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Delto Insurance Group plc

Illustrative financial statements and selected disclosures for the year ended 31 December 2008

Recent years have seen considerable changes to the reporting regime for insurers. The pattern has continued in light of the current economic environment. We can be sure of more changes to come.

Foreword

The purpose of this document is to illustrate specific example disclosures typically expected to be found within a set of consolidated financial statements for a composite insurance group reporting under International Financial Reporting Standards (IFRSs) without regard to local laws or regulation. The transitional provisions affecting companies using IFRSs for the first time are not illustrated. These can be found in Implementation Guidance Example 11 in IFRS 1.

The disclosures are not "model" disclosures but rather an indication of the type of disclosure required. The aim is not to cover every potential disclosure, but to illustrate the more commonly applicable ones and not purely standards derived formats but those typically adopted by UK and European insurance groups. But users must proceed with caution.

This document is not, and does not purport to be, a complete set of financial statements – rather it aims to illustrate disclosures specific to a composite insurance group, in particular those relating to insurance contracts and financial instruments. Other general disclosures are illustrated in our publication iGAAP 2009 "Financial statements for UK listed groups" and iGAAP 2008 "Financial Instruments: IAS 32, IAS 39 and IFRS 7 explained".

One criticism of current reporting is that companies are providing generic descriptions rather than incisive bespoke commentary in areas such as reporting risks and uncertainties, accounting policies and discussing the future outlook for the business. This may be caused by companies turning to publications and simply using the text or format illustrated therein. The unease is not with the accuracy or indeed length of the disclosure but that it represents a vanilla overview. Given the dramatic events affecting financial markets it is now less likely than ever that standard boilerplate disclosures without due consideration will be the right answer. Preparers should adapt disclosures to their own specific circumstances.

Consequently, the following illustrative IFRS disclosures are included by way of example only and do not necessarily represent the only disclosures, nor an exhaustive set, which may be appropriate for particular insurance contracts and financial instruments and do not cover all that may be used in practice. Furthermore, disclosures derived from local laws or regulation, the company (standalone) financial statements and consolidated disclosures of a general nature e.g. share capital, pensions, tax, et al. are not shown. However, for reference, typical accounting policies are shown.

Owing to the pervasive nature of the reporting standards for insurance contracts (IFRS 4), financial instruments (IAS 32/39) and disclosures thereof (IFRS 7), a number of disclosures will be affected throughout a set of financial statements. The amount of disclosure will depend on the underlying business, the extent and complexity of financial instruments and insurance contracts, and how they are managed. A copy of our disclosure checklist for IFRS 4 and IFRS 7 is included at the end of this document. Reference to the underlying regulation and reporting standards will be required in most situations.

The reader is directed to the relevant paragraph/section within the reporting standards by way of reference.

The wording used is derived by reference to published IFRS consolidated financial statements of European insurance groups and financial statements of UK insurance companies and is purely illustrative. It will need to be modified to reflect the particular circumstances of a group.

The disclosures are based on IFRSs in force as at 31 October 2008 which are effective for years beginning on or after 1 January 2008 (including the Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Assets* issued on 13 October 2008). Although not in effect, illustrative disclosures from the exposure draft, *Investments in debt instruments, proposed amendment to IFRS 7* issued on 23 December 2008 are also included. Given current market conditions, there may be further changes to IFRSs which require consideration for December 2008 year ends. In addition, the interpretation of IFRSs will continue to evolve over time.

One final area that requires attention is the disclosures which might be associated with the credit crunch or the current economic environment. On 15 October 2008, the IASB issued an exposure draft on improving disclosures about financial instruments. On 31 October 2008, the IASB published some educational guidance on the practices that experts use for fair value measurement when markets become inactive and practices for fair value disclosures in such situations. We have drawn attention to the type of disclosure that could be useful but further specific consideration by insurers will be needed for December 2008 year ends onwards.

Alex Arterton

Kevin Elliott

January 2009

Abbreviations

Examples of abbreviations are:

App	Appendix
BC	Basis for Conclusions
ED	Exposure Draft
IAS	International Accounting Standard
IASB EG	IASB educational guidance on the application of fair value measurement when markets become inactive published 31 October 2008
IFRS	International Financial Reporting Standard
IFRS 7 36(a)	Paragraph 36(a) of International Financial Reporting Standard 7
IAS 18 35(c)	Paragraph 35(c) of International Accounting Standard 18
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee of the IASB, and title of Interpretations issued by that Committee
NS/ns	not shown

References to IAS 1 and IFRS 3 relate to the current version of these standards, not the recently revised versions which have not yet been adopted by the EU.

Acknowledgements
This document has been produced by the Deloitte Insurance Centre of Excellence.

Contents

Consolidated income statement
For the year ended 31 December 2008

Reference	Note	
		Presentation of financial statements **Consolidated income statement**
IAS 1 81		*IAS 1 lists minimum line items that an entity should present on the face of its income statement:* *(a) revenue;* *(b) finance costs;* *(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;* *(d) tax expense;* *(e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the remeasurement to fair value less costs to sell or on the disposal of the assets or disposed groups constituting the discontinued operations in accordance with IFRS 5; and* *(f) profit or loss.*
IAS 1 82		*The following items should also be disclosed on the face of the income statement as allocations of profit or loss for the period:* *(a) profit or loss attributable to minority interests; and* *(b) profit or loss attributable to equity holders of the parent.*
IAS 1.83 *IFRS 4 IG24*		*IAS 1 also requires the presentation of additional line items when this is necessary to present fairly the entity's financial performance. IFRS 4 suggests an insurer might conclude that, to satisfy these requirements, it needs to disclose the following amounts on the face of its income statement:* *(a) revenue from insurance contracts issued (without any reduction for reinsurance held);* *(b) income from contracts with reinsurers;* *(c) expense for policyholder claims and benefits (without any reduction for reinsurance held); and* *(d) expenses arising from reinsurance held.*
IFRS 4 IG26		*IFRS 4 also suggests an insurer might conclude that the following additional items are disclosed either on the face of its income statement or in the notes:* *(a) acquisition costs (distinguishing those recognised as an expense immediately from the amortisation of deferred acquisition costs);* *(b) the effect of changes in estimates and assumptions;* *(c) losses recognised as a result of applying liability adequacy tests;* *(d) for insurance liabilities measured on a discounted basis the accretion of interest to reflect the passage of time and the effect of changes in discount rates; and* *(e) distributions or allocations to holders of contracts that contain discretionary participation features.* *IAS 1 does not define operating profit and there is some flexibility in the level at which the item is shown, or whether it is omitted entirely. If shown, it must be presented consistently from year to year and the Group should have a stated policy making it clear what this line item includes and excludes.*

Consolidated income statement
For the year ended 31 December 2008

Reference		Notes	Year ended 2008 £	Year ended 2007 £
IAS 1 83	**Income**	6		
IFRS 4 IG24	Gross written premiums			
IFRS 4 IG24	Reinsurers' share of gross written premiums			
IAS 1 83	Net written premiums			
	Net change in provision for unearned premiums			
IAS 1 83	Net insurance premium income			
IAS 1 83	Fee and commission income			
IAS 1 83	Net investment return			
IAS 1 81(c)	Share of profit/(loss) of associates	*ns*		
IAS 1 83	Other income			
IAS 1 81(a)	**Total income**	6		
IAS 1 83	**Expenses**			
IFRS 4 IG24	Gross claims paid and benefits	7		
IFRS 4 IG24	Reinsurers' share of gross claims paid and benefits	7		
IFRS 4 IG24	Gross change in insurance liabilities	7		
IFRS 4 IG24	Reinsurers' share of gross change in insurance liabilities	7		
IAS 1 83	Gross change in investment contract liabilities	7		
IAS 1 83	Reinsurers' share of change in investment contract liabilities	7		
IAS 1 86	Change in net asset value attributable to unit-holders	18		
IAS 1 86	Change in unallocated divisible surplus	17		
IAS 1 88	Fees, commissions and other acquisition expenses	8		
IAS 1 88	Other operating and administration expenses			
IAS 1 81(b)	Finance costs	*ns*		
IAS 1 83	**Total expenses**			
IAS 1 83	**Profit before tax**			
	Tax attributable to policyholders' returns			
	Profit before tax attributable to shareholders' profits			
IAS 1 81(d)	Total tax expense	*ns*		
	Less: tax attributable to policyholders' returns			
	Tax attributable to shareholders' profits			
IAS 1 82(f)	**Profit for the year**	9		
IAS 1 82	Attributable to:			
	Equity shareholders of the parent			
	Minority interests			
IAS 33 66	**Earnings per share**			
	Basic (pence per share)	*ns*		
	Diluted (pence per share)	*ns*		

Consolidated statement of recognised income and expense For the year ended 31 December 2008

Reference	*Note*	**Presentation of financial statements** **Consolidated statement of recognised income and expense**
IAS 1 8		*IFRSs require that the financial statements should include a statement showing either all changes in equity, or changes in equity other than those arising from capital transactions with owners and distributions to owners (i.e. transactions with equity holders acting in their capacity as equity holders). These financial statements illustrate the second approach which is similar to the statement of total recognised gains and losses under UK GAAP (except that IFRSs require, in some cases, recycling of gains and losses which were taken initially to the statement of changes in equity).*
IAS 1 96		*The face of the statement of recognised income and expense should show the following items:* *(a) profit or loss for the period;* *(b) each item of income and expense for the period that, as required by other Standards and Interpretations, is recognised directly in equity, and the total of these items;* *(c) total income and expense for the period showing separately the total amounts attributable to equity holders of the parent and to minority interest; and* *(d) for each component of equity, the effects of changes in accounting policies and corrections or errors recognised in accordance with IAS 8.* *This statement of recognised income and expense illustrates these requirements based on the example in the Guidance on Implementing IAS 1. The order of the items has been changed to group together items arising from "recycling" below the sub-total of net income recognised directly in equity.*
IAS 1 97		*If this method of presentation is adopted, a reconciliation of the opening and closing balances of share capital, reserves and accumulated profits is required to be provided in the explanatory notes (not shown in this document).*

Consolidated statement of recognised income and expense For the year ended 31 December 2008

Reference		Notes	Year ended 2008 £	Year ended 2007 £
IAS 1 96(b)	Gains/(losses) on revaluation of properties	22		
IFRS 7 20(a)	Gains/(losses) on revaluation of available-for-sale investments	22		
IAS 1 96(b)	Gains/(losses) on a hedge of a net investment taken to equity			
IFRS 7 23(d)	Gains/(losses) on cash flow hedges			
IAS 1 96(b)	Exchange differences on translation of foreign operations			
IAS 19 93B	Actuarial gains/(losses) on defined benefit pension schemes			
IAS 12 81(a)	Tax on items taken directly to equity			
	Net income recognised directly in equity			
	Transfers			
IFRS 7 20(a)	Transferred to profit or loss on sale of available-for-sale investments	22		
IFRS 7 23(d)	Transferred to profit or loss on cash flow hedges			
IFRS 7 23(e)	Transferred to the initial carrying amount of non financial hedged items on cash flow hedges			
IAS 12 81(a)	Tax on items transferred from equity			
IAS 1 96(a)	**Profit for the year**			
IAS 1 96(c)	**Total recognised income and expense for the year**			
IAS 1 96(c)	Attributable to:			
	Equity shareholders of the parent			
	Minority interests			
IAS 1 96(d)	**Effects of changes in accounting policy**	*ns*		
	Attributable to equity shareholders of the parent			
	Attributable to minority interests			

Consolidated balance sheet
As at 31 December 2008

Reference	*Note*	**Presentation of financial statements** **Consolidated balance sheet**
IAS 1 68		*IAS 1 lists minimum line items that an entity should present on the face of the balance sheet. The standard does not prescribe the order in which items are presented. Additional line items, headings and subtotals are required to be presented on the face of the balance sheet when relevant to an understanding of the entity's financial position.*
IAS 1 51		*IAS 1 requires presentation of both current and non-current assets and liabilities as separate classifications on the face of the balance sheet. An exception to this requirement is when a presentation based on liquidity provides information that is reliable and more relevant. When this exception applies, IAS 1 requires that all assets and liabilities are presented broadly in order of liquidity. In practice most insurers present their balance sheet in order of liquidity.*
IFRS 4 IG20		*IFRS 4 suggests an insurer might conclude that, to satisfy these requirements, it needs to disclose the following amounts on the face of the balance sheet:* *(a) liabilities under insurance contracts and reinsurance contracts issued;* *(b) assets under insurance contracts and reinsurance contracts issued; and* *(c) assets under reinsurance ceded. These assets are not offset against the related insurance liabilities.*
IFRS 4 IG22		*IFRS 4 suggests appropriate sub-classifications of insurance liabilities will depend on the circumstances, but might include items such as:* *(a) unearned premiums;* *(b) claims reported by policyholders;* *(c) claims incurred but not reported;* *(d) provisions arising from liability adequacy test (e.g. unexpired risk reserve);* *(e) provisions for future non-participating benefits;* *(f) liabilities or components of equity relating to discretionary participation features;* *(g) receivables and payables related to insurance contracts (amounts currently due to and from agents, brokers and policyholders related to insurance contracts); and* *(h) non-insurance assets acquired by exercising rights to recoveries.*
IFRS 4 IG23		*Similar sub-classifications may also be appropriate for insurance assets, depending on their materiality and other relevant circumstances. For assets under insurance contracts and reinsurance contracts issued, an insurer might include:* *(a) deferred acquisition costs; and* *(b) intangible assets relating to insurance contracts acquired in business combinations or portfolio transfers.*

Consolidated balance sheet
As at 31 December 2008

Reference		Notes	2008 £	2007 £
	Assets			
IAS 1 68(c)	Goodwill	*ns*		
IAS 1 68(c)	Other intangible assets and insurance intangible assets	10		
IAS 28 38	Interests in associates	*ns*		
IAS 1 68(a)	Property, plant and equipment	*ns*		
IAS 1 68(b)	Investment property	*ns*		
IAS 1 68(d)	Financial assets	11		
IFRS 4 36	Reinsurance assets	12		
IAS 1 68(n)	Deferred tax assets	*ns*		
IAS 1 68(m)	Current tax assets	*ns*		
IFRS 4 36	Deferred acquisition costs	13		
IAS 1 68(h)	Insurance and other receivables	14		
IAS 1 69	Prepayments and accrued income	*ns*		
IAS 1 68(i)	Cash and cash equivalents	*ns*		
IFRS 5 38	Assets classified as held for sale	*ns*		
	Total assets			
	Equity			
IAS 1 75(e)	Share capital	*ns*		
IAS 1 75(e)	Share premium account	*ns*		
IAS 1 75(e)	Revaluation reserves	22		
IAS 1 75(e)	Other reserves	*ns*		
IAS 1 75(e)	Retained earnings	*ns*		
IAS 1 68(p)	**Attributable to equity shareholders of the parent**			
IAS 27 33	**Minority interest**	*ns*		
	Total equity			
	Liabilities			
IFRS 4 36	Insurance contract liabilities	15		
IAS 1 68(l)	Investment contract liabilities	16		
IFRS 4 IG22	Unallocated divisible surplus	17		
IAS 1 68(l)	Net asset value attributable to unit-holders	18		
IAS 1 68(l)	Borrowings	19		
IAS 1 68(k)	Retirement benefit obligations	*ns*		
IAS 1 68(k)	Provisions	20		
IAS 1 68(j)	Trade and other liabilities	21		
IAS 1 68(n)	Deferred tax liabilities	*ns*		
IAS 1 68(m)	Current tax liabilities	*ns*		
IFRS 5 38	Liabilities classified as held for sale	*ns*		
	Total liabilities			
	Total equity and liabilities			

The financial statements were approved by the board of directors and authorised for issue on *[date]*. They were signed on its behalf by *[name of signatory to be stated]*.

Consolidated cash flow statement
For the year ended 31 December 2008

Reference	*Note*	**Presentation of financial statements** **Consolidated cash flow statement**
IAS 7 1 *IAS 7 6*		*The basic requirement of IAS 7 is that a cash flow statement should be presented reporting inflows and outflows of cash and cash equivalents during the period, and each comparative period included in the financial statements. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*
IAS 7 10		*Cash flows should be classified by operating, investing and financing activities.*
IAS 7 18		*Cash flows from operating activities should be reported using either the direct or indirect method. This cash flow statement (including note 23) has been presented using the indirect method even though IAS 7 encourages (but does not require) the use of the direct method. An example of the disclosure under the direct method is shown in note 23.*
		The Appendix to IAS 7, which does not form part of the standard, shows the components of net cash from operating activities on the face of the cash flow statement. In accordance with practice adopted by many insurers these components have been included in a note. This presentation does not appear to be prohibited by IAS 7 although the standard is unclear as to the extent to which the requirements may be met in the notes rather than on the face of the cash flow statement. From a practical point of view, inclusion on the face of the statement would be likely to result in the statement extending to two pages.
IAS 7 21		*Major classes of gross cash receipts and gross cash payments arising from investing and financing activities should be presented separately, except to the extent that they are specifically permitted to be presented on a net basis.*
IAS 7 33		*Cash flows from interest and dividends received and paid are separately disclosed and should be classified in a consistent manner from period to period as either operating, investing or financing activities. For a financial institution interest paid and interest and dividends received are usually classified as operating cash flows.*
IAS 7 35		*Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.*
IFRS 4 IG19		*Paragraph 37(b) of IFRS 4 requires an insurer to disclose the assets, liabilities, income and expenses that arise from insurance contracts. If an insurer presents its cash flow statement using the direct method, paragraph 37(b) requires it also to disclose the cash flows that arise from insurance contracts.*

Consolidated cash flow statement
For the year ended 31 December 2008

Reference		Notes	Year ended 2008 £	Year ended 2007 £
IAS 7 10	**Net cash from operating activities**	23		
IAS 7 21	**Investing activities**			
IAS 7 39	Disposal of subsidiary	*ns*		
IAS 7 16(b)	Proceeds on disposal of property, plant and equipment			
IAS 7 16(a)	Purchases of property, plant and equipment			
IAS 7 39	Acquisition of investment in an associate			
IAS 7 16(a)	Purchases of intangible assets			
IAS 7 39	Acquisition of subsidiary	*ns*		
	Net cash used in investing activities			
IAS 7 21	**Financing activities**			
IAS 7 31	Dividends paid			
IAS 7 17(d)	Repayments of borrowings			
IAS 7 17(a)	Proceeds on issue of shares			
IAS 7 17(c)	New bank loans raised			
IAS 7 17(c)	Increase/(decrease) in bank overdrafts			
	Net cash (used in)/from financing activities			
	Net increase/(decrease) in cash and cash equivalents			
	Cash and cash equivalents at beginning of year			
IAS 7 28	Effect of foreign exchange rate changes on cash and cash equivalents			
	Cash and cash equivalents at end of year			

Notes to the consolidated financial statements At 31 December 2008

Ref. **1. General information**

IAS 1 126 Delto Insurance Group plc is a company incorporated in *ns*. The address of the registered office is given on page *ns*. The nature of the Group's operations and its principal activities are set out in the operating and financial review on pages *ns* to *ns*.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

IAS 8 30 In the current year, two interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

IFRS 8 35 The Group has elected to adopt IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009) in advance of its effective date. IFRS 8 introduces the management approach to segment reporting based on information presented to the Group's Chief Executive. Following adoption of IFRS 8, the Group's reportable segments have not changed.

In October 2008 the IASB issued (and the EU subsequently endorsed) amendments to IAS 39 and IFRS 7 on reclassifying financial assets. The Group has not reclassified its investments.

Note *For discussion of reclassifications see note 11.*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1/IAS 27	*(Amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2	*(Amended) Share-based Payment – Vesting Conditions and Cancellations*
IFRS 3	*(Revised) Business Combinations*
IAS 1	*(Revised 2007) Presentation of Financial Statements*
IAS 23	*(Revised 2007) Borrowing Costs*
IAS 27	*(Revised 2008) Consolidated and Separate Financial Statements*
IAS 32/IAS 1	*(Amended) Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 12	*Service Concession Arrangements*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
	Improvements to IFRSs (May 2008)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for the treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

Notes to the consolidated financial statements At 31 December 2008

Ref. **3. Significant accounting policies**

IAS 1 8(e)
IAS 1 108
IAS 1 112

Note *The following are examples of the types of accounting policies that might be disclosed in this entity's financial statements. Entities are required to disclose in the summary of significant accounting policies (a) the measurement basis (or bases) used in preparing the financial statements; and (b) the other accounting policies used that are relevant to an understanding of the financial statements. An accounting policy may be significant because of the nature of the entity's operations even if amounts for the current and prior periods are not material.*

IAS 1 110 *In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Standards and Interpretations.*

IAS 1 111 *Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. It is also appropriate to disclose each significant accounting policy that is not specifically required by IFRSs, but that is selected and applied in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

3.1 Basis of accounting

IAS 1 14 The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

IAS 1 108(a) The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

IFRS 4 13, 25 In accordance with IFRS 4 *Insurance Contracts*, the Group has applied existing accounting policies for insurance contracts and investment contracts with discretionary participation features (DPF or participating) within each of its subsidiaries, modified as appropriate to comply with the IFRS framework.

IFRS 4 25 **Note** *As a consequence, groups with subsidiaries in different countries using local GAAP, may have different accounting policies for insurance contracts under IFRS 4.*

3.2 Basis of consolidation

IAS 27 26 The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

IAS 27 33-34 Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

IAS 27 30 The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

IAS 27 28 Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

IAS 27 24-25 All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.3 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

IFRS 3 51-57 Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

IFRS 4 31-33 **Note** *To comply with IFRS 3, an insurer shall, at the time of acquisition date, measure at fair value the insurance liabilities assumed and the insurance assets acquired in a business combination. An insurer is permitted, but not required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components: (a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues and (b) an intangible asset, representing the difference between (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed and (ii) the amount described in (a). The subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.*

The intangible assets are excluded from the scope of IAS 36 and IAS 38.

3.4 Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

IAS 28 13 The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale (see 3.5 below). Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

IAS 28 23 Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition.

IAS 28 31 Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.5 Non-current assets held for sale

IFRS 5 Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3.6 Investment vehicles – net asset value attributable to unit-holders

IAS 27 Investment vehicles such as unit funds, where a Group company controls more than 50%, are consolidated. The minority interests in these vehicles are classified as liabilities and appear as net asset value attributable to the unit-holders in the consolidated balance sheet and any movements are recognised in the consolidated income statement. Where the Group does not control such vehicles they are designated as financial investments held at fair value through profit or loss.

3.7 Goodwill

IFRS 3 51-56 Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous GAAP amounts subject to being tested for impairment at that date.

3.8 Foreign currencies

IAS 21 17-18 The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the parent, and the presentation currency for the consolidated financial statements.

IAS 21 21, 28 In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items (including unearned premium reserves and deferred expenses) that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise except when they relate to items for which gains and losses are recognised in equity.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.8 Foreign currencies (continued)

IAS 21 39 For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

IAS 21 47 Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling-denominated assets and liabilities.

Note *At each balance sheet date, monetary assets (e.g. investments) and liabilities (e.g. outstanding claims) that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items (e.g. unearned premium reserves and reinsurers' share of unearned premium reserves and deferred expenses) that are measured in terms of historical cost in a foreign currency are not retranslated. Hence, a mismatch occurs and results and loss ratios of foreign currency denominated portfolios of business may be distorted by movements in exchange rates.*

3.9 Product classification

IFRS 4 37(a) The Group's products are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

Investment contracts are contracts that carry financial risk with no significant insurance risk.

Some insurance contracts and investment contracts contain discretionary participation features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer; and
- that are contractually based on: (i) the performance of a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the company, fund or other entity that issues the contract.

In some insurance contracts or investment contracts, the financial risk is borne by the policyholders. Such products are usually unit-linked contracts.

Insurance contracts and investment contracts with DPF continue to be measured and accounted for under the existing accounting practices of each subsidiary prior to the date of transition to IFRS.

Notes to the consolidated financial statements At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.10 Revenue recognition

Premiums

IFRS 4 37(a) Written premiums for non-life (general) insurance business comprise the premiums on contracts incepting in the financial year. Estimates are included for premiums not yet notified by the year end. Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums.

Unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on the basis of the estimated risk profile of the business written.

Written premiums for life insurance contracts and investment contracts with discretionary participating features, are recognised as income when due from the policyholder. Premiums are stated gross of commission and exclusive of taxes and duties levied on premiums.

IAS 39 43 Amounts collected as premiums from investment contracts with no discretionary participating features are reported as deposits in the balance sheet as an investment contract liability.

Fee and commission income

IFRS 4 37(a)
IAS 18 20, 25 Fee and commission income consists primarily of investment contract fee income, reinsurance and profit commissions, asset management fees, policyholder administration fees and other contract fees. Front end fees on investment contracts with no discretionary participating features are recognised as income when investment management services are rendered over the estimated life of the contracts. Reinsurance commissions receivable are deferred in the same way as acquisition costs. All other fee and commission income is recognised as the services are provided.

Investment return

IAS 1 110 Investment return consists of dividends, interest and rents receivable, movements in amortised cost on debt securities and other loans and receivables, realised gains and losses, and unrealised gains and losses on fair value assets.

Interest income

IAS 18 29-30 Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

IAS 18 29-30 Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

IAS 40 75(f) Rental income is recognised on an accruals basis.

Realised gains and losses

IAS 1 110 The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Notes to the consolidated financial statements At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.10 Revenue recognition (continued)

Unrealised gains and losses

Unrealised gains or losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the year.

Benefits and claims

IFRS 4 37(a) Gross benefits and claims consists of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and internal and external claims handling expenses, net of salvage and subrogation recoveries. Death claims, surrender and non-life insurance claims are recognised upon notification. Maturities and annuities are recognised when due.

Borrowing costs

IAS 23 29(a) Borrowing costs comprise interest payable on loans and bank overdrafts as well as commission fees charged in respect of letters of credit. They are charged to income as incurred. Arrangement fees in respect of financing arrangements including letters of credit are charged to borrowing costs over the life of the related facility.

Retirement benefit costs

IAS 19 120Ab Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.11 Taxation

Note *Tax should be presented as a single line on the face of the income statement. Policyholder tax is included within the total tax expense. Companies may choose to analyse the total tax expense between equity shareholder tax and policyholder tax in the consolidated income statement. Within the tax reconciliation note (ns), a reconciling item would be included and described, for example, as "policyholder tax" or "different basis of tax for UK life assurance".*

IAS 12 The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The total tax expense includes tax in respect of UK life policyholders' returns and the Group has disclosed this separately. The tax charge in respect of policyholders' returns reflects the movement in current and deferred tax.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.12 Other intangible assets and insurance intangible assets

Software expenditure

IAS 38 118 An internally-generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Notes to the consolidated financial statements At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.12 Other intangible assets and insurance intangible assets (continued)

Software expenditure (continued)

It is amortised on a straight-line basis over its estimated useful life which typically varies between 3 and 5 years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Impairment policy is set out in note 3.15 below.

Customer relationships

IAS 38 118 The cost of securing rights to customer lists is measured initially at purchase cost and amortised on a straight-line basis over its estimated useful life which typically varies between 2 and 5 years. Impairment policy is set out in note 3.15 below.

Acquired value of in-force business (AVIF)

IFRS 4 37(a) The present value of future profits on a portfolio of investment contracts without discretionary participating features and life insurance contracts and investment contracts with discretionary participating features, acquired directly or through a subsidiary is recognised as an intangible asset. AVIF is amortised on a systematic basis over the estimated life of the acquired
IFRS 4 15 contracts, which typically varies between 5 and 50 years. The carrying value is assessed at each reporting date and any reductions are recognised in profit or loss for the period in which they arise.

Acquired claims provisions

IFRS 4 37(a) On acquisition of a portfolio of non-life insurance contracts the difference between the fair value of the claims provisions acquired and the value of the claims provisions measured under the Group's accounting policies is recognised as an intangible asset. This is amortised on a systematic basis over the estimated life of the acquired contracts which typically varies
IFRS 4 15 between 1 and 10 years. The carrying value is assessed at each reporting date and any reductions are recognised in profit or loss for the period in which they arise.

3.13 Property, plant and equipment

IAS 16 73 Group occupied properties are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged as an expense to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.13 Property, plant and equipment (continued)

Freehold land is not depreciated.

Vehicles, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Group occupied buildings	4%
Vehicles	20% – 25%
Fixtures and equipment	10% – 30%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

3.14 Investment property

IAS 40 75

Investment property, comprising freehold and leasehold land and buildings is held for long term rental yields and is not occupied by the Group, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the value of investment property are included in the investment return in the income statement for the period in which they arise.

3.15 Impairment of tangible and intangible assets (other than goodwill, AVIF and acquired claims provisions)

IAS 36 9,10

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the consolidated financial statements At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments

IFRS 7 21, B5 Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

IAS 39 45 Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' (HTM) investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. In general, the Group uses the FVTPL category because the Group's risk management strategy is to manage its investments on the same basis as it's insurance and investment contract liabilities (i.e. at fair value).

Note *On 13 October 2008 the IASB issued an amendment to IAS 39 and IFRS 7 to permit reclassification of certain non-derivative financial assets, in specific circumstances (see note 11).*

Effective interest method

IAS 39 9 The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL. The Group chooses not to disclose the effective interest rate for debt instruments that are classified as at fair value through profit or loss.

Financial assets at FVTPL

IAS 39 9 Financial assets classified as at FVTPL are where the financial asset is either held for trading or it is designated as at FVTPL at inception.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Note *On 13 October 2008 the IASB issued an amendment to IAS 39 and IFRS 7 to permit reclassification of certain non-derivative financial assets classified as "FVTPL held for trading" into AFS or HTM or loans and receivables, in specific circumstances (see note 11).*

Notes to the consolidated financial statements
At 31 December 2008

Ref.	**3.**	**Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Financial assets at FVTPL (continued)

IAS 39 9 A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

IAS 39 43
IAS 39 55(a) Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in income. The net gain or loss recognised in income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in this note below.

Held-to-maturity investments

IAS 39 9 Held-to-maturity investments are those with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity and are classified as held-to-maturity investments.

IAS 39 46(b) Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

IAS 39 9
IAS 39 43
IAS 39 55(b) Available-for-sale financial assets include listed shares and redeemable notes that are traded in an active market and non-derivative financial assets that are either designated in this category or not classified as any other category and are stated at fair value. Fair value is determined in the manner described in this note below. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

IAS 39 55(b) Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established.

IAS 39 55(b) The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Note *On 13 October 2008 the IASB issued an amendment to IAS 39 and IFRS 7 to permit reclassification of certain non-derivative financial assets classified as AFS into loans and receivables, in specific circumstances (see note 11).*

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Loans and receivables

IAS 39 9
IAS 39 46(a)

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are designated as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

IAS 39 58

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

IAS 39 64

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

IAS 39 63

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognised in profit or loss.

IAS 39 65

With the exception of AFS equity instruments, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

IAS 39 69

In respect of AFS equity instruments, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Cash and cash equivalents

IAS 7 46

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Derecognition of financial assets

IAS 39 17
IAS 39 20(c)

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

IFRS 7 21

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound instruments

IFRS 7 27

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Financial guarantee contract liabilities

IAS 39 BC 21(d)

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of the expected receivable or liability under the guarantee and the amount initially recognised less, where appropriate, cumulative amortisation.

IAS 39 2(e) **Note**

Financial guarantee contracts are within the scope of IAS 39. However, if an insurer has previously asserted that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the insurer may elect to apply either IAS 39 or IFRS 4 to such contracts. The insurer may make that election contract by contract, but the election for each contract is irrevocable.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Financial liabilities

IAS 39 9 Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of disposal in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

IAS 39 43 Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described below.

IAS 39 49 The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Net asset value attributable to unit-holders and liabilities for investment contracts without DPF are designated as financial liabilities at FVTPL.

Other financial liabilities

IAS 39 47 Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Derecognition of financial liabilities

IAS 39 39 The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Fair value of financial instruments

IFRS 7 27 The fair value of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices. Financial assets in this category include listed equities, listed debt securities and mortgages. Financial liabilities include borrowings, net asset value attributable to unit-holders and liabilities for investment contracts without DPF.

The fair value of other non-derivative financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

IASB EG **Note** *On 31 October 2008, the IASB published educational guidance on the application of fair value measurement when markets become inactive. The educational guidance took the form of a summary document prepared by IASB staff and the final report of the expert advisory panel established to consider the issue.*

The objective of fair value measurement in IAS 39 is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date. A forced liquidation or distress sale (i.e. forced transaction) at the measurement date is not an orderly transaction.

To meet this objective, an entity measures the fair value by considering all relevant market information that is available. A thorough understanding of the instrument being valued allows an entity to identify and evaluate the relevant market information available about identical or similar instruments. Such information to be considered includes, for example, prices from recent transactions in the same or similar instrument, quotes from brokers and/or pricing services, indices and other inputs to model-based valuation techniques.

When the market for an instrument is no longer active, an entity measures fair value using a valuation technique commonly referred to as mark-to-model. The selected valuation technique maximises the use of observable inputs and minimises the use of unobservable inputs in order to estimate the price at which an orderly transaction would take place between market participants on the measurement date. Regardless of the valuation technique used, an entity takes into account current market conditions and includes appropriate risk adjustments that market participants would make, such as for credit and liquidity.

Even when an observable transaction price is available, an entity might need to make significant adjustments to that transaction price. The adjustments might be necessary to arrive at the price at which an orderly transaction would take place between market participants at the measurement date. An entity considers a transaction price, but does not conclude automatically that any transaction price is determinative of fair value.

When measuring fair value using a valuation technique, an entity selects the most relevant valuation models to use, makes any assumptions necessary and assesses the reliance that can be placed on any available pricing information. As a result, two entities might arrive at different estimates of the fair value of the same instrument even though both still meet the objective of fair value. The fact that different estimates of fair value exist reflects the judgement and assumptions applied and the inherent uncertainty of estimating the fair value of instruments that do not have prices quoted in an active market.

Because different entities might arrive at different fair values, appropriate disclosures about the techniques used and judgements made are critical to users of financial statements.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Derivative financial instruments

IFRS 7 21 *IAS 39 43*

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and foreign currency options. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as an asset or a liability.

Embedded derivatives

IAS 39 11 *IFRS 4 7-9*

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. The Group does not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or an amount based on a fixed amount and an interest rate). Embedded derivatives that meet the definition of insurance contracts are measured as insurance contracts.

Hedge accounting

IAS 39 86

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

IAS 39 88

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note *ns* sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

Fair value hedges

IAS 39 89 *IAS 39 91*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.16 Financial instruments (continued)

Derivative financial instruments (continued)

Cash flow hedges

IAS 39 95 The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial 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.

IAS 39 101 Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

IAS 39 102 Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement. Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

3.17 Leasing

IAS 17 8 Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

IAS 17 20
IAS 17 25 Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

IAS 17 33 Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.18 Provisions

IAS 37 14,36 Provisions for restructuring costs, legal claims and levies are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. Provisions are not recognised for future operating losses.

Notes to the consolidated financial statements At 31 December 2008

Ref.		
	3.	**Significant accounting policies (continued)**

3.19 Insurance contracts and investment contracts with discretionary participation features

IFRS 4 25

IFRS 4 permits the continued use of previously applied GAAP. Except for UK regulated with-profits funds, this basis has been adopted using recognised actuarial methods reflecting legal supervisory principles.

Life insurance business and investment contracts with DPF

IFRS 4 37(a)

In the UK, the liabilities for with-profits funds, falling within the scope of the FSA realistic capital regime, are stated at the amount of the realistic value adjusted to exclude shareholders' share of projected future bonuses. This basis has little or no effect on the results attributable to shareholders. Movements on the liabilities are accounted within the unallocated divisible surplus. In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business in the with-profits fund is accounted for as part of the calculation. This amount is recognised as a deduction from the liabilities for participating contracts and unallocated divisible surplus.

The liabilities for insurance contracts without discretionary participation features are determined separately for each life operation following an annual actuarial investigation in accordance with regulatory requirements.

Unallocated divisible surplus

IFRS 4 37(a)

The unallocated divisible surplus represents the difference between assets and liabilities in the Group's with-profits funds and is recorded as a liability. The difference between income and expense of the with-profits funds, after declaration of bonuses to policyholders and attribution to shareholders, is transferred to the unallocated divisible surplus from the income statement.

Liability adequacy

IFRS 4 15

At each reporting date, the Group performs a liability adequacy test on its insurance contract liabilities less related deferred acquisition costs and intangible assets to ensure that the carrying amount of insurance liabilities is adequate using current estimates of future cash flows. Any deficiency is charged as an expense to the income statement initially by writing off the intangible assets and subsequently by recognising an additional liability.

Non-life insurance business

Provision for outstanding claims

IFRS 4 37(a)

Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries including reinsurance recoveries are presented as assets.

Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claim provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

Note

Under current practice, most general insurance claims liabilities are not discounted. IFRS 4 BC 126 notes that in the IASB's view, discounting of insurance liabilities results in financial statements that are more relevant and reliable. However, because the IASB will not address discount rates and the basis for risk adjustments until phase II, the IASB concluded that it could not require discounting. Nevertheless, IFRS 4 prohibits a change from an accounting policy that involves discounting to one that does not involve discounting.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.19 Insurance contracts and investment contracts with discretionary participation features (continued)

Non-life insurance business (continued)

Provision for unearned premiums

IFRS 4 37(a) The provision for unearned premiums represents that part of written premiums, gross of commission payable to intermediaries, that is estimated to be earned in subsequent periods. The change in the provision is recorded in the income statement to recognise revenue over the period of the risk.

Liability adequacy

IFRS 4 15 At each reporting date the Group performs a liability adequacy test on its insurance liabilities less related deferred acquisition costs and intangible assets to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the income statement initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

3.20 Investment contracts without discretionary participation features

IAS 39 43 Deposits collected under investment contracts without discretionary participation features are accounted for directly through the balance sheet (except for the investment income attributable to those contracts) as a financial liability (see note 3.16).

Liabilities are measured by reference to the fair value of the underlying net asset value of the financial assets backing those contracts at the balance sheet date. They are designated at inception as at fair value through profit or loss.

Claims reflect the excess of amounts paid over the account balance released.

3.21 Deferred acquisition costs and deferred origination costs

UK FRS 27 4(b) For some participating insurance and investment contracts (with-profits) written in the UK, acquisition costs are not deferred as the liabilities are calculated under the FSA's realistic capital regime.

IFRS 4 37(a) The incremental costs directly attributable to the acquisition of new business for other participating investment contracts are deferred by recognising an asset. For other insurance contracts, acquisition costs including both incremental acquisition costs and other indirect costs of acquiring and processing new business are deferred (deferred acquisition costs).

IAS 18 App 14(b)iii For investment contracts without discretionary features incremental costs directly attributable to acquiring the contracts are deferred (deferred origination costs).

Where such business is reinsured the reinsurers' share is carried forward as deferred income.

IFRS 4 15 Deferred acquisition costs and deferred origination costs are amortised systematically over the life of the contracts and tested for impairment at each balance sheet date. Any amount not recoverable is expensed. They are derecognised when the *IAS 18 App* related contracts are settled or disposed of.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **3. Significant accounting policies (continued)**

3.22 Reinsurance

IFRS 4 37(a) The Group enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards reinsurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and ceded life policy benefits. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance or investment contracts and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

IFRS 4 20 Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The impairment loss is recognised as an expense in the income statement. The asset is impaired if objective evidence is available to suggest that it is probable that the Group will not be able to collect the amounts due from reinsurers.

IAS 39 Reinsurance contracts that principally transfer financial risk are accounted for directly through the balance sheet as financial instruments (see note 3.16) and are not included in reinsurance assets or liabilities but designated to be financial instruments at fair value through profit or loss. A deposit asset or liability is recognised based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the ceding company.

IFRS 4 37(b)ii Gains or losses on buying reinsurance are recognised in income at the date of purchase and are not amortised.

3.23 Insurance receivables and payables

IFRS 4 37(a) Receivables and payables arising under insurance contracts and investment contracts with DPF are recognised when due and measured at amortised cost, using the effective interest rate method. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

4. Critical accounting judgements and key sources of estimation uncertainty

Note *The following are examples of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and financial position of the entity.*

Instead of disclosing this information in a separate note, it may be more appropriate to include such disclosures in the relevant asset and liability notes or as part of the relevant accounting policy disclosures.

IAS 1 113
IAS 1 116
In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

Critical judgements in applying the Group's accounting policies

IAS 1 113 The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Product classification and contract liabilities

The Group's life insurance contracts and investment contracts with discretionary participation features are classified as insurance contracts. As permitted by IFRS 4, assets and liabilities of these contracts are accounted for under previously applied GAAP. Contracts classified as investment contracts without discretionary participation features are accounted for under the requirements of IAS 39. In 2005, for UK regulated with-profits funds, deferred acquisition costs and related deferred tax were derecognised and liabilities were replaced with realistic basis liabilities.

Key sources of estimation uncertainty

IAS 1 116 The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of liabilities of life insurance contracts and investment contracts with DPF

IAS 1 116(b) The liability for life insurance contracts and investment contracts with DPF is based on certain assumptions including mortality, persistency, longevity, morbidity, expense variations and investment returns. The carrying amount for life insurance contract liabilities at the balance sheet date is £x million (2007: £y million) and £x million (2007: £y million) for liabilities of investment contracts with DPF.

Valuation of liabilities of non-life insurance contracts

IAS 1 116(b) Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the balance sheet date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Group uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. The carrying amount for non-life insurance contract liabilities at the balance sheet date is £x million (2007: £y million).

Valuation of liabilities of investment contracts without DPF

IAS 1 116(b) The liability for non-participating investment contracts is measured either at fair value or amortised cost. Most non-participating contracts measured at fair value are unit linked and the fair value liability is determined by reference to the assets backing the liabilities. A deferred acquisition cost asset and deferred income liability are recognised in respect of transaction costs and front end fees respectively, that relate to the provision of investment management services, and are amortised over the contract term. The carrying amount of the liabilities of investment contracts without DPF at the balance sheet date is £x million (2007: £y million).

Impairment of goodwill

IAS 1 116(b) Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date is £x million (2007: £y million) after an impairment loss of £x million (2007: £y million) was recognised during the year.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

Critical judgements in applying the Group's accounting policies (continued)

Fair value of financial instruments using valuation techniques

The directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In the current market environment, such price information is typically not available for all instruments and the Group uses valuation techniques to measure such instruments. These techniques use "market observable inputs" where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Group estimates the non-market observable inputs used in its valuation models.

For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates although some assumptions are not supported by observable market prices or rates.

IAS 1 116(b) The carrying amount of financial assets at the balance sheet date is £x million (2007: £y million).

IASB EG **Note** *On 31 October 2008, the IASB published educational guidance on the application of fair value measurement when markets become inactive. The educational guidance includes illustrative disclosures.*

A discussion of the valuation techniques used and an explanation of the inputs used is critical to meeting the objective of helping users understand the techniques used and the judgements made in measuring fair values.

5. Operating segments

IFRS 8 35 The Group has adopted IFRS 8 *Operating Segments* in advance of its effective date. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (IAS 14 *Segment Reporting*) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach.

IFRS 8 22 Following adoption of IFRS 8, the Group's reportable segments have not changed as the business segments reported to the monthly executive committee follow clear business lines with distinct risk and rewards which formed the basis under IAS 14.

The Group's reportable segments under IFRS 8 are therefore identified as follows:

- non-life insurance;
- life insurance;
- asset management; and
- other.

Notes to the consolidated financial statements
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Ref. **5. Operating segments (continued)**

IFRS 8 16 The other segment includes corporate expenses and other activities not related to the core business segments and which are not reportable segments due to their immateriality. Certain expenses, finance costs and taxes are not allocated across the segments.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central corporate expenses, certain finance costs and tax expense. This is the measure reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

Note *IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Upon adoption of IFRS 8, the identification of an entity's segments may or may not change. IAS 14 required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. One set of segments was regarded as primary and the other as secondary. If under IAS 14 an entity identified segments on the basis of reports provided to the person whom IFRS 8 regards as the chief operating decision maker, those might become the operating segments for the purposes of IFRS 8.*

In contrast to IAS 14, IFRS 8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities, nor does it require segment information to be prepared in conformity with the accounting policies adopted for the financial statements. As a consequence, entities will have more discretion in determining what is included in segment profit or loss under IFRS 8, limited only by their internal reporting practices.

Under IFRS 8, additional disclosures are prescribed that are required when an entity has only one reportable segment. These include information about each product and service or groups of products and services. Life or general insurers may need to consider the information to be reported along lines of business.

Analyses of revenues and certain non-current assets by geographical area are required.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **5. Operating segments (continued)**

5(a) Segment income and results

IFRS 8 23 The following is an analysis of the Group's revenue and result by reportable segment in 2008.

Ref.		Non life Year ended 2008 £	Life Year ended 2008 £	Asset management Year ended 2008 £	Other Year ended 2008 £	Eliminations Year ended 2008 £	Consolidated Year ended 2008 £
	Income						
	Gross written premiums						
	Reinsurers' share						
	Net change in unearned premiums						
	Net insurance premium income						
	Fee and commission income						
	Net investment return						
	Share of profit/(loss) of associates						
	Other income						
IFRS 8 28(a)	Segment income						
	Expenses						
	Claims and benefits						
	Reinsurers' share						
	Change in insurance liabilities						
	Reinsurers' share						
	Change in investment contract liabilities						
	Reinsurers' share						
	Change in net asset value attributable to unit-holders						
	Change in unallocated divisible surplus						
	Fees and commission						
	Other expenses						
	Finance costs						
	Depreciation						
	Amortisation						
IFRS 8 28(b)	Segment profit before tax						
	Unallocated expenses						
	Unallocated finance costs						
	Tax attributable						
	Shareholders' profits						
	Policyholders' returns						
	Profit for the year						

IFRS 8 27 The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the result of each segment without allocation of certain expenses, finance costs and income tax. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **5. Operating segments (continued)**

5(a) Segment income and results (continued)

IFRS 8 23 The following is an analysis of the Group's revenue and result by reportable segment in 2007.

Ref.		Non life Year ended 2007 £	Life Year ended 2007 £	Asset management Year ended 2007 £	Other Year ended 2007 £	Eliminations Year ended 2007 £	Consolidated Year ended 2007 £
	Income						
	Gross written premiums						
	Reinsurers' share						
	Net change in unearned premiums						
	Net insurance premium income						
	Fee and commission income						
	Net investment return						
	Share of profit/(loss) of associates						
	Other income						
IFRS 8 28(a)	Segment income						
	Expenses						
	Claims and benefits						
	Reinsurers' share						
	Change in insurance liabilities						
	Reinsurers' share						
	Change in investment contract liabilities						
	Reinsurers' share						
	Change in net asset value attributable to unit-holders						
	Change in unallocated divisible surplus						
	Fees and commission						
	Other expenses						
	Finance costs						
	Depreciation						
	Amortisation						
IFRS 8 28(b)	Segment profit before tax						
	Unallocated expenses						
	Unallocated finance costs						
	Tax attributable						
	Shareholders' profits						
	Policyholders' returns						
	Profit for the year						

IFRS 8 27 The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the result of each segment without allocation of certain expenses, finance costs and income tax. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **5. Operating segments (continued)**

5(b) Segment assets, liabilities and other information

IFRS 8 23 The following is an analysis of the Group's net assets, capital expenditure, impairment losses and depreciation and amortisation by reportable segment in 2008.

	Non life Year ended 2008 £	Life Year ended 2008 £	Asset management Year ended 2008 £	Other Year ended 2008 £	Total Year ended 2008 £
Segment assets					
Segment liabilities					
Segment net assets					
Unallocated assets					
Total net assets					
Capital expenditure					
Impairment losses on investments					
Depreciation and amortisation					

IFRS 8 27 For the purposes of monitoring segment performance and allocating resources between segments, the Group's Chief Executive monitors the tangible, intangible and financial assets and liabilities attributable to each segment. All assets and liabilities are allocated to reportable segments with the exception of tax assets and certain borrowings.

IFRS 8 23 The following is an analysis of the Group's net assets, capital expenditure, impairment losses and depreciation and amortisation by reportable segment in 2007.

	Non life Year ended 2007 £	Life Year ended 2007 £	Asset management Year ended 2007 £	Other Year ended 2007 £	Total Year ended 2007 £
Segment assets					
Segment liabilities					
Segment net assets					
Unallocated assets					
Total net assets					
Capital expenditure					
Impairment losses on investments					
Depreciation and amortisation					

IFRS 8 27 For the purposes of monitoring segment performance and allocating resources between segments, the Group's Chief Executive monitors the tangible, intangible and financial assets and liabilities attributable to each segment. All assets and liabilities are allocated to reportable segments with the exception of tax assets and certain borrowings.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **5. Operating segments (continued)**

5(c) Revenue from major products and services

IFRS 8 32 The Group's revenue from major products and services is disclosed in the segment revenue tables.

Note *Insurers may need to consider whether to disclose information relating to lines of business e.g. for non-life, property, liability and motor; and for life, protection, pensions, annuities and healthcare; and other non-financial reporting measures such as claims and expense ratios.*

5(d) Geographical information

IFRS 8 33 The Group's revenue and information about its segment net assets by geographical location are as follows:

	Revenue Year ended 2008 £	Revenue Year ended 2007 £	Net assets Year ended 2008 £	Net assets Year ended 2007 £
UK				
Europe				
USA				
Other				

5(e) Information about major customers

IFRS 8 34 The Group does not derive revenue from an individual policyholder or intermediary that represents 10% or more of the Group's total revenue.

6. Income

	Notes	Year ended 2008 £	Year ended 2007 £
Net insurance premium income	6(a)		
Fee and commission income	6(b)		
Net investment return	6(c)		
Share of profit/(loss) of associates	ns		
Other income	6(d)		

Note *The disclosures set out in Note 6 for revenue are based on industry practice and the requirements of IAS 1 and IFRS 4 to disclose items of a material nature to enable users to understand the entity's financial performance.*

Notes to the consolidated financial statements
At 31 December 2008

Ref. **6. Income (continued)**

6(a) Net insurance premium income

		Year ended 2008 £	Year ended 2007 £
IFRS 4 37(b)			
	Non-life insurance premiums		
	Life insurance premiums		
	Investment contracts with DPF		
	Gross written premiums		
	Change in unearned premiums		
	Gross earned premiums		
	Non-life reinsurance premiums		
	Life reinsurance premiums		
	Investment contracts with DPF reinsurance premiums		
	Gross written reinsurance premiums		
	Change in reinsurance unearned premiums		
	Reinsurers' share of gross earned premiums		
	Net insurance premium income		

6(b) Fee and commission income

		Year ended 2008 £	Year ended 2007 £
IFRS 4 37(b) *IAS 18 35(b)ii*			
	Reinsurance commissions and profit commission		
	Investment contract fee income		
	Asset management fee income		
	Fees for surrender charges		
	Fees for death benefit charges		
	Other policyholders' administration fees		
	Net change in deferred fee and commission income		

Notes to the consolidated financial statements At 31 December 2008

Ref. **6. Income (continued)**

6(c) Net investment return

IFRS 7 20(a)-(e)	Net investment income Year ended 2008 £	Net realised gains and losses Year ended 2008 £	Changes in fair value Year ended 2008 £	Impairment Year ended 2008 £	Net investment result Year ended 2008 £
Debt securities					
Held-to-maturity					
Available-for-sale					
At fair value through profit/loss					
Held for trading					
Equities					
Available-for-sale					
At fair value through profit/loss					
Held for trading					
Loans and receivables					
Investment properties					
Cash and cash equivalents					
Deposits with credit institutions					
Mutual funds and unit trusts					
Other income					
Hedge accounting derivatives					
Other derivatives					
Investment management expenses					
Total interest income					
Total interest expense					
Total dividend income					

Notes to the consolidated financial statements At 31 December 2008

Ref. **6. Income (continued)**

6(c) Net investment return (continued)

IFRS 7 20(a)-(e)

	Net investment income Year ended 2007 £	Net realised gains and losses Year ended 2007 £	Changes in fair value Year ended 2007 £	Impairment Year ended 2007 £	Net investment result Year ended 2007 £
Debt securities					
Held-to-maturity					
Available-for-sale					
At fair value through profit/loss					
Held for trading					
Equities					
Available-for-sale					
At fair value through profit/loss					
Held for trading					
Loans and receivables					
Investment properties					
Cash and cash equivalents					
Deposits with credit institutions					
Mutual funds and unit trusts					
Other income					
Hedge accounting derivatives					
Other derivatives					
Investment management expenses					
Total interest income					
Total interest expense					
Total dividend income					

Notes to the consolidated financial statements
At 31 December 2008

Ref. **6. Income (continued)**

6(d) Other income

		Year ended 2008	Year ended 2007
IAS 1 87(c)-(d)		£	£
	Profit on disposal of subsidiary		
	Profit on disposal of property, plant and equipment		

7. Claims and benefits

		Gross		Reinsurers' share		Net	
		2008	2007	2008	2007	2008	2007
IFRS 4 37(b)		£	£	£	£	£	£
	Claims paid and benefits						
	Life contracts						
	Non-life contracts						
	Participating investment contracts						
IFRS 7 20(a)i	Non-participating investment contracts						
	Change in liabilities						
	Life contracts						
	Non-life contracts						
	Unexpired risk reserve						
	Participating investment contracts						
	Non-participating investment contracts						

All of the non-participating investment contracts above are financial instruments designated to be at fair value through profit or loss.

Note *The disclosures set out above for claims and benefits are based on industry practice and the requirements of IAS 1 and IFRS 4 to disclose items of a material nature to enable users to understand the entity's financial performance.*

Notes to the consolidated financial statements At 31 December 2008

Ref. **8. Fees, commissions and other acquisition expenses**

Ref.		Year ended 2008 £	Year ended 2007 £
IFRS 4 37(b)			
	Acquisition costs		
	Insurance contracts – life		
	Insurance contracts – non-life		
	Participating investment contracts		
IAS 18	Non-participating investment contracts		
	Amortisation of insurance contracts deferred acquisition costs		
	Amortisation of participating investment contracts deferred acquisition costs (outside with-profits)		
IAS 18	Amortisation of non-participating investment contracts deferred acquisition costs		
	Impairment and other changes in deferred acquisition costs		
	Reinsurance commissions		
	Other commissions		

Note *The disclosures set out above for fees and commission expense are based on industry practice and the requirements of IAS 1 and IFRS 4 to disclose items of a material nature to enable users to understand the entity's financial performance.*

9. Profit for the year

Profit for the year has been arrived at after charging/(crediting)

Ref.		Year ended 2008 £	Year ended 2007 £
IAS 1 88 *IAS 1 93*			
IAS 21 52	Net foreign exchange losses/(gains)		
IAS 1 93	Depreciation of property and equipment		
IAS 1 93	Impairment of property and equipment		
IAS 1 93	Amortisation of intangible assets		
IAS 1 93	Impairment of goodwill		
IAS 1 93	Impairment of other intangible assets		
IAS 1 93	Staff costs and other expenses		
IAS 1 93	Central costs		
IAS 1 93	Auditors' remuneration		
IFRS 7 20(e)	Impairment on receivables		
	Impairment on available-for-sale equity investments		
	Impairment on available-for-sale debt investments		
	Impairment on held-to-maturity investments		
	Impairment on loans receivable carried at amortised cost		
IAS 40 76(d)	Change in fair value of investment property		

Notes to the consolidated financial statements
At 31 December 2008

Ref. **10. Other intangible assets and insurance intangible assets**

Ref.		Software costs	Acquired value of in force business	Acquired claims provisions	Total
IFRS 4 33 / *IAS 38 118*		£	£	£	£
	Cost				
118(c)	At 1 January 2007				
118 (e)i	Additions				
	At 1 January 2008				
118(e)i	Additions				
118(e)i	Acquired on acquisition of a subsidiary				
118(c)	At 31 December 2008				
	Amortisation				
118(c)	At 1 January 2007				
118(e)vi	Charge for the year				
118(e)iv	Impairment				
118(e)vii	Foreign exchange				
	At 1 January 2008				
118(e)vi	Charge for the year				
118(e)iv	Impairment				
118(e)vii	Foreign exchange				
118(c)	At 31 December 2008				
	Carrying amount				
	At 31 December 2008				
	At 31 December 2007				

IFRS 4 33 *Note* *The insurance intangible assets are excluded from the scope of IAS 36 and IAS 38. However, IAS 36 and IAS 38 apply to customer lists and customer relationships (not shown above) reflecting the expectation of future contracts that are not part of the contractual insurance rights and contractual insurance obligations that existed at the date of a business combination or portfolio transfer.*

Notes to the consolidated financial statements
At 31 December 2008

Ref. **11.** **Financial assets**

Note *Classification*

The financial statements need to provide information that enables users to evaluate the nature and extent of risks arising from financial instruments. Disclosures are extensive. While IFRS 7 allows grouping of different financial instruments into classes appropriate to the nature of the information disclosed, a separate disclosure is required showing the carrying amount of each of the categories as defined in IAS 39. The fair value should be disclosed in a way that permits it to be compared with the corresponding carrying amounts in the balance sheet.

On 13 October 2008, the IASB issued Reclassification of Financial Assets, IAS 39 and IFRS 7 amendments. The amendment permits limited reclassifications of financial assets out of fair value through profit or loss to the other financial asset categories. Only non-derivative financial assets that are classified as at FVTPL or AFS, except for those financial assets that are designated as at FVTPL under the fair value option, may be reclassified. In practice, assuming all the criteria are met, some:

- *debt instruments may be reclassified from FVTPL to AFS, loans and receivables or HTM;*
- *debt instruments may be reclassified from AFS to loans and receivables; and*
- *equities may be classified from FVTPL to AFS.*

If the debt instrument would have been originally classified as loans and receivables had it not been for the fact that at initial recognition the entity considered the instrument was held for the purpose of selling in the near term, it may be reclassified from FVTPL to loans and receivables if the entity now has the intention and ability to hold for the foreseeable future or until maturity.

If the debt instrument would have been classified originally as a loan and receivable had it not been for the fact that at initial recognition the entity designated it as AFS it may be reclassified from AFS to loans and receivables if the entity now has the intention and ability to hold for the foreseeable future or until maturity.

For all other debt instruments, or equity instruments, that were classified originally as held-for-trading (part of the FVTPL category), an entity may reclassify them from FVTPL to AFS or from FVTPL to HTM (in the case of debt instruments only) in rare circumstances. The IASB's press release states that the deterioration of the world's financial markets that has occurred during the third quarter of 2008 is a possible example of rare circumstances.

Should an entity wish to reclassify any debt instrument to HTM it must also have the intention and ability to hold to maturity.

IAS 39 9 *If, except for certain limited circumstances, an entity subsequently sells or reclassifies an HTM investment before maturity, tainting of the HTM portfolio occurs, then all of the entity's HTM investments generally must be reclassified into AFS. Furthermore, the entity is prohibited from classifying any investment as HTM for the next two financial years.*

Reclassification is a choice and any reclassification made before 1 November 2008 may be treated as having occurred at 1 July 2008. However, any reclassifications made after 1 November 2008 shall take effect only from the date of reclassification. All reclassifications should be at fair value at the date of reclassification i.e. no gain or loss should arise.

Notes to the consolidated financial statements At 31 December 2008

Ref. **11.** **Financial assets (continued)**

Note *Classification (continued)*

For a financial asset reclassified from FVTPL held-for-trading to loans and receivables or HTM any gain or loss already recognised in profit or loss should not be reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortised cost, as applicable.

IAS 39 54

For a financial asset reclassified out of AFS into loans and receivables, any previous gain or loss on that asset previously recognised in other comprehensive income (statement of recognised income and expense) is accounted for as follows:

- *in the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the financial asset using the effective interest method. Any difference between the new amortised cost and maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method. If the financial asset is subsequently impaired any gain or loss that has been recognised directly in equity is recognised in profit or loss;*
- *in the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or disposed of, when it shall be recognised in profit and loss. If the financial asset is subsequently impaired any previous gain or loss that has been recognised directly in equity is recognised in profit or loss.*

IFRS 7 has been amended to require additional disclosures if an entity reclassifies financial assets – see IFRS 7.12 and IFRS 7.12A in the attached disclosure checklist.

IFRS 7 ED

IASB EG

The IASB issued an exposure draft on 15 October 2008 on further changes to IFRS 7 which, if promulgated, would be effective for annual periods beginning on or after 1 July 2009, although earlier application would be permitted. These proposed amendments largely reflect recommendations from the educational guidance on the application of fair value measurement when markets become inactive, issued by the IASB on 31 October 2008. It is expected that certain financial institutions may wish to consider meeting those recommendations in their financial statements for December 2008 year ends onwards.

IFRS 7 ED

In addition the IASB issued an exposure draft on 23 December 2008 on further proposed amendments to IFRS 7 which, if promulgated, would have been effective for annual periods ending on or after 15 December 2008 although comparative information relating to periods before this date is not required. This proposed amendment requires disclosures about investments in debt investments that facilitate a comparison between such investments that are classified in different categories other than those classified as at FVTPL. The proposals are to require:

(a) a summary in tabular format of the effect on pre-tax profit or loss as if the investments were accounted for (i) at fair value and (ii) at amortised cost; and

(b) a summary of the different measurement bases of these instruments in tabular format that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

The proposed disclosure requirements are included in IFRS 7 paragraph 30A in the attached disclosure checklist.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **11. Financial assets**

11(a) Classification – carrying amount

Ref.		2008 £	2007 £
IFRS 7 8(a)-(d)			
	Available-for-sale investments carried at fair value (AFS)		
	Fair value through profit or loss carried at fair value (FVTPL)		
	Fair value through profit or loss carried at fair value – held for trading (HFT)		
	Held-to-maturity investments carried at amortised cost (HTM)		
	Loans and receivables carried at amortised cost (Loans)		

11(b) Carrying amount at 31 December 2008

Ref.		Fair value		Amortised cost		
IFRS 7 25		Available-for-sale 2008 £	Fair value through profit or loss 2008 £	Held-to-maturity 2008 £	Loans 2008 £	Total 2008 £
	Debt securities					
	UK government					
	Non-UK government					
	Listed					
	Unlisted					
	Other					
	Equities					
	Listed					
	Unlisted					
	Derivative instruments					
	Mortgages					
	Deposits with credit institutions					
	Mutual funds and unit trusts					
	Loans and receivables					
	Total financial assets					
IAS 1 52	Within one year					
	More than one year					

IFRS 7 25 The amortised cost carrying amount of held-to-maturity investments and loans and receivables is a reasonable approximation of fair value.

There are no financial assets within FVTPL classified as held for trading.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **11. Financial assets (continued)**

11(c) Carrying amount at 31 December 2007

Ref.		Fair value		Amortised cost		
		Available-for-sale 2007	Fair value through profit or loss 2007	Held-to-maturity 2007	Loans 2007	Total 2007
IFRS 7 25		£	£	£	£	£
	Debt securities					
	UK government					
	Non-UK government					
	Listed					
	Unlisted					
	Other					
	Equities					
	Listed					
	Unlisted					
	Derivative instruments					
	Mortgages					
	Deposits with credit institutions					
	Mutual funds and unit trusts					
	Loans and receivables					
	Total financial assets					
IAS 1 52	Within one year					
	More than one year					

IFRS 7 25 The amortised cost carrying amount of held-to-maturity investments and loans and receivables is a reasonable approximation of fair value.

There are no financial assets within FVTPL classified as held for trading.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **11. Financial assets (continued)**

11(d) Movements in carrying amount

Ref.		Fair value		Amortised cost		
IFRS 7 20 (a)(b)(e)		Available-for-sale £	Fair value through profit or loss £	Held-to-maturity £	Loans £	Total £
	At 1 January 2007					
	Additions					
	Maturities and redemptions					
	Disposals					
IFRS 7	Fair value gains/(losses) recorded in					
20(a)	Income					
20(a)	Equity					
20(b)	Amortisation					
20(e)	Impairment					
IAS 21 28	Foreign exchange					
	At 31 December 2007					
	Additions					
	Maturities and redemptions					
	Disposals					
IFRS 7	Fair value gains/(losses) recorded in					
20(a)	Income					
20(a)	Equity					
20(b)	Amortisation					
20(e)	Impairment					
IAS 21 28	Foreign exchange					
	At 31 December 2008					

Notes to the consolidated financial statements
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Ref. **11. Financial assets (continued)**

IFRS 7 30A ED **Note** *An illustrative disclosure, extracted from the exposure draft issued on 23 December 2008, is set out below (excluding comparative information which is not required in this period).*

11(e) Investments in debt instruments

	2008 £
Pre-tax profit or loss if all investments in debt instruments had been classified as financial assets as at FVTPL	
Pre-tax profit or loss if all investments in debt instruments (other than those classified as at FVTPL) had been accounted for at amortised cost	

	Carrying amount 2008 £	Fair value 2008 £	Amortised cost 2008 £
Investments in debt instruments classified as:			
Loans and receivables			
Held-to-maturity			
Available-for-sale			

12. Reinsurance assets

IFRS 4 37(b)

	2008 £	2007 £
Insurance contract liabilities (note 15)		
Investment contract liabilities with DPF (note 16)		
Investment contract liabilities without DPF (note 16)		
IAS 1 52 Within one year		
More than one year		

IFRS 7 16 Reinsurance assets are valued after an allowance for their recoverability.

IFRS 7 25 The carrying amount is a reasonable approximation of fair value.

IFRS 4 37(b) **Note** *If the insurer is a cedant, it shall disclose: (i) gains and losses recognised in profit or loss on buying reinsurance; and (ii) if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period.*

Notes to the consolidated financial statements At 31 December 2008

Ref.	**13.**	**Deferred acquisition costs**

13(a) Carrying amount

Ref.		Gross asset		Reinsurers' share		Net asset	
IFRS 4 37(b)							
IAS 18		2008	2007	2008	2007	2008	2007
App 14(b)iii		£	£	£	£	£	£
	Insurance contracts – life						
	Insurance contracts – non-life						
	Investment contracts – DPF						
IAS 18	Investment contracts						
App 14(b)iii	– deferred origination costs						
IAS 1 52	Within one year						
	More than one year						

13(b) Movements in carrying amount

Ref.		Gross		Reinsurers' share		Net	
		2008	2007	2008	2007	2008	2007
IFRS 4 37(e)		£	£	£	£	£	£
	At 1 January						
	Acquisition costs deferred						
	Amortisation						
	Impairment						
	Foreign exchange						
	Other movements						
	At 31 December						

14. Insurance and other receivables

Ref.		2008	2007
IFRS 4 37(b)		£	£
	Due from policyholders		
	Due from intermediaries		
	Deposits with ceding undertakings		
	Due from reinsurers		
IAS 1 52	Within one year		
	More than one year		

IFRS 7 25 The carrying amount is a reasonable approximation of fair value.

Notes to the consolidated financial statements At 31 December 2008

Ref. **15. Insurance contract liabilities**

15(a) Carrying amount

		Gross liability		Reinsurance asset		Net liability	
IFRS 4 37(b)		2008	2007	2008	2007	2008	2007
		£	£	£	£	£	£
	Life						
	Participating life						
	Non-participating life						
	Total life						
	Non-life						
	Outstanding claims						
	IBNR						
	Unearned premiums						
	Unexpired risks						
	Total non-life						
IAS 1 52	Within one year						
	More than one year						

IFRS 7 25 The carrying amount is a reasonable approximation of fair value.

15(b) Movements in carrying amount – life insurance

		Gross		Reinsurers' share		Net	
		2008	2007	2008	2007	2008	2007
IFRS 4 37(e)		£	£	£	£	£	£
	At 1 January						
	Portfolio transfers						
	Acquisitions						
	Premiums received						
	Liabilities paid						
	Unwind of discount						
	Reserve releases						
	Unallocated divisible surplus						
	Foreign exchange						
	Change in valuation						
	Other						
	At 31 December						
IAS 1 52	Within one year						
	More than one year						

Notes to the consolidated financial statements
At 31 December 2008

Ref. **15. Insurance contract liabilities (continued)**

15(c) Movements in carrying amount – non-life insurance

IFRS 4 37(e)

	Gross		Reinsurers' share		Net	
	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£
At 1 January						
Premiums written						
Change in unearned premium						
Foreign exchange on premiums						
Change in unexpired risks						
Current year claims provision						
Change in prior year claims provisions						
Change in prior year assumptions						
Current year claims paid						
Prior year claims paid						
Foreign exchange on claims						
Portfolio transfers						
Acquisitions						
At 31 December						
Within one year (*IAS 1 52*)						
More than one year						

Note *An alternative presentation for the movement in liabilities would be to have a separate note for the movement on each component of the liabilities e.g. outstanding claims, unearned premiums and unexpired risk reserve.*

16. Investment contract liabilities

16(a) Carrying amount

	Gross liability		Reinsurance asset		Net liability	
	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£
Investment contracts						
With DPF						
Without DPF						

Notes to the consolidated financial statements At 31 December 2008

Ref. **16. Investment contract liabilities (continued)**

16(b) Movements in carrying amount – investment contracts with DPF

Ref.		Gross		Reinsurers' share		Net	
IFRS 4 37(e)		2008	2007	2008	2007	2008	2007
		£	£	£	£	£	£
	At 1 January						
	New business premiums						
	Liabilities assumed						
	Fees deducted						
	Investment income						
	Unallocated divisible surplus						
	Assumption changes						
	Other changes						
	Foreign exchange						
	At 31 December						
IAS 1 52	Within one year						
	More than one year						

IFRS 7 30 Investment contracts with DPF are not measured at fair value due to the lack of a reliable basis or market to measure such DPF features. The Group considers the range of estimates to be £xx million to £yy million.

16(c) Movements in carrying amount – investment contracts without DPF

Ref.		Gross		Reinsurers' share		Net	
		2008	2007	2008	2007	2008	2007
		£	£	£	£	£	£
	At 1 January						
	New business deposits						
	Withdrawals						
	Fees deducted						
	Investment income						
	Other changes						
	Foreign exchange						
	At 31 December						
IAS 1 52	Within one year						
	More than one year						

IFRS 7 25 The carrying amount is a reasonable approximation of fair value.

Notes to the consolidated financial statements
At 31 December 2008

Ref.			
	17. Unallocated divisible surplus		
		2008	2007
IFRS 4 37(e)		£	£
	At 1 January		
	Change in participating contract liabilities		
	Change in participating contract assets		
	Foreign exchange		
	At 31 December		

18. Net asset value attributable to unit-holders

Unit trusts in which the Group has a holding of more than 50% are consolidated and the units not owned are accounted as a liability.

IFRS 7 25 The carrying amount is a reasonable approximation for fair value at the balance sheet date.

19. Borrowings

19(a) Carrying amount

		2008	2007
IFRS 7 8(f)		£	£
	Bank loans		
	Bank overdrafts		
	Loans from related parties		
	Redeemable cumulative preference shares		
IAS 1 52	Within one year		
	More than one year		

IFRS 7 25 The carrying amount is a reasonable approximation for fair value at the balance sheet date.

Notes to the consolidated financial statements
At 31 December 2008

Ref. **19. Borrowings (continued)**

19(b) Borrowings by currency

IFRS 7 34

	Sterling £	Euro £	US dollars £	Total £
At 31 December 2008				
Bank loans				
Bank overdraft				
Loans from related parties				
Redeemable cumulative preference shares				

	Sterling £	Euro £	US dollars £	Total £
At 31 December 2007				
Bank loans				
Bank overdraft				
Loans from related parties				
Redeemable cumulative preference shares				

19(c) Other features

The other principal features of the Group's borrowings are as follows:

(i) Bank overdrafts are repayable on demand. Overdrafts of £x million (2007: £y million) have been secured on the Group's properties. The average interest rate on bank overdrafts approximate x% (2007: y%) per annum and are determined based on 3% plus prime rate.

(ii) The bank loan was taken out on *[date]* and will continue until *[date]*. It is secured on the Group's properties. The loan carries interest rate at 3% above 3 month's LIBOR.

(iii) Loans from related parties carry interest of x% – x% (2007: y% – y%) per annum.

(iv) Preference shares carry cumulative x% interest and are redeemable on *[date]* at £x.

The weighted average interest rates paid during the year were as follows:

IFRS 7 34

	2008 %	2007 %
Bank loans		
Bank overdrafts		
Loans from related parties		
Redeemable cumulative preference shares		

At 31 December 2008, the Group had available £x million (2007: £y million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the consolidated financial statements
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Ref. **20. Provisions**

Ref.		Regulatory levies £	Other £	Total £
IAS 37 84				
	At 1 January 2008			
	Additional provision in the year			
	Utilisation of provision			
	Acquisition of subsidiary			
	Unwinding of discount			
	Foreign exchange			
	At 31 December 2008			
IAS 1 52	Within one year			
	More than one year			

The provision for levies arises from a statutory obligation to pay fees to a compensation fund and to contribute to the local regulators' running costs based on estimates of amounts to be billed. The amounts of the levies are based on a proportion of premiums written.

Other provisions include litigation provisions, the payment of which is dependent upon legal processes.

21. Trade and other liabilities

Ref.		2008 £	2007 £
	Arising out of direct insurance		
	Arising out of reinsurance		
	Deposits received from reinsurers		
	Investment contract deferred fee income		
	Reinsurers' share of deferred acquisition costs		
	Other liabilities		
IAS 1 52	Within one year		
	More than one year		

Notes to the consolidated financial statements
At 31 December 2008

Ref. **22. Revaluation reserves**

Ref.		Properties £	Available-for-sale investments £	Total £
	Balance at 1 January 2007			
IAS 16 39	Revaluation decrease on land and buildings			
IAS 12 81(a)	Reversal of deferred tax liability on revaluation of land and buildings			
IFRS 7 20(a)ii	Increase/(decrease) in fair value of available-for-sale investments			
IFRS 7 20(a)ii	Cumulative (gain)/loss transferred to the income statement on sale of investments			
IAS 12 61	Related income tax on the fair value movements of available-for-sale investments			
	Balance at 31 December 2007			
	Revaluation increase on land and buildings			
	Deferred tax liability arising on revaluation of land and buildings			
	Effect of change in tax rate			
	Cumulative (gain)/loss transferred to the income statement on sale of investments			
	Increase in fair value of available-for-sale investments			
	Related income tax on the fair value movements of available-for-sale investments			
	Balance at 31 December 2008			

Notes to the consolidated financial statements
At 31 December 2008

Ref. **23. Notes to the cash flow statement**

Ref.		2008 £	2007 £
IAS 7 18	Profit before tax		
	Share of profit of associates		
	Realised gains/(losses) on investment		
	Fair value gains/(losses) on investments		
	Finance costs		
	Income tax expense		
	Depreciation		
	Impairment loss on equipment		
	Amortisation of intangible assets		
	Impairment of goodwill		
	Negative goodwill released to income		
	(Increase)/decrease in fair value of investment property		
	Gain on disposal of property, plant and equipment		
	Increase/(decrease) in provisions		
	Foreign currency exchange		
	Changes in unallocated divisible surplus		
	Operating cash flows before movements in working capital		
	Decrease/(increase) in reinsurance assets		
	(Increase)/decrease in deferred acquisition costs		
	Decrease/(increase) in insurance contract liabilities		
	Decrease/(increase) in investment contract liabilities		
	Purchases of financial investments		
	Decrease/(increase) in receivables		
	Increase/(decrease) in payables		
	Cash generated by operations		
IAS 7 35	Income taxes paid		
IAS 7 31	Interest paid		
	Net cash from operating activities		

Note *The above disclosure is based on the indirect method. An indicative disclosure based on the direct method is set out below.*

	2008 £	*2007 £*
Insurance premiums received		
Reinsurance premiums paid		
Insurance claims and benefits paid		
Reinsurance recoveries received		
Cash inflows from investment contracts		
Cash outflows from investment contracts		
Acquisition costs paid		
Cash paid to employees		
Investment income		
Net realised gains		
Other cash flows		
Cash generated by operations		
Income taxes paid		
Interest paid		
Net cash from operating activities		

Notes to the consolidated financial statements
At 31 December 2008

Ref. **24. Capital management**

Note *The following are examples of the types of disclosure that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and the financial position.*

IAS 1 124A The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns and comply with the regulators' capital requirements of the markets in which the Group operates while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. Reinsurance is also used as part of capital management. Other capital such as subordinated debt, preference shares and borrowings are also considered by the Group.

The Group measures its capital using an economic capital model which is the Group's own assessment of the amount of capital it needs to hold and takes into account both financial and non-financial assumptions. The economic capital is used within the FSA's requirement on Individual Capital Assessment (ICA). Developments in the Solvency II project are being monitored.

The Group is subject to externally imposed capital requirements in all the countries in which it issues insurance and investment contracts. In most cases the required capital is determined by the application of percentages to premiums, claims, reserves and expenses. The Group fully complied with all externally imposed capital requirements throughout the year.

There were no changes made to the capital base nor to the objectives, policies and processes for managing capital.

The table below sets out the capital that is managed by the Group on an IFRS and regulatory basis:

IAS 1 124B	2008 £	2007 £
Shareholders' equity		
Dividends		
Adjustments for goodwill and other inadmissible assets		
Unallocated divisible surplus		
Capital resources on a regulatory basis		

Note *Additional disclosure could include an analysis of the Group's capital resources by business segment and for the life business segment a movement in capital resources by class of business.*

Notes to the consolidated financial statements
At 31 December 2008

Ref. **25. Financial risk management**

Note *The following are* <u>*examples*</u> *of the types of disclosure that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and the financial position.*

IFRS 7 33 The Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group may seek to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

25(a) Valuation bases

Note *The comment and table below is an* <u>*example*</u> *of the type of disclosure based on a fair value hierarchy that might be required in this area. However, other comprehensive disclosures including movements in categories (level 1, 2, 3) are in the exposure draft on changes to IFRS 7 issued on 15 October 2008 and in the IASB educational guidance issued on 31 October 2008 – which firms are encouraged to consider for 2008 year ends.*

IFRS 7 27 Fair value is the amount for which an asset could be exchanged between willing parties in an arms length transaction. Fair values are determined at prices quoted in active markets. In the current environment, such price information is typically not available for all instruments and the Group applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee. The Group has minimal exposure to financial assets which are valued at other than quoted prices in an active market.

The table below shows financial assets carried at fair value through profit or loss (as disclosed in note 11) by valuation method.

	2008 £	2007 £
Quoted prices in active markets (level 1)		
Valuation technique		
Market observable data (level 2)		
Other than observable market data (level 3)		

Financial assets carried at fair value through profit or loss, based on other than observable market data (level 3) are set out below:

	2008 £	2007 £
Unlisted debt securities		
Unlisted equities		
Loans and mortgages		

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(b) Market risk

IFRS 7 33 Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The Group has established policies and procedures in order to manage market risk.

Foreign currency risk management

IFRS 7 33 The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group has minimal exposure to currency risk as the Group's financial assets are primarily matched to the same currencies as its insurance and investment contract liabilities. As a result, foreign exchange risk arises from other recognised assets and liabilities denominated in other currencies.

Carrying amounts of the Group's foreign currency denominated assets and liabilities:

IFRS 7 34(a)

	Euro 2008 £	Euro 2007 £	US dollars 2008 £	US dollars 2007 £
Assets				
Liabilities				

Foreign currency sensitivity analysis

IFRS 7 40 The following table details the Group's sensitivity to a 10% increase and decrease in the Sterling against the relevant foreign currencies. A 10% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged.

	Euro 2008 £	Euro 2007 £	US dollars 2008 £	US dollars 2007 £
10% increase				
Pre tax profit				
Shareholders' equity				
10% decrease				
Pre tax profit				
Shareholders' equity				

The Group's method for sensitivity to currency rate fluctuations has not changed significantly over the year.

Note *The tables above provide an example of summary quantitative data about exposure to foreign exchange risks at the reporting date that an entity may provide internally to key management personnel. In light of current volatile markets, it would be appropriate to re-consider both the qualitative and quantitative discussion.*

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(b) Market risk (continued)

Interest rate risk management

IFRS 7 33 Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk as entities in the Group invest in long term debt at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by limited use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite.

Interest rate risk also exists in products sold by the Group. The Group manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

The Group has no significant concentration of interest rate risk.

Interest rate sensitivity analysis

IFRS 7 40 The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	2008 £	2007 £
0.5% increase		
Pre tax profit		
Shareholders' equity		
0.5% decrease		
Pre tax profit		
Shareholders' equity		

The Group's method for sensitivity to interest rate fluctuations has not changed significantly over the year.

Note *The table above provides an example of summary quantitative data about exposure to interest rate risks at the reporting date that an entity may provide internally to key management personnel. In light of current volatile markets, it would be appropriate to re-consider both the qualitative and quantitative discussion.*

Notes to the consolidated financial statements
At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(b) Market risk (continued)

Interest rate risk exposures from options and guarantees embedded in insurance liabilities

IFRS 4 39(e) The Group's insurance contracts and investment contracts with DPF have certain options and guarantees that transfer interest rate risk to the Group. These options and guarantees within contracts written in the Group's overseas life operations are:

- options to surrender the insurance contract or the investment contract with DPF where the surrender value (i.e. the strike price of the option) is either a fixed amount or a fixed amount plus interest at a rate that ranges from 2.5% to 0.5% depending on the year in which the contract was issued; and

- guaranteed annuity options where the Group has guaranteed at the inception of certain contracts that it will be paying a life annuity to the surviving policyholders at their retirement dates which will be calculated using the higher of the current annuity rate at that date or the guaranteed annuity rate set in the contract. The guaranteed rate has fixed at inception both the level of mortality risk and the interest rate that will be used to calculate the annuity payments. Interest rates guarantees are within a range from 0.5% to 2.5% depending on the year in which the contract was issued.

Under IFRS the Group is not required to, and does not, measure these options and guarantees as embedded derivatives at fair value. Their impact on the Group's profit is considered at each reporting date in the context of the Group's liability adequacy test. However these options and guarantees expose the Group to interest rate risk. The analysis of the options and guarantees embedded in liabilities from insurance contracts and investment contracts with DPF is detailed in the following table:

	2008	2007
	£	£
Carrying amount of liabilities from insurance contracts and investment contracts with DPF		
Option to surrender at a fixed amount		
Option to surrender at a fixed amount plus interest		
at 2.5%		
at 2.0%		
at 1.0%		
at 0.5%		
Other types of surrender options		
Total		
Carrying amount of liabilities from insurance contracts		
With a guaranteed annuity option		
at 2.5%		
at 2.0%		
at 1.0%		
at 0.5%		
Without a guaranteed annuity option		
Total		

The Group's method for sensitivity to interest rate fluctuations has not changed significantly over the year.

Note *The table above provides an example of summary quantitative data about exposure to interest rate risks at the reporting date that an entity may provide internally to key management personnel. In light of current volatile markets, it would be appropriate to re-consider both the qualitative and quantitative discussion.*

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(b) Market risk (continued)

Other price risk management

IFRS 7 33 The Group is exposed to equity price risks arising from equity investments primarily from investments not held for unit-linked business. The shares included in financial assets represent investments in listed and unlisted securities that present the Group with opportunity for return through dividend income and capital appreciation. Equity investments designated as available-for-sale are held for strategic rather than trading purposes.

The Group has no significant concentration of price risk.

Equity price sensitivity analysis

IFRS 7 40 The sensitivity analyses set out below show the impact of a 10% increase and decrease in the value of equities on profit before tax and shareholders' equity based on the exposure to equity price risk at the reporting date.

	2008 £	2007 £
10% increase		
Pre tax profit		
Shareholders' equity		
10% decrease		
Pre tax profit		
Shareholders' equity		

The Group's method for sensitivity to equity prices has not changed significantly from the prior year.

Note *The table above provides an example of summary quantitative data about exposure to equity price risk at the reporting date that an entity may provide internally to key management personnel. In light of current volatile markets, it would be appropriate to re-consider both the qualitative and quantitative discussion.*

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(b) Market risk (continued)

Equity price risk exposures from derivatives embedded in insurance liabilities

IFRS 4 39(e)

Certain insurance contracts the Group issues offer a guarantee to policyholders that in case of death the payout will be the higher of the linked mutual fund value or a fixed amount equal to the value of premiums paid into the contract at that time. The Group is not required to, and it does not, separate and account for this guarantee as an embedded derivative at fair value through profit and loss. Their impact on the Group's profit is considered at each reporting date in the context of the Group's liability adequacy test. However these guarantees expose the Group to equity price risk from the fluctuation of prices of the equity instruments held in the linked mutual fund. The analysis of these guarantees embedded in liabilities from insurance contracts is detailed in the following table:

	2008 £	2007 £
Carrying amount of liabilities from insurance contracts		
With a minimum guaranteed death benefit		
in the money at the balance sheet date		
out of the money at the balance sheet date		
Without a minimum guaranteed death benefit		
Total		

The Group's method for sensitivity to equity prices has not changed significantly from the prior year.

Note *The table above provides an example of summary quantitative data about exposure to equity price risk at the reporting date that an entity may provide internally to key management personnel. In light of current volatile markets, it would be appropriate to re-consider both the qualitative and quantitative discussion.*

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(c) Credit risk

IFRS 7 33 Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The key areas of exposure to credit risk for the Group are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent to investment grade and above.

This information is supplied by independent rating agencies where available and if not available the Group uses other publicly available financial information and its own trading records to rate its major policyholders and reinsurers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Receivables consist of a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties. Concentration of credit did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group writes unit-linked business where the policyholder bears the investment risk on the assets held. The shareholders' risk is limited to the extent that income arising from asset management charges is based on the value of those assets.

Except as detailed in the following table, the carrying amount of financial assets and reinsurance assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

		Maximum credit risk	
		2008	2007
IFRS 7 36(a)		£	£
	Letters of credit provided by banks on behalf of reinsurers		

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(c) Credit risk (continued)

IFRS 7 36(c) The following table shows aggregated credit risk exposure for assets with external credit ratings.

The majority of debt securities are investment grade and the Group has very limited exposure to sub-prime or alt-A.

Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. They are allocated below on the basis of ratings for claims paying ability.

Loans and receivables from policyholders, agents and intermediaries generally do not have a credit rating.

Unit-linked assets are excluded from this analysis.

	AAA 2008 £	AA 2008 £	A 2008 £	BBB 2008 £	Not rated 2008 £	Carrying amount 2008 £
Debt securities						
UK government						
Non-UK government						
Listed						
Unlisted						
Other						
Other investments						
Reinsurers' share of outstanding claims and IBNR and reinsurance receivables						
Loans and receivables						
Insurance receivables						
Deposits						
Cash and cash equivalents						

	AAA 2007 £	AA 2007 £	A 2007 £	BBB 2007 £	Not rated 2007 £	Carrying amount 2007 £
Debt securities						
UK government						
Non-UK government						
Listed						
Unlisted						
Other						
Other investments						
Reinsurers' share of outstanding claims and IBNR and reinsurance receivables						
Loans and receivables						
Insurance receivables						
Deposits						
Cash and cash equivalents						

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(c) Credit risk (continued)

IFRS 7 37(a) The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired.

Unit linked assets are excluded from this analysis.

	Neither past due nor impaired 2008 £	Past due less than 30 days 2008 £	Past due 31 to 60 days 2008 £	Past due 61 to 90 days 2008 £	Past due more than 90 days 2008 £	Past due and impaired 2008 £	Carrying amount 2008 £
Debt securities							
Other investments							
Reinsurers' share of outstanding claims and IBNR and reinsurance receivables							
Loans and receivables							
Insurance receivables							

	Neither past due nor impaired 2007 £	Past due less than 30 days 2007 £	Past due 31 to 60 days 2007 £	Past due 61 to 90 days 2007 £	Past due more than 90 days 2007 £	Past due and impaired 2007 £	Carrying amount 2007 £
Debt securities							
Other investments							
Reinsurers' share of outstanding claims and IBNR and reinsurance receivables							
Loans and receivables							
Insurance receivables							

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(d) Liquidity risk

IFRS 7 33

Liquidity risk is the risk that the Group cannot meet its obligations associated with financial liabilities as they fall due. The Group has adopted an appropriate liquidity risk management framework for the management of the Group's liquidity requirements. The Group manages liquidity risk by maintaining banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The Group is exposed to liquidity risk arising from clients on its insurance and investment contracts. In respect of catastrophic events there is liquidity risk from a difference in timing between claim payments and recoveries thereon from reinsurers.

IFRS 7 34(a)
IFRS 7 39(a)

Liquidity management ensures that the Group has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities. In practice, most of the Group's assets are marketable securities which could be converted in to cash when required.

IFRS 4 39(d)i

The following table shows details of the expected maturity profile of the Group's undiscounted obligations with respect to its financial liabilities and estimated cash flows of recognised insurance and participating investment contract liabilities. Unit-linked liabilities and unearned premiums are excluded from this analysis. The table includes both interest and principal cash flows.

	Less than 1 month 2008 £	1-3 months 2008 £	3 months to 1 year 2008 £	1-5 years 2008 £	5+ years 2008 £	Total 2008 £
Insurance contract liabilities						
Life						
Non-life						
Investment contract liabilities						
With DPF						
Without DPF						
Unallocated divisible surplus						
Borrowings						
Derivative liabilities						
Trade and other liabilities						

	Less than 1 month 2007 £	1-3 months 2007 £	3 months to 1 year 2007 £	1-5 years 2007 £	5+ years 2007 £	Total 2007 £
Insurance contract liabilities						
Life						
Non-life						
Investment contract liabilities						
With DPF						
Without DPF						
Unallocated divisible surplus						
Borrowings						
Derivative liabilities						
Trade and other liabilities						

Notes to the consolidated financial statements At 31 December 2008

Ref. **25. Financial risk management (continued)**

25(d) Liquidity risk (continued)

IAS 1 52 The following table details the Group's expected maturity for its non-derivative assets. The tables below have been drawn up based on the undiscounted contractual maturities of the assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Unit-linked assets and reinsurers' share of unearned premiums are excluded from this analysis.

	Less than 1 month 2008 £	1-3 months 2008 £	3 months to 1 year 2008 £	1-5 years 2008 £	5+ years 2008 £	Total 2008 £
Debt securities						
Equities						
Other investments						
Reinsurance assets						
Loans and receivables						
Insurance receivables						
Cash and cash equivalents						

	Less than 1 month 2007 £	1-3 months 2007 £	3 months to 1 year 2007 £	1-5 years 2007 £	5+ years 2007 £	Total 2007 £
Debt securities						
Equities						
Other investments						
Reinsurance assets						
Loans and receivables						
Insurance receivables						
Cash and cash equivalents						

Although the Group has access to financing facilities, the Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Notes to the consolidated financial statements At 31 December 2008

Ref. **26. Insurance risk management**

Note *The following are examples of the type of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and financial position.*

IFRS 4 38 The Group accepts insurance risk through its insurance contracts and certain investments contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Group is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

IFRS 4 39(a) The Group manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Group from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis.

Regulatory capital is also managed (though not exclusively) by reference to the insurance risk to which the Group is exposed.

26(a) Non-life insurance

IFRS 4 39(a) The Group writes property, liability and motor risks primarily over a twelve month duration. The most significant risks arise from natural disasters, climate change and other catastrophes (i.e. high severity, low frequency events). A concentration of risk may also arise from a single insurance contract issued to a particular demographic type of policyholder, within a geographical location or to types of commercial business. The relative variability of the outcome is mitigated if there is a large portfolio of similar risks.

IFRS 4 39(c)ii The concentration of non-life insurance by the location of the underlying risk is summarised below by reference to liabilities.

	Gross		Reinsurance		Net	
	2008 £	2007 £	2008 £	2007 £	2008 £	2007 £
UK						
Europe						
US						
Other						

IFRS 4 39(c)ii The concentration of non-life insurance by type of contract is summarised below by reference to liabilities.

	Gross		Reinsurance		Net	
	2008 £	2007 £	2008 £	2007 £	2008 £	2007 £
Property						
Liability						
Motor						

Notes to the consolidated financial statements At 31 December 2008

Ref. **26. Insurance risk management (continued)**

26(a) Non-life insurance (continued)

Assumptions and sensitivities

IFRS 4 37(c) The risks associated with the non-life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Group uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The key methods used by the Group for estimating liabilities are:

- chain ladder;
- expected loss ratio;
- benchmarking; and
- Bornhuetter-Ferguson.

Included within the insurance contract liabilities are provisions for asbestos and environmental related claims arising from policies written many years ago. The Group has minimal exposure to these risks, the exposure of which is determined by the number of claims filed and the Court process.

The Group considers that the liability for non-life insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

IFRS 4 39(c) Some results of sensitivity testing are set out below, showing the impact on profit before tax and shareholders' equity gross and net of reinsurance. For each sensitivity the impact of a change in a single factor is shown, with other assumptions
IFRS 4 39Aa unchanged.

	Pre tax profit		Shareholders' equity	
	2008	2007	2008	2007
	£	£	£	£
5% increase in loss ratios				
Gross				
Net				
5% decrease in loss ratios				
Gross				
Net				
Weather event in UK – industry loss £x million				
Gross				
Net				
10% increase in expenses				
Gross				
Net				
10% decrease in expenses				
Gross				
Net				

The Group's method for sensitivity testing has not changed significantly from the prior year.

Note *The above sensitivities could be provided by line of business e.g. property, liability and motor.*

Notes to the consolidated financial statements At 31 December 2008

Ref. **26. Insurance risk management (continued)**

26(a) Non-life insurance (continued)

Claims development tables

IFRS 4 39(c) The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. In 2005, in the year of adoption of IFRS, only 5 years were required to be disclosed. This is being increased in each succeeding year, until ten years of information is presented. The top half of the table shows how the estimates of total claims for each accident year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each accident year are translated into pounds sterling at the year rates that applied at the end of each accident year.

Analysis of claims development – gross

	2001 £	2002 £	2003 £	2004 £	2005 £	2006 £	2007 £	2008 £	Total £
Estimate of ultimates:									
End of accident year									
One year later									
Two years later									
Thee years later									
Four years later									
Five years later									
Six years later									
Seven years later									
Current estimate of ultimate claims									
Cumulative payments									
In balance sheet									
Provision for prior years									
Liability in balance sheet									

Analysis of claims development – net

	2001 £	2002 £	2003 £	2004 £	2005 £	2006 £	2007 £	2008 £	Total £
Estimate of ultimates:									
End of accident year									
One year later									
Two years later									
Thee years later									
Four years later									
Five years later									
Six years later									
Seven years later									
Current estimate of ultimate claims									
Cumulative payments									
In balance sheet									
Provision for prior years									
Liability in balance sheet									

Notes to the consolidated financial statements At 31 December 2008

Ref. **26. Insurance risk management (continued)**

26(b) Life insurance and investment contracts with DPF

IFRS 4 39(a) The Group writes life, pensions and annuities business with or without discretionary participating features. The most significant risks arise from mortality, persistency, longevity, morbidity, expense variations and investment returns.

IFRS 4 39(c)ii Concentration of risk may arise from geographic regions, epidemics, accumulation of risks and market risk. The concentration of life insurance and investment contracts with DPF by location of the underlying risk is summarised below by reference to liabilities.

	Gross		Reinsurance		Net	
	2008 £	2007 £	2008 £	2007 £	2008 £	2007 £
Life insurance						
UK						
Europe						
USA						
Other						

	Gross		Reinsurance		Net	
	2008 £	2007 £	2008 £	2007 £	2008 £	2007 £
Participating investment contracts						
UK						
Europe						
USA						
Other						

The concentration of life insurance and investment contracts with DPF by type of contract is summarised below by reference to liabilities.

	Gross		Reinsurance		Net	
	2008 £	2007 £	2008 £	2007 £	2008 £	2007 £
Protection						
Pensions						
Annuities						
Healthcare						
Participating investment contracts						

Notes to the consolidated financial statements
At 31 December 2008

Ref. **26. Insurance risk management (continued)**

26(b) Life insurance and investment contracts with DPF (continued)

Assumptions and sensitivities

IFRS 4 37(c) The risks associated with the life insurance and investment contracts with DPF are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The key assumptions in quantifying these liabilities include mortality, persistency, longevity, morbidity, expense variations, investment return and discount rates.

IFRS 4 39Aa Some results of sensitivity testing are set out below showing the impact on profit before tax and shareholders' equity before and after reinsurance. For each sensitivity the impact of a change in a single factor is shown, with other assumptions unchanged.

	Pre tax profit		Shareholders' equity	
	2008	2007	2008	2007
Life insurance	£	£	£	£
5% increase in mortality/morbidity				
Gross				
Net				
5% increase in longevity				
Gross				
Net				
10% increase in expenses				
Gross				
Net				
1% increase in interest rates				
Gross				
Net				

Notes to the consolidated financial statements
At 31 December 2008

Ref. **26. Insurance risk management (continued)**

26(b) Life insurance and investment contracts with DPF (continued)

Assumptions and sensitivities (continued)

	Pre tax profit		Shareholders' equity	
	2008	2007	2008	200
Participating investment contracts	£	£	£	£
5% increase in mortality/morbidity				
Gross				
Net				
5% increase in longevity				
Gross				
Net				
10% increase in expenses				
Gross				
Net				
1% increase in interest rates				
Gross				
Net				

The Group's method for sensitivity testing has not changed significantly from the prior year.

Note *One of the consequences of market turbulence has been a significant widening in corporate bond spreads. As most life insurers hold corporate bonds to back various classes of business, they should consider the sensitivity in determining the discount rate used to value long term liabilities.*

The sensitivities above show an increase in variables; sensitivities could also be disclosed showing a decrease in variables.

Appendix 1

International Financial Reporting Standards IFRS 4 and IFRS 7 Presentation and disclosure checklist

Appendix 1

International Financial Reporting Standards IFRS 4 and IFRS 7 Presentation and disclosure checklist

Warning

This checklist summarises the presentation and disclosure requirements set out in two International Financial Reporting Standards (IFRSs) – IFRS 4 and IFRS 7. IFRSs include Standards as issued by the International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC) Interpretations, International Accounting Standards (IASs) and Standing Interpretations Committee (SIC) Interpretations. This checklist may be used to assist in considering compliance with the presentation and disclosure requirements of those pronouncements. It is not a substitute for your understanding of such pronouncements and the exercise of your judgment.

You are presumed to have a thorough understanding of the pronouncements and should refer to the text of the pronouncements, as necessary, in considering particular items in this checklist. The items in this checklist are referenced to the applicable sections of the actual pronouncements as published by the IASB.

This checklist addresses the presentation and disclosure requirements of IFRS 4 and IFRS 7 in issue at 31 October 2008 (including the amendment to IFRS 7 issued on 13 October 2008). It does not address the requirements of IFRSs as regards recognition and measurement.

Use of this checklist

This checklist is provided solely for your intended use and should not be provided to any other person or entity.

None of (1) the member firm that provides the checklist to clients, (2) Deloitte Touche Tohmatsu, or (3) any other member firm of Deloitte Touche Tohmatsu or any of their respective subsidiaries, affiliates and related entities, is by means of this checklist rendering accounting or other professional advice or services. This checklist is not a substitute for professional advice or services, nor should it be used as the basis for any decision or action that may affect your business.

None of (1) the member firm that provides the checklist to clients, (2) Deloitte Touche Tohmatsu, or (3) any other member firm of Deloitte Touche Tohmatsu or any of their respective subsidiaries, affiliates and related entities, shall be responsible for any loss sustained by any person who relies on this checklist.

Please note that while every effort has been made to ensure that this checklist is complete in terms of the IFRS presentation and disclosure requirements, users will inevitably be required to exercise professional judgment based on specific circumstances (e.g. determination of whether financial statements 'fairly present'). This checklist is merely an enabling tool that does not address such judgmental issues. Users of this checklist are advised to consult IFRS specialists in that regard.

The detailed presentation and disclosure points generally require a "Yes", "No" or "N/A" response. Depending on the response, you may need to take further action. A "Yes" response does not necessarily result in compliance with the IFRS.

IFRSs are constantly changing. It is the responsibility of users of this checklist to maintain current knowledge of IFRSs which may impact the content of this checklist.

International Financial Reporting Standards IFRS 4 and IFRS 7 Presentation and disclosure checklist (continued)

Introduction

The IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRSs). At the time of its inception, the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor, the Board of the International Accounting Standards Committee. The term 'International Financial Reporting Standards' therefore includes IFRSs, Interpretations issued by the IFRIC, IASs and Standing Interpretations Committee (SIC) Interpretations.

Standards and Interpretations covered by this checklist

This checklist is intended to aid the user in determining if the presentation and disclosure requirements of IFRS 4 and IFRS 7 have been met. It does not address the requirements of IFRSs as regards recognition and measurement.

This checklist covers the presentation and disclosure requirements of IFRS 4 and IFRS 7 in effect at 31 October 2008. Note that:

- the checklist is suitable for use in assessing presentation and disclosure in financial statements prepared in accordance with IFRSs for periods beginning 1 January 2008. **(It is not generally appropriate for use for earlier accounting periods)**;

- as part of their ongoing work programmes, the IASB and the IFRIC continue to issue Standards and Interpretations. Where those Standards and Interpretations are released prior to the issue of the entity's financial statements, and they have not been adopted because they are not yet effective, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to disclose that fact and, if estimable, the expected impact in the period of initial application.

Suggestions for completion of this checklist

Financial statements should not be described as complying with IFRSs unless they comply with all of the requirements of each applicable Standard and each applicable Interpretation. In virtually all circumstances, compliance with applicable IFRSs will enable the financial statements to give a fair presentation. In extremely rare circumstances, a departure from IFRSs is permitted in order to achieve such fair presentation, in which case comprehensive disclosure requirements are imposed.

The user of this checklist is presumed to have a thorough understanding of and familiarity with IFRSs. This checklist consists of questions that address topics or areas which may/may not be relevant to your specific situation.

References are made by IFRS number, followed by the paragraph number e.g. IFRS 7.26 refers to paragraph 26 of IFRS 7.

The questions do not generally cover matters dealt with in the implementation guidance included in IFRSs. **It is therefore essential that the user refers to the detailed text of the relevant IFRS or implementation guidance, as necessary, in answering particular questions.**

Limited guidance is provided by way of notes to certain questions and these are identifiable by the italic font.

Reference	Presentation/disclosure requirement	Yes/No/N/A
	This section of the checklist addresses IFRS 4, which specifies the financial reporting for insurance contracts by an entity that issues such contracts (described as an insurer). IFRS 4 is an interim measure until the IASB completes the second phase of its project on insurance contracts. *An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policy holder if a specified uncertain future event (the insured event) adversely affects the policy holder. Refer to Appendix B of IFRS 4 for an extended discussion of the definition of an insurance contract, and to paragraphs 2 to 12 of IFRS 4 for the specific rules as regards the scope of the Standard.* *Note that the Implementation Guidance accompanying IFRS 4 clarifies a number of the disclosure requirements, and contains extensive guidance on possible ways to meet the disclosure requirements in paragraphs 36 to 39A of the Standard. This guidance, which was originally issued in March 2004, was revised in December 2005 to reflect the changes to IFRS 4 arising from IFRS 7, Financial Instruments: Disclosures (effective 1 January 2007).*	
	Offsetting	
IFRS 4.14(d)	An insurer shall not offset: a) reinsurance assets against the related insurance liabilities; or b) income or expense from reinsurance contracts against the expense or income from the related insurance contracts.	
	Insurance contracts acquired in a business combination or portfolio transfer	
IFRS 4.31	To comply with IFRS 3 *Business Combinations*, an insurer shall, at the acquisition date, measure at fair value the insurance liabilities assumed and insurance assets acquired in a business combination. However, an insurer is permitted, but not required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components: a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and b) an intangible asset, representing the difference between (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed, and (ii) the amount described in (a) above.	
	Notes:	
IFRS 4.31(b)	*1) The subsequent measurement of any intangible asset separately identified in accordance with the alternative permitted under paragraph 31 of IFRS 4 (see above) shall be consistent with the measurement of the related insurance liability.*	
IFRS 4.32	*2) An insurer acquiring a portfolio of insurance contracts may also use the expanded presentation permitted by paragraph 31 of IFRS 4 (see above).*	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	Discretionary participation features in financial instruments	
IFRS 4.35(b)	Where the entity is the issuer of a financial instrument that contains a discretionary participation feature as well as a guaranteed element, in applying the rules set out in paragraph 34 of IFRS 4, the entity need not disclose the amount that would result from applying IAS 39 *Financial Instruments: Recognition and Measurement* to the guaranteed element, nor need it present that amount separately.	
IFRS 4.35(d)	Where the entity is the issuer of a financial instrument that contains a discretionary participation feature as well as a guaranteed element, in applying the rules set out in paragraph 34 of IFRS 4, although these contracts are financial instruments, an issuer applying paragraph 20(b) of IFRS 7 to contracts with a discretionary participation feature shall disclose the total interest expense recognised in profit or loss, but need not calculate such interest expense using the effective interest method.	
	Explanation of recognised amounts	
IFRS 4.36	The insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.	
	Note: Paragraph 37 of IFRS 4, set out below, specifies the minimum disclosures required to satisfy this requirement.	
	The insurer shall disclose:	
IFRS 4.37(a)	a) its accounting policies for insurance contracts and related assets, liabilities, income and expense;	
IFRS 4.37(b)	b) the recognised assets, liabilities, income and expense (and, if it presents its cash flow statement using the direct method, cash flows) arising from insurance contracts;	
IFRS 4.37(b)	c) if the insurer is a cedant (i.e. the policy holder under a reinsurance contract):	
	i) gains and losses recognised in profit or loss on buying reinsurance; and	
	ii) if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period;	
IFRS 4.37(c)	d) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in accordance with paragraph 37(b) of IFRS 4 (see above);	
IFRS 4.37(c)	*Note: When practicable, an insurer shall also give quantified disclosure of those assumptions.*	
IFRS 4.37(d)	e) the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements; and	
IFRS 4.37(e)	f) reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	Nature and extent of risks arising from insurance contracts	
IFRS 4.38	The insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.	
	Note: Paragraph 39 of IFRS 4(r2005), set out below, specifies the minimum disclosures required to satisfy this requirement.	
	The insurer shall disclose:	
IFRS 4.39(a)	a) its objectives, policies and processes for managing risks arising from insurance contracts;	
IFRS 4.39(a)	b) the methods used to manage those risks;	
IFRS 4.39(c)	c) information about insurance risk (both before and after risk mitigation by reinsurance), including information about:	
	i) sensitivity to insurance risk (see note 1 below);	
IFRS 4.39(c)	ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of insured event, geographical area, or currency); and	
	iii) actual claims compared with previous estimates (i.e. claims development) (see note 2 below);	
IFRS 4.39(d)	d) information about credit risk, liquidity risk and market risk that paragraphs 31 to 42 of IFRS 7 would require if the insurance contracts were within the scope of IFRS 7 (see notes 3 and 4 below); and	
IFRS 4.39(e)	e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.	
	Notes:	
IFRS 4.39A	*1) To comply with paragraph 39(c)(i) of IFRS 4 (see above), an insurer shall disclose either (a) or (b) as follows:*	
	a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the balance sheet date occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of IFRS 7, Financial Instruments: Disclosures; or	
	b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.	
IFRS 4.39(c)(iii)	*2) The disclosure about claims development required under IFRS 4.39(c)(iii) shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.*	

Reference	Presentation/disclosure requirement	Yes/No/N/A
IFRS 4.39(d)(i)	*3) An insurer need not provide the maturity analysis required by paragraph 39(a) of IFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the balance sheet.*	
IFRS 4.39(d)(ii)	*4) If an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirements of paragraph 40(a) of IFRS 7. Such an insurer is also required to provide the disclosures required by paragraph 41 of IFRS 7.*	
IFRS 4.44	*5) In applying paragraph 39(c)(iii) of IFRS 4, an entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies IFRS 4.*	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	This section of the checklist addresses IFRS 7, which prescribes the disclosure requirements for financial instruments, both recognised and unrecognised. IFRS 7 is effective for accounting periods beginning on or after 1 January 2007. *Appendix B to IFRS 7 contains application guidance that is issued as an integral part of the Standard. References to the relevant paragraphs of Appendix B are noted below.*	
	Classes of financial instruments and level of disclosure	
IFRS 7.6	When IFRS 7 requires disclosures by class of instrument, the entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments.	
IFRS 7.6	When IFRS 7 requires disclosure by class of instrument, the entity shall provide sufficient information to permit reconciliation to the line items presented in the balance sheet.	
IFRS 7.B1 to B3	*Notes:* *1) The classes of financial instruments described in paragraph 6 of IFRS 7 are determined by the entity and are not the same as the categories of financial instruments specified in IAS 39, Financial Instruments: Recognition and Measurement.* *2) In determining the classes of financial instruments, the entity is required, as a minimum, to distinguish between instruments measured at amortised cost and those measured at fair value, and to treat as a separate class those financial instruments that fall outside the scope of IFRS 7.* *3) It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation.*	
	Significance of financial instruments for financial position and performance	
IFRS 7.7	An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.	
	Balance sheet	
	<u>Categories of financial assets and financial liabilities</u>	
	The carrying amounts of each of the following categories, as defined in IAS 39 *Financial Instruments: Recognition and Measurement*, shall be disclosed either on the face of the balance sheet or in the notes:	
IFRS 7.8(a)	a) financial assets at fair value through profit or loss, showing separately:	
	i) those designated as such upon initial recognition; and	
	ii) those classified as held for trading in accordance with IAS 39;	
IFRS 7.8(b)	b) held-to-maturity investments;	
IFRS 7.8(c)	c) loans and receivables;	
IFRS 7.8(d)	d) available-for-sale financial assets;	

Reference	Presentation/disclosure requirement	Yes/No/N/A
IFRS 7.8(e)	e) financial liabilities at fair value through profit or loss, showing separately:	
	i) those designated as such upon initial recognition; and	
	ii) those classified as held for trading in accordance with IAS 39; and	
IFRS 7.8(f)	f) financial liabilities measured at amortised cost.	
	<u>Financial assets or financial liabilities at fair value through profit or loss</u>	
	If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss, it shall disclose:	
IFRS 7.9(a)	a) the maximum exposure to credit risk of the loan or receivable (or group of loans or receivables) at the reporting date (see note 1 below);	
IFRS 7.9(b)	b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;	
IFRS 7.9(c)	c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:	
	i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see note 2 below); or	
	ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset; and	
IFRS 7.9(d)	d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated at fair value through profit or loss.	
IFRS 7.B9 and IFRS 7.9	*Notes:* *1) The maximum exposure to credit risk reported for financial assets is typically the gross amount net of any amount offset in accordance with IAS 32 and any impairment losses in terms of IAS 39, i.e. it should not take account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with IAS 32).* *2) Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or an index of prices or rates.*	
	If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39, it shall disclose:	
IFRS 7.10(a)	a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either:	
	i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see also paragraph B4 of IFRS 7, as detailed below); or	
	ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability; and	

Reference	Presentation/disclosure requirement	Yes/No/N/A
IFRS 7.10(b)	b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.	
IFRS 7.10	*Notes:*	
	1) Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, commodity price, foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.	
IFRS 7.B4	2) *If the only relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, the amount of change in fair value not attributable to changes in market conditions can be estimated as follows:*	
	• *compute the liability's internal rate of return at the start of the period using both the liability's observed market price and the contractual cash flows at the start of the period, and then deduct the observed benchmark interest rate at the start of the period to arrive at an instrument-specific component of the internal rate of return;*	
	• *calculate the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the benchmark interest rate at the end of the period, and (ii) the instrument-specific component of the internal rate of return (as calculated above); and*	
	• *the difference between the observed market price at the end of the period and the present value of the contractual cash flows at the end of the period is the change in fair value not attributable to changes in the benchmark interest rate that shall be disclosed.*	
	If the liability contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be disclosed under paragraph 10(a) of IFRS 7 (see above).	
	The entity shall disclose:	
IFRS 7.11(a)	a) the methods used to determine the amount of change that is attributable to changes in credit risk in compliance with the requirements in paragraphs 9(c) and 10(a) of IFRS 7 (see above); and	
IFRS 7.11(b)	b) if the entity believes that the disclosure it has given to comply with the requirements in paragraphs 9(c) or 10(a) of IFRS 7 does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.	
	<u>Reclassification</u>	
	If the entity has reclassified a financial asset (in accordance with paragraphs 51-54 of IAS 39) as one measured:	
IFRS 7.12(a)	a) at cost or amortised cost, rather than at fair value; or	
IFRS 7.12(b)	b) at fair value, rather than at cost or amortised cost.	
	It shall disclose the amount reclassified into and out of each category and the reason for that reclassification.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
IFRS 7.12A	If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of IAS 39 or out of the available-for sale category in accordance with paragraph 50E of IAS 39, it shall disclose:	
IFRS 7.12A(a)	a) the amount reclassified into and out of each category;	
IFRS 7.12A(b)	b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;	
IFRS 7.12A(c)	c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;	
IFRS 7.12A(d)	d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;	
IFRS 7.12A(e)	e) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and	
IFRS 7.12A(f)	f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.	
	Note: Paragraph 12 of IFRS 7 was amended, and paragraph 12A, added by Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7 issued in October 2008). These amendments are effective from 1 July 2008. Entities are not permitted to reclassify financial assets in accordance with the amendments before 1 July 2008.	
	<u>Derecognition</u>	
	The entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15 to 37 of IAS 39). The entity shall disclose for each class of such financial assets:	
IFRS 7.13(a)	a) the nature of the assets not derecognised;	
IFRS 7.13(b)	b) the nature of the risks and rewards of ownership to which the entity remains exposed;	
IFRS 7.13(c)	c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and	
IFRS 7.13(d)	d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.	
	<u>Collateral</u>	
	The entity shall disclose:	
IFRS 7.14(a)	a) the carrying amount of financial assets it has pledged as collateral for either liabilities or contingent liabilities, including amounts that have been reclassified in the balance sheet separately from other assets as the transferee has the right to sell or repledge, in accordance with paragraph 37(a) of IAS 39; and	
IFRS 7.14(b)	b) the terms and conditions relating to its pledge.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	When the entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:	
IFRS 7.15(a)	a) the fair value of such collateral held;	
IFRS 7.15(b)	b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and	
IFRS 7.15(c)	c) the terms and conditions associated with its use of the collateral.	
	<u>Allowance account for credit losses</u>	
IFRS 7.16	When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.	
	<u>Compound financial instruments with multiple embedded derivatives</u>	
IFRS 7.17	If the entity has issued an instrument that contains both a liability and an equity component, and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.	
	<u>Defaults and breaches</u>	
	For loans payable recognised at the reporting date, the entity shall disclose:	
IFRS 7.18(a)	a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;	
IFRS 7.18(b)	b) the carrying amount of the loans payable in default at the reporting date; and	
IFRS 7.18(c)	c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.	
IFRS 7.19	If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18 of IFRS 7 (see above), an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the reporting date).	
	Income statement and equity	
	<u>Items of income, expense, gains or losses</u>	
	The entity shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes:	
IFRS 7.20(a)	a) net gains or net losses on:	
	i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading;	
	ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised directly in equity during the period and the amount removed from equity and recognised in profit or loss for the period;	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	iii) held-to-maturity investments;	
	iv) loans and receivables; and	
	v) financial liabilities measured at amortised cost;	
IFRS 7.20(b)	b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;	
IFRS 7.20(c)	c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:	
	i) financial assets or financial liabilities that are not at fair value through profit or loss; and	
	ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;	
IFRS 7.20(d)	d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and	
IFRS 7.20(e)	e) the amount of any impairment loss for each class of financial asset.	
	Other disclosures	
	Accounting policies	
IFRS 7.21	In accordance with paragraph 108 of IAS 1 *Presentation of Financial Statements*, an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.	
IFRS 7.B5	*Note:*	
	Accounting policies that are relevant to the understanding of the financial statements include:	
	a) for financial assets or financial liabilities designated at fair value through profit or loss:	
	i) the nature of the financial assets or financial liabilities the entity has designated at fair value through profit or loss;	
	ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and	
	iii) how the entity has satisfied the criteria in paragraphs 9, 11A and 12 of IAS 39 for such designation including, where appropriate, a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise, or how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy;	
	b) the criteria for designating financial assets as available-for-sale;	
	c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date;	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses;	
	i) the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, is increased directly) and when the allowance account is used; and	
	ii) the criteria for writing off amounts charged to the allowance account against the carrying amount	
	e) how net gains or net losses on each category of financial instruments are determined, for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income;	
	f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred; and	
	g) when the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms.	
IFRS 7.B5	*Paragraph 113 of IAS 1 also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Examples of these judgements include how management determines whether financial assets are held-to-maturity investments, and when substantially all the significant risk and rewards of ownership of financial assets are transferred to other entities.*	
	Hedge accounting	
	The entity shall disclose the following separately for each type of hedge (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations):	
IFRS 7.22(a)	a) a description of each type of hedge;	
IFRS 7.22(b)	b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and	
IFRS 7.22(c)	c) the nature of the risks being hedged.	
	For cash flow hedges, the entity shall disclose:	
IFRS 7.23(a)	a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;	
IFRS 7.23(b)	b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;	
IFRS 7.23(c)	c) the amount that was recognised in equity during the period;	
IFRS 7.23(d)	d) the amount that was removed from equity and included in profit or loss for the period, showing the amount included in each line item in the income statement; and	
IFRS 7.23(e)	e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	The entity shall disclose separately:	
IFRS 7.24(a)	a) in fair value hedges, gains or losses:	
	i) on the hedging instrument; and	
	ii) on the hedged item attributable to the hedged risk;	
IFRS 7.24(b)	b) in cash flow hedges, the ineffectiveness recognised in profit or loss; and	
IFRS 7.24(c)	c) for hedges of net investments in foreign operations, the ineffectiveness recognised in profit or loss.	
	<u>Fair value</u>	
IFRS 7.25	Except as set out in paragraph 29 of IFRS 7 (see below), for each class of financial assets and financial liabilities, the entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.	
IFRS 7.26	*Note: In disclosing fair values, the entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the balance sheet.*	
	The entity shall disclose:	
IFRS 7.27(a)	a) the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities;	
	Note: For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.	
IFRS 7.27(b)	b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71-AG79 of IAS 39);	
IFRS 7.27(c)	c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data; and	
IFRS 7.27(d)	d) if paragraph 27(c) of IFRS 7 applies (see above), the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.	
IFRS 7.27(c)	In the circumstances described in paragraph 27(c) of IFRS 7 (see above), for fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes.	
IFRS 7.27(c)	*Note: For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in equity, total equity.*	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	If a difference exists between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique (see note below), the entity shall disclose, by class of financial instrument:	
IFRS 7.28(a)	a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and	
IFRS 7.28(b)	b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period together with a reconciliation of changes in the balance of this difference.	
IFRS 7.28	*Note: If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74-AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of the instrument concerned is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables included only data from observable markets. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique.*	
	Disclosures of fair value are not required:	
IFRS 7.29(a)	a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;	
IFRS 7.29(b)	b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost because its fair value cannot be measured reliably; or	
IFRS 7.29(c)	c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.	
	In the cases described in paragraphs 29(b) and (c) of IFRS 7 (see above), the entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:	
IFRS 7.30(a)	a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;	
IFRS 7.30(b)	b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;	
IFRS 7.30(c)	c) information about the market for the instruments;	
IFRS 7.30(d)	d) information about whether and how the entity intends to dispose of the financial instruments; and	
IFRS 7.30(e)	e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
IFRS 7.30A ED proposed amendment issued on 23 December 2008	An entity shall disclose the following for all investments in debt instruments other than those classified as at fair value through profit or loss: a) pre-tax profit or loss as though the instruments had been: (i) classified as at fair value through profit or loss; and (ii) accounted for at amortised cost. b) the following amounts in a way that permits comparison of: (i) the carrying amount in the statement of financial position; (ii) fair value; and (iii) amortised cost. An entity shall provide the information required by this paragraph in tabular format.	
	Nature and extent of risks arising from financial instruments	
IFRS 7.31	The entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date.	
	Notes:	
IFRS 7.32	*1) The financial risk disclosures required by paragraphs 33 to 42 of IFRS 7 (see below) focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.*	
IFRS 7.B6	*2) The financial risk disclosures required by paragraphs 31 to 42 of IFRS 7 (see above and below) should be given either 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. Without the information incorporated by cross-reference, the financial statements are incomplete.*	
	Qualitative disclosures	
	For each type of risk arising from financial instruments, the entity shall disclose:	
IFRS 7.33(a)	a) the exposures to that risk and how they arise;	
IFRS 7.33(b)	b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and	
IFRS 7.33(c)	c) any changes in 33(a) or (b) (see above) from the previous period.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	Quantitative disclosures	
	For each type of risk arising from financial instruments, the entity shall disclose:	
IFRS 7.34(a)	a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer;	
IFRS 7.34(b)	b) the disclosures required by paragraphs 36 to 42 of IFRS 7 (see below), to the extent not provided in paragraph 34(a) (see above), unless the risk is not material; and	
IFRS 7.34(c)	c) concentrations of risk if not apparent from 34(a) and (b) (see above).	
IFRS 7.B8	Disclosure of concentrations of credit risk shall include:	
	a) a description of how management determines concentrations;	
	b) a description of the shared characteristics that identifies each concentration (e.g. counterparty, geographical area, currency or market); and	
	c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.	
	Notes:	
IFRS 7.B7	*1) When an entity uses several methods to manage a risk exposure, the method or methods that provide the most relevant and reliable information should be disclosed. IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, discusses relevance and reliability.*	
IFRS 7.34(b)	*2) See paragraphs 29 to 31 of IAS 1, Presentation of Financial Statements, for a discussion of materiality.*	
IFRS 7.B8	*3) Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity.*	
IFRS 7.35	If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.	
	Credit risk	
	The entity shall disclose by class of financial instrument:	
IFRS 7.36(a)	a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with IAS 32 *Financial Instruments: Presentation*) (see also IFRS 7.B9 and B10);	
IFRS 7.36(b)	b) in respect of the amount disclosed in 36(a) (see above), a description of collateral held as security and other credit enhancements;	
IFRS 7.36(c)	c) information about the credit quality of financial assets that are neither past due nor impaired; and	
IFRS 7.36(d)	d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	Notes:	
IFRS 7.B9	*1) For a financial asset, the entity's maximum exposure to credit risk is typically the gross carrying amount net of any amounts offset in accordance with IAS 32 and any impairment losses recognised in accordance with IAS 39.*	
IFRS 7.B10	*2) Activities that give rise to credit risk include, but are not limited to, granting loans and receivables, placing deposits, granting financial guarantees, making irrevocable loan commitments and entering into derivative contracts. Further guidance for determining the maximum credit exposure in each of these instances is included in IFRS 7.B10.*	
	For financial assets that are either past due or impaired, the entity shall disclose by class of financial asset:	
IFRS 7.37(a)	a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired;	
IFRS 7.37(b)	b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and	
IFRS 7.37(c)	c) for the amounts disclosed in 37(a) and (b) (see above), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.	
	When the entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Standards, the entity shall disclose:	
IFRS 7.38(a)	a) the nature and carrying amount of the assets obtained; and	
IFRS 7.38(b)	b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.	
	Liquidity risk	
	The entity shall disclose:	
IFRS 7.39(a)	a) a maturity analysis for financial liabilities that shows the remaining contractual maturities (see also IFRS 7.B11 to B16); and	
IFRS 7.39(b)	b) a description of how it manages the liquidity risk inherent in 39(a) (see above).	

Reference	Presentation/disclosure requirement	Yes/No/N/A
IFRS 7.B11 to B16	*Notes:* *When preparing a contractual maturity analysis:* • *an entity must use its judgement to determine an appropriate number of time bands:* • *when a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay;* • *when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay;* • *the amounts disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows;* • *if appropriate, an entity shall disclose the analysis of derivative financial instruments separately from that of non-derivative financial instruments in the contractual maturity analysis for financial liabilities; and* • *when the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.*	
	Market risk Unless the entity complies with paragraph 41 of IFRS 7 (see below), it shall disclose:	
IFRS 7.40(a)	a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;	
IFRS 7.40(b)	b) the methods and assumptions used in preparing the sensitivity analysis; and	
IFRS 7.40(c)	c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.	
IFRS 7.B17 to B28	*Notes:* *1) An entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.* *2) An entity is not required to determine what the profit or loss for the period would have been if the relevant risk variable had been different. Instead, an entity discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant risk variable had occurred at the balance sheet date and had been applied to the risk exposures in existence at that date. In determining this effect, the entity should consider the economic environment in which it operates. A 'reasonably possible change' should not include remote or 'worst case' scenarios or 'stress tests'.* *3) The sensitivity analysis should show the effects of changes that are considered to be reasonably possible over the period until the next reporting date.* *4) An entity is not required to disclose the effect on profit or loss and equity for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.*	

Reference	Presentation/disclosure requirement	Yes/No/N/A
	5) An entity shall provide sensitivity analyses for the whole of its business, but may provide different types of sensitivity analysis for different classes of financial instruments. For example, a sensitivity analysis would be disclosed for each currency to which an entity has significant exposure.	
	6) Interest rate risk arises on interest-bearing financial instruments recognised in the balance sheet (e.g. loans and receivables and debt instruments issued) and on some financial instruments not recognised in the balance sheet (e.g. some loan commitments).	
	7) Other price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. An entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.	
	8) No sensitivity analysis is provided for financial instruments that an entity classifies as its own equity instruments, nor for non-monetary items.	
IFRS 7.41	If the entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40 of IFRS 7 (see above).	
IFRS 7.B20	*Notes:*	
	1) This applies even if such a methodology measures only the potential for loss and does not measure the potential for gain.	
	2) An entity may also disclose the historical observation period and weightings applied to observations within that period, an explanation of how options are dealt with in the calculations, and which volatilities and correlations (or, alternatively, Monte Carlo probability distribution simulations) are used.	
	In the circumstances described in paragraph 41 of IFRS 7 (see above), the entity shall also disclose:	
IFRS 7.41(a)	a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and	
IFRS 7.41(b)	b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.	
IFRS 7.42	When the sensitivity analyses disclosed in accordance with paragraphs 40 or 41 of IFRS 7 (see above) are unrepresentative of a risk inherent in a financial instrument (for example, because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.	

Deloitte IFRS resources

In addition to this publication, Deloitte Touche Tohmatsu has a range of tools and publications to assist in implementing and reporting under IFRSs. These include:

www.iasplus.com	Updated daily, iasplus.com is your one-stop shop for information related to IFRSs.
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Financial Reporting Standards and accounting updates for individual countries. In addition, special editions are issued for important developments. To subscribe, visit **www.iasplus.com**
IFRSs in your pocket	Published in English, French, Spanish, Polish, Finnish, Chinese, and other languages, this pocket-sized guide includes summaries of all IASB Standards and Interpretations, updates on agenda projects, and other IASB-related information.
IFRSs and US GAAP: A pocket comparison	A summary of the principal differences, in pocket-sized format, including a status report as to what is being done about each difference.
Presentation and disclosure checklist	Checklist incorporating all of the presentation and disclosure requirements of IFRSs.
iGAAP 2008 Financial instruments: IAS 32, IAS 39 and IFRS 7 explained	4th edition (May 2008). Guidance on how to apply these complex Standards, including illustrative examples and interpretations.
iGAAP 2009 IFRS Reporting in the UK	3rd edition guide to IFRS reporting in UK
iGAAP 2009 Financial statements for UK listed groups	Model financial statements

About our insurance practice

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We understand the insurance market and as part of a significant practice with a wide breadth of expertise we can draw on a blend of skills to deliver financial, actuarial, tax, commercial and regulatory advice and knowledge that addresses the issues and challenges facing the industry.

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