Illustrative IFRS consolidated financial statements 2008

Insurance

PricewaterhouseCoopers' IFRS and corporate governance publications and tools 2008

IFRS technical publications

IFRS manual of accounting 2009
PwC's global IFRS manual provides comprehensive practical guidance on how to prepare financial statements in accordance with IFRS. Includes hundreds of worked examples, extracts from company reports and model financial statements.

A practical guide to new IFRSs for 2009
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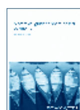
A practical guide to capitalisation of borrowing costs
Guidance in question and answer format addressing the challenges of applyiing IAS 23R, including how to treat specific versus general borrowings, when to start capitalisation and whether the scope exemptions are mandatory or optional.

A practical guide to segment reporting
Provides an overview of the key requirements of IFRS 8, 'Operating Segments' and some points to consider as entities prepare for the application of this standard for the first time. Includes a question and answer section. Also available: Eight-page flyer on high level management issues.



A practical guide to share-based payments
Answers the questions we have been asked by entities and includes practical examples to help management draw similarities between the requirements in the standard and their own share-based payment arrangements. November 2008.

Adopting IFRS – A step-by-step illustration of the transition to IFRS
Illustrates the steps involved in preparing the first IFRS financial statements. It takes into account the effect on IFRS 1 of the standards issued up to and including March 2004.

Financial instruments under IFRS
High-level summary of the revised financial instruments standards issued in December 2003, updated to reflect IFRS 7 in September 2006. For existing IFRS preparers and first-time adopters.

Financial reporting in hyperinflationary economies – understanding IAS 29
2006 update (reflecting impact of IFRIC 7) of a guide for entities applying IAS 29. Provides an overview of the standard's concepts, descriptions of the procedures and an illustrative example of its application.

IAS 39 – Achieving hedge accounting in practice
Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

IAS 39 – Derecognition of financial assets in practice
Explains the requirements of IAS 39, providing answers to frequently asked questions and detailed illustrations of how to apply the requirements to traditional and innovative structures.

IFRS 3R: Impact on earnings – the crucial Q&A for decision-makers
Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and controls, and summary differences with US GAAP.

IFRS disclosure checklist 2008
Outlines the disclosures required by all IFRSs published up to October 2008.

IFRS for SMEs (proposals) – pocket guide 2007
Provides a summary of the recognition and measurement requirements in the proposed 'IFRS for Small and Medium-Sized Entities' published by the International Accounting Standards Board in February 2007.

IFRS pocket guide 2008
Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

IFRS news
Monthly newsletter focusing on the business implications of the IASB's proposals and new standards. Subscribe by emailing corporatereporting@uk.pwc.com.

Illustrative interim financial information for existing preparers
Illustrative information, prepared in accordance with IAS 34, for a fictional existing IFRS preparer. Includes a disclosure checklist and IAS 34 application guidance. Reflects standards issued up to 31 March 2008.

Illustrative consolidated financial statements

- Banking, 2006
- Corporate, 2008
- Insurance, 2006
- Investment funds, 2008
- Investment property, 2008
- Private equity, 2008

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

Share-based payment – a practical guide to applying IFRS 2
Assesses the impact of the new standard, looking at the requirements and providing a step-by-step illustration of how to account for share-based payment transactions. June 2004.

SIC-12 and FIN 46R – The substance of control
Helps those working with special purpose entities to identify the differences between US GAAP and IFRS in this area, including examples of transactions and structures that may be impacted by the guidance.

Understanding financial instruments – A guide to IAS 32, IAS 39 and IFRS 7
Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.

Understanding new IFRSs for 2009 – A guide to IAS 1 (revised), IAS 27 (revised), IFRS 3 (revised) and IFRS 8
Supplement to IFRS Manual of Accounting. Provides guidance on these new and revised standards that will come into force in 2009 and will help you decide whether to early adopt them. Chapters on the previous versions of these standards appear in the IFRS Manual (see above).

Illustrative consolidated financial statements 2008 – Insurance

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards, for Asfalia Insurance Group, a fictional multinational insurance group that conducts business in Euravia, the US and the UK.

The Group operates via four segments in Euravia: property, casualty, savings (comprising contracts with discretionary and non-discretionary participation) and life risk (comprising personal accident and death protection insurance). The Group operates in the property and casualty segments in the UK. In the US, it operates within the property, casualty, life risk and savings segments, excluding discretionary participation savings products. However, the US casualty policies are no longer actively underwritten and are now in run-off. The Group does not issue any contracts that would meet the definition of separate accounts as defined in the US accounting literature. It has acquired insurance businesses in the past, which were accounted for using purchase accounting. Another acquisition was completed in 2008 and accounted for under IFRS 3 (see Note 44). The business acquired is an entity that issues investment contracts in the Euravian market and has helped the Group to increase its market share in that geographical segment.

Asfalia Insurance Group is an existing preparer of IFRS consolidated financial statements; IFRS 1, 'First-time adoption of International Financial Reporting Standards', is not applicable.

This publication is based on the requirements of IFRS standards and interpretations applicable to financial years beginning on or after 1 January 2008 and includes the disclosures required by IFRS 8, 'Operating segments' which were early adopted for the purpose of these illustrative financial statements. No other interpretations, standards and amendments were early adopted.

We have attempted to create a realistic set of financial statements for an insurance Group. Certain types of transaction have not been included, as they are not relevant to the Group's operations. The example disclosures for some of these additional items have been included in Appendix II. Other disclosure items and transactions have been included in other publications in the 'Illustrative' series. See inside front cover for details.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management. Forms of presentation alternative to those proposed in this publication and that are equally acceptable may be preferred and adopted, if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further information may be required in order to ensure fair presentation under IFRS. We recommend that readers refer to our publication *IFRS disclosure checklist 2008*. Additional accounting disclosures may be required in order to comply with local laws, national financial reporting standards and/or stock exchange regulations.

Structure

Asfalia Insurance Group – Illustrative consolidated insurance financial statements	3
Independent auditors' report	148

Appendices

Appendix I	Operating and financial review	149
Appendix II	Accounting policies and disclosures not relevant to Asfalia Insurance Group:	
	– Consolidated cash flow statement – indirect method	151
	– Cash generated from operations	152
	– Fee income	153
Appendix III	Other critical accounting estimates and judgements in applying accounting policies	154
Appendix IV	Requirements of the Amendment to IAS 39 and IFRS 7, 'Reclassification of financial assets'	155

Format

The references in the left-hand margin of the financial statements represent the paragraph of the standards in which the disclosure requirement appears – for example, '8p40' indicates IAS 8 paragraph 40. References to IFRS appear in full – for example 'IFRS2p6' indicates IFRS 2 paragraph 6. The designation 'DV' (disclosure voluntary) indicates that the relevant IAS or IFRS encourages, but does not require, the disclosure. 'IG' refers to 'Implementation Guidance' attached to the relevant IFRS.

Additional notes and explanations are shown in footnotes.

Asfalia Insurance Group
Consolidated financial statements

31 December 2008

Contents

	Consolidated balance sheet	6
	Consolidated income statement	8
	Consolidated statement of changes in equity	9
	Consolidated cash flow statement	11
1	General information	12
2	Summary of significant accounting policies	12
	2.1 Basis of preparation	12
	2.2 Consolidation	19
	2.3 Segment reporting	20
	2.4 Foreign currency translation	20
	2.5 Property, plant and equipment	22
	2.6 Investment property	22
	2.7 Intangible assets	23
	2.8 Financial assets	24
	2.9 Impairment of assets	27
	2.10 Derivative financial instruments	28
	2.11 Offsetting financial instruments	30
	2.12 Cash and cash equivalents	30
	2.13 Share capital	30
	2.14 Insurance and investment contracts – classification	30
	2.15 Insurance contracts and investment contracts with DPF	31
	2.16 Investment contracts without DPF	36
	2.17 Borrowings	37
	2.18 Deferred income tax	37
	2.19 Employee benefits	38
	2.20 Provisions	39
	2.21 Revenue recognition	40
	2.22 Leases	41
	2.23 Dividend distribution	41
3	Critical accounting estimates and judgements	41
4	Management of insurance and financial risk	44
	4.1 Insurance risk	44
	4.2 Financial risk	61
5	Segment information	88
6	Property, plant and equipment	92
7	Investment properties	93
8	Intangible assets	94
9	Investments in associates	97
10	Reinsurance assets	98
11	Financial assets	99
12	Loans and receivables	102
13	Derivative financial instruments	103
14	Cash and cash equivalents	105
15	Share capital	106

16	Other reserves and equity component of discretionary participation features	108
17	Insurance liabilities and reinsurance assets	111
	17.1 Development claims tables	114
	17.2 Movements in insurance liabilities and reinsurance assets	118
18	Investment contract liabilities	121
19	Trade and other payables and deferred income	123
20	Borrowings	124
21	Deferred income tax	125
22	Retirement benefit obligations	128
23	Provisions for other liabilities and charges	133
24	Net insurance premium revenue	134
25	Fee income	134
26	Investment income	135
27	Net realised gains on financial assets	135
28	Net fair value gains on assets at fair value through income	135
29	Insurance benefits and claims	136
30	Investment contract benefits	137
31	Other expenses by destination	137
32	Expenses by nature	137
33	Employee benefit expense	138
34	Finance costs	138
35	Income tax expense	139
36	Net foreign exchange gains	139
37	Earnings per share	140
38	Dividends per share	140
39	Cash generated from operations	141
40	Convertible bonds	141
41	Redeemable preference shares	142
42	Contingencies	142
43	Commitments	143
44	Business combinations	143
45	Related-party transactions	144
46	Events after the balance sheet date	147

Consolidated balance sheet

			As at 31 December	
1p68, 1p104		Note	2008	2007
	Assets			
1p68(a)	Property, plant and equipment	6	5,489	5,152
1p68(b)	Investment property	7	20,705	18,805
1p68(c)	Intangible assets including intangible insurance assets	8	123,684	112,632
1p68(e)	Investments in associates	9	13,373	13,244
1p68(d)	Financial assets			
1p68(d)	Equity securities:			
1p68(d)	– Available for sale	11	61,097	84,368
1p68(d)	– At fair value through income	11	309,387	253,175
1p68(d)	Debt securities:			
1p68(d)	– Held to maturity	11	81,583	75,471
1p68(d)	– Available for sale	11	716,760	640,859
1p68(d)	– At fair value through income	11	79,174	58,081
1p68(h)	Loans and receivables including insurance receivables	12	6,751	13,674
1p68(d)	Derivative financial instruments	13	11,464	11,196
1p68(n)	Deferred income tax	21	27,758	22,994
IFRS4p36	Reinsurance contracts	10, 17	60,688	49,919
1p68(i)	Cash and cash equivalents	14	28,993	39,806
	Total assets		1,546,906	1,399,376
	Equity			
1p68(p)	**Capital and reserves attributable to the Company's equity holders**			
1p75(e)	Ordinary shares	15	25,300	21,000
1p75(e)	Share premium	15	18,656	11,316
1p75(e)	Treasury shares	15	(2,564)	–
1p75(e)	Other reserves	16	34,580	27,100
1p75(e)	Retained earnings	16	137,224	151,909
			213,196	211,325
IFRS4p35, 36	Equity component of discretionary participation features (DPF)	16	3,059	3,024
			216,255	214,349
1p68(o)	**Minority interest in equity**		21,073	18,052
	Total equity		237,328	232,401

Consolidated balance sheet (continued)

		Note	As at 31 December 2008	2007
	Liabilities			
IFRS4p36	Insurance contracts	17	770,220	706,481
1p68(l)	Financial liabilities:			
1p68(l)	Investment contracts:			
IFRS4p35, 36	– With DPF	18	80,902	88,992
1p68(l)	– At amortised cost	18	147,420	117,030
1p68(l)	– At fair value through income	18	171,568	134,466
1p68(l)	Borrowings	20	56,891	45,575
	Derivative financial instruments	13	7,860	8,747
1p68(k)	Provisions for other liabilities and charges	23	2,542	2,574
1p68(j)	Trade and other payables	19	8,087	8,463
1p68(n)	Deferred income tax	21	56,606	49,734
1p68(k)	Retirement benefit obligations	22	4,540	2,130
1p68(m)	Current income tax liabilities		2,942	2,783
	Total liabilities		1,309,578	1,166,975
	Total equity and liabilities		1,546,906	1,399,376

The notes on pages 12 to 148 are an integral part of these financial statements.

Consolidated income statement

1p7, 46, 92, 192		Note	Year ended 31 December 2008	2007
IFRS4IG24	**Insurance premium revenue**	24	151,797	156,081
IFRS4IG24	Insurance premium ceded to reinsurers	24	(6,760)	(6,084)
	Net insurance premium revenue	24	145,037	149,997
	Fee income:			
	– Insurance contracts	25	18,812	17,393
	– Investment contracts	25	5,147	4,034
	Investment income	26	58,189	56,835
	Net realised gains on financial assets	27	2,174	21,876
	Net fair value gains on financial assets at fair value through income	28	9,758	42,343
	Other operating income	7	778	634
	Net income		239,895	293,112
IFRS4IG24	Insurance benefits	29	81,049	85,722
IFRS4IG24	Insurance claims and loss adjustment expenses	29	99,382	65,331
IFRS4IG24	Insurance claims and loss adjustment expenses recovered from reinsurers	29	(19,409)	(5,646)
	Net insurance benefits and claims		161,022	145,407
	Investment contracts benefits	30	28,129	32,549
	Expenses for the acquisition of insurance and investment contracts	31, 32	21,402	18,907
	Expenses for marketing and administration	31, 32	19,565	16,320
	Expenses for asset management services rendered	32	4,426	3,510
	Other operating expenses	32	224	391
	Expenses		234,768	217,084
1p83	**Results of operating activities**		5,127	76,028
1p81(b)	Finance costs	34	(2,757)	(2,760)
1p81(c)	Share of (loss)/profit of associates	9	(174)	145
1p83	**Profit before tax**		2,196	73,413
1p81(e),12p77	Income tax expense	35	(792)	(23,179)
1p81(f)	**Profit for the year**		1,404	50,234
1p82	**Attributable to:**			
1p82(b)	– Equity holders of the Company		1,407	31,382
IFRS4p34(c)	– Equity component of DPF	16	(150)	574
1p82(a)	– Minority interest		147	18,278
			1,404	50,234
33p66	**Earnings per share for profit attributable to the equity holders of the Company during the year** (expressed in euros per share):			
	– Basic	37	0.05	1.56
	– Diluted	37	0.06	1.46

The notes on pages 12 to 148 are an integral part of these financial statements.

Consolidated statement of changes in equity

		Note	Share capital	Other reserves	Retained earnings	Equity component of DPF	Minority interest	Total
			Attributable to equity holders of the Company					
1p7(c)(ii) 1p96, 1p97								
1p104	**Year ended 31 December 2007**							
	At beginning of year		30,424	24,560	135,000	1,685	1,540	193,209
16p77(f)	Net fair value gains on property, plant and equipment (PPE)	16	–	26	–	–	–	26
IFRS7p20(a)(ii)	Net change in available-for-sale financial assets	16	–	6,120	–	765	–	6,885
IFRS4p30	Net change in liabilities for insurance contracts and investment contracts with DPF arising from unrealised available-for-sale net gains, net of tax	16	–	(3,619)	–	–	–	(3,619)
1p96(b), 16p41	PPE depreciation transfer, net of tax	16	–	(87)	87	–	–	–
1p96(b), IFRS7p23(c)	Cash flow hedges, net of tax	16	–	190	–	–	–	190
1p96(b), 39p102	Net investment hedge	16	–	40	–	–	–	40
1p96(b), 21p52(b)	Currency translation differences	16	–	(130)	–	–	(40)	(170)
1p96(b)	Net income/(expense) recognised directly in equity		–	(7,460)	87	765	(40)	(6,648)
1p96(a)	Profit for year		–	–	31,382	574	18,278	50,234
1p96(c)	Total recognised income /(expense) for 2007		–	(7,460)	31,469	3,009	18,238	43,586
1p97(a)	Employee share option scheme:							
IFRS2p50	– Value of employee services	15	822	–	–	–	–	822
IFRS2p50	– Proceeds from shares issued	15	1,070	–	–	–	–	1,070
1p97(a)	Dividend relating to 2007	38	–	–	(14,560)	–	(1,726)	(16,286)
			1,892	–	(14,560)	–	(1,726)	(14,394)
1p97(c)	**At end of year**		32,316	27,100	151,909	3,024	18,052	232,401

The notes on pages 12 to 148 are an integral part of these financial statements.

Consolidated statement of changes in equity (cont.)

		Note	Share capital	Other reserves	Retained earnings	Equity component of DPF	Minority interest	Total
			Attributable to equity holders of the Company					
1p96, 1p97	**Year ended 31 December 2008**							
1p97(c)	At beginning of year		32,316	27,100	151,909	3,024	18,052	232,401
IFRS7p20(a)(ii)	Net change in available-for-sale financial assets	16	–	6,403	–	185	–	6,588
IFRS4p30	Net change in liabilities for insurance contracts and investment contracts with DPF arising from unrealised available-for-sale net gains, net of tax	16	–	(1,089)	–	–	–	(1,089)
1p96(b), 16p41	PPE depreciation transfer, net of tax	16	–	(100)	100	–	–	–
1p96(b), IFRS7p23(c)	Cash flow hedges, net of tax	16	–	183	–	–	–	183
1p96(b), 39p102	Net investment hedge	16	–	(45)	–	–	–	(45)
1p96(b), 21p52(b)	Currency translation differences	16	–	1,258	–	–	252	1,510
1p96(b)	Net income/(expense) recognised directly in equity		–	6,610	100	185	252	7,147
1p96(a)	Profit for year		–	–	1,407	(150)	147	1,404
1p96(c)	Total recognised income/(expense) for 2008		–	6,610	1,507	35	399	8,551
1p97(a)	Employee share option scheme:							
IFRS2p50	– Value of employee services	15	690	–	–	–	–	690
IFRS2p50	– Proceeds from shares issued	15	950	–	–	–	–	950
1p97(a)	Issue of share capital – business combination	15	10,000	–	–	–	–	10,000
1p97(a)	Purchase of treasury shares	15	(2,564)	–	–	–	–	(2,564)
1p97(a), 32p28	Convertible bond – equity component	16	–	870	–	–	–	870
1p97(a)	Dividend relating to 2008	38, 40	–	–	(16,192)	–	(1,920)	(18,112)
1p97(a)	Acquisition of a subsidiary	44	–	–	–	–	4,542	4,542
			9,076	870	(16,192)	–	2,622	(3,624)
1p97(c)	At end of year		41,392	34,580	137,224	3,059	21,073	237,328

The notes on pages 12 to 148 are an integral part of these financial statements.

Consolidated cash flow statement

Ref		Note	Year ended 31 December[1] 2008	2007
1p8(d), 46, 102				
	Cash generated from operations	39	5,664	53,833
7p31	Interest paid		(3,036)	(2,950)
7p35	Income tax paid		(748)	(20,348)
	Net cash from operating activities		1,880	30,535
7p21, 7p10	**Cash flows from investing activities**			
7p39	Acquisition of subsidiary, net of cash acquired	44	(3,950)	–
7p16(a)	Purchases of property, plant and equipment	6	(951)	(345)
7p16(b)	Proceeds from sale of property, plant and equipment	39	241	149
7p16(e)	Loans granted to related parties	45	(77)	(32)
7p16(f)	Loan repayments received from related parties	45	39	21
	Net cash used in investing activities		(4,698)	(207)
7p21, 7p10	**Cash flows from financing activities**			
7p17(a)	Proceeds from issuance of ordinary shares	15	950	1,070
7p17(c)	Proceeds from issuance of redeemable preference shares	41	–	7
7p17(b)	Purchase of treasury shares	15	(2,564)	–
7p17(c)	Proceeds from borrowings		13,762	2,738
7p17(d)	Repayments of borrowings		(8,520)	(11,429)
7p17(c)	Proceeds from issuance of convertible bond	40	8,000	–
7p31	Dividends paid to Company's shareholders		(16,192)	(14,560)
7p31	Dividends paid to minority interests		(1,920)	(1,726)
	Net cash used in financing activities		(6,484)	(23,900)
	Net (decrease)/increase in cash and bank overdrafts		(9,302)	6,428
	Cash and bank overdrafts at beginning of year		36,379	29,373
	Exchange (losses)/gains on cash and bank overdrafts		(734)	578
	Cash and bank overdrafts at end of year	14	26,343	36,379

The notes on pages 12 to 148 are an integral part of these financial statements.

[1] See Appendix II for indirect method

Notes

1p126(b), (c)

1 General information

1p46(a), (b)

Asfalia Insurance Group ('the Company') and its subsidiaries (together forming 'the Group') underwrite life and non-life insurance risks, such as those associated with death, disability, health, property and liability. The Group also issues a diversified portfolio of investment contracts to provide its customers with asset management solutions for their savings and retirement needs. All these products are offered to both domestic and foreign markets. The Group does business in Europe and the US. It has operations in Euravia, the US and the UK and employs over 1,340 people.

1p126(a)

10p17

The Company is a limited liability company incorporated and domiciled in Euravia. The address of its registered office is: 34 Isipingo Street, Lanckdanck, Euravia. Asfalia Insurance Group has a primary listing on the EuroMoney Stock Exchange.

These Group consolidated financial statements have been authorised for issue by the Board of Directors on 28 March 2009.

2 Summary of significant accounting policies

1p103(a) 1p108(b)
1p110

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

1p14
1p108(a)

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

1p46(d)(e)

All amounts in the notes are shown in thousands of euros, rounded to the nearest thousand, unless otherwise stated.

8p28

(a) Amendments to published standards effective in 2008

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2008:

- IAS 39 (Amendment), 'Reclassification of financial assets'. An amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has

the intention and ability to hold that financial asset for the foreseeable future. The group has elected not to reclassify such financial assets; as such, this amendment has no impact on the group's financial statements.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions' provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

(b) Standards and amendments early adopted by the Group

IFRS 8, 'Operating segments', is mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has early adopted it in 2008. IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

8p28

(c) Interpretations effective in 2008 but not relevant to the Group's operations

IFRIC 12, 'Service concession arrangements', is mandatory for accounting periods beginning on or after 1 January 2008, but is not relevant to the Group's operations.

8p30

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 39 (Amendment) from 1 January 2009, but is not expected to have an impact on the Group's financial statements.
- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed not recognised. IAS 19 has been amended to be consistent in this regard. The Group will apply the IAS 19 (Amendment) from 1 January 2009.
- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) retrospectively from 1 January 2009; it is currently not applicable to the Group as there are no qualifying assets.
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: Recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. An investment in an associate is treated as a single asset for the purposes of impairment testing, and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: Recognition and measurement' only certain, rather than all, disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the Group's consolidated accounts.

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009 but is not expected to have any impact on the Group's financial statements.

- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. A pre-payment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009 with an expected write-off of pre-payments of €500 to retained earnings.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008.

  It clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. See Note 3.1 for further details. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker) but the Group will not formally document and test this hedging relationship.

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the IAS 39 (Amendment) from 1 January 2009, but is not expected to have an impact on the Group's income statement.

- IAS 39 (amendment) 'Eligible hedged items' (effective from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group will apply this amendment from 1 January 2010, but it is not expected to have a material impact on the Group financial statements.
- IFRS 1 (Amendment), 'First-time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Group will apply the amendment to IFRS 1 (Amendment) from 1 January 2009 as all subsidiaries of the Group will transition to IFRS. The amendment will not have any impact on the Group's financial statements.
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such, these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

  The Group will apply IFRS 2 (Amendment) from 1 January 2009, but is not expected to have a material impact on the Group's financial statements.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption of IFRS') (effective from 1 July 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvement project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging including the fact that net investment hedging relates to differences in functional currency, not presentation currency and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', further do apply to the hedged item. The Group will apply IFRIC 16 from 1 January 2009, but is not expected to have a material impact on the Group's financial statements.

- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009). IFRIC 17 clarifies the accounting treatment for non-cash distributions of non-cash assets to owners. The Group will apply IFRIC 17 from 1 January 2010, but it is not expected to have an impact on the group's financial statements.

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(e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the

Group's operations because none of the Group's companies ordinary activities comprise renting and subsequently selling assets.

- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not currently have an impact on the Group's operations, as there are no loans received or other grants from the government.

- The minor amendments to IAS 20, 'Accounting for government grants and disclosure of government assistance' and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property' and IAS 41, 'Agriculture', which are part of the IASB's annual improvement project published in May 2008 (not addressed above). These amendments will not have an impact on the Group's operations as described above.

- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations as none of the Group's subsidiaries or associates operate in hyperinflationary economies.

- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain, rather than all, disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'. The amendment will not currently have an impact on the Group's operations as there are no interests held in joint ventures.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. The amendment will not currently have an impact on the Group's operations as no investment properties are held by the Group.

- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not currently have an impact on the Group's operations as no agricultural activities are undertaken.
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue' or IAS 11, 'Construction contracts' should be applied to particular transactions and will likely result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

2.2 Consolidation

(a) Subsidiaries

1p110, 27p12
27p14
27p30

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

IFRS3p14
IFRS3p24
IFRS3p28
IFRS3p36, 37
IFRS3p51
IFRS3p56

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

27p24
27p28

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary[1].

(c) Associates

1p110
28p13
28p11

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.9(c)). None of the Group investments in funds that are not fully consolidated subsidiaries meets the definition of an associate. They are classified as unlisted equity securities available for sale when they are not designated to be measured at fair value through profit or loss.

28p29
28p30

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

28p22

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

IFRS8p5(b)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

1p110

(a) Functional and presentation currency

21p17
21p9, 18
1p46(d)

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in thousands of euros (€), which is the Group's presentation currency.

[1] These consolidated financial statements are prepared on the basis of 'parent company model'. Refer to Appendix III for accounting policy if economic entity model is adopted.

1p110 *(b) Transactions and balances*

21p21, 28
21p32
39p95(a)
39p102(a)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating income' or 'Other operating expense'.

39AG83

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

21p30

Translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1p110 *(c) Group companies*

21p39

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

21p39(a)

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

21p39(b)

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

1p76(b)

(iii) all resulting exchange differences are recognised as a separate component of equity.

21p39(c)
1p76(b)
39p102

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

21p47

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

2.5 Property, plant and equipment

1p110
16p73(a)
16p15
16p17
16p35(b)

Land and buildings comprise mainly outlets and offices occupied by the Group. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

16p12
39p98(b)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

16p39
1p76(b)
16p40
16p41

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to retained earnings.

16p73(b), 50
16p73(c)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	25-40 years
– Vehicles	3-5 years
– Furniture, fittings and equipment	3-8 years

16p51
36p59

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

16p68, 71
16p41

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in the other operating income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

2.6 Investment property

1p68(b), 1p110
40p75(a-b)

Property held for long-term rental yields that is not occupied by the companies in the Group is classified as investment property.

40p75(a)
40p75(d)

Investment property comprises freehold land and buildings. It is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed annually by an independent valuation expert. Investment property that

is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

40p70(f) Changes in fair values are recorded in the income statement.

40p6
40p25
40p34

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the companies in the consolidated Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. The property is carried at fair value after initial recognition.

40p60 If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

40p61
40p62(b)

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

2.7 Intangible assets

1p110 *(a) Goodwill*

IFRS3p51
38p118(a)
IFRS3p54

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

36p80 Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

1p110 *(b) Contractual customer relationships – rights to receive investment management fees*

38p12(b)
38p24
18 Appx,
p14(B)(iii)

Incremental costs directly attributable to securing rights to receive fees for asset management services sold with investment contracts are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised on a straight-line basis over the period in which the Group expects to recognise the related revenue. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contract.

IFRS4p37(a) The accounting policy in respect of deferred acquisition costs relating to insurance contracts and investment contracts with discretionary participation features (DPF) is described in Note 2.15.

1p110 *(c) Contractual customer relationships acquired as part of a business combination*

38p12(b)
38p33-34

As a result of certain acquisitions of investment contracts and the application of purchase accounting, the Group carries a customer contract intangible asset representing the value of future profits from the acquired contracts. This asset is initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The Group subsequently amortises this asset on a straight-line basis over the estimated life of the acquired contracts. The estimated life is re-evaluated regularly.

IFRS4p37(a)

The accounting policy in respect of intangible assets arising from insurance contracts acquired in a business combination and portfolio transfers is described in Note 2.15. It also applies to the intangible assets arising from investment contracts with DPF acquired in a business combination and portfolio transfer.

1p110 *(d) Trademarks and licences*

38p74
38p9
38p118(a)(b)

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. They have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15-20 years).

1p110 *(e) Computer software*

38p57

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

38p66

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

38p68, 71

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period

38p97
38p118(a)-(b)

Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed three years.

1p110

2.8 Financial assets

IFRS7p21
39p9

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial

assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

1p110

(a) Financial assets at fair value through income

39p9
1p57, 59, 39p45

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

IFRS7 Appx Bp5(a)
IFRS7 Appx Bp5(e)

A financial asset is classified into the 'financial assets at fair value through income' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets designated as at fair value through profit or loss at inception are those that are:

- Held in internal funds to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and

- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. The Group's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss (see Note 4.2 for additional details on the Group's portfolio structure).

1p110

(b) Loans and receivables

39p9

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through income or available for sale. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms (see Note 2.9 for the accounting policy on impairment). Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

1p110

(c) Held-to-maturity financial assets

39p9

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Group's management has the positive intention and ability to hold to maturity. These assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms (see Note 2.9 for the accounting policy on impairment).

1p110 *(d) Available-for-sale financial assets*

39p9, IFRS7 AppxBp5(b) Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

39p38
IFRS7p21(c) Regular-way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

39p43
39p46
39p55(a)
39p55(b)
IFRS7 Appx
Bp5(e) Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains/losses on financial assets.

39p55(a)
IFRS7 AppxBp5(e) Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'net fair value gains on financial assets at fair value through income' in the period in which they arise.

39p55(b)
IFRS7 AppxBp5(e)
39AG83 Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

39p67 When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as net realised gains on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established. Both are included in the investment income line.

39AG72
39AG73
39AG74
IFRS7p27(b) The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.9 Impairment of assets

(a) Financial assets carried at amortised cost

39p58
39p59

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

IFRS7 Appx B5(f)

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in payments;

(iii) It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

(iv) The disappearance of an active market for that financial asset because of financial difficulties; or

(v) Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - adverse changes in the payment status of issuers or debtors in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

39p64
IFRS7p21
39p63
39AG84

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

39p65

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Financial assets carried at fair value

39p67
39p68
39p69
39p70
IFRS7 AppxB5(f)

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. The impairment loss is reversed through the income statement, if in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

1p110

(c) Impairment of other non-financial assets

36p9
36p10

Assets that have an indefinite useful life – for example, land – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.10 Derivative financial instruments

IFRS7p21

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

39AG76
IFRS7p27

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

IFRS7p28(a) When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation model is not recognised immediately in the income statement but over the life of the transaction on an appropriate basis or when the inputs become observable, or when the derivative matures or is closed out.

39p11 Embedded derivatives that are not closely related to their host contracts and meet the definition of a derivative are separated and fair valued through profit or loss. The accounting policy in respect of derivatives embedded in host insurance contracts is described in Note 2.15(b).

39p88
IFRS7p33(b) The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedge); (ii) hedges of highly probable forecast transactions (cash flow hedges); or (iii) hedges of net investments in foreign operations (net investment hedge).

IFRS7p23,24 The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 13. Movements on the hedging reserve in shareholders' equity are shown in Note 16.

39p89 *(a) Fair value hedge*

39p92 Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

39p95 *(b) Cash flow hedges*

39p97, 98 The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within 'net fair value gains on financial assets at fair value through income'.

39p99, 100 Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss (for example, when the hedged forecast transaction takes place). However, when the hedged forecast transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

39p101 When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

39p102(a)(b)

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'net fair value gains on financial assets at fair value through income'.

Gains and losses accumulated in equity are included in the income statement on disposal of the foreign operation.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement.

1p110

2.11 Offsetting financial instruments

32p42

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1p110

2.12 Cash and cash equivalents

7p45

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1p110

2.13 Share capital

IFRS7p21
32p35, 37

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

32p33

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

1p110

2.14 Insurance and investment contracts – classification

IFRS4p37(a)

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

(b) whose amount or timing is contractually at the discretion of the Group; and

(c) that are contractually based on:
- (i) the performance of a specified pool of contracts or a specified type of contract;
- (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
- (iii) the profit or loss of the Group, fund or other entity that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders), while the amount and timing of the distribution to individual contract holders is at the discretion of the Group, subject to the advice of the relevant local appointed actuary.

2.15 Insurance contracts and investment contracts with DPF

1p110

a) Recognition and measurement

IFRS4p37(a)

Insurance contracts and investment contracts with DPF are classified into four main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

(i) Short-term insurance contracts

These contracts are casualty, property and short-duration life insurance contracts.

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Short-duration life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of the customer or his/her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is

reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

(ii) Long-term insurance contracts with fixed and guaranteed terms

IFRS4p37(a)

These contracts insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contracts.

IFRS4p37(a)

(iii) Long-term insurance contracts without fixed terms and with DPF – unit-linked and universal life

These contracts insure human life events (for example, death or survival) over a long duration. However, insurance premiums are recognised directly as liabilities. These liabilities are increased by credited interest (in the case of universal life contracts) or change in the unit prices (in the case of unit-linked contracts) and are decreased by policy administration fees, mortality and surrender charges and any withdrawals.

The liability for these contracts includes any amounts necessary to compensate the Group for services to be performed over future periods. This is the case for contracts where the policy administration charges are higher in the initial years than in subsequent years. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability is therefore established for these claims.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Universal life contracts contain a DPF that entitles the holders to a minimum guaranteed crediting rate per annum (3% or 4%, depending on the contract commencement date) or, when higher, a bonus rate declared by the Group from the DPF eligible surplus available to date. The Group has an obligation to eventually pay to contract holders at least 90% of the DPF eligible surplus (ie, all interest and realised gains and losses arising from the assets backing these contracts). Any portion of the DPF eligible surplus that is not declared as a bonus rate and credited to individual contract holders is retained in a liability for the benefit of all contract holders until declared and credited to them individually in future periods. In relation to the unrealised gains and losses arising from the assets backing these contracts (the DPF latent surplus), the Group establishes a liability equal to 90% of these net gains as if they were realised at year-end. Shareholders' interest in the DPF latent surplus (equal to 10%) is recognised in the equity component of DPF.

Revenue consists of fees deducted for mortality, policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims incurred in the period are charged as expenses in the income statement.

(iv) Investment contracts with DPF

The liability for these contracts is established in the same way as for the universal life insurance contracts with DPF (see the bullet point above). Revenue is also recognised in the same way.

Where the resulting liability is lower than the sum of the amortised cost of the guaranteed element of the contract and the intrinsic value of the surrender option embedded in the contract, it is adjusted and any shortfall is recognised immediately in the income statement.

(b) Embedded derivatives

IAS39p11

Certain derivatives embedded in insurance contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statements.

IFRS4p8

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative.

IFRS4p31-33

(c) Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term insurance contracts without fixed terms and investment contracts with DPF, DAC is amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts. The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is charged to revenue.

(d) Value of business acquired

On acquisition of a portfolio of contracts, either directly from another insurer or through the acquisition of a subsidiary undertaking, the Group recognises an intangible asset representing the value of business acquired (VOBA). VOBA represents the present value of future profits embedded in acquired insurance contracts and investment contracts with DPF. The Group amortises VOBA over the effective life of the acquired contracts on the same basis as DAC (see (c) above).

IFRS4p30

(e) Impact of unrealised gains and losses on available-for-sale assets on liabilities from insurance contracts and investment contracts with DPF and related intangible assets

Where unrealised gains or losses arise on available-for-sale assets, the adjustment to the liabilities arising from insurance contracts and investment contracts with DPF (and related assets – DAC and VOBA) equal to the effect that the realisation of those gains or losses at the balance sheet date would have had on those liabilities (and related assets) is recognised directly in equity.

IFRS4p15

(f) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC and VOBA assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC or VOBA and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As set out in (a) above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Any DAC or VOBA written off as a result of this test cannot subsequently be reinstated.

IFRS4p37(a)

(g) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in Note 2.14 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts

entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

IFRS4p14

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

IFRS4p37(b)

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Group's property or casualty insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Group for the related claim, the difference is amortised over the estimated remaining settlement period.

IFRS4p20

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 2.9.

IFRS4p37(a)

(h) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.9.

IFRS4p37(a)

(i) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

1p110

2.16 Investment contracts without DPF

IFRS7p21

The Group issues investment contracts without fixed terms (unit-linked) and investment contracts with fixed and guaranteed terms (fixed interest rate).

39p9
39p43
IFRS 7 Appx Bp5(a)

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment property (these contracts are also known as unit-linked investment contracts) and are designated at inception as at fair value through profit or loss. The Group designates these investment contracts to be measured at fair value through profit and loss because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See Note 2.8 for the financial assets backing these liabilities.

IFRS7p27(d)

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (ie, the fair value received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit on day 1. The Group has not recognised any profit on initial measurement of these investment contracts because the difference is attributed to the pre-payment liability recognised for the future investment management services that the Group will render to each contract holder.

39AG74-79
39AG82

The Group's main valuation techniques incorporate all factors that market participants would consider and make maximum of use of observable market data. The fair value of financial liabilities for investment contracts without fixed terms is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the balance sheet date by the unit value for the same date.

39p49

When the investment contract has an embedded put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period where applicable.

IFRS7p21
39p43

For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

39p47
39AG8

Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Group re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by calculating the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the income statement.

1p110 **2.17 Borrowings**

IFRS7p21
39p47
39p43

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction cost of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

IFRS7p21, 32p18
32p33

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

IFRS7p21 32p18(a), 28
32AG31(a)
1p60

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

1p110 **2.18 Deferred income tax**

12p58
12p61

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case the tax is also recognised in equity.

12p12
12p46

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate

12p24
12p15
12p47

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

12p24, 34

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

12p39, 44

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

1p110

2.19 Employee benefits

(a) Pension obligations

19p27
19p25
19p7
19p120A(b)

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

19p79
19p80
19p64

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the Group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

19p93-93D
19p120A(a)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

19p96

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

19p44

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Pre-paid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1p110

(b) Other post-employment obligations

19p120A(a) 19p120A(b)

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average remaining working lives of the related employees. Independent qualified actuaries value these obligations annually.

1p110

(c) Share-based compensation

IFRS2p15(b)
IFRS2p19

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specific time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1p110

(d) Termination benefits

19p133
19p134
19p139

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(e) Profit-sharing and bonus plans

19p17

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1p110

2.20 Provisions

37p14

(a) Restructuring costs and legal claims

37p72
37p63

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

37p24

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

37p45

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(b) Levies

IFRS4pIG17(j) The Group is subject to various insurance-related assessments or guarantee-fund levies. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event.

1p110 2.21 Revenue recognition

18p35(a) Revenue comprises the fair value for services, net of value-added tax, after eliminating revenue within the Group. Revenue is recognised as follows:

18p20 *(a) Rendering of services*

Revenue arising from asset management and other related services offered by the Group is recognised in the accounting period in which the services are rendered.

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets and derivatives in order to reproduce the contractual returns that the Group's customers expect to receive from their investments. Such activities generate revenue that is recognised by reference to the stage of completion of the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Group recognises these fees on a straight-line basis over the estimated life of the contract.

Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

The Group charges its customers for asset management and other related services using the following different approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period; fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

18p29-30(a) *(b) Interest income and expenses*

IFRS7 AppxB5(e) Interest income and expense for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within 'investment income' (Note 26) and 'finance costs' (Note 34) in the income statement using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

18p29-30(c) *(c) Dividend income*

Dividend income for available-for-sale equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

2.22 Leases

17p33
SIC-15p5

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1p110

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

17p20
17p27

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in trade and other payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.23 Dividend distribution

10p12

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Critical accounting estimates and judgements

IFRS4p38
1p113
1p116

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

IFRS4p38

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employers' liability policies written in the casualty segment are exposed to claims for industrial diseases caused by exposure to asbestos. The majority of these asbestos claims arises from insurance contracts issued in 1986 and prior years. Starting in 1988, the Group included in all its insurance contracts a clause of absolute exclusion of claims arising from exposure to asbestos.

Estimation of the ultimate cost of asbestos claims is a complex process and cannot be done using conventional actuarial techniques. Significant factors that affect the trends that influence the asbestos estimation process are the inconsistent court resolutions and jurisprudence that has broadened the intent and scope coverage of the protections offered in the insurance contracts issued by the Group. This factor is exacerbated by the geographical diversification of the Group asbestos claims. The current case law in all the territories in which the Group is exposed to these claims can be characterised as still evolving; it is unlikely that any firm direction will emerge in the courts' compensation methods in the near future. Due to this uncertainty, it is not possible to determine the future development of asbestos claims with the same degree of reliability as with other types of claim.

IFRS4p39(c)(i)

The Group believes that the liability for asbestos claims carried at year-end is adequate. However, an increase of 10% in the cost of the most severe cases (those where the disease degenerates into a form of cancer known as mesothelioma) would require the recognition of an additional loss of €10,284 (€2,545 net of reinsurance). Similarly, an increase of 10% in the ultimate number of such claims would cost an additional loss of €4,988 (€1,273 net of reinsurance).

IFRS4p38

(b) Estimate of future benefit payments and premiums arising from long-term insurance contracts, and related deferred acquisition costs and other intangible assets

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Were the numbers of deaths in future years to differ by 10% from management's estimate, the liability would increase by €1,243 or decrease by €552. In this case, there is no relief arising from reinsurance contracts held.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Under certain contracts, the Group has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. There is not enough historical information available on which to base these estimates. Changes in investment conditions could result in significantly more contract holders exercising their options than has been assumed. Were the numbers of contract holders that exercise their options to differ by 10% from the number estimated by management, the insurance liability would alter by €1,190. In this case, there is no relief arising from reinsurance contracts held.

IFRS4p39(c)(i)

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 4.2%. Were the average future investment returns to differ by 1% from management's estimates, the insurance liability would increase by €1,782 or decrease by €711. In this case, there is no relief arising from reinsurance contracts held.

For long-term insurance contracts with fixed and guaranteed terms and with DPF, estimates are made in two stages. Estimates of future deaths, voluntary terminations, investment returns and administration expenses are made at the inception of the contract and form the assumptions used for calculating the liabilities

during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these latest estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered ('unlocked') to reflect the best estimate assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognised, while significant enough deterioration in estimates is immediately recognised to make the liabilities adequate.

(c) Fair value of investment contracts

The Group issues a significant number of investment contracts that are designated at fair value through profit or loss. These financial instruments are not quoted in active markets, and their fair values are determined by using valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. A variety of factors is considered in the Group's valuation techniques, including time value, credit risk (both own and counterparty), embedded derivatives (such as unit-linking features), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. The extent that actual surrenders are different from the Group's estimates is the most critical factor in the fair valuation process, as additional fair value gains or losses would have been recognised in the fair value of liabilities associated with investment contracts. The change in fair value arising from the expected surrender patterns does not operate symmetrically. Increased surrender volumes may not be fully recognised in the valuation of investment contract liabilities owing to the requirement to maintain the fair value of financial liabilities above the amount payable on demand.

Were the actual expected surrender experience to differ by 10% from management's estimates, the consolidated net income would be an estimated €690 higher or €350 lower.

(d) Impairment of available-for-sale equity financial assets

The Group determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

Had all the declines in fair values below cost been considered significant or prolonged, the Group would suffer an additional €550 loss in its 2008 financial statements, being the transfer of the total equity reserve for unrealised losses to the income statement.

4 Management of insurance and financial risk

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Group manages them.

4.1 Insurance risk

IFRS4p39(a)

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

4.1.1 Casualty insurance risks

IFRS4p38

(a) Frequency and severity of claims

IFRS4p39(a)
IFRS4p39(c)

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to asbestos, and the increase in the number of cases coming to court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory to 40% of the total Group exposure, and the exposure to any one industry to 25% of the total Group exposure. In certain territories, legislation requires the maximum loss under each employers' liability contracts never to be lower than a prescribed amount. All the Group employers' liability contracts offer maximum cover in compliance with such minimums (£10 million in the UK and €15 million in Euravia). Any contract in which the Group is committed to cover risks in excess of €25 million requires head office approval.

The reinsurance arrangements include excess, stop-loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses of more than €40 million in any one year. In addition to the overall Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

The Group has specialised claims units dealing with the mitigation of risks surrounding known asbestos claims. This unit investigates and adjusts all asbestos claims. The asbestos claims are reviewed individually at least semi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of asbestos claims to reduce its exposure to unpredictable developments.

IFRS4p39(c)(ii)

The concentration of insurance risk before and after reinsurance by territory in relation to the type of casualty insurance risk accepted is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from casualty insurance contracts:

Year ended 31 December 2008

Territory		**Type of risk**			**Total**
		Employers' liability	**Public liability**	**Other types of casualty risk**	
Euravia	Gross	22,741	3,173	513	26,427
	Net	21,015	2,910	388	24,313
US	Gross	51,951	7,618	519	60,088
	Net	12,546	2,344	382	15,272
UK	Gross	37,826	11,614	1,855	51,295
	Net	37,110	6,586	1,569	45,266
Total	Gross	112,518	22,405	2,887	137,810
	Net	70,671	11,840	2,339	84,850

The relative geographical concentration of the risk is stable in comparison to last year, with a reduction of the insurance liabilities arising from employers' liability insurance contracts following the more stringent underwriting approach adopted by the Group since 1999.

Year ended 31 December 2007

Territory		**Type of risk**			**Total**
		Employers' liability	**Public liability**	**Other types of casualty risk**	
Euravia	Gross	15,993	3,021	745	19,759
	Net	14,815	2,766	597	18,178
US	Gross	43,834	4,583	583	49,000
	Net	10,875	1,123	252	12,250
UK	Gross	37,889	9,257	1,694	48,840
	Net	35,677	5,651	1,674	43,002
Total	Gross	97,716	16,861	3,022	117,599
	Net	61,367	9,540	2,523	73,430

IFRS4p39(c)(ii)

The following tables disclose the concentration of casualty insurance liabilities by the industry sector in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from casualty insurance contracts.

Year ended 31 December 2008

Industry sector		Maximum insured loss			Total
		€15m-€25m	€25m-€50m	€50m-€100m	
Construction	Gross	4,548	8,792	16,978	30,318
	Net	2,800	5,413	10,454	18,667
Extracting	Gross	7,607	11,576	13,891	33,074
	Net	4,684	7,127	8,553	20,364
Manufacturing	Gross	6,022	16,165	9,509	31,696
	Net	3,708	9,953	5,855	19,516
Service	Gross	4,754	8,269	7,648	20,671
	Net	2,927	5,091	4,709	12,727
Governmental	Gross	11,908	9,261	882	22,051
	Net	7,331	5,702	543	13,576
Total	Gross	34,839	54,063	48,908	137,810
	Net	21,450	33,286	30,114	84,850

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

Year ended 31 December 2007

Industry sector		Maximum insured loss			Total
		€15m-€25m	€25m-€50m	€50m-€100m	
Construction	Gross	4,475	6,992	16,502	27,969
	Net	2,820	4,406	10,398	17,624
Extracting	Gross	6,118	9,906	13,111	29,135
	Net	3,855	6,242	8,261	18,358
Manufacturing	Gross	5,384	12,307	7,948	25,639
	Net	3,392	7,754	5,008	16,154
Service	Gross	3,496	6,293	4,195	13,984
	Net	2,203	3,965	2,643	8,811
Governmental	Gross	11,095	7,528	1,189	19,812
	Net	6,990	4,744	749	12,483
Total	Gross	30,568	43,026	42,945	116,539
	Net	19,260	27,111	27,059	73,430

IFRS4p38

(b) Sources of uncertainty in the estimation of future claim payments

IFRS4p39(a)
IFRS4p37(c)

Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the balance sheet date.

IFRS4p38
IFRS4p37(c)

In calculating the estimated cost of unpaid claims (both reported and not), the Group estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analysed below by territory, type of risk and industry where the insured operates for current- and prior-year premiums earned.

		Type of risk		
Territory		**Employers' liability**	**Public liability**	**Other covers**
UK	2008	121%	53%	66%
	2007	148%	51%	71%
Other European territories	2008	107%	46%	63%
	2007	124%	49%	69%
US	2008	n/a	n/a	n/a
	2007	n/a	n/a	n/a

		Maximum insured loss		
Industry sector		**€15m-€25m**	**€25m-€50m**	**€50m-€100m**
Construction	2008	110%	145%	102%
	2007	103%	131%	95%
Extractive	2008	87%	115%	101%
	2007	79%	122%	114%
Manufacturing	2008	97%	92%	86%
	2007	95%	94%	88%
Service	2008	63%	64%	45%
	2007	71%	69%	67%
Governmental	2008	48%	51%	38%
	2007	49%	50%	39%

IFRS4p37(c)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Note 17 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims payments.

IFRS4p37(c)

(c) Process used to decide on assumptions

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. However, the exposure of the Group to claims associated with asbestos-related diseases is material and is described in detail in this section. This exposure is geographically concentrated in the US and UK.

The Group uses assumptions based on a mixture of internal and market data to measure its asbestos-related claims liabilities. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at year-end 2008 to derive data for the contracts held. The Group has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

These projections are carried out separately for two classes in which asbestos claims have been classified. The aim in this classification is to group claims based on their severity. The categories used in the analysis are non-malignant diseases (mainly pleural plaques), and mesothelioma and asbestosis.

The modelling of claims arising from mesothelioma, the most severe disease associated with asbestos, is based on studies published in the US and the UK and attempts to extrapolate historical asbestos-related mortality rates. Individuals with asbestosis and non-malignant types of disease are entitled to lower compensation due to the fact that the disease arises from a relatively limited exposure to asbestos and is less severe than mesothelioma.

For each disease category, the cost of the future claims includes estimates of the cost for the pure indemnity and the associated handling costs (including defence and legal costs). Market data is used to assess the indemnity inflation rates for each type of disease and its estimated future evolution. An inflation factor is therefore calculated for each year/disease. Different rates are used for UK claims and US claims.

The estimated cost of claims for each year and each disease is the product of the projections of claims number, the average claims sizes and the inflation factor. These figures are then summed up over years and types of disease. For each contract, estimated losses are compared to the maximum loss payable under the terms of the policy and reduced to such amount if lower than the estimated loss.

For all other casualty risks, the Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

IFRS4p37(d)

(d) Change in assumptions and sensitivity analysis

The additional net insurance reserves arising in respect of prior years of €9,320 (2007: €2,228) includes a movement of €5,618 (2007: €912) that has arisen due to changes in the assumptions used to estimate the ultimate cost of asbestos-related claims payment (for €4,417) and the impact of new legislation on bodily injury awards in the UK market (for €1,201).

As explained in Note 3, the assumptions used to estimate these liabilities require judgement and are subject to great uncertainty. Section (i) below provides additional details of the material changes in the assumptions adopted by the Group at the end of the current year.

(i) Ultimate cost of asbestos related claims

The change in the assumptions for asbestos amounts to a net increase of €4,417 and relates to the frequency of mesothelioma and asbestosis and non-malignant diseases claims. These projections have been updated to take account of claims experience during the year. During 2008, the Group estimation model for asbestos-related claims has been updated to reflect the following changes in assumptions:

- The increasingly heavy punitive elements included in litigation awards in the US and in the other territories where the Group has incurred this type of claim;
- The increase in the tendency for non-US claimants to seek a resolution through a court decision (more expensive on average than out-of-court settlements);
- Changes to the actual legal costs incurred driven by the method of paying these costs (for example, fixed cost or share of court award).

The revised assumptions resulted in an increased charge to the income statement reflecting an increased liability.

(ii) Impact of new legislation on bodily injury awards in the UK market

A change in the assumptions relating to the settlement of UK bodily injury claims required an additional provision of €1,201. This additional liability has been recognised to allow for the probable changes to court awards settlement orders for bodily injury claims arising from casualty insurance contracts. This increase is entirely concentrated in the UK unit of the casualty segment as a result of the expected impact of the requirements of the UK law known as ‘Court’s Act: Power to order Periodical Payments for Future Losses’. This new UK law addresses concerns surrounding the provision of lump-sum settlements to some claimants who may not be able to manage their money in an efficient manner to ensure a long-term income. This law has given the UK courts the power to order settlements in the form of periodic payments rather than lump sums. This law may apply to all cases including claims from past accidents and will impact the case estimates of existing claims, as well as incurred but not reported claims.

The estimated additional liability has been based on the difference between lump-sum payments and the price of annuities, taking account of the following factors:

- The difference between the current discount rate used to calculate lump-sum compensations and the prevalent market annuity rates;
- The tax treatment of lump sums compared to tax treatment of periodic payments; and
- Longevity risk in a life-contingent settlement.

IFRS4p39(c)(i)(iii)

(e) Sensitivity analysis – sensitivity of asbestos-related liabilities and claims development tables

The reasonableness of the estimation process is tested by an analysis of sensitivity around several different scenarios. The change in average indemnity awards allowing for alternative inflation rates and different proportions of mesothelioma and non-malignant claims is the scenario that is the most critical to the assumptions used to estimate the liabilities for these insurance contracts.

The Group believes that the liability for asbestos claims carried at year-end is adequate. However, an increase of 10% in the cost of the cases where the injured party is affected by mesothelioma would require the recognition of an additional loss of €10,284 (€2,545 net of reinsurance). Similarly, an increase of 10% in the ultimate number of such claims would cost an additional loss of €4,988 (€1,273 net or reinsurance). Management believes that the 10% deviation used in the sensitivity analysis for asbestos claims represents a deviation in the expected level of claims that could be reasonably expected for this type of business.

The impact on profit or loss before tax described above does not take account of changes in other variables, as they are considered to be less material. Such an assessment and the relative materiality of individual variables may change in the future.

4.1.2 Long-term insurance contracts

IFRS4p38,

(a) Frequency and severity of claims

IFRS4p39(a)(c)

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, SARS or a human form of avian flu) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party.

The Group charges for mortality risk on a monthly basis for all insurance contracts without a fixed term. It has the right to alter these charges based on its mortality experience and hence minimise its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect. The Group manages these risks through its underwriting strategy and reinsurance arrangements

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Group balances death risk and survival risk across its portfolio. Medical selection is also included in the Group's underwriting procedures, with premiums varied to reflect the health condition and family medical history of the applicants. The Group has a group-wide retention limit of €1,000 on any single life insured. The Group reinsures the excess of the insured benefit over €1,000 for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. Medically impaired lives are reinsured at lower levels. The Group does not have in place any reinsurance for contracts that insure survival risk.

IFRS4p39(c)(ii)

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Group.

These tables do not include annuity contracts, for which a separate analysis is reported further below.

Benefits assured per life assured at the end of 2008	**Total benefits insured**			
	Before reinsurance		**After reinsurance**	
0-200	414,821	(30.1%)	385,373	(32.0%)
200-400	581,256	(42.1%)	520,567	(43.2%)
400-800	226,283	(16.4%)	215,457	(17.9%)
800-1,000	130,842	(9.5%)	73,230	(6.1%)
More than 1,000	25,561	(1.9%)	10,000	(0.8%)
Total	1,378,763	(100.0%)	1,204,627	(100.0%)

The risk is concentrated in the lower value bands. This has not changed from last year.

Benefits assured per life assured at the end of 2008	**Total benefits insured**			
	Before reinsurance		**After reinsurance**	
0-200	391,882	(30.3%)	358,769	(31.8%)
200-400	544,112	(42.1%)	487,100	(43.2%)
400-800	212,345	(16.4%)	202,111	(17.9%)
800-1,000	123,119	(9.5%)	69,722	(6.2%)
More than 1,000	21,651	(1.7%)	9,000	(0.8%)
Total	1,293,109	(100.0%)	1,126,702	(100.0%)

The following tables for annuity insurance contracts illustrates the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year end. The Group does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity payable per annum per life insured at the end of 2008	**Total annuities payable per annum**	
0-20	2,547	(21.5%)
20-40	4,171	(35.2%)
40-80	2,855	(24.1%)
80-100	1,228	(10.4%)
More than 100	1,041	(8.8%)
Total	11,842	(100.0%)

The risk concentration has not changed from the prior year.

Annuity payable per annum in € per life insured at the end of 2007	Total annuities payable per annum	
0-20	2,411	(21.8%)
20-40	3,890	(35.1%)
40-80	2,650	(23.9%)
80-100	1,145	(10.3%)
More than 100	985	(8.9%)
Total	11,081	(100.0%)

Insurance risk for contracts disclosed in this Note is also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance risk is also subject to contract holder behaviour. On the assumption that contract holders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that contract holders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those contract holders remaining in good health. This results in an increasing trend of expected mortality, as the portfolio of insurance contracts reduces due to voluntary terminations.

The Group has factored the impact of contract holders' behaviour into the assumptions used to measure these liabilities (see Note 17).

IFRS4p37(c)

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

IFRS4p38
IFRS4p39(a)

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The Group uses appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides. An investigation into the actual experience of the Group over the last three years is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. Where this is not the case, the best estimate of future mortality is based on standard industry tables adjusted for the Group's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies. The impact of any historical evidence of selective termination behaviour will be reflected in this experience. The Group maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

(c) Process used to decide on assumptions

IFRS4p37(c)

For long-term insurance contracts with fixed and guaranteed terms and with DPF, estimates are made in two stages. At inception of the contract, the Group determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ('unlocked') to reflect the latest current estimates; no margin is added to the assumptions in this event. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets shown in paragraph (d) below is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

For long-term insurance contracts without fixed terms and for investment contracts with DPF, the assumptions used to determine the liabilities do not contain margins and are not locked in but are updated at each reporting date to reflect the latest estimates. Assumptions are considered to be 'best estimate' if, on average, the results are expected to be worse than the assumptions in 50% of possible scenarios and better in the other 50%.

The assumptions used for the insurance contracts disclosed in this Note are as follows:

- **Mortality**
  An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into Group's experience over the most recent three years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

- **Morbidity**
  The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Group's own experience.

- **Persistency**
  An investigation into the Group's experience over the most recent three years is performed, and statistical methods are used to determine an appropriate persistency rate. Persistency rates vary by product type and policy duration. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates that takes into account the effective contract holders' behaviour.

- **Investment returns**
  Investment returns affect the assumed level of future benefits due to the contract holders and the selection of the appropriate discount rate. The Group's primary assumptions on investment returns relate to the following four components:

  Risk-free rates: the risk-free rates are the gross yields to redemption of benchmark government securities. For the current valuation, these are:

	US$	**€**
1-5 years	4.5%	3.6%
5-10 years	4.7%	3.8%
More than 10 years	5.0%	4.0%

Credit spreads: to obtain rates other than risk free, the Group uses the rates from the above table and adds the following 'credit spreads'.

Credit rating	**Spreads**[1]		
	1-5 years	**5-10 years**	**>10 years**
AAA	0.20%	0.20%	0.20%
AA	0.30%	0.50%	0.60%
A	0.40%	0.70%	1.00%
BBB	0.80%	1.00%	1.40%
BB	3.00%	2.50%	2.00%
B	5.00%	4.00%	3.00%

Equity investments: the expected long-term return – dividends and capital growth – is derived by adding to the 30-year risk-free rate of return an equity risk premium of 4%.

Overall investment return: a weighted average rate of investment return is derived by combining different proportions of the above financial assets in a model portfolio, which is assumed to back the liabilities. These model portfolios are consistent with the long-term asset allocation strategies as set out in the Group ALM framework.

- **Renewal expense level and inflation**
  The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be 0.5% above current inflation rates at 2.3% per annum in the US and 2.0% per annum in Euravia.

IFRS4p37(d)

- **Tax**
  It has been assumed that current tax legislation and rates continue unaltered.

(d) Change in assumptions

The Group did not change its assumptions for the insurance contracts disclosed in this note.

IFRS4p37(c)(i)

(e) Sensitivity analysis

The following tables present the sensitivity of the value of insurance liabilities disclosed in this Note to movements in the assumptions used in the estimation of insurance liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of a further deterioration in the variable.

[1] Credit spreads are obtained from the yields on publicly quoted corporate bond indices, as at the balance sheet date.

Long-term insurance contracts with fixed and guaranteed terms

Variable	Trigger level	Change in variable	Change in liability 2008	Change in liability 2007
Worsening of mortality	+58.0%	+10%	(143)	(101)
Improvement in annuitant mortality	4.1% p.a.	+1% p.a.	(255)	(189)
Worsening of base renewal expense level	+15.3%	+10%	(600)	(540)
Worsening of renewal expense inflation rate	+1.3% p.a.	+1% p.a.	(705)	(610)
Worsening of lapse rate	+65.0%	+20%	(230)	(178)

Long-term insurance contracts without fixed terms and with DPF

IFRS4p39(c)(i)

Variable	Change in variable	Change in liability 2008	Change in liability 2007
Worsening of mortality	1% pa	(14)	(11)
Worsening of base renewal expense level	+10%	(720)	(680)
Worsening of expense inflation	+ 1% pa	(850)	(720)
Worsening of lapse rate	+20%	(250)	(200)

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values; and change in lapses and future mortality.

Sensitivity analysis for financial risks is presented in Note 4.2 together with the assets backing the associated liabilities of the contracts.

IFRS4p39(c)(i), (e)

(f) Guaranteed annuity options
The amount of insurance risk under contracts with guaranteed annuity options is also dependent on the number of contract holders that will exercise their option ('option take-up rate'). This will depend significantly on the investment conditions that apply when the options can be exercised. The lower the current market interest rates in relation to the rates implicit in the guaranteed annuity rates, the more likely it is that contract holders will exercise their options. Continuing improvements in longevity reflected in current annuity rates will increase the likelihood of contract holders exercising their options as well as increasing the level of insurance risk borne by the Group under the annuities issued. The Group does not have sufficient historical data on which to base its estimate of the number of contract holders who will exercise their options.

The following table indicates the likely changes in the carrying amount of the liability at year-end in response to changes in interest and mortality rates. The additional carrying amount is calculated on the assumption that every contract holder exercises his option at the earliest date possible.

Interest rate	Current less 1%	Current less 1%	Current plus 1%	Current plus 1%
Mortality rate	Current	Current less 10%	Current	Current less 10%
Additional insurance liability at this year-end	€3.4m	€6.8m	€2.7m	€5.1m

4.1.3 Short-duration life insurance contracts

(a) Frequency and severity of claims

IFRS4p38
IFRS4p39(a)
IFRS4p39(c)

These contracts are mainly issued to employers to insure their commitments to their employees in terms of their pension fund and other employee benefit plans. The risk is affected by the nature of the industry in which the employer operates, in addition to the factors in Note 4.1.2. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. Historical data indicates that recession and unemployment in an industry will increase the number of claims for disability benefits as well as reducing the rate of recovery from disability. The Group attempts to manage this risk through its underwriting, claims handling and reinsurance policy. The amount of disability benefit cover provided per individual is restricted to a maximum of 75% of the individual's monthly income. Excess of loss reinsurance contracts have been purchased by the Group to limit the maximum loss on any one life to €1,000.

IFRS4p39(c)(ii)

The following table reports the year-end aggregated insured benefits for the in-force short-duration life insurance contracts by industry sector. The analysis of such contractual exposures is deemed to be the best indicator of the insurance risk concentration by industry for these contracts. Disability risk is disclosed as the amount payable per annum under the terms of the in-force insurance contract.

2008

	Before reinsurance				After reinsurance			
Industry sector	**Mortality risk**		**Disability risk**		**Mortality risk**		**Disability risk**	
Construction	343,523	22%	11,041	18%	323,301	22%	10,319	21%
Extractive	253,908	16%	6,895	12%	214,867	16%	6,879	13%
Manufacturing	460,430	28%	17,771	31%	403,266	28%	15,248	29%
Service	383,692	24%	16,625	29%	343,523	25%	14,196	27%
Governmental	92,086	6%	3,440	6%	89,615	6%	3,155	6%
Other	61,391	4%	2,293	4%	59,743	4%	2,103	4%
Total	1,595,030	100%	58,006	100%	1,433,315	100%	51,900	100%

The concentration is substantially unchanged from prior year.

2007

	Before reinsurance				After reinsurance			
Industry sector	**Mortality risk**		**Disability risk**		**Mortality risk**		**Disability risk**	
Construction	321,966	20%	10,184	19%	296,858	22%	9,956	20%
Extractive	248,792	14%	6,532	12%	207,801	17%	6,472	13%
Manufacturing	460,130	31%	17,153	32%	409,775	28%	14,935	30%
Service	371,073	25%	14,473	27%	336,601	23%	13,441	27%
Governmental	89,057	6%	3,216	6%	87,809	6%	2,987	6%
Other	59,372	4%	2,144	4%	58,539	4%	1,991	4%
Total	1,550,390	100%	53,702	100%	1,397,383	100%	49,782	100%

(b) Sources of uncertainty in the estimation of future claim payments

IFRS4p38

Other than for the testing of the adequacy of the liability representing the unexpired risk at the balance sheet date, there is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration. However, for incurred disability income claims, it is necessary to estimate the rates of recovery from disability for future years. Standard recovery tables produced by reinsurers are used as well as the actual experience of the Group. The influence of economic circumstances on the actual recovery rate for individual contracts is the key source of uncertainty for these estimates.

IFRS4p37(c)

(c) Process used to decide on assumptions

The assumptions used for the insurance contracts disclosed in this Note are as follows:

- **Mortality**
  An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into Group's experience over the most recent three years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

- **Morbidity**
  The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Group's own experience.

  The process to decide these assumptions for the contracts disclosed in this Note is similar to those disclosed in Note 4.1.2. However, the short-term nature of the mortality risk underwritten makes the Group's estimate of the liability covering death benefit payments less uncertain than in the case of long-term contracts. For disability income claims the Group uses similar statistical methods used for casualty risks that incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods and are described in Note 4.1.1(c) above.

  Similar to the approach for the assumptions underlying the casualty insurance liabilities, the choice of selected results for each accident year depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for individual accident years or groups of accident years.

IFRS4p37(d)

(d) Changes in assumptions

The Group did not change its assumptions for the insurance contracts disclosed in this note.

IFRS4p39(c)(i)

(e) Sensitivity analysis

Short-duration insurance contract (life risks only)

Variable	Change in variable	Change in liability 2008	Change in liability 2007
Worsening of mortality	+10%	(210)	(195)
Worsening of morbidity:			
– Incidence	+10%	(300)	(295)
– Duration	+ 1 year	(240)	(215)

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, changes in lapses and future mortality.

Short-duration insurance life contracts are not exposed to financial risks.

4.1.4 Property insurance contracts

IFRS4p38

(a) Frequency and severity of claims

IFRS4p39(a)
IFRS4p37(c)

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, hurricanes and typhoons) and their consequences (for example, subsidence claims). For certain contracts, the Group has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Group has reinsurance cover for such damage to limit losses to €3,000 in any one year.

Property insurance contracts are subdivided into four risk groups: fire, business interruption, weather damage and theft. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Group operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings. The Group does not underwrite property insurance contracts outside Europe.

IFRS4p38

(b) Sources of uncertainty in the estimation of future claim payments

IFRS4p39(a)
IFRS4p37(c)

Property claims are analysed separately for subsidence and non-subsidence claims. The development of large losses/catastrophes is analysed separately. Non-subsidence claims can be estimated with greater reliability, and the Group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of a subsidence claim makes the estimation process more uncertain for these claims. Virtually all the IBNR liability for property insurance contracts relates to subsidence claims.

In particular, the claims experience in 2008 has deteriorated, and both the frequency and severity of subsidence claims have increased significantly. The weather in summer 2008 in Europe has generated a significantly higher number of subsidence claims than usual. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates than in previous years. The Group has been monitoring numbers of reported claims on a weekly basis and reflected such information in its assessment of the adequacy of the unearned premium provision held at year-end (Note 17). The effect of this unexpected weather may affect prior-year claims, due to the re-opening of old claims and higher settlement costs for subsidence claims in the current market. At year-end 2008, the Group believes that its liabilities for subsidence claims are adequate. However, more permanent changes in the European climate may produce a higher frequency and severity of claims than currently expected.

IFRS4p37(c)

(c) Process used to decide on assumptions

For non-subsidence-related property risks, the Group uses similar statistical methods used for casualty risks that incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods. These are described in Note 4.1.1(c). As noted in the paragraph above, the shorter settlement period of non-subsidence related property claims reduces the estimation uncertainty of these liabilities.

Similar to the approach for the assumptions underlying the casualty insurance liabilities, the choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for individual accident years or groups of accident years within the same class of business.

For subsidence property risks, the Group is monitoring its current claim experience against tracked records of soil moisture levels of subsidence 'catastrophic event years' as observed in the last 15 years (1997, 1999 and 2005). The Group has selected an average cost per claim method using actuarial and extrapolation techniques applied to the experience observed for such years. The Group has calculated estimates assuming that the settlement period has remained unchanged.

Through this analysis, the Group determines the need for an IBNR or an unexpired risk liability to be held at each reporting date.

IFRS4p37(d)

(d) Changes in assumptions

As discussed in paragraph (b) above, the Group did not change its assumptions for the insurance contracts disclosed in this Note other than updating the costs of rebuilding properties, replacement or indemnity for contents for time value of money.

IFRS4p37(c)(i)

(e) Sensitivity analysis

The analysis of subsidence exposures described in paragraph (c) above is also used to test the sensitivity of the selected assumptions to changes in the key underlying factors. Assumptions of different moisture levels have been used to assess the relative severity of subsidence claims given past experience. The key material factor in the Group's exposure to subsidence claims is the risk of more permanent climate changes in Europe. If the conditions experienced in 2008 were to become a permanent feature of European climate, the Group would need an additional liability as set out below (gross and net of reinsurance):

	2008		2007	
	Gross	**Net**	**Gross**	**Net**
IBNR liability	225	178	301	270
Unexpired risk liability	113	67	102	79
Total	335	245	403	349

Short-duration insurance property contracts are not exposed to financial risks.

4.2 Financial risk

The Group is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

IFRS7p33(b)
IFRS4p39(a)

The Group manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. Within the ALM framework, the Group periodically produces reports at portfolio, legal entity and asset and liability class level that are circulated to the Group's key management personnel. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct class of liabilities, a separate portfolio of assets is maintained. The Group has not changed the processes used to manage its risks from previous periods.

The Group's ALM is integrated with the management of the financial risks associated with the Group's other classes of financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The notes below explain how financial risks are managed using the categories utilised in the Group's ALM framework. In particular, the ALM Framework requires the management of interest rate risk, equity price risk and liquidity risk at the portfolio level. Foreign currency and credit risk are managed on a group-wide basis. To reflect the Group risk management approach, the required disclosures for interest rate, equity price and liquidity risks are given separately for each portfolio of the ALM framework (see Notes 4.2.1 to 4.2.5). Credit risk disclosures are provided for the whole Group in Note 4.2.6.

The following tables reconcile the balance sheet to the classes and portfolios used in the Group's ALM framework.

IFRS7p6-8
IFRS7 B2

2008	**Total**
Debt securities	
At fair value through profit or loss:	
– Unlisted securities	77,335
– Listed securities	1,839
Available-for-sale:	
– Listed securities	699,296
– Unlisted securities	17,464
Held-to-maturity:	
– Listed securities	80,342
– Unlisted securities	1,242
Equity securities	
At fair value through profit or loss:	
– Listed securities	237,107
– Unlisted securities	72,280
Available-for-sale:	
– Listed securities	50,416
– Unlisted securities	10,681
Investment in associates (Note 9)	13,373
Loans and receivables:	
– Insurance receivables (Note 12)	6,080
– Other (Note 12) at amortised cost	671
Derivative financial instruments, at fair value (Note 13):	
– Hedges	1,681
– Non hedges	9,783
Reinsurance assets	60,688
Cash and cash equivalents	28,993
Other assets	177,636
Total assets	1,546,906
Long-term insurance contracts and investment contracts:	
With guaranteed and fixed terms:	
– Insurance contracts	347,624
– Investment contracts – at amortised cost	147,420
Without fixed terms:	
– Insurance contracts	183,375
– Investment contracts – at fair value through profit or loss	171,568
Long-term insurance contracts and investment contracts with DPF:	
– Insurance contracts	–
– Investment contracts	–
Short-term insurance contracts	213,294
Derivative financial instruments, at fair value (Note 13):	
– Hedges	5,998
– Non hedges	1,862
Borrowings – at amortised cost	56,891
Amounts due to related parties, trade payables, and other provisions, at amortised cost	4,224
Other liabilities	70,493
Total liabilities	1,309,578

Fixed and guaranteed Insurance and investment contracts	Contracts with DPF		Unit-linked contracts			Corporate	
	Insurance contracts	Investment contracts	Insurance contracts	Investment contracts	Short-term insurance contracts	Other financial assets and liabilities	Other assets and liabilities
–	–	–	6,521	21,321	23,993	25,500	–
–	–	–	–	–	1,839	–	–
491,437	25,471	82,724	–	–	64,164	35,500	–
17,464	–	–	–	–	–	–	–
80,342	–	–	–	–	–	–	–
1,242	–	–	–	–	–	–	–
–	–	–	123,323	113,784	–	–	–
–	–	–	47,176	25,104	–	–	–
–	–	–	–	–	50,416	–	–
–	–	–	–	–	10,681	–	–
–	–	–	–	–	–	13,373	–
–	–	–	–	–	6,080	–	–
–	–	–	–	–	–	671	–
875	–	–	–	–	514	292	
7,526	–	–	–	2,257	–	–	–
–	–	–	–	–	60,688	–	–
6,142	1,177	1,139	355	10,214	9,966	–	–
46,400	1,692	5,326	26,659	36,221	6,512	–	54,825
651,428	28,340	89,189	204,034	208,901	234,853	75,336	54,825
347,624	–	–	–	–	–	–	–
147,420	–	–	–	–	–	–	–
–	–	–	183,375	–	–	–	–
–	–	–	–	171,568	–	–	–
–	25,927	–	–	–	–	–	–
–	–	80,902	–	–	–	–	–
–	–	–	–	–	213,294	–	–
2,390	–	–	–	–	2,567	1,041	–
127	79	544	–	1,112	–	–	–
–	–	–	–	–	–	56,891	–
–	–	–	–	–	–	4,224	–
–	–	–	–	–	–		70,493
	26,006	81,446	183,375	172,680	215,861	62,156	70,493

IFRS7p6–8
IFRS7 B2

2007	Total
Debt securities	
At fair value through profit or loss:	
– Unlisted securities	9,326
– Listed securities	48,755
Available–for–sale:	
– Listed securities	625,707
– Unlisted securities	15,152
Held–to–maturity:	
– Listed securities	71,994
– Unlisted securities	3,477
Equity securities	
At fair value through profit or loss:	
– Listed securities	202,775
– Unlisted securities	50,400
Available–for–sale:	
– Listed securities	76,253
– Unlisted securities	8,115
Investment in associates (Note 9)	13,244
Loans and receivables:	
– Insurance receivables (Note 12)	12,660
– Other (Note 12) at amortised cost	1,014
Derivative financial instruments, at fair value (Note 13):	
– Hedges	1,962
– Non hedges	9,234
Reinsurance assets	49,919
Cash and cash equivalents	39,806
Other assets	159,583
Total assets	1,399,376
Long-term insurance contracts and investment contracts:	
With guaranteed and fixed terms:	
– Insurance contracts	317,495
– Investment contracts – at amortised cost	117,030
Without fixed terms:	
– Insurance contracts	175,009
– Investment contracts – at fair value through profit or loss	134,466
Long-term insurance contracts and investment contracts with DPF:	
– Insurance contracts	28,518
– Investment contracts	88,992
Short-term insurance contracts	185,459
Derivative financial instruments, at fair value (Note 13):	
– Hedges	6,040
– Non hedges	2,707
Borrowings – at amortised cost	45,575
Amounts due to related parties, trade payables, and other provisions, at amortised cost	4,282
Other liabilities	61,402
Total liabilities	1,166,975

	Fixed and guaranteed Insurance and investment contracts	Contracts with DPF		Unit–linked contracts			Corporate	
		Insurance contracts	Investment contracts	Insurance contracts	Investment contracts	Short–term insurance contracts	Other financial assets and liabilities	Other assets and liabilities
	–	–	–	–	–	4,766	4,560	–
	–	–	–	23,115	19,297	6,343	–	–
	426,326	27,668	88,543	–	–	47,730	35,440	–
	15,152	–	–	–	–	–	–	–
	71,994	–	–	–	–	–	–	–
	3,477	–	–	–	–	–	–	–
	–	–	–	115,748	87,027	–	–	–
	–	–	–	29,407	20,993	–	–	–
	–	–	–	–	–	56,253	20,000	–
	–	–	–	–	–	8,115	–	–
	–	–	–	–	–	–	13,244	–
	–	–	–	–	–	12,660	–	–
	–	–	–	–	–	–	1,014	–
	1,040	–	–	–	–	610	446	–
	7,325	159	1,140	–	476	–	–	–
	–	–	–	–	–	49,919	–	–
	5,985	1,326	1,698	236	8,149	22,412	–	–
	49,718	1,998	6,264	24,027	23,756	6,257	–	47,563
	581,017	31,151	97,645	192,533	159,698	215,065	74,704	47,563
	317,495	–	–	–	–	–	–	–
	117,030	–	–	–	–	–	–	–
	–	–	–	175,009	–	–	–	–
	–	–	–	–	134,466	–	–	–
	–	28,518	–	–	–	–	–	
	–	–	88,992	–	–	–	–	–
	–	–	–	–	–	185,459	–	–
	2,791	–	–	–	–	2,642	1,141	–
	697	–	–	–	1,476	–	–	–
	–	–	–	–	–	–	45,575	–
	–	–	–	–	–	–	4,282	–
								61,402
	438,013	28,518	88,992	175,009	135,942	188,101	50,998	61,402

4.2.1 Fixed and guaranteed insurance and investment contracts

Insurance and investment contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable.

The Group monitors interest rate risk by calculating the mean duration of the investment portfolio and the liabilities issued. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. The mean duration of the assets is calculated in a consistent manner. Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations and use of interest rate swaps.

The following tables indicate the estimated amount and timing of cash flows arising from the liabilities in this category of the Group's ALM framework and the extent of duration-matching for these contracts. They summarise the Group's exposure to interest rate risks for these assets and liabilities. When debt securities mature, the proceeds not needed to meet liability cash flows will be re-invested in floating rate securities, and the interest rate swaps are used to secure fixed interest rate cash flows. The reinvestment of these net positive proceeds in the earlier years will fund the negative cash flows displayed in the table below for the later years.

As at 31 December 2008		Contractual cash flows (undiscounted)				
	Carrying amount	0-5 yrs	5-10 yrs	10-15 yrs	15-20 yrs	> 20 yrs
Carrying value and cash flows arising from:						
DV Assets backing liabilities – guaranteed component						
Available for sale:						
Listed debt securities:						
– Fixed rate	380,435	55,771	112,570	208,072	164,942	72,910
– Floating rate	111,002	39,645	46,531	50,862	–	–
Unlisted debt securities fixed rate	17,464	1,345	2,345	5,678	9,234	3,256
Held to maturity:						
– Listed debt securities fixed rate	80,342	10,345	44,367	39,657	31,345	–
– Unlisted debt securities fixed rate	1,242	1,409	–	–	–	–
Derivative financial instruments, net	5,884	(1,383)	(5,984)	1,595	9,065	13,699
Cash and cash equivalents	6,142	6,142				
Total	602,511	113,274	199,829	305,864	214,586	89,865

IFRS4p39(d)(i) **Liabilities**		Expected cash flows (undiscounted)				
Long-term insurance contracts	347,624	30,042	71,100	198,280	201,341	160,226
Long-term investment contracts	147,420	51,045	65,687	51,747	30,998	15,945
Total	495,044	81,087	136,787	250,027	232,339	176,171
Difference in expected cash flows		32,187	63,042	55,837	(17,753)	(86,306)

Mean duration of assets	12.0 years
Mean duration of liabilities	12.6 years

DV

As at 31 December 2008		**Contractual cash flows (undiscounted)**				
	Carrying amount	**0-5 yrs**	**5-10 yrs**	**10-15 yrs**	**15-20 yrs**	**> 20 yrs**
Carrying value and cash flows arising from:						
Assets backing liabilities – guaranteed component						
Available for sale:						
Listed debt securities:						
– Fixed rate	325,326	43,859	86,981	172,537	133,543	64,324
– Floating rate	101,000	30,730	46,648	51,659	–	–
Unlisted debt securities fixed rate	15,152	2,567	6,764	3,450	1,326	965
Held to maturity:						
– Listed debt securities fixed rate	71,994	18,444	22,196	43,679	32,345	–
– Unlisted debt securities fixed rate	3,477	2,945	590	–	–	–
Derivative financial instruments, net	4,877	(1,594)	(4,184)	1,295	8,965	14,643
Cash and cash equivalents	5,985	5,985	–	–	–	–
Total	527,811	102,936	158,995	272,620	176,179	79,932

IFRS4p39(d)(i)

Liabilities		**Expected cash flows (undiscounted)**				
	Carrying amount	**0-5 yrs**	**5-10 yrs**	**10-15 yrs**	**15-20 yrs**	**> 20 yrs**
Long-term Insurance contracts	317,495	27,352	67,528	182,847	182,879	150,586
Long-term Investment contracts	117,030	26,907	53,514	52,814	26,807	15,904
Total	434,525	54,259	121,042	235,661	249,686	166,490
Difference in expected cash flows		48,677	37,953	36,959	(33,507)	(86,558)

Mean duration of assets	12.1 years
Mean duration of liabilities	13.2 years

All the long-term insurance and investment contracts with fixed and guaranteed terms can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For insurance contracts, the Group is not required to measure this embedded derivative at fair value. This surrender value is always lower than the carrying amount of the insurance liabilities as a result of the application of surrender penalties set out in the contracts. The range

of such penalties is between 2% and 3% of the carrying amount of investment contracts and between 7% and 20% of the carrying amount of insurance contracts. For insurance contracts, these penalties mitigate the expense incurred form derecognising the associated DAC assets when the insurance contracts are surrendered. For investment contracts, there are no DAC assets, and all surrender options are related to the host contract.

The impact on the Group's current year results if all the contracts with this option were surrendered at the financial year-end, net of surrender penalty charges and DAC recognition, would have been a loss of €233 (prior year: €316).

A maturity analysis based on the earliest contractual repayment date would present all the liabilities as due on the earliest period of the table (between 0 and 5 years) because these options can be exercised immediately by all policyholders. The value of this liability would be lower than stated in the above table as the Group would be contractually entitled to deduct a surrender charge. The effect of the surrender charges is immaterial.

The excess of assets over liabilities represents the allocation of assets to this portfolio under the Group's capital management approach.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

IFRS7p40(a)

(a) Sensitivity analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rate will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. The level of the reduction of the level of interest rate that will trigger an adjustment is an interest rate of 1.7% (2007: 1.9%). An additional liability of €400 (2007: €425) would be required as a result of a further reduction of 100 basis points in the level of interest rate.

Investment contracts with fixed and guaranteed terms and debt securities held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

In relation to financial assets and derivative positions described in this note, management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

The assets backing fixed and guaranteed insurance and investment contract portfolios relate to the Group's operations in Euravia and the US.

An increase in 100 basis points in interest yields would result in a loss for the period of €1,403 (2007: loss of €984). The portion of this loss that would be recognised directly in equity is €1,322 (2007: loss of €952).

A decrease in 100 basis points in interest yields would result in a gain for the period of €1,283 (2007: gain of €798). The portion of this gain that would be recognised directly in equity is €1,189 (2007: gain of €739).

IFRS2p40(a)

(b) Sensitivity analysis – currency risk

IFRS7B23

The Group underwrites fixed and guaranteed insurance and investment contracts in Euravia and in the US. In the US, the Group invests in assets denominated in the same currencies as their related liabilities, which eliminates the foreign currency exchange rate risk for these operations. Foreign exchange risk arises from recognised assets and liabilities held in the Euravian portfolios that are denominated in currencies other than the euro and from net investments in foreign operations. The sensitivity arising from the latter type of currency risk is discussed in Note 4.2.5.

The Group exposure to foreign currency risk within the portfolio supporting the Group's eurozone fixed and guaranteed insurance and investment liabilities arises primarily from purchased investments that are denominated or payable in US dollars. The Group hedges in euros all foreign currency-denominated held-to-maturity debt securities supporting the eurozone operations, using foreign exchange forward contracts, in order to mitigate the risk that the interest and principal cash flows of these investments fluctuate as a result of changes in foreign exchange rates (see Note 13). The Group's hedging strategy is fully effective, and if the euro weakened/strengthened against the US dollar, the impact on the Group net current year result would have been nil.

4.2.2 Insurance and investment contracts with discretionary participation features

The Group originates contracts with DPF only in the Euravian market. Insurance and investment contracts with DPF are backed by two distinct funds (the insurance DPF fund and the investment DPF fund) and can be single premium or regular premium contracts. These funds are segregated from the other Group's assets and are presented in the table below, analysed between the liability and equity DPF component.

The supplemental benefits payable to holders of such contracts are based on historic and current rates of return on the fixed income securities in which the fund is invested, as well as the Group's expectations of future investment returns.

The measurement of the liabilities under long-term insurance contracts and investment contracts with DPF is similar to that of insurance contracts with guaranteed and fixed terms. However, the impact of interest rate risk is different due to the presence of the DPF.

The Group only bears financial risk in relation to the guaranteed benefits payable under these contracts. These guaranteed benefits increase as supplemental benefits are declared and distributed to contract holders. While the Group recognises as a liability 90% of the excess of the carrying value of the underlying assets over the carrying value of the guaranteed liabilities, the Group does not bear any interest rate risk in relation to this DPF component liability.

The following tables summarise the asset composition of the two DPF funds:

	2008	2007
Insurance DPF fund and related liabilities and equity component		
Debt securities – available for sale:		
– Fixed interest rate	22,813	24,480
– Floating interest rate	2,658	3,188
Derivative financial instruments (Note 13) – OTC swaps	(79)	159
Cash and cash equivalents	1,177	1,326
Insurance DPF fund – total	26,569	29,153
Long term insurance contracts with DPF:		
– Guaranteed element	20,314	19,570
– DPF element	5,613	8,948
Total liabilities	25,927	28,518
Equity component of DPF	642	635
Total liabilities and equity	26,569	29,153

	2008	2007
Investment DPF fund and related liabilities and equity component		
Debt securities – available for sale		
– Fixed interest rate	74,004	78,152
– Floating interest rate	8,720	10,391
Derivative financial instruments (Note 13) – OTC swaps	(544)	1,140
Cash and cash equivalents	1,139	1,698
Investment DPF fund – total	83,319	91,381
Investment contracts with DPF		
– Guaranteed element	59,793	57,604
– DPF element	21,109	31,388
Total liabilities	80,902	88,992
Equity component of DPF	2,417	2,389
Total liabilities and equity	83,319	91,381

Financial assets backing the guaranteed element of investment and insurance contracts with DPF amount to €83,166 (2007: €80,198). These assets are included in the tables below to match expected cash flows from the guaranteed components of insurance and investment contract liabilities. Similarly to the approach used for the fixed and guaranteed portfolio, when debt securities mature, the proceeds not needed to meet liability cash flows will be re-invested in floating rate securities, and the interest rate swaps are used to secure fixed interest rate cash flows. The re-investment of these net positive proceeds in the earlier years will fund the negative cash flows displayed in the table below for the later years.

			As at 31 December 2008			
			Contractual cash flows (undiscounted)			
		Carrying amount	**0-5 yrs**	**5-10 yrs**	**10-15 yrs**	**15-20 yrs**	**> 20 yrs**
DV	Carrying value and cash flows arising from:						
	Available for sale:						
	Listed debt securities:						
	– Fixed rate	96,817	19,682	36,459	37,427	33,886	–
	– Floating rate	11,378	1,138	8,934	7,048	982	–
	Derivative financial instruments, net	(623)	(134)	(299)	1,294	2,377	5,611
	Cash and cash equivalents	2,316	2,316	–	–	–	–
	Total	109,888	23,002	45,094	45,769	37,245	5,611
IFRS4p39(d)(i)	Long-term insurance contracts		Expected cash flows (undiscounted)				
	– Guaranteed element	20,314	2,031	5,453	6,657	7,110	4,063
	– DPF element	5,613	561	954	2,010	2,965	2,123
	Investment contracts						
	– Guaranteed element	59,793	5,979	20,165	20,763	20,928	11,959
	– DPF element	21,109	2,111	6,589	6,800	7,388	4,222
	Total	106,829	10,682	33,161	36,230	38,391	22,367
	Difference in expected cash flows		12,320	11,933	9,539	(1,146)	(16,756)
	Mean duration of assets	10.5 years					
	Mean duration of liabilities	11.4 years					

		Carrying amount	As at 31 December 2007 Contractual cash flows (undiscounted) 0-5 yrs	5-10 yrs	10-15 yrs	15-20 yrs	> 20 yrs
DV	Carrying value and cash flows arising from:						
	Available for sale:						
	Listed debt securities:						
	– Fixed rate	102,632	21,578	35,455	36,421	38,386	–
	– Floating rate	13,579	1,138	9,211	7,129	1,982	–
	Derivative financial instruments, net	1,299	(44)	(199)	1,123	2,652	4,893
	Cash and cash equivalents	3,024	3,024	–	–	–	–
	Total	120,534	26,696	44,467	44,673	43,020	4,893
IFRS4p39(d)(i)	Long-term insurance contracts		**Expected cash flows (undiscounted)**				
	– Guaranteed element	19,570	2,230	5,987	7,309	7,807	4,461
	– DPF element	8,948	894	1,233	2,577	3,375	2,544
	Investment contracts						
	– Guaranteed element	57,604	6,643	22,403	23,068	23,251	10,286
	– DPF element	31,388	2,345	7,320	7,555	8,208	4,691
	Total	117,510	12,112	36,944	40,509	42,641	24,982
	Difference in expected cash flows		12,876	7,523	4,164	379	(17,089)
	Mean duration of assets	10.4 years					
	Mean duration of liabilities	11.1 years					

All these contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For all these contracts, the Group is not required to measure this embedded derivative at fair value. This surrender value is always lower than the carrying amount of the contract liabilities as a result of the application of surrender penalties set out in the contracts. The range of such penalties is between 4% and 6% of the carrying amount of investment contracts, and between 6% and 15% of the carrying amount of insurance contracts. These penalties mitigate the expense incurred from derecognising the associated DAC assets. The impact on the Group's current year results if all the contracts with this option were surrendered at the financial year-end, net of surrender penalty charges and DAC write-off, would have been a loss of €93 (prior year: €116) entirely attributable to the equity component of DPF.

A maturity analysis based on the earliest contractual repayment date would present all the liabilities as due on the earliest period of the table (between 0 and 5 years) because these options can be exercised immediately by all policyholders.

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

IFRS7p40(a)

(a) Sensitivity analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For the guaranteed element liabilities under long-term insurance and investment contracts with DPF, changes in interest rate will not cause a change to the amount of the liability because their carrying amounts are not affected by the level of market interest rates. However, the DPF element liabilities are directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the two DPF funds. An increase in the value of the assets would require, all other assumptions being equal, an increase in the DPF liability and vice versa.

Management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

An increase in 100 basis points in interest yields would result in a loss for the period of €30 (2007: loss of €24). The portion of this loss that would be recognised directly in the equity component of DPF is €28 (2007: loss of €21).

A decrease in 100 basis points in interest yields would result in a gain for the period of €33 (2007: gain of €28). The portion of this gain that would be recognised directly in the equity component of DPF is €30 (2007: gain of €25).

IFRS7B23

(b) Sensitivity analysis – currency risk

IFRS7p40(a)

The Group only issues contracts with DPF in Euravia.

The investment policy adopted for DPF funds is to purchase assets that are solely denominated in euros. These portfolios are not exposed to currency risk.

4.2.3 Unit-linked contracts

For unit-linked contracts, the Group matches all the assets on which the unit prices are based with assets in the portfolio. There is therefore no price, currency, credit, or interest risk for these contracts.

IFRS4p39(d)
IFRS4p39(e)

	Investments held at risk of insurance contract holders		Investments held at risk of investment contract holders	
	2008	**2007**	**2008**	**2007**
Equity securities:				
At fair value through profit or loss:				
– Listed	123,323	115,748	113,784	87,027
– Unlisted	47,176	29,407	25,104	20,993
Total equities	170,499	145,155	138,888	108,020
Debt securities:				
At fair value through profit or loss:				
– Listed – fixed rates	3,071	7,957	4,781	6,298
– Government bonds – fixed rate	3,450	15,158	16,540	12,999
Derivative financial instruments, net (Note 13) – Exchange traded futures:				
– Financial assets	–	–	2,257	476
– Financial liabilities	–	–	(1,112)	(1,476)
Cash and cash equivalents	355	236	10,214	8,149
Total financial assets	177,375	168,506	171,568	134,466
Total financial liabilities	183,375	175,009	171,568	134,466

Insurance liabilities are higher than the backing assets, as these liabilities include the deferred front-end fees. Deferred front-end fees for investment contracts are reported in Note 19.

39AG33(g)

Within this category of contracts, there are insurance contracts with minimum guaranteed death benefits that expose the Group to the risk that declines in the value of underlying investments as a result of changes in prices of financial assets. This may increase the Group's net exposure to death risk (Note 4.1).

All these contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For all these contracts the Group is not required to measure this embedded derivative at fair value. This surrender value is always lower than the carrying amount of the contract liabilities as a result of the application of surrender penalties set out in the contracts. The range of such penalties is between 4% and 6% of the carrying amount of investment contracts and between 6% and 15% of the carrying amount of insurance contracts. These penalties mitigate the expense incurred from derecognising the associated DAC assets. The impact on the Group's current-year results if all the contracts with this option were surrendered at the financial year-end, net of surrender penalty charges and DAC write-off, would have been a loss of €93 (prior year €116) entirely attributable to the equity component of DPF.

A maturity analysis based on the earliest contractual repayment date would present all the liabilities as due on the earliest period of the table (between 0 and 5 years) because these options can be exercised immediately by all policyholders.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

IFRS7p40(a)

(a) Sensitivity analysis – market risks

The Group's primary exposure to market risk (being interest rate, equity price and currency risks) from these contracts is the risk of volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees by €500 per annum (2007: €480).

4.2.4 Short-term insurance contracts

For short-term insurance contracts, the Group funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk.

During the current year, the Group has increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent periods.

Financial assets

	2008	2007
Debt securities:		
At fair value through profit or loss:		
– Listed securities – fixed rate	11,493	2,345
– Unlisted securities – fixed rate	1,839	4,766
Government bonds – fixed rate	12,500	3,998
Available for sale:		
Listed securities:		
– Fixed rate	32,467	35,430
– Floating rate	31,697	12,300
Equity securities:		
Available for sale:		
– Listed securities	50,416	56,253
– Unlisted securities	10,681	8,115
Loans and receivables from insurance and reinsurance contracts	6,080	12,660
Derivative financial instruments, net (Note 13)	(2,053)	(2,032)
Cash and cash equivalents	9,966	22,412
Total	165,086	156,247

Short-term insurance liabilities:		
Insurance contracts – short term	213,294	185,459
Less assets arising from reinsurance contracts held – short-term	(60,688)	(49,919)
Total	152,606	135,540

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury and asbestos-related claims incurred by the Group's insurance contract holders (where are reduction of interest rates would normally produce a higher insurance liability), the Group matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

32p74(a)
IFRS4p39(d)

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the balance sheet date (both incurred claims and future claims arising from the unexpired risks at the balance sheet date). The mean durations are:

	2008	2007
Net short-term insurance liabilities – life risk	0.2 years	0.2 years
Net short-term insurance liabilities – property risk	2.7 years	2.8 years
Net short-term insurance liabilities – casualty risk	8.2 years	7.8 years
Financial assets (excluding equity securities)	3.1 years	3.6 years

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Group's ALM framework for management of short-term insurance contracts as of 31 December 2008:

DV

	Carrying amount 31 Dec 2008	No stated maturity	Contractual cash flows (undiscounted) 0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Financial assets							
Debt securities:							
At fair value through profit or loss:							
– Listed securities – fixed rate	11,493	–	3,220	5,576	4,872	3,818	–
– Unlisted securities – fixed rate	1,839	–	844	615	660	321	–
– Government bonds – fixed rate	12,500	–	8,223	4,161	1,502	2,121	–
Available-for-sale:							
Listed securities:							
– Fixed rate	32,467	–	21,975	8,951	3,942	–	–
– Floating rate	31,697	–	11,443	13,077	12,174	–	–
Equity securities:							
Available for sale:							
– Listed securities	50,416	50,416	–	–	–	–	–
– Unlisted securities	10,681	10,681	–	–	–	–	–
Loans and receivables, at amortised cost	6,080	–	5,382	998	–	–	–
Derivative financial instruments, net	(2,053)	–	(125)	(799)	(965)	(732)	–
Cash and cash equivalents	9,966	–	9,966	–	–	–	–
Total	165,086	61,097	60,928	32,579	22,185	5,528	–

IFRS4p39(d)(i)

			Contractual cash flows (undiscounted)				
Short-term insurance liabilities							
Insurance contracts – short-term	213,294	–	86,234	47,756	37,898	33,838	7,568
Less assets arising from reinsurance contracts held – short-term	(60,688)	–	(27,310)	(16,993)	(9,103)	(9,495)	(2,976)
Total	152,606	–	58,924	30,763	28,795	24,343	4,592
Difference in contractual cash flows		61,097	2,004	1,816	(6,610)	(18,815)	(4,592)

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Group's ALM framework for management of short-term insurance contracts as of 31 December 2007:

				Expected cash flows (undiscounted)				
		Carrying amount 31 Dec 2007	**No stated maturity**	**0-1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**> 5 yrs**
DV	Financial assets							
	Debt securities:							
	At fair value through profit or loss:							
	– Listed securities – fixed rate	2,345	–	284	579	375	1,680	–
	– Unlisted securities – fixed rate	4,766	–	1,264	1,492	2,332	1,238	–
	– Government bonds – fixed rate	3,998	–	936	936	1,211	1,794	–
	Available-for-sale:							
	Listed securities:							
	– Fixed rate	35,430	–	15,511	15,972	9,261	–	–
	– Floating rate	12,300	–	9,279	3,315	4,531	–	–
	Equity securities:							
	Available for sale:							
	– Listed securities	56,253	56,253	–	–	–	–	–
	– Unlisted securities	8,115	8,115	–	–	–	–	–
	Loans and receivables, at amortised cost	12,660	–	11,346	1,914	–	–	–
	Derivative financial instruments, net	(2,032)	–	(125)	(1,324)	(1,243)	161	–
	Cash and cash equivalents	22,412	–	22,412	–	–	–	–
	Total	156,247	64,368	60,907	22,884	16,467	4,873	–

				Expected cash flows (undiscounted)				
IFRS4p39(d)(i)	Short-term insurance liabilities							
	Insurance contracts – short-term	185,459		81,663	36,896	35,000	27,854	4,046
	Less assets arising from reinsurance contracts held – short-term	(49,919)		(22,464)	(13,977)	(7,488)	(9,108)	(2,760)
	Total	135,540	–	59,199	22,919	27,512	18,746	1,286
	Difference in contractual cash flows	–	64,368	1,708	(35)	(11,045)	(13,873)	(1,286)

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

IFRS7p40(a)

(a) Sensitivity analysis – interest-rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Group's overall exposure to interest rate sensitivities included in the Group's ALM framework and its impact in the Group's profit or loss by business.

An increase of 100 basis points in interest yields would result in a loss for the period of €479 in 2008. Out of the total loss €288 would have been recognised into equity (2007: total loss of €396, of which €311 would have been recognised in equity).

A decrease of 100 basis points in interest yields would result in a gain for the period of €465 in 2008. Out of the total gain €279 would have been recognised in equity (2007: total gain of €388 of which €298 would have been recognised in equity).

(b) Sensitivity analysis – equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements of a 15% increase or decrease in the various stock exchange indexes (for example, Eurostoxx, FTSE-100, and other) with all other variables held constant and all the Group's equity instruments in that particular index moving proportionally.

The equity securities described in this Note are classified as available for sale and are invested only in Euravia and UK operations. All the financial assets backing the US run-off casualty liabilities are floating rate listed debt securities.

An increase and a decrease in 15% in the Eurostoxx and in the FTSE-100 indexes would result in an impact on available-for-sale reserve in equity of €5,193 and €917 respectively in 2008 (2007: €7,172 and €1,266 respectively).

IFRS7p40(a)

(c) Sensitivity analysis – currency risk

IFRS7 B23

The Group underwrites short-term insurance contracts through operations in Euravia, the US and the UK. The Group's US and UK short-term insurance portfolios invest in assets denominated in the same currencies as their insurance liabilities, which eliminates the foreign currency exchange rate risk for these operations. Foreign exchange risk arises from recognised assets and liabilities held in the Euravian portfolios that are denominated in currencies other than the euro and from net investments in foreign operations. The sensitivity arising from the latter type of currency risk is discussed in Note 4.2.5 below.

The Group exposure to foreign currency risk within the portfolio supporting the Group's eurozone short-term insurance liabilities arise primarily from purchased investments that are denominated or payable in UK pounds and US dollars. The Group hedges in euros all foreign currency-denominated available-for-sale debt securities supporting the eurozone operations, using exchange traded future contracts, in order to mitigate the risk that the fair value of these investments fluctuates as a result of changes in foreign exchange rates (see Note 13 for additional details). The Group's hedging strategy is fully effective, and movement in foreign exchange rates would have no impact on the Group's net current year result.

4.2.5 Other financial assets and liabilities

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value risk. Group policy is to have all of its borrowings in fixed rate instruments. At the year-end, 65% of borrowings were at fixed rates. The Group has increased its exposure to fixed interest rates in 2007 following the utilisation of undrawn fixed interest borrowing facilities to fund the acquisition of Risky & Co (Note 46).

IFRS7p39(b)

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps (Note 13). To achieve its fixed rate financing strategy, the Group generally raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

The Group occasionally enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 70% target.

10p20

The Group issued €10,000 5.75% US dollar bonds on 1 February 2007 to finance its new expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2011.

Other financial assets and liabilities not reported in the tables above are summarised below:

Other financial assets, corporate	**2008**	**2007**
Debt securities:		
– At fair value through profit or loss, listed	25,500	4,560
– Available for sale, listed	35,500	35,440
Investment in associates (Note 9)	13,373	13,244
Derivative financial instruments (Note 13) – OTC swaps	292	446
Loans and receivables excluding insurance receivables (Note 12)	671	1,014
Total	75,336	54,704

The following table presents a maturity analysis for other financial assets and liabilities following the remaining contractual maturities.

As at 31 December 2008	Contractual cash flows (undiscounted)					
	0-1 year	1-3 years	3-5 years	>5 years	Not stated maturity	Carrying amount
DV **Other financial assets, corporate**						
Debt securities:						
– At fair value through profit or loss, listed	10,460	14,268	10,100	–	–	25,500
– Available for sale, listed	11,560	13,467	18,456	–	–	35,500
Investment in associates (Note 9)	–	–	–	–	13,373	13,373
Derivative financial instruments (Note 13)	285	89	18	–	–	292
Loans and receivables excluding insurance receivables (Note 12)	690	101	–	–	–	671
Total	22,995	31,925	23,574	–	13,373	75,336
IFRS7B11, IFRS7p39 **Other financial liabilities, corporate**						
Borrowings at amortised cost	19,822	29,848	21,221	9,850	–	56,891
Derivative financial instruments (Note 13) – OTC swaps	645	435	261	–	–	1,041
Provision for other liabilities and charges (Note 23)	2,542	–	–	–	–	2,542
Trade and other payables (Note 19)	1,682	–	–	–	–	1,682
Total	24,691	30,283	21,482	9,850	–	62,156
As at 31 December 2007						
DV **Other financial assets**						
Debt securities:						
– At fair value through profit or loss, listed	1,360	2,800	1,890	–	–	4,560
– Available for sale, listed	13,560	15,981	18,459	–	–	35,440
Investment in associates (Note 9)	–	–	–	–	13,244	13,244
Derivative financial instruments (Note 13) – OTC swaps	302	256	44	–	–	446
Loans and receivables excluding insurance receivables (Note 12)	1,101	245	–	–	–	1,014
Total	16,323	19,282	20,393	–	13,244	54,704

As at 31 December 2008	**Contractual cash flows (undiscounted)**					
	0-1 year	**1-3 years**	**3-5 years**	**>5 years**	**Not stated maturity**	**Carrying amount**
IFRS7p39 Borrowings at amortised cost	19,952	29,230	4,392	8,347	–	45,575
Derivative financial instruments (Note 13) – OTC swaps	775	269	497	–	–	1,141
Provision for other liabilities and charges (Note 23)	2,502	272	–	–	–	2,574
Trade and other payables (Note 19)	1,708	–	–	–	–	1,708
Total	24,937	29,771	4,889	8,347	–	50,998

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

IFRS7p40(a)

(a) Sensitivity analysis – interest rate risk

The Group holds interest-bearing financial liabilities represented by borrowings issued at variable rates, which exposes the Group to cash flow interest rate risk. The borrowings issued at fixed rates expose the Group to fair value risk (approximately 65% of the total borrowings at year-end). Most of the Group's floating rate borrowings are hedged to mitigate the resulting cash flow interest rate risk (Note 13).

An increase in 100 basis points in interest yields would result in a loss in profit or loss for the period of €9 in 2008 (2007: €8) mainly associated with the impact on the unwinding of the discount of provisions and the resulting impact on the ineffectiveness of the cash flow hedge on the floating rate borrowings.

IFRS7B23

(b) Sensitivity analysis – currency risk

IFRS7p40(a)

The Group operations in the US and the UK create two additional sources of foreign currency risk:

- The operating results of the Group foreign branches and subsidiaries in the Group financial statements are translated at the average exchange rates prevailing during the period; and
- The equity investment in foreign branches and subsidiaries is translated into euros using the foreign currency exchange rate at the financial statement period-end date. The Group has chosen to partially hedge this exposure.

For segment reporting purposes, each subsidiary that is exposed to foreign currency risks designates contracts with the Group central treasury function as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at group level as hedges of foreign exchange risk on other specific assets and liabilities on a gross basis. Details of the derivatives used are included in Note 13.

The Group is subject to foreign exchange risk as a result of the translation of the Group companies that have a functional currency different from the presentation currency of the Group. If the euro weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have

been €131 (2007: €901) higher/lower. Other components of equity would have been €450 higher/lower in 2008 (2007: €587). If the euro weakened/strengthened by 5% against the UK pound with all other variables held constant, post-tax profit for the year would have been €91 (2007: €734) higher/lower. Other components of equity would have been €420 higher/lower in 2008 (2007: €510).

In relation to the equity investment in US subsidiaries, the translation reserve in equity would have been €476 (2007: €469) lower/higher if the euro had weakened/strengthened by 5% against the US dollar. If the euro had weakened/strengthened by 5% against the UK pound, the equity translation reserve held in relation to the UK subsidiaries would have been lower/higher by €445 (2007: €451). Both these changes would arise from changes in US-dollar and UK-pound-denominated borrowings designated as a hedge of the net investment in these subsidiaries.

4.2.6 Credit risk

IFRS7p36

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

IFRS4p39(d)

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries; and
- Counterparty risk with respect to derivative transactions.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

IFRS7 B8

The central Reinsurance Security Committee, which directs the Group reinsurance placement policy that is communicated to all global operations, assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The Committee also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties. This information is used to update the reinsurance purchasing strategy that is communicated to all global operations quarterly.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls

associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Group risk department. The financial analysis of policyholders and reinsurers that is conducted at group level produces an assessment categorised by a Standard & Poors (S&P) rating (or equivalent when not available from S&P).

IFRS7p36(a)
IFRS7 B9

	2008	2007
Debt securities:		
At fair value through profit or loss:		
– Listed securities	77,335	48,755
– Unlisted securities	1,839	9,326
Available for sale:		
– Listed securities	699,296	625,707
– Unlisted securities	17,464	15,152
Held to maturity:		
– Listed securities	80,342	71,994
– Unlisted securities	1,242	3,477
Loans and receivables, at amortised cost:		
– Insurance receivables	6,080	12,660
– Other	671	1,014
Derivative financial instruments, at fair value		
– Hedges	1,681	1,962
– At fair value through profit or loss	9,783	9,234
Reinsurance contracts	60,688	49,919
Cash and cash equivalents	28,993	39,806
Total assets bearing credit risk	985,414	889,006

The assets above are analysed in the table below using Standard & Poors (S&P) rating (or equivalent when not available from S&P). The concentration of credit risk is substantially unchanged compared to the prior year.

IFRS7p36(a)
IFRS7 B9

	2008	2007
Debt securities:		
At fair value through profit or loss:		
– Listed securities	77,335	48,755
– Unlisted securities	1,839	9,326
Available for sale:		
– Listed securities	699,296	625,707
– Unlisted securities	17,464	15,152
Held to maturity:		
– Listed securities	80,342	71,994
– Unlisted securities	1,242	3,477
Loans and receivables, at amortised cost:		
– Insurance receivables	6,080	12,660
– Other	671	1,014
Derivative financial instruments, at fair value		
– Hedges	1,681	1,962
– At fair value through profit or loss	9,783	9,234
Reinsurance contracts	60,688	49,919
Cash and cash equivalents	28,993	39,806
Total assets bearing credit risk	985,414	889,006

The assets reported above include €48,196 (2007: €59,897) related to the assets held in funds linked to insurance and investment contracts without fixed terms. The holders of these contracts bear the credit risk (as well as all other financial risks) arising from these assets. The assets above include the entire DPF funds where the Group is able to transfer part of the credit risk arising from these assets to holders of investment and insurance contracts with DPF to the extent that future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks). Details of the asset composition of DPF funds are in Note 4.2.2.

The geographical breakdown of assets, revenue and expenditure on property, plant, equipment and intangible assets is detailed in Note 5. The allocation of revenue, assets and liabilities by segment is based on the country in which the branch or subsidiary is located.

The Group maintains strict control limits on net open derivative positions, namely the difference between purchase and sale contracts, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of instruments that are favourable to the Group (ie, assets), which in relation to derivatives is only a fraction of the contract or notional values used to express the volume of instruments outstanding. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties. Note 13 includes an analysis of derivative financial instruments.

1p124A

4.2.7 Capital management

The Group's objectives when managing capital are:

- To comply with the insurance capital requirements that the regulators of the insurance markets where the Group operates require. In this respect the Group manages its capital on a basis of 150% of its minimum regulatory capital position presented in the table below. Management considers the quantitative threshold of 150% sufficient to maximise shareholders' return and to support the capital required to write each of its businesses in the countries where the Group operates;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital (presented in the table below for each of the businesses) must be maintained at all times throughout the year. The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and where it has complied with all the local solvency regulations. The Group has embedded in its ALM Framework the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarises the minimum required capital across the Group and the regulatory capital held against each of them. These figures are an aggregate number, being the sum of the statutory capital and surplus for each insurance company in each country subject to local regulatory requirements, which may differ from jurisdiction to jurisdiction. The current year is, in general, an estimate that is updated once calculations prepared for the regulators are final.

		2008				2007			
		Euravia	**UK**	**US**	**Total**	**Euravia**	**UK**	**US**	**Total**
1p124B	Regulatory capital held	134,933	46,001	62,502	217,492	125,215	45,886	64,429	214,766
	Minimum regulatory capital	85,711	30,199	39,856	141,112	80,345	29,481	41,402	139,887

The Group has different requirements depending on the country in which it operates. The three main territories are Euravia, the US and the UK.

In Euravia, the solvency and capital adequacy margins are calculated based on Euravian Solvency Law, which requires the application of a formula that contains variables for expenses, inflation, investment earnings, death, disability claims, surrenders, policyholder options, distribution of assets among investment classes, and the matching of specific classes of assets and liabilities.

In the US, required capital is determined to be the 'company action level risk based capital', based on the National Association of Insurance Commissioners Risk Based Capital model (RBC). RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with the factors determined as higher for those items with greater underlying risk and lower for less risky items.

In the UK, the Group is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Financial Services Authority (FSA). The Company must hold assets in excess of the higher of two amounts. The first is the pillar 1 amount calculated by applying fixed percentages to premiums and claims. The second is an economic capital assessment by the Company which is reviewed by the FSA (pillar 2).

Together with local solvency requirements the Group is subject to a 2002 Euravian law requiring insurance groups to calculate a consolidated solvency margin. The Group must establish appropriate internal controls to ensure solvency sufficient to cover all of the Group's insurance liabilities, inform the Euravian insurance regulatory authorities annually of certain intra-group transactions, and calculate on a consolidated basis the capital needed to meet the respective solvency requirements of the Group's insurance subsidiaries. Similar solvency requirements must be fulfilled by intermediate holding companies that own group insurance subsidiaries in different EU jurisdictions.

In addition to other applicable regulatory requirements, in Euravia and the UK, property and casualty insurers are required to maintain equalisation reserves to protect against the impact of large claims and catastrophes. The basis on which these equalisation reserves are established is set out in the local country regulations based on pre-established formulae applicable to certain lines of business and may be capped at a maximum level. The amount of the equalisation reserve is disclosed in Note 16.

5 Segment information

IFRS8p22(a)

Management has determined the operating segments based on the reports reviewed by the strategic steering committee that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Group is organised on a worldwide basis into 5 operating segments. These segments distribute their products through various forms of brokers, agencies, and direct marketing programs. Management identifies its reportable operating segments by product line consistent with the reports used by the strategic steering committee. These segments and their respective operations are as follows:

IFRS8p22(b)

- Savings: offers a range of savings products domestically and abroad to suit customer's long- and short-term investment needs. This segment comprises all other types of long-term contracts issued by the Group (both with and without insurance risk, and with- and without discretionary participation features). Revenue from this segment is derived primarily from insurance premiums, fee income, investment income, net realized gains on financial assets and net fair value gains on financial assets at fair value through income.
- Life risk: protection of the Group's customers against the risk of premature death, disability, critical illness and other accidents. All contracts in this segment offer fixed and guaranteed benefits over the contractual term. Revenue from this segment is derived primarily from Insurance premium, Investment income, Net realized gains on financial assets and Net fair value gains on financial assets at fair value through income.
- Property: the protection of customers' assets (particularly their properties, both for personal and commercial business.) All contracts in this segment are over a short contractual term. Revenue in this segment is derived primarily from insurance premiums, investment income, net realised gains on financial assets, and net fair value gains on financial assets at fair value through income.
- Casualty: indemnification of other parties that have suffered damage as a result of customers' accidents, in particular, relating to asbestos- and employer's liability claims. All contracts in this segment are over a short contractual term. Revenue in this segment is derived primarily from insurance premiums, investment income, net realized gains on financial assets, and net fair value gains on financial assets at fair value through income.

IFRS8p16
IFRS8p23

- Corporate and other: includes corporate operations, after allocations to operating segments. Corporate operations consist primarily of (1) corporate-level income and expenses, after allocations to any business segments, including income and expense from the Company's post-employment benefit plans and investment returns on capital that is not deployed in any operating segments; (2) returns from investments not allocated to any operating segments, including debt-financed investment portfolios, as well as the impact of transactions with other segments.

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2008 is as follows:

	2008	Savings	Life risk	Property	Casualty	Corporate and other	Total
	Gross insurance premium revenue	63,720	45,391	28,698	13,988	–	151,797
	Insurance premium ceded to reinsurers	–	–	(4,545)	(2,215)	–	(6,760)
	Net insurance premium revenue	63,720	45,391	24,153	11,773	–	145,037
	Fee income	23,959	–	–	–	–	23,959
	Smoothed investment return	72,085	932	642	2,350	8,136	84,145
	Other operating income	–	–	–	–	778	778
	Net income	159,764	46,323	24,795	14,123	8,914	253,919
	Insurance benefits and claims	75,740	53,953	34,111	16,627	–	180,431
	Insurance claims recovered from reinsurers	–	–	(14,363)	(5,046)	–	(19,409)
	Net insurance benefits and claims	75,740	53,953	19,748	11,581	–	161,022
	Investment contract benefits	28,129	–	–	–	–	28,129
	Expenses	16,771	11,947	7,553	3,682	5,364	45,317
	Net expenses	120,640	65,900	27,302	15,262	5,364	234,468
IFRS8p23	Reportable segment profit	39,124	(19,577)	(2,507)	(1140)	3,550	19,451
	Investment variance						(14,024)
	Finance costs						(2,757)
	Share of (loss)/ profit of associates						(174)
IFRS8p28(b)	Profit before tax						2,196
IFRS8p23(e)	Depreciation and amortisation	(8,221)	(1,205)	(650)	(397)	(760)	(11,233)
IFRS8p23(c)	Interest revenue	48,005	621	428	1,564	5,418	56,036
IFRS8p23(d)	Interest expense	–	–	–	–	(23,179)	(23,179)
IFRS8p23(i)	Impairment of goodwill	(3,789)	–	–	–	–	(3,789)
IFRS8p23(f)	Restructuring costs	(2,331)	–	–	–	–	(2,331)
IFRS8p23(h)	Income tax expense	–	–	–	–	(792)	(792)
IFRS8p23(g)	Share of loss of associates	–	(174)	–	–	–	(174)
IFRS8p23	**Total assets**	1,164,928	30,960	47,342	169,749	133,927	1,546,906
IFRS8p24(a)	Total assets include:	–	–	–	–	–	–
IFRS8p24(b)	Investments in associates	13,373	–	–	–	–	13,373
	Additions to non-current assets	23,651	2,132	1,569	1,002	12	28,366
IFRS8p23	**Total liabilities**	983,170	29,114	34,798	133,020	129,476	1,309,578

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2007 is as follows:

	2007	Savings	Life risk	Property	Casualty	Corporate and other	Total
	Gross insurance premium revenue	52,923	48,852	22,828	31,478	–	156,081
	Insurance premium ceded to reinsurers	–	–	(4,920)	(1,164)	–	(6,084)
	Net insurance premium revenue	52,923	48,852	17,908	30,314	–	149,997
	Fee income	21,427	–	–	–	–	21,427
	Smoothed investment return	96,479	7,083	6,424	9,283	7,837	127,107
	Other operating income	–	–	–	–	634	634
	Net income	170,829	55,935	24,332	39,597	8,471	299,165
	Insurance benefits and claims	51,218	47,278	22,093	30,464	–	151,053
	Insurance claims recovered from reinsurers	–	–	(3,964)	(1,682)	–	(5,646)
	Net insurance benefits and claims	51,218	47,278	18,129	28,782	–	145,407
	Investment contract benefits	32,549	–	–	–	–	32,549
	Expenses	12,065	11,137	5,204	7,176	3546	39,128
	Net expenses	95,832	58,415	23,333	35,958	3,546	217,084
IFRS8p23	Reportable segment profit	74,997	(2,480)	999	3,639	4,925	82,081
	Investment variance						(6,053)
	Finance costs						(2,760)
	Share of (loss)/ profit of associates						145
IFRS8p28(b)	Profit before tax						73,413
IFRS8p23(e)	Depreciation and amortisation	(7,329)	(1,095)	(549)	(776)	(339)	(10,088)
IFRS8p23(c)	Interest revenue	41,529	3,049	2,765	3,996	3,373	54,712
IFRS8p23(d)	Interest expense	–	–	–	–	(2,760)	(2,760)
IFRS8p23(h)	Income tax expense	–	–	–	–	–	(23,179)
IFRS8p23(g)	Share of loss of associates	–	145	–	–	–	145
IFRS8p23	**Total assets**	1,057,941	29,697	42,717	156,940	112,081	1,399,376
IFRS8p24(a)	Total assets include:	–	–	–	–	–	–
IFRS8p24(b)	Investments in associates	13,244	–	–	–	–	13,244
	Additions to non-current assets	7,739	1,956	1,487	1,135	6	12,323
IFRS8p23	**Total liabilities**	891,899	27,390	29,987	108,330	109,369	1,166,975

Refer to note 8 and note 23 for details of the impairment of goodwill of €3,789, and restructuring costs of €2,331, in the Savings operating segment in 2008, relating to the decision to restructure the run-off insurance operations in the US. There has been no further impact on the measurement of the company's assets and liabilities. There was no goodwill impairment charge or restructuring costs in 2007.

IFRS8p23(a)(b)

Transactions between segments are carried out at arm's length. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the income statement. No inter-segment transactions occurred during 2008 and 2007.

IFRS8p27(b), 28

The strategic steering committee assesses the performace of the operating segments based on a smoothed measure of operating profit. This measurement basis includes smoothed longer term investment returns. Any variance between the actual and smoothed investment return is excluded for this profit measure but is included in the reconciliation to the IFRS profit before tax above.

The amounts provided to the strategic steering committee with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

IFRS8p33(a)

The entity is domiciled in Euravia. The results of its revenue from external customers is as follows:

	2008	**2007**
Euravia	113,175	102,449
UK	24,712	21,214
US	37,869	53,845
	175,756	177,508

Revenues are allocated based on the country in which the insurance contracts are issued.

Management considers its external customers to be the individual policyholders, as such Asfalia is not reliant on any individual customer.

DV

The total of all assets are allocated as follows:

	2008	**2007**
Euravia	978,231	880,470
UK	112,045	91,279
US	456,630	427,627
	1,546,906	1,399,376

IFRS8p33(b)

The total of non-current assets, other than financial instruments, deferred tax assets, post-employment benefits and risks arising under insurance contracts, are allocated as follows:

	2008	**2007**
Euravia	52,119	42,527
UK	10,813	12,393
US	21,453	18,724
	84,385	73,644

6 Property, plant and equipment

		Land and buildings	Vehicles	Furniture, fittings and equipment	Total
16p73(d)	**At 1 January 2007**				
	Cost or valuation	2,079	3,641	1,025	6,745
	Accumulated depreciation	(123)	(922)	(184)	(1,229)
	Net book amount	1,956	2,719	841	5,516
16p73(e)	**Year ended 31 December 2007**				
	Opening net book amount	1,956	2,719	841	5,516
16p73(e)(viii)	Exchange differences	(29)	(41)	(12)	(82)
16p73(e)(iv)	Revaluation surplus (Note 16)	33	–	–	33
16p73(e)(i)	Additions	102	165	78	345
16p73(e)(ix)	Disposals (Note 39)	–	(136)	(20)	(156)
16p73(e)(vii)	Depreciation charge	(33)	(217)	(254)	(504)
	Closing net book amount	2,029	2,490	633	5,152
16p73(d)	**At 31 December 2007**				
	Cost or valuation	2,062	3,529	1,065	6,656
	Accumulated depreciation	(33)	(1,039)	(432)	(1,504)
	Net book amount	2,029	2,490	633	5,152
16p73(e)	**Year ended 31 December 2008**				
	Opening net book amount	2,029	2,490	633	5,152
16p73(e)(viii)	Exchange differences	75	58	25	158
16p73(e)(iv)	Acquisition of subsidiary (Note 44)	90	45	13	148
16p73(e)(i)	Additions	569	114	268	951
16p73(e)(ix)	Disposals (Note 39)	(70)	(129)	(19)	(218)
16p73(e)(vii)	Depreciation charge	(175)	(186)	(341)	(702)
	Closing net book amount	2,518	2,392	579	5,489
16p73(d)	**At 31 December 2008**				
	Cost or valuation	2,624	3,443	1,298	7,365
	Accumulated depreciation	(106)	(1,051)	(719)	(1,876)
	Net book amount	2,518	2,392	579	5,489

16p77(a-d)
1p76(b)

The Group's land and buildings were last revalued at 31 December 2007 by independent valuers. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 16).

DV 1p93

Depreciation expense of €702 (2007: €504) has been charged in marketing and administrative expenses.

17p35(c)

Lease rentals amounting to €854 (2007: €632) relating to the lease of vehicles are included in the income statement.

16p77(e)

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

At 31 December	2008	2007
Cost	911	241
Accumulated depreciation	(58)	(37)
Net book amount	853	204

16p74(a)

Bank borrowings are secured on land and buildings to a value of €2,140 (2007: €1,860) (Note 20).

7 Investment properties

40p76, 78(d)

Year ended 31 December	2008	2007
Opening net book amount	18,805	18,495
Additions and capital improvements	1,725	290
Fair value gain (Note 28)	–	150
Foreign currency translation effects	175	(130)
Closing net book amount	20,705	18,805

Bank borrowings are secured on investment property to the value of €3,200 (2007: €2,800) (Note 20).

40p75(d)

The properties are independently valued by a member of the Euravian Royal Institute of Chartered Surveyors at 31 December 2008 and 2007 on the basis of determining the open market value of the investment property. The open market value of all properties was determined using recent market prices. The majority of the property is located in Euravia.

40p75(f)(iii)

The land is held for long-term capital appreciation rather than short-term sale. There is minimal rental income arising from the land owned by the Group, which amounted to €555 (2007: €490). It is included in other operating income. In the income statement, marketing and administrative expenses include €483 (2007: €471) relating to investment property.

8 Intangible assets

Reference		Goodwill	Value of business acquired[1]	Deferred acquisition costs[2]	Contractual customer relationship	Other[3]	Total
38p118(c)	**At 1 January 2007**						
IFRS3p75(a)	Cost	12,345	9,856	72,953	35,757	1,354	132,265
IFRS3p75(a)	Accumulated amortisation and impairment	–	(1,610)	(8,124)	(9,574)	(510)	(19,818)
	Net book amount	12,345	8,246	64,829	26,183	844	112,247
38p118(e)	**Year ended 31 December 2007**						
IFRS3p74	Opening net book amount	12,345	8,246	64,829	26,183	844	112,447
IFRS3p75(f)	Exchange differences	(270)	(262)	(132)	(540)	(32)	(1,236)
IFRS4p37(e) 38p118(e)(i)	Additions	–	–	7,834	3,854	–	11,688
IFRS3p75(a)	Amortisation charge (Note 31)[4]:						
	– Through income (Note 32)	–	(940)	(2,703)	(5,741)	(200)	(9,584)
	– Through equity (Note 16)	–	–	(683)	–	–	(683)
	Closing net book amount	12,075	7,044	69,145	23,756	612	112,632

IFRS4p37(b)(e) [1] This intangible asset relates to insurance contracts only.
IFRS4p37(b)(e) [2] This intangible asset relates to insurance contracts and investment contracts with DPF only.
38p118 [3] Other intangibles include internally generated capitalised software development costs and other costs.
38p118(d) [4] Amortisation of €10,410 (2007: €9,384) is included in 'expenses for the acquisition of insurance and investment contracts', and €120 (2007: €200) in marketing and administrative expenses.

Reference		Goodwill	Value of business acquired[1]	Deferred acquisition costs[2]	Contractual customer relationship	Other[3]	Total
38p118(c)	**At 1 January 2008**						
IFRS3p75(a)	Cost	12,075	10,312	80,655	39,119	1,299	143,460
IFRS3p75(a)	Accumulated amortisation and impairment	–	(3,268)	(10,550)	(15,363)	(687)	(30,828)
	Net book amount	12,075	7,044	69,145	23,756	612	112,632
38p118(e)	**Year ended 31 December 2008**						
IFRS3p74	Opening net book amount	12,075	7,044	69,145	23,756	612	112,632
IFRS3p75(f)	Exchange differences	(562)	275	168	84	63	28
IFRS4 p37(e)	Additions	–	–	6,643	4,171	318	11,132
	Acquisition of subsidiary (Note 44)	3,651	–	–	10,759	–	14,410
IFRS4 p37b(ii)							
IFRS3p75(a)	Amortisation charge[4]:						
	– Through income (Note 31)	–	(1,191)	(3,019)	(6,200)	(120)	(10,530)
	– Through equity (Note 16)	–	–	(199)	–	–	(199)
IFRS3p75(e), 36p130(b)	Impairment charge	(3,789)	–	–	–	–	(3,789)
	Closing net book amount	11,375	6,128	72,738	32,570	873	123,684
38p118(c)	**At 31 December 2008**						
IFRS3p75(h)	Cost	15,164	10,648	87,466	54,688	1,799	169,765
IFRS3p75(h)	Accumulated amortisation and impairment	(3,789)	(4,520)	(14,728)	(22,118)	(926)	(46,081)
	Net book amount	11,375	6,128	72,738	32,570	873	123,684

The useful lives of the contractual customer relationship assets are determined by contact type and lie within a range of 5 to 10 years (2007: range of 4 to 9 years) with an average of 7.9 years (2007: 7.1 years). These useful lives are re-assessed annually to reflect new surrender experience arising from the underlying contracts.

The Group amortises VOBA consistently with the measurement of the related insurance liabilities. The average period over which VOBA will be amortised is estimated at 11.4 years (2007: 12.6 years) based on the approach described in Note 2.15(c). The change in the amortisation period is explained in (b) below.

IFRS4p37(b)(e) [1] This intangible asset relates to insurance contracts only.

IFRS4p37(b)(e) [2] This intangible asset relates to insurance contracts and investment contracts with DPF only.

38p118 [3] Other intangibles include internally generated capitalised software development costs and other costs.

36p126(a) [4] The carrying amount of the goodwill from the US saving segment has been reduced to its recoverable amount through recognition of an impairment loss. This loss has been included in 'other operating expenses' in the income statement.

(a) Impairment tests for goodwill

36p134(a)
36p134(d)

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and operating segment. All goodwill is allocated to the product-line segments in the savings division. A summary by geographical segment of the goodwill allocation is presented below.

	2008	2007
Euravia	6,354	4,226
UK	5,021	7,849
	11,375	12,075

36p134(c)
36p134(d)(ii)
36p134(d)(iii)

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average past growth rate for the insurance business in which the CGU operates.

36p134(d)(i)

Key assumptions used for value-in-use calculations to test the recoverability of goodwill are as follows:

	Euravia – savings segment	
36p134(d)	Profit from operating activities[1]	€22,500
36p134(d)(iv)	Growth rate[2]	5.5%
36p134(d)(v)	Discount rate[3]	10.3%
	US – savings segment	
36p134(d)	Profit from operating activities4	€15,000
36p134(d)(iv)	Growth rate[5]	0.8%
36p134(d)(v)	Discount rate[6]	11.3%

36p134(d)(ii)
36p55

These assumptions have been used for the analysis of each CGU within the operating segment. Management determined budgeted profit based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

36p130(a)

The impairment charge arose in a CGU in the US following a decision to reduce the activities of these operations (Note 23). This was a result of a re-emphasis of the Group's activities across both CGUs of the savings segment in order to benefit from advantageous market conditions. Following this decision, the Group reassessed the depreciation policies of its intangible assets, property, plant and equipment in the US and estimated that their useful lives would not be affected by the reduced activity.

[1] Budgeted profit from operating activities.
[2] Weighted average growth rate used to extrapolate cash flows beyond the budget period.
[3] Pre-tax discount rate applied to the cash flow projections.
[4] Budgeted profit from operating activities.
[5] Weighted average growth rate used to extrapolate cash flows beyond the budget period.
[6] Pre-tax discount rate applied to the cash flow projections.

IFRS4p37(d)

(b) Change in the assumptions for the amortisation of insurance intangible assets

For long-term insurance contracts without fixed terms and investment contracts with DPF, DAC and VOBA on these contracts are amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts. The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. The update of the assumptions at the end of the current year with respect to the profitability of US long-term insurance contracts in force (all within the savings segment) resulted in an additional charge of €750 (of which €640 relates to DAC and €110 to VOBA). This additional amount is included in the amortisation charge through income (2007: reduction of the prior-year charge through income of €268 for DAC and €88 for VOBA).

9 Investments in associates

		2008	2007
	Year ended 31 December		
	At beginning of year	13,244	13,008
	Acquisition of subsidiary (Note 44)	389	–
	Share of (loss)/profit[1]	(174)	145
	Exchange differences	(74)	105
28p38	Other equity movements (Note 16)	(12)	(14)
	At end of year	13,373	13,244

28p23

Investments in associates at 31 December 2008 include goodwill of €1,020 (2007: €1,020).

28p37(b)

The Group's interests in its principal associates, all of which are unlisted, were as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	% interest held
Alfa Limited	Euravia	27,345	20,295	35,012	155	25
Beta Limited	US	9,573	3,379	10,001	(10)	30
Total at the end of 2007		36,918	23,674	45,013	145	
Alfa Limited	Euravia	32,381	25,174	31,123	200	25
Beta Limited	US	12,115	5,949	9001	15	30
Delta Limited	US	15,278	15,278	25,741	(389)	42
Total at the end of 2008		59,774	46,401	65,865	(174)	

28p37(g)

The Group has not recognised losses amounting to €20 (2007: nil) for Delta Limited. The accumulated losses not recognised were €20 (2007: nil).

28p37(a)

The fair value of the investments in associates is €14,088 (2007: €14,157).

[1] Share of (loss)/profit is after tax and minority interest of associates.

10 Reinsurance assets

		2008	2007
IFRS4 p37(b)	Reinsurers' share of insurance liabilities	65,452	53,358
IFRS4p20	Impairment provision	(4,764)	(3,439)
	Total assets arising from reinsurance contracts	60,688	49,919
1p57	Current	39,292	27,038
	Non-current	21,396	22,881

IFRS4p37(b)(ii)

The reinsurers' share of insurance liabilities includes €45,916 (2007: €36,750) that arises on exposure to asbestos claims in the US – a portfolio of contracts that is in run-off since 2001. €32,524 (2007: €23,473) of this is recoverable on a retroactive stop-loss reinsurance agreement relating to employers' liability insurance contracts underwritten in California ('the California Stop Loss Agreement'). The reinsurance asset arising from the California Stop Loss Agreement would have generated a gain of €7,762 if such an asset had been recognised on the same basis as the reinsured liabilities. The Group accounting policies prohibit recognition of reinsurance gains on purchase of retroactive reinsurance contracts and require the recognition of the gain on a systematic and rational basis consistent with the development of the underlying reinsured liabilities. At year end, €2,573 has been recognised (2007: €1,884) in the reinsurance asset balance.

There are no assets arising from life reinsurance contracts held by the Group, as there has been no single event that has led to losses that qualify for reimbursement under the reinsurance covers.

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in loans and other receivables (Note 12).

11 Financial assets

1p74, IFRS7p7

The Group's financial assets are summarised below by measurement category in the table below.

	2008	2007
Held to maturity	81,583	75,471
Available for sale	778,381	684,823
Fair value through income	388,037	351,660
Loans and receivables (including insurance receivables – Note 12)	6,751	13,674
Total financial assets	1,254,752	1,125,628

The current portion of financial assets is €457,889 (2007: €387,635) the remaining being non-current. The assets comprised in each of the categories above are detailed in the tables below.

IFRS7p8(b), B2

	2008	2007
Held-to-maturity financial assets, at amortised cost		
Debt securities – fixed interest rate:		
– Listed	85,529	77,519
– Unlisted	3,465	4,484
Provision for impairment: (39p63)		
– Listed (IFRS7p16)	(5,187)	(5,525)
– Unlisted	(2,223)	(1,307)
Total held-to-maturity financial assets	81,583	75,471

Financial assets held to maturity are not presented on the Group's balance sheet at their fair value. The fair value of the held-to-maturity assets is 83,724 (2007: 76,223).

39p86
IFRS7p25, 37

Fair values for held-to-maturity financial assets are based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

IFRS7p37

At the reporting date, there were no held-to-maturity assets that were overdue but not impaired.

IFRS7p8(d)

	2008	2007
Available-for-sale financial assets		
Equity securities:		
– Listed	50,416	76,253
– Unlisted	10,681	8,115
	61,097	84,368
Debt securities:		
– Listed	699,296	625,707
– Unlisted	17,464	15,152
	716,760	640,859
Total available-for-sale financial assets	777,857	725,227

DV

Listed debt securities in this category include floating-rate instruments for €155,075 (2007: €140,704). All other debt securities both listed and unlisted pay a fixed interest rate.

Included in debt securities at fair value through profit or loss are included convertible bonds of €5,678 (2007: €5,399) that otherwise would have been classified as available-for-sale financial assets with the embedded conversion option accounted for separately. The table below illustrates the movements in the financial assets (excluding loans and receivables – see Note 12).

IFRS7p37(b)

At the reporting date there were no held-to-maturity assets that were overdue but not impaired.

IFRS7p8(a)

	2008	2007
Financial assets at fair value through profit or loss		
Equity securities:		
– Listed	237,107	202,775
– Unlisted	72,280	50,400
	309,387	253,175
Debt securities:		
– Listed	77,335	48,755
– Unlisted	1,839	9,326
	79,174	58,081
Total financial assets at fair value through profit or loss	388,561	311,256

All debt securities in this category are fixed rate instruments, of which €45,997 (2007: €28,157) are listed government bonds.

Equity and debt securities classified at fair value through profit or loss are designated in this category upon initial recognition.

There are no non-derivative financial assets held for trading.

		Held to maturity	Available for sale	Fair value through income	Total
IFRS7p8	**At beginning of 2007**	76,327	657,885	255,299	989,511
21p28	Exchange differences on monetary assets	21	16	44	81
	Additions	44	91,011	56,686	147,741
	Disposals (sale and redemptions)	(814)	(33,013)	(38,116)	(71,943)
IFRS7p20(a)(i)	Fair value net gains (excluding net realised gains)	–	10,540		47,883
	– Designated at fair value through profit or loss upon initial recognition	–	–	37,343	37,343
	– Classified as held for trading	–	–	–	–
IFRS7p16	Impairment losses			–	
IFRS7p20(e)	– Debt securities – unlisted	(107)	(362)	–	(469)
	– Equity securities – listed	(87)	–	–	(87)
	– Equity securities – unlisted	(11)	(850)	–	(861)
IFRS7p8	**At beginning of 2008**	75,471	725,227	311,256	1,111,954
21p28	Exchange differences on monetary assets	(145)	927	(98)	684
	Additions	5,183	35,617	55,592	96,392
	Acquisition of subsidiary (Note 46)	2,272	20,450	28,435	51,157
	Disposals (sale and redemption)	(319)	(13,159)	(5,382)	(18,860)
IFRS7p20(a)(i)	Fair value net gains (excluding net realised gains):	–	11,136		11,136
	– Designated at fair value through profit or loss upon initial recognition	–	–	(1,242)	(1,242)
	– Classified as held for trading	–	–	–	–
IFRS7p16	Impairment losses:				
IFRS7p20(e)	– Debt securities – unlisted	(879)	(1,100)	–	(2,398)
	– Equity securities – listed	–	(560)	–	(560)
	– Equity securities – unlisted		(681)	–	(681)
IFRS7p8	**At end of 2008**	81,583	777,857	388,561	1,248,001

12 Loans and receivables

Reference		2008	2007
IFRS7p36, 1p74, IFRS4p37(b)	– Due from contract holders	1,101	3,250
	– Less provision for impairment of receivables from contract holders	(198)	(167)
	– Due from agents, brokers and intermediaries	2,791	5,895
	– Less provision for impairment of receivables from agents, brokers and intermediaries	(69)	(85)
	– Due from reinsurers	2,467	3,775
IFRS7p16	– Less provision for impairment of receivables from reinsurers	(12)	(8)
IFRS7p8(c)	**Other loans and receivables:**		
1p75(b)	– Pre-payments	89	94
1p75(b)	– Accrued rent	237	647
1p75(b), 24p17(b)	– Receivables from related parties	211	179
1p75(b), 24p17(b)	– Loans to related parties	145	107
IFRS7p16	– Less provision for impairment of other loans and receivables	(11)	(13)
	Total loans and receivables including insurance receivables	6,751	13,674
1p57	Current portion	5,682	12,297
	Non-current portion	1,069	1,377

IFRS7p38

Amounts due from reinsurers are comprised of reinsurance receivables where Asfalia Insurance Group has the right to call a letter of credit given by reinsurers to cover losses on credit insurance provided to policyholders. All non-current receivables are due within five years from the balance sheet date.

IFRS7p25

The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Reference		2008	2007
	– Pre-payments	6,080	12,660
	– Accrued rent	89	94
	– Receivables from related parties	237	647
	– Loans to related parties	211	179
	– Other	137	95
	Total receivables arising form insurance and reinsurance contracts	6,754	13,675
1p57	Current portion	6,321	13,125
	Non-current portion	433	550

IFRS7p27(a)

The fair values of loans to related parties are based on cash flows discounted using a rate based on the borrowings rate of 7.5% (2007: 7.2%). The discount rate equals to LIBOR plus appropriate credit rating.

24p17(b)(i)

The effective interest rates on non-current receivables were as follows:

	2008	2007
Loans to related parties (Note 45)	6.5-7.0%	6.5-7.0%

IFRS7p34(c)

There is no concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors (Note 4.2.6).

IFRS7p37(b)

As of 31 December 2008 and 2007, loans and receivables at nominal value of €195 (2007: €250) were impaired and fully provided for. All impaired loans and receivables were overdue more than 120 days.

IFRS7p37(a)

As of 31 December 2008 and 2007, all overdue loans and receivables were provided for.

IFRS7p13

Certain of the Group's Euravian subsidiaries transferred receivable balances amounting to €1,014 to a bank in exchange for cash during the year ended 31 December 2008. The transaction has been accounted for as a collateralised borrowing (Note 20).

36p126(a)

The Group has recognised a loss of €24 (2007: €33) for the impairment of its other receivables during the year ended 31 December 2008. The loss has been included in marketing and administrative costs in the income statement.

13 Derivative financial instruments

The Group uses cash flow and fair value hedges and hedges of the net investments in certain overseas operations. It also purchases derivatives to match the liabilities arising on the unit-linked insurance and investment products that it sells.

All the derivatives that the Group has entered into are settled on a net basis.

IFRS7p22

(a) Cash flow hedges

The Group hedges the foreign exchange risks that it expects to assume as a result of certain intragroup reinsurance treaties and the cash flows from held-to-maturity debt securities, using OTC forward contracts.

The parent company of the Group (Asfalia Holdings) has a reinsurance agreement in place with one of its subsidiaries in the US to reinsure insurance risk arising on its short-term insurance portfolio in that subsidiary. The translation of the intercompany assumed reinsurance liability (denominated in US dollars) to euros impacts the profit or loss of the Group on consolidation. Therefore the parent company entered into OTC forward foreign exchange contracts that were designated as cash flow hedges with an aggregate notional principal amount of €6,500 (2007: €3,000) and a negative fair value of €733 (2007: €632).

The Group also hedges a portion of its floating rate borrowings using floating-to-fixed interest rate swaps.

The table below analyses the derivative positions indicating when the derivative instrument is comprised in one of the categories group ALM framework.

IFRS7p25
IFRS7p31

Foreign exchange contracts	**2008**			**2007**		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**
OTC forward contracts:						
– Fixed and guaranteed portfolio	24,824	875	2,390	4,005	1,040	2,791
– Short–term insurance portfolio	6,500	–	733	3,000	–	632
Total	31,324	875	3,123	20,005	1,040	3,423
Interest rate contracts						
OTC swaps	3,742	292	1,041	3,866	446	1,141
Total at 31 December	35,066	1,167	4,164	23,871	1,486	4,564

IFRS7p23(a)

Gains and losses in equity on forward foreign exchange contracts as at 31 December 2008 will be released to the income statement at various dates between six months and one year from the balance sheet date.

At 31 December 2008, the fixed interest rates vary from 6.9% to 7.4% (2007: 6.7% to 7.2%), and the main floating rates are EURIBOR and LIBOR.

IFRS7p24(b)

The ineffective portion of the cash flow hedge recognised in profit and loss during 2008 amounted to €85 (2007: €21) and it is entirely attributable to the interest rate cash flow hedges.

IFRS7p22

(b) Fair value hedges

The Group hedges a proportion of its existing foreign exchange risk in available-for-sale debt securities in fair value hedges using currency futures. All these derivatives are included in the portfolio backing short-term insurance liabilities where the hedged available-for-sale debt securities are also held.

IFRS7p25

	2008			**2007**		
Foreign exchange contracts	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**
Exchange traded futures	7,324	514	1,834	8,555	610	2,010
Total at 31 December	7,324	514	1,834	8,555	610	2,010

IFRS7p24(a)(i-ii)

Net losses on foreign exchange contracts designated as fair value hedges during 2008 amounted to €96 (2007: gain of €88). Net gains on available-for-sale debt securities hedged in the fair value hedges during 2008 amounted to €96 (2007: loss of €88).

IFRS7p22

(c) Hedge of net investment in foreign entity

39p102

A proportion of the Group's UK pound-denominated borrowing amounting €3,322 (2007: €2,679) is designated as a hedge of the net investment in the Group's UK subsidiary. The fair value of the borrowing at 31 December 2008 was €3,529 (2007: €2,868). The foreign exchange loss of €45 (2007: gain of €40) on translation of the borrowing to euros at the balance sheet date was recognised in 'other reserves in shareholders' equity.

IFRS7p24(c)

The ineffective portion of the hedge of net investment in the Group's UK subsidiary recognised in profit and loss during 2008 amounted to €125 (2007: €112).

(d) Non-hedge derivatives

A variety of equity futures are part of the portfolio matching the unit-linked investment and insurance liabilities.

To match the expected liability duration of fixed and guaranteed insurance and investment contracts, the Group has purchased OTC interest rate swap contracts to swap floating rates of the backing assets to the fixed rates required to meet the interest cash flows over the mean duration of the related insurance and investment contracts (Note 4.2.1).

IFRS7p25

	2008			2007		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	**Contract/ notional amount**	**Fair value asset**	**Fair value liability**
Equity index contracts:						
– Exchange traded futures – held for trading	17,506	2,257	1,112	15,997	476	1,476
Interest rate contracts:						
OTC swaps – held for trading	115,555	7,526	750	102,344	8,624	697
Total at 31 December	133,061	9,783	1,862	118,341	9,100	2,173

14 Cash and cash equivalents

	2008	**2007**
Cash at bank and in hand	12,698	23,266
Short-term bank deposits	16,295	16,540
	28,993	39,806

The effective interest rate on short-term bank deposits was 3.9% (2007: 3.6%) and has an average maturity of 20 days.

7p45 Cash and bank overdrafts include the following for the purposes of the cash flow statement:

		2008	2007
	Cash and cash equivalents	28,993	39,806
7p8	Bank overdrafts (Note 20)	(2,650)	(3,427)
		26,343	36,379

15 Share capital

		Number of shares (thousands)	Ordinary shares	Share premium	Treasury shares	Total
	At 1 January 2007	20,000	20,000	10,424	–	30,424
	Employee share option scheme:					
IFRS2p51(a)	– Value of services provided	–	–	822	–	822
1p97(a), (c)	– Proceeds from shares issued	1,000	1,000	70	–	1,070
	At 31 December 2007	21,000	21,000	11,316	–	32,316
	Employee share option scheme:					
IFRS2p51(a)	– Value of services provided	–	–	690[1]	–	690
1p97(a), (c)	– Proceeds from shares issued	750	750	200	–	950
IFRS3p67(d)(ii)	Acquisition of subsidiary (Note 44)	3,550	3,550	6,450	–	10,000
	Treasury shares purchased	(875)	–	–	(2,564)	(2,564)
1p76(a)	**At 31 December 2008**	24,425	25,300	18,656	(2,564)	41,392

1p76(a) The total authorised number of ordinary shares is 50 million (2007: 50 million), with a par value of 100 cents per share (2007: 100 cents per share). All issued shares are fully paid.

1p76(a) The Company acquired 875,000 of its own shares through purchases on the EuroMoney Stock Exchange on 18 April 2008. The total amount paid to acquire the shares, net of income tax, was €2,564 and has been deducted from shareholders' equity. The shares are held as treasury shares. The Company has the right to reissue these shares at a later date. All shares issued by the Company were fully paid.

10p21 The Company reissued 500,000 treasury shares for a total consideration of €1,500 on 15 January 2007.

(a) Share options

IFRS2p45(a) Share options are granted to directors and to employees with more than three years of service. The exercise price of the granted options is equal to the market price of the shares less 15% on the date of the grant. Options are conditional on

[1] The credit entry to equity in respect of the IFRS 2 charge should be recorded in accordance with local company law and practice. This may be a specific reserve, retained earnings or share capital.

the employee completing one year's service (the vesting period). The options are exercisable starting one year from the grant date only if the Group achieves its targets of profitability and sales growth; the options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		2008		2007	
		Average exercise price in € per share	**Options (thousands)**	**Average exercise price in € per share**	**Options (thousands)**
	Year ended 31 December				
IFRS2p45(b)(i)	At beginning of year	1.73	4,744	1.29	4,150
IFRS2p45(b)(ii)	Granted	2.95	964	2.38	1,827
IFRS2p45(b)(iii)	Forfeited	-	-	2.00	(200)
IFRS2p45(b)(iv)	Exercised	1.28	(750)	1.08	(1,000)
IFRS2p2(b)(v)	Expired	-	-	0.80	(33)
IFRS2p2(b)(vi)	**At end of year**	2.03	4,958	1.73	4,744

IFRS2p45(b)(vii), IFRS2p45(c)

Out of the 4,958 thousand outstanding options (2007: 4,744 thousand options), 3,994 thousand (2007: 2,917 thousand) were exercisable. Options exercised in 2008 resulted in 750 thousand shares (2007: 1,000 thousand shares) being issued at 128 cents each (2007: 108 cents each). The related weighted average share price at the time of exercise was 285 cents (2007: 265 cents) per share. The related transaction costs amounting to €10 (2007: €10) have been deducted from the proceeds received.

IFRS2p45(d)

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise prices:

Expiry date – 1 July	Exercise price in € per share	Number of shares 2008	Number of shares 2007
2008	1.10	–	500
2009	1.20	800	900
2010	1.35	1,200	1,250
2011	2.00	217	267
2012	2.38	1,777	1,827
2013	2.95	964	–
		4,958	4,744

IFRS2p47(a)

The weighted average fair value of options granted during the period, determined using the Black-Scholes valuation model, was €0.86 per option (2007: €0.66). The significant inputs into the model were the weighted average share price of €3.47 (2007: €2.80) at the grant date, the exercise price shown above, volatility of 30% (2007: 27%), a dividend yield of 4.3% (2007: 3.5%), an expected option life of three years, and annual risk-free interest rate of 5% (2007: 4%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

33p71(c)
10p21, 22(f)

On 1 January 2009, 1,200,000 share options were granted to directors and employees at the market share price less 15% on that date of 320 cents per share (share price: 368 cents) (expiry date: 31 December 2012).

The Group issued 3,550,000 shares on 1 March 2008 (14.5% of the total ordinary share capital issued) to the shareholders of Your Insurance Group as part of the purchase consideration for 70% of its ordinary share capital. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to €10,050 (283 cents per share). The related transaction costs amounting to €50 have been deducted from the deemed proceeds.

16 Other reserves and equity component of DPF

		2008	2007
	Land and buildings revaluation reserve	1,689	1,774
	Hedging reserve	526	343
	Reserve for revaluation of available-for-sale investments	47,767	41,364
	Reserve for insurance liabilities and liabilities for investment contracts with DPF (net of DAC and VOBA)	(21,257)	(20,168)
	Translation reserve	4,985	3,787
	Convertible bond	870	–
	Total other reserves at 31 December	34,580	27,100
IFRS4p34(b)	Equity component of DPF at 31 December	3,059	3,024
	Retained earnings at 31 December	137,224	151,909

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company except for €2,531 (2007: €1,816), which is not distributable and must be kept in compliance with the solvency capital regulations that require the Group to retain this amount as an equalisation reserve. The amounts in the equalisation reserve become available for distribution when the Group has suffered insurance losses in excess of levels set out in the relevant solvency capital regulations.

Movements in the revaluation reserve for land and buildings were as follows:

	At beginning of 2007	1,885
16p39	Revaluation – gross (Note 6)	33
12p61	Revaluation – tax (Note 21)	(7)
16p41	Depreciation transfer – gross	(130)
16p41	Depreciation transfer – tax (Note 21)	43
1p96(b), 21p52(b)	Currency translation differences	(50)
	At beginning of 2008	1,774
16p41	Depreciation transfer – gross	(149)
16p41	Depreciation transfer – tax (Note 21)	49
1p96(b), 21p52(b)	Currency translation differences	15
	At end of 2008	1,689

Movements in the reserve for cash flow hedges were as follows:

1p96(b)	Cash flow hedges reserve at the beginning of 2007	153
39p98(a)	– Fair value gains in year	300
12p61	– Tax on fair value gains	(101)
39p98(b), IFRS7p23(a)	– Transfers (from)/to net profit, finance costs (Note 34)	(88)
12p61	– Tax on transfers to net profit	79
	At beginning of 2008	343
39p98(a)	– Fair value gains in year	368
12p61	– Tax on fair value gains	(123)
39p98(b), IFRS7p23(a)	– Transfers from net profit, finance costs (Note 35)	(102)
12p61	– Tax on transfers to net profit	40
	At end of 2008	526

Movements in the revaluation reserve for available-for-sale investments were as follows:

	At 1 January 2007	45,244
IFRS7p20(a)(ii)	Revaluation – gross (Note 11)	31,596
12p61	Revaluation – tax (Note 21)	(10,737)
IRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(31,056)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	6,317
	At beginning of 2008	41,364
IFRS7p20(a)(ii)	Revaluation – gross (Note 11)	10,888
12p61	Revaluation – tax (Note 21)	(3,020)
IFRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(2,093)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	628
	At end of 2008	47,767

Movements in the reserve for insurance liabilities and liabilities for investment contracts with DPF (net of associated DAC and VOBA) were as follows:

	At beginning of 2007	(16,549)
	Adjustment from unrealised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	(4,156)
IFRS4p35	– Investment contracts with DPF	(10,565)
12p61	Adjustment from unrealised gains on AFS assets – tax (Note 21)	4,416
	Adjustment from net realised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	2,493
IFRS4p35	– Investment contracts with DPF	7,058
12p81(a)	Adjustment from net realised gains on AFS assets – tax (Note 21)	(2,865)

Reference	Item	Amount
	At beginning of 2008	(20,168)
	Adjustment from unrealised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	(914)
IFRS4p35	– Investment contracts with DPF	(2,741)
12p61	Adjustment from unrealised gains on AFS assets – tax (Note 21)	1,096
	Adjustment from net realised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	525
IFRS4p35	– Investment contracts with DPF	1,575
12p81(a)	Adjustment from net realised gains on AFS assets – tax (Note 21)	(630)
	At end of 2008	(21,257)

Movements in the translation reserve were as follows:

Reference	Item	Amount
	At beginning of 2007	3,827
39p102(a)	Net investment hedge (Note 13)	40
1p96(b)	Currency translation differences:	
21p52(b)	– Group	(66)
28p39	– Associates	(14)
	At beginning of 2008	3,787
39p102(a)	Net investment hedge (Note 13)	(45)
1p96(b)	Currency translation differences:	
21p52(b)	– Group	1,255
28p39	– Associates	(12)
	At end of 2008	4,985

Movements in the equity component of DPF as follows:

Reference	Item	Amount
IFRS4p34(b)	**Equity component of DPF at beginning of 2007**	1,685
	Revaluation – gross (Note 11)	1,913
12p61	Revaluation – tax (Note 21)	(574)
IFRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(820)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	246
	Attribution of profit	574
	At the beginning of 2008	3,024
	Revaluation – gross (Note 11)	346
12p61	Revaluation – tax (Note 21)	(104)
IFRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(81)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21):	24
	Attribution of current year profit comprises:	
	– Current year profit	57
	– Discretionary allocation to DPF liabilities	(207)
	At end of 2008	3,059

The equity component of DPF originates from insurance contracts and investment contracts with DPF. The Group manages separate funds for insurance contracts and investment contracts with DPF. As explained in Notes 2.14 and 4.2, the holders of these contracts receive, as a supplement to guaranteed benefits, additional benefits from the net realised gains arising from the assets held in the Group's DPF

funds through contractual and regulatory participation rules that allocate part of the gains to them and part to the Group's shareholders. Contract holders as a group are entitled to at least 90% of DPF eligible surplus of the year (the total net realised gains are the DPF eligible surplus). The Group may decide to attribute a higher portion of net realised gains to the DPF eligible surplus up to the total amount but still retains discretion on the amount and timing of the allocation of the surplus to individual contract holders (bonus rate declaration).

A liability equal to 90% of the net unrealised gains arising from the assets in the DPF funds is recognised (the DPF latent surplus); the remaining 10% is recognised as the equity component of DPF. Contract holders do not have an automatic right to receive such surpluses, and shareholders are not fully entitled to consider any portion of such surplus as distributable retained earnings until the gains are realised and the allocation between contract holders and shareholders takes place. Such constraint on dividend distribution also applies to the other reserves within equity other than retained earnings.

At year-end, the equity component of DPF associated with assets backing insurance contracts was €642 (2007: €635) and €2,417 (2007: €2,389) in relation to investment contracts. During 2008, the Group decided to pay an additional bonus of €207 to holders of contracts with DPF.

17 Insurance liabilities and reinsurance assets

	At beginning of 2007	1,885
16p39	Revaluation – gross (Note 6)	33
12p61	Revaluation – tax (Note 21)	(7)
16p41	Depreciation transfer – gross	(130)
16p41	Depreciation transfer – tax (Note 21)	43
1p96(b), 21p52(b)	Currency translation differences	(50)
	At beginning of 2008	1,774
16p41	Depreciation transfer – gross	(149)
16p41	Depreciation transfer – tax (Note 21)	49
1p96(b), 21p52(b)	Currency translation differences	15
	At end of 2008	1,689

Movements in the reserve for cash flow hedges were as follows:

1p96(b)	Cash flow hedges reserve at the beginning of 2007	153
39p98(a)	– Fair value gains in year	300
12p61	– Tax on fair value gains	(101)
39p98(b), IFRS7p23(a)	– Transfers (from)/to net profit, finance costs (Note 34)	(88)
12p61	– Tax on transfers to net profit	79
	At beginning of 2008	343
39p98(a)	– Fair value gains in year	368
12p61	– Tax on fair value gains	(123)
39p98(b), IFRS7p23(a)	– Transfers from net profit, finance costs (Note 35)	(102)
12p61	– Tax on transfers to net profit	40
	At end of 2008	526

Movements in the revaluation reserve for available-for-sale investments were as follows:

Reference		
	At 1 January 2007	45,244
IFRS7p20(a)(ii)	Revaluation – gross (Note 11)	31,596
12p61	Revaluation – tax (Note 21)	(10,737)
IRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(31,056)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	6,317
	At beginning of 2008	41,364
IFRS7p20(a)(ii)	Revaluation – gross (Note 11)	10,888
12p61	Revaluation – tax (Note 21)	(3,020)
IFRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(2,093)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	628
	At end of 2008	47,767

Movements in the reserve for insurance liabilities and liabilities for investment contracts with DPF (net of associated DAC and VOBA) were as follows:

Reference		
	At beginning of 2007	(16,549)
	Adjustment from unrealised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	(4,156)
IFRS4p35	– Investment contracts with DPF	(10,565)
12p61	Adjustment from unrealised gains on AFS assets – tax (Note 21)	4,416
	Adjustment from net realised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	2,493
IFRS4p35	– Investment contracts with DPF	7,058
12p81(a)	Adjustment from net realised gains on AFS assets – tax (Note 21)	(2,865)
	At beginning of 2008	(20,168)
	Adjustment from unrealised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	(914)
IFRS4p35	– Investment contracts with DPF	(2,741)
12p61	Adjustment from unrealised gains on AFS assets – tax (Note 21)	1,096
	Adjustment from net realised gains on AFS assets – gross (Note 17):	
IFRS4p30	– Insurance contracts	525
IFRS4p35	– Investment contracts with DPF	1,575
12p81(a)	Adjustment from net realised gains on AFS assets – tax (Note 21)	(630)
	At the end of 2008	(21,257)

Movements in the translation reserve were as follows:

Reference		
	At beginning of 2007	3,827
39p102(a)	Net investment hedge (Note 13)	40
1p96(b)	Currency translation differences:	
21p52(b)	– Group	(66)
28p39	– Associates	(14)
	At beginning of 2008	3,787
39p102(a)	Net investment hedge (Note 13)	(45)
1p96(b)	Currency translation differences:	
21p52(b)	– Group	1,255
28p39	– Associates	(12)
	At the end of 2008	4,985

Movements in the equity component of DPF as follows:

Reference		
IFRS4p34(b)	**Equity component of DPF at beginning of 2007**	1,685
	Revaluation – gross (Note 11)	1,913
12p61	Revaluation – tax (Note 21)	(574)
IFRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(820)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	246
	Attribution of profit	574
	At the beginning of 2008	3,024
	Revaluation – gross (Note 11)	346
12p61	Revaluation – tax (Note 21)	(104)
IFRS7p20(a)(ii)	Net gains transferred to net profit on disposal and impairment – gross (Note 27)	(81)
12p81(a)	Net gains transferred to net profit on disposal and impairment – tax (Note 21)	24
	Attribution of current year profit comprises:	
	– Current year profit	57
	– Discretionary allocation to DPF liabilities	(207)
	At the end of 2008	3,059

The gross claims reported, the loss adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2008 and 2007 are not material.

17.1 Development claim tables

In addition to scenario testing, the development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. With the exception of asbestos claims, an accident-year basis is considered to be most appropriate for the business written by the Group.

Given the nature of asbestos claims and the difficulties in identifying an accident year for each reported claim, these claims are reported separately and aggregated by reporting year (reporting year basis) – ie, with reference to the year in which the Group was notified of the claims. This presentation is different from the basis used for the claims development tables for the other insurance claims of the Group, where the reference is to the actual date of the event that caused the claim (accident year basis).

DV, IFRS4p39(c)(iii)

(a) Asbestos – gross

Reporting year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Estimate of ultimate claims costs:										
– At end of reporting year	1,943	3,886	4,858	5,208	6,127	7,353	9,449	11,765	16,691	67,280
– One year later	1,973	3,946	4,932	5,288	6,221	8,088	11,048	13,934	–	–
– Two years later	2,390	4,780	5,975	6,406	7,536	9,044	12,757	–	–	–
– Three years later	2,604	5,208	6,510	6,979	8,211	9,853	–	–	–	–
– Four years later	2,837	5,673	7,091	7,602	8,944	–	–	–	–	–
– Five years later	3,120	6,240	7,800	8,363	–	–		–	–	–
– Six years later	3,467	6,933	8,666	–	–	–	–	–	–	–
– Seven years later	3,813	7,626	–	–	–	–	–	–	–	–
– Eight years later	4,194	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	4,194	7,626	8,666	8,363	8,944	9,853	12,757	13,934	16,691	91,029
Cumulative payments to date	(4,171)	(7,511)	(8,493)	(7,945)	(7,831)	(1,478)	(1,020)	(975)	(1,000)	(40,423)
Liability recognised in the balance sheet	23	115	173	418	1,113	8,375	11,737	12,959	15,691	50,605
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	10,483
Total reserve included in the balance sheet	–	–	–	–	–	–	–	–	–	61,088

The run-off deficit of gross asbestos claims liabilities in recent years is the result of a number external developments that have led to increases in the frequency and severity of asbestos claims. The deterioration noted in prior years has been primarily driven by legal developments in the US. The Group has not written any casualty insurance contracts in the US since 1999.

DV, IFRS4p39(c)(iii)

(b) Asbestos – net

Reporting year	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Estimate of ultimate claims costs:										
–At end of reporting year	486	971	1,214	1,301	1,531	1,838	2,362	2,941	4,173	15,360
–One year later	493	986	1,233	1,322	1,555	2,022	2,762	3,483	–	–
–Two years later	597	1,195	1,494	1,601	1,884	2,261	3,189	–	–	–
–Three years later	651	1,302	1,627	1,744	2,052	2,463	–	–	–	–
–Four years later	709	1,418	1,773	1,901	2,236	–	–	–	–	–
–Five years later	780	1,560	1,950	2,091	–	–	–	–	–	–
–Six years later	867	1,733	2,167	–	–	–	–	–	–	–
–Seven years later	953	1,907	–	–	–	–	–	–	–	–
–Eight years later	1,049	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	1,049	1,907	2,167	2,091	2,236	2,463	3,189	3,483	4,173	22,756
Cumulative payments to date	(1,032)	(1,874)	(2,123)	(1,986)	(1,923)	(369)	(255)	(244)	(250)	(10,105)
Liability recognised in the balance sheet	17	33	43	105	313	2,094	2,934	3,239	3,923	12,651
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	2,732
Total reserve included in the balance sheet	–	–	–	–	–	–	–	–	–	15,383

The Group continues to benefit from reinsurance programmes that were purchased in prior years and included proportional cover supplemented by excess of loss reinsurance cover, and by a stop-loss cover for the contracts issued in California (Note 10). The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

IFRS4p39(c)(iii)

(c) Insurance claims other than asbestos – gross

DV

Accident year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Estimate of ultimate claims costs:										
– At end of accident year	22,552	37,587	46,984	55,394	52,917	61,335	85,304	60,332	84,002	446,268
– One year later	22,296	37,159	46,449	55,012	54,216	61,948	85,127	59,033	–	–
– Two years later	22,993	38,322	47,902	56,324	55,300	62,568	85,400	–	–	–
– Three years later	23,176	38,627	48,284	55,020	56,406	59,033	–	–	–	–
– Four years later	22,888	38,147	47,684	53,765	54,598	–	–	–	–	–
– Five years later	23,376	38,960	48,700	53,941	–	–	–	–	–	–
– Six years later	23,360	38,933	48,666	–	–	–	–	–	–	–
–Seven years later	25,696	42,826	–	–	–	–	–	–	–	–
–Eight years later	28,265	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	28,265	42,826	48,666	53,941	54,598	59,033	85,400	59,033	84,002	515,764
Cumulative payments to date	(28,186)	(42,698)	(48,373)	(53,260)	(53,333)	(57,600)	(76,695)	(26,757)	(49,588)	(436,490)
Liability recognised in the balance sheet	79	128	293	681	1,265	1,433	8,705	32,276	34,414	79,274
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	3,661
Total reserve included in the balance sheet	–	–	–	–	–	–	–	–	–	82,935

IFRS4p39(c)(iii)

(d) Insurance claims other than asbestos – net

IFRS4IG61
IFRS4IG59

Accident year	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Estimate of ultimate claims costs:										
– At end of reporting year	27,063	45,105	51,447	61,487	57,542	68,628	95,447	67,193	81,168	482,912
– One year later	26,755	44,591	50,862	61,063	58,954	69,314	95,249	69,784	–	–
– Two years later	27,592	45986	52,453	62,520	60,134	70,007	95,554	–	–	–
– Three years later	27,812	46,353	52,871	61,072	61,336	69,784	–	–	–	–
– Four years later	27,466	45,777	52,214	59,679	59,981	-	–	–	–	–
– Five years later	28,051	46,752	53,327	58,852	–	–	–	–	–	–
– Six years later	28,032	46,719	53,128	–	–	–	–	–	–	–
–Seven years later	30,835	51,391	–	–	–	–	–	–	–	–
–Eight years later	33,918	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	33,918	51,391	53,128	58,852	59,981	69,784	95,554	69,784	81,168	573,561
Cumulative payments to date	(33,823)	(51,238)	(52,716)	(58,042)	(58,145)	(62,772)	(83,581)	(29,159)	(54,040)	(483,516)
Liability recognised in the balance sheet	95	154	412	810	1,836	7,012	11,973	40,625	27,128	90,045
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	4,024
Total reserve included in the balance sheet	–	–	–	–	–	–	–	–	–	94,069

The Group has in place a series of quota-share reinsurance covers on a number of short-term insurance products that have remained unchanged in recent years. Although the Group has also had stop-loss cover in place in each of the last four accident years, there have been no events in any of those years that have resulted in losses of a sufficient size to prompt recovery on these contracts. Reserve movements arising on net short-term contracts have therefore followed the pattern of movements on the gross reserves for the same products.

IFRS4p37(e)

17.2 Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses

	2008			2007		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Year ended 31 December						
Notified claims	36,696	(13,229)	23,467	47,474	(8,995)	18,599
Incurred but not reported	94,803	(33,266)	61,537	75,886	(30,109)	45,777
Total at beginning of year	131,499	(46,495)	85,004	100,480	(36,104)	64,376
Cash paid for claims settled in year	(80,503)	9,010	(71,493)	(56,971)	8,089	(48,882)
Increase in liabilities (Note 29):						
– Arising from current year claims	90,317	(14,837)	75,480	75,260	(17,853)	57,407
– Arising from prior year claims	13,823	(4,503)	9,320	2,863	(635)	2,228
Net exchange differences	21	(14)	7	(13)	8	(5)
Total at end of year	155,157	(56,839)	98,318	131,499	(46,495)	85,004
Notified claims	40,612	(14,189)	26,423	36,696	(13,229)	23,467
Incurred but not reported	114,545	(42,650)	71,895	94,803	(33,266)	61,537
Total at end of year	155,157	(56,839)	98,318	131,499	(46,495)	85,004

IFRS4p37(d)

As disclosed in Note 17.1, the additional net insurance reserves arising in respect of prior years of €9,320 (2007: €2,228) includes a movement of €5,618 (2007: €912) that has arisen due to changes in the assumptions used to estimate the following:

- Ultimate cost of asbestos related claims payment, and
- Impact of new legislation on bodily injury awards in the UK market.

(b) Provisions for unearned premiums and unexpired short term insurance risks

The movements for the year are summarised below.

	Year ended 31 December	2008 Gross	2008 Reinsurance	2008 Net	2007 Gross	2007 Reinsurance	2007 Net
IFRS4p37(e)	**Unearned premium provision**						
	At beginning of year	19,133	(3,010)	16,123	17,220	(2,710)	14,510
							153
	Increase in the period (Note 24)	20,004	(3,170)	16,834	17,239	(2,712)	14,527
	Release in the period (Note 24)	(17,794)	2,800	(14,994)	(15,326)	2,412	(12,914)
	At end of year	21,343	(3,380)	17,963	19,133	(3,010)	16,123
IFRS4p37(e)	**Unexpired risk provision**						
	At beginning of year	1,657	(414)	1,243	1,436	(248)	1,188
	Increase in the period (Note 29)	310	(73)	237	294	(221)	73
	Release in the period (Note 29)	(89)	18	(71)	(73)	55	(18)
	At end of year	1,878	(469)	1,409	1,657	(414)	1,243

These provisions represent the liability for short-term insurance contracts for which the Group's obligations are not expired at year-end. The unexpired risk provision relates to the casualty insurance contracts for which the Group expects to pay claims in excess of the related unearned premium provision. This assessment is performed using geographical aggregation of portfolios of employers' liability insurance contracts within the casualty segment.

IFRS4p37(e)

(c) Short-term life contracts	2008	2007
At beginning of year	33,170	31,481
Premiums received (Note 24)	3,072	2,850
Liabilities released for death benefits (Note 29)	1,350	1,180
Net exchange differences	24	19
At end of year	34,916	33,170

The Group did not cede any of these liabilities to its reinsurers.

IFRS4p37(e)

(d) Long-term insurance contracts with fixed terms and guaranteed amounts

Year ended 31 December	2008	2007
At beginning of year	317,495	284,813
Valuation premium (Note 24)	45,759	44,701
Liabilities released for payments on death and other terminations in the year	(30,116)	(25,376)
Accretion of interest (Note 29)	14,664	13,373
Other movements	523	326
Net exchange differences	(701)	(342)
At end of year	347,624	317,495

As defined in the accounting policies, valuation premiums are the amounts of premiums received that directly increases the insurance liabilities. The Group did not cede any of these liabilities to its reinsurers.

IFRS4p37(e)

(e) Long-term insurance contracts with DPF

Year ended 31 December	2008	2007
At beginning of year	28,518	28,251
Premiums received	8,415	9,778
Fees deducted from account balances (Note 25)	(1,230)	(1,129)
Liabilities released for payments on death, surrender and other terminations in the year	(11,459)	(11,321)
Interest credited:		
– Through income (within insurance benefits, Note 29)	1,089	1,218
– Through equity (Note 16)	458	1,956
Other movements (within insurance benefits)	134	(235)
Net exchange differences	2	–
At end of year	25,927	28,518

The Group did not cede any of these liabilities to its reinsurers.

IFRS4p37(e)

(f) Long-term insurance contracts without fixed terms

	Year ended 31 December	2008	2007
IFRS4IG37(a)	**At beginning of year**	175,010	171,824
IFRS4IG37(b)	Premiums received in year	67,875	37,224
IFRS4IG37(d)	Fees deducted from account balances (Note 25)	(17,582)	(16,264)
	Liabilities released for payments on death, surrender and other terminations in the year	(50,330)	(38,439)
	Changes in unit-prices (within insurance benefits –Note 29)	8,579	20,655
	Other movements (within insurance benefits)	205	182
IFRS4IG37(f)	Net exchange differences	(383)	(172)
IFRS4IG37(a)	**At end of year**	183,374	175,010

The Group did not cede any of these liabilities to its reinsurers.

18 Investment contract liabilities

	Year ended 31 December	2008	2007
IFRS7p29(c)	Guaranteed element	59,793	57,604
IFRS4p35	DPF component	21,109	31,388
	Total investment contracts with DPF	80,902	88,992
1p74, IFRS7p8(f),	Investment contracts at amortised cost (guaranteed investment bonds)	147,420	117,030
IFRS7 B2	Investment contracts at fair value through income (unit-linked):		
IFRS7p8(e)	– Designated upon initial recognition	171,568	134,466
	– Classified as held for trading	-	-
	Total financial liabilities arising from investment contracts	399,890	340,488
	Current portion	66,823	38,992
	Non-current portion	333,067	301,496

During 2008, the Group acquired a company operating in Euravia. Financial liabilities arose from investment contracts at amortised cost amounting to €22,734. Financial liabilities arising from investment contracts at fair value through income amounting to €26,121 arose from this acquisition (Note 44).

IFRS7p10(b)

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and derivatives. This investment mix is unique; it cannot be associated with an individual benchmark index with a sufficiently high correlation with the asset selection operated by the Group of its linked funds. The Group communicates the performance of these contracts to its contract holders by comparing the actual performance against a constructed index that includes the movements in the following indices: 20% of INDEX KK; 30% of INDEX JJ; 25% of INDEX WW; 25% of INDEX YY.

The amount of changes in the fair value of these liabilities that is not attributable to the change in the constructed index above is €380 (2007: €535).

IFRS7p8(a)

All financial liabilities at fair value through profit and loss are designated by the Group to be in this measurement category.

IFRS7p10(a)
IFRS7p11(a)

The liabilities originated from unit-linked contracts are measured in reference to their respective underlying assets of these contracts. Changes in the credit risk of the underlying assets do not impact the measurement of the unit-linked liabilities.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

IFRS7p25

The fair value of financial liabilities at amortised cost is based on a discounted cash flow valuation technique. The discount rate is determined by current market assessment of the time value of money and risk specific to the liability.

	Carrying value		Fair value	
	2008	**2007**	**2008**	**2007**
Investment contracts:				
– Fixed rate	147,420	117,030	147,750	117,631
– With DPF	80,902	88,992	See range below	

IFRS7p29(c)
IFRS7p30

The Group cannot measure reliably the fair value of the investment contracts with DPF. The DPF is a contractual right that gives investors in these contracts the right to receive supplemental discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund (Notes 2.14, 2.15 and 4.2.1). These supplemental discretionary returns are subject to the discretion of the Group. The Group has the discretion within the constraints of the terms and conditions of the instrument to allocate part of the surplus to the contract holders and part to the Group's shareholders.

Any guaranteed minimum participation in amounts that arise from net unrealised gains on the assets in the investment DPF fund is immediately recognised as a liability. However, amounts that arise from net unrealised gains in excess of the minimum participation rate and that are not yet allocated to contract holders or share holders are held in equity reserve (Note 16). The Group utilises the contractual discretion that characterises the instruments with DPF to smooth the returns derived from the underlying assets. For example, during the current year, the Group has credited holders of DPF investment contracts with a supplemental discretionary return arising from the allocation of previously recognised but unrealised gains included in the equity component of DPF.

It is impracticable to determine the fair value of investment contracts with DPF due to the lack of a reliable basis to measure such supplemental discretionary returns and because there is not an active market for such instruments. Based on their carrying amount and its current plans for future supplemental discretionary returns, the Group believes that the fair value lies in a range of possible estimates where the lower end is €78,857 (2007: €87,767) and the upper end is €83,319 (2007: €91,381). The upper end of the range assumes that the Group had decided to allocate to contract holders the entire equity component of DPF, while the lower end assumes no additional discretionary allocation to the contract holders other than the amounts already credited and reflects the impact of surrender penalties based on Group historical experience.

The movements in the liabilities arising from investment contracts with DPF are summarised below:

	Year ended 31 December	**2008**	**2007**
IFRS4IG37(a)	**At beginning of year**	88,992	82,344
IFRS4IG37(c)	Premiums received	23,591	21,748
	Fees deducted from account balances (Note 25)	(1,314)	(1,255)
IFRS4IG37(d)	Account balances paid on surrender in the year	(35,158)	(21,418)
IFRS4IG37(f)	Interest credited:		
	– Through income (Note 30)	3,478	3,654
	– Through equity (Note 16)	1,296	3,897
	Other movements (within insurance benefits)	17	22
IFRS4IG37(a)	**At end of year**	80,902	88,992

In 2008, profits distributed from the Group DPF funds to insurance and investment contracts with DPF amounted to €4,844 (2007: €5,413), of which €4,360 (2007: €4,872) (90%) was added to contract liabilities as supplemental benefits, and €484 (2007: €541) (10%) was available for distribution to shareholders. In order to maintain a level of supplemental benefits broadly in line with prior years, the Group decided to declare an additional bonus of €207 in 2008 by reducing the equity component of DPF for the same amount. This additional bonus represents an additional allocation of 5.5% to contract holders.

19 Trade and other payables and deferred income

		2008	**2007**
1p74, 24p17	Amounts due to related parties (Note 45)	1,212	1,197
	Trade payables and accrued expenses	470	511
	Social security and other tax payables	800	610
	Deferred income	5,605	6,145
	Total	8,087	8,463

Deferred income is front-end fees received from investment contract holders as a pre-payment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered (Note 25).

The estimated fair values of amounts due to related parties and trade payables are the amounts repayable on demand of €1,710 (2007: €1,741). All trade and other payables are current liabilities.

20 Borrowings

IFRS7p7

	2008	2007
IFRS7p8(f) Bank loans	36,076	32,056
Convertible bond (Note 40)	6,851	–
Debentures and other loans	3,300	3,092
Redeemable preference shares (Note 41)	7,000	7,000
IFRS7p13 Collateralised borrowings (Note 12)	1,014	–
Bank overdrafts	2,650	3,427
Total borrowings	56,891	45,575
Current portion	19,822	19,952
Non-current portion	37,069	25,623

Total borrowings include secured liabilities (bank and collateralised borrowings) of €6,354 (2007: €4,660). Bank borrowings are secured by the Group's land and buildings (Notes 6 and 7). Collateralised borrowings are secured by trade receivables (Note 12).

The carrying amounts and fair value of the non-current borrowings are as follows:

IFRS7p7
IFRS7p8(f)

	Carrying amounts		Fair values	
	2008	2007	2008	2007
Bank loans	21,326	17,188	21,585	17,066
Convertible bond (Note 40)	6,851	–	6,839	–
Debentures and other loans	1,892	1,435	1,857	1,406
Redeemable preference shares (Note 41)	7,000	7,000	6,638	6,731
	37,069	25,623	36,919	25,203

IFRS7p29(a) The aggregate fair values of borrowings are based on quoted market prices. Where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The discount rate used in the valuation technique is based on the borrowing rate of 5.5% (2007: 5.2%).

IFRS7p27(a) The carrying amounts of short-term borrowings approximate their fair value.

The Group has the following undrawn borrowing facilities:

	2008	2007
DV,7p50(a) Floating rate:		
– Expiring within one year	1,150	1,100
– Expiring beyond one year	1,000	400
Fixed rate:		
– Expiring within one year	3,750	3,500
	5,900	5,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2007. The other facilities have been arranged to help finance the proposed expansion of the Group's activities in Europe. The Group has fully utilised these facilities to fund the acquisition of Risky & Co in 2007 (see Note 46).

21 Deferred income tax

12p74

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

		2008	2007
	Deferred tax assets:		
1p52	– Deferred tax asset to be recovered after more than 12 months	(22,490)	(18,826)
	– Deferred tax asset to be recovered within 12 months	(5,268)	(4,168)
		(27,758)	(22,994)
	Deferred tax liabilities:		
	– Deferred tax liability to be recovered after more than 12 months	27,859	22,993
	– Deferred tax liability to be recovered within 12 months	28,747	26,741
		56,606	49,734
	Total net deferred income tax account	28,848	26,740

The gross movement on the deferred income tax account is as follows:

		2008	2007
	Year ended 31 December		
	At beginning of year	26,740	20,784
	Exchange differences	(89)	345
	Acquisition of subsidiary (Note 44)	(137)	-
	Income statement charge/(credit) (Note 35)	(15)	2,635
12p81(a)	Tax charged to equity net of transfers to retained earnings (Note 16)	2,349	2,976
	At end of year	28,848	26,740

12p81(g)(i)
12p81(g)(ii)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred tax assets

		Insurance liabilities				
		Long-term insurance contracts	Claims liabilities discounted on tax return	Tax losses carried forward	Accruals not currently deductible and other differences	Total
	At 1 January 2003	(2,433)	(5,723)	(5,778)	(2,133)	(16,067)
12p81(g)(ii)	Charged/(credited) to the income statement	(2,941)	(3,035)	693	115	(5,168)
12p81(a)	Charged/(credited) to equity (net of transfers to retained earnings)	(1,756)	-	-	-	(1,756)
	Exchange differences	(9)	(3)	(6)	15	-
12p81(g)(i)	**At end of year**	(7,139)	(8,761)	(5,091)	(2,003)	(22,994)
12p81(g)(ii)	Charged/(credited) to the income statement	(834)	(759)	825	111	(657)
12p81(a)	Charged/(credited) to equity (net of transfers to retained earnings)	(526)	-	-	-	(526)
	Exchange differences	11	8	14	(26)	7
	Acquisition of subsidiary (Note 44)	-	-	(3,300)	(288)	(3,588)
12p81(g)(i)	**At end of year**	(8,488)	(9,512)	(7,552)	(2,206)	(27,758)

Certain liabilities associated with the long-term insurance contracts are tax deductible only after a certain period of time has lapsed. The asset at the end of the year is expected to be recovered within the next five years. Liabilities for short-term insurance claims are deducted from the Group tax returns at a discounted value, generating a timing difference that is reversed on settlement of the claims. This is expected to occur within the next five years.

The Group is carrying forward tax losses in a number of Group companies that will be recovered over the next five years as expected taxable profits emerge.

(b) Deferred tax liabilities

		DAC and other intangible assets	Unrealised appreciation of investments	Convertible bond	Equalisation reserve and other differences	Total
	At beginning of year	30,031	6,142	–	681	36,854
12p81(g)(ii)	Charged/(credited) to the income statement	(256)	8,203	–	(144)	7,803
12p81(a)	Charged/(credited) to equity (net of transfers to retained earnings)	205	4,527	–	–	4,732
	Exchange differences	187	151	–	7	345
12p81(g)(i)	**At end of year**	30,167	19,023	–	544	49,734
12p81(g)(ii)	Charged/(credited) to the income statement	288	127	–	227	642
12p81(a)	Charged/(credited) to equity (net of transfers to retained earnings)	60	2,443	372	–	2,875
	Acquisition of subsidiary (Note 44)	3,228	223	–	–	3,451
	Exchange differences	(51)	(33)	–	(12)	(96)
12p81(g)(i)	**At end of year**	33,692	21,783	372	759	56,606

Acquisition costs incurred for insurance and investment contracts are fully deductible for tax purposes. The liability will reverse along with the amortisation of these intangible assets. The unrealised appreciation of investment will be taxed on realisation of the net gains.

The solvency regulations in the UK and Euravia require the Group to establish an equalisation reserve to be utilised against abnormal future losses arising in certain classes of business. The regulations prescribe that the reserve is increased every year by an amount that is calculated as a percentage of net premiums written for those classes during the financial year.

12p81(e)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of €300 (2007: €1,588) in respect of losses amounting to €1,000 (2007: €5,294) that can be carried forward against future taxable income. Losses amounting to €900 (2007: €5,294) and €100 (2007: nil) expire in 2009 and 2010 respectively.

12p81(f)

Deferred income tax liabilities of €3,141 (2007: €2,016) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled €30,671 at 31 December 2008 (2007: €23,294).

22 Retirement benefit obligations

	2008	2007
Balance sheet obligations for:		
– Pension benefits	3,138	1,438
– Post-employment medical benefits	1,402	692
	4,540	2,130

Income statement charge for (Note 33):		
– Pension benefits	762	496
– Post-employment medical benefits	150	107
	912	603

(a) Pension benefits

DV

The Group operates defined benefit pension plans in Euravia and the US based on employee pensionable remuneration and length of service. The majority of plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition.

The amounts recognised in the balance sheet are determined as follows:

19p120A(d)(f)

	2008	2007
Present value of funded obligations	6,155	2,943
Fair value of plan assets	(5,991)	(2,797)
	164	146
Present value of unfunded obligations	3,206	1,549
Unrecognised actuarial losses	(87)	(94)
Unrecognised past service cost	(145)	(163)
Liability in the balance sheet	3,138	1,438

19p120A(c)

The movement in the defined benefit obligation over the year is as follows:[1]

	2008	2007
Beginning of year	4,492	3,479
Current service cost	751	498
Interest cost	431	214
Contributions by plan participants	55	30
Actuarial losses/(gains)	(15)	495
Exchange differences	(43)	(103)
Benefits paid	(66)	(121)
Liabilities acquired in a business combination (Note 37)	3,691	–
Curtailments	65	–
Settlements[1]	–	–
End of year	9,361	4,492

[1] In practice, these lines could be omitted if the balances were zero. They have been included to highlight the required information.

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2008	2007
Beginning of year	2,797	2,264
Expected return on plan assets	510	240
Actuarial (losses)/gains	(15)	(5)
Exchange differences	25	(22)
Employer contributions	908	411
Employee contributions	55	30
Benefits paid	(66)	(121)
Business combinations (Note 37)	1,777	–
End of year	5,991	2,797

19p120A(g) The amounts recognised in the income statement are as follows:

	2008	2007
Current service cost	751	498
Interest cost	431	214
Expected return on plan assets	(510)	(240)
Net actuarial losses recognised during the year	7	8
Past service cost	18	16
Losses on curtailment	65	–
Total, included in staff costs (Note 33)	762	496

19p120A(g) Of the total charge, €521 (2007: €324) and €241 (2007: €172) were included in 'expenses for the acquisition of insurance and investment contracts' and 'marketing and administrative expenses' respectively.

19p120A(m) The actual return on plan assets was €495 (2007: €235).

19p120A(n) The principal actuarial assumptions used were as follows:

	2008	2007
Discount rate	7.0%	6.8%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

19p120A(n)(vi) **Mortality rate**

The average life expectancy in years of a pensioner retiring at age 65, at the balance sheet date is as follows:

	2008	2007
Male	18.5	18.5
Female	22.0	22.0

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:

	2008	2007
Male	19.5	19.5
Female	22.5	22.5

DV

The sensitivity of The sensitivity of overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Impact on overall liability
Discount rate	Increase / decrease by 0.5%	Increase / decrease by xx %
Inflation rate	Increase / decrease by 0.5%	Increase / decrease by xx%
Salary growth rate	Increase / decrease by 0.5%	Increase / decrease by xx%
Rate of mortality	Increase by 1 year	Increase by xx%

19p122(b)

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

19p122(b)

In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8% a year (2007: 7.6%).

19p120A(f)

The amounts recognised in the balance sheet were determined as follows:

	2008	2007
Present value of funded obligations	705	340
Fair value of plan assets	(620)	(302)
	85	38
Present value of unfunded obligations	1,325	663
Unrecognised actuarial losses	(8)	(9)
Liability in the balance sheet	1,402	692

19p120A(c)

The movement in the defined benefit obligation over the year is as follows:

	2008	2007
Beginning of year	1,003	708
Current service cost	153	107
Interest cost	49	25
Contributions by plan participants	–	–
Actuarial losses/(gains)	(2)	204
Exchange differences	25	(41)
Benefits paid	–	–
Liabilities acquired in a business combination (Note 37)	802	–
Curtailments	–	–
Settlements[1]	–	–
End of year	2,030	1,003

[1] In practice, these lines could be omitted if the balances were zero. They have been included to highlight the required information.

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2008	2007
Beginning of year	302	207
Expected return on plan assets	53	25
Actuarial (losses)/gains	(2)	(1)
Exchange differences	5	(2)
Employer contributions	185	73
Employee contributions	–	–
Benefits paid	–	–
Business combinations (Note 37)	77	–
End of year	620	302

19p120A(g) The amounts recognised in the income statement were as follows:

	2008	2007
Current service cost	153	107
Interest cost	49	25
Expected return on plan assets	(53)	(25)
Net actuarial losses recognised in year	1	–
Total, included in staff costs (Note 33)	150	107

19p120A(o) The effect of a 1% movement in the assumed medical cost trend rate is as follows:

	Increase	Decrease
Effect on the aggregate of the current service cost and interest cost	24	(20)
Effect on the defined benefit obligation	366	(313)

19p120A(g) Of the total charge, €102 (2007: €71) and €48 (2007: €36) respectively were included in 'expenses for the acquisition of insurance and investment contracts' and 'marketing and administrative expenses'.

19p120A(m) The actual return on plan assets was €51 (2007: €24).

(c) Post-employment benefits (pension and medical)

19p120A(j) Plan assets are comprised as follows:

	2008		2007	
Equity	3,256	49%	1,595	51%
Debt	2,571	39%	855	28%
Other	784	12%	649	21%
Total	6,611	100%	3,099	100%

DV Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although the Group also invests in property, bonds, hedge funds and cash. The Group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of international blue chip entities, with a target of 60% of equities held in the eurozone and Europe, 30% in the US and the remainder in emerging markets.

19p120A(k)

Pension plan assets include the Company's ordinary shares with a fair value of €136 (2007: €126) and a building occupied by the Group with a fair value of €612 (2007: €609).

19p120A(l)

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

19p120(q)

Expected contributions to post-employment benefit plans for the year ending 31 December 2007 are €1,150.

DV

The Group has agreed that it will aim to eliminate the deficit over the next nine years. Funding levels are monitored on an annual basis and the current agreed regular contribution rate is 14% of pensionable salaries in the Euravia and 12% in the US. The next triennial valuation is due to be completed as at 31 December 2009. The Group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

DV

An alternative method of valuation to the projected unit credit method is a buy-out valuation. This assumes that the entire post-employment benefit liability will be settled by transferring all obligations to a suitable insurer. The Group estimates the amount required to settle the post-employment benefit liabilities at the balance sheet date would be €15,500.

19p120A(p)

	2008	2007	2006	2005	2004
As at 31 December					
Present value of defined benefit obligation	11,391	5,495	4,187	3,937	3,862
Fair value of plan assets	6,611	3,099	2,471	2,222	2,162
Deficit/(surplus)	4,780	2,396	1,716	1,715	1,700
Experience adjustments on plan liabilities	(326)	125	55	–	–
Experience adjustments on plan assets	(17)	(6)	(197)	–	–

23 Provisions for other liabilities and charges

		Restructuring	Regulatory levies	Total
1p75(d)				
37p84(a)	**At beginning of year 2008**	746	1,828	2,574
	Charged to consolidated income statement:			
37p84(b)	– Additional provisions	2,444	532	2,976
37p84(d)	– Unused amounts reversed	(113)	(25)	(138)
	Acquisition of subsidiary (Note 44)	-	774	774
	Exchange differences	(7)	(68)	(75)
37p84(c)	Used during year	(1,119)	(2,450)	(3,569)
37p84(a)	**At end of year 2008**	1,951	591	2,542

		2008	2007
	Analysis of total provisions:		
1p60	– Current	2,222	2,300
1p60	– Non-current	320	274

37p85(a)

(a) Restructuring

The restructuring of the run-off insurance operations in the US will result in the reduction of a total of 155 jobs. An agreement has been reached with the local union representatives that specifies the number of staff involved and the voluntary redundancy compensation package offered by the Group, as well as amounts payable to those made redundant. The full amount of the estimated costs to be incurred has been recognised in 2008. The provision of €1,951 at 31 December 2008 is expected to be fully utilised during the first half of 2007.

36p130

A goodwill impairment charge of €3,789 was recognised in the cash-generating unit relating to insurance operations in the US as a result of this restructuring (Note 8).

(b) Regulatory levies

37p85(a)

The provision for regulatory levies arises as a result of the statutory obligations to which the Group is exposed in the various territories in which it operates. The most significant amount is due to the compensation fund operated by the Financial Services Compensation Scheme (FSCS) in the UK. The provision is calculated based on the most recent information from the FSCS about the size of the charge that is to be levied in 2007 in respect of 2007 and is calculated as 0.8% (2003: 0.1%) of the gross written premium on applicable business.

24 Net insurance premium revenue

IFRS4p37(b)

	2008	2007
Long-term insurance contracts with fixed and guaranteed terms	50,648	75,073
Short-term insurance contracts:		
– Premium receivables	103,359	79,683
– Change in unearned premium provision	(2,210)	1,325
Premium revenue arising from insurance contracts issued	151,797	156,081
Short term reinsurance contract:		
– Premium payables	(6,481)	(5,369)
– Change in unearned premium provision	221	(135)
Long-term reinsurance contracts	(500)	(580)
Premium revenue ceded to reinsurers on insurance contracts issued	(6,760)	(6,084)
Net insurance premium revenue	145,037	149,997

An excess of loss reinsurance cover for long-term insurance contracts was purchased in 2008 at a cost of €500 (2007: €580). There were no events in either 2008 or 2007 that prompted losses of sufficient size to trigger a recovery from these contracts. The excess of loss reinsurance cover for long-term insurance business for 2008 and 2007 was purchased with an inception date of 1 January; there is therefore no unearned reinsurance asset at year-end.

25 Fee income

		2008	2007
18p35(b)(ii)	Policy administration and asset management services:		
IFRS4p37(b)	– Insurance contracts	5,256	4,215
	– Investment contracts (unit-linked) without DPF	2,096	1,987
IFRS4p37(b)	– Investment contracts with DPF	1,314	1,255
	Surrender charges:		
IFRS4p37(b)	– Insurance contracts	2,325	1,468
	– Investment contracts (unit-linked) without DPF	1,157	478
IFRS4p37(b)	– Investment contracts with DPF	580	314
IFRS4p37(b)	Death benefits charges on long term insurance contracts without fixed terms (unit-linked) and long-term insurance contracts with DPF	11,231	11,710
	Total fee income	23,959	21,427

Fee income includes €503 (2007: €451) and €540 (2007: €492) arising from the release of deferred front-end fees for insurance and investment contracts, respectively.

Death benefits charges have been deducted from long-term insurance contracts without fixed terms for €10,230 (2007: €10,501) and from long-term insurance contracts with DPF for €1,001 (2007: €1,209).

26 Investment income

		2008	2007
IFRS7p20(b) 18p35(b)	Available for sale:		
	Dividend income	1,139	1,226
	– Interest income	53,342	52,082
IFRS7p24(a)(i)	– Fair value gains of exchange trade currency futures	96	88
IFRS7p24(a)(ii)	– Fair value adjustment of available-for-sale debt securities attributable to currency risk	(96)	(88)
	Held-to-maturity interest income	3,263	3,019
	Cash and cash equivalents interest income	445	508
		58,189	56,835
IFRS4p37(b)	Death benefits charges on long term insurance contracts without fixed terms (unit-linked) and long-term insurance contracts with DPF	11,231	11,710
	Total fee income	23,959	21,427

IFRS7p20(d)

Included within interest income is €4,395 (2007: €4,051) in respect of interest income accrued on impaired financial assets, and €1,014 (2007: €987) in respect of the unwinding of the impairment provision discount.

27 Net realised gains on financial assets

		2008	2007
IFRS7p20(a)(ii)	Realised gains on financial assets – available for sale:		
	– Equity securities	1,447	20,922
	– Debt securities	4,287	12,486
	Realised losses on financial assets – available for sale:		
	– Equity securities	(115)	(72)
	– Debt securities	(225)	(141)
	Impairment of financial assets (Note 11)	(3,220)	(1,319)
		2,174	31,876

28 Net fair value gains on assets at fair value through income

		2008	2007
IFRS7p20(a)(i)	Net fair value gains on financial assets at fair value through the profit or loss and derivatives (Notes 11 and 13)	9,758	42,193
40p76(d)	Fair value gains on investment property (Note 7)	–	150
		9,758	42,343

Fair value gains also arise from interest, dividends and realised gains on financial assets at fair value through income for €17,976 (2007: €14,850) inclusive of non-hedge derivatives, fair value hedge derivatives and the associated fair value gains or losses on the related hedged item.

It also includes the ineffectiveness net gain on hedge of the net investment in the UK operations of €125 (2007: loss of €112) and the ineffectiveness loss on the cash flow hedges of €85 (2007: gain of €21) described in Note 13.

Net fair value gains on non-derivative financial assets at fair value through profit or loss relate entirely to assets designated to be in this category upon initial recognition.

29 Insurance benefits and claims

IFRS4p37(b)

a) Insurance benefits

	2008	**2007**
Long-term insurance contracts with fixed and guaranteed terms:		
– Death, maturity and surrender benefits	27,018	19,222
– Increase in liabilities (Note 17.3)	31,877	32,682
Long-term insurance contracts without fixed terms (unit-linked):		
– Death benefits (in excess of account balances)	9,753	10,049
– Change in unit prices (Note 17.3)	8,579	20,655
Long-term insurance contracts with DPF (universal life):		
– Death benefits (in excess of account balances)	1,247	951
– Interest credited (Note 17.3)	1,225	983
Short-term insurance contracts – life	1,350	1,180
Total cost of policyholder benefits	81,049	85,722

The excess of loss reinsurance cover for long-term insurance business for 2008 and 2007 was purchased with an inception date of 1 January; there is therefore no unearned reinsurance asset at year-end.

There are no benefits arising from these policies that are recoverable from the Group's reinsurers at the end of 2008 (2007: nil).

IFRS4p37(b)

(b) Claims and loss adjustment expenses

	2008			**2007**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Current year claims and loss adjustment expenses	85,328	(14,837)	70,491	62,247	(4,845)	57,402
Additional cost for prior year claims and loss adjustment expenses	13,833	(4,517)	9,316	2,863	(635)	2,228
Increase in the expected cost of claims for unexpired risks	221	(55)	166	221	(166)	55
Total claims and loss adjustment expense	99,382	(19,409)	79,973	65,331	(5,646)	59,685

30 Investment contract benefits

IFRS7p20(a)(i)

Benefits from unit linked investment contracts for €8,326 (2007: €10,071) are accrued to the account of the contract holder as the fair value of the net gains arising from the underlying linked assets. All these contracts are designated as at fair value through income and were designated in this category upon initial recognition.

IFRS7p20(b)

On guaranteed investment bonds, benefits of €16,308 (2007: €18,802) have been accrued based on the associated effective interest rate. These contracts are measured at amortised cost.

IFRS4p37(b)

Benefits accrued on investment contracts with DPF amounted to €3,495 (2007: €3,676).

31 Other expenses by destination

IFRS7p29(c), 1p88

a) Expenses for the acquisition of insurance and investment contracts

	2008	2007
Amortisation of intangible assets (Note 8)	10,410	9,384
Costs incurred for the acquisition of insurance contracts expensed in the year	8,794	9,218
Costs incurred for the acquisition of on investment contracts expensed in the year	2,198	2,305
Total expenses for the acquisition of insurance and investment contracts	21,402	20,907

1p88

b) Marketing and administrative expenses

	2008	2007
Marketing and administrative expenses	18,611	10,518
Depreciation (Note 6)	702	504
Amortisation of intangible assets (Note 8)	120	200
Costs relating to investment properties not let	132	98
Total marketing and administrative expenses	19,565	18,320

32 Expenses by nature

		2008	2007
1p93	Depreciation, amortisation and impairment charges (Notes 6 and 8)	15,021	10,088
1p93	Employee benefit expense (Note 33)	24,160	25,144
1p93	Purchase of goods and services	3,738	1,365
17p35	Operating lease rentals (Note 6)	854	632
38p126	Software costs	135	98
1p93	Other expenses	1,709	1,801
	Total expenses	45,617	39,128

33 Employee benefit expense

		2008	2007
19p142	Wages and salaries, including restructuring costs €2,331 (2007: €340) (Note 23) and termination benefits €1,600 (2007: nil)	15,600	16,322
	Social security costs	6,343	7,315
IFRS2p51(a)	Share options granted to directors and employees	546	672
19p46	Pension costs – defined contribution plans	759	232
19p120A(g)	Pension costs – defined benefit plans (Note 22)	762	496
19p120A(g), 19p131	Other post-employment benefits (Note 22)	150	107
		24,160	25,144
DV	Number of employees	535	210

34 Finance costs

		2008	2007
IFRS7p20(b)	Interest expense:		
	– Bank borrowings	4,317	4,181
	– Dividend on redeemable preference shares (Note 41)	455	455
	– Convertible bond (Note 40)	493	–
		5,265	4,636
21p52(a)	Net foreign exchange transaction gains (Note 36)	(2,594)	(1,995)
	Fair value gains on derivatives associated with borrowings:		
IFRS7p23(d)	– Interest-rate swaps: cash flow hedges, transfer from equity	102	88
	Other	(16)	31
		2,757	2,760

35 Income tax expense

		2008	2007
12p79	Current tax	807	20,544
12p79	Deferred tax (Note 21)	(15)	2,635
		792	23,179

12p81(c) Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2008	2007
Profit before tax	2,196	73,413
Tax calculated at domestic tax rates applicable to profits in the respective countries	659	22,024
Effects of:		
– Different tax rates on overseas earnings	88	2,937
– US state taxes	110	3,671
– Income not subject to tax	(124)	(5,520)
– Non-taxable amortisation of goodwill	12	12
– Other expenses not allowable for tax purposes	14	55
– Tax losses for which no deferred income tax asset was recognised	33	–
Tax charge for the period	792	23,179

12p81(d) The weighted average applicable tax rate was 30% (2007: 30%).

36 Net foreign exchange gains

21p52(a) The exchange differences credited/(charged) to the income statement are included as follows:

	2008	2007
Revenue	(333)	150
Net insurance benefits	125	(50)
Net claims and loss adjustment expenses	46	(78)
Asset management expenses	156	(82)
Acquisition expenses	235	(100)
Marketing and administrative expenses	250	(200)
Finance costs – net (Note 34)	2,594	1,995
	3,073	1,635

37 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (Note 15).

		2008	2007
33p70(a)	Profit attributable to the Company's equity holders	1,257	31,956
33p70(b)	Weighted average number of ordinary shares in issue (thousands)	23,454	20,500
	Basic earnings per share (€ per share)	0.05	1.56

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

		2008	2007
	Profit attributable to equity holders of the Company	1,257	31,956
	Interest expense on convertible debt (net of tax)	345	–
33p70(a)	Profit used to determine diluted earnings per share	1,602	31,956
	Weighted average number of ordinary shares in issue (thousands)	23,454	20,500
	Adjustments for:		
	– Assumed conversion of convertible debt (thousands)	3,300	–
	– Share options (thousands)	1,213	1,329
33p70(b)	Weighted average number of ordinary shares for diluted earnings per share (thousands)	27,967	21,829
	Diluted earnings per share (€ per share)	0.06	1.46

38 Dividends per share

1p95
1p125(a)
10p12

The dividends paid in 2008 and 2007 were €16,192 (80 cents per share) and €14,560 (69 cents per share) respectively. A dividend in respect of 2008 of €19 cent per share, amounting to a total dividend of €4,945, is to be proposed at the Annual General Meeting on 30 July 2007. These financial statements do not reflect this dividend payable.

39 Cash generated from operations

Ref		2008	2007
7p18(b), 20	Insurance premium received	159,685	153,602
IFRS4p37(b)	Reinsurance premium paid	(8,068)	(7,521)
IFRS4p37(b)	Insurance benefits and claims paid	(97,477)	(86,425)
IFRS4p37(b)	Reinsurance claims received	8,640	6,789
	Investment contract receipts	87,749	84,611
	Investment contract benefits paid	(96,708)	(77,187)
	Payments to intermediaries to acquire insurance and investment contracts	(21,474)	(12,033)
	Cash paid to employees, intermediaries and other suppliers for services and goods	(17,968)	(16,558)
	Dividends received	1,139	1,104
	Interest received	57,050	56,842
	Net realised gains	2,174	29,552
	Other operating cash flows	1,159	292
	Net purchase of operating assets:		
	– Equity securities	(26,240)	(42,739)
	– Debt securities	(42,080)	(33,261)
	– Derivative financial instruments	(1,017)	(920)
	– Investment property	(1,900)	(2,315)
	Cash generated from operations	5,664	53,833

The Group classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of insurance benefits and claims and investment contract benefits.

In the cash flow statement, proceeds from sale of property, plant and equipment and investment property comprise:

Property, plant and equipment	**2008**	**2007**
Net book amount (Note 6)	218	156
Profit/(loss) on sale of property	23	(7)
Proceeds from sale of property	241	149

Non-cash transactions

7p43

The principal non-cash transaction was the issue of shares as consideration for the acquisition discussed in Note 15.

40 Convertible bonds

IFRS7p17
1p76(b)

The Company issued 80,000 5.0% convertible bonds at a nominal value of €8,000 on 2 January 2008.

The bonds mature five years from the issue date at their nominal value of €8,000 or can be converted into shares at the holder's option at the rate of 33 shares per €80.

The fair values of the liability component and the equity conversion component were determined at issuance of the bond.

32p28
32p31
1p76(b)

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 16) net of deferred income taxes.

The convertible bond recognised in the balance sheet is calculated as follows:

Face value of convertible bond issued on 2 January 2008	8,000
Equity component	(1,242)
Liability component on initial recognition at 2 January 2008	6,758
Interest expense (Note 34)	493
Interest paid	(400)
Liability component at 31 December 2008 (Note 20)	6,851

IFRS7p25

The fair value of the liability component of the convertible bond at 31 December 2008 amounted to €6,818. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

IFRS7p17

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 7.3% to the liability component.

41 Redeemable preference shares

32p15
32p18(a)

The Company issued 7 million cumulative redeemable preference shares with a par value of 100 cents per share on 4 January 2007. The shares are mandatorily redeemable at their par value on 4 January 2014 and pay dividends at 6.5% annually.

42 Contingencies

37p86

The Group has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to €8,624 (2007: €9,629) to third parties. In respect of the acquisition of Your Insurance Group on 1 March 2008 (Note 44), additional consideration of up to €1,500 may be payable in cash if the acquired operations achieve certain revenue targets. No additional payments are anticipated at the date of these financial statements.

The Group, like all other insurers, is subject to litigation in the normal course of its business. The Group does not believe that such litigation will have a material effect on its profit or loss and financial condition. However, the recent trend of increasing jury awards and settlements makes it more difficult to assess the ultimate outcome of such litigation.

The Group continues to receive claims asserting injuries from asbestos. The vast majority of these asbestos claims arise from insurance contracts issued in 1986 and prior years. Commencing in 1988, the Group included in all its insurance contracts a clause of absolute exclusion of claims arising from exposure to asbestos.

The Group, together with other industry members, will continue to litigate the broadening judicial interpretation of the insurance coverage contained in the casualty insurance contracts it issued. If the courts continue in the future to expand the intent and scope of coverage contained in the insurance contracts issued by the Group, as they have in the past, additional liabilities would emerge for amounts in

excess of the carrying amount held. These additional liabilities cannot be reasonably estimated but could have a material impact on the Group's future results. The liabilities carried for these claims as at this year end are reported in Note 17 and are believed to be adequate based on known facts and current law.

43 Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

		2008	2007
16p74(c)	Property, plant and equipment	1,123	850
38p122(e)	Intangible assets	98	121
		1,221	971

(b) Operating lease commitments – where a Group company is the lessee

17p35(d) The Group leases various outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

17p35(d) The Group also leases vehicles under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 6.

17p35(a) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008	2007
No later than 1 year	832	821
Later than 1 year and no later than 5 years	1673	1,519
Later than 5 years	23	231
	2,528	2,571

44 Business combinations

IFRS3p66(a)
IFRS3p67(a)(b)(c)
IFRS3p70(a)
IFRS3p67(i)
IFRS3p70(b)

On 1 March 2008, the Group acquired 70% of the share capital of Your Insurance Group, an insurance company operating in Euravia. The acquired business contributed revenues of €44,709 and net profit of €2,762 to the Group for the period from 1 March 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been €220,345, and profit before allocations would have been €33,126. Details of net assets acquired and goodwill are as follows:

IFRS3p67(d)	Purchase consideration:	
7p40(b)	– Cash paid	4,050
	– Direct costs relating to the acquisition	150
IFRS3p67(d)(i)	– Value of shares issued (Note 15)	10,000
	– Transaction costs relating to issue of shares (Note 15)	50
7p40(a)	Total purchase consideration	14,250
	Fair value of net assets acquired	(10,599)
	Goodwill (Note 8)	3,651

IFRS3p67(h)
IFRS3p67(d)(ii)

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Your Insurance Group. The fair value of the shares issued was based on the published share price.

IFRS3p67(f)

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalent	300	300
Property, plant and equipment (Note 6)	148	132
Rights to receive future income (included in intangible assets) (Note 8)	10,759	8,311
Investment in associates (Note 9)	389	329
Held-to-maturity financial assets (Note 11)	2,272	2,272
Available-for-sale financial assets (Note 11)	20,450	20,450
Financial assets at fair value through profit or loss (Note 11)	28,435	28,435
Net deferred tax asset (Note 21)	137	158
Loans and receivables including insurance receivables	90	89
Derivative financial instruments	551	551
Financial liabilities arising from investment contracts at amortised cost	(22,734)	(22,501)
Financial liabilities arising from investment contracts at fair value through profit or loss	(22,105)	(22,105)
Retirement benefit obligations:		
Pensions (Note 22)	(1,914)	(1,901)
Other post-retirement obligations (Note 22)	(725)	(725)
Current tax liabilities	(138)	(138)
Provisions for liabilities and charges (Note 23)	(774)	(774)
Net assets	15,141	12,883
Minority interests (30%)	(4,542)	
Net assets acquired	10,599	

Purchase consideration settled in cash	4,250
Cash and cash equivalents in subsidiary acquired	(300)
Cash outflow on acquisition	3,950

7p40(c)

There were no acquisitions in the year ended 31 December 2007.

See Note 46 for disclosures regarding the business combination that took place after the balance sheet but before the approval of these financial statements.

45 Related-party transactions

1p126(c) 24p12

The Group is controlled by Mother Limited (incorporated in Euravia), which owns 57% of the Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Grandpa Limited (incorporated in Euravia).

24p17, 18, 22 The following transactions were carried out with related parties.

24p17(a) *(a) Sales of insurance contracts and other services*

	2008	2007
Sales of insurance contracts:		
– Associates	123	44
Sales of services:		
– Grandpa Limited (legal and administration services)	24	29
– Services of key management personnel	30	34
	177	107

Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30%. Insurance contracts are sold on the basis of the prices in force with non-related parties.

24p17(a) *(b) Purchases of products and services*

	2008	2007
Purchases of services:		
– Associates	24	28
– Services of key management personnel	23	30
– Mother Limited (management services)	95	68
	142	126

24p21 Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30%.

24p16 *(c) Key management compensation*

		2008	2007
24p16(a)	Salaries and other short-term employee benefits	330	270
24p16(d)	Termination benefits	200	–
24p16(b)	Post-employment benefits	23	15
24p16(c)	Other long-term benefits	13	8
24p16(e)	Share-based payments	20	16
		586	309

24p17(b), 1p74 *(d) Year-end balances arising from sales/purchases of products/services*

	2008	2007
Receivables from related parties (Note 12):		
– Parent Limited	203	154
– Associates	8	25
	211	179
Payables to related parties (Note 19):		
– Associates	1,212	1,197

1p74, 24p17

e) Loans to related parties

	2008	2007
Loans to directors and key management of the Company (and their families):		
Year ended 31 December		
At beginning of year	76	69
Loans advanced during year	55	20
Loan repayments received	(29)	(13)
Interest charged	8	6
Interest received	(8)	(6)
At end of year	102	76
Loans to associates:		
Year ended 31 December		
At beginning of year	31	27
Loans advanced during year	22	12
Loan repayments received	(10)	(8)
Interest charged	4	3
Interest received	(4)	(3)
At end of year	43	31
Total loans to related parties:		
Year ended 31 December		
At beginning of year	107	96
Loans advanced during year	77	32
Loan repayments received	(39)	(21)
Interest charged	12	9
Interest received	(12)	(9)
At end of year (Note 12)	145	107

24p17(b)(i)

The loans advanced to directors have the following terms and conditions:

Name of director	Amount of loan	Term	Interest rate
2007			
Mr Axisa	20	Repayable monthly over 2 years	6.5%
Mr Perit	42	Repayable monthly over 1 year	6.5%
2008			
Mr Axisa	173	Repayable monthly over 2 years	6.3%
Mr Perit	170	Repayable monthly over 2 years	6.3%

IFRS7p15

Certain loans advanced to directors during the year amounting to €50 (2007: €30) are collateralised by shares in listed companies. The fair value of these shares was €65 at the balance sheet date (2007: €39).

The loans to associates are due on 1 January 2008 and carry interest at 7.0%.

24p17(c)

No provision has been required in 2008 and 2007 for the loans made to directors and associates.

24p17(b)(ii), 37p86

(f) Commitments and contingencies

The Company has guaranteed a loan made by a bank to Mrs Paceross, a director of the Company, for €57 (2007: €17). The loan is repayable in 2007.

46 Events after the balance sheet date

(a) Business combinations

10p21, IFRS3p66(b), p67(a-c)

The Group acquired 100% of the share capital of Risky & Co, a Euravian group of companies specialising in life insurance, for a cash consideration of €5,950 on 1 February 2007.

Details of net assets acquired and goodwill are as follows:

IFRS3p67(d)	Purchase consideration:	
7p40(e)	– Cash paid	5,950
	– Direct cost relating to the acquisition	150
7p40(a)	Total purchase consideration	6,100
	Fair value of assets acquired (see below)	(5,145)
	Goodwill	955
	Past service cost	16
	Losses on curtailment	–
	Total, included in staff costs (Note 33)	**496**

IFRS3p67(h)

The above goodwill is attributable to Risky & Co's strong position and profitability in trading in a niche life insurance market.

IFRS3p67(f)

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	395	195
Property, plant and equipment	105	101
Customer list	630	–
Contractual customer relationships	957	702
Held-to-maturity financial assets	2,800	2,765
Available-for-sale financial assets	2,349	2,232
Net deferred tax asset	89	91
Derivative financial instruments	245	209
Financial liabilities	(1,589)	(1,843)
Retirement benefit obligations	(836)	(828)
Net assets acquired	5,145	3,624

(b) Equity transactions

The Company (Note 15):

10p21

- Re-issued 500,000 treasury shares for a total consideration of €1,500 on 15 January 2007; and

33p71(c)
10p21, 22(f)

- Granted to directors and employees, on 1 January 2007, 1,200,000 share options at the market share price less 15% on that date of 320 cents per share (share price 368 cent) (expiry date: 1 July 2012).

PRICEWATERHOUSECOOPERS

Independent auditor's report

PricewaterhouseCoopers
Address
Country
Telephone:
Facsimile:

To the shareholders of Asfalia Holdings
Report on the financial statements

We have audited the accompanying consolidated financial statements of IFRS GAAP Insurance Group Plc (the Company) and its subsidiaries (together, the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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

In our opinion, the accompanying consolidated financial statements give a true and fair view[1] of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]

Signature
Date
Address

The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year.

[1] The term 'give a true and fair view' can be changed to 'present fairly, in all material respects'

Operating and financial review

DV1p9

The financial review for any entity should follow national and/or specific stock exchange requirements and guidance. For example, the UK Accounting Standards Board has issued Reporting Statement 1, 'Operating and Financial Review' (May 2005) and the US SEC has issued guidance regarding 'Management's Discussion & Analysis of Financial Condition and Results of Operations' (MD&A) to be included in companies' filing documents.

DV1p10

International Financial Reporting Standards do not address the requirements for information to be included in a directors' report or financial review. Such requirements are generally determined by local laws and regulations. IAS 1 does not require an entity to present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties that it faces. Reports and statements presented outside financial statements are outside the scope of IFRS; however, best practice is to ensure that where a financial review is presented, its information is balanced and consistent with disclosures in the financial statements. In some limited cases, IFRSs specifically permit certain disclosures (for example, IFRS 7 B6 – the nature and content of risks arising from financial instruments) to be incorporated by cross-reference from a management commentary or financial review to the financial statements. In such cases, the commentary or review should be available to users of financial statements on the same terms and at the same time as the financial statements.

In 1998, the International Organization of Securities Commissions (IOSCO) issued 'International Disclosure Standards for Cross-Border Offerings and Initial Listings for Foreign Issuers', comprising recommended disclosure standards, including an operating and financial review and discussion of future prospects. IOSCO standards for prospectuses are not mandatory, but they are increasingly incorporated in national stock exchange requirements for prospectuses and annual reports. The text of IOSCO's Standard on Operating and Financial Reviews and Prospects is reproduced below:

Discuss the Group's financial condition, changes in financial condition and results of operations for each year and interim period for which financial statements are required, including the causes of material changes from year to year in financial statement line items, to the extent necessary for an understanding of the Group's business as a whole. Information provided also shall relate to all separate segments of the Group. Provide the information specified below as well as such other information that is necessary for an investor's understanding of the Group's financial condition, changes in financial condition and results of operations.

1. **Operating Results.** Provide information regarding significant factors, including unusual or infrequent events or new developments, materially affecting the Group's income from operations, indicating the extent to which income was so affected. Describe any other significant component of revenue or expenses necessary to understand the Group's results of operations.

   (a) To the extent that the financial statements disclose material changes in net sales or revenues, provide a narrative discussion of the extent to which such changes are attributable to changes in prices or to changes in the volume or amount of products or services being sold or to the introduction of new products or services.

   (b) Describe the impact of inflation, if material. If the currency in which financial statements are presented is of a country that has experienced hyperinflation, the existence of such inflation, a five-year history of the annual rate of

inflation and a discussion of the impact of hyperinflation on the Group's business shall be disclosed.

(c) Provide information regarding the impact of foreign currency fluctuations on the Group, if material, and the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments. (d) Provide information regarding any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the Group's operations or investments by host country shareholders.

2. **Liquidity and Capital Resources.** The following information shall be provided:

(a) Information regarding the Group's liquidity (both short and long term), including:

(i) a description of the internal and external sources of liquidity and a brief discussion of any material unused sources of liquidity. Include a statement by the Group that, in its opinion, the working capital is sufficient for the Group's present requirements, or, if not, how it proposes to provide the additional working capital needed.

(ii) an evaluation of the sources and amounts of the Group's cash flows, including the nature and extent of any legal or economic restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends, loans or advances and the impact such restrictions have had or are expected to have on the ability of the Group to meet its cash obligations.

(iii) information on the level of borrowings at the end of the period under review, the seasonality of borrowing requirements and the maturity profile of borrowings and committed borrowing facilities, with a description of any restrictions on their use.

(b) Information regarding the type of financial instruments used, the maturity profile of debt, currency and interest rate structure. The discussion also should include funding and treasury policies and objectives in terms of the manner in which treasury activities are controlled, the currencies in which cash and cash equivalents are held, the extent to which borrowings are at fixed rates, and the use of financial instruments for hedging purposes.

(c) Information regarding the Group's material commitments for capital expenditures as of the end of the latest financial year and any subsequent interim period and an indication of the general purpose of such commitments and the anticipated sources of funds needed to fulfil such commitments.

3. **Research and Development, Patents and Licenses, etc.** Provide a description of the Group's research and development policies for the last three years, where it is significant, including the amount spent during each of the last three financial years on Group-sponsored research and development activities.

4. **Trend Information.** The Group should identify the most significant recent trends in production, sales and inventory, the state of the order book and costs and selling prices since the latest financial year. The Group also should discuss, for at least the current financial year, any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

Consolidated cash flow statement – indirect method

IAS 7 allows the use of the 'indirect method' for the presentation of cash flows from operating activities. The presentation of cash flows from operating activities using the indirect method in accordance with IAS 7 is as follows:[1]

		Note	2008	2007
1p8, 46, 102	**Cash generated from/(used in) operations**[1]		36,360	(4,154)
7p16(c)	Purchases of financial assets	11	(96,392)	(1,741)
7p16(d)	Proceeds from sale of financial assets		26,031	15,542
7p31	Interest received		19,553	16,842
7p31	Dividends received		44,139	39,104
7p16(a)	Purchases of investment property	7	(2,840)	(1,140)
7p16(b)	Proceeds from sale of investment property	39	1,226	871
7p16(a)	Purchases of intangible assets	8	(10,933)	(1,505)
7p31	Interest paid		(13,872)	(12,936)
7p35	Income tax paid		(1,392)	(20,348)
	Net cash from operating activities		1,880	30,535
7p21	**Cash flows from investing activities**			
7p39	Acquisition of subsidiary, net of cash acquired	44	(3,950)	–
7p16(a)	Purchases of property, plant and equipment (PPE)	6	(951)	(345)
7p16(b)	Proceeds from sale of PPE	39	241	149
7p16(e)	Loans granted to related parties	45	(77)	(32)
7p16(f)	Loan repayments received from related parties	45	39	21
	Net cash used in investing activities		(4,698)	(207)
7p21	**Cash flows from financing activities**			
7p17(a)	Proceeds from issuance of ordinary shares	15	950	1,070
7p17(c)	Proceeds from issuance of redeemable preference shares	41	–	7
7p17(b)	Purchase of treasury shares	15	(2,564)	–
7p17(c)	Proceeds from borrowings		13,762	2,738
7p17(d)	Repayments of borrowings		(8,520)	(11,429)
7p17(c)	Proceeds from issuance of convertible bond	40	8,000	–
7p31	Dividends paid to Company's shareholders		(16,192)	(14,560)
7p31	Dividends paid to minority interests		(1,920)	(1,726)
	Net cash used in financing activities		(6,484)	(23,900)
	Net (decrease)/increase in cash and bank overdrafts		(9,302)	6,428
	Cash and bank overdrafts at beginning of year		36,379	29,373
	Exchange (losses)/gains on cash and bank overdrafts		(734)	578
	Cash and bank overdrafts at end of year	14	26,343	36,379

[1] 1 See 'Note – Cash generated from operations on 151.

Note – Cash generated from operations

		2008	2007
7p18(b), 20	Profit for the year	1,404	50,234
	Adjustments for:		
	– Tax (Note 35)	792	23,179
	– Depreciation (Note 6)	702	504
	– Amortisation (Note 8)	10,729	10,267
	Impairment losses on:		
	– Goodwill (Note 8)	3,789	–
	– Financial assets (Note 11)	3,220	1,319
	– Assets arising from reinsurance contracts (Note 10)	1,325	106
	– Loans and receivables including insurance receivables (Note 13)	17	(6)
	(Profit)/loss on sale of property (see below)	(134)	(14)
	Net fair value gains on financial assets and investment property (Note 28)	(9,894)	(47,883)
	Share of (loss)/profit from associates (Note 9)	174	(145)
	Changes in operating assets and liabilities (excluding the effect of acquisitions and exchange differences on consolidation)		
DV, IFRS4p37(b)	Net increase in insurance liabilities	74,242	60,600
DV, IFRS4p37(b)	Net (increase)/decrease in reinsurance assets	(9,769)	2,870
	Net (decrease)/increase in investment contracts	(8,959)	7,424
	Net (increase)/decrease in intangible assets related to insurance and investment contracts	(1,409)	476
	Net decrease/(increase) in loans and receivables	7,080	25,689
	Net (increase)/decrease in equity securities	(25,240)	(42,739)
	Net (increase)/decrease in debt securities	(42,080)	(33,261)
	Net (increase)/decrease in derivative financial instruments	(1,017)	(920)
	Net (increase)/decrease in investment property	(1,900)	(2,315)
	Net increase/(decrease) in other operating liabilities	2,592	(1,552)
	Cash generated from/(used in) operations	5,664	53,833

In the cash flow statement, proceeds from sale of property, plant and equipment and investment property comprise:

Property, plant and equipment	2008	2007
Net book amount (Note 6)	218	156
Profit/(loss) on sale of property	23	(7)
Proceeds from sale of property	241	149

Non-cash transactions

7p43

The principal non cash transaction was the issue of shares as consideration for the acquisition discussed in Note 15.

Note – Fee income

> The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year.

		2008	2007
18p35(b)(ii)	Policy administration and asset management services:		
IFRS4p37(b)	– Insurance contracts	5,256	4,215
	– Investment contracts (unit-linked) without DPF	2,096	1,987
IFRS4p37(b)	– Investment contracts with DPF	1,314	1,255
IFRS7p20(c)(ii)	– Asset management fees		
	– Retirement benefit plans[1]	250	120
	– Investment funds held by third parties[2]	89	50
	Surrender charges:		
IFRS4p37(b)	– Insurance contracts	2,325	1,468
	– Investment contracts (unit-linked) without DPF	1,157	478
IFRS4p37(b)	– Investment contracts with DPF	580	314
IFRS4p37(b)	Death benefits charges on long term insurance contracts without fixed terms (unit-linked) and long-term insurance contracts with DPF	11,231	11,710
	Total fee income	24,298	21,597

Fee income includes €503 (2007: €451) and €540 (2007: €492) arising from the release of deferred front-end fees for insurance and investment contracts, respectively.

Death benefits charges have been deducted from long-term insurance contracts without fixed terms for €10,230 (2007: €10,501) and from long-term insurance contracts with DPF for €1,001 (2007: €1,209)

[1] The Group provides portfolio management services for 28 retirement benefit funds sponsored and controlled by third parties. The employees of the Group do not participate, or receive benefits from these plans and asset management fees earned by the Group are equivalent to market rates.
[2] The Group manages 51 mutual funds, mostly fixed-income and money market funds for individual customers. The investment funds are controlled and consolidated by third parties with no economic interest held by the Group. Asset management fees earned by the Group are equivalent to market rates.

Note – Critical accounting estimates and judgements

Other critical accounting estimates and judgements in applying accounting policies that have not been presented in the illustrative financial statements are listed below.

a) Estimated impairment of goodwill

In accordance with the accounting policy stated in Note 2.9, the Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 8).

Were the actual gross margin to differ by 10% from management's estimates, the impairment charge would be an estimated €350 higher or €380 lower. Were the actual pre-tax discount rate applied to the cash flow projections to differ by 10% from management's estimates, the impairment charge would be an estimated €275 higher or €290 lower. The maximum amount that would be written off against goodwill would have been €50 because of the remaining goodwill assigned to the specific cash-generating unit. Any additional impairment would have been written off against property, plant and equipment.

(b) Pension and post-retirement benefits

The cost of these benefits and the present value of the pension and other post-retirement liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Past experience has shown that the actual medical costs have increased on average by 1.2 times the rate of inflation. Other key assumptions for the pension and post-retirement benefit costs and credits are based in part on current market conditions. Additional information is disclosed in Note 22.

Were the actual expected return on plan assets to differ by 10% from management's estimates, the consolidated net income would be an estimated €350 higher or €390 lower. Were the actual discount rate used to differ by 10% from management's estimates, the consolidated net income would be an estimated €425 higher or €450 lower.

Requirements of the amendment to IAS 39 and IFRS 7

This is not the only acceptable presentation, others may also be appropriate. Asfalia has chosen not to reclassify any financial assets as a result of this amendment to IAS 39 and IFRS 7. The information below shows possible disclosures for an insurance entity that has chosen to reclassify under this amendment.

Summary of significant accounting policies (extract)[1]

IAS 8p28

Basis of preparation

New standards, amendments and interpretations effective in 2008

The IAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. The group adopted the amendment from 1 July 2008. See note X for the effect of the amendment on the current period.

IAS 1p112

Financial assets – reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term.[2] In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Financial assets (extract)

Financial assets – reclassification

IFRS 7p12
IFRS 7p12A(c)

During the year, the Group reclassified non-derivative trading financial assets that do not meet the definition of loans and receivables and are no longer held for the purpose of selling them in the near term out of the held for trading category into the held-to-maturity and available-for-sale categories. The Group believes that the

[1] This is not the only acceptable presentation; others may also be appropriate.
[2] According to the press release issued by the IASB announcing the publication of these amendments, the deterioration of the world's financial markets in the third quarter of 2008 are a possible example of these 'rare' circumstances.

deterioration of the world's financial markets that occurred during the third quarter of 2008 represents a rare circumstance that allows such a reclassification.

In addition, the Group reclassified financial assets out of trading and available-for-sale categories into the loans and receivables category. The Group had the intention and ability to hold these reclassified loans and receivables for the foreseeable future or until maturity at the date of reclassification.

IFRS 7p12A(a)
IAS 1p38

The fair values of reclassified financial assets as of the respective dates of reclassification are disclosed below:

	Financial assets reclassified in the year ended 31 December 2008	Fair values on date of reclassification
Reclassified from trading to held to maturity	Investments in special investment vehicles (SIV)	X
Reclassified from trading to available for sale	Equity investments	X
Reclassified from trading to loans and receivables	Cash CDOs	X
Reclassified from available for sale to loans and receivables	Unlisted debt instruments	X
Total		**X**

IFRS7p12A(b)

As at 31 December 2008, the fair values and carrying values of financial assets reclassified during the current year are €X and €X respectively (2007: no such reclassification permitted).

IFRS 7p12A(d,e)

The group has recognised the following gains, losses, income and expenses in the income statement in respect of reclassified financial assets:

	For the year ended 31 December 2008		For the year ended 31 December 2007
	After reclassification	Before reclassification	
Fair value loss	X	X	X
Interest income	X	X	X
Impairment	X	X	X
Foreign exchange gain	X	X	X

IFRS 7p12A(d)

In the current year before reclassification, the Group recognised in the revaluation reserve in equity a fair value loss in the amount of €X on financial assets reclassified out of the available-for-sale category into the loans and receivables category (the loss recognised in revaluation reserve in equity in 2007 on available-for-sale assets reclassified in the current period was €X).

IFRS 7p12A(d)

A fair value loss of €X was recognised in revaluation reserve in equity in the current year after the reclassification on financial assets reclassified out of trading into the available-for-sale category (year ended 31 December 2007: no such reclassification permitted).

IFRS 7p12A(e)

If the Group had not reclassified financial assets during the current period, fair value losses recognised for the year in profit or loss and losses recognised in the revaluation reserve in equity would have amounted to €X and €X respectively. In addition, had the Group not reclassified financial assets out of the available-for-

sale and into the loans and receivables category, the Group would have recorded impairment charges of €X and interest income of €X.

IFRS 7p12A(f)

Effective interest rates on financial assets reclassified into loans and receivables and held-to-maturity investments as at their respective dates of reclassification fell into the following ranges:

Investments in structured investment vehicles	X%
Cash CDOs	X%
Unlisted debt instruments	X%

Presented below are the estimated amounts of undiscounted cash flows the group expected to recover from these reclassified financial assets as at the date of reclassification.

	1 year or less	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Investments in structured investment vehicles	X	X	X	
Cash CDOs	X	X	X	X
Unlisted debt instruments	X	X	X	X

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