 10.9% over 2012.

9.5.2 Customised and quality of service

The low interest rate and rising life expectancy causes pension accrual to become much more expensive, in particular the guaranteed accrual. 55% of the Zwitserleven portfolio has a guaranteed accrual. As a result of the low interest and rising life expectancy, employers want pension costs to be predictable. Increasingly more often, therefore, they opt for a basic pension scheme at a relatively low level. At the same time, the employer usually offers employees the opportunity to save voluntarily to supplement their pension. Zwitserleven finds it essential that employees get a clear and realistic picture of their pension accrual. Only then can they make an informed choice about supplementing their pension.

The popular Zwitserleven Exclusief Pensioen responds well to the need for transparency. The employer undertakes to pay a defined contribution that is entirely intended for the employee's pension. The employee therefore knows precisely where he stands. After deduction of the purchase costs, 99.5% of the premium is invested, less fund management fees (TER) of average 0.06% in 2012. The costs of life and disability insurance and administration costs are settled separately by the employer, making them transparent to the employer. Zwitserleven supports schemes like these because they are in the employee's interest.

In 2012, Zwitserleven split its services to benefit from the scale and expertise of partners in order to improve the quality and/or to reduce the costs. The basic customer service for employers was separated from some other services, such as changing the pension scheme, extra pension communication with employees or extra (financial) information for the employer, his advisor or his accountant. These separate services each have a fair price. The more you use one of these services, the more you pay. Splitting products and services means more transparency and flexibility for employers. Cost price and sales price per component must, however, be consistent, making profitable products cheaper and loss-making products more expensive. This is at the expense of solidarity between customers with profitable and unprofitable products, but Zwitserleven considers transparency and customer choice and efficiency and cost advantages more important.

Testing customers' interests

Zwitserleven fine-tuned its HorizonBeleggen (Lifecycle Investing) model that is part of the defined contribution pensions. Based on age and years left until retirement, Zwitserleven invests the premiums received in a mix of shares, real estate and corporate and government bonds. The risk profile of this mix will automatically be reduced as the retirement date approaches. We are always looking for an optimal balance between achieving returns on investments and managing investment risks. An external organisation concluded that we can thus offer a higher pension and more security at the same costs in comparison with the defined contribution pensions based on a fixed investment mix. This investment model outperforms the benchmark for pension products.

Zwitserleven's pension products constantly evolve as a result of changes in laws and regulations and customer en employee requirements. Once again in 2012, Zwitserleven tested all its products for compatibility with Group-wide standards. We examined if the products focus sufficiently on our customers' interests. In the survey, we used the following criteria: cost efficiency, usefulness, security and understandability.

Ensuring higher quality of advice

In March 2012, Zwitserleven set up Pension Services, a service that focuses on direct sales and advice. The reason for this is the tightening of the quality requirements for pension advisors by regulators. The Financial Markets Authority introduced a separate pension advice licence. Advisors had to apply and were required to register for a Dutch Financial Supervision Act Pension Course. Advisors who did not (timely) meet the requirements, were forced to transfer their portfolio to another advisor or returned them to the relevant pension insurer. This had a big impact on the pension advisory market. Approximately 1,800 advisors, 43% of the total number of advisors, discontinued their advisory services in 2012. Some 1,000 portfolios were returned to Zwitserleven, which gave employers the opportunity to propose another independent advisor or switch to Zwitserleven's Pension Services. By the end of 2012, 228 employers had chosen to do the latter.

Zwitserleven Pension Services focuses on SME and sees the development of direct sales and advice as an important strategic addition. Direct interaction with customers provides important information that could benefit all activities and contributes to increased customer satisfaction. Zwitserleven can offer an acceptable and competitive price in combination with expert advice.

Explanation of pension overview in personal video

Research shows that many Dutch people have a lack of understanding of their pension arrangements. This can and must be changed of course. After all, only well-informed people can make responsible decisions about their financial future. It is for this reason that Zwitserleven introduced a personal pension video for employees in 2012. They were the first pension insurer to do so. In this video, the employee's pension situation is explained in a simple way. Click here www.Zwitserleven.nl/upovoorbeeld to view an example (in Dutch only). In the video, the actual amounts, corresponding with the Uniform Pension Overview (UPO), are described and explained. By the end of 2012, well over 25,000 people had viewed their personal video. This means that more than 16% of the employees made an effort to go into their financial future.

Director-shareholders are not covered by the Pension Act. Pension insurers are therefore under no obligation to send them an annual UPO. Therefore, at year-end 2012, Zwitserleven began sending director-shareholders a UPO in addition to their annual value statement because we consider it important that this group is well informed too. Director-shareholders pension products often have long maturities. Previous yield estimates may, therefore, no longer be met. By keeping them well-informed in a timely manner, they can respond to the situation and adjust their policies if they wish to improve their pension.

9.5.3 Compensation unit-linked pension policies

Zwitserleven made great progress with the execution of the compensation scheme for unit-linked pension policies. Some 400,000 policies had to be recalculated. By the end of 2012, approximately half of all (former) policyholders were informed if, and to what extent, they qualified for compensation. The other 50% will be informed in the first six months of 2013. Within two months of notification of the compensation, Zwitserleven will add the amount to the value of the policy. We expect 15% to 20% of the 400,000 policyholders to be eligible for compensation. Because of the many acquisitions in the past, it is a great deal of work to convert all policy data into one IT system that calculates the compensation. The average compensation amount per (former) policyholder is a few hundred euros. At year-end 2012, the provision for compensation for pension contracts with a defined contribution plan amounted to € 35 million (2011: € 33 million). In 2012 this provision was increased by € 12 million (2011: € 5 million) from the life insurance charges for expected future compensation charges. In 2012, part of the portfolio was compensated and nearly € 10 million of this provision was used.

9.5.4 Socially responsible investing

Zwitserleven wants to invest their customers' contributions in a responsible way, with an eye for the impacts on human rights and the environment. On behalf of Zwitserleven, SNS Asset Management (SNS AM) invests 99.7% in companies that comply with established ESG criteria. The investments in the Zwitserleven Wereld Aandelenfonds do not (yet) comply with these criteria. Zwitserleven provides its customers with a report on the execution of its investment policy on quarterly basis. The reports contain summaries of voting behaviour and engagement activities with companies on the impact of their business conduct on human rights and the environment.

The annual survey of the Dutch Association of Investors for Sustainable Development (VBDO) indicates that Zwitserleven has the most socially responsible investment policy of all Dutch insurers in 2012, making it the most sustainable insurer in the Netherlands according to the criteria of the VBDO study. REAAL came second. This survey goes into the policy, implementation and transparency of the investments. Zwitserleven has the Eurosif quality mark for its transparency and socially conscious investment policy since 2011. The objective of this European organisation is to encourage sustainable business conduct in the financial services industry.

9.5.5 Customer integrity

With respect to customer integrity, Zwitserleven adheres to the Group-wide code of conduct (the Code) and ensures strict compliance with this Code. REAAL NV's employs a customer control process involving customer research, customer acceptance and customer and transaction monitoring. Zwitserleven also takes the industry in which the employer operates into consideration. If that particular industry might present a higher risk, Zwitserleven will conduct more in-depth research and inform the Compliance department. Advisors are also acquainted with the Code. In 2012, we conducted investigations into a number of customers. We refused one customer because research showed that this particular customer was involved in an environmental offence in an African country.

9.5.6 Responsible marketing communication

Economic reality and changes in the pensions market will have a negative impact on the costs and volume of the (guaranteed) pension accrual over the next few years. From the perspective of corporate responsibility, Zwitserleven wants to be transparent in its communication on this, so that customers and employers can make responsible choices themselves. This is in line with REAAL NV's mission of Simplicity in finance. This also assumes that we stay close to the customer in terms of our communication, no longer use exotic images as reference, but set a feasible and sustainable (pension) target in the Netherlands. To achieve the objectives of responsible communication, new process steps have been included in the Product Approval & Review Process (PARP), in which our communication is assessed against the cost-efficiency, usefulness, security and understandability criteria of the AFM (Netherlands Authority for the Financial Markets). Whether a particular communication expression is actually understandable or not is not determined by us, but by a customer panel that decides if something is understandable or not.

9.5.7 Customer service and customer interaction

Enhanced customer service
In the past few years, Employee Desk staff attended intensive training courses to provide better customer service. Our employees enhanced their performance through asking better questions, a more personal approach, calling customers back personally and making promises they can meet. These improvements were reflected in higher customer satisfaction ratings in 2012.

Zwitserleven expanded its relationship management for corporate clients to include SME clients. Personal interaction makes it easier to strengthen relationships and increase customer satisfaction.

Solving and learning from complaints
Zwitserleven improved the registration and analysis of interaction with employers, employees and Director-shareholders and customer advisors. All interactions are now registered and analysed to allow us to implement specific improvements. Moreover, any expression of dissatisfaction is registered as a complaint. Despite this change in registration, the number of registered complaints fell from 1.589 to1,495 (-6%) in 2012. About three quarters of the complaints came from employees, the remainder from advisors and employers.

Complaints included administration errors, not keeping agreements, returns on investments, lack of clarity in financial communication and mutations. Customers who are dissatisfied with a product or service can submit a complaint through their relationship manager or send a complaint letter to management. The number of complaints sent directly to management fell from 244 to 174. The majority came from employees, but complaints also came from advisors, the Kifid (Dutch Financial Services Complaints Institute) and the Ombudsman. Zwitserleven considers each complaint as an opportunity to learn and improve. The good thing about this, obviously undesirable, rise in complaints is that advisors, employers and employees find it easier to contact Zwitserleven when they are dissatisfied.

Based on an analysis of the complaints and customer satisfaction surveys in 2011 and 2012, Zwitserleven implemented improvements, such as:

- approaching employers and director-shareholders on our own initiative to offer and request relevant pension information;
- starting to call director-shareholders after sending a new policy to check whether the information is clear;
- updating postal and email addresses more frequently;
- calling back customers with the oldest call/question first to explain the reason for the administrative delay;
- speeding up and simplifying the value transfer process when switching to another pension insurer;
- using simpler language for correspondence and limiting the number of questions on forms.

Engaging customers and their employees

There are several ways in which Zwitserleven engages with customers and their employees. This information is used to align our products and services to even better to the needs and wants of customers and employees. Zwitserleven organised several events in 2012:

- A number of evening sessions for employees who are due to retire soon. In these sessions we provided information on all aspects of the transition to retirement and the benefits.
- Pension Podium, an event for customers and their employees at three locations across the country at which information and entertainment, such as a cabaret show on pensions, were combined. Zwitserleven invested around 200 man hours and € 60,000 in this event.
- A number of on-site UPO days (as a paid service) to provide extensive information to employees on the Uniform Pension Overview and all relevant pension aspects.

Zwitserleven also purposely involves its customers in the development of products and services, notably by means of surveys and discussion and information sessions in the evenings with employees. In 2012, Zwitserleven started customer panels with the aim to improve communication and started building up an online community.

Customer satisfaction

Overall satisfaction of our customers' employees, i.e. the participants rose relatively from -47 at year-end 2011 to -41 at year-end 2012 on the basis of the Net Promoter Score (NPS) survey method. The NPS scores showed relative improvements in all areas, with the exception of the already high score for corporate clients, which decreased slightly to +6.8. The NPS scores for SME rose relatively, from a score of -38.5 to -24.9 and those for director-shareholders improved relatively even more strongly, from -46.6 to -7.6. So, the improvements based on the analysis of the interactions in 2011 and 2012 showed improvements compared to last year, but in absolute terms, there are still some challenges. That is why Zwitserleven is still not satisfied and aims at further improvements of the NPS scores by continuing to focus on the customers' interests in the further development of its services.

9.5.8 Engagement with other stakeholders

Zwitserleven wants to encourage a wider sense of responsible behaviour in the area of pensions. To this end, Zwitserleven maintains several partnerships and engages stakeholders with whom we create sustainable value, that is to say with whom we work on financial self-reliance of the Dutch people.

In co-operation with Zwitserleven and PGGM, the Stichting Weet Wat Je Besteedt (Stay on Top of Your Spending Foundation) is working on increasing the perception of retirement among young people. Young people have little perception of retirement. The approach, by, with and for young people, is focused on continuous education and development to support them. This means that learning material is developed in co-operation with young people. This material can then be used in lessons by (guest) lecturers. In the preliminary phase, Zwitserleven provides two professionals for half a day per week for the duration of six months. The guest lectures comprise some 30 lectures given by the Zwitserleven colleagues. This allows us to host guest lectures for the next school year and so increase the pension perception among young people. The ambition is to make pensions a standard part of the curriculum of young people in 5 years' time.

Zwitserleven also intensified cooperation with Hogiaf, a federation of local Turkish-Dutch employers' organisations with some 5000 affiliated companies. Hogiaf aims to keep its member better informed about the possibilities to secure an old-age pension. Zwitserleven contributes to this aim by providing pension education.

Zwitserleven also sponsored the Accenture professional award for the most sustainable innovation, in part to get ideas regarding sustainability itself. The entries of the Green tulip are used as inspiration for our own plans in the field of communication and co-creation. We thus invest more in digital communication and lasting partnerships with customers and partners.

9.5.9 Contributing to society

Making a contribution to society is the basis for the annual volunteer activities of our own staff. Each year, Zwitserleven employees are permitted to dedicate one day of their working time to volunteer activities. Through the Caring with Compassion project, we organised a fun or functional day out for twelve institutions in and around Amstelveen, where Zwitserleven is located. Two so-called ambassadors organised the activities for each of these institutions that are mainly involved in the provision of child, medical and social care. In 2012, 201 employees participated in these activities, which is 31% of our staff. Together, they spent some 2,300 man hours on volunteer work, including the ambassadors' hours. In addition to these man hours, Zwitserleven spent € 29,000 on these activities.

Zwitserleven also contributed to the national Money Smart Week. In total, 59 employees gave 89 lessons at primary schools. In these lessons children were made more aware of the value of money and got tips to better cope with money.

From 2013, Zwitserleven will organise its social commitment around the theme Samen voor later (Working together towards a better retirement). This involves encouraging financial independence in a broader sense, such as micro pensions in developing countries and financial education.

9.5.10 Continuation of corporate responsibility development

In 2012, Zwitserleven took a clear stand towards corporate responsibility. Under the heading of Our Responsibility, an elaboration of REAAL NV's core value CARE!, Zwitserleven started encouraging its employees to make the difference in products, services and Zwitserleven's role in society themselves.

Many people have an insufficient understanding of pensions as pension products are complex. This makes it difficult to make choices and take the necessary action. Zwitserleven wants to change this, especially through personal leadership of its staff. In 2012, Zwitserleven's management and some employees entered into intensive discussions with customers, social institutions and their own staff to find out what lives in society and to get ideas to give substance to the responsibility for the future of people. Through workshops, Zwitserleven departments - each from their own discipline - got insight into how they could give substance to that responsibility and how they could provide better customer service. In this process of change, Zwitserleven is guided by four sustainability principles, which were established in consultation with customers and employees:

- My conscience: Zwitserleven takes responsibility for its customers and is at the heart of society.
- Together you & I: Zwitserleven works with and for its customers and their employees to create a bond and to make the difference.
- Transparent & Good: Zwitserleven feels responsible for the pension of its policyholders and their understanding of pensions.
- Free & Secure: Zwitserleven believes policyholders should be able to depend on their pension, so that they can give meaning to their own future.

Zwitserleven believes that Our Responsibility and the accompanying principles will help to further improve customer satisfaction and further develop corporate social responsibility.

In June 2012, at the start of the Rio +20 climate convention in Rio de Janeiro, Zwitserleven signed the United Nation's Principles for Sustainable Insurance, thus committing itself to sustainability criteria in its decisions. Besides financial matters, Zwitserleven undertakes to take into account the impact on society and the environment. Zwitserleven also undertakes to actively promote this policy and collaborate with partners to make the chain of services and products more sustainable. Signing the principles means that Zwitserleven is to submit a progress report to the UN at least once a year. We received positive customer feedback on this step.

9.5.11 Customer-oriented and efficient organisation

In recent years, Zwitserleven invested in a new IT platform, considerably reducing the number of old systems. Due to mergers with AXA, Winterthur and DBV, we were using many different systems. Also, REAAL and Zwitserleven exchanged some portfolios. By transferring information to a couple of large systems, we were able to shut down 41 systems in 2012. We will continue to reduce the number of systems in 2013, resulting in significant cost savings.

In 2012, Zwitserleven completed several projects to make the organisation more customer-oriented and efficient, especially with respect to customer services. Improved customer service and lower costs appear a challenging combination, but in 2012 Zwitserleven succeeded in achieving just that. Some examples are the digital pension overview, linking our systems to industry-wide terms of employment portals and the new e-magazine Straks (Later) for our customers' employees. Customer satisfaction rose and the operational costs decreased from € 139 million in 2011 to € 137 million in 2012.

10 Risk and capital management

10.1 Risk management in exceptional circumstances

In 2012 and in January 2013, REAAL NV's risk management was strongly driven by the exceptional circumstances facing the company:

- The market risk of investments in European government bonds remained high in 2012. As of September 2012, tensions in the bond market slightly diminished as a result of the ECB's statements that the euro was to be defended 'at any cost'. This had its effect on the valuation of bonds, and thus on the volatility of the solvency.
- The management of the balance sheet of the Insurance activities required the necessary attention in 2012 as well. The long-term interest rates experienced a strong drop towards June, which put pressure on the solvency ratio for many insurers. In mid-2012, DNB therefore introduced a new yield curve for the valuation of liabilities, based on an Ultimate Forward Rate (UFR). This had a positive effect on the legal solvency. As a result, it was also necessary to reconsider the insurer's balance sheet management. The duration of the assets had to be shortened in order to limit the sensitivity of solvency to interest rate fluctuations.
- A further decrease in the solvency of the Insurance activities. The solvency of the insurer is currently strongly determined by the following uncertainties: longevity risk, interest rate risk, credit spread movements and possibly increased cost loads due to declining volumes in the market. In view of the already limited buffers to cushion solvency shocks, the solvency risk of the Insurance activities is material.

10.2 Key financial risks for REAAL NV

Key financial risks for REAAL NV are:

- Persistent risks surrounding the euro, including the risk of partial payment default by a European member state. Both the bank and the insurer have a considerable portfolio of government bonds, the value of which may come under pressure.
- Due to the economic recession, the risks of claims and of customers coming to face financial problems have increased, with potentially negative consequences for profitability.
- Exposure to interest rate differences between European countries and between different fixed-income instruments, which mainly manifests itself in potential volatility of the market value of fixed-income investments and the solvency of the Insurance activities.
- Due to the low market rate, guarantees issued in the portfolio of Zwitserleven in become relevant, causing an increase in investment risk.
- As a result of the new yield curve (UFR) introduced by DNB for the valuation of insurance obligations for solvency purposes, a balance must be found between stabilising the value of the equity and the status of the solvency.
- Negative impact on the Insurance activities' capital position due to higher life expectancies.
- Amended regulatory rules in the financial sector and uncertainty as to how fast those rules will be implemented. This makes it difficult to control the balance sheet and profitability.

10.3 Capitalisation

Solvency of the Insurance activities amounted to 176% compared to 203% at the end of 2011. A decline of 19% was due to an increase in required capital mainly related to a change of the solvency requirements of a part of the separate accounts and due to the downward shift of the yield curve which led to an increase of the liabilities and thus also to an increase of required capital. Furthermore, solvency mainly declined due to the narrowing of credit spreads of French sovereign debts which resulted in a more strongly increase of the liabilities than the investment portfolio, because the liabilities are valuated by using the ECB AAA + UFR, in which French sovereign debts represent a greater share than in the investment portfolio. Finally, solvency decreased due to a dividend upstream by REAAL Non-Life to REAAL NV in the first half of 2012 and due to the impact of model and parameter changes mainly related to mortality. Underlying results partly offset the negative impact on solvency.

The use of the new interest rate curve had a 20% positive impact on solvency. However, at Insurance holding level this impact was almost wholly offset by a more restrictive stance on Tier 2 debt included in solvency capital (-19%).

10.4 Management of non-financial risks

The financial crisis and the subsequent public debate about the financial sector made it clear that culture and conduct are essential for restoring confidence in the financial sector. REAAL NV puts customers' interests first in its mission, core values and strategy. Also for that reason, measures were taken in 2012 to further improve the control of non-financial risks. The basis for this control is complying with laws and regulations and internal rules and maintaining and promoting integrity in the corporate culture.

10.5 New regulations and their implementation

In all probability, the date on which the new Solvency II regulations will enter into effect for the European insurance sector will be further postponed. Initially, Solvency II was to enter into force on 1 January 2014. REAAL NV will continue its preparations for Solvency II at the same pace. Having already implemented various elements, REAAL NV aims to finalise the other preparations in 2013 and 2014, without prejudice to any further amendments to the Solvency II Accord. REAAL NV will use any additional time ensuing from a further postponement of the introduction to further embed the implementation and reinforce the benefits of these regulations for the organisation. The data quality and the management information systems, for example, still need significant improvement in the years to come.

10.6 Developments in the risk management organisation

The REAAL NV risk management organisation aims at strengthening the policy and the frameworks within which risk policy is defined. Continuous improvement of quality and efficiency of risk management are the central theme here.

In addition, the developments on financial markets and the economic recession require a dynamic risk management organisation. The cultural shift in the financial sector requires, among other things, a stronger focus on putting the interests of clients first, combined with the development of corporate responsibility.

An analysis of the risk management organisation resulted in a number of fundamental improvements, better safeguarding the clear definition of risk frameworks and decision-making processes. The main developments in 2012 were as follows:

- Introduction of improved Risk Governance
- Review (update) of the Risk Management policies pursued within REAAL NV
- Enhanced demarcation of duties and responsibilities among BU Risk Management, and the introduction of functional lines for the Risk function from Group Risk Management.

11 Funding and credit ratings

11.1 Public funding strategy

Our public funding strategy is aimed at funding the activities of REAAL NV at competitive levels, i.e. at minimal cost while 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 late 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 geographic areas.

11.2 Funding transactions in 2012

In the first half of 2012, the capital markets continued to be under pressure. In the second half of 2012, confidence in the capital markets improved following the ECB's announcement that, subject to national governments requesting aid, it would buy up government bonds without limitation, if the risk surcharges should reach unacceptable levels. This calmed down the markets and the risk surcharges decreased.

REAAL NV did not carry out funding transactions in 2012.

11.3 Credit ratings

In 2012, the credit ratings of many European financial institutions continued to be under severe pressure.

When assigning credit ratings to subsidiaries, rating agencies will take into account the mutual intertwining of the banking and insurance activities within a financial group. As a result of the pressure on SNS Bank's credit ratings, also the credit ratings of REAAL NV were under pressure in 2012, albeit to a lesser extent than those of the Banking activities.

On 15 February 2012, Moody's placed all ratings of SNS REAAL and its subsidiaries 'under review for possible downgrade'. The reason was an extensive review of the ratings of a number of European banks because of deteriorating macroeconomic factors, higher funding costs and pressure on profitability. On 1 March 2012, Standard & Poor's lowered all ratings of SNS REAAL and its subsidiaries by one notch, while at the same time replacing the 'negative outlook' by a 'stable outlook'. As a result, the rating of REAAL Verzekeringen was BBB and the ratings of SRLEV and REAAL Schadeverzekeringen were BBB+. The reasons for the downgrade were weakened prospects regarding the economic outlook and their negative impact on REAAL. On 15 June 2012, Moody's lowered the ratings of SRLEV and REAAL Schadeverzekeringen by one notch. The outlook for the ratings was increased to 'stable'. As a result, the ratings of SRLEV and REAAL Schadeverzekeringen were Baa1. On 26 June 2012, Fitch reconfirmed the long-term ratings of SRLEV and REAAL Schadeverzekeringen.

The announcement on 13 July 2012 of SNS REAAL's strategic reorientation, in connection with the rising impairments on loans at Property Finance, put the credit ratings under further pressure in the second half of 2012. On 16 July, Fitch placed the ratings of SRLEV and REAAL Schadeverzekeringen at Rating Watch Evolving, and on 18 July. On 20 July 2012, S&P placed the ratings of REAAL Verzekeringen, SRLEV and REAAL Schadeverzekeringen at CreditWatch 'developing'.

On 16 November 2012, S&P lowered all ratings of SNS REAAL by one notch, resulting in a BBB- rating for REAAL Verzekeringen and a BBB rating for SRLEV and REAAL Schadeverzekeringen. The main reason was S&P's downward qualification of the economic risk for the entire Dutch banking sector.

On 21 November 2012, Moody's placed all ratings of SNS REAAL at 'Review for Downgrade'.

On 4 February 2013, in response to the nationalisation, Moody's placed all ratings on a 'review for downgrade'. On 5 February 2013, also in response to the nationalisation, S&P raised the CreditWatch for the Insurance activities from 'developing' to 'positive'.

On 29 March 2013, S&P lowered the SACP of the Insurance activities from a to bbb and decided to disconnect the ratings of SNS Bank and the Insurance activities. On 7 May 2013, the ratings for SRLEV and REAAL Non-Life were raised by S&P from BBB to A- and that for REAAL from BBB- to BBB+, all with a 'negative outlook'.

Table 16: Credit ratings per 31 december 2012

	S&P	Moody's	Fitch
Long-term			
REAAL	BBB- (CWD)		
SRLEV	BBB (CWD)	Baa1 (review for downgrade)	A- (RWE)
REAAL Non life	BBB (CWD)	Baa1 (review for downgrade)	A- (RWE)

12 Our people

REAAL NV is a genuine 'people company'. It is only thanks to our employees' dedication that we can build long-term relationships with our customers as they establish and maintain customer contacts. We want our employees to find satisfaction in their jobs. We encourage their development and expansion and want to offer them a good work-life balance and responsible remuneration. Even in very challenging market conditions, such as in 2012. We continued to invest in employees through education, training courses and the New World of Work (flexible working).

12.1 Personal leadership

It is our people who carry out our mission Simplicity in finance. They give meaning to corporate responsibility, inspired by our core value CARE!. We, therefore, consider it of great importance that our staff is professional, committed and motivated. We expect personal leadership from them when executing and giving meaning to their own work. Personal leadership is essential to make corporate responsibility, in which we put our customers' interests first, a daily reality. It means that people act from personal motivation to provide customers with the best possible service and thus contribute to REAAL NV's overall result. Each employee is responsible for his own professionalism. This demands a modern leadership style from management. They must enable employees to make use of their full potential through support, feedback and discussions. REAAL NV is already working this way as part of the so-called Darwin programme. This is what we call: the inverted pyramid.

More freedom means more responsibility and more accountability with regard to personal commitment and performance. What has been achieved and what not? What went well and what can be improved? With dialogues like these, we create a culture of continuous improvement in our organisation.

In the past two years, REAAL NV has gained positive experience with personal leadership in projects to put customers' interests first and to make the organisation more efficient. For more information on our progress in this respect, see REAAL and Zwitserleven. From 2013, personal leadership will be incorporated in change programmes for parts of the organisation. We expect supportive leadership from our managers. Their primary role is to offer support instead of control and direction. Only then can employees show and develop their own personal leadership. Managers will be supported where required.

12.1.1 Integrity: compliance with internal and external rules and regulations

REAAL NV not only expects professionalism on the job, but also with regard to compliance with internal and external rules and regulations. We have a special online training course on integrity for new employees. For other REAAL NV employees, we completed a programme in which we used special issues and news items in internal media, online training and workshops emphasising themes such as putting customers' interests first, dealing with confidential information and conflicts of interest. Our rules for standards of conduct are defined in our 'Common sense, clear conscience' code of conduct. Our employees are well aware of this code, as was proved once more in the 2012 employee survey. REAAL NV regularly brings this code of conduct to the attention by means of e-learning programmes, (online) workshops, presentations and publications. REAAL NV has a contact centre for incidents where employees can report suspected violations of rules, such as fraud, inappropriate behaviour and conflicts of interest.

12.1.2 CARE!

Our core value CARE! gives guidance to our behaviour. By means of CARE! REAAL makes an appeal to its employees to consciously connect to: our customers, each other, the result and society. We emphasise the importance of CARE! for society by means of the CARE! Fund, which provides financial support to employees who dedicate themselves to a good cause. There is a site on REAAL's intranet that matches supply and demand of volunteer work.

12.1.3 Responsible employer

Being a responsible employer is much more than encouraging personal leadership and maintaining integrity. It also means offering competitive terms of employment, employability programmes, training and personal development opportunities, diversity and a good work-life balance. For the latter, the New World of Work (NWW) is an important tool.

12.2 Attractive employer

The New World of Work (NWW) stimulates personal leadership. In the NWW employees are required to be in charge of organising their own work. Employees clearly focus on results, carry out part of their work at home and use modern media to communicate with their colleagues. The objective of the NWW is to achieve a higher level of employee satisfaction as well as higher productivity. Investment costs, in particular the refurbishment of offices and the purchase of technical equipment, will be recovered by more economical and effective operations. We will considerably save on office space costs and the burden on the environment will be reduced.

12.2.1 Employee satisfaction level remains high

In answer to the question what makes REAAL NV an attractive employer, the most common answer was the New World of Work. Also REAAL NV's mission, Simplicity in finance, and its implementation with a strong focus on the customers' interests, has a motivating effect on many employees. Employees also indicated points for improvement. Among the most frequently mentioned were clarity and certainty on the future and terms of employment. Improved co-operation between the various departments and business units was another. As a result of the different office locations, employees sometimes have trouble finding each other, despite the NWW facilities.

12.2.2 Promoting diversity

REAAL NV wants to reflect our diverse society in the composition of its workforce. The diversity policy is based on equal opportunities for all. When recruiting employees, we focus on the qualities, motives and abilities of a potential employee and not on gender or origin. For working parents, the NWW offers many benefits to combine work and family life. It is our objective to increase the number of women in senior positions.

On 1 January 2013, the Management and Supervision Act (Wet Bestuur en Toezicht) entered into force. The act requires, inter alia, that at least 30% of the Executive Board and Supervisory Board members must be female and at least 30% must be male. This also applies to management boards and supervisory boards of other major entities within REAAL NV.

The desired diversity also means that we want to recruit more people with disabilities by hiring Wajong youngsters. Wajong stands for the Employment support Act for Young Disabled Persons. Its objective is to support people with disabilities in finding and retaining paid work. Wajong youngsters are usually very motivated to work.

12.3 Sustainable employability

By sustainable employability we mean how productive, motivated and healthy employees want to and can stay to work inside and/or outside REAAL NV. Sustainable employability is important for every employee. Big changes are currently taking place in the financial services industry. Customers demand simpler products, better service and a better price-performance ratio. This calls for an enhanced customer focus and greater efficiency. Our employees have a responsibility to maintain their employability in these changing circumstances. This means keeping up to date and broadening their (professional) knowledge as well as their skills and behaviour. REAAL NV's multi-brand policy offers additional career development opportunities. Employees who move between brands, share their knowledge with new colleagues and develop themselves accordingly.

HR has several tools to increase employees' employability. The Performance and Competency Assessment, a performance management cycle, for instance is directed at the employee's current performance as well as at his employability and career opportunities in the future. If necessary, a Personal Development Plan can be drawn up, or (external) career counselling called in. The e-assessments, our training courses and the Talent Development and Management Development programmes too, fit into this policy. With a tool for integral personnel planning, managers can map out the impact of internal and external developments on their staffing. This allows them to attune the number of employees and their knowhow and competencies in time to future needs. For instance, by planning training programmes in a timely manner.

12.3.1 Health policy

To be able to continue working (properly), one has to stay healthy. REAAL NV wants managers to talk with employees when they suspect this person's health is hindering his normal personal and professional functioning. HR provides tools to conduct these talks. REAAL NV pays a great deal of attention on prevention, including compensation for a fitness programme and a bicycle programme. Many employees use the Prevention Compass, a triennial health check. REAAL NV's intranet has a medical site that includes information on prevention, the company medical physician process, a healthy workplace set-up and the procedures for sick leave. REAAL NV co-operates with a licensed occupational health service and has developed a health and safety plan to limit work-related illnesses, such as RSI or stress in co-operation with the Central Works Council (CWC). Job stress can have many different causes. In case of work-related stress in a department or of an employee, the manager can appeal to an HR advisor. This HR advisor, together with the occupational health service, discusses the problem to make it manageable and work on a personal solution.

For employees who cannot return to their former job as a consequence of a sustained illness resulting in disability, HR provides reintegration assistance for a position inside or outside REAAL NV.

12.4 Training and development

We offer our employees many opportunities to develop themselves both professionally and personally, thus improving their performance and employability both inside and outside the organisation. By means of new working methods and by developing, exchanging and preserving knowhow, we create added value for our customers. It also improves our competitiveness. HR supports employees with a wide variety of vocational training courses, the Performance and Competency Appraisal Cycle, generic training courses, traineeships and Talent Development and Management Development programmes.

12.4.1 CARE! for each other, learn from each other

Colleagues, managers in particular, play an important role in our staff's personal development. How do you evaluate a customer service call? How do you give each other constructive feedback after something did not go well? And how can you learn from your own and other people's mistakes? A good manager does not hesitate to discuss his own customer service call that did not go well with his staff as he and others can learn from it. This is what we call CARE! for each other. And if we learn something from it, it also means CARE! for the customer and CARE! for the result. In practice, discussing errors may lead to problems or conflicts. In this case, a development advisor or an internal or external coach may then be consulted, or employees can call upon a professional internal or external mediator.

12.4.2 Attracting and developing talent

REAAL NV participates in the talent development programmes of SNS REAAL. For employees outside special programmes, a training budget is available. This budget was 3% of the gross salaries, thus remaining at the 2011 level.

12.4.3 Professional skills

Our customers rely on professional and qualified staff, so that we can put their interests first. Since 2007, the Financial Supervision Act (Wft) imposes legal rules for professional qualifications. These qualification requirements are regularly reinforced. REAAL NV assists staff as much as possible to pass their exams, tests and modules. With the idea, however, that each employee is primarily responsible for his own development. The precondition is that the legal requirements for professional qualifications are met.

12.5 Future-proof terms of employment

REAAL NV aims for future-proof terms of employment that are appropriate for the current economic and social situation, the modified business model and the future of our company and employees. An important result, directed at wage moderation, was that it was agreed that during the term of the new collective agreement, from 1 June 2012 to 1 January 2014, there will be no collective agreement increases on the fixed income. Just as in 2011, the performance bonus for 2012 was reduced to an average allowance of 1.55% of the annual salary.

During the duration of the collective agreement we will develop a new pension scheme that will be effective on 1 January 2014. The principles of the scheme are that it is future-proof and in line with legal adjustments and the prevailing market. In the same period, we will also discuss our salary system and any other remuneration elements guided by the question whether the remuneration is still appropriate to the changing market conditions and changes REAAL NV is going through.

12.5.1 Remuneration policy

The remuneration policy takes all stakeholders' interests into account, i.e. customers, employees, shareholders and society. We want to attract and retain talented employees without creating a so-called "golden cage".

For senior management there is a moderate remuneration policy. The policy was not adjusted in 2012.

In the second quarter of 2012, an agreement was included with the trade unions on a new variable moderated remuneration scheme for the external sales force of Zwitserleven and REAAL of which Putting customers' interests first (KBC) is an explicit part of the remuneration criteria.

12.6 Employee participation

The Work Councils represents employees' interests and deal with matters that relate to the business unit for which they were set up, i.e. REAAL and Zwitserleven. Each of these Work Councils is represented in the Central Work Council (CWC) that represents employees interests at Group level on matters that affect multiple business units.

Report of the Supervisory Board

13 Report of the Supervisory Board

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

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

13.1 Main topics and discussions

Major subjects in 2012 were risk management and risk appetite, the earnings model including cost reduction, the changing regulatory environment such as Solvency II, the large number of projects, the pension system change, the actuarial rate of interest for (pension) insurers and pension funds, good customer service and the optimisation of putting the customer and the customer's interests first. Most of these themes are also included in the management letters of both the external and internal auditor.

Vision on the financial sector
The persistent negative financial and economic developments have a great impact on the world in which financial institutions operate. Customers, investors, legislators, regulators and other stakeholders make higher demands on the way in which financial institutions engage in activities. The Supervisory Board and the Management Board are constantly aware that REAAL NV must continue to adapt itself to the fundamentally changed vision on the financial services sector. Unfortunately, the financial sector did not succeed in restoring politician's and civil society's trust. Despite the positive developments that have visibly and demonstrably occurred, the sector does not seem to succeed in convincing politicians and society and this will not be achieved with a few actions. This requires corporate social responsibility in the broadest sense of the word. By pursuing its mission, core values and strategy, as well as by complying with the Insurance Code, REAAL NV tries to assume its responsibility and to contribute towards restoring trust in and to improve the functioning of the Dutch financial services sector. Key in this process is to be constantly aware of and give substance to putting the customer and the customer's interests first. In various places in this annual report is described how REAAL NV gives meaning to this responsibility, for instance in the report on the compliance with the Insurance Code.

Impact of the financial crisis
In 2012 too, the European debt crisis and changing laws and regulations left their mark on the economy and the financial services sector. There was speculation about the collapse of the euro and not only financial institutions, but national states too, were faced with downgrades by rating agencies. The Netherlands too, experienced slower economic growth, rising unemployment rates and a continued deteriorating real estate market, making it necessary to make considerable spending cuts. The Netherlands was also faced with early elections for the House of Representatives. Moreover, pressure from legislators and regulators remained unabatedly high and politicians' and society's view of the financial sector remained unabatedly critical. The Supervisory Board paid full attention to the way in which SNS REAAL NV should respond to these circumstances and how it should anticipate on future developments. Regular attention was paid to the pressure this was causing on the organisation and its employees.

13.2 Composition of the Supervisory Board

The composition of the Supervisory Board did not change in 2012. On 25 April 2012, Herna Verhagen was reappointed for a term of four years with the reinforced right of recommendation of the Central Works Council. For more information on the composition of the Supervisory Board and its members in 2012 refer to chapter 14. On 1 February 2013, Rob Zwartendijk resigned from the Supervisory Board at the time of the nationalisation. As Vice-Chairman, Piero Overmars temporarily fulfils the role of Chairman.

For detailed information on the main topics discussed we refer to the annual report of SNS REAAL NV, available on www.snsreaal.nl

13.3 Meetings of the Supervisory Board

13.3.1 Main topics and discussions

In 2012, the Supervisory Board met sixteen times: in February, March, April (twice), May, June, July, August, September (twice), October, November (three times) and December (three times). In 2012, Robert Jan van de Kraats was absent five times, Jos Nijhuis four times, Jan Nijssen three times, Herna Verhagen twice and Piero Overmars and Ludo Wijngaarden once. Usually, absent members of the Supervisory Board gave their input on topics for consideration to the Chairman of the Supervisory Board beforehand, or to the entire Supervisory Board.

For detailed information on the main topics discussed at meetings of the Supervisory Board we refer to the annual report of SNS REAAL, available on www.snsreaal.nl

13.3.2 Presence of the external auditor

The external auditor is present at all Audit Committee meetings and at least once a year at a meeting of the Risk Committee. The external auditor has a standing invitation to attend meetings of the Supervisory Board. In 2012, the external accountant did not attend any plenary meetings of the Supervisory Board.

13.4 Committee meetings

The Supervisory Board has four committees:

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

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

For a description of the duties of the various committees and details on the composition of the committees and the regulations of each committee we refer to the annual report of SNS REAAL, available on www.snsreaal.nl

13.5 Closing words

The Supervisory Board explicitly wishes to express its gratitude and appreciation to all employees of REAAL NV, in particular for their engagement and commitment. Great demands have been made on them over these last months, both inside and outside the office. This has not always been easy for all parties concerned. Despite these developments and the persistent negative sentiment towards the financial services industry, REAAL NV employees continue to dedicate themselves to REAAL NV with a great deal of enthusiasm. The Supervisory Board realises fully well that this is not self-evident and wishes to express its gratitude for this.

An exceptional effort was also demanded of REAAL NV's management. Nevertheless, working relations with the Supervisory Board were good. For this too, the Supervisory Board wishes to express its gratitude.

Finally, the Supervisory Board wishes to express its thanks for the unyielding commitment and dedication with which Rob Zwartendijk and Ference Lamp have devoted themselves to REAAL NV these past months, and before that too. The Supervisory Board regrets their departure, but respects their choice.

Utrecht, 23 July 2013
On behalf of the Supervisory Board
Piero Overmars, Vice Chairman and Acting Chairman

Corporate governance

14 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 NV. The chapter concludes with the statement required pursuant to the law.

For more detailed information with respect to SNS REAAL NV on Corporate Governance, the Executive Board, the Supervisory Board, shareholders and shares, reference is made to SNS REAAL's Annual Report 2012.

14.1 The Supervisory Board

The Supervisory Board of REAAL NV comprises the following members on the date of publication of this annual report:

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

The Supervisory Board has set up four committees that, on 31 December 2012, comprised the following members:

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

As described in chapter 2 Rob Zwartendijk resigned on 1 February 2013. The composition of the above mentioned committees has therefore changed and is now as follows:

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

The Supervisory Boards of REAAL NV and SRLEV NV are composed of the same individuals as the Supervisory Board of SNS REAAL.

14.2 Insurance Code

This section contains an outline of the application of the Dutch Insurance Code. More details can be found in the annual accounts 2012 of SNS REAAL.

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

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

14.2.2 Contributions to restoring trust in the financial sector

The Insurance Code is aimed towards restoring trust in and improving the functioning of the financial sector. This is obviously also an objective of REAAL NV. REAAL NV does this by following this Code and its mission, core value and strategy. REAAL NV continually undertakes initiatives to restore trust in the financial services industry and to improve the functioning of the industry. Also in 2012.

14.2.3 REAAL adopts Code before coming into force

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

REAAL NV almost completely complies with the Code now. REAAL NV and its employees carefully monitor compliance with the Code and try to further improve it, in line with the execution of REAAL NV's mission Simplicity in finance and its core value CARE!.

14.2.4 REAAL applies Code to all activities

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

Some examples are:

- REAAL NV's mission Simplicity in finance puts its customers and its customers' 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 NV signed the moral-ethical statement in February 2010. The principles mentioned in this statement provide all REAAL NV personnel with an ethical framework to guide them in their conduct.
- REAAL NV has a programme for continuous education in accordance with the principles of the the Code.
- The Product Approval Process has been implemented in all relevant business units in accordance with the Code and audits are carried out in these businesses each year.
- REAAL NV has a risk management structure that is compliant with the principles of the Code and evolves continually. Chapter 10 discusses relevant developments in the field of risk management.

- The internal audit function is organised at Group level, is compliant with the Code and evolves continually.

14.2.5 Application of the Code in practice

On its website, SNS REAAL provides an up-to-date overview of the manner in which REAAL and its business units implement and apply the recommendations of the Code.

14.2.6 Compliance with the Code

REAAL NV almost complies with the Code. Due to the circumstances, the Supervisory Board did not comply with the Codes at some points in 2012:

- Recommendation 2.1.8: as a result of the focus on finding an all comprehensive solution for Property Finance's portfolio and the capital position of SNS REAAL, the Supervisory Board did not completely comply with obligation of permanent education.
- Recommendation 2.1.9: as a result of the external evaluation of the functioning of the Supervisory Board in combination with the focus on finding an all comprehensive solution for Property Finance's portfolio and the capital position of SNS REAAL, the Supervisory Board did not evaluate the effectiveness of the permanent education.

At the level of REAAL NV and REAAL NV's most important subsidiaries, further improvements to the compliance with the Code is possible. For instance with respect to the evaluation of the Supervisory Board of some subsidiaries of REAAL NV (recommendation 2.1.10), the establishment of the directors' compliance with the professional requirements (recommendation 3.1.4), the maximisation of severance pay of several directors (recommendation 6.3.2) as a result of existing contractual arrangements, and setting up an audit and risk committee for the Supervisory Board of some subsidiaries of REAAL NV.

14.2.7 Putting customers' interest first

The Code's recommendations aimed at the culture of the activities, such as putting customers first and carefully considering the interests of all REAAL NV'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 NV 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 NV. One of the elements of REAAL NV's strategy is putting customers and customers' interests first, which is embedded in the mission Simplicity in finance and the core value CARE! Due care is exercised to consider the interests of all of REAAL NV's stakeholders. Putting customers first is part of employees' performance appraisal and of the product approval process for existing and new products. Business units are required to report to the Executive Board on the way in which they put the customer first. The implementation of these recommendations from the Code 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

14.2.8 Continuing education and competence Supervisory Board and senior management

In 2012, 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 internal auditing, cybercrime, dealing with regulatory bodies, fiscal developments, ethical conduct and governance, economic capital, remuneration policies, embedded value and Solvency II and putting customers' interests first. 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.

Utrecht, 23 July 2013

Management Board
D.J. Okhuijsen (Chairman)
M.J.P. Edixhoven
M.B.G.M. Oostendorp
W.H. Steenpoorte

Financial statements

15 Consolidated financial statements

15.1 Consolidated balance sheet

Consolidated balance sheet

Before result appropriation and in € millions	*Notes*	**31-12-2012**	31-12-2011
Assets			
Intangible assets	*1*	885	1,558
Property and equipment	*2*	154	171
Investments in associates	*3*	45	38
Investment properties	*4*	233	255
Investments	*5*	34,768	32,818
Investments for account of policyholders	*6*	13,265	12,443
Invested collateral securities lending	*7*	-	117
Derivatives	*8*	480	539
Deferred tax assets	*9*	940	395
Reinsurance contracts	*16*	3,185	3,426
Loans and advances to banks	*10*	452	499
Corporate income tax		-	214
Other assets	*11*	494	329
Cash and cash equivalents	*12*	1,563	1,188
Total assets		**56,464**	**53,990**
Equity and liabilities			
Share capital		-*	-*
Other reserves		3,078	3,426
Retained earnings		(149)	192
Shareholders' equity	***13***	**2,929**	**3,618**
Equity attributable to security holders	*13*	-	400
Minority interests	*13*	3	2
Total equity		**2,932**	**4,020**
Subordinated debt	*14*	1,034	1,002
Insurance contracts	*15*	42,102	38,827
Provision for employee benefits	*16*	9	363
Other provisions	*17*	36	39
Securities lending liabilities	*7*	-	120
Derivatives	*8*	80	53
Deferred tax liabilities	*9*	906	727
Other amounts due to customers	*18*	4,075	4,015
Amounts due to banks	*19*	3,745	3,154
Corporate income tax		89	312
Other liabilities	*20*	1,456	1,358
Total equity and liabilities		**56,464**	**53,990**

** 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 23.1

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 16.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

15.2 Consolidated income statement

Consolidated income statement

In € millions	Notes	2012	2011
Income			
Premium income		3,455	3,696
Reinsurance premiums		223	246
Net premium income	24	**3,232**	**3,450**
Fee and commission income		88	92
Fee and commission expense		16	20
Net fee and commission income	25	**72**	**72**
Share in result of associates	26	11	(1)
Investment income	27	1,593	1,432
Investment income for account of policyholders	28	1,511	(39)
Result on financial instruments	29	13	183
Income invested collateral securities lending		5	2
Other operating income	30	-	3
Result assets and liabilities held for sale	31	-	18
Total income		**6,437**	**5,120**
Expenses			
Technical claims and benefits	32	2,958	2,624
Charges for account of policyholders	33	2,266	1,090
Acquisition costs for insurance operations	34	271	261
Staff costs	35	207	221
Depreciation and amortisation of fixed assets	1 , 2	32	38
Other operating expenses	36	207	198
Impairment charges	37	475	180
Interest expense securities lending		-	1
Other interest expenses	38	162	255
Other expenses		1	-
Total expenses		**6,579**	**4,868**
Result before tax		**(142)**	**252**
Taxation	39	4	59
Net result continued operations		**(146)**	**193**
Net result discontinued operations		-	-
Net result for the period		**(146)**	**193**
Attribution:			
Net result attributable to shareholders		(149)	192
Net result attributable to security holders		-	-
Net result attributable to shareholders and security holders		**(149)**	**192**
Net result attributable to minority interests		3	1
Net result for the period		**(146)**	**193**

The references next to the income statement items relate to the notes to the consolidated income statement starting from paragraph 23.24

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 16.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

15.3 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

In € millions	2012	2011
Net result for the period	**(146)**	**193**
Unrealised revaluations property and equipment	-	(3)
Impairments property and equipment	(1)	3
Change in revaluation reserve	**(1)**	**-**
Unrealised revaluations from cash flow hedges	(6)	31
Deferred interest income from cash flow hedges	-	(6)
Realised revaluations through profit or loss	(6)	(11)
Change in shadow accounting	(64)	-
Change in cash flow hedge reserve	**(76)**	**14**
Unrealised revaluations investments available for sale	1,031	886
Impairments fair value	25	35
Realised revaluations through profit or loss	(244)	(76)
Change in shadow accounting	(1,625)	(214)
Change in fair value reserve	**(813)**	**631**
Change in other reserves	(50)	(81)
Change in minority interests	(2)	(2)
Change in other comprehensive income (after tax)	**(942)**	**562**
Total comprehensive income	**(1,088)**	**755**
Attribution:		
Total comprehensive income attributable to shareholders and security holders	(1,085)	756
Total comprehensive income to security holders	-	-
Total comprehensive income attributable to shareholders and security holders	**(1,085)**	**756**
Total comprehensive income to minority interests	(3)	(1)
Total comprehensive income	**(1,088)**	**755**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 16.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

15.4 Consolidated statement of changes in equity

Consolidated statement of changes in total equity 2012

In € millions	Issued share capital	Share premium reserve	Sum revaluation reserves	Sum other reserves	Equity attributable to share-holders	Securities capital	Minority interests	Group equity
Balance as at 1 January 2012	-	2,055	1,166	735	3,956	400	2	4,358
Changes in principles deferred acquisition costs	-	-	-	(338)	(338)	-	-	(338)
Adjusted balance as at 1 January 2012	**-**	**2,055**	**1,166**	**397**	**3,618**	**400**	**2**	**4,020**
Unrealised revaluations from cash flow hedges	-	-	(6)	-	(6)	-	-	(6)
Unrealised revaluations	-	-	1,031	-	1,031	-	-	1,031
Impairments	-	-	24	-	24	-	-	24
Realised revaluations through profit or loss	-	-	(249)	-	(249)	-	-	(249)
Change in shadow accounting	-	-	(1,689)	-	(1,689)	-	-	(1,689)
Dividend	-	-	-	(50)	(50)	-	-	(50)
Other movements	-	-	-	-	-	-	(2)	(2)
Amounts charged directly to total equity	**-**	**-**	**(889)**	**(50)**	**(939)**	**-**	**(2)**	**(941)**
Net result 2012	**-**	**-**	**-**	**(149)**	**(149)**	**-**	**3**	**(146)**
Total result 2012	**-**	**-**	**(889)**	**(199)**	**(1,088)**	**-**	**1**	**(1,087)**
Capital issue	-	400	-	-	400	(400)	-	-
Securities issue / repurchase	-	-	-	-	-	-	-	-
Transactions with shareholders and security holders	**-**	**400**	**-**	**(1)**	**399**	**(400)**	**-**	**(1)**
Total changes in equity 2012	**-**	**400**	**(889)**	**(200)**	**(689)**	**(400)**	**1**	**(1,088)**
Balance as at 31 December 2012	**-**	**2,455**	**277**	**197**	**2,929**	**-**	**3**	**2,932**

Statement of revaluation reserves and other reserves 2012

In € millions	Revaluation property and equipment	Cash flow hedge reserve	Fair value reserve	Sum reva-luation reserves	Other reserves	Retained earnings	Sum other reserves
Balance as at 1 January 2012	7	76	1,083	1,166	570	165	735
Changes in principles deferred acquisition costs	-	-	-	-	(365)	27	(338)
Adjusted balance as at 1 January 2012	**7**	**76**	**1,083**	**1,166**	**205**	**192**	**397**
Transfer of net result 2011	-	-	-	-	192	(192)	-
Transfers 2011	**-**	**-**	**-**	**-**	**192**	**(192)**	**-**
Unrealised revaluations from cash flow hedges	-	(6)	-	(6)	-	-	-
Unrealised revaluations	-	-	1,031	1,031	-	-	-
Impairments	(1)	-	25	24	-	-	-
Realised revaluations through profit or loss	1	(6)	(244)	(249)	-	-	-
Change in shadow accounting	-	(64)	(1,625)	(1,689)	-	-	-
Dividend	-	-	-	-	(50)	-	(50)
Other movements	-	-	-	-	-	-	-
Amounts charged directly to total equity	**-**	**(76)**	**(813)**	**(889)**	**(50)**	**-**	**(50)**
Net result 2012	**-**	**-**	**-**	**-**	**-**	**(149)**	**(149)**
Total result 2012	**-**	**(76)**	**(813)**	**(889)**	**(50)**	**(149)**	**(199)**
Share issue	-	-	-	-	-	-	-
Securities issue / repurchase	-	-	-	-	-	-	-
Transactions with shareholders and security holders	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Total changes in equity 2012	**-**	**(76)**	**(813)**	**(889)**	**141**	**(341)**	**(200)**
Balance as at 31 December 2012	**7**	**-**	**270**	**277**	**346**	**(149)**	**197**

REAAL NV has decided not to pay dividend over 2012.

For more information on the statement of changes in equity please refer to the statement of changes in equity in paragraph 16.5.10 Equity of the accounting principles for the consolidated financial statements.

Consolidated statement of changes in total equity 2011

In € millions	Issued share capital	Share premium reserve	Sum revaluation reserves	Sum other reserves	Equity attributable to shareholders	Securities capital	Minority interests	Group Equity
Balance as at 1 January 2011	-	1,730	521	651	2,902	725	3	3,630
Changes in principles deferred acquisition cost	-	-	-	(365)	(365)	-	-	(365)
Adjusted balanceas at 1 january 2011	**-**	**1,730**	**521**	**286**	**2,537**	**725**	**3**	**3,265**
Transfer of net result 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	-	-	-	192	192	-	1	193
Total result 2011	**-**	**-**	**645**	**111**	**756**	**-**	**(1)**	**755**
Transactions with shareholders and security holders	**-**	**325**	**-**	**-**	**325**	**(325)**	**-**	**-**
Total changes in equity 2011	**-**	**325**	**645**	**111**	**1,081**	**(325)**	**(1)**	**755**
Balance as at 31 December 2011	**-**	**2,055**	**1,166**	**397**	**3,618**	**400**	**2**	**4,020**

Statement of revaluation reserves and other reserves 2011

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 2011	7	62	452	521	409	242	651
Changes in principles deferred acquisition cost	-	-	-	-	(365)	-	(365)
Adjusted balanceas at 1 january 2011	**7**	**62**	**452**	**521**	**44**	**242**	**286**
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	-	-	-	-	-	192	192
Total result 2011	**-**	**14**	**631**	**645**	**(81)**	**192**	**111**
Transactions with shareholders and security holders	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total changes in equity 2011	**-**	**14**	**631**	**645**	**161**	**(50)**	**111**
Balance as at 31 December 2011	**7**	**76**	**1,083**	**1,166**	**205**	**192**	**397**

15.5 Consolidated cash flow statement

Consolidated cash flow statement

In € millions	2012	2011
Cash flow from operating activities		
Operating profit before taxation	(142)	252
Adjustments for:		
Depreciation and amortisation of fixed assets	262	233
Changes in technical provisions own risk	3,355	(3,249)
Changes in other provisions	(723)	77
Impairment charges / (reversals)	489	180
Unrealised results on investments through profit or loss	7	(131)
Retained share in the result of associates	(7)	1
Tax (paid) / received	5	-
Change in operating assets and liabilities:		
Change in loans and advances to customers	60	3,270
Change in loans and advances to banks	638	(1,209)
Change in other operating activities	(3,757)	82
Net cash flow from operating activities	**187**	**(494)**
Cash flow from investment activities		
Sale of property and equipment	12	-
Sale of subsidiaries	-	(114)
Sale of investment property	5	1
Sale and redemption of investments and derivatives	15,685	17,942
Purchase of intangible fixed assets	(11)	(100)
Purchase of property and equipment	(19)	(27)
Purchase of investments in associates	(1)	-
Purchase of investment property	(2)	-
Purchase of investments and derivatives	(15,350)	(17,925)
Net cash flow from investment activities	**319**	**(223)**
Cash flow from finance activities		
Issue of shares and share premium	400	325
Issue of subordinated loans	2	481
Repurchase of securities	(400)	(325)
Redemption of subordinated loans	(13)	(488)
Redemption of debt certificates	(120)	(62)
Dividends paid	-	(80)
Net cash flow from financing activities	**(131)**	**(149)**
Cash and cash equivalents 1 January	1,188	2,054
Effect of exchange rate fluctuations on cash held	-	-
Change in cash and cash equivalents	375	(866)
Cash and cash equivalents as at 31 December	**1,563**	**1,188**
Additional disclosure with regard to cash flows from operating activities		
Interest income received	1,321	1,312
Dividends received	139	160
Interest paid	169	323

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 16.3.4 Changes in principles, estimates and presentation for the consolidated financial statements.

16 Accounting principles for the consolidated financial statements

16.1 Adoption of the financial statements

The consolidated financial statements of REAAL NV for the year ended on 31 December 2012 were authorised for publication by the Executive Board following their approval by the Supervisory Board on 23 July 2013. The financial statements will be submitted to the General Meeting of Shareholders for adoption in July 2013.

16.2 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.
As of 1 February 2013, the Dutch State is the sole shareholder of SNS REAAL NV.
After the nationalisation, the Minister has announced follow-up steps to enforce the capital position of SNS REAAL in a letter adressed to the Chairman of the Dutch House of Representatives. The nationalisation and follow-up steps are further explained in chapter 2 . Based on the before mentioned events and the decision announced by the Minister of Finance, the annual accounts of SNS REAAL and REAAL are prepared on a going concern basis.

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

16.3 Basis of preparation

16.3.1 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 (see also paragraph 24.3 Principles for the preparation of the company financial statements for the application of section 2:402 of the Netherlands Civil Code) in accordance with the same accounting principles as those used for the consolidated financial statements.

16.3.2 Changes in published Standards and Interpretations effective in 2012

New or amended standards become effective on the date specified in the relevant IFRS, but may allow early adoption. In 2012, 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.

- Amendment to IFRS 1 First time adoption – 'Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters'.
- Amendment to IFRS 7 Financial Instruments Disclosures – 'Transfers of Financial Assets'.
- IAS 12 Income Taxes – 'Recovery of Tax Assets'.

16.3.3 Interpretations of existing standards or amendments to standards, not yet effective in 2012

The following new standards, amendments to existing standards and interpretations, published prior to 1 January 2013 and effective for accounting periods beginning on or after 1 January 2013, 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 – 'Offsetting Financial Assets and Financial Liabilities'.
- Amendment to IAS 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'.
- Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards – 'Government Loans'.
- Amendment to IAS 1 Presentation of Financial Statements – 'Presentation of Items of Other Comprehensive Income'.
- Amendment to IAS 19 Employee Benefits.
- Improvements to IFRSs 2011.

Notes to the main changes:

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.

IFRS 10 Consolidated Financial Statements, effective for accounting periods beginning on or after 1 January 2014, introduces a single recognition model for all entities, based on control, regardless of the type of entity consolidated. This new requirement is still being analysed, but based on the first results SNS REAAL does not expect a significant impact on the consolidated financial statements when this new standard enters into force in 2014.

IAS 19 Employee Benefits. In June 2011 the amendment to IAS 19 Employee Benefits was published, and has, meanwhile, been adopted by the EU. SNS REAAL will apply this amendment as from the accounting period 2013. REAAL staff is contractually employed by SNS REAAL and REAAL is charged for its share in current year's staff expenses, including employee benefits. The effect of the change is limited, since the REAAL staff pension entitlements are, to the largest extent, part of a defined contribution plan of SNS REAAL (Pension Fund SNS REAAL). The main changes for SNS REAAL's defined benefit pension plans, having almost only so-called dormant participants and retired members, are:

- The corridor method will be eliminated. Actuarial results, which are the result of expected outcomes, the discount rate and actual realisation, will be recognised directly in shareholders' equity (Other Comprehensive Income) and can no longer be deferred via the corridor method.
- Future administrative costs will no longer be included in IAS 19 Employee Benefits. From now on, the annual administrative costs will be recognised directly as pension costs in the result.
- The return on qualifying pension investments will be determined in a different way from now on. As from 2013, this return will be equated with the interest rate by which the employee benefits are increased. Up to and including 2012, an estimated return on these investments was recognised.

The elimination of the corridor will take place at the level of SNS REAAL and will not affect REAAL's equity. The changed recognition of administration cost and return on qualifying investments will have a limited effect on the expenses charged to REAAL.

16.3.4 Changes in principles, estimates and presentation

16.3.4.1 Changes in accounting principles

Deferred acquisition costs

Economic and social circumstances have changed and 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. This has an impact on the business model of Insurance activities. By taking the acquisition costs directly to the income statement instead of spreading these costs over the premium payment period, transparency of the financial statements is enhanced.

REAAL therefore implemented a change in accounting treatment with effect from 1 January 2012, whereby internal and external acquisition costs are no longer deferred, but instead charged directly to the income statement.

As a result of the change, the restated group net result for 2011 increased by € 27 million, of which € 23 million relates to REAAL Life and Non-life and € 4 million to Zwitserleven. The restated group equity end 2011 decreased by € 338 million.

The effect of the change on the net group result 2012 is an increase of € 18 million, of which € 15 million relates to REAAL Life and Non-life and € 3 million to Zwitserleven. The effect on group equity end 2012 is a decrease of € 286 million.

Reported 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
Deferred tax assets	136	137	3	6	-	282
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 security holders	17	41	-	342	-	400
Minority interests	-	2	-	-	-	2
Total equity	**1,797**	**2,659**	**731**	**(829)**	**-**	**4,358**
Deferred tax liabilities	205	469	50	3	-	727
Liabilities held for sale	**17,539**	**35,135**	**2,618**	**1,554**	**(2,518)**	**54,328**

Adjusted balance sheet by segment 31 December 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Intangible assets	398	959	199	2	-	1,558
Deferred tax assets	166	216	7	6	-	395
Total assets	**17,448**	**34,898**	**2,608**	**1,554**	**(2,518)**	**53,990**
Equity and liabilities						
Shareholders' equity	1,689	2,379	721	(1,171)	-	3,618
Equity attributable to security holders	17	41	-	342	-	400
Minority interests	-	2	-	-	-	2
Total equity	**1,706**	**2,422**	**721**	**(829)**	**-**	**4,020**
Liabilities held for sale	**17,448**	**34,898**	**2,608**	**1,554**	**(2,518)**	**53,990**

Reported income statement by segment 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Total income	**1,761**	**2,476**	**862**	**47**	**(26)**	**5,120**
Expenses						
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
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**

Adjusted income statement by segment 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Total income	**1,761**	**2,476**	**862**	**47**	**(26)**	**5,120**
Expenses						
Acquisition costs for insurance operations	19	51	192	(1)	-	261
Staff costs	71	70	59	21	-	221
Depreciation and amortisation of fixed assets	6	18	13	1	-	38
Other operating expenses	62	72	58	6	-	198
Total expenses	**1,868**	**2,153**	**821**	**52**	**(26)**	**4,868**
Result before tax	**(107)**	**323**	**41**	**(5)**	**-**	**252**
Taxation	(20)	76	9	(6)	-	59
Net result continued operations	**(87)**	**247**	**32**	**1**	**-**	**193**
Net result discontinued operations	-	-	-	-	-	-
Net result for the period	**(87)**	**247**	**32**	**1**	**-**	**193**
Minority interests	-	1	-	-	-	1
Net result attributable to shareholder and securityholder	**(87)**	**246**	**32**	**1**	**-**	**192**

16.3.4.2 Changes in estimates

Interest rate curve IFRS liability adequacy test

In the past year, significant discussions have taken place in the way interest rate curves are used for adequacy tests. On 2 July, the Dutch Central Bank decided to adjust the extrapolation methodology of the yield curve used in the calculation of regulatory solvency, based on the Smith-Wilson methodology, and to use an Ultimate Forward Rate. The annual forward rates as from year 20 converge over a period of 40 years to an UFR of 4.2%. As from year 60 the forward rate remains equal to the UFR (4.2%).

The methodology results in a more stable yield curve for longer maturities, thereby ensuring less fluctuation in the solvency positions of insurers. In doing so, the Dutch Central Bank anticipates on Solvency II regulation.

The adequacy of the insurance technical provisions in the annual accounts is tested every reporting period by means of the IFRS liability adequacy test (IFRS LAT). With effect of 1 January 2012 the yield curve used in the LAT test is the same as the yield curve used for calculating regulatory solvency. As of 2012 this is the ECB AAA interest curve including the Ultimate Forward Rate (UFR). The use of this curve negatively impacted the surplus value shown in the IFRS LAT with € 0.6 billion relative to the ECB All Government curve as of 1 January 2012.

For more information about accounting of shortfalls in the liability adequacy, see paragraph 25.1 Intangible assets.

A decline in the interest rate curve in the future may have a negative impact on the income statement of the Insurance activities, if an increase in the value of the insurance liabilities cannot be fully compensated by a positive fair value movement of the fixed-income portfolio.

Interest rate curve pension obligations own personnel

REAAL has no pension obligations because its staff is contractually employed by SNS REAAL. SNS REAAL charges REAAL for it's share if the employee benefit expenses of its staff.

SNS REAAL has some defined benefit plans relating to (former) employees of acquisitions. The estimated future cashflows of these pension liabilities are discounted with a yield curve derived from the current market interest rate on high quality corporate bonds. The currency and term of the corporate bonds shall be consistent with the currency and estimated term of the pension obligations.

Up to and including 2011 SNS REAAL used an external yield curve which was derived from a basket of corporate bonds. The composition of the basket was changed in 2012 in such a way that it contained insufficient bonds with long maturities, and thus inconsistent with the long-term pension obligations.

In 2012 SNS REAAL therefore decided to switch to a different external, commonly used yield curve, which is also based on a composition of high quality corporate bonds, but whose term is consistent with the estimated term of the pension liabilities.

Because the effect of this change in yield curve is part of the actuarial results that are included in the corridor, it has no effect on SNS REAAL's result or equity for the reporting years 2012 and 2011. This change has also no effect on the employee benefit expenses charged to REAAL.

As per 1 January 2013 the amount of the corridor will be part of SNS REAAL's equity as of that same date. This is the result of the initial application of the EU endorsed amendment to IAS 19 (see paragraph 16.3.3).

16.3.4.3 Changes in presentation

Active staff of REAAL and its subsidiaries are legally employed by SNS REAAL NV. The defined benefit schemes of a number of SNS REAAL NV employees are insured with SRLEV NV. Until 2011 the obligations of these contracts were presented as employee benefits in the Annual Report of REAAL. From 2012 on the liabilities of these pension schemes remain classified as insurance liabilities.

16.3.5 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.

16.3.5.1 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.

16.3.5.2 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.

16.3.6 Main accounting principles, estimates and assumptions

16.3.6.1 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. Hereby, management judges situations on the basis of available information and financial data which could potentially alter in the future. Although these estimates are made to the best of the management's knowledge, actual results may differ from the estimates and the use of other propositions or data can lead to materially different results.

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 net realisable value of property projects, 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.

16.3.6.2 Provision for insurance contracts

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 (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

The test

In accordance with IFRS an IFRS liability adequacy test is performed to establish whether the balance sheet provision, including the effects of shadow accounting, less the Value of Business Acquired (VOBA) is adequate, based on actual assumptions, to meet the commitments to the policyholders. 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. Valuation of the future expected profit sharing and the time value of embedded options and guarantees 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 using the risk free interest rate term structure. If the thus calculated provision turns out to be higher than the book value of the technical provision present in the balance sheet increased with differences in the valuation of investments (to the extent they are not recognised at fair value), a shortfall exists.

Recognition of a shortfall in the IFRS liability adequacy test

Should the outcome of the IFRS test indicate a shortfall, an assessment is made if a shadow loss exists (see hereafter). After recognition of a shadow loss, a remaining shortfall will be charged to the results by first impairing the VOBA (recognised as a technical claim) and then, if VOBA is impaired in full, an addition to the insurance technical provision.

If the VOBA is fully impaired, and a shortfall is recognised directly in the result, a positive outcome of the test in a successive reporting period is credited to the income statement to the level where the value of the provision equals the balance sheet technical provision (including shadow accounting provisions).

Shadow loss

Insofar the shortfall of the technical provision in the IFRS test is related to an increase in the provision as a result of an interest rate decrease, the necessary addition to the technical provision, through shadow loss accounting, is charged to the fair value reserve and cash flow reserve. The fair value reserve is only charged, insofar it is related to the fixed income investments related to the technical insurance liabilities. A shortfall resulting from other technical assumptions is not recognised through a shadow loss. A positive outcome of the test in a successive reporting period results in a credit to the fair value reserve of a shadow loss amount previously recognised in the technical provision, in the amount of the surplus. The fair value reserve cannot be negative.

Test level and frequency

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

Assumptions used
The following current assumptions were used in performing the IFRS liability adequacy test as at 31 December 2012:

- Discount rate: ECB (European Central Bank) AAA government curve including the UFR (the Dutch Central Bank curve).
- Profit allocation in accordance with applicable profit sharing arrangements.
- Cost allocation and distribution of efficiency advantages based on internal assessment.
- Projected mortality data for the entire population (CBS statistics Netherlands data from 2011) 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.
- Cost of Capital of 4%.

Mortality tables, mortality rates and portfolio factor
Mortality tables are used in the test on the provision for insurance contracts. These tables contain historical information (data) on mortality. SNS REAAL uses what is referred to as the AG2012 model of the Dutch Actuarial Society. The model that is used by SNS REAAL to forecast the mortality development has been updated to the mortality observations as taken by CBS up to and until 2011. Till 2011, so-called PLT-models of the Verbond van Verzekeraars were used.

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 SNS 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 insurance policies. 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, claim-handling expenses and future expenses arising from insurance contracts. The cash flows of the disability insurance policies are discounted using the ECB AAA interest curve including the UFR. 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.

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.

16.3.6.3 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 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.

16.3.6.4 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.

16.3.6.5 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.

Value of Business Acquired (VOBA)

The VOBA is tested simultaneously using the IFRS liability adequacy test for insurance contracts. If, on the balance sheet date, the book value of the VOBA 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 by first impairing the VOBA (recognised as a technical claim) and then, if necessary, an addition to the insurance technical provision.

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.

Reversal of impairments on intangible fixed assets

Except for goodwill and VOBA, 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.

16.4 Accounting principles used for consolidation

16.4.1 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.

16.4.2 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.

16.4.3 Intercompany eliminations

Intercompany transactions, intercompany balances and unrealised gains arising from interrcompany 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.

16.4.4 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.

16.4.5 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.

16.4.6 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.

16.4.7 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.

16.4.8 Information by segment

The three primary business segments of REAAL are clearly distinctive organisational components, and carry out activities that generate income and expenses. The Other activities of REAAL (REAAL Other) comprise the activities not directly managed by REAAL Life or REAAL Non-Life and holding activities. The Management Committee of SNS REAAL 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 Life
- REAAL Non-Life
- REAAL Other

More information on the different segments can be found in the paragraph 17.1 (Information by segment)

16.4.9 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 16.5.12 (Insurance contracts) and chapter 25 (Notes to the company financial statements).

16.5 Specific balance sheet principles

16.5.1 Intangible fixed assets

16.5.1.1 *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 paragraph 16.3.6.5 'Impairment charges of intangible assets and financial instruments').

16.5.1.2 *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.

16.5.1.3 *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 book value of the underlying portfolios at the acquisition date. The amortisation charge is thus in line with the release of this surplus value from the book value of the underlying portfolios.

At each balance sheet date, an IFRS liability adequacy test is performed on the book value of the insurance contracts, after deduction of the capitalised VOBA. For a more detailed explanation on this please refer to paragraph 16.3.6.2

“Provision for insurance contracts’ and 16.3.6.5 Impairment charges of intangible assets and investments in financial instruments.

16.5.1.4 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.

16.5.2 Property and equipment

16.5.2.1 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, independent 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 fair value on an unlet or (partially) let basis, depending on the situation. 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’.

16.5.2.2 IT equipment and other property and equipment

All other property and equipment 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 property and equipment 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'.

16.5.3 Investment properties

Investment properties, comprising retail and office properties, houses and land, are held to generate long-term rental income or capital appreciation or both. 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 (partial) 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 partly based on recent market transactions. The valuation of the fair value of investment properties depends on, inter alia, the (expected) market rentable value, rent incentives, discount rate and expected vacancy, as well as the location, quality, age and marketability of the relevant property. Changes in the fair value of investment property are recognised in the income statement in paragraph 23.27 under Investment income.

16.5.4 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.

16.5.4.1 Investments

Loans and receivables (amortised cost)

The category loans and receivables comprises unlisted investments with a fixed term and the saving components of endowment mortgages that the insurance company has concluded. The loans and receivables are 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:

1. This eliminates or considerably limits an inconsistency in valuation or recognition that would otherwise arise; or
2. 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 'investment income'. Dividend received is recorded under investment income.

16.5.4.2 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 paragraph 16.5.12.3 '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'.

16.5.4.3 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.

16.5.4.4 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 paragraph 20.2.2 '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 previously hedged financial instrument.

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.

16.5.5 Taxes

16.5.5.1 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 property and equipment, 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.

16.5.5.2 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.

16.5.5.3 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.

16.5.6 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.

16.5.7 Loans and advances to banks

These concern receivables to banks with a remaining maturity of one month or more, and not in the form of interest-bearing securities. These receivables are measured at amortised cost using the effective interest method, less any impairment losses.

16.5.8 Other assets

Other assets consist of receivables from direct insurance policies, other taxes (including VAT, payroll tax), other receivables and accrued assets. Accrued assets also include the accumulated interest on financial instruments measured at amortised cost, as well as other accruals.

16.5.9 Cash and cash equivalents

Cash and cash equivalents include bank balances and demand deposits with a remaining maturity of less than one month.

16.5.10 Equity

16.5.10.1 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.

16.5.10.2 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'.

16.5.10.3 Revaluation reserve

Revaluations of property in own use (see paragraph 16.5.2.1 Land and buildings in own use) are included in the revaluation reserve.

16.5.10.4 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 16.5.4.4 (Derivatives).

16.5.10.5 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 16.5.4.1 Investments). In addition, exchange rate differences on non-monetary financial assets that are classified as available for sale are stated in this reserve.

16.5.10.6 Other reserves

Other reserves mainly comprise REAAL's retained profits.

16.5.10.7 Securities capital and securities capital 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. The securities capital 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.

16.5.10.8 Securities dividend

The securities dividend amount for a financial year, which is payable after the balance sheet date.

16.5.11 Subordinated debt and final bonus account

16.5.11.1 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.

16.5.11.2 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.

16.5.12 Insurance contracts

16.5.12.1 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.

16.5.12.2 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 16.3.6.2 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.

16.5.12.3 Life insurance contracts on behalf of policyholders

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.

Interest rate guarantees have been issued with a number of unit linked insurance policies. This guarantee only applies at the maturity date of the insurance policy. Prior to maturity, the provision held for these policies is equal to at least the accumulated amount of premiums paid plus interest less any expense and mortality charge deductions, adjusted for future lapses. If the income from investments is not sufficient to cover the obligations due to guaranteed returns, an additional provision is made and charged to the income statement.

16.5.12.4 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 provision) 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.

16.5.12.5 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.

16.5.12.6 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.

16.5.12.7 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.

16.5.13 Employee benefits

REAAL staff is contractually employed by SNS REAAL and REAAL is charged for its share in current year's staff expenses, including employee benefits. SNS REAAL's employee benefits accounting principles are as follows:

16.5.13.1 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.

16.5.13.2 Pension benefits

SNS 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). SNS 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.

SNS REAAL also has a number of defined benefit pension plans relating to acquisitions. 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. SNS 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 SNS 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 SNS 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.

16.5.13.3 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.

16.5.13.4 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 and loss

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

16.5.14 Other provisions

16.5.14.1 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.

16.5.14.2 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.

16.5.14.3 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.

16.5.15 Financial liabilities

16.5.15.1 Securities lending liabilities

The requirement to repay the pledged collateral in cash (see paragraph 16.5.4.3 Invested collateral from securities lending) is recognised in the balance sheet as ‘securities lending liabilities’. These liabilities are stated at amortised cost.

16.5.15.2 Derivatives

See note 16.5.4.4 Derivatives.

16.5.15.3 Amounts due to customers and amounts due to banks

Amounts due to customers comprises of deposits regarding reinsurance contracts, premium deposits and mortgage deposits.

Amounts due to banks comprise unsubordinated debts to credit institutions. Bond loans to banks are recognised under ‘debt certificates’. Amounts due to banks include private loans, current accounts and outstanding repos.

Upon initial recognition, these are measured at fair value, including transaction costs incurred. Thereafter, they are measured at amortised cost.
Any difference between the measurement at initial recognition and the redemption value based on the effective interest method is recognised under ‘interest expense' in the income statement.

16.5.16 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.

16.6 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 16.5 (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 REAAL 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.

16.6.1 Income

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

16.6.1.1 Premium income

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

16.6.1.2 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.

16.6.1.3 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.

16.6.1.4 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.

16.6.1.5 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.

16.6.1.6 Investment income

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

Interest

The item interest comprises the interest income from investments.

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.

16.6.1.7 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.

16.6.1.8 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.

16.6.1.9 Other operation income

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

16.6.2 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.

16.6.2.1 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, developments in the portfolio, such as benefit payments and surrenders, the actuarial result on surrender, cancellation and mortality, and the VOBA amortisation costs.

16.6.2.2 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 16.5.12.3 Life insurance contracts on behalf of policyholders). Payments to policyholders are also recorded under this item.

16.6.2.3 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. The change in the provision for unearned premiums, insofar this change relates to the related paid commissions, is also accounted for under acquisition costs.

16.6.2.4 Impairment charges / reversals

This item includes downward revaluations of assets for which the book value exceeds the recoverable value. Intangible fixed assets, tproperty and equipment, associated companies, investments, 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 16.5 (Specific balance sheet principles under the applicable items).

16.6.2.5 Staff costs

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

16.6.2.6 Depreciation and amortisation of fixed assets

This item comprises all depreciation and amortisation of property and equipment 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.

16.6.2.7 Other operating expenses

This includes office, accommodation and other operating costs.

16.6.2.8 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.

16.6.2.9 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.

16.7 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.

16.8 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.

17 Segmented financial statement

17.1 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.

17.1.1 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.

17.1.2 REAAL

The segment REAAL has three subsegments: REAAL Life, REAAL Non-life and REAAL Other.

17.1.2.1 REAAL Life

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

17.1.2.2 REAAL Non-life

This segment offers non-life insurance for property, mobility, bodily injury, invalidity and disability. This segment is formed by the units REAAL Schadeverzekeringen and, up to and including June, Proteq Schadeverzekeringen. On 2 July 2012 a legal merger took place between REAAL Schadeverzekeringen NV and its sister company Proteq Schadeverzekeringen NV. As a result of this legal merger, Proteq Schadeverzekeringen NV ceased to exist. The activities of Proteq Schadeverzekeringen NV are continued by REAAL Schadeverzekeringen NV under the trade names Proteq, Zelf.nl, Route Mobiel and Proteq Dier & Zorg.

17.1.2.3 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.

17.1.3 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.

17.2 Balance sheet by segment

Balance sheet by segment 31 December 2012

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Intangible assets	87	713	80	5	-	885
Property and equipment	29	95	-	30	-	154
Investments in associates	-	40	5	-	-	45
Investment properties	33	200	-	-	-	233
Investments	10,812	22,121	1,831	669	(665)	34,768
Investments for account of policyholders	7,501	5,764	-	-	-	13,265
Invested collateral securities lending	-	-	-	-	-	-
Derivatives	170	310	-	-	-	480
Deferred tax assets	715	259	4	8	(46)	940
Reinsurance contracts	2	3,019	164	-	-	3,185
Loans and advances to banks	94	358	-	-	-	452
Corporate income tax	37	63	1	136	(237)	-
Other assets	177	1,338	411	309	(1,741)	494
Cash and cash equivalents	253	1,270	11	29	-	1,563
Total assets	**19,910**	**35,550**	**2,507**	**1,186**	**(2,689)**	**56,464**
Equity and liabilities						
Shareholders' equity	393	2,762	624	(850)	-	2,929
Equity attributable to security holders	-	-	-	-	-	-
Minority interests	-	3	-	-	-	3
Total equity	**393**	**2,765**	**624**	**(850)**	**-**	**2,932**
Subordinated debt	222	726	86	-	-	1,034
Debt certificates	-	-	-	-	-	-
Insurance contracts	16,669	24,177	1,256	-	-	42,102
Provision for employee benefits	-	-	-	9	-	9
Other provisions	11	4	-	21	-	36
Securities lending liabilities	-	-	-	-	-	-
Derivatives	64	16	-	-	-	80
Deferred tax liabilities	279	607	59	7	(46)	906
Other amounts due to customers	394	3,667	28	651	(665)	4,075
Amounts due to banks	1,080	1,914	-	751	-	3,745
Corporate income tax	-	-	-	326	(237)	89
Other liabilities	798	1,674	454	271	(1,741)	1,456
Total equity and liabilities	**19,910**	**35,550**	**2,507**	**1,186**	**(2,689)**	**56,464**

Balance sheet by segment 31 December 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Assets						
Intangible assets	398	959	199	2	-	1,558
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	166	216	3	10	-	395
Reinsurance contracts	2	3,248	176	-	-	3,426
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	**17,448**	**34,898**	**2,604**	**1,558**	**(2,518)**	**53,990**
Equity and liabilities						
Shareholders' equity	1,689	2,379	721	(1,171)	-	3,618
Equity attributable to security holders	17	41	-	342	-	400
Minority interests	-	2	-	-	-	2
Total equity	**1,706**	**2,422**	**721**	**(829)**	**-**	**4,020**
Participation certificates and 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	46	7	-	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	**17,448**	**34,898**	**2,604**	**1,558**	**(2,518)**	**53,990**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 16.3.4 Changes in principles, estimates and presentation of the consolidated financial statements.

17.3 Income statement by segment

Income statement by segment 2012

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
Income						
Premium income	1,200	1,436	819	-	-	3,455
Reinsurance premiums	6	151	66	-	-	223
Net premium income	**1,194**	**1,285**	**753**	**-**	**-**	**3,232**
Fee and commission income	14	54	1	19	-	88
Fee and commission expense	1	2	-	13	-	16
Net fee and commission income	**13**	**52**	**1**	**6**	**-**	**72**
Share in result of associates	-	10	1	-	-	11
Investment income	479	1,047	67	24	(24)	1,593
Investment income for account of policyholders	817	694	-	-	-	1,511
Result on financial instruments	(80)	93	-	-	-	13
Income invested collateral securities lending	1	4	-	-	-	5
Other operating income	-	-	-	-	-	-
Result assets and liabilities held for sale	-	-	-	-	-	-
Total income	**2,424**	**3,185**	**822**	**30**	**(24)**	**6,437**
Expenses						
Technical claims and benefits	1,159	1,326	473	-	-	2,958
Charges for account of policyholders	1,113	1,153	-	-	-	2,266
Acquisition costs for insurance operations	15	76	180	-	-	271
Staff costs	67	73	58	9	-	207
Depreciation and amortisation of fixed assets	7	14	11	-	-	32
Other operating expenses	63	73	59	12	-	207
Impairment charges	134	228	110	3	-	475
Interest expense securities lending	-	-	-	-	-	-
Other interest expenses	29	126	7	24	(24)	162
Other expenses	-	-	-	1	-	1
Total expenses	**2,587**	**3,069**	**898**	**49**	**(24)**	**6,579**
Result before tax	**(163)**	**116**	**(76)**	**(19)**	**-**	**(142)**
Taxation	(41)	41	8	(4)	-	4
Net result continued operations	**(122)**	**75**	**(84)**	**(15)**	**-**	**(146)**
Net result discontinued operations	-	-	-	-	-	-
Net result for the period	**(122)**	**75**	**(84)**	**(15)**	**-**	**(146)**
Minority interests	-	3	-	-	-	3
Net result attributable to shareholder and securityholder	**(122)**	**72**	**(84)**	**(15)**	**-**	**(149)**

Income statement by segment 2011

In € millions	Zwitserleven	REAAL Life	REAAL Non-life	REAAL Other	Eliminations	Total
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	19	51	192	(1)	-	261
Staff costs	71	70	59	21	-	221
Depreciation and amortisation of fixed assets	6	18	13	1	-	38
Other operating expenses	62	72	58	6	-	198
Impairment charges	145	35	-	-	-	180
Interest expense securities lending	1	-	-	-	-	1
Other interest expenses	37	210	9	25	(26)	255
Other expenses	-	-	-	-	-	-
Total expenses	**1,868**	**2,153**	**821**	**52**	**(26)**	**4,868**
Result before tax	**(107)**	**323**	**41**	**(5)**	**-**	**252**
Taxation	(20)	76	9	(6)	-	59
Net result continued operations	**(87)**	**247**	**32**	**1**	**-**	**193**
Net result discontinued operations	-	-	-	-	-	-
Net result for the period	**(87)**	**247**	**32**	**1**	**-**	**193**
Minority interests	-	1	-	-	-	1
Net result attributable to shareholder and securityholder	**(87)**	**246**	**32**	**1**	**-**	**192**

Some of the comparative figures have been restated for comparison purposes. Reference is made to the notes in subsection 16.3.4 Changes in principles, estimates and presentation of the consolidated financial statements.

18 Risk management and -organisation

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.

18.1 Main developments risk profile

REAAL's commercial activities, offering accessible insurance products, involve risks, whereby the exposure to proprietary trading, complex products or foreign currencies, is limited.

A summary of the developments on the riskprofile and capital of REAAL NV is presented below, and explained in further detail in the subsequent chapters.

Capital Management
Solvency of REAAL NV ended up at 176% compared to 203% at the end of 2011. Various factors and events cause this decline. The use of UFR in the new interest rate curve mid 2012 had a 20%-point positive impact on solvency. This impact was almost wholly offset by a more restrictive stance on subordinated debt included in solvency capital (-19%). A sharp decline of 19% was due to an increase in required capital mainly related to a change of the solvency requirements of a part of the separate accounts and due to the downward shift of the yield curve which led to an increase of the liabilities and thus also to an increase of required capital. Furthermore, solvency mainly declined due to the narrowing of credit spreads of French sovereign debts which resulted in a more strongly increase of the liabilities than the investments, because the liabilities are valuated by using the ECB AAA + UFR yield curve, in which French sovereign debts represent a greater part than in the investments. Finally, solvency decreased due to a dividend upstream by REAAL Non-Life to SNS REAAL in the first half of 2012 and due to the impact of model and parameter changes mainly related to mortality.

A further explanation on capital management can be found in chapter 22 Capital management.

Market risk Insurance activities
In 2012, REAAL NV continued to reduce its exposure to interest rate risk mainly through the additional purchase of interest rate derivatives. Credit spread sensitivity was reduced through the sale of peripheral European and Austrian government bonds. Proceeds were re-invested in German and French government bonds. Although AAA government bonds are assumed to be risk free, the year 2012 has shown that even these bonds can be sensitive to perceptions of country-specific and Eurozone-related credit risk.

REAAL NV uses a Value at Risk (VaR) approach to manage interest rate risk and other ALM risks. The relative VaR, which takes into account all relevant market risks and is expressed as a percentage of the market value of equity increased from 25% at year-end 2011 to 32%, still well below the internal limit of 45%.

The solvency of REAAL NV activities is sensitive to changes in interest rates, the shape of the yield curve, credit spreads and equity prices. The interest rate sensitivity changed during 2012, mainly due to a change in the discount curve (implementation of Ultimate Forward Rate as of 30 June 2012).

18.2 Risk management organisation

REAAL NV is included in the risk management organisation of SNS REAAL. The SNS REAAL Business and Risk Governance focuses on improving the quality of risk management and achieving efficiency in risk control. The risk management system is aimed at further strengthening the policy and implementation in the business operations.

The risk management activities of the legal entity REAAL NV is organised into the two relevant business units; REAAL and Zwitserleven.

The statutory management board is 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 frameworks established at Group level for risks including credit risk, insurance risk, integrity risk and operational risk. Asset & Liability Management is managed at Group level. The (risk) policy frameworks are established in the Group Risk Committee (GRC).

Responsibility levels in risk management

For the purposes of risk management, SNS REAAL distinguishes three responsibilities based on the 'Three Lines of Defence' model used as best practice in the financial sector. This distinction defines clear responsibilities and guarantees that risk management is a subject taken up by the entire organisation:

- 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 identifying and monitoring risk positions and in respect of policy matters and have a monitoring role with regard to relevant 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. In addition, Group Audit is responsible for conducting special internal audit work for the management teams of the business units and line management.

The responsibilities within the risk management organisation have been clearly defined, with the 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 owners are each individually 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, are formulated as follows:

- One shared Group-wide risk type classification.
- A pre-set risk tolerance ('Risk Appetite') for each identified risk type.
- 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.

18.3 Risk management committees

SNS REAAL NV's Executive Board and the statutory management board of REAAL NV have ultimate responsibility for the risk management. The risk committees established within SNS REAAL have an operational role and, if necessary, they determine frameworks within the mandate from the GRC. The Supervisory Board has its own committees.

Risk Committee

The Risk Committee comprises at least three members of the Supervisory Board. This committee assesses, among other things, the profile of SNS REAAL's financial and non-financial risks, in particular as to whether capital allocation, investment policy and liquidity requirements on the strategic level correspond with the approved risk appetite. In addition, the Risk Committee assesses the structure 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 (GRC)

The Executive Board and the statutory management board of REAAL NV 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 risk control departments for financial and non-financial risks (Group Risk Management, Compliance, Security & Operational Risk Management and Group Audit). The latter risk control 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 plan.

Other Risk Committees at Group level
The Group committees have a mutually equal status in the risk committee structure. Their primary focus is on optimising risk and return within the defined frameworks. In their framework-formulating 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 next 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.

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 Bank and ALCO Insurance operate under the ALCO Group;
- **Group Counterparty & Credit Risk Committee (GCC)** to manage the credit risks, including the counterparty credit risks (policy) and to approve loans and revisions;
- **Governance, Operational Risk & Compliance Committee (GORCC)** to manage the non-financial risks.

Risk Committees at Business Unit level
Local risk committees have been set up within the business units, which operate within the policy frameworks delegated by the Group committees, or which solely only have an advisory role. The risk committees at business unit level (BU level) are:

- **Product Market Pricing Committee (PMPC)** for the formal approval of products. There is one PMPC for each BU (BU REAAL and BU Zwitserleven). The PMPCs have a direct escalation line to the GRC;
- **Asset & Liability Committee Insurance (ALCO Insurance)** to manage financial risks in the balance sheet of the Insurance activities (excluding credit risk on customers).

Parallel to these committees, there is the Actuarial Risk Committee (ARC), which is the advisory body for the Group and the business units REAAL and Zwitserleven. This committee gives advice on matters including the impact of parameters on rates and models, hedging and technical claims and benefits risks.

Decision-making processes
Decisions are taken by a majority of the votes present, subject to a quorum set in advance for the relevant committee. In the event of a tie, the chairman decides.

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 statutory powers allocated to the parties present.

18.4 Risk management departments

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

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

At SNS REAAL the following departments are involved in risk management of REAAL NV:

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

Group Risk Management (GRM)
GRM supports SNS REAAL in taking on and monitoring responsible risks for the benefit of all stakeholders. GRM's primary task is to carry out its second-line role based on the 'Three Lines of Defence' model used by SNS REAAL.

Within this context, GRM supports the Executive Board, the BU management boards and other stakeholders in:

- Formulating and monitoring the risk profile;
- Defining the frameworks within which the risk owners (can) operate;
- Identifying changing market conditions and regulations in the field of Risk Management that are relevant to the strategy and policy;
- Ensuring and controlling efficient risk management processes;
- Achieving coherence in SNS REAAL's risk management organisation;
- Valuing the portfolios for steering structural value creation;
- Coordinating strategic projects related to the management of financial risks (including Solvency II programmes);
- Model building;
- Model validation (including an escalation line to the CFRO).

Group Actuarial department and BU Actuarial departments
The actuarial duties are allocated across Group Actuarial department within GRM and the actuarial departments of REAAL and Zwitserleven. At consolidated level, Group Actuarial Risk Management defines the frameworks and monitors the insurance risks, while performing the central supervisory role for the actuarial domain. In addition, Group Actuarial Risk Management identifies, measures and reports (as well as advises) on insurance risks to the various stakeholders. In this context, the primary focus lies with the impact of insurance risks on the risk profile and the value standards (Value

New Business, Embedded Value, etc.). At business unit level, these duties are entrusted to the actuarial departments of REAAL and Zwitserleven. Besides reporting, these duties are modelling and carrying out analyses, providing the business units with advice on technical claims and benefits risks and implementing adopted policies.

In addition, GRM gives direction to the areas of attention pertaining to Reinsurance and Economic Capital: drawing up policies and frameworks, modelling, implementing and monitoring/advising.

REAAL NV manages their insurance risk using a system of procedures and criteria for product development and acceptance. Risks that do not fit the profile or risks that exceed pre-set limits – if accepted – are transferred to a reinsurance company as much as possible.

Committees in which representatives of the management boards of REAAL NV and the financial and actuarial departments periodically monitor the portfolio's development. For the 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 structuring business processes. The main duties of the department are providing recommendations for ethical and controlled business conduct, coordinating and promoting operational risk management, security risk management and integrity risk management, formulating policies, giving advice and support with regard to issues related to non-financial risks, providing courses & awareness programmes, monitoring 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 collaboration. These themes serve as guidance for the risk analyses to be performed 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) legal disputes;
- Advising on cooperation agreements.

Insurance Treasury & Investment Management (IT&IM)
The duties and responsibilities of Insurance Treasury & Investment Management (IT&IM) are primarily aimed at investments for own account and risk of REAAL's Insurance activities. In the risk governance structure, IT&IM is the central point of contact of the operationally responsible investment managers. The director of IT&IM is a member of ALCO Insurance and ALCO Group.

The main responsibilities of IT&IM are:

- Drafting of the investment policy of the Insurance activities of REAAL NV;
- Operational control on the execution of the investment policy through the asset managers;
- Responsible for investments outside the regular mandate, like mortgages and property;
- Supervision asset managers actions to check that they adhere to their mandates, and assessing their performance;

- Execution of the hedge policy in respect of balance management for the Insurance activities of REAAL NV;
- Cashmanagement and other treasury activities;
- Monitoring security lending and repo activities in the insurance portfolios, the execution of which has been outsourced to professional and specialised parties;
- First line investment risk management.

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 primarily carries out its audits on behalf of the Executive Board based on a dynamic risk analysis. This risk analysis is in line with the Insurance Code and has been discussed with the external auditor and the Dutch Central Bank. These audits focus on the internal risk management and control system, related processing procedures and (the reliability of) management information.

Group Audit is also responsible for carrying out the differentiated internal audit activities on behalf of the business units' 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.

18.5 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.

18.6 Framework for business control

Taking risks is an integral part of doing business 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 managing 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 risk appetite and the ensuing 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, including 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 the quality of staff 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;
- Processes set up for the purpose of managing the predictability of performance, the prevention of unforeseen losses and the reliability of information.

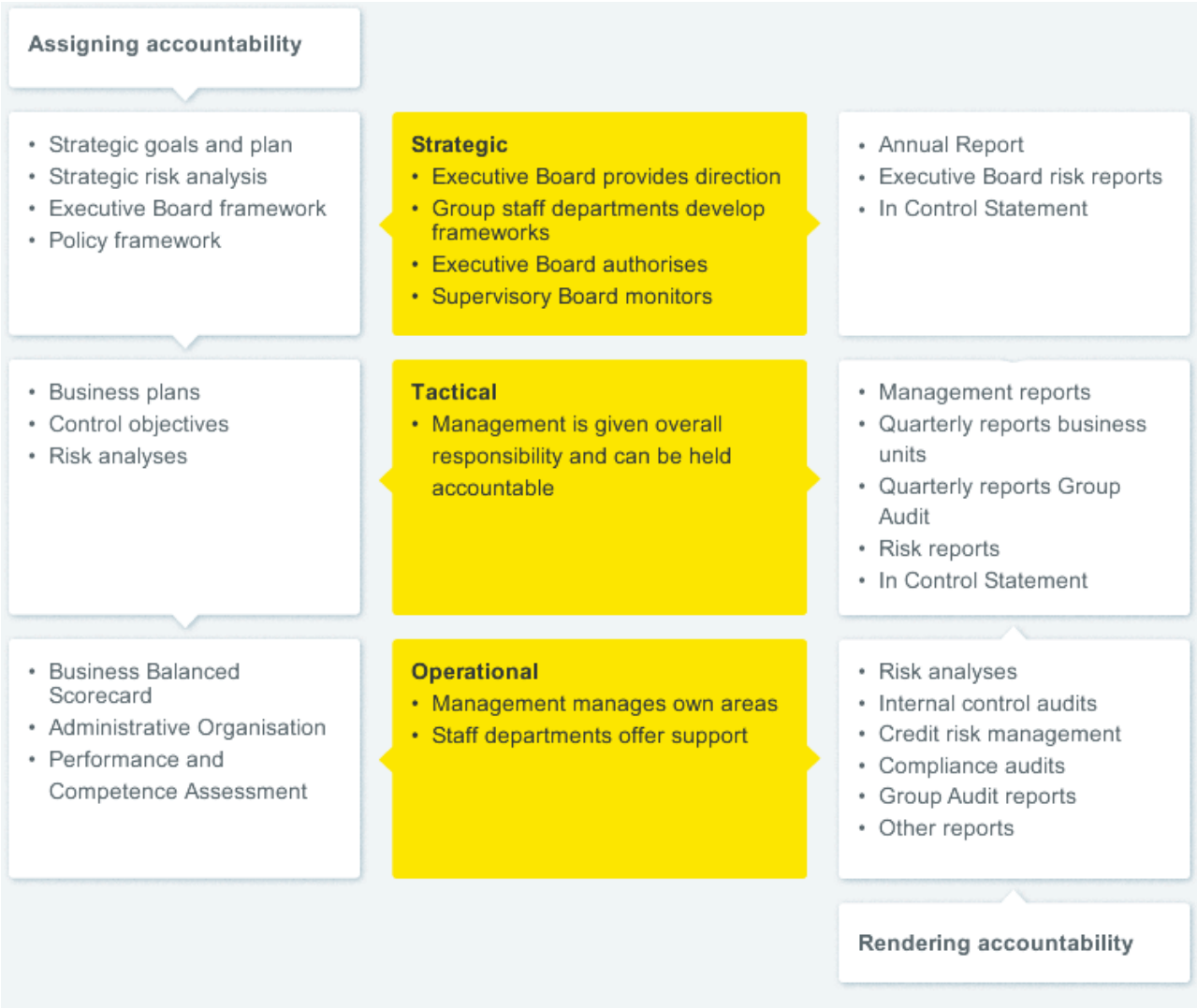
The management boards of the business units are responsible for day-to-day operations within these frameworks and each year draw up operational plans that are approved by the Executive Board.

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 periodic in-control statements per business unit.

Framework for business control



In an in-control statement, the management boards and members of the Executive Board state, with due observance of changes to internal and external factors, whether they have identified the essential 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. They also state whether they expect that the risk management system will continue to work adequately.

The Executive Board discusses the in-control statements and establishes whether additional measures need to be taken in order to curtail risks. The reports on the in-control statement are also submitted to the Audit Committee.

19 Financial risk management

19.1 Introduction

This chapter discusses the financial risks that occur within REAAL NV. These financial risks are mainly technical claims and benefits risks (paragraph 19.2 and 19.3), market risk (paragraph 19.5), credit risk (paragraph 19.6) and liquidity risk (paragraph 19.7).

The paragraphs start with a definition of the relevant risk, followed by an explanation of how these risks are managed.

19.2 Insurance risk Life

19.2.1 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 mainly consists of unit-linked insurance policies, mortgage-related endowment policies and life annuity insurance policies with a regular benefit if the insured is alive. The individual life insurance portfolios focus on the retail and SME markets in the Netherlands.

The group portfolio consists of both traditional contracts, for which the insurer bears the investment risk, and separate accounts and unit-linked insurance contracts, for which the policyholder bears the investment risk. REAAL's group life insurance portfolio focuses on the entire corporate market in the Netherlands.

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

19.2.2 Technical claims and benefits risks for the life insurance portfolio

A life insurance policy entitles the policyholder to a death benefit and/or a benefit if the insured is alive.

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 (mortality risk). In case of an endowment 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.

Other technical claims and benefits risks that affect the life insurance portfolio are the risk of disability (the policyholder becomes disabled for work) and risks associated with policyholders' behaviour, such as early surrender risk (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 paragraph 19.3.2 Technical claims and benefits risks for the non-life insurance portfolio.

In addition, the insurer bears the cost risk if the actual costs turn out to be higher than what is received from the cost of coverage that was imputed into the tariff setting.

19.2.3 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 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. To a limited extent, interest rate guarantees were issued for individual unit-linked insurance contracts. 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, it is the contracting party that, in principle, bears the investment risk. The insurer guarantees the payment of the insured benefits. The contracting party is the institution that concluded the contract to insure the pension commitments of its employees with the insurer. However, there should at least be an investment value to cover the provision for contractual accrued entitlements. To compensate for investment losses up to a certain amount, an additional provision (buffer) is created based on the basis of agreed withholdings for the relevant contracts if stipulated by contract. If this buffer turns out to be insufficient, the remaining shortfall will be for the risk of the insurer, including developments in the mortality tables.

19.2.4 Managing insurance risks in the life insurance portfolio

Risks are managed by means of risk policy (see also paragraph 19.4 Insurance risk reinsurance and paragraph 19.5 Market risk Insurance activities), by understanding the factors involved and by review.

Developments in the technical claims and benefits risks of mortality are investigated annually and developments in early surrender every two years. 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.

REAAL NV periodically reviews the level of longevity-mortality compensation that is inherent in its portfolios. For an

adequate assessment of these compensation effects in the portfolio, REAAL NV monitors the absolute profit/loss development in time of its mortality assumptions for the entire portfolio.

The solvency of the life insurance portfolio is sensitive to changes in the parameters used for the actuarial calculations. To gain insight into this sensitivity the effects of changes in mortality, surrender probabilities (including non-contributory) and (continuous) costs were calculated separately.

In doing so, the changes in the parameters for the entire life portfolio were calculated and expressed in the solvency of REAAL NV.

The solvency's sensitivity to changes in the technical parameters is fairly limited in comparison with previous years, except for the sensitivity to the longevity risk. This is because the longevity risk increases if the interest rate decreases. The sensitivity to the risks of surrender, including non-contributory continuation, and mortality risk is strongly mitigated by the surrender floor restriction in the adequacy test.

Sensitivity solvency as a result of changes in technical parameters

In € millions	**2012**	2011
Solvency ratio	176%	203%
Impact of the sensitivities:		
- 50% increase in surrender rates	(4%)	(3%)
- 15% higher mortality rates (short-life risk)	(3%)	(4%)
- 20% lower mortality rates (longevity risk)	(32%)	(30%)
- 10% increase in renewal expenses + 1% higher cost inflation	(19%)	(18%)

Changes in the technical parameters have an effect on the result. The sensitivity of the solvency of the Insurance activities to changes in the financial markets is explained in chapter 22 Capital management.

Life expectancies

To forecast the survival probabilities of the entire population, REAAL uses the model published by the Netherlands Actuarial Association in this respect (AG 2012). To this day, REAAL used the model published by the PLT committee of the Dutch Association of Insurers. However, in 2012 the Dutch Association of Insurers indicated that this so-called PLT model will no longer be updated. In addition to this basis for mortality, REAAL also updated the empirical data for portfolio mortality, lapse and early surrender. Updating these data resulted in an increase of the best estimate of the insurance obligations and thus had a negative impact on the results of the LAT.

19.2.5 Other Life insurance risk

Concentration of risk

In life insurance, concentration of risks mainly exists in the group insurance portfolio. 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 2012 by the use of reinsurance. For more information, please refer to paragraph 19.4 Insurance risk reinsurance.

Scope of various insurance categories 2012

In € millions	Annual premium	Insured capital	Insured annuity	Technical provision for insurance contracts	Risk capital
Savings mortgages	387	20,556	6	5,375	14,517
Life annuity	1	-	521	3,978	320
Risk	168	42,435	11	403	44,080
Savings insurance	154	10,244	49	6,758	3,118
Funeral insurance	37	2,408	-	1,038	1,670
Individual insurance policies in cash	**747**	**75,643**	**587**	**17,552**	**63,705**
Individual insurance policies in investment units	557	36,403	489	6,317	37,410
Group insurance policies in cash	300	11,805	2,020	7,174	27,990
Group insurance policies in investment units	542	27,483	926	7,358	29,728
Subtotal	**2,146**	**151,334**	**4,022**	**38,401**	**158,833**
Reinsurance risk	(6)	(75)	(5)		(1,734)
Proportional reinsurance	(143)	(4,589)		(3,021)	(70,824)
Total	**1,997**	**146,670**	**4,017**	**35,380**	**86,275**

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**	**18,156**	**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	516	23,640	1,004	6,823	26,818
Subtotal	**2,273**	**151,921**	**4,087**	**37,551**	**154,875**
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**

Co-insurance

REAAL NVconcludes 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 withdraws, its insurance liabilities will be transferred to the remaining co-insurers. The total size of the provisions for incoming co-insurance amounts to € 127 million (2011: € 139 million). In view of the limited interest and the spread over several insurers, the risk is limited.

19.3 Insurance risk Non-life

19.3.1 Non-life insurance portfolio

All common non-life sectors are represented in the non-life portfolio. The emphasis of this portfolio is on the main segments: Fire, Motor Vehicles and Disability. The insurance policies are mostly sold through authorised agents, insurance intermediaries and SNS Retail Bank's distribution channel to retail and SME clients. Geographically, the portfolio is almost entirely concentrated in the Netherlands. The disability insurance products in the portfolio include both individual coverage for self-employed persons and semi-group coverage for employees. REAAL Non-life is represented at the Rotterdam Insurance Exchange through its co-insurance unit. Risks in the segments Fire, Transport (including Marine) and Miscellaneous are underwritten there. REAAL Non-life thereby focuses on the medium-sized and large business segments of the corporate insurance market.

For more information on retention and incoming reinsurance, see paragraph 19.4 Insurance risk reinsurance.

19.3.2 Technical claims and benefits risks for the Non-life insurance portfolio

For the subdivision of technical claims and benefits risks within the non-life insurance portfolios, we make a distinction between disability insurance and other non-life insurance.

Disability insurance policies are insurance policies covering the financial consequences of (partial) disability of the policyholder. The classification of life insurance risks also applies to these insurance policies, while the disability and rehabilitation risk is the main risk. These are related risks that manifest themselves when a policyholder becomes disabled and receives a benefit during the period that he continues to be disabled for work. The risks relate to the duration and timing of the payment of the insured cash flows. The disability risk is formed by the fact that the policyholder becomes disabled more often than expected, the rehabilitation risk by the fact that he continues to be disabled longer than expected.

The risks of other non-life insurance policies can be divided into risks related to future claims ensuing from current contracts (premium risk and catastrophe risk) and risks related to claims that have already been made (reserves risk). Insurance behaviour risk plays a limited role due to the usually brief contract period of non-life insurance policies.

The technical claims and benefits risks for non-life can be broken down as follows:

- **Premium risk.** This is the risk that the future premium payments are insufficient to meet all claims and corresponding costs.
- **Catastrophe risk.** This is the risk of losses due to extreme or exceptional events. This includes both natural disasters and events caused by human conduct.
- **Reserves risk.** This is the risk that the accrued claims reserves are insufficient to settle all claims already made.

19.3.3 Managing insurance risks in the Non-life insurance portfolio

Risks are managed by means of risk policy (see also paragraph 19.4 Insurance risk reinsurance and 19.5 Market risk REAAL), by understanding the factors involved and by review.

Every year, the developments in the non-life technical claims and benefits 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 has been implemented.

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 respectively. 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	**2012**	2011	**2012**	2011
Claims +10%	(35)	(37)	(35)	(37)
Claims -10%	35	37	35	37

The IBNR and the provision for settlement costs are evaluated at least twice a year and, where necessary, adjusted.

A test is carried out twice a year to establish the adequacy of the provisions for non-life claims.

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 the Non-life insurance operations, where a separate team of fraud coordinators supervises designated fraud cases, as well as writes and propagates the fraud policy within the Non-life insurance operations. 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.

Management of realised claims with a run-off of more than one year

The insurer has assigned specialised departments for the handling and run-off of (bodily injury) claims. 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.

Management of risk provision for regular disability insurance benefits

The Non-life insurer pays disability benefits that stem from the individual and the semi-group insurance portfolios. The Life insurer's disability benefits in actual payment concern coverages within a life insurance contract.

Characteristics provision for recurrent disability annuity benefits

	Life insurance		Non-life insurance		Total	
In € thousands	**2012**	2011	**2012**	2011	**2012**	2011
Provision for periodic payments	34,812	55,825	258,072	253,802	292,884	309,626
Number of commenced annuities	898	995	3,881	4,110	4,779	5,105
Average annual annuity	8.3%	10.0%	20.8%	19.5%	18.5%	17.6%

Management of risk broker's channel

In the insurance broker industry, the broker's channel is currently receiving a lot of attention from regulatory bodies. Mid 2011, the Netherlands Authority for the Financial Markets (the AFM) undertook extensive research into the broker's channel control of seven large insurers. The study revealed that insurers generally have sufficient control on the broker's channel activities. REAAL is no exception. Some of the recommendations made by the AFM to the industry were in fact already incorporated in REAAL's operations. Also, REAAL fully agrees with the AFM that certain types of products, such as disability insurance policies, are not well suited for the broker's channel. A recommendation to ask for an annual report on complaints, which was also made to REAAL, was embraced by REAAL and implemented as far as possible. In cooperation with Group Audit, REAAL performs research to the risk management of all aspects of the brokers channel on a regular base.

19.3.4 Other Non-life insurance risk

Concentration of risk

Geographically, the insurer's non-life portfolio risk is almost entirely concentrated in the Netherlands. There is concentration of insurance risks in the Fire segment, where storm risk is an important factor. In addition, the concentration of risks can occur in blocks of flats, rows of houses and office buildings.

The concentration of risk also occurs in the Group accident portfolio and the Group disability schemes. The underwriting of Group disability policies related to the Work and Income according to the Labour Capacity Act (WIA) 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 paragraph 19.4 Insurance risk reinsurance for more information about retention and reinsurance of these risks.

Co-insurance

REAAL Non-life is represented at the Rotterdam Insurance Exchange through its co-insurance unit. This is where risks in the segments Fire, Transport (including Marine) and Other are underwritten. REAAL Non-life focuses on the medium-sized and large business segments of the corporate insurance market. In 2012, the REAAL Non-life co-insurance portfolio posted a gross earned premium income of € 96 million (2011: € 108 million).

Catastrophe

The insurer reinsures catastrophe risks resulting from perils of nature, such as storms, and terrorism (see paragraph 19.4 Insurance risk reinsurance). Catastrophes resulting from acts of violence, nuclear incidents or flooding are excluded under the standard policy conditions.

19.3.6 Claims reserve and result

Technical result Non-life insurance

The table below shows the non-life technical claims and benefits risks result:

Analysis technical results Non-life 2012

In € millions	Fire	Accident and health	Motor vehicles	Transport	Other segments	Total
Gross earned premium	222	130	280	65	122	819
Gross claims incurred	131	52	211	48	61	503
	91	**78**	**69**	**17**	**61**	**316**
Reinsurance balance	(16)	(3)	(1)	(4)	(12)	(36)
	75	**75**	**68**	**13**	**49**	**280**
Operational expenses and profit sharing	(85)	(56)	(107)	(22)	(37)	(307)
Operating result	**(10)**	**19**	**(39)**	**(9)**	**12**	**(27)**
Investment income	3	18	10	2	7	40
Technical result	**(7)**	**37**	**(29)**	**(7)**	**19**	**13**

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)
Operating result	**2**	**25**	**(44)**	**(5)**	**8**	**(14)**
Investment income	8	23	14	4	9	58
Technical result	**10**	**48**	**(30)**	**(1)**	**17**	**44**

In 2012, the reinsurance premium earned was € 67 million (2011: € 54 million). This is 8.1% (2011: 6.4%) of the gross premium income earned.

Gross premium income and claims reserve

The total gross premium income of REAAL Non-life in 2012 was € 819 million (2011: € 848 million). The decline is mainly due to premium discount on disability insurance in the line of bussiness Accident and health and lower premium income in the line of bussiness Transport. The gross claim reserve was year-end 2012 € 1,091 million (2011: € 1,134 million).

The gross premium income and claim reserve is distributed across the various segments as follows:

Claim reserve

In € millions	2012 Net claim reserve	2012 % Net claim reserve	2012 % Gross earned premium	2011 Net claim reserve	2011 % Net claim reserve	2011 % Gross earned premium
Fire	106	10%	27%	122	11%	26%
Accident and health	395	36%	16%	399	35%	17%
Motor	357	33%	34%	361	32%	34%
Transport	69	6%	8%	74	7%	9%
Other	165	15%	15%	178	15%	14%
Total	**1,092**	**100%**	**100%**	**1,134**	**100%**	**100%**

The premium volume and claims reserve for the Transport segment almost entirely originate from co-insurance. The table includes a relatively large claims reserve for the Accident and Health segment as a result of the long-term non-life obligations of disability insurance policies. The disability insurance policies, however, have a limited share in the gross premium income earned. 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.

Claims development history

The table below provides a summary of the run-off on claims reserves for earlier claim years.

Claims development history 2012

In € thousands	Provision as of 1 January	Interest added	Payments	Provision as of 31 December	On balance release / run-off
Claim years:					
2003 and earlier	266,880	4,692	22,163	238,668	10,741
2004	26,044	254	4,696	20,190	1,412
2005	29,032	303	4,155	23,613	1,567
2006	33,193	300	6,490	28,157	(1,154)
2007	57,003	617	8,541	45,401	3,678
2008	70,183	649	10,725	55,748	4,359
2009	93,240	802	16,474	64,085	13,483
2010	139,046	1,061	34,550	97,208	8,349
2011	285,612	1,471	133,411	144,004	9,668
Total through 2011	**1,000,233**	**10,149**	**241,205**	**717,074**	**52,103**
Total 2012	-	789	256,985	258,230	-
Total net of reinsurance	**1,000,233**	**10,938**	**498,190**	**975,304**	**52,103**

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**

The tables above indicate that the run-off result increased by over € 7 million. This increase is explained by an adjustment in the allocation of total IBNR to claim years and has no impact on the adequacy of technical provisions for non-life activities.

19.4 Insurance risk reinsurance

19.4.1 Reinsurance policy

The reinsurance policy provides protection against technical claims and benefits risks in the various insurance portfolios of both the Life and Non-life insurer. 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 catastrophes 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 recognised at the Insurance activities. Based on this objective, two proportional reinsurance contracts are in place for the Insurance activities' individual life portfolio.

The reinsurance policy is determined based on risk analyses for the various portfolios, the size of the portfolios, the nature of the technical claims and benefits risks, the results, the risk appetite and the financial strength of the Company.

The risk of terrorism is reinsured through the 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, i.e. € 1 billion.

19.4.2 REAAL Life reinsurance

REAAL NV have a thoroughly integrated reinsurance programme for the mortality and disability portfolio. Just like last year, separate reinsurance contracts were purchased for the individual and group portfolios in 2012. The catastrophe reinsurance contract was concluded Group-wide for the various sub-portfolios.

REAAL NV purchase reinsurance per separate risk from a relatively high level upwards (see 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 2013 reinsurance programme has not changed as compared to the 2012 programme. The various sub-portfolios are reinsured by means of reinsurance contracts for the individual portfolio, for the group portfolio and for 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 has been proportionally reinsured by two quota share contracts. The retention of the reinsurance contract for the group portfolio is increased to € 1.5 million of risk capital effective 1 January 2013.

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 force for the product groups risk, endowment mortgages [spaarhypotheken] and unit-linked policies. The quota share reinsurance contract that took effect as of 1 January 2011 reinsures both risk capital and provisions, and applies to the traditional savings portfolio.

The life reinsurance contracts were concluded at reinsurance companies that have at least an AA- rating (S&P).

Life insurance retention

		2012		2011	
In € thousands		**REAAL**	**Zwitserleven**	REAAL	Zwitserleven
Coverage:					
Mortality (quota share - risk capital)	per risk; savings mortgages. risk and unit linked portfolio	19%	0%	19%	-
Mortality (quota share - gross)	per risk; savings insurance portfolio	19%	0%	19%	-
Mortality (risk capital)	per risk; individual portfolio	1,500	1,500	1,500	1,500
Mortality (risk capital)	per risk; group portfolio	1,200	1,200	900	900
Disability (risk capital)	per risk; individual portfolio	1,500	1,500	1,500	1,500
Disability (risk capital)	per risk; group portfolio	1,200	1,200	900	900
Catastrophe	per event	15,000	2,000	15,000	2,000

19.4.3 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 the portfolios, REAAL Non-life has a catastrophe contract for covered natural perils (storm, hail) and accumulation within the fire portfolio.

The 2013 reinsurance programme is largely a continuation of the programme as it was in force in 2012. The capacity of

the catastrophe programme was further expanded due to the increased underlying exposure. The external retention of the catastrophe programme is again € 35 million for 2013. The retentions in the other contracts remain unchanged compared to 2012. As regards Accidents, the reinsurance capacity was further expanded in connection with the underlying exposure. In the other segments, the reinsurance capacity for 2013 remains the same as the capacity in 2012.

As Proteq Non-life is no longer the risk-bearer, it was decided to no longer purchase separate reinsurance for Proteq Non-life as from 1 January 2013. This portfolio continues to be reinsured within the reinsurance programme of REAAL Non-life.

Non-life insurance retention

In € thousands		2012	2011
Coverage:			
Fire	per risk	1,000	2,500
Motor third-party liability	per risk	2,500	2,500
Personal / business liability	per risk	1,000	1,000
Accidents	per risk	750	750
Transport (up to 2006 NHL)	per risk	1,000	1,000
Disability (risk capital)	per risk	1,500	1,500
Catastrophe	per event	35,000	45,000

The non-life insurer pursues an active policy with regard to placing its reinsurance contracts. A distinction is made as to the panel of reinsurers in the property programme (Fire and Catastrophe) and in the casualty programme (Motor, 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 the reinsurance panel is A-.

19.4.4 Incoming disability reinsurance

REAAL 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 gross claims reserve at the end of 2012 amounts to € 59 million (2011: € 65 million), after retrocession, the provision amounts to € 34 million (2011: € 25 million).

19.5 Market risk REAAL

The market risk of REAAL NV 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, such as:

- Exposure to interest rate differences between European countries and between different fixed-income instruments, which mainly manifests itself in potential volatility of the market value of fixed-income investments and the solvency of the Insurance activities.
- Due to the low market rate, guarantees issued in the portfolio of Zwitserleven become relevant, causing an increase in investment risk.
- As a result of the new yield curve (UFR) introduced by DNB for the valuation of insurance obligations for solvency purposes, a balance must be found between stabilising the value of the equity and the status of the solvency.

Stabilising both standards at the same time is impossible.

See paragraph 18.5 Risk classification for a definition of market risk.

This means that changes in financial markets affect the results and capital position of the insurer. The table below presents the investments based on the IFRS value, in respect of which the Insurance activities run a market risk.

Portfolio Insurance activities

In € millions	2012	2011
Property investments	233	255
Interest bearing investments	30,458	28,542
Equities and options	1,244	1,217
Invested collateral securities lending	-	117
Derivatives	480	539
Reinsurance contracts	3,185	3,426
Loans and advances to customers	3,072	3,063
Loans and advances to banks	452	499
Other assets, no lending operations	2,518	2,705
Cash and cash equivalents	1,563	1,188
Total	**43,205**	**41,551**

19.5.1 Risk management market risk

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 2012 was to further reduce REAAL's market risk. In addition, further steps were taken towards Solvency II.

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), laws and regulations, solvency and IFRS results. The ALM study was performed in the autumn of 2012, and will be put into effect in 2013 by introducing a new Solvency at Risk framework. Contrary to the old framework, the new framework will also consider volatility risk and basis risk in curves used for discounting.

The table below indicates how the investments of REAAL are divided as a result of ALM policy at year-end 2012:

Investment mix Insurance activities

In € millions		2012		2011
Interest bearing investments	30,458	88%	28,542	86%
Equities and options	1,244	4%	1,217	4%
Property	233	1%	255	1%
Mortgages	3,072	9%	3,063	9%
Total	**35,007**	**100%**	**33,077**	**100%**

Discount curves

Halfway through the year, the insurance sector experienced a major change in legislation and regulations. The Dutch Central Bank decreed a change in the discount curve for the insurance obligations. Effective June 2012, REAAL therefore has based the valuation of the insurance obligations for the IFRS and DNB liability adequacy test on a discount curve that is extrapolated using an Ultimate Forward Rate (UFR) of 4.2%. As a result, a typical parallel movement in the yield curve leads to the ECB AAA curve only showing parallel movement in the first 20 years, after which the movement is moderated by the UFR. Consequently, the obligations' sensitivity to interest rate fluctuations has decreased, while it has no impact on the interest rate sensitivity of the assets. The sensitivity of the statutory solvency has changed significantly as a result. Before the introduction of the UFR, a market interest rate decrease resulted in solvency loss; right now, rising interest rates result in solvency loss (under similar market conditions). The introduction of the UFR, however, does not have any impact on the economic value sensitivity. As a result, a dilemma has arisen between steering towards statutory solvency and steering towards economic value. The focus of ALM is on economic value, while stabilisation of the statutory solvency is a supplementary condition. For this reason, there are two main variables towards which we steer: Value at Risk (VaR) and Solvency at Risk.

VaR system

Value-at-Risk (VaR) models are used for managing the economic value of the financial market risks. VaR is a risk indicator that measures the balance of all market risks (interest rate, equity, etc.) under economic assumptions. The VaR, expressed as a percentage of the market value of shareholders' equity, was 25% at year-end 2011. In 2012, the VaR rose slightly from 25% at year-end 2011 to 32% at year-end 2012. The upturn was partly due to a shortening of the investment portfolio. It was shortened to protect the statutory solvency sensitivity, which changed subsequent to the introduction of the Ultimate Forward Rate (UFR). Shortening the investment portfolio did not have an ill-effect on the economic sensitivity, however, hence the increased VaR. A VaR of 32% is well within the current limit of 45%.

Solvency at Risk

Another key variable towards which we steer is the Solvency at Risk, which is used as a basis for calculating the sensitivity of the statutory solvency under a combination of stress scenarios of the various market risks. The limit for this standard is a solvency after stress of 125%. At year-end 2012, the Solvency at Risk was 119% based on a -59% shock, which is below the internal limit of 125%. This breach of the limit was discussed with the Risk Committee of the Supervisory Board. Temporary approval is given to this breach of the limit. Finding the right balance between maintaining a necessary investment return on the one hand, and protecting the solvency against shocks in the financial markets on the other hand, is a subject that has received much attention in Group ALCO, the Executive Board and the Risk Committee of the Supervisory Board. The search for the right balance between risk and return in the insurance balance is also on the agenda in 2013.

19.5.2 Interest rate risk REAAL

Interest rate risk is a key component of REAAL's 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. The expected fixed cash flows from insurance obligations are matched with fixed-income investments as much as possible. The profit sharing and return guarantees given to policyholders are a remaining source of interest rate risk. 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 20.2 Hedging and hedge accounting for more information.

The table below shows the breakdown of the provisions for own account by profit sharing type.

Breakdown provision for own account and risk

In € millions	**2012**	2011
With profit sharing (company or surplus interest)	10,365	10,127
With interest rate rebate	5,194	5,663
Without profit sharing	3,788	3,630
Savings mortgages balance	2,358	1,884
Total	**21,705**	**21,304**

Equity duration

Equity duration indicates the impact on the fair value of shareholders' equity in the event of a minor parallel shift in the yield curve. Market rate movements rapidly change both the value and the 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 steer on the basis of this indicator. The actual interest rate management (and accompanying hedging policy) is driven by the results of the sensitivity calculations related to economic value and solvency. In addition, tooling was implemented in 2012 for measuring key rate durations of obligations, so that more insight into and grip was gained on the sensitivities per maturity segment.

Duration fixed assets and liabilities Insurance activities

	2012	2011
Duration of fixed income investments	9.3	8.5
Duration of provision for insurance contracts	12.9	11.6

Interest rate sensitivity fair value shareholders' equity (net of taxation)

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% increase in interest rates, the fair value of shareholders' equity increases by € 111 million (2011: increase of € 88 million). With a 1% interest rate decrease, the fair value of shareholders' equity decreases by € 563 million (2011: decrease of € 156 million).

Interest rate sensitivity fair value shareholders' equity Insurance activities

	Interest +1%		Interest -1%	
In € millions	**2012**	2011	**2012**	2011
Investments	(1,876)	(1,766)	2,130	1,926
Technical provisions	1,911	1,647	(2,681)	(2,304)
Other assets and liabilities	30	207	(30)	222
Derivatives	46	-	18	-
Shareholders' equity	**111**	**88**	**(563)**	**(156)**

Interest rate sensitivity IFRS result and shareholders' equity

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. Moreover, the use of shadow loss accounting has negative impact on shareholders equity if interest rates drop. This is because the bookvalue of the insurance liabilities must be increased. When interest rates rise, the decrease of the shadow loss deficit will first be recognised in shareholders equity.

Interest rate sensitivity on result and shareholders's equity REAAL

	Interest +1%		Interest -1%	
In € millions	**2012**	2011	**2012**	2011
Result	-	(20)	-	112
Shareholders' equity	(188)	(1,787)	126	2,259

The effect of a 1% increase or decrease in interest rates on the result is nil. In respect of shareholders' equity, this is € 188 million negative in the event of a 1% increase in interest rates (2011: € 1,787 million negative). A 1% decrease in interest rates has an effect of € 126 million positive (2011: € 2,259 million positive). The development of the effect of a decrease or increase of interest rates in comparison to 2011 is the result of the use of shadow loss accounting.

Average effective interest rates

The overview below shows the average effective interest rates of the financial assets, the financial liabilities and the technical provisions of REAAL's activities as at the balance sheet date. After applying of shadow loss accounting in 2012, there was no revaluation reserve left. Therefore, future IFRS-LAT shortages will be directly charged to the P&L.

Average effective interest rates Insurance activities

In percentages	**2012**	2011
Financial assets (not valued at fair value through profit or loss):		
Investments for own account:		
- Available for sale (excluding equities)	4.5%	4.3%
- Loans and receivables	3.9%	4.1%
Loans and advances to customers	4.9%	4.9%
Financial liabilities at amortised cost:		
Subordinated debt	7.8%	7.8%
Technical provisions insurance operations for own account and risk:	3.9%	4.0%
Individual insurance policies in cash	3.9%	4.0%
- Savings mortgages	5.2%	5.3%
- Life annuity	3.1%	3.1%
- Other	3.6%	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 policies for account of policyholders

Insurance policies for which policyholders bear 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 within this category, the insurer has given a minimum guarantee. As a result, the insurer also bears risks for these contracts regarding interest rates, prices and exchange rates. The value of the guarantees within the 'for account of policyholders' portfolio is measured periodically.

Breakdown technical provision on behalf of policyholders

In € millions	**2012**	2011
Without guarantee	9,304	8,519
With guarantee	4,371	4,479
Total	**13,675**	**12,998**

19.5.3 Credit risk surcharges and market value of bonds

The credit risk of REAAL NV materialises itself, on the one hand, in the fixed-income investment portfolio, in which corporate and government bonds are sensitive to changes in credit risk surcharges. Growing credit risk surcharges have a negative effect on the market value of underlying bonds.
On the other hand, credit risk surcharges are also a source of basis risk in the discounting of cash flows. The ECB AAA curve adjusted for UFR is used for discounting to calculate the market value of the insurance obligations. This curve is composed of the yield curves of the five AAA countries from the eurozone. A change in the credit risk surcharge of these countries has an immediate effect on the discount curve and is therefore a source of uncertainty if the weighting in the investment portfolio deviates from the weighting in the ECB AAA curve adjusted for UFR. Due to the current overweighting in Germany and the Netherlands and the underweighting in France in the investment portfolio, a basis risk occurs if the credit risk surcharges of these countries level out.

19.5.4 Equity and property investment risk REAAL

The equity and similar investments of REAAL NV amounted to € 1,244 million at year-end 2012 (2011: € 1,217 million). The increase in 2012 was caused in particular by higher equity markets.

The IFRS equities classification also includes participations in funds that invest in other types of securities. The ALM policy and the market sensitivities are adjusted accordingly.

REAAL NV periodically examines 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	**2012**	2011	**2012**	2011
Equities +10%	-	-	93	79
Equities -10%	(71)	(80)	(93)	(79)
Property +10%	23	25	17	19
Property -10%	(23)	(25)	(17)	(19)

19.5.5 Exchange rate risk REAAL

The exchange rate risk of REAAL NV is caused by a combination of investments and liabilities in foreign currencies that are not perfectly matched.

With respect to the fixed-income investments, the policy of REAAL NV 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 REAAL's exchange rate position.

Foreign exchange positions Insurance activities (net exposure)

	Balance		Hedge derivatives	
In € millions	**2012**	2011	**2012**	2011
US dollar	81	100	(91)	(93)
Pound Sterling	44	59	(44)	(58)
Swiss franc	(78)	(71)	77	72
Australian dollar	(33)	(33)	33	46
Other	2	3	-	-
Total	**16**	**58**	**(25)**	**(33)**

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	**2012**	2011	**2012**	2011
Currencies +10%	(1)	2	(1)	2
Currencies -10%	1	(2)	1	(2)

19.6 Credit risk REAAL

REAAL NV is 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 (counterparty risk). The mortgage loans of REAAL NV are well covered and have a relatively aged portfolio. Consequently, the likelihood of non-payment is low as a result of which the risk profile of the mortgage portfolio of REAAL NV is low. See paragraph 18.5 Risk classification for a definition of credit risk.

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.

19.6.1 Management credit risk within the fixed-income investment portfolio

The credit risk within the fixed-income investment portfolios of REAAL NV is the risk that an issuer of a bond or a debtor of a private loan can no longer meet his 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 investment managers adhere to the mandates and reports on this.

The fixed-income investment portfolios of REAAL NV have predominantly European and North American debtors. No one represents an interest of more than 5% in the fixed-income investment portfolio with the exception of the German and the Dutch State.

Overview investments Insurance activities 2012

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Shares and similar investments	-	1,244	-	1,244
Fixed income investments	1,032	22,656	6,770	30,458
Total	**1,032**	**23,900**	**6,770**	**31,702**

Overview investments Insurance activities 2011

In € millions	Designated as fair value through profit or loss	Available for sale	Loans and receivables	Total
Shares and similar investments	-	1,217	-	1,217
Fixed income investments	1,017	21,352	6,173	28,542
Total	**1,017**	**22,569**	**6,173**	**29,759**

The following overview provides a breakdown of the fixed-income investment mix by sector.

Breakdown fixed income portfolio (industry)

In € millions		2012		2011
Sovereign	17,724	58%	16,351	58%
Financials	5,089	17%	4,730	17%
Investments related to savings mortgages	5,131	17%	4,895	17%
Corporates	1,460	5%	1,246	4%
Mortgage backed securities	926	3%	1,231	4%
Other	128	0%	89	0%
Total	**30,458**	**100%**	**28,542**	**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.

Breakdown fixed income portfolio (rating)

In € millions		2012		2011
AAA	17,533	58%	18,031	62%
AA	3,187	10%	1,333	5%
A	2,233	7%	2,465	9%
BBB	1,461	5%	857	3%
< BBB	166	1%	221	1%
No rating	5,878	19%	5,635	20%
Total	**30,458**	**100%**	**28,542**	**100%**

The table below contains the breakdown of the fixed-income investment portfolio by maturity.

Breakdown fixed income portfolio (maturity)

In € millions		2012		2011
< 3 Months	660	2%	472	2%
< 1 Year	926	3%	1,108	4%
< 3 Years	2,325	8%	2,229	8%
< 5 Years	2,220	7%	2,379	8%
< 10 Years	4,980	16%	6,230	22%
< 15 Years	3,903	13%	3,025	11%
> 15 Years	15,444	51%	13,099	45%
No maturity	-	0%	-	0%
Total	**30,458**	**100%**	**28,542**	**100%**

The table below contains the breakdown of the fixed-income investment portfolio by geographic area.

Breakdown fixed income portfolio insurance activities (geography)

In € millions		2012		2011
Ireland	234	1%	317	1%
Portugal	6	0%	25	0%
Italy	456	2%	370	1%
Spain	398	1%	403	2%
Subtotal GIIPS	**1,094**	**4%**	**1,115**	**4%**
Germany	10,238	34%	7,000	25%
France	1,640	5%	1,342	5%
The Netherlands	13,254	43%	14,264	49%
Austria	997	3%	1,696	6%
Belgium	323	1%	253	1%
Other	2,912	10%	2,872	10%
Total	**30,458**	**100%**	**28,542**	**100%**

The following tables show the breakdown of interest-bearing government securities, which are part of the investment portfolio of SRLEV NV and the furher breakdown to GIIPS countries.

Breakdown sovereign fixed income portfolio Insurance activities (for own account)

In € millions		2012		2011
Ireland	-	0%	47	0%
Italy	338	2%	232	2%
Spain	54	0%	50	0%
Subtotal GIIPS	**392**	**2%**	**329**	**2%**
Germany	9,603	54%	6,470	40%
France	1,095	6%	804	5%
The Netherlands	4,922	28%	6,515	40%
Austria	986	6%	1,684	10%
Belgium	287	2%	226	1%
Other	439	2%	323	2%
Total	**17,724**	**100%**	**16,351**	**100%**

Breakdown fixed income portfolio GIIPS (maturity)

		Fair value		Cost price / Nominal
In € millions	**2012**	2011	**2012**	2011
< 3 Months	2	-	2	-
< 1 Year	1	1	1	1
< 3 Years	3	-	3	-
< 5 Years	35	-	40	-
< 10 Years	87	135	111	198
< 15 Years	19	-	40	-
> 15 Years	245	193	589	623
No maturity	-	-	-	-
Total	**392**	**329**	**786**	**822**

The credit risk in the government bond portfolio hardly changed. The largest movements occurred between countries with an AAA rating. A reduction of the position in Dutch and Austrian government bonds has taken place and this is primarily reinvested in German government bonds and to a lesser extent in French government bonds. The increase in the exposure to Southern European government bonds is mainly due to bondprice increases. The great majority of REAAL's position in sovereign debts still concerns Germany and the Netherlands.

19.6.2 Management credit risk with regard to derivative positions

The credit risk on the market value of all derivatives held by REAAL NV with a counterparty is managed through a so-called Credit Support Annex, or CSA, agreement. In accordance with standard industry practice, this agreement provides 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. See also paragraph 20.2 Hedging and hedge accounting, which describes how derivatives are used for hedging purposes.

19.6.3 Management of other credit risks

Management of credit risk relating to advances to the reinsurer

For non-life reinsurance contracts, REAAL NV uses a panel that consists of reinsurers with a minimum credit rating of A-. This minimum rating of A- also applies for the reinsurance of Life and Disability, but the current reinsurance panel consists of reinsurers with a minimum credit rating of AA-.

Management of credit risk in the mortgage portfolio

REAAL NV runs a limited credit risk on its mortgage portfolio. Part of this portfolio is guaranteed by the National Mortgage Guarantee fund. The 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 rises. In the event of non-payment by a debtor, the insurer will in many cases be able to recoup the loan through the sale of the collateral.

Mortgages Insurance activities by security type

In € millions	**2012**	2011
Mortgages < 75% of foreclosure value	1,165	1,232
Mortgages > 75% of foreclosure value	729	781
Mortgages with National Mortgage Guarantee	1,176	1,045
Residential property in the Netherlands:	**3,070**	**3,058**
Corporate mortgages	2	5
Specific provision for bad debts	(6)	(4)
Total	**3,066**	**3,059**

The credit risk of the mortgages of REAAL NV is low, partly due to NHG guarantees and low Loan-to-Foreclosure Values, but mainly due to the prudent acceptance policy. Furthermore, a large part of the portfolio stems from the period 2000-2005. The table below shows a breakdown of the portfolio of REAAL NV into securitised and not securitised:

Securitisation mortgages Insurance activities

In € millions	2012	2011
Securitised	130	151
Not securitised	2,936	2,908
Total	**3,066**	**3,059**

Management of credit risk regarding loans to intermediaries

REAAL NV manages the process of providing loans to intermediaries by a credit committee and the application of strict acceptance criteria.

19.7 Liquidity risk REAAL

REAAL NV must have sufficient cash to be able to meet claims arising from its insurance portfolio. See paragraph 18.5 Risk classification for a definition of liquidity risk.

Liquidity risk management, liquidity management

The table below presents nominal cash flows arising from investments, derivatives (assets) and insurance obligations, net of reinsurance (liabilities) per maturity segment. The figures give insight into the liquidity risk management that is part of the ALM policy.

Liquidity risk Insurance activities 2012

In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Investments							
- Fair value through profit or loss	599	257	59	35	24	497	1,471
- Available for sale	1,299	5,381	5,712	4,342	4,993	8,273	30,000
- Loans and receivables	394	616	196	165	105	688	2,164
Derivatives	37	152	177	46	58	289	759
Loans and advances to customers	266	647	977	239	91	100	2,320
Total	**2,595**	**7,053**	**7,121**	**4,827**	**5,271**	**9,847**	**36,714**
Technical provisions Life	2,237	4,386	4,779	4,413	3,765	12,212	31,792
Technical provisions Non-life	152	566	275	120	53	35	1,201
Total	**2,389**	**4,952**	**5,054**	**4,533**	**3,818**	**12,247**	**32,993**
Difference in expected cash flows	**206**	**2,101**	**2,067**	**294**	**1,453**	**(2,400)**	**3,721**

Liquidity risk Insurance activities 2011

In € millions	< 1 year	1 - 5 years	5 - 10 years	10 - 15 years	15 - 20 years	> 20 years	Total
Investments							
- Fair value through profit or loss	602	335	81	69	43	554	1,684
- Available for sale	1,072	6,002	7,130	3,721	5,197	6,826	29,949
- Loans and receivables	755	240	198	113	95	392	1,793
Derivatives	-	(57)	(108)	(10)	42	537	404
Loans and advances to customers	249	1,071	752	551	101	65	2,789
Total	**2,678**	**7,590**	**8,055**	**4,444**	**5,478**	**8,374**	**36,619**
Technical provisions Life	928	4,770	5,225	4,246	3,677	11,827	30,675
Technical provisions Non-life	162	593	283	128	55	36	1,257
Total	**1,091**	**5,364**	**5,508**	**4,374**	**3,732**	**11,864**	**31,932**
Difference in expected cash flows	**1,588**	**2,227**	**2,546**	**70**	**1,746**	**(3,490)**	**4,686**

The table only includes the ‘for own account portfolio’. The portfolio on behalf of policyholders is not relevant in this context, since the premiums 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. An 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 REAAL NV will be positive for the technical liabilities in the coming years with the exception of liabilities with a term over 20 years. Since, moreover, the investment portfolios largely comprise liquid investments, such as German and Dutch government bonds, which can relatively easily be liquidated in times of stress, the insurer runs only a limited liquidity risk.

REAAL NV has a potential liquidity requirement caused by margin requirements on derivatives. This is because, in the context of credit risk mitigation, REAAL NV has agreed with its main counterparts to settle changes in the market value of derivatives periodically. As a result there may be both amounts received and amounts paid. On balance, an amount of € 481 million (2011: € 551 million) was received from counterparties as at year-end 2012. In relation to the total funding requirements, this risk is limited.

20 Financial instruments and hedge accounting

20.1 Financial instruments

20.1.1 Fair value accounting of financial assets and liabilities

The following table shows the fair value of the financial assets and liabilities of REAAL NV. 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 NV and should therefore not be interpreted as such.

Value of financial assets and liabilities REAAL

	Fair value	Book value	Fair value	Book value
In € millions	2012	2012	2011	2011
Financial assets				
Investments				
- Fair value through profit or loss: designated	1,032	1,032	1,017	1,017
- Available for sale	23,900	23,900	22,569	22,569
- Loans and receivables	6,933	6,770	6,188	6,173
Investments for account of policyholders	13,265	13,265	12,443	12,443
Invested collateral securities lending	-	-	117	117
Derivatives	480	480	539	539
Loans and advances to customers	3,061	3,066	2,991	3,059
Loans and advances to banks	452	452	508	499
Other assets	494	494	285	285
Cash and cash equivalents	1,563	1,563	1,188	1,188
Total financial assets	**51,180**	**51,022**	**47,845**	**47,889**
Financial liabilities				
Subordinated debt	865	1,034	715	1,002
Securities lending liabilities	-	-	120	120
Derivatives	80	80	53	53
Other amounts due to customers	4,075	4,075	4,015	4,015
Amounts due to banks	3,745	3,745	3,154	3,154
Other liabilities	1,456	1,456	1,315	1,315
Total financial liabilities	**10,221**	**10,390**	**9,372**	**9,659**

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 form these investments is recorded in other assets of liabilities.

20.1.2 Notes to the valuation of financial assets and liabilities

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 or available market information. 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 values of nearly all derivatives are based on market prices. For a limited number of non-publicly traded derivatives the fair value depends on the type of instrument and is based on a present value model or an option valuation model.

Loans and advances to customers
The fair value of loans and advances to customers has been established by determining the present value of the expected future cash flows. 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 customer groups to which the loan/advance relates.

The market value of mortgages is determined based on a present value method. The yield curve used to determine the present value of cash flows of mortgage loans is the swap rate, increased by a risk surcharge. This risk surcharge has been derived from the development in mortgage rates compared to the swap rate. In determining the expected cash flows, any expected future early redemptions are taken into account.

Other assets
Because of the predominantly short-term nature of other assets the book value is considered to be a reasonable approximation of the fair value.

Cash and cash equivalents
The book value of the liquid assets is considered to be a reasonable approximation of the fair value.

Subordinated debt
The fair value of subordinated debt was estimated on the basis of the present value of the cash flows, making use of the prevailing interest rate plus a risk surcharge. The risk surcharge is derived from the latest known market prices for subordinated debt in 2012. See also section 23.23 Subsequent events.

Amounts due to banks
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 the market yield on the balance sheet date.

20.1.3 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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Financial assets								
Investments	18,340	16,747	6,523	6,769	69	70	24,932	23,586
Investments for account of policyholders	5,429	7,571	7,837	4,872	-	-	13,266	12,443
Invested collateral securities lending	-	-	-	117	-	-	-	117
Derivatives	-	23	480	516	-	-	480	539
Financial liabilities								
Derivatives	-	-	80	53	-	-	80	53

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.

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

In € millions	Available for sale 2012	2011
Balance as at 1 January	70	71
Total gains or losses recognised in profit or loss	(1)	2
Unrealised revaluations recognised in equity	3	-
Sale/settlements	(3)	(3)
Balance as at 31 December	**69**	**70**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(1)	2

Breakdown level 3 financial instruments

In € millions	2012	2011
Collateralised debt obligation	28	31
Collateralised loan obligation	41	39
Total	**69**	**70**

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	2012	2011	2012	2011	2012	2011	2012	2011
Equities	14	32	13	8	-	-	27	40
Bonds issued by financial institutions	-	8	4	-	4	-	8	8
Total	**14**	**40**	**17**	**8**	**4**	**-**	**35**	**48**

REAAL NV recognises impairments on equity instruments if the fair value has declined to 25% or more below cost price, or has been quoted below cost price uninterruptedly for at least 9 months.

REAAL NV 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 Financial Committee. 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

There have been no movements in level classification compared to the previous financial year.

20.1.4 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 2012

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Participation certificates and subordinated debt	-	-	(51)	(202)	(1,650)	(1,903)
Securities lending liabilities	-	-	-	-	-	-
Total	**-**	**-**	**(51)**	**(202)**	**(1,650)**	**(1,903)**

Liquidity calendar financial liabilities REAAL 2011

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Participation certificates and subordinated debt	-	-	(73)	(377)	(3,735)	(4,185)
Securities lending liabilities	(120)	-	-	-	-	(120)
Total	**(120)**	**-**	**(73)**	**(377)**	**(3,735)**	**(4,305)**

The table below shows the non-discounted cash flows ensuing from all derivates contracts, broken down according to maturity date.

Liquidity calendar derivatives REAAL 2012

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives	-	-	-	(5)	(32)	(37)
Currency contracts	-	-	-	-	-	-
Total	**-**	**-**	**-**	**(5)**	**(32)**	**(37)**

Liquidity calendar derivatives REAAL 2011

In € millions	< 1 month	1 - 3 months	3 - 12 months	1 - 5 years	> 5 years	Total
Interest rate derivatives		-	-	(36)	(9)	(45)
Currency contracts	(6)	-	(2)	-	-	(8)
Total	**(6)**	**-**	**(2)**	**(36)**	**(9)**	**(53)**

For a further explanation with regard to the management of the liquidity risk of REAAL NV, we refer to paragraph 19.7 (Liquidity risk REAAL).

20.2 Hedging and hedge accounting

REAAL NV uses various strategies to hedge its interest rate, market value and exchange rate risks with regard to its solvency. In 2012, this strategy was further refined, e.g. by acquiring interest rate options. In addition, interest rate swaps and currency swaps were used. 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 NV is active in the relevant markets. Derivatives held for trading purposes are not included in this overview.

Derivatives for hedging purposes REAAL 2012

	Notional amounts				Fair value	
In € millions	**< 1 year**	**1 - 5 years**	**> 5 years**	**Total**	**Positive**	**Negative**
Interest rate contracts						
- Swaps and FRAs	1,727	-	54	1,781	187	(52)
- Options	4,808	510	1,436	6,754	288	(29)
Index contracts						
- Options	16	16	-	32	1	-
Currency contracts						
- Swaps	87	-	87	174	1	-
- Forwards	112	112	-	224	3	-
Total	**6,750**	**638**	**1,577**	**8,965**	**480**	**(81)**

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**	**9,127**	**571**	**(54)**

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.

20.2.1 Hedging

REAAL NV uses 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.

20.2.2 Hedge accounting

With regard to the majority of the hedge strategies explained above,REAAL NV 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 NV applies the following hedge accounting methods:

Fair value hedges

Hedging the interest rate risk on funding (micro hedge)
REAAL NV 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 NV 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 NV fully hedges the interest rate risk on these structures.

Hedging the foreign exchange risk in the equity portfolio
REAAL NV 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
REAAL NV has 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 2012, 12 of these combinations were outstanding (year-end 2011: 5 combinations). As the hedge relationship was terminated, the positive result of € 0,8 million was recognised in the income statement.

Reinvestment calendar REAAL (notional amounts)

In € millions	**2012**	2011
< 1 year	-	-
1 - 5 years	136	58
> 5 years	472	550
Total	**608**	**608**

At year-end 2012, positive realised and unrealised market values and deferred interest income of € 54 million (2011: € 52 million) had been built up in shareholders' equity. This 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 NV, nor is it applied to the swaptions of REAAL NV.

21 Non-financial risk management

As described in the risk classification, REAAL NV recognises both financial risks and non-financial risks. Non-financial risks include strategic, integrity and operational risks. The Compliance, Security & Operational Risk Management (CS&O) department is one of the departments monitoring and advising on the management of these non-financial risks.

21.1 Management of non-financial risk

REAAL NV has taken several measures to manage non-financial risks. The main components are the following:

- A clear governance structure, including a transparent assignment of duties and responsibilities and escalation procedures, reinforced with a clear risk management structure. For this purpose REAAL, as a part of SNS REAAL, implemented the 'Three Lines of Defence' model, making line management primarily responsible for recognising and managing risks and taking decisions in that area. Along with several other Group staff departments, the Compliance, Security & Operational Risk Management (CS&O) department has an important monitoring role to play in the second Line of Defence and has the option of escalation where necessary. The third Line of Defence is formed by Group Audit, which, independently from the line, tests the set-up and operation of the entire system of control measures.
- Policy formulated by CS&O, including the operational risk framework, in the field of ethical business conduct concerning non-financial risks. If desired, CS&O provides recommendations on the practical translation to the specific application within the business units and monitors compliance.
- The training & awareness programme to make managers and staff aware of non-financial risks. This programme includes information meetings, e-learning programmes, presentations and 'train the trainer' workshops.
- The advisory role of staff departments operating independently from the line in the development and endorsement of products. Since 2012, this also includes the periodic review of product portfolios.
- The central reporting centre where staff can report various kinds of incidents, such as fraud, undesirable behaviour and information security breaches. The aim is that risks are reported in time so consequential damage can be prevented or limited and adequate measures can be taken to prevent similar incidents. Employees can also report incidents to the reporting centre anonymously (whistleblowing arrangement).
- Signs of fraude are always investigated. Fraude investigations are risk based, with specialistic external support if necessary.
- The monitoring programme executed annually by CS&O in consultation with Group Audit. Based on a risk-based analysis, the means to be used for relevant subjects are annually determined.
- The quarterly report on non-financial risks. This quarterly report provides the management boards, the Executive Board and the Supervisory Board's Risk Committee with an overview of the main developments in non-financial risks, progress in the follow-up of action items, the implementation of new/amended laws and regulations, the central embedding of customer interests in the organisation and an analysis of the developments in incidents. This report also presents the degree to which REAAL NV acts in accordance with its risk appetite.
- The periodic in-control statements by the management boards of the business units and the Executive Board members. In this statement, they report on the main risks and corresponding control measures, the improvements made compared to the previous period and the improvement measures in progress. The in-control statement points out the most actual risks.

21.2 Capital requirement operational risk

To calculate the capital that must be maintained as a buffer for the manifestation of operational risks, the standardised approach is used for REAAL NV. The adequacy of the insurance capital for operational risk is assessed on the basis of an initial outline which was developed for the ORSA in 2011. This outline was further refined in 2012.

22 Capital management

Tha capital canagement of REAAL NV is also performed on SNS REAAL groep level.

22.1 Going concern capital management

22.1.1 Planning

For REAAL NV, a monthly solvency sensitivity analysis is performed and discussed at Insurance ALCO.

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 required.

22.1.2 Capital adequacy assessment

The assessment of capital adequacy consists of the following elements:

- A solvency sensitivity analysis for REAAL NV is performed on a monthly basis, with close involvement of senior management to determine the capital adequacy.
- The results of the stress tests are annually compared with the economic capital required. The economic capital is calculated and reported to Group ALCO on a quarterly basis. Sensitivity analyses are performed and forecasts of capital development are made on a monthly basis.
- An annual ORSA test run for REAAL NV , in addition the use of Solvency at Risk as control variable.

22.2 Objectives and framework of standards

22.2.1 Objectives

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.

In determining the capital structure, SNS REAAL takes into account the restrictions set by the Dutch Central Bank, national and European regulations, rating agencies and internal requirements regarding capital adequacy.

SNS REAAL's capital management is aimed at again obtaining 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.

22.2.2 Framework of standards

In 2012, REAALs' internal targets for solvency, are mentioned in the scheme below.

Solvency standards REAAL

Standard	Target	Realisation	
in percentages		**2012**	2011
Regulatory solvency	> 175%	176%	203%

The Insurance activities' solvency is calculated within the Solvency I regulatory framework. The available capital is then mainly based on the balance of the market value of assets and liabilities, adjusted for intangible assets and raised by subordinated debt. In 2012, DNB made an adjustment to the discount curve for the insurance obligations, based on the Ultimate Forward Rate. The required capital is related to the size of the technical provision.

22.3 Capital position

Capitalisation

In € millions	**2012**	2011
Insurance activities		
Regulatory solvency Insurance activities	176%	203%
Regulatory solvency Life	211%	234%
Regulatory solvency Non-Life	490%	464%
Available regulatory capital	2,630	2,715
Capital requirement	1,491	1,337

In 2012, total equity at REAAL NV decreased by € 1,088 million to € 2,932 million, driven mainly by the net loss of € 149 million and the increase of the fair value reserve of the fixed-income portfolio by € 830 million to € 2,044 million positive. The fair value reserve was negatively impacted by shadow accounting (€ -1,689 million), mainly consisting of the shortfall in the LAT of € 1,490 million and by realised revaluations through the income statement (€ -249 million), partly offset by the positive effect of declining interest rates.

The fair value reserve of the equity portfolio decreased by € 19 million to € 139 million due to sales and due to a lower valuation of the stake in Q-Park.

The DAC accounting policy change in 2012 had a negative impact on total equity of € 338 million. Comparative figures have been restated.

22.3.1 Solvency

Solvency of REAAL NV amounted to 176% compared to 203% at the end of 2011. A decline of 19% was due to an increase in required capital mainly related to a change of the solvency requirements of a part of the separate accounts and due to the downward shift of the yield curve which led to an increase of the liabilities and thus also to an increase of required capital. Furthermore, solvency mainly declined due to the narrowing of credit spreads of French sovereign debts which resulted in a more strongly increase of the liabilities than the investment portfolio, because the liabilities are valuated by using the ECB AAA + UFR, in which French sovereign debts represent a greater part than in the investments. Finally, solvency decreased due to a dividend upstream by REAAL Non-Life to SNS REAAL in the first half of 2012 and due to the impact of model and parameter changes mainly related to mortality. Underlying results partly offset the negative impact on solvency.

The use of the new interest rate curve had a 20%-point positive impact on solvency. However, at Insurance holding level this impact was almost wholly offset by a more restrictive stance on Tier 2 debt included in solvency capital (-19%).

In the regulatory solvency ratio of SRLEV, the legal entity comprising most of the life insurance operations, the inclusion of Tier 2 debt was already capped. Solvency of SRLEV declined from 223% at year-end 2011 to 211%.

22.3.2 IFRS and Regulatory liability adequacy test

IFRS liability adequacy test (LAT)
The adequacy of the insurance technical provisions is tested in every reporting period by means of the IFRS liability adequacy test (LAT). This LAT compares the market value and the IFRS carrying amount of the insurance liabilities and related assets. In 2012, REAAL NV changed the interest rate curve used to calculate the market value of the insurance liabilities in the IFRS LAT from the ECB All Government curve to the ECB AAA + UFR curve. This change implied a significantly lower discount rate which impacted the surplus value shown in the IFRS LAT negatively.

The use of the ECB AAA + UFR curve and the general decline of interest rates in 2012 led to an IFRS LAT shortfall in the insurance liabilities of € 2,158 million gross at the end of 2012. By using shadow accounting, the positive fair value reserve of the fixed-income portfolio was used to increase the IFRS carrying amount of the insurance liabilities by € 1,986 million. Net of tax, this negatively impacted total equity by € 1,490 million in 2012. The remaining shortfall of € 172 million gross (€ 129 million net) was charged to the income statement as a partial impairment of the VOBA.

The effect on equity and result of the change in the interest rate used in the liability adequacy test, is described in paragraph 16.3.4.2 Changes in estimates.

Regulatory liability adequacy test (TRT)
REAAL NV includes the excess or deficit in the book value of the technical provisions with respect to the corresponding test provisions in the available solvency. REAAL NV determines this excess or deficit by performing the Regulatory liability adequacy test (TRT) under the Dutch Financial Supervision Act.

In 2012, the test result was ultimately adversely impacted by non-economic factors such as changes to the projected future mortality rates due to the use of different forecast tables with new mortality trends (see also section Life expectancies in section 19.2.4 Managing insurance risks in the life insurance portfolio).

22.3.3 Market sensitivity regulatory solvency ratio

The table below shows the sensitivity of DNB solvency of REAAL NV. The main risk drivers are interest rates and spread.

Market sensitivity regulatory solvency ratio

In € millions	2012	2011
Interest rates -1%	18%	(26%)
Interest rates +1%	(11%)	8%
Credit spreads Corporate Bonds +0.5%	(11%)	(10%)
Credit spreads Sovereign Bonds +0.5%	(2%)	(2%)
Equity prices -10%	(2%)	(2%)

In 2012, the sensitivity of REAAL NV to interest rate cuts changed from -26% when interest rates fell at year-end 2011 to -11% at year-end 2012 when interest rates rose. This change is mainly due to the UFR method introduced by the Dutch Central Bank. For a more detailed explanation of the discounting curve see paragraph 19.5.1 Risk Management market risk.

REAAL NV continues the active reduction of their exposure to interest rate risk in 2012. This reduction was mainly achieved with the acquisition of additional interest rate derivatives in the form of swaptions so as to further match the profit sharing and return guarantees in the liabilities. Alternatively, as a result of the UFR introduction, swap transactions were effected in order to reduce the asset portfolio's term to maturity.

Sensitivity to spread was reduced with the sale of peripheral and Austrian government bonds. Proceeds from these divestments were reinvested in German and French government bonds. Although AAA government bonds are assumed to be risk free, this year has shown that even these bonds can be sensitive to perceptions of country-specific and Eurozone-related credit risk.

22.4 Capital Adequacy

22.4.1 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 Solvency I regulatory framework, and economic capital calculations. 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 (ORSA) and keeping the available capital at the required level.

The capital adequacy of the Insurance activities according to the Solvency II regulatory framework will be assessed by the Own Risk and Solvency Assessment (ORSA). There is some uncertainty regarding new regulations in respect to ORSA.

22.4.2 Capital Adequacy REAAL (ORSA)

REAAL's capital adequacy is evaluated within the Solvency I regulatory framework.

REAAL NV is actively implementing future regulations, which are known as Solvency II. The Own Risk & Solvency Assessment (ORSA) is part of Solvency II. In 2012, SNS REAAL did not perform a full ORSA. At the end of 2012/beginning of 2013, REAAL NV performed an ORSA Light with Senior Management.

22.4.3 Economic capital

SNS REAAL uses economic capital (that is unexpected losses) as much as possible for the management of the Company and the business units with the aim to create value in the long term. 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. In assessing capital adequacy, SNS REAAL takes into account any uncertainties in the economic capital models. These uncertainties are translated into separate surcharges and added to the unadjusted economic capital.

An one-year horizon with 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.

The economic capital for REAAL NV 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. The economic capital figures are also discussed with the Dutch Central Bank. Economic capital is furthermore used in the ORSA and in the specification and assessment of risk appetite.

22.4.4 Stress tests

EIOPA stress test

In 2012, the European Insurance and Occupational Pensions Authority (EIOPA) did not ask SNS REAAL to perform a stress test on REAAL NV. Furthermore, REAAL NV decided in 2012 to perform a ‘light’ version of the ORSA. With a view to this ORSA light, a simplified version of the stress test is performed.

23 Notes to the consolidated financial statements

23.1 Intangible assets

Specification intangible assets

In € millions	2012	2011
Goodwill	150	422
Software	32	31
Capitalised acquisition costs	-	-
Value of Business Acquired (VOBA)	623	863
Other intangible fixed assets	80	242
Total	**885**	**1,558**

Internal developed and capitalised software amount to € 8 million (2011: € 23 million).

Due to a change in the accounting principles as per 1 January 2012, acquisition costs are no longer capitalised. The acquisition costs capitalised as at 31 December 2011 (net € 338 million) were charged to shareholders' equity. For more information, see paragraph 16.3.4.1 Changes in accounting principles.

Statement of change in intangible assets 2012

In € millions	Goodwill	Software	Capitalised acquisition costs	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	423	64	-	1,221	292	2,000
Accumulated amortisation and impairments	(273)	(32)	-	(598)	(212)	(1,115)
Balance as at 31 December	**150**	**32**	**-**	**623**	**80**	**885**
Balance as at 1 January	422	31	-	863	242	1,558
Capitalised costs	-	-	-	-	-	-
Purchases	-	11	-	-	-	11
Depreciation capitalised costs	-	(2)	-	-	-	(2)
Depreciation purchases	-	(8)	-	(68)	(12)	(88)
Impairments	(272)	-	-	(172)	(150)	(594)
Other	-	-	-	-	-	-
Balance as at 31 December	**150**	**32**	**-**	**623**	**80**	**885**

Statement of change in intangible assets 2011

In € millions	Goodwill	Software	Capitalised acquisition costs	VOBA	Other intangible fixed assets	Total
Accumulated acquisition costs	553	56	-	1,224	293	2,126
Accumulated amortisation and impairments	(131)	(25)	-	(361)	(51)	(568)
Balance as at 31 December	**422**	**31**	**-**	**863**	**242**	**1,558**
Balance as at 1 January	553	30	486	939	251	2,259
Change in accounting principles	-	-	(486)	-	-	(486)
Purchases	-	13	-	-	-	13
Depreciation capitalised costs	-	(2)	-	-	-	(2)
Depreciation purchases	-	(7)	-	(77)	(9)	(93)
Impairments	(131)	(3)	-	-	-	(134)
Other	-	-	-	1	-	1
Balance as at 31 December	**422**	**31**	**-**	**863**	**242**	**1,558**

The VOBA is mainly caused by the acquisition of AXA, Winterthur and Zwitserleven. The average remaining amortisation period based on the underlying profit sources is 14 years.

As at 31 December 2012 a deficit of € 172 million was established in the IFRS adequacy test, after release of the fair value reserve using shadow accounting. This was the result of several factors, such as the low interest rates and higher life expectancies. This deficit will be charged to the income statement by an addition to the insurance contract liabilities, or by a release of the VOBA using partial impairment. It was decided to go for the latter option, given the difficult market conditions and thereby decreasing profit potential, mainly of the acquired Zwitserleven portfolio.

Client relations, brand names and distribution channels are recognised in other intangible fixed assets.

End of 2012, REAAL has capitalised € 80 million (2011: € 215 million) of client relations and brand names. This concerns the non-life client portfolios of AXA, Wintherthur and DBV acquisitions, which are recognised at the Insurance activities. The remaining straight-line amortisation period of customer relations is 9 years.

The circumstances in the pensions market are increasingly deteriorating, as evidenced by the continued low interest environment, longer life expectancy, expected higher future capital requirements and the increased competition due to new entrants with low cost profile, creating pressure on prices and margins. In addition, the lower risk profile of the investment portfolio implies lower future investment income. The outcome of the analyses made on the basis of these developments shows that, the brand name does not have the value which it was supposed to have at the time of the acquisition. Therefore, the brand name was fully impaired as at 31 December 2012 (€ 126 million).

REAAL has capitalised € 12 million (2011: € 40 million) for distribution channels as at 31 December 2012. As at 1 January 2013, the ban on commissions for complex products came into force. As a result, REAAL evaluated the use of its distribution channels. This resulted into a full impairment of the distribution channel of REAAL Life (€ 24 million).

23.1.1 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 generating units (including goodwill) is compared to the calculated recoverable amount. The recoverable amount of a cash generating unit is determined by value-in-use calculations. The value-in-use calculations will be prepared with the help of an independent external consultancy agency. The double leverage at group level is not allocated to the cash generating units.

Goodwill cash flow generating units

In € millions	**2012**	2011
Zwitserleven	-	-
REAAL Life	150	312
REAAL Non-life	-	110
Total	**150**	**422**

When the value of the goodwill of REAAL Life and REAAL Non-Life was assessed, it was established that the value-in-use value had decreased to below the book value. IFRS requires that the assessment be performed on the basis of a realistic estimation of the future cash flows. The ongoing difficult market circumstances in the life and non-life market and the increased competition has led to a negative adjustment of the estimation of the future cash flows.

The foregoing resulted in the decision to write off the goodwill of REAAL Life by € 162 million and to fully write off the goodwill of REAAL Non-Life (€ 110 million).

The goodwill impairment tests on the other cash generating units do not lead to an impairment.

23.1.2 Principles value-in-use calculations

Specification principles value-in-use calculations

	REAAL Life
Benefits in budget period per year	(9.2%)
Benefits after budget period per year	1.5%
Available solvency	175.0%
Pre-tax discount rate 2012	12.3%
Pre-tax discount rate 2011	11.0%

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.
- (Operating) expenses (including charged group 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 are prepared on the basis of operational plans for the period 2013-2015. The assumptions are based on expected future market developments and past experiences, and on the long-term characteristics of the markets in which the various cash generating units of REAAL operate. In addition to the charged corporate staff department costs that are already included in the operational plans, the goodwill impairment test 2012 also takes into account other, not directly allocated corporate company costs (see paragraph 16.6 Specific income statement accounting principles).

At REAAL Life, the main value drivers of recoverable value are the cost of equity (CoE), long-term income growth, margin development, the contracting market, the return on reinvestments combined with the technical result on investments for own account and risk and the available minimum solvency. Deterioration in the estimation in one of the aforementioned individual parameters may require an additional impairment.

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.

23.2 Property and equipment

Specification property and equipment

In € millions	**2012**	2011
Land and buildings in own use	127	157
IT equipment	-	2
Other assets	27	12
Total	**154**	**171**

A number of investment properties owned by the insurer are used by other group companies and have been reclassified for an amount of € 52 million (2011: € 59 million) in the consolidated figures from investment property to land and buildings in own use.

Statement of change in property and equipment 2012

In € millions	Land and buildings	IT equipment	Other assets	Total
Accumulated acquisitions costs	181	5	36	222
Accumulated revaluations	(16)	-	-	(16)
Accumulated amortisation and impairments	(38)	(5)	(9)	(52)
Balance as at 31 December	**127**	**-**	**27**	**154**
Balance as at 1 January	157	2	12	171
Reclassifications	(25)	-	23	(2)
Revaluations	(1)	-	-	(1)
Investments	19	-	-	19
Depreciation	(3)	(2)	(7)	(12)
Impairments	(18)	-	-	(18)
Other	(2)	-	(1)	(3)
Balance as at 31 December	**127**	**-**	**27**	**154**

Under Land and buildings an amount of € 23 million is recognised in 2012 for the refurnishment relating to the New World of Work. After completion, this item was reclassified to Other assets.

In 2012 an amount of € 18 million is under construction regarding new office buildings, for which a full impairment charge was taken. The contractual obligations amount to € 8 million.

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**

23.2.1 Valuation of land and buildings in own use

Due to the economic circumstances the land and buildings in own use with a fair value greater than € 1 million are valued by an external surveyor every year as of 2009. The other buildings are valued once every three years.

Valuation of land and buildings in own use

	In € millions	Appraised value as % of total book value
2012	110	87%
2011	137	87%
2010	133	93%

23.3 Investments in associates

Statement of change in associates

In € millions	2012	2011
Balance as at 1 January	38	55
Disposals and divestments	1	-
Share in result of associates	11	(1)
Revaluations	-	(17)
Dividend received	(3)	-
Other movements	(2)	1
Balance as at 31 December	**45**	**38**

The financial year of all material associates are consistent with the reporting date of REAAL.

Overview most significant investments in associates 2012

In € millions	Country	Interest	Share in equity	Share in result	Assets	Liabilities	Income
Investment fund Ducatus	NL	35%	40	10	106	-	34
CED Holding BV	NL	23%	5	1	59	31	106
Total			**45**	**11**	**165**	**31**	**140**

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**

At year end 2012, the associates have no investment commitments (2011: nil). Participating interests with an interest of less than 20% qualify as an associated company, since REAAL can exercise significant influence based on a combination of REAAL's financial interest, veto rights on important decisions and required unanimity voting in the Board of Directors, but does not have control.

23.4 Investment properties

Statement of change in investment properties

In € millions	2012	2011
Balance as at 1 January	255	252
Reclassifications	2	9
Investments	2	-
Divestments	(5)	(1)
Revaluations	(21)	(5)
Balance as at 31 December	**233**	**255**

23.5 Investments

Investments: overview

In € millions	2012	2011
Fair value through profit or loss: Designated	1,032	1,017
Available for sale	23,900	22,569
Loans and receivables	9,836	9,232
Balance as at 31 December	**34,768**	**32,818**

Part of the investments is lent or pledged to third parties. The book value of the lend investments amount to € 2.1 billion as at 31 December 2012 (2011: € 0.6 billion).

Another part of the investments is pledged in liabilities to banks (repo's) and subordinated debt (bonds). The book value of assets as collateral at 31 December 2012 for REAAL NV amounts to € 5.5 billion (2011: € 6.1 billion).

Listing fair value through profit or loss

						Designated
	Shares and similar investments		Fixed income			Total
In € millions	2012	2011	2012	2011	2012	2011
Listed	-	-	1,011	982	1,011	982
Unlisted	-	-	21	35	21	35
Total	**-**	**-**	**1,032**	**1,017**	**1,032**	**1,017**

Statement of change in fair value through profit or loss

						Designated
	Shares and similar investments		Fixed income			Total
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Balance as at 1 January	-	11	1,017	1,043	1,017	1,054
Purchases and advances	-	-	731	778	731	778
Disposals and redemptions	-	(2)	(725)	(790)	(725)	(792)
Revaluations	-	-	12	(13)	12	(13)
Other	-	(9)	(3)	(1)	(3)	(10)
Balance as at 31 December	**-**	**-**	**1,032**	**1,017**	**1,032**	**1,017**

Listing investments available for sale

	Shares and similar investments		Fixed income investments			Total
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Listed	743	470	22,508	21,164	23,251	21,634
Unlisted	501	747	148	188	649	935
Total	**1,244**	**1,217**	**22,656**	**21,352**	**23,900**	**22,569**

Statement of change in investments available for sale

	Shares and similar investments		Fixed income investments			Total
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Balance as at 1 January	1,217	1,334	21,352	20,277	22,569	21,611
Purchases and advances	863	219	6,750	7,800	7,613	8,019
Disposals and redemptions	(852)	(290)	(6,771)	(7,976)	(7,623)	(8,266)
Revaluations	43	(25)	1,378	1,217	1,421	1,192
Impairments	(27)	(22)	(8)	-	(35)	(22)
Amortisation	-	-	(33)	11	(33)	11
Other	-	1	(12)	23	(12)	24
Balance as at 31 December	**1,244**	**1,217**	**22,656**	**21,352**	**23,900**	**22,569**

Valuation available for sale

In € millions	**2012**	2011
Shares and similar investments		
Cost price	1,077	1,037
Revaluation	167	180
Fixed income investments		
(Amortised) cost price	19,458	19,249
Revaluation	2,721	1,614
Accrued interest	477	489
Balance as at 31 December	**23,900**	**22,569**

Investments: loans and receivables

In € millions	2012	2011
Mortgages	3,072	3,063
Private loans linked to savings mortgages	5,131	4,895
Private loans	1,639	1,280
Total	**9,842**	**9,238**
Provision for bad debts	(6)	(6)
Total	**9,836**	**9,232**

Statement of change in loans and receivables

In € millions	2012	2011
Balance investments as at 1 January	9,238	11,291
Purchases and advances	1,725	2,583
Disposals and redemptions	(1,389)	(4,616)
Interest addition	273	274
Amortisation	1	1
Other	(6)	(295)
Balance investments as at 31 December	**9,842**	**9,238**
Balance provisions as at 1 January	(6)	(16)
Addition	(2)	-
Release	2	10
Balance provisions as at 31 December	**(6)**	**(6)**
Total	**9,836**	**9,232**

23.6 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	2012	2011
Shares and similar investments:		
- Listed	4,047	4,980
- Not listed	7,467	4,340
Fixed income investments		
- Listed	1,382	2,590
- Not listed	369	533
Total	**13,265**	**12,443**

Statement of change in investments for account of policyholders

In € millions	**2012**	2011
Balance as at 1 January	12,443	12,641
Purchases and advances	5,050	6,971
Disposals and redemptions	(5,487)	(6,849)
Revaluations	1,320	(282)
Other movements	(61)	(38)
Balance as at 31 December	**13,265**	**12,443**

23.7 Investments collateral and liabilities securities lending

Specification invested collateral and liabilities securities lending

In € millions	**2012**	2011
Invested collateral securities lending	-	117
Securities lending liabilities	-	(120)
Total (liability)	**-**	**(3)**

Statement of change in invested collateral securities lending

In € millions	**2012**	2011
Balance as at 1 January	117	176
Disposals/redemptions	(117)	(62)
Revaluations	-	3
Balance as at 31 December	**-**	**117**

Statement of change in securities lending liabilities

In € millions	**2012**	2011
Balance as at 1 January	120	182
Disposals/redemptions	(120)	(62)
Balance as at 31 December	**-**	**120**

REAAL ended the securities lending programmes in 2012.

23.8 Derivatives

Specification derivatives

	Positive value		Negative value		Balance	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Derivatives held for cash flow hedge accounting	54	53	45	36	9	17
Derivatives held for fair value hedge accounting	99	67	-	-	99	67
Derivatives held in the context of asset and liability management that do not qualify for hedge accounting	327	419	35	17	292	402
Total	**480**	**539**	**80**	**53**	**400**	**486**

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 20.2 Hedging and hedge accounting.

Statement of change in derivatives

In € millions	**2012**	2011
Balance as at 1 January	486	141
Purchases	230	180
Disposals	(343)	(81)
Revaluations	27	249
Exchange rate differences	-	(3)
Balance as at 31 December	**400**	**486**

23.9 Deferred tax assets and liabilities

Specification deferred tax assets and liabilities

In € millions	**2012**	2011
- Deferred tax assets	940	395
- Deferred tax liabilities	(906)	(727)
Total	**34**	**(332)**

Origin of deferred tax assets and tax liabilities 2012

In € millions	1 January	Change through profit or loss	Change through shareholders' equity	Transfer to Group	31 December
Intangible assets	(45)	28	-	-	(17)
Value of business acquired	(174)	33	-	-	(141)
Capitalised acquisition costs Insurance activities	135	(30)	-	-	105
(Investment) property and equipment	(44)	7	-	-	(37)
Investments	(390)	9	(286)	-	(667)
Derivatives	(67)	31	4	-	(32)
Insurance contracts	201	60	563	-	824
Provision for employee benefits	49	(40)	-	(7)	2
Tax-deductible losses	2	(2)	-	-	-
Other	1	(4)	-	-	(3)
Total	**(332)**	**92**	**281**	**(7)**	**34**

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)
Capitalised acquisition costs Insurance activities	22	(9)	122		135
(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	(22)	20	-	3	1
Total	**(291)**	**256**	**(298)**	**1**	**(332)**

Specification tax-effect changes shareholders' equity

In € millions	2012	2011
Change in revaluation reserve	-	(8)
Change in cash flow hedge reserve	(4)	(13)
Change in fair value reserve	(277)	441
Change in other reserve	-	(122)
Total	**(281)**	**298**

The deferred tax assets related to tax-deductible losses amounts to € - million (2011: € 2 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.

23.10 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.

23.11 Other assets

Specification other assets

In € millions	2012	2011
Policyholders	75	162
Intermediaries	164	114
Reinsurers	71	3
Amounts due from direct insurance	**310**	**279**
Accrued interest	23	25
Other accrued assets	(25)	21
Accrued assets	**(2)**	**46**
Other taxation	(1)	-
Other advances	187	4
Total	**494**	**329**

23.12 Cash and cash equivalents

Specification cash and cash equivalents

In € millions	2012	2011
Short-term bank balances	1,563	1,188
Total	**1,563**	**1,188**

23.13 Equity

Specification equity

In € millions	2012	2011
Equity attributable to shareholders	2,929	3,618
Equity attributable to securityholders	-	400
Minority interest	3	2
Balance as at 31 December	**2,932**	**4,020**

For further information on total equity, see paragraph 15.4 Consolidated statement of changes in equity.

23.14 Subordinated debt

Specification subordinated debt

In € millions	2012	2011
Bonds	565	532
Private loans	452	452
Final bonus account	17	18
Total	**1,034**	**1,002**

23.14.1 Bonds

Bonds

	Coupon rate	Period	Book value		Nominal Value	
In € millions			2012	2011	2012	2011
SRLEV	9.000%	2011-2041	396	397	400	400
SRLEV	7.010%	2011-2049	87	86	87	86
Total			**483**	**483**	**487**	**486**
Change in fair value as a result of hedge accounting			82	49	-	-
Total			**565**	**532**	**487**	**486**

In April 2011, SRLEV issued subordinated bonds for an amount of € 400 million, with a term to maturity to 2041. The terms of issue were included in a prospectus dated 12 April 2011. The European Commission decided not to give SRLEV NV permission to pay out the coupon due on these subordinated bonds on the interest due date (15 April 2013). For that reason, SRLEV NV exercised its optional right to postpone this coupon payment pursuant to Term 4(e) of the terms of issue.

23.14.2 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% (2011: 6.8%).

23.14.3 Final bonus account

The subordinated final bonus account commitments form part of the solvency test in determining the solvency position of SRLEV NV. The final bonus account is largely of a long-term nature.

23.15 Insurance and reinsurance contracts

Specification insurance and reinsurance contracts by segment

	Gross		Reinsurance	
In € millions	**2012**	2011	**2012**	2011
REAAL Life, for own risk	17,605	17,955	3,019	3,248
Zwitserleven, for own risk	9,312	6,524	2	2
Life, for own risk	**26,917**	**24,479**	**3,021**	**3,250**
REAAL Life, for account of policyholders	6,572	6,434	-	-
Zwitserleven, for account of policyholders	7,357	6,821	-	-
Life, for account of policyholders	**13,929**	**13,255**	**-**	**-**
Non-life	1,256	1,311	164	176
Reclassification to provision for employee benefits	-	(218)	-	-
Total	**42,102**	**38,827**	**3,185**	**3,426**

Specification insurance and reinsurance contracts by type of contract

		Gross		Reinsurance	
In € millions	*Notes*	**2012**	2011	**2012**	2011
Provision for life insurance obligations	*a*	27,202	24,792	3,021	3,250
Unamortised interest rate discounts	*b*	(400)	(445)	-	-
Provision for profit sharing, bonuses and discounts	*c*	115	132	-	-
Life, for own risk		**26,917**	**24,479**	**3,021**	**3,250**
Technical provisions for insurance on behalf of policyholders	*d*	13,929	13,255	-	-
Life, for account of policyholders		**13,929**	**13,255**	**-**	**-**
Provision for premium shortfalls and current risks	*e*	16	7	-	-
Provision for unearned premiums	*f*	102	128	2	1
Provision for claims payable	*g*	849	882	122	131
Provision for claims incurred but not reported	*h*	289	294	40	44
Non-life		**1,256**	**1,311**	**164**	**176**
Reclassification to provision for employee benefits		-	(218)	-	-
Total		**42,102**	**38,827**	**(3,185)**	**(3,426)**

Insurance contracts are largely of a long term nature.

The defined benefit schemes of a number of SNS REAAL NV employees who are members of the Zwitserleven scheme are insured with SRLEV NV. In 2012 REAAL NV classifies this insurance obligation as insurance contract. For SNS REAAL NV the insurance obligation is a pension commitment. Therefore, this obligation of € 333 million has been reclassified in SNS REAAL NV to the provision for employee benefits in the consolidated financial statements (In 2011 REAAL NV reclassified: € 218 million).

On 17 November 2010, REAAL reached a final agreement with the Stichting Verliespolis on the compensation scheme. As at 31 December 2012, the provision for life insurance obligations included € 329 million for compensation to unit-linked insurance policyholders (2011: € 277 million). In 2012, technical claims and benefits included € 100 million for compensation to unit-linked insurance policyholders, consisting of the annual interest accrual of € 25 million (2011: € 22 million) and an extra addition of € 75 million. The transactions regarding the provisions are an estimate based on the policy data available at this moment. The ultimate compensation may deviate from this amount.

The provision for defined contribution pension contracts amounts to € 35 million end of 2012 (2011: € 33 million). In 2012, this provision was increased with the accretion of interest of € 12 million (2011: € 5 million), represented in the technical claims and benefits for expected future compensation . 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. In 2012 part of the portfolio is compensated and almost € 10 million was used in this facility.

a. Statement of change in provision for life insurance obligations for own risk

	Gross		Reinsurance	
In € millions	**2012**	2011	**2012**	2011
Balance as at 1 January	24,792	24,435	3,250	151
Portfolio reclassification	350	56	-	-
Reinsurance contracts	-	-	-	3,295
Benefits paid	(2,143)	(2,208)	(416)	(465)
Premiums received	1,360	1,506	157	246
Interest added	947	1,041	127	122
Technical result	(201)	(122)	(157)	(65)
Release of expense loading	(173)	(213)	62	(34)
Change in shadow accounting	2,268	296	-	-
Other movements	2	1	(2)	-
Balance as at 31 December	**27,202**	**24,792**	**3,021**	**3,250**

In 2012 an amount of € 350 million (2011: € 56 million) of life insurance portfolios was transferred from insurance on behalf of policyholders to life insurance obligations for own risk.

The table below presents the movements related to shadow accounting, against an equal movement in the balance sheet item Insurance contracts.

Specification changes in shadow accounting in provisions for life insurance obligations

	Through OCI, revaluation reserves		Through Income statement, technical claims and benefits		Total	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Results on allocated investments and interest derivatives*	-	-	(33)	(13)	(33)	(13)
Profit sharing	265	285	49	24	314	309
Shadow loss accounting	1,987	-	-	-	1987	-
Total changes in shadow accounting in provision for life insurance obligations	**2,252**	**285**	**16**	**11**	**2,268**	**296**
Taxes	563	71	4	3	567	74
Total changes, net	1,689	214	12	8	1,701	222

** This relates to results on interest derivatives and fixed income investments available for sale recognised in profit and loss, provided that they are held to match interest related derivatives and guarantees for account of policyholders, embedded in the provision for life insurance obligations.*

b. Statement of change in unamortised interest rate discounts

In € millions	Life own risk 2012	2011
Balance as at 1 January	445	471
Discounts given in the financial year	1	28
Amortisation	(46)	(51)
Other movements	-	(3)
Balance as at 31 December	**400**	**445**

c. Statement of change in provision for profit sharing, bonuses and discounts

In € millions	Life own risk 2012	2011
Balance as at 1 January	132	142
Profit sharing, bonuses and discounts granted in the financial year	(17)	(10)
Other movements	-	-
Balance as at 31 December	**115**	**132**

d. Statement of change in technical provisions for insurance on behalf of policyholders

In € millions	2012	2011
Balance as at 1 January	13,255	13,433
Portfolio reclassification	(350)	(56)
Premiums received	1,276	1,342
Benefits paid	(1,371)	(1,100)
Interest added	563	(62)
Exchange (rate) differences	682	(87)
Technical result	41	(62)
Release of expense loading	(141)	(176)
Other movements	(26)	23
Balance as at 31 December	**13,929**	**13,255**

e. Statement of change in provision for premium shortfalls and current risks

In € millions	Gross 2012	2011
Balance as at 1 January	7	7
Reclassification	8	-
Additions during the year	1	-
Balance as at 31 December	**16**	**7**

The reclassification of € 8 million concerns an item which in 2011 was presented as a provision for unearned premiums instead of a provision for premium shortfalls and current risks.

f. Statement of change in provision for unearned premiums

	Gross		Reinsurance	
In € millions	**2012**	2011	**2012**	2011
Balance as at 1 January	128	142	1	2
Reclassification	(8)	-	-	-
Additions during the year	102	128	2	1
Added to the results	(120)	(142)	(1)	(2)
Balance as at 31 December	**102**	**128**	**2**	**1**

g. Statement of change in provision for claims payable

	Gross		Reinsurance	
In € millions	**2012**	2011	**2012**	2011
Balance as at 1 January	882	898	131	138
Reported claims, current period	465	492	31	26
Reported claims, prior periods	29	29	1	(4)
Claims paid, current period	(274)	(270)	(17)	(18)
Claims paid, prior periods	(269)	(281)	(27)	(14)
Added to the results	-	-	-	-
Interest added	14	14	3	3
Other movements	2	-	-	-
Balance as at 31 December	**849**	**882**	**122**	**131**

h. Statement of change in provision for claims incurred but not reported

	Gross		Reinsurance	
In € millions	**2012**	2011	**2012**	2011
Balance as at 1 January	294	326	44	64
Additions during the year	86	75	6	4
Added to the results	(91)	(107)	(10)	(24)
Balance as at 31 December	**289**	**294**	**40**	**44**

23.16 Provision for employee benefits

Specification provision for employee benefits

In € millions	**2012**	2011
Pension commitments	1	355
Other employee commitments	8	8
Total	**9**	**363**

The defined benefit schemes of a number of SNS REAAL NV employees who are members of the Zwitserleven scheme are insured with SRLEV NV. As of 2012, this insurance obligation has been classified as pension commitment in the consolidated financial statements of SNS REAAL NV. Under IAS 19, in addition to this a surplus pension commitment is included. This additional commitment is mainly due to differences in parameters in the calculation of the insurance obligation and pension commitment. End 2011, this additional provision was recognised in the consolidated financial statements of REAAL NV. In 2012, this extra commitment of € 26 million has been transferred from SRLEV NV to SNS REAAL NV, because the staff is employed by SNS REAAL NV.

Statement of change of pension commitments

In € millions	**2012**	2011
Balance as at 1 January	355	323
Reclassification of technical provisions	(330)	80
Increase and interest accrual	-	26
Investment income	-	(11)
Benefits paid	-	(13)
Contributions by the employer	-	(22)
Transfer to Group	(26)	(30)
Other movements	2	2
Balance as at 31 December	**1**	**355**

Statement of change in other employee commitments

In € millions	**2012**	2011
Balance as at 1 January	8	10
Allocation to other employee benefits	-	-
Other movements	-	(2)
Balance as at 31 December	**8**	**8**

23.17 Other provisions

Specification other provisions

In € millions	2012	2011
Restructuring provision	25	26
Other provisions	11	13
Total	**36**	**39**

The restructuring provision mainly relates to the finalisation of additional cost reduction programmes. It is expected that the largest part of the reorganisations will be settled in the coming years.

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	2012	2011	2012	2011	2012	2011
Balance as at 1 January	26	24	13	10	39	34
Additions / release	7	13	2	2	9	15
Withdrawal	(8)	(11)	(3)	-	(11)	(11)
Other movements	-	-	(1)	1	(1)	1
Balance as at 31 December	**25**	**26**	**11**	**13**	**36**	**39**

23.18 Other amounts due to customers

Specification other amounts due to customers

In € millions	2012	2011
Non-current debt	4,023	3,941
Mortgage deposits	-	20
Savings deposits	52	54
Total	**4,075**	**4,015**

23.19 Amounts due to banks

Specification amounts due to banks

In € millions	2012	2011
Due on demand	1,298	687
Deposits and certificates	2,447	2,467
Total	**3,745**	**3,154**

The debts to banks comprise liabilities ensuing from repo agreements amounting to € 2.4 billion (2011: € 2.5 billion). Also, the debts to banks comprise of 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.

23.20 Other liabilities

Specification other liabilities

In € millions	2012	2011
Debts in relation to direct insurance	554	490
Debts to reinsurers	58	(47)
Other taxes	46	40
Other liabilities	753	823
Accrued interest	45	52
Total	**1,456**	**1,358**

23.21 Off balance sheet commitments

23.21.1 Contingent liabilities

Specification contingent liabilities

In € millions	2012	2011
Liabilities from pledges and guarantees given	37	23
Liabilities from (ir)revocable facilities	11	13

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.

23.21.2 Netherlands Terrorism Risk Reinsurance Company

In 2013, REAAL will take a 13.85% (2012: 14.36%) share in the cluster life and 5.45% (2012: 5.35%) in the cluster non-life of the Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden NV (Netherlands Terrorism Reinsurance Company). In 2013 the extent of the guarantee is € 77 million (2012: € 79 million) and the obliged premium € 1 million (2012: € 1 million).

23.21.3 Lease commitments

Maturity calendar future minimum payments based on irrevocable operational leases

In € millions	2012	2011
6 months - 1 year	4	4
1 - 3 year	3	6
3 - 5 year	-	-
No maturity	**7**	**10**

The determination of the volume of lease commitments is based on the assumption that the lease agreement will be terminated as per the reference date (last day of the financial year). Based on this termination, it is determined for each lease agreement as per which next date the termination can be effected. The total lease commitment is calculated for the period from the reference date until the first possible termination date. The total lease commitment consists of the nominal lease amount due pursuant to the lease agreement for the period stated. The major agreements have renewal options. There are no options to obtain ownership and no restrictions imposed pursuant to the lease agreements.

23.21.4 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.

23.22 Related parties

23.22.1 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 SNS REAAL are the Dutch Ministry of Finance, subsidiaries, associated companies, managers in key positions and close family members of these managers.

Transactions with related parties are conducted at arm’s length. 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.

23.22.2 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	**2012**	2011	**2012**	2011
Positions				
Loans and advances	686	464	3,373	2,743
Other debt	480	484	1,219	1,039
Transactions				
Mutation loans and advances	222	(605)	630	136
Mutation other debt	4	503	180	33
Income	15	19	101	22
Other paid costs	193	203	8	18

REAAL Schadeverzekeringen NV paid a dividend of € 50 million to REAAL NV.

23.22.3 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 NV and the boards of the business units (REAAL and Zwitserleven), in total 11 persons (2011: 12 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	**2012**	2011	**2012**	2011	**2012**	2011
Short-term employee benefits	1,741	2,104	1,595	1,922	3,336	4,026
Post-employment benefits	298	328	263	323	561	651
Other long-term benefits	1	-	1	8	2	8
Termination benefits	-	-	-	-	-	-
Total	**2,040**	**2,432**	**1,859**	**2,253**	**3,899**	**4,685**

Short-term employee benefits means the fixed salary including holiday allowance, 13th month's bonus, contribution to health insurance and social security. REAAL took out three insurance policies for the members of senior management: WIA insurance, disability insurance and mortality risk insurance. The corresponding premiums are paid for by REAAL. These premiums are also part of the short-term employee benefits.

Based on the Budget Agreement 2013 Tax Measures (Implementation) Act ('Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013'), REAAL pays a one-off 'crisis tax levy' of 16% in 2013 of the salaries paid to its employees in 2012, to the extent that the salary per employee was more than € 150,000. The crisis tax levy is also part of the short-term employee benefits. Of all 8 persons that were part of senior management on 31 December 2012, the salary in 2012 was more than € 150,000. The total 'crisis tax levy' for senior management is € 276,000.

Post-employment benefits means the pension premiums paid by the employer less the member's contribution paid by the employee.

Other long-term employee benefits means the reserve for remuneration based on retention agreements. Other long-term employee benefits also means the remuneration based on the Long-Term Remuneration Scheme (LTRS) that was discontinued as from 1 January 2011. The rights existing pursuant to this old scheme are calculated annually in accordance with the old scheme in the form of a claim giving a right to payment in cash. Three years after the provisional granting, the remuneration is definitively determined and distributed in accordance with the old scheme. The remuneration granted provisionally in 2008 was definitively granted and distributed in 2011. In 2012, the remuneration granted provisionally in 2009 was definitively granted and distributed. This was also the last award and distribution pursuant to this old scheme.

Termination benefits means the payment made in the context of a termination of the employment agreement.

No variable remuneration is paid to senior management for 2012.

Specification loans to managers in key positions

	Outstanding as at 31 December		Average interest rate		Redemptions		Advances	
In € thousands	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Mortgage loans	4,785	4,898	3.73%	3.85%	203	705	-	584

Transactions with individual members of the Executive Board and the Supervisory Board of REAAL are explained in paragraph 18.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

23.23 Subsequent events

On 1 February 2013, the Dutch Minister of Finance, after consultation with DNB, decided to nationalise SNS REAAL and expropriate the shareholders of SNS REAAL and the subordinated creditors of SNS REAAL and SNS Bank.

The nationalisation has no direct implications for the Insurance activities of REAAL. Exception is the promulgation by the European Commission for a provisional acquisition ban and the temporary ban to make interest payments on hybrid instruments issued by the insurer.

Management Board member Ference Lamp and Chairman of the Supervisory Board Rob Zwartendijk resigned from their positions upon the expropriation. Subsequently, Maurice Oostendorp took up the position of Ference Lamp on 26 April 2013. For the time being, the current Vice President of the Supervisory Board, Piero Overmars, will fulfil the role of Chairman of the Supervisory Board.

The Minister has indicated that DNB expects that SNS REAAL, as a result of the expropriation, will for some time experience difficulties in attracting external funding. To offset this, the State has provided SNS REAAL with a bridge loan of € 1.1 billion. This sum was received on 4 March 2013. This loan has been used to redeem € 485 million of external debt and € 615 million of internally draw down loans. In total there is for € 651 million in loans of REAAL redeemed.

SRLEV subordinated debt coupons. In April 2011, SRLEV issued € 400 million in subordinated bonds with a term to maturity to 2041. The terms of issue are included in a prospectus dated 12 April 2011. The European Commission decided not to give SRLEV permission to pay out the coupon due on these subordinated bonds on the interest due date (15 April 2013). For that reason, SRLEV exercised its optional right to postpone this coupon payment pursuant to Term 4(e) of the terms of issue.

On 12 July 2013 Fitch downgraded the rating of France with one notch from AAA to AA+. This downgrade will have a negative impact on both the solvency ratio and financial results of REAAL NV. At the moment of publication of the annual accounts, REAAL NV is investigating the impact.

23.24 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	**2012**	2011	**2012**	2011	**2012**	2011
Regular premiums Life	736	752	482	554	1,218	1,306
Regular premiums Zwitserleven	295	299	570	521	865	820
Total gross regular premiums Life	**1,031**	**1,051**	**1,052**	**1,075**	**2,083**	**2,126**
Single premiums Life	214	374	4	7	218	381
Single premiums Zwitserleven	115	93	220	248	335	341
Total gross single premiums	**329**	**467**	**224**	**255**	**553**	**722**
Total gross premium income	**1,360**	**1,518**	**1,276**	**1,330**	**2,636**	**2,848**
Total reinsurance premiums Life	157	192		-	157	192
Total net premium income Life	**1,203**	**1,326**	**1,276**	**1,330**	**2,479**	**2,656**
Total net premium income Non-Life					**753**	**794**
Total net premium income					**3,232**	**3,450**

Specification regular life premiums

	Own account		For account of policyholders		Total	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Individual						
Without profit sharing	543	538	482	554	1,025	1,092
With profit sharing	193	214	-	-	193	214
Total individual	**736**	**752**	**482**	**554**	**1,218**	**1,306**
Group						
Without profit sharing	-	-	570	521	570	521
With profit sharing	295	299	-	-	295	299
Total group	**295**	**299**	**570**	**521**	**865**	**820**
Total gross regular premiums	**1,031**	**1,051**	**1,052**	**1,075**	**2,083**	**2,126**

Specification single life premiums

	Own account		For account of policyholders		Total	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Individual						
Without profit sharing	207	365	4	7	211	372
With profit sharing	7	9	-	-	7	9
Total individual	**214**	**374**	**4**	**7**	**218**	**381**
Group						
Without profit sharing	-	-	220	248	220	248
With profit sharing	115	93	-	-	115	93
Total group	**115**	**93**	**220**	**248**	**335**	**341**
Total gross single premiums	**329**	**467**	**224**	**255**	**553**	**722**

Specification premium income non-life

	Gross		Reinsurance		Total	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Fire	222	224	21	9	201	215
Accident and health	130	143	6	6	124	137
Motor vehicle	280	286	4	7	276	279
Transport	65	75	10	5	55	70
Other segments	122	120	25	27	97	93
Net premium income Non-life	**819**	**848**	**66**	**54**	**753**	**794**

23.25 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	**2012**	2011
Fee and commission income:		
- Securities activities	2	2
- Insurance agency activities	18	18
- Management fees	50	29
- Other activities	18	43
Total fee and commission income:	**88**	**92**
Fee and commission expense	16	20
No maturity	**72**	**72**

23.26 Share in result of associates

This item represents the share in result of associated companies. In 2012 the positive result of € 11 million (2011: € 1 million negative) over the financial year relates to the impact of the results of associates.

23.27 Investment income

Specification investment income 2012

In € millions	**2012**	2011
Fair value through profit or loss: Designated	33	23
Available for sale	1,057	906
Loans and receivables	509	488
Investment property	(6)	15
No maturity	**1,593**	**1,432**

Composition of investment 2012

	Fair value through profit or loss		**Available for sale**	**Loans and receivables**	**Investment property**	**Total**
In € millions	**Held for trading**	**Designated**				
Interest	-	23	693	508	-	1,224
Dividend	-	-	36	-	-	36
Rental income	-	-	-	-	15	15
Total interest dividend and rental income	**-**	**23**	**729**	**508**	**15**	**1,275**
Realised revaluations	-	2	328	1	-	331
Unrealised revaluations	-	8	-	-	(21)	(13)
Total revaluations	**-**	**10**	**328**	**1**	**(21)**	**318**
Total	**-**	**33**	**1,057**	**509**	**(6)**	**1,593**

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**

Rental income from investment property includes both rental income and directly allocated operating expenses. The

operating expenses amounted to € 10 million (2011: € 7 million).

The recognised interest income on the devaluation of investments amounts to € 2 million (2011: € 2 million).

23.28 Investment income for account of policyholders

Specification investment income for account of policyholders

In € millions	2012	2011
Interest	90	86
Dividend	101	126
Total interest and dividend	**191**	**212**
Revaluations	1,320	(251)
Total	**1,511**	**(39)**

23.29 Result on financial instruments

Specification result on financial instruments

In € millions	2012	2011
Revaluations transferred from shareholders' equity	3	11
Interest income transferred from shareholders' equity	5	4
Result on derivatives held for cash flow hedge accounting	**8**	**15**
Fair value movements in hedging instruments	(1)	(2)
Fair value movements in hedged item attributable to hedged risks	(1)	5
Fair value movements in derivatives held for fair value hedge accounting	**(2)**	**3**
Fair value movements of derivatives maintained for ALM not classified for hedge accounting	22	163
Share options	(15)	2
Total	**13**	**183**

The ineffectiveness recognised in profit or loss that arises from cash flow hedges amounts to € 0.4 million (2011: € 0.5 million).

23.30 Other operating income

The other operating income decreased to nil (2011: € 3 million).

23.31 Result assets and liabilities held for sale

The result assets and liabilities held for sale is nil (2011: € 18 milion). In 2011 all shares in REAAL Reassurantie SA in Luxembourg were sold by REAAL NV to Amtrust Holdings Limiteddon. The result on this transaction amounts to € 18 million.

23.32 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	2012	2011
Benefits paid and surrenders from own account	1,971	1,820
Change in technical provisions for own risk gross	188	27
Change in technical provisions for own risk reinsurance	230	196
Profit sharing and discounts	81	81
Change in shadow accounting	15	10
Life insurance	**2,485**	**2,134**
Claims paid for own account	498	524
Change in provision for reported claims	(25)	(30)
Change in provision for claims incurred but not reported	-	(4)
Non-life insurance	**473**	**490**
Total	**2,958**	**2,624**

Benefits paid and surrenders for own account include an amount for amortisation and partial impairment of VOBA of € 240 million (2011: € 77 million). This amount is inclusive of the deficit of € 172 million, after using shadow loss accounting, established in the IFRS liability adequacy test as a result of the low interest rates and higher life expectancies. Given the difficult market conditions and the subsequently decreasing profit potential, it was decided to deduct this deficit, that was charged to the result, from the VOBA.

Profit sharing and discounts include an amount for amortisation of interest rate discounts of € 33 million (2011: € 65 million).

Change in technical provisions for own risk gross include technical claims and benefits for compensation to unit-linked insurance policyholders, as well as compensation regarding defined contribution pension contracts. For more information on the compensation scheme, please refer to paragraph 23.15 Insurance and reinsurance contracts.

23.33 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	2012	2011
Benefits paid and surrenders for life insurance contracts for account of policyholders	1,371	1,100
Change in technical provisions for life insurance contracts for account of policyholders	895	(10)
Total	**2,266**	**1,090**

23.34 Acquisition costs for insurance activities

Specification acquisition costs for insurance operations

In € millions	2012	2011
REAAL Life	76	51
Zwitserleven	15	19
Reinsurance Life	(1)	(1)
Total Life	**90**	**69**
REAAL Non-Life	191	205
Reinsurance Non-life	(10)	(12)
Total Non-Life	**181**	**193**
REAAL Other	-	(1)
Total	**271**	**261**

23.35 Staff costs

Specification staff costs

In € millions	2012	2011
Salaries	119	120
Pension costs	38	37
Social security	18	16
Share based payments	-	-
Other staff costs	32	48
Total	**207**	**221**

Other staff costs consist largely of the costs of temporary staff, fleet, travel costs and training and education costs. The lease commitments of the fleet amount to € 3 million (2011: € 3 million) and hiring staff € 15 million (2011: € 22 million).

Transactions with individual members of the Executive Board and the Supervisory Board of SNS REAAL are explained in paragraph 18.7 (Remuneration report) of the Report of the Supervisory Board of the Annual Report of SNS REAAL.

Breakdown pension costs

In € millions	2012	2011
Pension schemes based on defined contribution	20	21
Pension schemes based on defined benefit	18	16
Total	**38**	**37**

Composition pension costs

In € millions	**2012**	2011
Pension premiums	42	26
Employee contributions	(4)	(4)
Increase of present value defined benefit plans	-	26
Expected return on investments	-	(11)
Total	**38**	**37**

Average number of FTE's

In numbers	**2012**	2011
Average number of FTE's	2,254	2,322

All staff is employed by SNS REAAL NV.

Share plan

REAAL has a share plan under which shares are allocated to a number of management staff (members of the Executive Board as well as senior management) and employees designated by the Executive Board. The share plan is part of the remuneration policy within SNS REAAL. This remuneration policy has been drawn up such that the amount and method for the determination of the remuneration in shares do not lead to undesirable incentives and inappropriate behaviour. The purpose of the share plan is to contribute to the realisation of the strategy and long-term objectives of SNS REAAL, as well as attracting, retaining and motivating (management) staff.

The share plan includes a direct component and a deferred component.
The direct component represents 60% of the remuneration in shares. The direct component is paid out after the one-year performance period has lapsed. The shares will pass to the employee after the performance period. A retention period of one year applies to the shares of the direct component (this period is three years for the Executive Board). It is not until after this retention period that the employee is allowed to sell the shares, taking into account the insider regulations of SNS REAAL regarding the purchase/sale of SNS REAAL shares.

The deferred component represents 40% of the remuneration in shares. The shares of the variable remuneration's deferred component are conditional and vest 4 years (5 years for the Executive Board) after the end of the relevant performance period. On condition that,

- at the end of this period, the participant is still employed and/or a member of the Executive Board,
- the outcome of the ex-post risk analysis is positive. The basic principle in this ex-post risk analysis is the assessment of any consequences ensuing from the employee's actions that manifest themselves during the deferral period and shed a new light on the actions during the performance period. On this basis, a decision is made as to whether the remuneration in shares will be vested or should be adjusted downwards,
- this can be reconciled with SNS REAAL's financial position at the time of vesting, to be determined at the competent authority's discretion.

In addition to the above conditions, the members of the Executive Board do not receive any variable remuneration if SNS REAAL has incurred a loss during the relevant performance period. After vesting, the shares of the deferred component

are transferred to the employee after the end of the 4-year (Executive Board: 5-year) deferral period. There is no retention period for these shares.

The remuneration is granted (conditionally) as a nominal amount. The number of shares is calculated by converting the nominal amount (conditionally) granted into a number of shares at the average share price of the SNS REAAL stock in the last five days of trading of the relevant performance period.

In 2012, no (2011: nil) shares were granted to the Executive Board members and other senior management members. A number of 2,914 (2011: nil) shares were granted to managers and other employees. This concerns the remuneration in shares of 2011.

Shares granted

	Shares (in numbers)		Weighted average grant date fair value (in €)	
	2012	2011	**2012**	2011
Total	**2,914**	**-**	**1.74**	**-**
of which conditionally	1,294	-	1.74	-

Statement of change conditionally granted shares

	Shares (in numbers)	
	2012	2011
As at 1 January	-	-
Conditionally granted	1,294	-
Unconditionally granted	-	-
Expired	-	-
As at 31 December	**1,294**	**-**
Market value grant date	2,200	-
Market value as at 31 December 2012	**1,332**	**-**

In 2011 SNS REAAL started the adjustment of the remuneration policy of the 'Regeling Beheerst Beloningsbeleid' of DNB. This regulation requires that a part of the variable remuneration must take place in shares.

Based on the 'Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013'), REAAL must pay a one-off crisis tax levy of 16% in 2013 on the salaries from current employment that it paid its employees in 2012, to the extent that a salary was more than € 150,000. For REAAL, this levy amounts to € 0.5 million.

23.36 Other operating expenses

Specification other operating expenses

In € millions	**2012**	2011
Housing	20	20
IT systems	128	121
Marketing and public relations	11	12
External advisors	7	9
Other costs	41	36
Total	**207**	**198**

23.37 Impairment charges / (reversals)

Specification impairment charges / (reversals) by class of asset

	Impairments		Reversals		Total	
In € millions	**2012**	2011	**2012**	2011	**2012**	2011
Through profit or loss						
Intangible assets	422	135	-	-	422	135
Property and equipment	18	4	-	-	18	4
Investments	39	48	4	-	35	48
Other debts	-	1	-	8	-	(7)
Total through profit or loss	**479**	**188**	**4**	**8**	**475**	**180**
Through equity						
Property and equipment	-	3	1	-	(1)	3
Investments	28	35	3	-	25	35
Total through equity	**28**	**38**	**4**	**-**	**24**	**38**

23.38 Other interest expenses

Specification other interest expenses

In € millions	**2012**	2011
Bonds	42	28
Private loans	56	66
Interest on reinsurance deposits	50	121
Other interest and investments expenses	14	40
Total	**162**	**255**

The interest on the reinsurance deposits decreased to € 50 million in 2012. In 2011 a reinsurance transaction of € 106 million was the cause of the large increase.

23.39 Taxation

Specification taxation

In € millions	2012	2011
In financial year	92	60
Prior year adjustments	4	-
Corporate income tax due	**96**	**60**
Due to temporary differences	(92)	(1)
Deferred tax	**(92)**	**(1)**
Total	**4**	**59**

Adjustments for prior years of € 4 million consist primarily of adjustments related to subsidiaries.

Reconciliation between the statutory and effective tax rate

In € millions	2012	2011
Statutory income tax rate	25.0%	25.0%
Result before tax	(142)	252
Statutory corporate income tax amount	**(36)**	**63**
Effect of participation exemption	(11)	-
Due to temporary differences	-	(3)
Prior year adjustments (including tax provision release)	4	(1)
Permanent differences	47	-
Total	**4**	**59**
Effective tax rate	(2.9%)	23.4%

Utrecht, 23 july 2013

Supervisory Board
P.S. Overmars (Vice Chairman and Acting Chairman)
H.W.P.M.A. Verhagen (Second Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijssen
J.A. Nijhuis
L.J. Wijngaarden

Management Board
D.J. Okhuijsen (Chairman)
M.J.P. Edixhoven
M.B.G.M. Oostendorp
W.H. Steenpoorte

24 Company financial statements

24.1 Company balance sheet

Company balance sheet

Before result appropriation and in € millions	*Notes*	**2012**	2011
Assets			
Intangible assets	*1*	193	379
Property and equipment	*2*	30	32
Subsidiaries	*3*	3,943	4,813
Investments	*4*	669	532
Deferred tax assets		8	10
Corporate income tax		136	142
Other assets	*5*	340	866
Cash and cash equivalents	*6*	2	13
Total assets		**5,321**	**6,787**
Equity and liabilities			
Issued share capital		-*	-*
Share premium reserve		2,455	2,055
Statutory reserves associates		277	1,034
Other reserves		346	337
Retained earnings		(149)	192
Shareholders' equity	**7**	**2,929**	**3,618**
Equity attributable to security holders	*7*	-	400
Subordinated debt	*8*	357	357
Capital base		**3,286**	**4,375**
Provision for employee benefits		9	8
Other provisions	*9*	21	26
Deferred tax liabilities		7	7
Other amounts due to customers	*10*	651	772
Amounts due to banks	*11*	748	626
Corporate income tax		327	312
Other liabilities	*12*	272	661
Liabilities held for sale		**5,321**	**6,787**

** 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 25.1

24.2 Company income statement

Company income statement

In € millions	**2012**	2011
Result on subsidiaries after taxation	69	246
Other results after taxation	(218)	(54)
Net result attributable to minority interests	**(149)**	**192**

24.3 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 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 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 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.

25 Notes to the company financial statements

25.1 Intangible assets

Specification intangible assets

In € millions	2012	2011
Goodwill	151	337
Software	8	5
Value of Business Acquired (VOBA)	34	37
Total	**193**	**379**

Statement of change in intangible assets 2012

In € millions	Goodwill	Software	VOBA	Total
Accumulated acquisition costs	337	13	37	387
Accumulated amortisation and impairments	(186)	(5)	(3)	(194)
Balance as at 31 December	**151**	**8**	**34**	**193**
Balance as at 1 January	337	5	37	379
Changes in the composition of group companies	-	4	-	4
Purchases	-	4	-	4
Depreciation capitalised costs	-	(2)	-	(2)
Depreciation purchases	-	(3)	(3)	(6)
Impairments	(186)	-	-	(186)
Balance as at 31 December	**151**	**8**	**34**	**193**

When the value of the goodwill of REAAL Life and REAAL Non-Life was assessed, it was established that the value-in-use value had decreased to below the book value. IFRS requires that the assessment be performed on the basis of a realistic estimation of the future cash flows. As a result of the nationalisation, the European Comission can impose competition restricting measures, which have an important role in determining the long-term growth and margins. Next to this, the effect on goodwill is investigated as if REAAL would operate as an independent entity. This will lead to both one-off costs and higher ongoing costs, which are now beared by the group.

The foregoing resulted in the decision to write off the goodwill of REAAL Life by € 76 million and to fully write off the goodwill of REAAL Non-Life (€ 110 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
Changes in the composition of group companies	-	(4)	-	(4)
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**

25.2 Property and equipment

Specification property and equipment

In € millions	**2012**	2011
Land and buildings in own use	5	20
IT equipment	-	2
Other assets	25	10
Total	**30**	**32**

Statement of change in property and equipment 2012

In € millions	**Land and buildings**	**IT equipment**	**Other assets**	**Total**
Accumulated acquisitions costs	29	2	33	64
Accumulated revaluations	(2)	-	-	(2)
Accumulated amortisation and impairments	(22)	(2)	(8)	(32)
Balance as at 31 December	**5**	**-**	**25**	**30**
Balance as at 1 January	20	2	10	32
Reclassification	(23)	-	23	-
Investments	9	-	-	9
Depreciation	-	(2)	(6)	(8)
Other	(1)	-	(2)	(3)
Balance as at 31 December	**5**	**-**	**25**	**30**

Under Land and Buildings in 2012 a post of € 23 million for the renovation and refurbishment of buildings. After completion this post reclassified to Other assets.

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
Reclassification	-	-	-	-
Investments	15	-	-	15
Depreciation	(2)	(4)	(9)	(15)
Other	4	-	1	5
Balance as at 31 December	**20**	**2**	**10**	**32**

25.3 Subsidiaries

Statement of change in subsidiaries

In € millions	**2012**	2011
Balance as at 1 January	4,813	4,314
Disposals and divestments	-	(42)
Securities issue / repurchase	(58)	(97)
Capital issue	62	148
Revaluations	(890)	689
Result	69	219
Dividend received	(57)	(80)
Other movements	4	(338)
Balance as at 31 December	**3,943**	**4,813**

25.4 Investments

Specification investments

In € millions	**2012**	2011
Investments available for sale	1	4
Loans and receivables	668	528
Total	**669**	**532**

Investments: loans and receivables

In € millions	2012	2011
Private loans	668	528
Business loans	-	-
Total	**668**	**528**

Statement of change in loans and receivables

In € millions	2012	2011
Balance investments as at 1 January	528	859
Purchases and advances	676	972
Disposals and redemptions	(536)	(1,303)
Total	**668**	**528**

25.5 Other assets

Specification other assets

In € millions	2012	2011
Receivables from subsidiaries	305	852
Accrued interest	5	-
Other accrued assets	6	15
Amounts due from direct insurance	-	1
Other	24	(2)
Total	**340**	**866**

25.6 Cash and cash equivalents

Specification cash and cash equivalents

In € millions	2012	2011
Short-term bank balances	215	13
Short-term bank balances from subsidiaries	(213)	-
Total	**2**	**13**

25.7 Equity

Statement of changes in equity 2012

In € millions	Issued capital	Share premium reserve	Statutory reserves associates	Other reserves	Retained earnings	Equity attributable to share-holders	Securities capital
Balance as at 1 January 2012	-	2,055	1,399	337	165	3,956	400
Changes in principles deferred acquisition costs	-	-	(365)	-	27	(338)	-
Adjusted balance as at 1 January 2012	**-**	**2,055**	**1,034**	**337**	**192**	**3,618**	**400**
Transfer of 2011 net result	-	-	-	192	(192)	-	-
Transfers 2011	**-**	**-**	**-**	**192**	**(192)**	**-**	**-**
Unrealised revaluations from cash flow hedges	-	-	(6)	-	-	(6)	-
Deferred interest income from cash flow hedges	-	-	-	-	-	-	-
Unrealised revaluations	-	-	1,031	-	-	1,031	-
Impairments	-	-	24	-	-	24	-
Realised revaluations through profit or loss	-	-	(249)	-	-	(249)	-
Change in shadow accounting	-	-	(1,689)	-	-	(1,689)	-
Dividend paid	-	-	-	(50)		(50)	
Other movements	-	-	132	(133)	-	(1)	-
Amounts charged directly to equity	**-**	**-**	**(757)**	**(183)**	**-**	**(940)**	**-**
Net result 2012	-	-	-	-	(149)	(149)	-
Total result 2012	**-**	**-**	**(757)**	**(183)**	**(149)**	**(1,089)**	**-**
Capital issue	-	400	-	-	-	400	-
Securities issue / repurchase	-	-	-	-	-	-	(400)
Transactions with shareholders and securityholders	**-**	**400**	**-**	**-**	**-**	**400**	**(400)**
Total changes in equity 2012	**-**	**400**	**(757)**	**9**	**(341)**	**(689)**	**(400)**
Balance as at 31 December 2012	**-**	**2,455**	**277**	**346**	**(149)**	**2,929**	**-**

Statement of changes in equity 2011

In € millions	Issued capital	Share premium reserve	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
Changes in principles deferred acquisition cost	-	-	(365)	-	-	(365)	-
Adjusted balanceas at 1 january 2011	**-**	**1,730**	**453**	**112**	**242**	**2,537**	**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	-	-	-		192	192	-
Total result 2011	**-**	**-**	**581**	**(17)**	**192**	**756**	**-**
Capital issue	-	325	-			325	
Securities issue / repurchase	-	-	-			-	(325)
Transactions with shareholders and securityholders	**-**	**325**	**-**	**-**	**-**	**325**	**(325)**
Total changes in equity 2011	**-**	**325**	**581**	**225**	**(50)**	**1,081**	**(325)**
Balance as at 31 December 2011	**-**	**2,055**	**1,034**	**337**	**192**	**3,618**	**400**

25.7.1 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. The number of issued shares as at 31 December 2012 is 477 ordinary shares.

Specification issued share capital

	Number of ordinary shares		Amount of ordinary shares (in € millions)	
	2012	2011	**2012**	2011
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		Foundation-like'		State-like'	
In numbers	**2012**	2011	**2012**	2011	**2012**	2011
Outstanding as at 1 January	477	477	-	3,250,000	76,190,475	76,190,475
Issues in the financial year	-	-	-	-	-	-
Repurchased in the financial year	-	-	-	(3,250,000)	(76,190,475)	-
Outstanding as at 31 December	477	477	-	-	-	76,190,475

Specification capital securities

In € millions	**2012**	2011
Securities capital Dutch State	-	400
Total	**-**	**400**

Statement of change in capital securities

	Securities capital Stichting Beheer SNS REAAL		Securities capital Nederlandse Staat	
In € millions	**2012**	2011	**2012**	2011
Balance as at 1 January	-	325	400	400
Repurchase securities	-	(325)	(400)	-
Balance as at 31 December	**-**	**-**	**-**	**400**

25.8 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% (2011: 6.3%).

25.9 Other provisions

Specification other provisions

In € millions	**2012**	2011
Restructuring provision	21	26
Other provisions	-	-
Total	**21**	**26**

Statement of change in other provisions

In € millions	Restructuring provision 2012	2011
Balance as at 1 January	26	24
Additions	4	15
Withdrawal	(8)	(11)
Released to results	(1)	(2)
Balance as at 31 December	**21**	**26**

25.10 Other amounts due to customers

Specification other amounts due to customers

In € millions	2012	2011
Private loans	651	772
Total	**651**	**772**

Time to maturity other amounts due to customers

In € millions	2012	2011
< 3 months	271	-
3 months - 1 year	-	772
1 - 5 year	380	-
> 5 year	-	-
Total	**651**	**772**

The private loans are private loans from subsidiaries and have an average interest rate of 2.8% (2011: 3.6%).

25.11 Amounts due to banks

This item relates to amounts owed to subsidiaries.

Time to maturity amounts due to banks

In € millions	2012	2011
< 1 year	748	626
1 - 5 year	-	-
> 5 year	-	-
Total	**748**	**626**

25.12 Other liabilities

Specification other liabilities

In € millions	2012	2011
Debts to subsidiaries	232	643
Accrued interest to subsidiaries	5	-
Other liabilities	28	18
Accrued interest	7	-
Total	**272**	**661**

The debt to subsidiaries pay the 1 month Euribor-interest. The accrued interest is the accrued interest of loans with subsidiaries.

25.13 Guarantees

REAAL NV has provided guarantees as referred to in Book 2, Section 403 of the Dutch Civil Code 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, is part of the single tax entity for corporate income tax and a single tax entity for VAT purposes of SNS REAAL NV. 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.

25.14 Audit fees

According Book 2, Section 382A of the Dutch Civil Code we refer to the annual report of SNS REAAL NV 2012 for an overview of the fees 2012 charged by the audit firm KPMG Accountants NV and the other KPMG companies.

Utrecht, 23 July 2013

Supervisory Board
P.S. Overmars (Vice Chairman and Acting Chairman)
H.W.P.M.A. Verhagen (Second Vice Chairman)
C.M. Insinger
R.J. van de Kraats
J.E. Lagerweij
J.A. Nijssen
J.A. Nijhuis
L.J. Wijngaarden

Management Board
D.J. Okhuijsen (Chairman)
M.J.P. Edixhoven
M.B.G.M. Oostendorp
W.H. Steenpoorte

26 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
SNS Verzekeringen BV	Zoetermeer
RM BV	Utrecht

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 23.3 (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.

27 Other information

27.1 Provision regarding profit or loss appropriation

Result 2012: € 149 million loss.

27.1.1 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 years 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.

27.1.2 Profit or loss appropriation

The loss for the financial year 2012 is debited to the profit reserves of REAAL NV.

27.2 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 2012 of REAAL NV in Utrecht, as included in chapters 17 to 27 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 2012, 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 2012, 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 2012 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 2012 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 16, 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, 23 July 2013
KPMG ACCOUNTANTS NV

F.M. van den Wildenberg RA