

Illustrative IFRS consolidated financial statements 2011

Insurance

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Illustrative IFRS consolidated financial statements 2011 – Insurance

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), 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 US accounting literature. The Group has acquired an insurance business in the period, which was 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. For an illustrative set of financial statements for first-time adopters of IFRS, refer to Appendix VIII of PwC's 'Illustrative corporate consolidated financial statements for 2011 year ends'.

This publication is based on the requirements of IFRS standards and interpretations applicable to financial years beginning on or after 1 January 2011. No interpretations, standards and amendments were early adopted.

We have attempted to create a realistic set of financial statements for an insurance Group. This set of financial statements does however not necessarily reflect the current economic environment. 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 pwc.com/ifrs.

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 directors and/or 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 2011'. Additional accounting disclosures may be required in order to comply with local laws, national financial reporting standards and/or stock exchange regulations.

For additional guidance on presentation in the primary financial statements, see the 'Illustrative IFRS consolidated corporate financial statements for 2011 year-ends'.

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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 or '1p55' indicates IAS 1 paragraph 55. 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.

PwC commentary has been provided, in grey boxes, to explain the detail behind the presentation of a number of challenging areas. Additional notes and explanations are shown in footnotes.

All amounts that are shown in brackets are negative amounts. Due to roundings, variations/differences can occur.

Asfalia Insurance Group consolidated financial statements

31 December 2011

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(All amounts in euro thousands unless otherwise stated)

Consolidated income statement

1p81(b), 82(a), 84, 1p10(b), 12 1p113,1p38		Note	Year ended 31 December	
			2011	2010
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 profit or loss	28		
			9,758	42,343
	Other operating income		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	21,402	18,907
	Expenses for marketing and administration	31	19,565	16,320
	Expenses for asset management services rendered		4,426	3,510
	Other operating expenses		224	391
	Expenses		234,768	217,084
1p85	Results of operating activities		5,127	76,028
1p82(b)	Finance costs	34	(2,757)	(2,760)
1p82(c)	Share of (loss)/profit of associates	9	(174)	145
1p85	Profit before tax		2,196	73,413
1p82(d),12p77	Income tax expense	35	(792)	(23,179)
1p82(f)	Profit for the year		1,404	50,234
	Profit attributable to:			
1p83(a)(ii)	– Owners of the parent		1,407	31,382
IFRS4p34(c)	– Equity component of DPF	16	(150)	574
1p83(a)(i)	– Non-controlling interests		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	0.05	1.46

The notes on pages 8 to 105 are an integral part of these financial statements.

Consolidated statement of comprehensive income

(All amounts in euro thousands unless otherwise stated)

Consolidated statement of comprehensive income

		Note	Year ended 31 December 2011	2010
	Profit for the year	16, 35	1,404	50,234
	Other comprehensive income:			
16p77(f)	Fair value gains on property, plant and equipment	16, 35	–	26
IFRS7p20(a)(ii)	Change in available-for-sale financial assets	16, 35	6,588	6,885
IFRS4p30	Change in liabilities for insurance contracts and investment contracts with DPF arising from unrealised available-for-sale net gains	16, 35	(1,089)	(3,619)
1p106(b), IFRS7p23(c)	Cash flow hedges	16, 35	183	190
1p106(b)	Net investment hedge	16, 35	(45)	40
1p106(b)	Currency translation differences	16, 35	1,510	(170)
1p106(b)	Other comprehensive income for the year, net of tax		7,147	3,352
	Total comprehensive income for the year		8,551	53,586
	Attributable to:			
1p83(b)(ii)	– Owners of the parent		6,602	50,466
p83(b)(i)	– Non-controlling interests		1,949	3,120
	Total comprehensive income for the year		8,551	53,586

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 35.

The notes on pages 8 to 105 are an integral part of these consolidated financial statements.

Commentary – Statement of comprehensive income

The implementation guidance accompanying IAS 1 gives examples of the consolidated statement of comprehensive income, showing the consolidated statement of comprehensive income as a single statement and the alternative approach showing two statements: a separate consolidated income statement, and a separate consolidated statement of comprehensive income.

IAS 1 provides the preparer with the option to either present the components of other comprehensive income net of related tax effects, or before related tax effects, with one amount for the aggregate amount of income tax relating to those components.

(All amounts in euro thousands unless otherwise stated)

Consolidated balance sheet¹1p10(a) 1p54,
1p63, 1p38,
1p113

		Note	As at 31 December	
			2011	2010
	Assets			
1p54(a)	Property, plant and equipment	6	5,489	5,152
1p54(b)	Investment properties	7	20,705	18,805
1p54(c)	Intangible assets including intangible insurance assets	8	123,684	112,632
1p54(e)	Investments in associates	9	13,373	13,244
	Financial assets			
	Equity securities:			
1p54(d), IFRS7p8(d)	– Available for sale	11	61,097	84,368
1p54(d), IFRS7p8(a)	– At fair value through profit or loss	11	309,387	253,175
	Debt securities:			
1p54(d), IFRS7p8(b)	– Held to maturity	11	81,583	75,471
1p54(d), IFRS7p8(d)	– Available for sale	11	714,523	640,859
1p54(d), IFRS7p8(a)	– At fair value through profit or loss	11	79,174	58,081
1p54(h), IFRS7p8(c)	Loans and receivables including insurance receivables	12	8,988	13,674
1p54(d), IFRS7p8(a)	Derivative financial instruments	13	11,464	11,196
1p54(o)	Deferred income tax	21	27,758	22,994
IFRS4p36	Reinsurance assets	10, 17	60,688	49,919
1p54(i), IFRS7p8	Cash and cash equivalents	14	28,993	39,806
	Total assets		1,546,906	1,399,376

¹ Requirements for the balance sheet are set out in IAS 1, 'Presentation of financial statements'. The standard now refers to the balance sheet as 'statement of financial position'. However, as this new title is not mandatory, entities may elect to retain the better-known title of 'balance sheet' as well.

Consolidated balance sheet

(All amounts in euro thousands unless otherwise stated)

Consolidated balance sheet (continued)

1p60	Note	As at 31 December	
		2011	2010
Equity and liabilities			
1p54(r)	Equity attributable to owners of the parent		
1p78(e)	Ordinary shares	15	25,300
1p78(e)	Share premium	15	18,656
1p78(e)	Treasury shares	15	(2,564)
1p78(e)	Other reserves	16	31,410
1p78(e)	Retained earnings	16	137,224
		210,026	209,705
IFRS4p35, 36	Equity component of discretionary participation features (DPF)	16	3,059
		213,085	212,729
1p54(q)	Non-controlling interests		24,243
			19,672
	Total equity	237,328	232,401
Liabilities			
IFRS4p36	Insurance liabilities	17	770,220
1p54(m)	Financial liabilities:		706,482
1p54(m)	Investment contracts:		
IFRS4p35, 36	– With DPF	18	80,902
1p54(m)	– At amortised cost	18	147,420
1p54(m)	– At fair value through profit or loss	18	171,568
1p54(m),	Borrowings	20	56,891
IFRS7p8(c)			45,575
1p54(m),	Derivative financial instruments	13	7,860
IFRS7p8(e)			8,747
1p54(l),	Provisions for other liabilities and charges	23	2,542
1p78(d)			2,574
1p54(k),	Trade and other payables	19	8,087
IFRS7p8(c)			8,462
1p54(o)	Deferred income tax	21	56,606
1p54(l), 1p78(d)	Retirement benefit obligations	22	4,540
1p54(n)	Current income tax liabilities		2,130
			2,783
	Total liabilities	1,309,578	1,166,975
	Total equity and liabilities	1,546,906	1,399,376

The notes on pages 8 to 105 are an integral part of these financial statements.

10p17 The financial statements on page 8 to 105 were authorised for issue by the board of directors on 28 March 2012 and were signed on its behalf.

CD Suede
Chief Executive

G Wallace
Finance Director

Commentary – Comparative consolidated statement of financial position as at 1 January 2010

According to IAS 1p39, an entity should present a third statement of financial position when it applies an accounting policy retrospectively. As the initial application of the new standards in 2011 produces no changes in retained earnings, no comparative consolidated statement of financial position as 1 January 2010 is presented.

(All amounts in euro thousands unless otherwise stated)

Consolidated statement of changes in equity

		Attributable to owners of the parent					Non-controlling interests	Total equity
		Note	Share capital	Other reserves	Retained earnings	Equity component of DPF		
						Total		
1p106,108,109	Year ended 31 December 2011							
	At beginning of year		32,316	25,480	151,909	3,024	19,672	232,401
	Total comprehensive income for the period							
1p106(d)	Profit for the year				1,407	(150)	147	1,404
1p106(d)(i)	Other comprehensive income							
16p77(f)	Fair value gains on property, plant and equipment (PPE), net of tax	16	–	–	–	–	–	–
IFRS7p20(a)(ii)	Change in available-for-sale financial assets, net of tax	16	–	4,853	–	185	1,550	6,588
IFRS4p 30	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)
1p106(d), 16p41	PPE depreciation transfer, net of tax	16	–	(100)	100	–	–	–
1p106(d), IFRS7p23(c)	Cash flow hedges, net of tax	16	–	183	–	–	–	183
1p106(d), 39p102(a)	Net investment hedge	16	–	(45)	–	–	–	(45)
1p106(d), 21p52(b)	Currency translation differences	16	–	1,258	–	–	252	1,510
	Total other comprehensive income for the year		–	5,060	100	185	1,802	7,147
1p106(a)	Total comprehensive income for the year		–	5,060	1,507	35	1,949	8,551
	Transactions with owners							
IFRS2p7	Employee share option scheme:							
IFRS2p51(a)	– Value of employee services	15	690	–	–	–	–	690
IFRS2p50	– Proceeds from shares issued	15	950	–	–	–	–	950
1p106(d)(iii)	Issue of share capital – business combination	15	10,000	–	–	–	–	10,000
1p106(d)(iii)	Purchase of treasury shares	15	(2,564)	–	–	–	–	(2,564)
1p106(d), 32p28	Convertible bond – equity component	16	–	870	–	–	–	870
1p106(d)	Dividend relating to 2010	38	–	–	(16,192)	–	(1,920)	(18,112)
1p106(d)	Acquisition of a subsidiary	44	–	–	–	–	4,542	4,542
1p106(d)	Total transactions with owners		9,076	870	(16,192)	–	2,622	(3,624)
	At end of year		41,392	31,410	137,224	3,059	24,243	237,328
10p17	The notes on pages 8 to 105 are an integral part of these financial statements.							

(All amounts in euro thousands unless otherwise stated)

1p10(c)		Attributable to owners of the parent						Non-controlling interests	Total equity
	Note	Share capital	Other reserves	Retained earnings	Equity component of DPF	Total			
1p106, 108,109	Year ended 31 December 2010								
	At beginning of year	30,424	24,560	118,262	1,685	174,931	18,278	193,209	
	Total comprehensive income for the period								
1p106 (d)(i)	Profit for the year			48,120	574	48,694	1,540	50,234	
1p106(d)(ii) 16p77(f)	Other comprehensive income								
	Fair value gains on property, plant and equipment (PPE), net of tax	16	—	26	—	26	—	26	
IFRS7p20(a)(ii)	Change in available-for-sale financial assets, net of tax	16	—	4,500	—	765	5,265	1,620	
IFRS4p30	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)	—	(3,619)	
1p82(g), 16p41	PPE depreciation transfer, net of tax	16	—	(87)	87	—	—	—	
1p82(g), IFRS7p23(c)	Cash flow hedges, net of tax	16	—	190	—	190	—	190	
1p82(g), 39p102	Net investment hedge	16	—	40	—	40	—	40	
1p96(b), 21p52(b)	Currency translation differences	16	—	(130)	—	(130)	(40)	(170)	
	Total other comprehensive income for the year		—	920	87	765	1,580	3,352	
1p106(a)	Total comprehensive income for the year		—	920	48,207	1,339	50,466	3,120	
	Transactions with owners:								
IFRS2p7	Employee share option scheme:								
IFRS2p50	– Value of employee services	15	822	—	—	822	—	822	
1p106(d)(iii)	– Proceeds from shares issued	15	1,070	—	—	1,070	—	1,070	
1p106 (d)(iii)	Dividend relating to 2009	38	—	—	(14,560)	(14,560)	(1,726)	(16,286)	
1p106 (d)(iii)	Total transactions with owners		1,892	—	(14,560)	(12,668)	(1,726)	(14,394)	
	At end of year		32,316	25,480	151,909	3,024	212,729	19,672	
10p17	The notes on pages 8 to 105 are an integral part of these financial statements.								

For additional guidance on presentation in the primary financial statements the 'Illustrative IFRS consolidated corporate financial statements for 2011 year ends'.

(All amounts in euro thousands unless otherwise stated)

Consolidated statement of cash flows

7p10, 18(b), 1p38 1p113		Note	Year ended 31 December	
			2011	2010
	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	–	7,000
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 Non-controlling interests		(1,920)	(1,726)
	Net cash used in financing activities		(6,484)	(16,907)
	Net (decrease)/increase in cash and bank overdrafts		(9,302)	13,421
	Cash and bank overdrafts at beginning of year		36,379	22,380
	Exchange (losses)/gains on cash and bank overdrafts		(734)	578
	Cash and bank overdrafts at end of year	14	26,343	36,379
10p17	The notes on pages 8 to 105 are an integral part of these financial statements			

Commentary – Reporting cash flows from operating activities

An entity should report cash flows from operating activities either by using the direct or indirect method. The indirect method, whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows, is shown in the example above.

The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed could also be used for reporting cash flows from operating activities. Cash flows from investing and financing activities have to be reported by using the direct method.

Notes to the consolidated financial statements

1p138(b-c) 1. General information

1p51(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.

1p138(a) The Company is a limited liability company incorporated and domiciled in Euravia. The address of its registered office is: 34 Ispingo Street, Lanckdanck, Euravia.

The Company has a primary listing on the EuroMoney Stock Exchange.

10p17 These Group consolidated financial statements have been authorised for issue by the Board of Directors on 28 March 2012.

2. Summary of significant accounting policies

1p112(a) The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.
1p117(b) These policies have been consistently applied to all the years presented, unless otherwise stated.
1p119

2.1 Basis of presentation

1p116 These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as defined by IAS 1. 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.
1p117(a)

Commentary – Endorsement by EU regulation

EU incorporated entities within the scope of Regulation (EC) No 1606/2002 of the European Parliament and of the Council have to prepare their financial statements in accordance with the IFRS adopted by EU Regulation. Other entities prepare their financial statements in accordance with the IFRS as issued by the IASB.

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.

1p51(d)(e) All amounts in the notes are shown in thousands of euros, rounded to the nearest thousand, unless otherwise stated.

2.1.1 Changes in accounting policy and disclosures

8p28 (a) *New and amended standards adopted by the Group*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

8p28 (b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted*

Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of financial assets, promote transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The Group is yet to assess the full impact of the amendments and intends to adopt IFRS 7 no later than the accounting period beginning on or after 1 January 2012.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income

(All amounts in euro thousands unless otherwise stated)

rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 11, 'Joint arrangements,' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

Amendment to IAS 12, 'Income taxes', on deferred tax currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Group is yet to assess IAS 12's full impact and intends to adopt IAS 12 no later than the accounting period beginning on or after 1 January 2012.

IAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments and intends to adopt IAS 12 no later than the accounting period beginning on or after 1 January 2013.

1p119 **2.2 Consolidation**

27p12 (a) *Subsidiaries*

27p14 Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the
27p30 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

IFRS3p5 The Group applies the acquisition method to account for business combinations. The consideration transferred for the
IFRS3p37 acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the
IFRS3p39 acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset
IFRS3p18 or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and
IFRS3p19 contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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IFRS3p53	Acquisition-related costs are expensed as incurred.
IFRS3p42	If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.
IFRS3p58	Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.
IFRS3p32 IFRS3B63(a), 36p80	Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.
27p20 27p24	Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.
<i>(b) Changes in ownership interests in subsidiaries without change of control</i>	
27p30, 31	Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.
<i>(c) Disposal of subsidiaries</i>	
27p34 27p35 28p18	When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.
1p119	<i>(d) Associates</i>
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 using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.
28p19A	If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.
28p29 28p30	The Group's share of post-acquisition profit or loss is recognised in the income statement; its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to 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 legal or constructive obligations or made payments on behalf of the associate.
28p31 28p33	The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the amount adjacent to share of profit/ (loss) of an associate' in the income statement.
28p22 28p26	Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

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1p119 2.3 Segment reporting

IFRS8p5(b) 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

1p119 (a) Functional and presentation currency

21p17, 9, 18 1p51(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.

1p119 (b) Transactions and balances

21p21, 28, 32 39p95(a), 102(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 expenses'.

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; other changes in carrying amount are recognised in 'Other comprehensive income'.

21p30 Translation differences on financial assets and liabilities 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 'Other comprehensive income'.

1p119 (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) ■ Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

21p39(b) ■ 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

1p79(b) ■ All resulting exchange differences are recognised in 'Other comprehensive income'.

21p39(c) 1p79(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.

On the partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of cumulative amount of exchange differences are re-attributed to non-controlling interests in that foreign operation and are not recognised in profit or loss. In any other partial disposals, the proportionate share of the cumulative amount of the exchange differences is reclassified to profit or loss.

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

1p119 Land and buildings comprise mainly outlets and offices occupied by the Group.

16p73(a) 16p15, 17, 35(b) 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

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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
1p79(b)
16p40, 41** 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-c), 50, 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 the end of each reporting period 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 2.10).

**16p68, 71, 41
1p96** Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in operating income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

2.6 Investment properties

**1p54(b)114,
40p5, 75(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), (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.

40p6,25, 34 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.

**40p10,
40p75(c)** 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 other comprehensive income 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.

Commentary – Choice between fair value model and cost model

IAS 40 permits entities to choose either a fair value model, under which an investment property is measured, after initial measurement, at fair value with changes in fair value recognised in profit or loss, or a cost model. The cost model is specified in IAS 16 and requires an investment property to be measured after initial measurement at depreciated cost. An entity that chooses the cost model discloses the fair value of its investment property.

(All amounts in euro thousands unless otherwise stated)

2.7 Intangible assets

1p119 (a) Goodwill

IFRS3p51
38p108(a)
IFRS3p54
36p124

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures; it represents the excess of the consideration transferred over Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

1p119 (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 2.16.

1p119 (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 is described in Note 2.16. It also applies to the intangible assets arising from investment contracts with DPF acquired in a business combination.

1p119 (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).

1p119 (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.

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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, 118(a-b) Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed three years.

1p119 **2.8 Financial assets**

IFRS7p21 39p9 The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired. See Note 2.9 for financial assets reclassified during the current year.

2.8.1 Classification

1p119 (a) *Financial assets at fair value through profit or loss*

39p9, 45 This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

IFRS7Appx Bp5(a), (e) A financial asset is classified into the 'financial assets at fair value through profit or loss' 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).

1p119 (b) *Loans and receivables*

39p9 1p 66, 68 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 profit or loss or available for sale. 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.

1p119 (c) *Held-to-maturity financial assets*

39p9 Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group designates as available for sale; and
- those that meet the definition of loans and receivables.

Interests on held-to-maturity investments are included in the consolidated income statement and are reported as 'Interest and similar income'. In the case of an impairment, it is been reported as a deduction from the carrying value of the investment and recognised in the consolidated income statement as 'Net gains/(losses) on investment securities'. Held-to-maturity investments are corporate bonds.

1p119 (d) *Available-for-sale financial assets*

39p9, IFRS7 AppxBp5(b), 1p 66, 68 Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

2.8.2 Recognition and measurement

39p38, IFRS7p21(c), IFRS7 AppxBp5(e), 39p43, 46, 55(a-b) 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.

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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.

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.

**39p55(a),
IFRS7
AppxBp5(e)** 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. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

**39p55(b),
IFRS7
AppxBp5(e)** Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

39p67 When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income 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.

See Note 2.10 for the Group's accounting policies relating to the impairment of financial assets.

2.8.3 Determination of fair value

39pAG71-73 For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters. The quoted market price used for financial assets held by the group is the current bid price.

39pAG74-79 A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the consolidated balance sheet.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity like options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, including unlisted equity and debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid in 2011. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (Level 3) is disclosed in Note 4.3.

The Group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Group's credit spreads widen, the Group recognises a gain on these liabilities because the value of the liabilities has decreased. When the Group's credit spreads narrow, the Group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values

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of financial instruments carried at fair value in the consolidated statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

The measurement of asset-backed securities (predominantly CMBS (commercial mortgage-backed securities) and RMBS (residential mortgage-backed securities)) held for trading is partly based on generally accepted valuation models and partly based on indicative price given the absence of such models. Such indicative prices are first validated against other sources of price data. In addition, the Group's analysis takes into account factors such as tranche-specific collateralisation status and collateral structures; analyses of underlying receivables ('look-through' analysis of ABS (asset-backed securities)), primarily regarding redemption schedules and (payment) defaults of securitised receivables; as well as trigger events and rating changes.

Asset-backed securities in the Group's Unites States portfolio are measured based on indicative prices. For the Group's European portfolio of asset-backed securities, the Group uses generally accepted valuation models.

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as the present value technique and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates. Structured interest rate derivatives are measured using appropriate option pricing models (for example, the Black-Scholes model) or numerical procedures (for example, Monte Carlo Simulation). Numerical procedures are used when an exact mathematical formula is not available.

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less any impairments. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

1p119

2.9 Reclassification of financial assets

39p50(c)3,
9p50B

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. 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.

39p50F

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.

During the first quarter of 2011, the Group has reclassified several illiquid financial assets out of the available-for-sale category into the loans and receivables category. Those financial assets are no longer fair valued through the revaluation reserve in equity but measured at amortised cost less impairment. See Note 11 for more information regarding the financial assets reclassified.

2.10 Impairment of assets

(a) Financial assets carried at amortised cost

39p58
39p59

The Group assesses at each end of the reporting period 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)

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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:

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- 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.

39AG87 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 (that is, 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) Assets classified as available for sale

39p67-70, IFRS7 AppxB5(f) The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 is an objective evidence of impairment resulting in the recognition of an impairment loss. In this respect, a decline of 20% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged¹. If any such quantitative evidence exists for available-for-sale financial assets, the asset is considered for impairment, taking qualitative evidence into account. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated 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, the impairment loss is reversed through the consolidated income statement.

Commentary – 'Significant or prolonged'

Regarding the meaning of 'significant or prolonged', the IFRIC clarified the following in May 2009:

"The standard cannot be read to require the decline in value to be both significant and prolonged. Thus, either a significant or a prolonged decline is sufficient to require the recognition of an impairment loss."

A significant or prolonged decline cannot be considered only an indicator of possible impairment in determining whether there is objective evidence. When such a decline exists, recognition of an impairment loss is required."

The fact that the decline in the value of an investment is in line with the overall level of decline in the relevant market does not mean that an entity can conclude the investment is not impaired."

The existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing."

¹ IAS 39 does not provide a quantitative definition of the terms significant and prolonged. Management should make a policy choice of what is considered significant and prolonged and apply it consistently.

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1p119 (c) Impairment of other non-financial assets

36p9, 10 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).

2.11 Derivative financial instruments and hedging activities

IFRS7p21, 39p88 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 (that is, 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 (that is, 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; 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 2.16(b).

39p88, IFRS7p33(b) The Group designates certain derivatives as either: (a) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedge); (b) hedges of highly probable forecast transactions (cash flow hedges); or (c) 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 other comprehensive income. 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 profit or loss'.

39p99, 100 Amounts accumulated in equity are recycled to income 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 other comprehensive income; the gain

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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 profit or loss'.

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

1p119 2.12 Offsetting financial instruments

32p42 Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

1p119, IFRS7p21 2.13 Cash and cash equivalents

7p45 In the consolidated statement of cash flows, 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. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

1p119 2.14 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.

1p119 2.15 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:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the Group; and
- That are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
 - 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); 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.

2.16 Insurance contracts and investment contracts with DPF

1p119 (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

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(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 end of the reporting period 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),
I7(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 end of the reporting period using the assumptions established at inception of the contracts.

(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

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eligible surplus available to date. The Group has an obligation to eventually pay to contract holders at least 90% of the DPF eligible surplus (that is, 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 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.

Commentary – Minimum distribution requirements

In certain jurisdictions, depending on local statutory requirements regarding minimum distribution requirements, it may be possible that no part of the discretionary participation feature will be recorded in equity.

(b) Embedded derivatives

39p11 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 end of the reporting period would have had on those liabilities (and related assets) is recognised directly in other comprehensive income.

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IFRS4p15 (f) Liability adequacy test

At each end of the reporting period, 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.

(g) Reinsurance contracts held

IFRS4p37(a) 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 2.15 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 2.10.

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 2.10.

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.

1p119 2.17 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).

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

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39p9, 43, IFRS7 AppxBp5(a)	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 or 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), 39AG74-79	The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (that is, 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.
39AG82	The Group's main valuation techniques incorporate all factors that market participants would consider and make maximum 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 end of the reporting period 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.
1p119	2.18 Borrowings
IFRS7p21, 39p47, 43	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(a), 33	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.
IFRS7p27(a) 32p18, 28, 32AG31 1p60, 61	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.
1p119	2.19 Current and deferred income tax
12p58, 61A	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 in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.
12p12, 46	The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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, 15, 47	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

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tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period 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.
- 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.
- 12p34** The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.
- 12p61A** Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly in other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently recognised in the consolidated income statement together with the deferred gain or loss.

1p119 2.20 Employee benefits

(a) Pension obligations

- 19p27, 25, 7, 120A(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, 80, 64** The liability recognised in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the financial reporting period 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.

Commentary – Actuarial gains and losses

If the reporting entity applies IAS 19p93A and recognises actuarial gains and losses in other comprehensive income (other reserves), the disclosure requirements differ slightly compared to those presented in Note 22.

The total amount recognised in other comprehensive income (actuarial gains/losses and the effect of the limit in IAS 19p58(b)) for the current period as well as the cumulative amount recognised in other comprehensive income have to be disclosed.

- 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 expenses 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.

(All amounts in euro thousands unless otherwise stated)

1p119 (b) *Other post-employment obligations*

19p120A(a-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.

1p119 (c) *Share-based compensation*

IFRS2p15(b), 19 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:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity 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 to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. 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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

1p119 (d) *Termination benefits*

19p133, 134, 139 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 end of the reporting period 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.

1p119 **2.21 Provisions**

37p14 (a) *Restructuring costs and legal claims*

37p72, 63 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) *Insurance-related assessments or guarantee-fund levies*

IFRS4p16(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.

(All amounts in euro thousands unless otherwise stated)

1p119 2.22 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 are 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.

18p30(c) (b) 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

18p30(a) 2.23 Interest income and expenses

IFRS7 AppxB5(e) Interest income and expenses 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.

Commentary – Disclosure of interest income and expense

Interest income, interest expense and dividend income on financial instruments at fair value through profit or loss (either designated at fair value through profit or loss or non-derivatives held for trading) can be disclosed as part of 'Net gains/(losses) on financial instruments classified as held for trading' or separated as part of 'Interest and similar income', 'Interest and similar expenses' or 'Dividend income'. Both treatments are acceptable provided they are consistently applied and properly disclosed (IFRS 7 Appx B5). It is possible to adopt one treatment for interest income and interest expenses and a different treatment for dividend income provided that the method is applied consistently.

1p119 2.24 Leases

17p71 Leases in which 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.

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.

1p119 The Group leases certain property, plant and equipment. The Group does not have substantially all the risks and rewards of ownership, and these leases are therefore classified as operating leases.

(All amounts in euro thousands unless otherwise stated)

1p119 2.25 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.

1p125 3. Critical accounting estimates and judgements

IFRS4p38, 1p112, 125, 129 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.

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

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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) Deferred policy acquisition costs (DAC) and value of business acquired (VOBA)

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition.

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 in accordance with the accounting policy stated in Note 2.16. The pattern of expected profit margins is based on historical and anticipated future experiences which consider assumptions, such as expenses, lapse rates or investment income and are updated at the end of each accounting period.

If the estimated gross profit margins utilised in the determination of the carrying value of DAC and VOBA had been 10% lower than management's estimates, the Group would have recognised further amortisation of DAC of €8,310 and VOBA of €3,700.

(d) 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.

(e) 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 2011 financial statements, being the transfer of the total equity reserve for unrealised losses to the income statement.

(f) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that management used a tightening of 20 basis points in the credit spread, the fair values of debt securities

(All amounts in euro thousands unless otherwise stated)

(carried at fair value through profit or loss and available for sale) would be estimated at €78,654 as compared to their reported fair value of €98,875 at 31 December 2011.

See Note 4.3 for additional sensitivity information for financial instruments.

(g) Estimated impairment of goodwill

In accordance with the accounting policy stated in Note 2.7, 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).

An impairment charge of €3,789 arose in the US savings division during the course of 2011, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the budgeted profit from operating activities used in the value-in-use calculation for the US had been 10% lower or higher, management's estimates at 31 December 2011 (for example, €13,500 or €16,500 instead of €15,000), the Group would have increased or decreased the goodwill impairment charge by €3,021. If the estimated cost of capital used in determining the pre-tax discount rate had been 1% higher or lower than management's estimates (for example, 12.3% or 10.3% instead of 11.3%), the Group would have increased or decreased the goodwill impairment charge by €615.

There is no reasonably possible change to any key assumption used in determining the recoverable amount for Euravia that would cause the CGU's carrying amount to exceed its recoverable amount.

(h) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) of expected cash flows to differ by 10% from management's estimates, the group would need to:

- increase the income tax liability by C120 and the deferred tax liability by C230, if unfavourable; or
- decrease the income tax liability by C110 and the deferred tax liability by C215, if favourable.

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.

Commentary – Nature and extent of risks arising from financial instruments

The disclosures required by IFRS7p31-42 ('Nature and extent of risks arising from financial instruments') should either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time (IFRS 7 Appx B6). It will generally be easier for a user to identify the audited information if it is all presented in the notes to the financial statements.

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.

(All amounts in euro thousands unless otherwise stated)

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), (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 2011

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	45,265
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 in 2010.

(All amounts in euro thousands unless otherwise stated)

Year ended 31 December 2010

		Type of risk			Total
		Employers' liability	Public liability	Other types of casualty risk	
Territory					
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 2011

		Maximum insured loss			
Industry		€15m-25m	€25m-50m	€50m-100m	Total
Construction	Gross	4,548	8,792	16,978	30,318
	Net	2,800	5,413	10,454	18,667
Extractive	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 2010

		Maximum insured loss			
Industry sector		€15m-25m	€25m-50m	€50m-100m	Total
Construction	Gross	4,475	6,992	16,502	27,969
	Net	2,820	4,406	10,398	17,624
Extractive	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), 37(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 comprises a provision for

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IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. 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 end of the reporting period.

IFRS4p38,
37(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.

Territory		Type of risk		
		Employers' liability	Public liability	Other covers
UK	2011	121%	53%	66%
	2010	148%	51%	71%
Other European territories	2011	107%	46%	63%
	2010	124%	49%	69%
US	2011	110%	47%	67%
	2010	113%	48%	68%

Industry sector		Maximum insured loss		
		€15m-25m	€25m-50m	€50m-100m
Construction	2011	110%	145%	102%
	2010	103%	131%	95%
Extractive	2011	87%	115%	101%
	2010	79%	122%	114%
Manufacturing	2011	97%	92%	86%
	2010	95%	94%	88%
Service	2011	63%	64%	45%
	2010	71%	69%	67%
Governmental	2011	48%	51%	38%
	2010	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

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contracts carried out at year-end 2011 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 (2010: €2,228) includes a movement of €5,618 (2010: €912) that has arisen due to changes in the assumptions used to estimate the ultimate cost of asbestos-related claims payment (for €4,417).

As explained in Note 3, the assumptions used to estimate these liabilities require judgement and are subject to great uncertainty.

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 2011, 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).

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- 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.

IFRS4
p39(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 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 and 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.

Benefit assured per life assumed at the end of 2011	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.

(All amounts in euro thousands unless otherwise stated)

Benefits assumed per life assumed at the end of 2010	Total benefits issued			
	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 in € per annum per life insured at the end of 2011	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 2010	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).

IFRS4p38 (b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

IFRS4p38, 39(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.

(All amounts in euro thousands unless otherwise stated)

IFRS4p38 (c) Process used to decide on assumptions

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 four components:

(i) *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%

(ii) *Credit spreads*

To obtain rates other than risk free, the Group uses the rates from the above table and adds the following 'credit spreads'.¹

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

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Credit rating	Spreads		
	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%

(iii) *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%.

(iv) *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 Asset liability management (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 the UK and Euravia.

■ **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. No losses arose in either 2011 or 2010, based on the results of the liability adequacy test. 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.

Long-term insurance contracts with fixed and guaranteed terms

Variable	Trigger level	Change in variable	Change in liability	
			2011	2010
Worsening of mortality	+ 58.0%	+ 10%	(143)	(101)
Improvement in annuitant mortality	+ 4.1% pa	+ 1% pa	(255)	(189)
Worsening base renewal expense level	+ 15.3%	+ 10%	(600)	(540)
Worsening of renewal expense inflation rate	+ 1.3% pa	+ 1% pa	(705)	(610)
Worsening of lapse rate	+ 65.0%	+ 20%	(230)	(178)

IFRS4p39(c) **Long-term insurance contracts without fixed terms and with DPF**

Variable	Change in variable	Change in liability	
		2011	2010
Worsening of mortality	+ 1% pa	(14)	(11)
Worsening 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.

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IFRS4p39(c)(i), (f) *Guaranteed annuity options* (e)

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.

2011	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	15%	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%	58,065	100%	1,434,315	100%	51,900	100%

The concentration is substantially unchanged from prior year.

2010	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%

(All amounts in euro thousands unless otherwise stated)

(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 end of the reporting period, 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.

(c) Process used to decide on assumptions

IFRS4p37(c) 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	
		2011	2010
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

IFRS4p8 (a) Frequency and severity of claims

IFRS4p39(a), 37(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.

(All amounts in euro thousands unless otherwise stated)

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), 37(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 2011 has deteriorated, and both the frequency and severity of subsidence claims have increased significantly. The weather in summer 2011 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 2011, 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

(All amounts in euro thousands unless otherwise stated)

in 2011 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).

	2011		2010	
	Gross	Net	Gross	Net
IBNR liability	225	178	301	270
Unexpired risk liability	113	67	102	79
Total	338	245	403	349

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

4.2 Financial risk

Commentary – IFRS 7 and IFRS 4

The IFRS 7 and IFRS 4 disclosures illustrated below are an example of how an insurance company may choose to align its financial and insurance risk disclosures with its internal asset liability framework.

The disclosures below are not necessarily indicative of the disclosures that may be required under IFRS 7 and IFRS 4, and companies may approach these disclosures differently in any given circumstance.

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 4.2.7). Credit risk disclosures are provided for the whole Group in Note 4.2.6.

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

Notes to the consolidated financial statements

(All amounts in euro thousands unless otherwise stated)

IFRS7p6-8,
IFRS7 B2

2011

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
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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 177,635

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	25,927
– Investment contracts	80,902

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

(All amounts in euro thousands unless otherwise stated)

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
497,561	26,006	81,446	183,375	172,680	215,861	62,156	70,493

Notes to the consolidated financial statements

(All amounts in euro thousands unless otherwise stated)

IFRS7p6-8
IFRS7 B2

2010

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
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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	2,096
– Non hedges	9,100

Reinsurance assets

	49,919
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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
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Derivative financial instruments, at fair value (Note 13):

– Hedges	6,574
– Non hedges	2,173

Borrowings – at amortised cost

	45,575
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Amounts due to related parties, trade payables, and other provisions, at amortised cost

	4,282
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Other liabilities

	61,402
--	--------

Total liabilities

1,166,975

(All amounts in euro thousands unless otherwise stated)

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

(All amounts in euro thousands unless otherwise stated)

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.

Commentary – Maturity analysis of financial assets

IFRS 7 B11E requires an entity to disclose a maturity analysis of financial assets it holds for managing liquidity risk (for example, financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Financial institutions typically use financial assets to manage their liquidity risk. In these circumstances, the information is likely to be necessary to enable users of financial statements to evaluate the nature and extent of liquidity risk, in which case we would expect them to present a maturity analysis of financial assets.

As at 31 December 2011

		Contractual cash flows (undiscounted)				
	Carrying amount	0-5 yrs	5-10 yrs	10-15 yrs	15-20 years	> 20 yrs
Assets						
Carrying value and cash flows arising from:						
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	15,227	1,087	231	5,678	9,234	3,256
Held to maturity:						
– Listed debt securities fixed rate	80,342	10,345	44,367	39,657	31,345	–
Loans and receivables	2,237	258	2,114	–	–	–
– 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
Liabilities						
		Expected cash flows (undiscounted)				
Long-term insurance contracts		347,624	30,042	71,100	198,280	201,341
Long-term investment contracts ¹		147,420	51,045	65,687	51,747	30,998
Total		495,044	81,087	136,787	250,027	232,339
Mean duration of assets		12.0 years				
Mean duration of liabilities		12.6 years				

¹ The maturity of contractual cash flows from investment contract liabilities should be reflected.

(All amounts in euro thousands unless otherwise stated)

At 31 December 2010		Contractual cash flows (undiscounted)				
	Carrying amount	0-5 yrs	5-10 yrs	10-15 yrs	15-20 years	> 20 yrs
IFRS7B11E	Assets					
	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	64,324
	– Floating rate	101,000	30,730	46,648	51,659	–
	Unlisted debt securities fixed rate	15,152	2,567	6,764	1,326	965
	Held to maturity:					
	– Listed debt securities fixed rate	71,994	18,444	22,196	32,345	–
	– Unlisted debt securities fixed rate	3,477	2,945	590	–	–
	Derivative financial instruments, net	4,877	(1,594)	(4,184)	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		
Liabilities		Expected cash flows (undiscounted)				
IFRS4p39(d)(i)	Long-term insurance contracts	317,495	27,352	67,528	182,847	150,586
	Long-term investment contracts	117,030	26,907	53,514	52,814	15,904
	Total	434,525	54,259	121,042	235,661	166,490
	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 from derecognising the associated deferred acquisition costs (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).

(All amounts in euro thousands unless otherwise stated)

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% (2010: 1.9%). An additional liability of €400 (2010: €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 (2010: loss of €984). The portion of this loss that would be recognised directly in equity is €1,322 (2010: loss of €952).

A decrease in 100 basis points in interest yields would result in a gain for the period of €1,283 (2010: gain of €798). The portion of this gain that would be recognised directly in equity is €1,189 (2010: gain of €739).

IFRS7p40(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.

Because there is a direct effect on the measurement of DPF liabilities when asset gains or losses are realised, changes in these liabilities are recognised directly in equity when, and only when, the valuation differences on the assets arise from gains or losses recognised directly in equity ('shadow accounting').

(All amounts in euro thousands unless otherwise stated)

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

	2011	2010
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
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 (2010: €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 2011

	Carrying amount	Contractual cash flows (undiscounted)				
		0-5 yrs	5-10 yrs	10-15 yrs	15-20 years	> 20 yrs
IFRS7B11E						
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)				
		0-5 yrs	5-10 yrs	10-15 yrs	15-20 years	> 20 yrs
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

Mean duration of assets	10.5 years
Mean duration of liabilities	11.4 years

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(All amounts in euro thousands unless otherwise stated)

As at 31 December 2010

		Contractual cash flows (undiscounted)				
	Carrying amount	0-5 yrs	5-10 yrs	10-15 yrs	15-20 years	> 20 yrs
IFRS7B11E	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
	Cash and cash equivalents	3,024	3,024	–	–	–
	Total	120,534	25,696	44,467	44,673	43,020

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	36,943	40,509	42,641	21,982

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 (2010: loss of €24). The portion of this loss that would be recognised directly in the equity component of DPF is €28 (2010: loss of €21).

A decrease in 100 basis points in interest yields would result in a gain for the period of €33 (2010: gain of €28). The portion of this gain that would be recognised directly in the equity component of DPF is €30 (2010: gain of €25).

(All amounts in euro thousands unless otherwise stated)

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-e)	Investments held at risk of insurance contract holders		Investments held at risk of investment contract holders	
	2011	2010	2011	2010
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 rates	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, a change in interest rate and a 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 (2010: €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.

Notes to the consolidated financial statements

(All amounts in euro thousands unless otherwise stated)

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.

	2011	2010
Financial assets:		
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	76,253
– Unlisted securities	10,681	8,115
Loans and receivables from insurance and reinsurance contracts	6,080	12,660
Derivative financial instruments, net	(2,053)	(2,032)
Cash and cash equivalents	9,966	22,412
Total	165,086	176,247
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 a 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 end of the reporting period (both incurred claims and future claims arising from the unexpired risks at the end of the reporting period). The mean durations are:

	2011	2010
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 2011:

		Contractual cash flows (undiscounted)						
	Carrying amount at 31 December 2011	No stated maturity	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs	
IFRS7B11E								
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	–	

(All amounts in euro thousands unless otherwise stated)

		Contractual cash flows (undiscounted)						
		Carrying amount at 31 December 2011	No stated maturity	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
IFRS4p39(d)(i)	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

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 2010:

		Contractual cash flows (undiscounted)						
		Carrying amount at 31 December 2011	No stated maturity	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
IFRS7B11E	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	76,253	76,253	–	–	–	–	–
	– 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	176,247	84,368	60,907	22,884	16,467	4,873		

		Contractual 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

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 2011. Out of the total loss, €288 would have been recognised into other comprehensive income (2010: total loss of €396, of which €311 would have been recognised in other comprehensive income).

A decrease of 100 basis points in interest yields would result in a gain for the period of €465 in 2011. Out of the total gain, €279 would have been recognised in other comprehensive income (2010: total gain of €388 of which €298 would have been recognised in other comprehensive income).

(All amounts in euro thousands unless otherwise stated)

(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 2011 (2010: €7,172 and €1,266 respectively).

IFRS7p40(a) *(c) Sensitivity analysis – currency risk*

IFRS7 B23 The Group underwrites short-term insurance portfolios through operations in Euravia, the US and the UK. The Group's US and UK short-term insurance portfolio 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 2010 following the utilisation of undrawn fixed interest borrowing facilities to fund the acquisition of Risky & Co (Note 46).

IFRS7p39(c) 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 2010 to finance its new expansion programme and working capital requirements in the US. The bonds are repayable on 31 December 2013.

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

	2011	2010
Other financial assets, corporate 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	1,104
Total	75,336	54,794

(All amounts in euro thousands unless otherwise stated)

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

		Contractual cash flows (undiscounted)				Not stated maturity	Carrying amount
		0-1 year	1-3 years	3-5 years	> 5 years		
IFRS7B11E	At 31 December 2011						
	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 (Note 12)	690	101	–	–	–	671
	Total	22,995	27,925	28,574	–	13,373	75,336
IFRS7B11	Other financial liabilities, corporate						
IFRS7p39	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

		Contractual cash flows (undiscounted)				Not stated maturity	Carrying amount
		0-1 year	1-3 years	3-5 years	> 5 years		
IFRS7B11E	As at 31 December 2010						
	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

		Contractual cash flows (undiscounted)				Not stated maturity	Carrying amount
		0-1 year	1-3 years	3-5 years	> 5 years		
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 2011 (2010: €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.

(All amounts in euro thousands unless otherwise stated)

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 (2010: €901) higher/lower. Other components of equity would have been €450 higher/lower in 2011 (2010: €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 (2010: €734) higher/lower. Other components of equity would have been €420 higher/lower in 2011 (2010: €510).

In relation to the equity investment in US subsidiaries, the translation reserve in equity would have been €476 (2010: €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 (2010: €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;
 - Counterparty risk with respect to derivative transactions;
 - Amounts due from loans and receivables;
 - Amounts due from debt securities; and
 - Amounts due from money market and cash positions.

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

(All amounts in euro thousands unless otherwise stated)

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).

Maximum exposure to credit risk before collateral held or other credit enhancements:

IFRS7p36(a)		Maximum exposure	
		2011	2010
IFRS7 B9	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	697,059	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	2,908	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 above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached.

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.

31 December 2011	AAA	AA	A	BBB	Below BBB	Not rated	Total
Debt securities	620,129	137,511	66,807	39,607	3,705	7,522	875,281
Loans and receivables	–	–	–	–	–	8,988	8,988
Derivative financial instruments	11,464	–	–	–	–	–	11,464
Reinsurance contracts	40,418	10,144	–	–	–	10,126	60,688
Cash and cash equivalents	16,295	–	–	–	–	12,698	28,993
	688,306	147,655	66,807	39,607	3,705	39,334	985,414

31 December 2010	AAA	AA	A	BBB	Below BBB	Not rated	Total
Debt securities	514,454	100,404	103,632	40,263	5,167	10,491	774,411
Loans and receivables	–	–	–	–	–	13,674	13,674
Derivative financial instruments	11,196	–	–	–	–	–	11,196
Reinsurance contracts	33,280	8,319	–	–	–	8,320	49,919
Cash and cash equivalents	16,540	–	–	–	–	23,266	39,806
	575,470	108,723	103,632	40,263	5,167	55,751	889,006

The assets reported above include €48,196 (2010: €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

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value of instruments that are favourable to the Group (that is, 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.

IFRS7B9 4.2.7 Liquidity risk

IFRS7p31, 33, 39(c) Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of policyholder benefit payments, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for operational, trading and investments activities. In extreme circumstances, lack of liquidity could result in reductions in the consolidated balance sheet and sales of assets, or potentially an inability to fulfil policyholder commitments. The risk that the Group will be unable to do so is inherent in all insurance operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

IFRS7p39(c) IFRS7 AppxB11F The Group's liquidity management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow and monitoring the liquidity ratios of the consolidated balance sheet against internal and regulatory requirements. Liquidity-risk is also a significant consideration when the Group evaluates its overall ALM profile.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Group Treasury also monitors unmatched medium-term assets, the level and type of near-term commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The table below presents the cash flows payable by the Group for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities are assessed to be essential for an understanding of all derivatives including derivatives presented in the consolidated statement of financial position. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

The following table provides an aggregation of the liquidity analysis for liabilities on a group level. The maturity analysis of the assets is illustrated in Note 4.2.1-4.2.5. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows. For individual disclosures per product category, refer to Note 4.2.1-4.2.5.

IFRS4p39(d)(i),
IFRS7p39 (a, b)

	Carrying amount	Payments due by period as of 31 December 2011				Total
		0-1 yrs	1-3 yrs	3-5 yrs	> 5 yrs	
Insurance liabilities	770,220	88,966	30,763	53,138	630,947	803,814
Financial liabilities:						
– Investment contracts	399,890	66,823	68,154	67,294	250,287	452,558
– Borrowings	56,891	19,822	29,848	21,221	9,850	80,741
– Derivative financial instruments	7,860	645	435	261	–	1,341
Other liabilities and payables	18,111	9,010	4,551	3,688	1,935	19,184
Total contractual obligations	1,252,972	185,266	133,751	145,602	893,019	1,357,638

IFRS4p39(d)(i),
IFRS7p39 (a, b)

	Carrying amount	Payments due by period as of 31 December 2010				Total
		0-1 yrs	1-3 yrs	3-5 yrs	> 5 yrs	
Insurance liabilities	706,481	81,604	28,217	48,741	578,733	737,295
Financial liabilities:						
– Investment contracts	340,488	38,992	61,694	60,915	226,563	388,164
– Borrowings	45,575	19,952	29,230	4,392	8,347	61,921
– Derivative financial instruments	8,747	775	269	497	–	1,541
Other liabilities and payables	15,950	7,935	4,008	3,248	1,704	16,895
Total contractual obligations	1,117,241	149,258	123,418	117,793	815,347	1,205,816

(All amounts in euro thousands unless otherwise stated)

Commentary – Contractual maturity analysis

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows (IFRS7p39). Therefore, the table above does not reconcile to the discounted cash flows in the consolidated statement of financial position. IFRS 7 does not require such reconciliation. The requirement in IFRS 7 is to disclose each of the contractual payments in the period when it is due (including principal and interest). Therefore, in the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows), rather than being included in a single bucket when the instrument matures.

Commentary – Net-settled derivatives

Net-settled derivatives that have a negative fair value at the reporting date (that is, those that are liabilities) are included in the liquidity analysis at contractual undiscounted amounts. Net-settled derivatives that have a positive fair value (that is, those that are assets) may also be included, although this is not a requirement of IFRS 7.

1p124A

4.2.8 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.

The defined Group capital includes equity and the redeemable preference shares.

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.

	2011				2010			
	Euravia	UK	US	Total	Euravia	UK	US	Total
1p124B Regulatory capital held	134,933	46,001	62,502	243,436	125,215	45,886	64,429	235,530
Minimum regulatory capital	85,711	30,199	39,856	155,766	80,345	29,481	41,402	151,228

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

(All amounts in euro thousands unless otherwise stated)

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).

As well as 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.

During the period, the Group was compliant with the externally imposed capital requirements in all territories.

4.3 Fair value hierarchy

At 31 December 2011, investments classified as Level 1 comprise approximately 26.6% of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

At 31 December 2011, investments classified as Level 2 comprise approximately 64.03% of financial assets measured at fair value on a recurring basis. They primarily include government and agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the Company and the resulting prices determined to be representative of exit values.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types, such as pre-payment, default and collateral information for purpose of measuring the fair value of mortgage- and asset-backed securities. At 31 December 2011, approximately €92.6 million AAA-rated mortgage- and asset-backed securities are classified as Level 2, including commercial mortgage obligations, for which the observability of market inputs to their pricing models is supported by sufficient, albeit more recently contracted market activity in these sectors.

As disclosed in Note 13, the net fair value of free-standing derivative positions is approximately €3.6 million at 31 December 2011. All of these derivative contracts are traded in the over-the-counter (OTC) derivative market and are classified in Level 2. The fair values of derivative assets and liabilities traded in the OTC market are determined using quantitative models that require use of the contractual terms of the derivative instruments and multiple market inputs, including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are then applied to value the positions. The predominance of market inputs is actively quoted and can be validated through external sources or reliably interpolated if less observable.

The credit risk of the counterparty and of Asfalia are considered in determining the fair values of all OTC derivative asset and liability positions, respectively, after taking into account the effects of master netting agreements and collateral arrangements. Each reporting period, Asfalia values its derivative positions using the standard swap curve and evaluates whether to adjust the embedded credit spread to reflect change in counterparty or its own credit standing.

At 31 December 2011, investments classified as Level 3 comprise approximately 9.31% of financial assets measured at fair value on a recurring basis. They primarily include corporate debt securities, such as private fixed maturities. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. Included in the Level 3 classification at 31 December 2011 were approximately €109.3 million of fixed maturities with indicative pricing obtained from brokers that otherwise could not be corroborated to market observable data. Asfalia applies various due-diligence procedures, as considered appropriate, to validate these non-binding broker quotes for reasonableness, based on its understanding of the markets, including use of internally-developed assumptions about inputs a market participant would use to price the security.

(All amounts in euro thousands unless otherwise stated)

The Group issues a significant number of investment contracts that are designated at fair value through profit or loss. These investment contracts 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. Since significant inputs are based on unobservable inputs, these investment contract liabilities are classified as Level 3 instruments in the fair value hierarchy¹. Further information about the investment contracts is contained in Note 18.

For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, see Note 2.8.3

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2011.

IFRS7p27B(a) 2011	Level 1	Level 2	Level 3	Total balance
Assets				
Available-for-sale financial assets				
– Equity securities	49,932	11,165	– ²	61,097
– Debt securities	21,503	607,009 ³	86,011	714,523
Financial assets at fair value through profit or loss				
– Equity securities	232,979	76,408	–	309,387
– Debt securities	9,014	46,773	23,387	79,174
Derivative financial instruments	–	11,464	–	11,464
Total assets	313,428	752,819	109,398	1,175,645
Liabilities				
Investment contracts at fair value through profit or loss	–	–	171,568	171,568
Derivative financial instruments	–	7,860	–	7,860
Total liabilities	–	7,860	171,568	179,428

IFRS7p27B(a) 2010	Level 1	Level 2	Level 3	Total balance
Assets				
Available-for-sale financial assets				
– Equity securities	72,210	12,158	– ⁴	84,368
– Debt securities	15,945	540,021 ⁵	84,893	640,859
Financial assets at fair value through profit or loss				
– Equity securities	176,767	76,408	–	253,175
– Debt securities	3,500	33,597	20,984	58,081
Derivative financial instruments	–	11,196	–	11,196
Total assets	268,422	673,380	105,877	1,047,679
Liabilities				
Investment contracts at fair value through profit or loss	–	–	134,466	134,466
Derivative financial instruments	–	8,747	–	8,747
Total liabilities	–	8,747	134,466	143,213

The following table presents the changes in Level 3 instruments for the year ended 31 December 2011.

¹ Unit-linked funds usually have a published price used for the previous day's transactions. Where the valuation of the liability is based on these observable unit prices with no significant unobservable inputs and there are sufficient transactions to meet the definition of a quoted price in an active market, it is likely to be classified as Level 1. However, if an insurer calculates the liability without reference to the published price, it will fall into Level 2 or 3. Where the valuation of the liability incorporates significant inputs influenced by management's assumptions, such as tax adjustments not reflected in the observable price or underlying assets and liabilities, this is likely to be a Level 3 classification.

² Private equity securities usually are priced based on unobservable market data and are not easily tradable and are therefore likely to be classified as Level 3. In these illustrative financial statements, the insurance group does not hold any private equity securities.

³ Listed debt securities such as Government securities and Corporate bonds may be classified as Level 1 or 2 depending on trade frequency and data availability.

⁴ Private equity securities usually are priced based on unobservable market data and are not easily tradable and are therefore likely to be classified as Level 3. In these illustrative financial statements, the insurance group does not hold any private equity securities.

⁵ Listed debt securities such as Government securities and Corporate bonds may be classified as Level 1 or 2 depending on trade frequency and data availability.

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IFRS7p27B(c)

2011	Available-for-sale financial assets – Debt securities	Financial assets at fair value through profit or loss – Debt securities	Total assets	Investment contract liabilities	Total liabilities
Opening balance	84,893	20,984	105,877	134,466	134,466
Total gains and losses recognised in:					
– Profit or loss	–	(242)	(242)	2,498	2,498
– Other comprehensive income	762	–	762	–	–
Transfer into or (out) of Level 3	(2,315)	–	(2,315)	–	–
Reclassified to loans and receivables	(2,237)	–	(2,237)	–	–
Acquisition of subsidiary	2,450	1,435	3,885	26,121	26,121
Purchases	5,617	1,592	7,209	–	–
Sales	(3,159)	(382)	(3,541)	–	–
Issues	–	–	–	19,307	19,307
Settlements	–	–	–	(10,824)	(10,824)
Closing balance	86,011	23,387	109,398	171,568	171,568

IFRS7p27B(d) Total gains or losses for the period included in income for assets and liabilities held at the end of the reporting period

	–	(142)	(142)	1,978	1,978
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IFRS7p27B(c)

2010	Available-for-sale financial assets – Debt securities	Financial assets at fair value through profit or loss – Debt securities	Total assets	Investment contract liabilities	Total liabilities
Opening balance	78,985	17,859	96,844	121,326	121,326
Total gains and losses recognised in:					
– Profit or loss	–	348	348	1,598	1,598
– Other comprehensive income	852	–	852	–	–
Purchases	6,859	3,897	10,756	–	–
Sales	(1,803)	(1,120)	(2,923)	–	–
Issues	–	–	–	16,352	16,352
Settlements	–	–	–	(4,810)	(4,810)
Closing balance	84,893	20,984	105,877	134,466	134,466

IFRS7p27B(d) Total gains or losses for the period included in income for assets and liabilities held at the end of the reporting period

	–	213	213	1,105	1,105
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IFRS7p27B(c) In 2011, the Group transferred certain privately placed company debt securities from Level 3 into Level 2. This was due to the fact that the Company changed to a different pricing methodology for these securities that used more inputs derived from publically observable data. There was no transfer into or out of level 3 in 2010. There were no significant transfers of financial assets between the Level 1 and Level 2 fair value hierarchy classifications in 2011 and 2010.

IFRS7p27B(e) The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable or unfavourable changes in the assumptions used to determine the fair value of the financial asset or liability. If discount rates were to change by +/- 5%, which management considers a reasonably possible change in assumptions for the 'Fair value of available-for-sale financial assets – debt securities' and 'Financial assets at fair value through profit or loss – debt securities', the impact is outlined below. Also, if volatility factors were to change by +/- 10%, which management considers a reasonably possible change in assumptions for the fair value of investments contract liabilities, the impact is outlined below.

	Reflected in income		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
At 31 December 2011				
Available-for-sale financial assets – debt securities	–	–	623	(851)
Financial assets at fair value through profit or loss – debt securities	325	(484)	–	–
Investment contract liabilities	690	(350)	–	–
At 31 December 2010				
Available-for-sale financial assets – debt securities	–	–	334	(682)
Financial assets at fair value through profit or loss – debt securities	236	(345)	–	–
Investment contract liabilities	532	(239)	–	–

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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.

Commentary – Quantitative thresholds

IFRS8p14	An entity may combine information about operating segments that do not meet any of the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment if the majority of the aggregation criteria in IFRS8p12 are met.
IFRS8p17	If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability.

The Group is organised on a worldwide basis into five operating segments. These segments distribute their products through various forms of brokers, agencies and direct marketing programmes. 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 realised gains on financial assets and net fair value gains on financial assets at fair value through profit or loss.
 - **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 realised gains on financial assets and net fair value gains on financial assets at fair value through profit or loss.
 - **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 profit or loss.
 - **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 realised gains on financial assets and net fair value gains on financial assets at fair value through profit or loss.
 - **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.

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The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2011 is as follows:

	2011	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
	Allocated 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	27,301	15,263	5,364	234,468
IFRS8p23	Reportable segment profit	39,124	(19,577)	(2,506)	(1140)	3,550	19,451
	Investment variance	–	–	–	–	–	(14,324)
	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

(All amounts in euro thousands unless otherwise stated)

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 December 2010 is as follows:

2010	Savings	Life risk	Property	Casualty	Corporate and other	Total
Gross insurance premium	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
Allocated investment return	96,479	7,083	6,424	9,283	7,837	127,106
Other operating income	–	–	–	–	634	634
Net income	170,829	55,935	24,332	39,597	8,471	299,164
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	3,546	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	82,080
Investments 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)	(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

See 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 2011, 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 2010.

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 2011 and 2010.

IFRS8p27(b), 28 The strategic steering committee assesses the performance 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:

	2011	2010
Euravia	113,175	102,449
UK	24,712	21,214
US	37,869	53,845
Total	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.

(All amounts in euro thousands unless otherwise stated)

Commentary – Information about major customers

IFRS 8.34 requires the provision of information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity should disclose that fact, along with the total amount of revenues from each such customer, and the identity of the segments reporting the revenues.

Neither the identity of the customer nor the amount of revenues for each operating segment is required.

DV The total of all assets are allocated as follows:

	2011	2010
Euravia	978,231	880,470
UK	112,045	91,279
US	456,630	427,627
Total	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:

	2011	2010
Euravia	52,119	42,527
UK	10,813	12,393
US	21,453	18,724
Total	84,385	73,644

6. Property, plant and equipment

	Land and buildings	Vehicles	Furniture, fittings and equipment	Total	
1p78(a)					
16p73(e)	Year ended 31 December 2010				
	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 1 January 2010				
	Cost or valuation	2,152	3,412	1,025	6,589
	Accumulated depreciation	(123)	(922)	(392)	(1,437)
	Net book amount	2,029	2,490	633	5,152
16p73(e)	Year ended 31 December 2011				
	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 2011				
	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) 1p79(b) The Group's land and buildings were last revalued at 31 December 2010 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 1p104 Depreciation expense of €702 (2010: €504) has been charged in marketing and administrative expenses.

17p35(c) Lease rentals amounting to €854 (2010: €632) relating to the lease of vehicles are included in the income statement.

(All amounts in euro thousands unless otherwise stated)

16p77(e) If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	2011	2010
At 31 December		
Cost	830	241
Accumulated depreciation	(58)	(37)
Net book amount	772	204

16p74(a) Bank borrowings are secured on land and buildings to a value of €2,140 (2010: €1,860) (Note 20).

7. Investment properties

	2011	2010
40p76 Year ended 31 December		
40p76(a) Opening net book amount	18,805	18,495
40p76(a) Additions and capital improvements	1,725	290
40p76(d) Fair value gain (Note 28)	–	150
Foreign currency translation effects	175	(130)
40p76 Total	20,705	18,805

Bank borrowings are secured on investment property to the value of €3,200 (2010: €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 2011 and 2010 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) 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 (2010: €490). It is included in other operating income. In the income statement, marketing and administrative expenses include €483 (2010: €471) relating to investment property.

8. Intangible assets including intangible insurance assets

	Goodwill	Value of business acquired ¹	Deferred acquisition costs ²	Contractual customer relationships	Other ³	Total
38p118(c) At 1 January 2010						
IFRS3B67(d)(i) Acquisition cost	12,345	9,856	72,953	35,757	1,354	132,265
IFRS3B67(d)(i) 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	112,447
38p118(e) Year ended 31 December 2010						
Opening net book amount	12,345	8,246	64,829	26,183	844	112,447
IFRS3p B67(d)(vi) Exchange differences	(270)	(262)	(132)	(540)	(32)	(1,236)
38p118(e)(vii) Additions	–	–	7,834	3,854	–	11,688
Amortisation charge (Note 31) ⁴	–	–	–	–	–	–
IFRS3B67(d)(i) – Through income (Note 32)	–	(940)	(2,703)	(5,741)	(200)	(9,584)
38p118 (e)(viii) – Through equity (Note 16)	–	–	(683)	–	–	(683)
Closing net book amount	12,075	7,044	69,145	23,756	612	112,632

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

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

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

⁴ 38p118(d) Amortisation of €10,410 (2010: €9,384) is included in 'expenses for the acquisition of insurance and investment contracts', and €120 (2010: €200) in marketing and administrative expenses.

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(All amounts in euro thousands unless otherwise stated)

	Goodwill	Value of business acquired ¹	Deferred acquisition costs ²	Contractual customer relationship	Other ³	Total
38p118(c) At 1 January 2011						
IFRS3B67(d)(viii) Acquisition cost	12,075	9,594	80,655	39,071	1,322	142,717
IFRS3B67(d)(viii) Accumulated amortisation and impairment	–	(2,550)	(11,510)	(15,315)	(710)	(30,085)
Net book amount	12,075	7,044	69,145	23,756	612	112,632
38p118(e) Year ended 31 December 2011						
IFRS3B67(d)(i) Opening net book amount	12,075	7,044	69,145	23,756	612	112,632
IFRS3B67(d)(i) Exchange differences	(562)	275	168	84	63	28
IFRS4p37(e)(i) Additions	–	–	6,643	4,171	318	11,132
IFRS4p37b(ii) Acquisition of subsidiary (Note 44)	3,651	–	–	10,759	–	14,410
Amortisation charge:						
IFRS3B67(d)(i) – Through income (Note 31)	–	(1,191)	(3,019)	(6,200)	(120)	(10,530)
38p118(e)(viii) – Through equity (Note 16)	–	–	(199)	–	–	(199)
IFRS3B67(d)(v) Impairment charge⁴	(3,789)	–	–	–	–	(3,789)
38p118(e)(viii) Closing net book amount	11,375	6,128	72,738	32,570	873	123,684
38p118(c) At 31 December 2011						
IFRS3B67(d)(viii) Acquisition cost	15,164	9,869	87,466	54,085	1,703	168,287
IFRS3B67(d)(viii) Accumulated amortisation and impairment	(3,789)	(3,741)	(14,728)	(22,515)	(830)	(44,603)
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 contract type and lie within a range of 5 to 10 years (2010: range of 4 to 9 years) with an average of 7.9 years (2010: 7.1 years). These useful lives are reassessed annually to reflect new surrender experience arising from the underlying contracts.

The Group amortises the value of business acquired (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 (2010: 12.6 years) based on the approach described in Note 2.16(c). The change in the amortisation period is explained in (b) below.

(a) Impairment tests for goodwill

36p134(a)(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.

	2011	2010
Euravia	6,354	4,226
US	5,021	7,849
Total	11,375	12,075

36p134(c) When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations.
36p134(d)(ii) 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)(iii)

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

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

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

⁴ 36p126(a) 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 expenses for marketing and administration in the income statement.

(All amounts in euro thousands unless otherwise stated)

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 activities ¹	15,000
36p134(d)(iv)	Growth rate ²	0.8%
36p134(d)(v)	Discount rate ³	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.

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 (2010: reduction of the prior-year charge through income of €268 for DAC and €88 for VOBA).

9. Investments in associates

	2011	2010
Year ended 31 December		
At beginning of year	13,244	13,008
Acquisition of subsidiary (Note 44)	389	
Share of (loss)/profit ⁴	(174)	145
Exchange differences	(74)	105
Other equity movements (Note 16)	(12)	(14)
At end of year	13,373	13,244

28p23 Investments in associates at 31 December 2011 include goodwill of €1,020 (2010: €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 2010		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	9,001	15	30
Delta Limited	US	15,278	15,278	25,741	(389)	42
Total at the end of 2011		59,774	46,401	65,865	(174)	–

28p37(g) The Group has not recognised losses amounting to €20 (2010: nil) for Delta Limited. The accumulated losses not recognised were €20 (2010: nil).

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 Share of (loss)/profit is after tax and Non-controlling interest of associates.

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(All amounts in euro thousands unless otherwise stated)

28p37(a) The fair value of the investments in associates is €14,088 (2010: €14,157).

10. Reinsurance assets

		2011	2010
IFRS4p37(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 €45,705 (2010: €36,750) that arises on exposure to asbestos claims in the US – a portfolio of contracts that is in run-off since 2001. Of this, €32,524 (2010: €23,473) 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 (2010: €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).

IFRS7p37(a) As of 31 December 2011, reinsurance assets of €2,208 (2010: €1,520) were past due but not impaired. These relate to a number reinsurers for whom there is no recent history of default. The ageing analysis of these reinsurance assets are as follows:

	2011	2010
Up to 90 days	1,341	923
91 to 120 days	867	597
Total	2,208	1,520

IFRS7p37(b) As of 31 December 2011, reinsurance assets of €4,764 (2010: €3,439) were impaired and provided for. The amount of the provision was €4,764 as of 31 December 2011 (2010: €3,439). The individually impaired receivables mainly relate to reinsurers, which are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

	2011	2010
Up to 90 days	2,893	2,089
91 to 120 days	1,871	1,350
Total	4,764	3,439

IFRS7p16 Movements on the group provision for impairment of reinsurance assets are as follows:

	2011	2010
IFRS7p20(e)		
At 1 January	3,439	3,333
Provision for reinsurance asset impairment	1,799	512
Reinsurance assets written off during the year as uncollectible	(451)	(386)
Unused amounts reversed	(28)	(23)
Unwind of discount (Note 26)	5	3
At 31 December	4,764	3,439

IFRS7p36(a) The Group does not hold any collateral as security against potential default by reinsurance counterparties.

(All amounts in euro thousands unless otherwise stated)

11. Financial assets

1p74, IFRS7p7 The Group's financial assets are summarised below by measurement category in the table below.

	2011	2010
Held-to-maturity	81,583	75,471
Available-for-sale	775,620	725,227
Fair value through income	388,037	311,256
Loans and receivables (including insurance receivables – Note 12)	8,988	13,674
Total financial assets	1,254,228	1,125,628

The current portion of financial assets is €457,889 (2010: €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	2011	2010
Held-to-maturity financial assets, at amortised cost		
Debt securities – fixed interest rate:		
– Listed	85,529	77,519
– Unlisted	3,464	4,784
39p63 IFRS7p16 Provision for impairment:		
– Listed	(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 consolidated balance sheet at their fair value. The fair value of the held-to-maturity assets is €83,724 (2010: €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(a) At the reporting date, there were no held-to-maturity assets that were overdue but not impaired.

	2011	2010
IFRS7p8(d)		
Available-for-sale financial assets		
Equity securities:		
– Listed	50,416	76,253
– Unlisted	10,681	8,115
	61,097	84,368
Debt securities:		
– Listed	694,822	625,707
– Unlisted	19,701	15,152
	714,523	640,859
Total available-for-sale financial assets	775,620	725,227

DV Listed debt securities in this category include floating-rate instruments for €155,075 (2010: €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 (2010: €5,399) that otherwise would have been classified as available-for-sale financial assets with the embedded conversion option accounted for separately.

IFRS7p37(a) At the reporting date there were no available-for-sale assets that were overdue but not impaired.

	2011	2010
IFRS7p8(a)		
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

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(All amounts in euro thousands unless otherwise stated)

All debt securities in this category are fixed rate instruments, of which €45,997 (2010: €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.

The movement in the Group's financial assets (excluding loans and receivables – see Note 12) are summarised in the table below by measurement category:

		Held to maturity	Available for sale	Fair value through	Total
IFRS7p8	At beginning of 2010	76,425	657,787	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)				
	– Designated at fair value through profit or loss upon initial recognition	–	10,540	–	10,540
	– Classified as held for trading	–	–	37,343	37,343
IFRS7p16	Impairment losses				
IFRS7p20(e)	– Debt securities – unlisted	(205)	(264)	–	(469)
	– Equity securities – listed	–	(30)	–	(30)
	– Equity securities – unlisted	–	(820)	–	(820)
IFRS7p8	At beginning of 2011	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)
	Financial assets available-for-sale reclassified to loans and receivables	–	(2,237)	–	(2,237)
IFRS7p20(a)(i)	Fair value net gains (excluding net realised gains):				
	– Designated at fair value through profit or loss upon initial recognition	–	11,136	–	11,136
	– Classified as held for trading	–	–	(1,242)	(1,242)
IFRS7p16	Impairment losses:				
IFRS7p20(e)	– Debt securities – unlisted	(879)	(1,100)	–	(1,979)
	– Equity securities – listed	–	(560)	–	(560)
	– Equity securities – unlisted	–	(681)	–	(681)
IFRS7p8	At end of 2011	81,583	775,620	388,561	1,245,764

This table demonstrates the carrying values of financial assets individually determined as impaired, classified by counterparty:

	Gross amount impaired		
	Held to maturity	Loans and receivables	Total
31 December 2011			
Government debt	2,594	–	2,594
Corporate debt	2,964	–	2,964
Collateralised debt	1,482	–	1,482
Other debt	371	80	451
Total	7,411	80	7,491
31 December 2010			
Government debt	2,391	–	2,391
Corporate debt	2,733	–	2,733
Collateralised debt	1,366	–	1,366
Other debt	342	98	440
Total	6,832	98	6,930

(All amounts in euro thousands unless otherwise stated)

IFRS7p16 The reconciliation of the provision for impairment losses on securities classified held to maturity and loans and receivables is as follows:

Held to maturity

	2011	2010
At 1 January	6,832	6,627
Increase/(Decrease) in impairment allowances	578	205
At 31 December	7,410	6,832

Loans and receivables

	2011	2010
At 1 January	80	75
Increase/(Decrease) in impairment allowances	18	5
At 31 December	98	80

IFRS7p36(a) No collateral is held by the Group against potential losses arising from impairments of held-to-maturity or available-for-sale financial assets. A specific impairment provision has been provided against each of the individually impaired financial assets for the full amount of the impairment.

Reclassification of available-for-sale debt securities

On 31 January 2011, the Group reclassified financial assets out of the available-for-sale category into the loans and receivables category. The financial assets reclassified primarily consist of unlisted debt instruments. At the date of the reclassification, the Group had the intention and ability to hold these reclassified loans and receivables for the foreseeable future or until maturity.

The following table shows details about the financial assets reclassified:

	31 January 2011		31 December 2011
	Fair value	Fair value	Carrying amount
IFRS7p12A (a),(b) Financial assets available for sale reclassified to loans and receivables	2,237	1,950	2,147

IFRS7p12A(f) At the date of reclassification, the effective interest rates on financial assets reclassified into loans and receivables ranged from 6.4% to 9.5% with expected recoverable cash flows of €2,750.

IFRS7p12A(d) In the current year before reclassification, the Group recognised in the revaluation reserve in equity a fair value loss in the amount of €16 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 2010 on available-for-sale assets reclassified in the current period was €78).

The following table shows details about the financial assets reclassified¹:

	2011	2010 ²
IFRS7p12A (b), (e) Carrying amount as at 31 December	2,147	–
Fair value as at 31 December	1,950	–
Gains/losses that would have been recognised in other comprehensive income if the assets had not been reclassified	(192)	–
Gains/losses recognised in profit or loss (including impairment)	(8)	–
Interest income	141	–

¹ This information is required for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset.

² No comparatives are disclosed in the current year, as there were no reclassifications in the prior year.

(All amounts in euro thousands unless otherwise stated)

12. Loans and receivables including insurance receivables

		2011	2010
IFRS7p36, 1p77	Insurance receivables:		
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
IFRS7p16	– Less provision for impairment of receivables from agents, brokers and intermediaries	(69)	(85)
	– Due from reinsurers	2,467	3,775
	– Less provision for impairment of receivables from reinsurers	(12)	(8)
		6,080	12,660
IFRS7p8(c)	Other loans and receivables:		
1p78(b)	– Pre-payments	89	94
1p78(b)	– Accrued rent	327	647
1p78(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)
	– Debt instruments ¹	2,147	–
		2,908	1,014
	Total loans and receivables including insurance receivables	8,988	13,674
1p66	Current portion	5,682	12,297
	Non-current portion	3,306	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 end of the reporting period.		
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.		
		2011	2010
	Insurance receivables	6,080	12,660
	Pre-payments	89	94
	Accrued rent	327	647
	Receivables from related parties	211	179
	Loans to related parties	130	92
	Debt instruments ¹	1,950	–
	Total receivables arising from insurance and reinsurance contracts	8,787	13,672
1p61(a)	Current portion	5,682	13,124
	Non-current portion	3,105	548
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% (2010: 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:		
	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 2011 and 2010, loans and receivables at nominal value of €195 (2010: €250) were impaired and fully provided for. All impaired loans and receivables were overdue more than 120 days.		
IFRS7p37(a)	As of 31 December 2011 and 2010, 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 2011. The transaction has been accounted for as a collateralised borrowing (Note 20).		
36p126(a)	The Group has recognised a loss of €24 (2010: €33) for the impairment of its other receivables during the year ended 31 December 2011. The loss has been included in marketing and administrative costs in the income statement.		

¹ These are the financial assets previously classified as available for sale.

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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

39p95, IFRS7p23(a), IFRS7p24(b) 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 Insurance) 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 (2010: €3,000) and a negative fair value of €733 (2010: €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.

	2011			2010		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Foreign exchange contracts						
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	7,005	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	10,871	1,486	4,564

IFRS7p23(a) Gains and losses in equity on forward foreign exchange contracts as at 31 December 2011 will be released to the income statement at various dates between six months and one year from the end of the reporting period.

At 31 December 2011, the fixed interest rates vary from 6.9% to 7.4% (2010: 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 income during 2011 amounted to €85 (2010: €21); it is entirely attributable to the interest rate cash flow hedges.

IFRS7p22 (b) Fair value hedges

IFRS7p24(a)(i)(ii), 39p89 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.

	2011			2010		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Foreign exchange contracts						
Exchange-traded futures contracts	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-i) Net losses on foreign exchange contracts designated as fair value hedges during 2011 amounted to €96 (2010: gain of €88). Net gains on available-for-sale debt securities hedged in the fair value hedges during 2011 amounted to €96 (2010: loss of €88).

IFRS7p22, 1p79(b) (c) Hedge of net investment in foreign entity

39p102 A proportion of the Group's UK pound-denominated borrowing amounting €3,322 (2010: €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 2011 was

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€3,529 (2010: €2,868). The foreign exchange loss of €45 (2010: gain of €40) on translation of the borrowing to euros at the end of the reporting period 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 income during 2011 amounted to €125 (2010: €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	2011			2010		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Foreign exchange contracts						
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

	2011	2010
Cash at bank and in hand	12,698	23,266
Short-term bank deposits	16,295	16,540
Total	28,993	39,806

7p45 The effective interest rate on short-term bank deposits was 3.9% (2010: 3.6%) and has an average maturity of 20 days. Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2011	2010
Cash and cash equivalents	28,993	39,806
Bank overdrafts (Note 20)	(2,650)	(3,427)
Total	26,343	36,379

15. Share capital

	Number of shares outstanding (thousands)	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2010	20,000	20,000	10,424	–	30,424
Employee share option scheme:					
– Value of services provided	–	–	822	–	822
– Proceeds from shares issued	1,000	1,000	70	–	1,070
At 31 December 2010	21,000	21,000	11,316	–	32,316
Employee share option scheme:					
– Value of services provided	–	–	690	–	690
– Proceeds from shares issued	750	750	200	–	950
Acquisition of subsidiary (Note 44)	3,550	3,550	6,450	–	10,000
Treasury shares purchased	(875)	–	–	(2,564)	(2,564)
At 31 December 2011	24,425	25,300	18,656	(2,564)	41,392

Ordinary shares

1p79(a) The total authorised number of ordinary shares is 50 million (2010: 50 million), with a par value of 100 cents per share (2010: 100 cents per share). All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

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The Group issued 3,550 thousand shares on 1 March 2011 (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 €10.05 million (€2.82 per share). The related transaction costs amounting to €50 have been netted off with the deemed proceeds.

Share premium

Share premium comprises additional paid-in capital in excess of the par value. This reserve is not ordinarily available for distribution.

Treasury shares

1p79(a) Treasury shares comprise shares acquired in the market to cover employee share and option plans.

The Company acquired 875,000 of its own shares through purchases on the EuroMoney Stock Exchange on 18 April 2011. 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 2012.

(a) Share-based payment

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 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:

		2011		2010	
		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 (2010: 4,744 thousand options), 3,994 thousand (2010: 2,917 thousand) were exercisable. Options exercised in 2011 resulted in 750 thousand shares (2010: 1,000 thousand shares) being issued at 128 cents each (2010: 108 cents each). The related weighted average share price at the time of exercise was 285 cents (2010: 265 cents) per share. The related transaction costs amounting to €10 (2010: €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	
		2011	2010
2011	1.10	—	500
2012	1.20	800	900
2013	1.35	1,200	1,250
2014	2.00	217	267
2015	2.38	1,777	1,827
2016	2.95	964	—
Total		4,958	4,744

IFRS2p46, 47(a) The weighted average fair value of options granted during the period, determined using the Black-Scholes valuation model, was €0.86 per option (2010: €0.66). The significant inputs into the model were the weighted average share price of €3.47 (2010: €2.80) at the grant date, the exercise price shown above, volatility of 30% (2010: 27%), a dividend yield of 4.3% (2010: 3.5%), an expected option life of three years, and annual risk-free interest rate of 5% (2010: 4%). The

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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 2012, 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).

16. Other reserves and equity component of discretionary participation features

	2011	2010
Land and buildings revaluation reserve	1,689	1,774
Hedging reserve	526	343
Reserve for revaluation of available-for-sale investments	44,597	39,744
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	31,410	25,480
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 (2010: €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 2010	1,885
16p39	Revaluation – gross (Note 6)	33
12p61, 81(a)	Revaluation – tax (Note 21)	(7)
16p41	Depreciation transfer – gross	(130)
16p41	Depreciation transfer – tax (Note 21)	43
1p106(d), 21p52(b)	Currency translation differences	(50)
	At beginning of 2011	1,774
16p41	Depreciation transfer – gross	(149)
16p41	Depreciation transfer – tax (Note 21)	49
1p106(d), 21p52(b)	Currency translation differences	15
	At end of 2011	1,689

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

1p96(b)	At the beginning of 2010	153
IFRS7p23(c)	Fair value gains in year	300
12p61, 81(a)	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 2011	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 34)	(102)
12p61	Tax on transfers to net profit	40
	At end of 2011	526

(All amounts in euro thousands unless otherwise stated)

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

	At beginning of 2010	45,244
IFRS7p20(a)(ii)	Revaluation – gross (Note 11)	31,596
12p61	Revaluation – tax (Note 21)	(10,737)
IFRS7p20(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
	Non-controlling interests in change in available-for-sale financial assets	(1,620)
	At beginning of 2011	39,744
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
	Non-controlling interests in change in available-for-sale financial assets	(1,550)
	At end of 2011	44,597

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

	At beginning of 2010	(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 2011	(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 2011	(21,257)

DV The above table includes the revaluation reserve (€155) for the available-for-sale financial assets that were reclassified into the loans and receivables category as of 31 January 2011.

Movements in the translation reserve were as follows:

	At beginning of 2010	3,827
39p102(a)	Net investment hedge (Note 13)	40
1p106(d)	Currency translation differences:	
21p52(b)	– Group	(66)
28p39	– Associates	(14)
	At beginning of 2011	3,787
39p102(a)	Net investment hedge (Note 13)	(45)
1p106(d)	Currency translation differences:	
21p52(b)	– Group	1,255
28p39	– Associates	(12)
	At end of 2011	4,985

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Movements in the equity component of DPF as follows:

IFRS4p34(b)	At beginning of 2010	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 2011	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 2011	3,059

The equity component of DPF originates from insurance contracts and investment 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 (2010: €635) and €2,417 (2010: €2,389) in relation to investment contracts. During 2011, the Group decided to pay an additional bonus of €207 to holders of contracts with DPF.

17. Insurance liabilities and reinsurance assets

	2011	2010
IFRS4p36	Gross	
IFRS4p37(b)	Short-term insurance contracts – property and casualty:	
	– Claims reported and loss adjustment expenses	40,612
	– Claims incurred but not reported	114,545
	– Unearned premiums	21,343
	– Unexpired risk provision	1,878
	Short-term insurance contracts – life	34,916
	Long-term insurance contracts:	
	– With fixed and guaranteed terms	347,624
	– With DPF	25,927
	– Without fixed terms	183,375
	Total insurance liabilities, gross	770,220
	Recoverable from reinsurers	
	Short-term insurance contracts:	
	– Claims reported and loss adjustment expenses	14,189
	– Claims incurred but not reported	42,650
	– Unearned premiums	3,380
	– Unexpired risk provision	469
	Total reinsurers' share of insurance liabilities	60,688
		49,919

(All amounts in euro thousands unless otherwise stated)

	2011	2010
Net		
Short-term insurance contracts:		
– Claims reported and loss adjustment expenses	26,423	23,467
– Claims incurred but not reported	71,895	61,537
– Unearned premiums	17,963	16,123
– Unexpired risk provision	1,409	1,243
Short-term insurance contracts – life	34,916	33,170
Long-term insurance contracts:		
– With fixed and guaranteed terms	347,624	317,495
– With DPF	25,927	28,518
– Without fixed terms	183,375	175,010
Total insurance liabilities, net	709,532	656,563
Current	665,740	617,285
Non-current	43,792	39,278

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 2011 and 2010 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 consolidated 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) – that is, 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, IFRS4
p39(c)(iii)

(a) Asbestos – gross

Reporting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:											
– At end of reporting year	1,158	1,943	3,886	4,426	5,208	6,632	6,923	7,631	7,354	9,235	54,396
– One year later	1,211	1,973	3,946	5,232	5,988	7,191	7,738	7,948	8,743	–	–
– Two years later	1,263	2,390	4,780	6,175	6,706	7,886	8,044	9,134	–	–	–
– Three years later	1,316	2,604	5,208	6,910	7,329	8,211	8,853	–	–	–	–
– Four years later	1,368	2,837	5,973	7,591	7,602	8,944	–	–	–	–	–
– Five years later	1,421	3,320	6,640	7,800	8,363	–	–	–	–	–	–
– Six years later	1,473	3,667	6,933	8,666	–	–	–	–	–	–	–
– Seven years later	1,526	3,813	7,626	–	–	–	–	–	–	–	–
– Eight years later	1,578	4,194	–	–	–	–	–	–	–	–	–
– Nine years later	1,631	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	1,631	4,194	7,626	8,666	8,363	8,944	8,853	9,134	8,743	9,235	75,389
Cumulative payments to date	(1,620)	(2,832)	(5,011)	(3,993)	(3,145)	(3,031)	(2,178)	(1,020)	(955)	(1,000)	(24,785)
Liability recognised in the balance sheet	11	1,362	2,615	4,673	5,218	5,913	6,675	8,114	7,788	8,235	50,604
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	–	10,484
Total reserve included in 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.

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(All amounts in euro thousands unless otherwise stated)

DV, IFRS4
p39(c)(iii)

(b) Asbestos — net

Reporting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:											
– At end of reporting year	120	486	771	1,114	1,251	1,431	1,638	1,962	4,070	4,173	15,360
– One year later	149	493	986	1,233	1,322	1,555	2,022	2,762	4,483	–	–
– Two years later	178	597	1,195	1,494	1,601	1,884	2,261	2,807	–	–	–
– Three years later	207	651	1,302	1,627	1,744	2,052	2,463	–	–	–	–
– Four years later	236	709	1,418	1,773	1,901	2,236	–	–	–	–	–
– Five years later	265	780	1,560	1,950	2,091	–	–	–	–	–	–
– Six years later	294	867	1,733	2,167	–	–	–	–	–	–	–
– Seven years later	323	953	1,907	–	–	–	–	–	–	–	–
– Eight years later	352	1,049	–	–	–	–	–	–	–	–	–
– Nine years later	382	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	382	1,049	1,907	2,167	2,091	2,236	2,463	2,807	4,483	4,173	23,758
Cumulative payments to date	(380)	(1,032)	(1,874)	(2,123)	(1,986)	(1,923)	(1,369)	(255)	(244)	(250)	(11,436)
Liability recognised in the balance sheet	2	17	33	44	105	313	1,094	2,552	4,239	3,923	12,322
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	–	3,061
Total reserve included in 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.

DV, IFRS4
p39(c)(iii)

(c) Insurance claims other than asbestos — gross

Reporting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:											
– At end of reporting year	15,861	27,603	35,105	41,447	51,487	54,326	59,628	62,941	54,893	76,093	479,384
– One year later	16,334	26,755	34,591	41,862	51,063	58,954	59,944	62,832	57,721	–	–
– Two years later	16,808	27,592	35,986	42,453	52,520	60,234	60,007	63,432	–	–	–
– Three years later	17,281	27,812	36,553	42,871	51,472	60,336	60,584	–	–	–	–
– Four years later	17,756	27,466	36,177	43,214	51,679	60,881	–	–	–	–	–
– Five years later	18,228	28,051	36,660	43,327	52,152	–	–	–	–	–	–
– Six years later	18,902	28,732	36,719	43,528	–	–	–	–	–	–	–
– Seven years later	19,475	28,935	37,391	–	–	–	–	–	–	–	–
– Eight years later	19,649	29,318	–	–	–	–	–	–	–	–	–
– Nine years later	20,122	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	20,122	29,318	37,391	43,528	52,152	60,881	60,584	63,432	57,721	76,093	501,222
Cumulative payments to date	(20,101)	(29,123)	(37,038)	(42,716)	(50,042)	(56,145)	(52,772)	(46,552)	(41,180)	(35,488)	(411,157)
Liability recognised in the balance sheet	21	195	353	812	2,110	4,736	7,812	16,880	16,541	40,605	90,065
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	–	4,025
Total reserve included in balance sheet	–	–	–	–	–	–	–	–	–	–	94,090

(All amounts in euro thousands unless otherwise stated)

IFRS4p39(c)(iii) (d) Insurance claims other than asbestos — net
IFRS4IG61,
IFRS4IG59

Reporting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims costs:											
– At end of reporting year	11,985	22,552	32,587	36,984	45,394	48,917	51,335	53,320	53,332	66,318	422,724
– One year later	12,328	22,296	32,159	36,449	45,412	49,216	51,948	53,732	54,347	–	–
– Two years later	12,671	22,993	33,322	36,902	45,324	49,300	52,118	55,270	–	–	–
– Three years later	13,014	23,176	33,627	37,284	45,420	49,456	53,001	–	–	–	–
– Four years later	13,357	22,888	34,147	37,684	45,588	50,401	–	–	–	–	–
– Five years later	13,700	23,376	34,560	37,700	46,241	–	–	–	–	–	–
– Six years later	14,043	23,460	34,583	38,501	–	–	–	–	–	–	–
– Seven years later	14,386	23,496	35,401	–	–	–	–	–	–	–	–
– Eight years later	14,429	23,965	–	–	–	–	–	–	–	–	–
– Nine years later	14,972	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	14,972	23,965	35,401	38,501	46,241	50,401	53,001	55,270	54,347	66,318	438,417
Cumulative payments to date	(14,930)	(23,886)	(35,273)	(38,208)	(45,560)	(49,136)	(51,568)	(46,565)	(22,113)	(31,904)	(359,143)
Liability recognised in the balance sheet	42	79	128	293	681	1,265	1,433	8,705	32,234	34,414	79,274
Reserve in respect of prior years	–	–	–	–	–	–	–	–	–	–	3,661
Total reserve included in balance sheet	–	–	–	–	–	–	–	–	–	–	82,935

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

IFRS7p25

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Year ended 31 December						
Notified claims	36,696	(13,229)	23,467	34,474	(5,995)	28,479
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	110,360	(36,104)	74,256
Cash paid for claims settled in year	(75,524)	9,024	(66,500)	(43,958)	(4,919)	(48,877)
Increase in liabilities (Note 29):						
– Arising from current-year claims	85,328	(14,837)	70,491	62,247	(4,845)	57,402
– Arising from prior-year claims	13,833	(4,517)	9,316	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 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 (2010: €2,228) includes a movement of €5,618 (2010: €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.

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(All amounts in euro thousands unless otherwise stated)

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

The movements for the year are summarised below.

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
IFRS4p37(e)						
Year ended 31 December						
Unearned premium provision						
At beginning of year	19,133	(3,010)	16,123	17,808	(2,710)	15,098
Increase in the period (Note 24)	20,004	(3,170)	16,834	16,651	(2,712)	13,939
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

	2011	2010
Year ended 31 December		
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 (unit-linked)

	2011	2010
Year ended 31 December		
At beginning of year	317,495	284,813
Valuation premium	45,759	44,701
Liabilities released for payments on death and other terminations in the year	(30,116)	(25,376)
Accretion of interest	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.

(e) Long-term insurance contracts with DPF (Universal Life)

	2011	2010
IFRS4p37(e)		
Year ended 31 December		
IFRS4IG37(a)		
At beginning of year	28,518	28,251
IFRS4IG37(b)		
Premiums received	8,415	9,778
IFRS4IG37(d)		
Fees deducted from account balances	(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)	1,089	1,218
– Through other comprehensive income	458	1,956
Other movements (within insurance benefits)	134	(235)
IFRS4IG37(f)		
Net exchange differences	2	–
IFRS4IG37(a)		
At end of year	25,927	28,518

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

(All amounts in euro thousands unless otherwise stated)

IFRS4p37(e) (f) Long-term insurance contracts without fixed terms

	2011	2010
Year ended 31 December		
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)	206	182
IFRS4IG37(f) Net exchange differences	(383)	(172)
IFRS4IG37(a) At end of year	183,375	175,010

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

18. Investment contract liabilities

	2011	2010
Year ended 31 December		
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, Investment contracts at amortised cost (guaranteed investment bonds)	147,420	117,030
IFRS7p8(f), Investment contracts at fair value through profit or loss (unit-linked):		
IFRS7 B2 – Designated upon initial recognition	171,568	134,466
IFRS7p8(e) – 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 2011, 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 profit or loss 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 (2010: €535).

IFRS7p8(a) All financial liabilities at fair value through profit or loss are designated by the Group to be in this measurement category.

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	
	2011	2010	2011	2010
Investment contracts:				
– Fixed rate	147,420	117,030	147,750	117,631
– With DPF	80,902	88,992	See range below	

IFRS7p29(c), 30 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 2.16, 2.17 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

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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 (2010: €87,767) and the upper end is €83,319 (2010: €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:

	2011	2010
Year ended 31 December		
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 other comprehensive income	1,296	3,897
Other movements (within insurance benefits)	17	22
IFRS4IG37(a) At end of year	80,902	88,992

In 2011, profits distributed from the Group DPF funds to insurance and investment contracts with DPF amounted to €4,844 (2010: €5,413), of which €4,360 (2010: €4,872) (90%) was added to contract liabilities as supplemental benefits, and €484 (2010: €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 2011 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

	2011	2010
1p77, 24p17		
Amounts due to related parties (Note 45)	1,212	1,197
Trade payables and accrued expenses	470	510
Social security and other tax payables	800	610
Deferred income	5,605	6,145
Total	8,087	8,462

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 (2010: €1,741). All trade and other payables are current liabilities.

20. Borrowings

	2011	2010
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 (Note 14)	2,650	3,427
Total borrowings	56,891	45,575
Current portion	19,822	19,952
Non-current portion	37,069	25,623

(All amounts in euro thousands unless otherwise stated)

IFRS7p25 Total borrowings include secured liabilities (bank and collateralised borrowings) of €6,354 (2010: €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).

IFRS7p25 The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2011	2010	2011	2010
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
Total	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% (2010: 5.2%).

IFRS7p25 The carrying amounts of short-term borrowings approximate their fair value.

The Group has the following undrawn borrowing facilities:

	2011	2010
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
Total	5,900	5,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2012. 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 2012 (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:

	2011	2010
1p61(b)		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	(22,490)	(18,826)
1p61(a)		
– Deferred tax asset to be recovered within 12 months	(5, 268)	(4, 168)
	(27,758)	(22,994)
1p61(b)		
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	27,859	22,993
1p61(b)		
– Deferred tax liability to be recovered within 12 months	28,747	26,741
	56,606	49,734
Total	28,848	26,740

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

	2011	2010
12p81(a)		
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
Tax charged to equity net of transfers to retained earnings (Note 35)	2,349	2,976
At end of year	28,848	26,740

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12p81(g)(i) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of
12p81(g)(ii) balances within the same tax jurisdiction, is as follows:

(a) Deferred tax assets

		Insurance liabilities			Accruals not currently deductible and other differences	Total
		Long-term insurance contracts	Claims liabilities discounted on tax return	Tax losses carried forward		
2010						
	At 1 January 2010	(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	(3)
12p81(g)(i)	At end of 2010	(7,139)	(8,671)	(5,091)	(2,003)	(22,994)
2011						
	Charged/(credited) to the income statement	(834)	(759)	825	111	(657)
12p81(g)(ii)	Charged/(credited) to equity (net of transfers to retained earnings)	(526)	—	—	(526)	(526)
12p81(a)	Exchange differences	11	8	14	(26)	7
	Acquisition of subsidiary (Note 44)			(3,300)	(288)	(3,588)
12p81(g)(i)	At end of 2011	(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 and other reserve differences	Total
2010						
	At 1 January 2010	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 earnings)	205	4,527	–	–	4,732
	Exchange differences	187	151	–	7	345
12p81(g)(i)	At end of 2010	30,167	19,023	–	544	49,734
2011						
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 2011	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 (2010: €1,588) in respect of losses amounting to €1,000 (2010: €5,294) that can be carried forward against future taxable income. Losses amounting to €900 (2010: €5,294) and €100 (2010: nil) expire in 2010 and 2011, respectively.

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- 12p81(f) Deferred income tax liabilities of €3,141 (2010: €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 2011 (2010: €23,294).

22. Retirement benefit obligations

Consolidated obligations for:

	2011	2010
– Pension benefits	3,138	1,438
– Post-employment medical benefits	1,402	692
Total	4,540	2,130
Income statement charge for (Note 33):		
– Pension benefits	762	496
– Post-employment medical benefits	150	107
Total	912	603

Commentary – Actuarial gains and losses

- 19p93A If the reporting entity applies IAS 19p93A and recognises actuarial gains and losses in other comprehensive income it has to present these actuarial gains and losses in the consolidated statement of comprehensive income (IAS 19p93B).
- If this is the case the adjustments arising from the limit in IAS 19p58(b) should also be recognised in the consolidated statement of comprehensive income (19p93C).

(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 consolidated balance sheet are determined as follows:

19p120A (d)(f)		2011	2010
	Present value of funded obligations	6,155	2,943
	Fair value of plan assets	(5,991)	(2,797)
	Deficit of fund	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 consolidated balance sheet	3,138	1,438
1p61, 19p118	Current	568	492
	Non-current	2,570	946

- 19p120A(c) The movement in the defined benefit obligation over the year is as follows:

	2011	2010
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.

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19p119 Note: For the purpose of these illustrative financial statements, we have assumed that all movements on the defined benefit obligation have been charged to a single line item.

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

	2011	2010
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:

	2011	2010
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 (2010: €324) and €241 (2010: €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 (2010: €235).

19p120A(n) The principal actuarial assumptions used were as follows:

	2011	2010
Discount rate	7.0%	6.8%
Inflation rate	3.30%	3.00%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

Mortality rate

19p120A(n)(vi) The average life expectancy in years of a pensioner retiring at age 65, at the end of the reporting period is as follows:

	2011	2010
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 end of the reporting period, is as follows:

	2011	2010
Male	19.5	19.5
Female	22.5	22.5

DV 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 7.2%
Inflation rate	Increase/decrease by 0.5%	Increase/decrease by 5.1%
Salary growth rate	Increase/decrease by 0.5%	Increase/decrease by 3.3%
Rate of mortality	Increase by 1 year	Increase by 5.2%

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.

(All amounts in euro thousands unless otherwise stated)

19p120A(n) In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8% a year (2010: 7.6%).

19p120A(d)(f) The amounts recognised in the consolidated balance sheet were determined as follows:

	2011	2010
Present value of funded obligations	705	340
Fair value of plan assets	(620)	(302)
Deficit of funds	85	38
Present value of unfunded obligations	1,325	663
Unrecognised actuarial losses	(8)	(9)
Liability in the consolidated balance sheet	1,402	692

19p120A(c) The movement in the defined benefit obligation over the year is as follows:

	2011	2010
Beginning of year	1,003	708
Current service cost	153	107
Interest cost	49	25
Contributions by plan participants ¹	–	–
Actuarial losses/(gains)	(2)	204
Exchange differences	25	(41)
Benefits paid ¹	–	–
Liabilities acquired in a business combination (Note 37)	802	–
Curtailments ¹	–	–
Settlements ¹	–	–
End of year	2,030	1,003

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

	2011	2010
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 ¹	–	–
Benefits paid ¹	–	–
Business combinations (Note 37)	77	–
End of year	620	302

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

	2011	2010
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 (2010: €71) and €48 (2010: €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 (2010: €24).

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

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(c) Post-employment benefits (pension and medical)

19p120A(j) Plan assets are comprised as follows:

19p120A(p)	2011		2010	
Equity	3,256	49%	1,224	40%
Debt	1,524	23%	571	18%
Property	1,047	16%	943	30%
Other	784	12%	361	12%
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 (2010: €126) and a building occupied by the Group with a fair value of €612 (2010: €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 end of the reporting period. 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 2010 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 2011. 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 end of the reporting period would be €15,500.

19p120A(p)	2011	2010	2009	2008	2007
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	6	5
Experience adjustments on plan assets	(17)	(6)	(197)	5	3

23. Provisions for other liabilities and charges

1p78(d)	Restructuring	Regulatory levies	Total
37p84(a) At beginning of year 2011	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 2011	1,951	591	2,542
		2011	2010
Analysis of total provisions:			
1p69 – Current		2,222	2,300
1p69 – Non-current		329	274

37p85(a-c) (a) Restructuring

36p130 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

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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 2011. The provision of €1,951 at 31 December 2011 is expected to be fully utilised during the first half of 2012. 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)-(c) 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 claimed in 2012 in respect of 2011.

24. Net insurance premium revenue

IFRS4p37(b)	2011	2010
Long-term insurance contracts with fixed and guaranteed terms	50,648	77,723
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	(6,630)	(5,804)
– Change in unearned premium provision	370	(300)
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 2011 at a cost of €500 (2010: €580). There were no events in either 2011 or 2010 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 2011 and 2010 was purchased with an inception date of 1 January; there is therefore no unearned reinsurance asset at year-end.

25. Fee income

	2011	2010
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 (Note 18)	1,314	1,255
Surrender charges:		
IFRS4p37(b) – Insurance contracts	2,325	1,468
IFRS4p37(b) – Investment contracts (unit-linked) without DPF	1,157	478
– Investment contracts with DPF	580	314
Death benefits charges on long term insurance contracts without fixed terms (unit-linked) and long-term insurance contracts with DPF (Note 26)	11,231	11,710
Total	23,959	21,427

Fee income includes €503 (2010: €451) and €540 (2010: €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 (2010: €10,501) and from long-term insurance contracts with DPF for €1,001 (2010: €1,209).

26. Investment income

IFRS7p20(b)	2011	2010
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 and loans and receivables interest income	3,263	3,019
Cash and cash equivalents interest income	445	508
Total fee income	58,189	56,835

- IFRS7p20(d) Included within interest income is €4,395 (2010: €4,051) in respect of interest income accrued on impaired financial assets, and €1,014 (2010: €987) in respect of the unwinding of the impairment provision discount.

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27. Net realised gains on financial assets

	2011	2010
IFRS7p20(a)(e) Realised gains on financial assets – available for sale:		
– Equity securities	1,447	10,922
– 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)
Total	2,174	21,876

28. Net fair value gains on assets at fair value through profit or loss

	2011	2010
IFRS7p20 (a)(i) Net fair value gains on financial assets at fair value through profit or loss and derivatives (Notes 11 and 13)	9,758	42,193
40p76(d) Fair value gains on investment property (Note 7)	–	150
Total	9,758	42,343

Fair value gains also arise from interest, dividends and realised gains on financial assets at fair value through profit or loss for €17,976 (2010: €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 (2010: loss of €112) and the ineffectiveness loss on the cash flow hedges of €85 (2010: 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

	2011	2010
Long-term insurance contracts with fixed and guaranteed terms:		
– Death, maturity and surrender benefits	28,067	18,880
– Increase in liabilities (Note 17)	30,830	33,024
Long-term insurance contracts with DPF (universal life):		
– Death benefits (in excess of account balances)	1,247	951
– Interest credited (Note 17)	1,223	983
Long-term insurance contracts without fixed terms (unit-linked):		
– Death benefits (in excess of account balances)	9,753	10,099
– Change in unit prices (Note 17)	8,579	20,655
Short-term insurance contracts – life	1,350	1,180
Total cost of policyholder benefits	81,049	85,772

IFRS4p37(b) There are no benefits arising from these policies that are recoverable from the Group's reinsurers at the end of 2011 (2010: nil).

(b) Claims and loss adjustment expenses

	2011			2010		
	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

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30. Investment contract benefits

IFRS7p20(a)(i) Benefits from unit-linked investment contracts for €8,326 (2010: €10,071) are accrued to the account of the contract holder at the fair value of the net gains arising from the underlying linked assets. All these contracts are designated as at fair value through profit or loss and were designated in this category upon initial recognition.

IFRS7p20(b) On guaranteed investment bonds, benefits of €16,308 (2010: €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 (2010: €3,676).

31. Other expenses by destination

IFRS7p29(c) 1p88 (a) Expenses for the acquisition of insurance and investment contracts

	2011	2010
Amortisation of intangible assets (Note 8)	10,410	9,384
Costs incurred for the acquisition of insurance contracts expensed in the year	8,794	7,218
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	18,907

1p88 (b) Marketing and administrative expenses

	2011	2010
Marketing and administrative expenses	18,611	15,518
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	16,320

32. Expenses by nature

	2011	2010
1p104 Depreciation, amortisation and impairment charges (Notes 6 and 8)	15,021	10,088
1p104 Employee benefit expense (Note 33)	24,160	25,144
1p104 Purchase of goods and services	3,738	1,365
1p104, 17p35 Operating lease rentals (Note 6)	854	632
38p126 Software costs	135	98
1p104 Other expenses	1,709	1,801
Total expenses	45,617	39,128

33. Employee benefit expense

	2011	2010
19p142 Wages and salaries, including restructuring costs €2,331 (2010: €340) (Note 23) and termination benefits €1,600(2010: 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), 131 Other post-employment benefits	150	107
Total	24,160	25,144
DV Number of employees	283	210

Notes to the consolidated financial statements

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34. Finance costs

	2011	2010
IFRS7p20(b)		
Interest expense:		
– Bank borrowings	4,277	4,181
– Convertible bond (Note 40)	493	–
– Dividend on redeemable preference shares (Note 41)	455	455
21p52(a)		
Net foreign exchange transaction gains (Note 36)	(2,594)	(1,995)
IFRS7p23(d)		
Fair value gains on derivatives associated with borrowings:		
– Interest-rate swaps: cash flow hedges, transfer from equity	102	88
Other	24	31
Total	2,757	2,760

35. Income tax expense

	2011	2010
12p80(a)		
Current taxes on income for the reporting period	807	19,842
12p80(b)		
Current taxes referring to previous periods	–	702
12p80(e)		
Amount of previously unused tax losses	–	–
12p80(h)		
Amount relating to changes in accounting policies and errors	–	–
12p80		
Total current tax	807	20,544
12p80		
Deferred tax (Note 21)	(15)	2,635
12p80(c)		
Origination and reversal of temporary differences	–	–
12p80(d)		
Impact of change in tax rate	–	–
12p80(f)		
Amount of previously unused tax losses	–	–
12p80(g)		
Write down or reversal of deferred tax assets	–	–
Total deferred tax	(15)	2,635
Income tax expense	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:		
	2011	2010
Profit before income 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	2937
– US state taxes	110	3,671
– Income not subject to tax	(124)	(5,520)
– Non-taxable amortisation	12	12
– Other expenses not allowable for tax purposes	14	55
– Tax losses for which no deferred income tax asset was recognised	33	–
Total	792	23,179

12p81(c)(ii) Commentary – Tax expense and accounting profit

IAS 12 permits two alternative methods of explaining the relationship between tax expense (income) and accounting profit:

- A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate (see above); or
- A numerical reconciliation between the average effective tax rate (tax expense divided by profit before tax) and the applicable tax rate.

12p81(d) The weighted average applicable tax rate was 30% (2010: 30%).

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12p81(ab) The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2011			2010		
	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
Fair value gains;						
– Land and buildings	–	–	–	33	(7)	26
– Available-for-sale financial assets	9,326	(2,738)	6,588	10,824	(3,939)	6,885
Liabilities for insurance contracts and investment contracts with PDF	(1,556)	467	(1,089)	(4,670)	1,051	(3,619)
Cash flow hedges	261	(78)	183	271	(81)	190
Net investment hedge	(45)	–	(45)	40	–	40
Currency translation differences	1,510	–	1,510	(170)	–	(170)
Other comprehensive income	9,496	(2,349)	7,147	6,328	(2,976)	3,352
Current tax ¹	–	–	–	–	–	–
Deferred tax	–	2,349	–	–	2,976	–

12p81(a) The income tax (charged)/credited directly to equity during the year is as follows:

	2011	2010
Current tax ² :		
– Share option scheme	–	–
Deferred tax:		
– Share option scheme	–	–
– Convertible bond – equity component ³ (Note 16)	(372)	–
	(372)	–

In addition, deferred income tax of €49 (2010: €43) was transferred from other reserves (Note 16) to retained earnings (Note 15). This represents deferred tax on the difference between the actual depreciation on buildings and the equivalent depreciation based on the historical cost of buildings.

36. Net foreign exchange gains

21p52(a) The exchange differences credited/(charged) to the income statement are included as follows:

	2011	2010
Net insurance benefits	(208)	100
Net claims and loss adjustment expenses	46	(78)
Asset management expenses	156	(82)
Acquisition expenses	235	(100)
Marketing and administrative expenses	259	(200)
Finance costs – net (Note 34)	2,594	1,995
Total	3,082	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).

	2011	2010
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

¹ There are no current tax items relating to other comprehensive income in these financial statements, but the line item is shown for illustrative purposes.

² IAS 12 requires disclosure of current tax charged/credited directly to equity, in addition to deferred tax. There are no current tax items shown directly in equity in these financial statements, but the line item is shown for illustrative purposes.

³ It is assumed that the tax base on the convertible bond is not split between the debt and equity elements. If the tax base were split, this would impact the deferred tax position

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(All amounts in euro thousands unless otherwise stated)

(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.

	2011	2010
Profit attributable to equity holders of the Company	1,257	31,956
Interest expense on convertible debt (net of tax)	45	–
33p70(a) Profit used to determine diluted earnings per share	1,302	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)	0.05	1.46

38. Dividends per share

1p107, 1p137(a), 10p12 The dividends paid in 2011 and 2010 were €16,192 (80 cents per share) and €14,560 (69 cents per share) respectively. A dividend in respect of 2011 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 2012. These financial statements do not reflect this dividend payable.

Commentary – Presentation of dividends

1p107 The amount of dividends recognised as distributions to owners during the period and the related amount per share are now disclosed either in the statement of changes in equity or in the notes; they can no longer be presented in the income statement.

39. Cash generated from operations

	2011	2010
7p18(b), 20 IFRS4p37(b) 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	(20,474)	(12,033)
Cash paid to employees, intermediaries and other suppliers for services and goods	(17,968)	(8,882)
Dividends received	1,139	1,104
Interest received	57,050	56,842
Net realised gains	2,174	21,876
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.

(All amounts in euro thousands unless otherwise stated)

In the statement of cash flows, proceeds from sale of property, plant and equipment and investment property comprise:

	2011	2010
Property, plant and equipment		
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, 32p15 The Company issued 8,000 convertible bonds (5.0%) at a nominal value of €8,000 on 2 January 2011.

1p79(b)

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, 1p79(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 consolidated balance sheet is calculated as follows:

Face value of convertible bond issued on 2 January 2011	8,000
Equity component	(1,242)
Liability component on initial recognition at 2 January 2011	6,758
Interest expense (Note 34)	493
Interest paid	(400)
Liability component at 31 December 2011 (Note 20)	6,851

IFRS7p25 The fair value of the liability component of the convertible bond at 31 December 2011 amounted to €6,839. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

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

The Company issued 7 million cumulative redeemable preference shares with a par value of 100 cents per share on 4 January 2010. The shares are mandatorily redeemable at their par value on 4 January 2016 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 (2010: €9,629) to third parties.

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.

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.

Notes to the consolidated financial statements

(All amounts in euro thousands unless otherwise stated)

43. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

		2011	2010
16p74(c)	Property, plant and equipment	1,123	850
38p122(e)	Intangible assets	98	121
	Total	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.

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.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
No later than 1 year	832	821
Later than 1 year and no later than 5 years	1,673	1,519
Later than 5 years	23	231
Total	2,528	2,571

44. Business combinations

On 1 March 2011, 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 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, Group revenue would have been €220,345, and profit before allocations would have been €33,126.

The following table summarise the consideration paid for Euravia and the fair value of assets acquired, liabilities assumed at the acquisition date.

IFRS3B64(f)(i), Cash paid	4,250
B64(f)(iv)	
IFRS3B64(f)(iii) Value of shares issued (Note 15)	10,000
IFRS3B64(f) Total consideration transferred	14,250

(All amounts in euro thousands unless otherwise stated)

IFRS3B64(i)	Recognised amounts of identifiable assets acquired and liabilities assumed	
	Cash and cash equivalent	300
	Property, plant and equipment (Note 6)	148
	Rights to receive future income (included in intangible assets) (Note 8)	10,759
	Investment in associates (Note 9)	389
	Held-to-maturity financial assets (Note 11)	2,272
	Available-for-sale financial assets (Note 11)	20,450
	Financial assets at fair value through profit or loss (Note 11)	28,435
	Net deferred tax asset (Note 21)	137
	Loans and receivables including insurance receivables	90
	Derivative financial instruments	551
	Financial liabilities arising from investment contracts at amortised cost	(22,734)
	Financial liabilities arising from investment contracts at fair value through profit or loss	(22,105)
	Retirement benefit obligations:	
	– Pensions (Note 22)	(1,914)
	– Other post-retirement obligations (Note 22)	(725)
	Current tax liabilities	(138)
	Provisions for liabilities and charges (Note 23)	(774)
	Total identifiable net assets	15,141
	Non-controlling interests (30%)	(4,542)
	Goodwill (Note 8)	3,651
	Total	14,250
7p40(c)	Purchase consideration settled in cash	4,250
	Cash and cash equivalents in subsidiary acquired	(300)
	Cash outflow on acquisition	3,950

IFRS3B64(m) Direct cost related to the acquisition is €150.

IFRS3B64(e) 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.

IFRS3B64(f)(iv) The fair value of the 3,550 thousand ordinary shares issued as part of the consideration paid for Euravia (€10,050) was based on the published share price on 1 March 2011. Issuance costs totalling C50 have been netted against the deemed proceeds.

IFRS3B64(o) The fair value of the non-controlling interest in Euravia, an unlisted company, was estimated by using the purchase price paid for acquisition of 70% stake in Euravia. This purchase price was adjusted for the lack of control and lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in Euravia.

There were no acquisitions in the year ended 31 December 2010.

See Note 46 for disclosures regarding the business combination that took place after the consolidated balance sheet but before the approval of these financial statements.

45. Related-party transactions

1p138(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 Asfalia Insurance Group 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		
		2011	2010
	Sales of insurance contracts:		
	– Associates	123	44
	Sales of services:		
	– Asfalia Insurance Group (legal and administration services)	24	29
	– Services of key management personnel	30	34
	Total	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.

Notes to the consolidated financial statements

(All amounts in euro thousands unless otherwise stated)

24p17(a) (b) Purchases of products and services

	2011	2010
Purchases of services:		
– Associates	24	28
– Services of key management personnel	23	30
– Mother Limited (management services)	95	68
Total	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

	2011	2010
24p16(a) Salaries and other short-term employee benefits	1,330	1,270
24p16(d) Termination benefits	800	–
24p16(b) Post-employment benefits	123	115
24p16(c) Other long-term benefits	113	18
24p16(e) Share-based payments	220	216
Total	2,586	1,619

24p17(b), 1p77 (d) Year-end balances arising from sales/purchases of products/services

	2011	2010
– Parent Limited	203	154
– Associates	8	25
Total	211	179
Payables to related parties (Note 19):		
– Associates	1,212	1,197

1p77, 24p17 (e) Loans to related parties

	2011	2010
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
At end of year	(8)	(6)
Total	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)
Total	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)
Total	145	107

(All amounts in euro thousands unless otherwise stated)

24p17(b)(i) The loans advanced to directors have the following terms and conditions:

Name of director	Amount of loan	Term	Interest rate
2010			
Mr Axisa	20	Repayable monthly over 4 years	6.5%
Mr Perit	42	Repayable monthly over 4 year	6.5%
2011			
Mr Axisa	40	Repayable monthly over 4 years	6.3%
Mr Perit	62	Repayable monthly over 4 years	6.3%

IFRS7p15 Certain loans advanced to directors during the year amounting to €50 (2010: €30) are collateralised by shares in listed companies. The fair value of these shares was €65 at the end of the reporting period (2010: €39).

The loans to associates are due on 1 January 2011 and carry interest at 7.1% (2010: 7.0%).

24p17(c) No provision has been required in 2011 and 2010 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 (2010: €17). The loan is repayable in 2012.

46. Events occurring after the reporting period

(a) Business combinations

10p21,
IFRS3B64(a-d) 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 2012.

Details of net assets acquired and goodwill are as follows:

IFRS3B64(f), 7p40	Purchase consideration: Cash paid	6,100
	Fair value of assets acquired (see below)	(5,145)
	Goodwill	955

IFRS3B64(m) Direct cost related to the acquisition is €150.

IFRS3B64(e) The above goodwill is attributable to Risky & Co's strong position and profitability in trading in a niche life insurance market.

IFRS3B64(i) The assets and liabilities arising from the acquisition are as follows:

	Fair value
Cash and cash equivalents	395
Property, plant and equipment	105
Customer list	630
Contractual customer relationships	957
Held-to-maturity financial assets	2,800
Available-for-sale financial assets	2,349
Net deferred tax asset	89
Derivative financial instruments	245
Financial liabilities	(1,589)
Retirement benefit obligations	(836)
Net assets acquired	5,145

(b) Equity transactions

The Company (Note 15):

10p21 ■ Re-issued 500,000 treasury shares for a total consideration of €1,500 on 15 January 2012; and

33p71(c)
10p21, 22(f) ■ Granted to directors and employees, on 1 January 2012, 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).

*(All amounts in euro thousands unless otherwise stated)***47. Principal subsidiaries and associates**

27p43(b)

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent	Proportion of ordinary shares held by the group	Proportion of preference shares held by the group
Asfalia Insurance Group Limited	Euravia	Head office financing company	100%	0%	0%
Asfalia UK Limited	UK	Insurance company	0%	100%	100%
Your Insurance Group	Euravia	Insurance company	0%	70%	0%
Asfalia US Corp	US	Insurance company	0%	80%	0%
Alfa Limited	Euravia	Insurance company	0%	25%	0%
Beta Limited	US	Insurance company	0%	30%	0%
Delta Limited	US	Insurance company	0%	40%	0%

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the group.

Refer to Note 9 for details of group holdings in associates.

Commentary – Disclosure of subsidiaries and associates

27p43(b)

The above disclosure is required when a parent, venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements.

(All amounts in euro thousands unless otherwise stated)

Independent auditor's report to the shareholders of Asfalia Insurance Group

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Asfalia Insurance Group, which comprise the consolidated balance sheet as at 31 December 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs)¹, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view² 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 consolidated 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 view³ of the financial position of Asfalia Insurance Group and its subsidiaries as at 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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.]

Auditor's signature
Date of the auditor's report
Auditor's 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 This can be changed to say, 'Management is responsible for the preparation and fair presentation of these financial statements in accordance...' where the term 'true and fair view' is not used.

² This can be changed to say '...relevant to the entity's preparation and fair presentation of the consolidated financial statements in order...' where the term 'true and fair view' is not used.

³ The term 'give a true and fair view' can be changed to 'present fairly, in all material aspects'.

Appendix I – Accounting policies and disclosures not relevant to Asfalia

(All amounts in euro thousands unless otherwise stated)

Appendix I – Accounting policies and disclosures not relevant to Asfalia

Consolidated statement of cash flows – 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 follows¹:

	Note	2011	2010
1p8, 46, 102	Cash generated from/(used in) operations	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 (PPE)	6	(951)
7p16(b)	Proceeds from sale of PPE	39	241
7p16(e)	Loans granted to related parties	45	(77)
7p16(f)	Loan repayments received from related parties	45	39
	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
7p17(c)	Proceeds from issuance of redeemable preference shares	41	–
7p17(b)	Purchase of treasury shares	15	(2,564)
7p17(c)	Proceeds from borrowings		13,762
7p17(f)	Repayments of borrowings		(8,520)
7p17(c)	Proceeds from issuance of convertible bond	40	8,000
7p31	Dividends paid to Company's shareholders		(16,192)
7p31	Dividends paid to Non-controlling interests		(1,920)
	Net cash used in financing activities	(6,484)	(16,907)

Note – Cash generated from operations

	2011	2010
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)	10,530	9,584
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 12)	17	(6)
(Profit)/loss on sale of property (see below)	23	(7)
Net fair value gains on financial assets and investment property (Note 28)	(9,758)	(42,343)
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)		
Net increase in insurance liabilities	74,242	60,600
DV, FRS4 p37(b) DV, IFRS4 p37(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	4,749	20,825
Net (increase)/decrease in equity securities	(25,240)	(42,739)
Net (increase)/decrease in debt securities	(39,843)	(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

¹ See Note – Cash generated from operations¹.

(All amounts in euro thousands unless otherwise stated)

In the statement of cash flows, proceeds from sale of property, plant and equipment and investment property comprise:

	2011	2010
Property, plant and equipment		
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

	2011	2010
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
– 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 (2010: €451) and €540 (2010: €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 (2010: €10,501) and from long-term insurance contracts with DPF for €1,001 (2010: €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.

Appendix II – Other critical accounting estimates and judgements in applying accounting policies

(All amounts in euro thousands unless otherwise stated)

Appendix II – Other critical accounting estimates and judgements in applying accounting policies

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) 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.

(All amounts in euro thousands unless otherwise stated)

Appendix III – New standards and amendments

This appendix details (a) new standards and amendments effective for the first time for periods on or after 1 January 2011; (b) improvements to IFRSs; and (c) forthcoming requirements that is, new standards and amendments issued and effective after 1 January 2011.

New standards and amendments

Below is a list of standards/interpretations that have been issued and are effective for periods starting on or after 1 January 2011.

Topic	Key requirements	Effective date
Amendment to IAS 32, 'Financial instruments: Presentation – Classification of rights issues'	Amended to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.	1 February 2010
IFRIC 19, 'Extinguishing financial liabilities with equity instruments'	Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.	1 July 2010
Amendment to IFRS 1, 'First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters'	Provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7. Also clarifies the transition provisions of the amendments to IFRS 7.	1 July 2010
IAS 24, 'Related party disclosures' (revised 2009)	Amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities.	1 January 2011
Amendment to IFRIC 14, 'IAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction'	Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense.	1 January 2011

Improvements to IFRSs 2010

The amendments are applicable for annual periods beginning after 1 January 2011 unless otherwise stated.

Topic	Key requirements	Effective date
IFRS 1, 'First-time adoption of IFRS'	<p><i>(a) Accounting policy changes in the year of adoption</i></p> <p>Clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34, 'Interim financial reporting', it should explain those changes and update the reconciliations between previous GAAP and IFRS.</p> <p><i>(b) Revaluation basis as deemed cost</i></p> <p>Allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRSs but during the period covered by its first IFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity.</p>	<p>Applied prospectively.</p> <p>Entities that adopted IFRSs in previous periods are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective, provided the measurement date is within the period covered by the first IFRS financial statements.</p>

Appendix III – New standards and amendments

(All amounts in euro thousands unless otherwise stated)

Topic	Key requirements	Effective date
	<p><i>(c) Use of deemed cost for operations subject to rate regulation</i></p> <p>Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.</p>	Applied prospectively.
IFRS 3, 'Business combinations'	<p><i>(a) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS</i></p> <p>Clarifies that the amendments to IFRS 7, Financial instruments: Disclosures', IAS 32, Financial instruments: Presentation', and IAS 39, Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).</p> <p><i>(b) Measurement of non-controlling interests</i></p> <p>The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.</p> <p><i>(c) Un-replaced and voluntarily replaced share-based payment awards</i></p> <p>The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards</p>	<p>Applicable to annual periods beginning on or after 1 July 2010.</p> <p>Applied retrospectively. Applicable to annual periods beginning on or after 1 July 2010.</p> <p>Applied prospectively from the date the entity applies IFRS 3. Applicable to annual periods beginning on or after 1 July 2010. Applied prospectively.</p>
IFRS 7, 'Financial instruments'	Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.	1 January 2011. Applied retrospectively.
IAS 1, 'Presentation of financial statements'	Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.	1 January 2011. Applied retrospectively.
IAS 27, 'Consolidated and separate financial statements'	Clarifies that the consequential amendments from IAS 27 made to IAS 21, The effect of changes in foreign exchange rates', IAS 28, Investments in associates', and IAS 31, Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier.	Applicable to annual periods beginning on or after 1 July 2010. Applied retrospectively.
IAS 34, 'Interim financial reporting'	<p>Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:</p> <ul style="list-style-type: none"> ■ The circumstances likely to affect fair values of financial instruments and their classification; ■ Transfers of financial instruments between different levels of the fair value hierarchy; ■ Changes in classification of financial assets; and ■ Changes in contingent liabilities and assets 	1 January 2011. Applied retrospectively.
IFRIC 13, 'Customer loyalty programmes'	The meaning of fair value' is clarified in the context of measuring award credits under customer loyalty programmes.	1 January 2011

(All amounts in euro thousands unless otherwise stated)

Forthcoming requirements

Below is a list of standards/interpretations that have been issued and are effective for periods after 1 January 2011.

Topic	Key requirements	Effective date
Amendments to IFRS 7, Financial instruments: Disclosures' on derecognition	This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Earlier application subject to EU endorsement is permitted.	1 July 2011
Amendment to IFRS 1, First time adoption', on fixed dates and hyperinflation	These amendments include two changes to IFRS 1, First-time adoption of LFRS'. The first replaces references to a fixed date of 1 January 2004 with the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.	1 July 2011
Amendment to IAS 12, Income taxes', on deferred tax	IAS 12, Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	1 January 2012
Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income' (OCL) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCL.	1 July 2012
Amendment to IAS 19, Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.	1 January 2013
IFRS 9, 'Financial instruments'	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for) financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	1 January 2013
IFRS 10, 'Consolidated financial statements'	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2013
IFRS 11, 'Joint arrangements'	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	1 January 2013

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(All amounts in euro thousands unless otherwise stated)

Topic	Key requirements	Effective date
IFRS 12, 'Disclosures of interests in other entities'	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2013
IFRS 13, Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	1 January 2013
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2013
IAS 28 (revised 2011), 'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2013

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