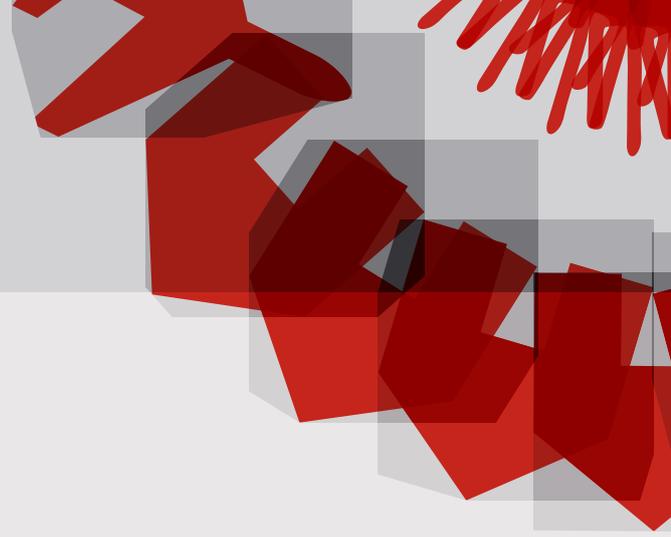


Annual Report & Financial Statements 2012

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GROUP MISSION STATEMENT

We are committed to achieve sustainable growth to the benefit of our stakeholders by providing a comprehensive range of high quality insurance services to the communities where we operate and by fostering mutually beneficial relationships with all our customers.

BUSINESS PHILOSOPHY

We put our Customers first and strive to secure their loyalty through top quality service.

We value our Employees and seek to help them achieve their full potential.

We embrace Professionalism and seek Excellence in everything we do.

We do our best to help our Communities be better places in which to live, work and grow.

CHAIRMAN'S STATEMENT

CHAIRMAN'S REPORT

2012 was an extraordinary year in terms of profitability for the Middlesea Group, with Group profit after tax rising from €3.11 million to €17.98 million. This was mainly driven by an exceptional return on investments from its main subsidiary MSV Life p.l.c.. In these difficult times of low returns and uncertainty, this gain on investments is an achievement in itself. But the Company and Group has also made good profit from its insurance underwriting operations indicating that's its refocus on fundamentals and concentration on the local market is bearing fruit. This profit has obviously strengthened the Group's balance sheet and our solvency ratios both at Middlesea Insurance p.l.c. and MSV Life p.l.c. remaining very strong.

GLOBAL ECONOMIC ENVIRONMENT

The global turbulence and crises has not left Malta unaffected - however we have managed to evade the negative growth and high unemployment rates which have been afflicting much of Europe since 2008. Globally this uncertainty has made competition in the insurance sector much keener, especially on price, which has affected margins. The sovereign bond crises, and extraordinarily low yields on bonds has also put pressure on investment income and companies have moved to protect their investment portfolios from the losses and excessive fluctuations felt in this area. Additionally extraordinary

losses due to natural disasters have pushed risk management to the top of board room agenda's worldwide. Underlying all this is the looming challenge of regulation, principally in Solvency II which will revolutionise our reporting and governance requirements and with which we need to be compliant by 2014.

THE MALTESE MARKET

The Middlesea Group has faced much the same challenges. The Company faced intensive price competition over all classes of policies at both the corporate and personal level. In spite of this the Company managed to increase topline premiums written by some 10.7%. The Company produced a credible result, earning a technical result from operations before the allocation of general expenditure and investment income of €7.57 million (2011 €6.76 million). In the life market, the low bonus rates given during 2012 by most companies and the added competition from banks with deposits earning higher returns, affected MSV Life, with sales of Life single premium products registering a significant drop for this type of product. However MSV was able to make significant capital gains on its investments which largely resulted in the extraordinary profit the Company enjoyed for the year. This led to a profit before tax of €15.98 million for the life subsidiary compared to €5.43 million the previous year. MSV's deferred tax was significantly impacted by the recognition of all unutilised tax amounts available for relief against future taxable income in terms of the applicable law in 2012.

DIVIDENDS

The Company remains committed to giving an adequate return to its investors and this year we are pleased to declare a total net dividend of €1,745,000 (2011 €598,000) translating into a gross dividend payout of €2,300,000 for 2012 (2011:€980,000). This dividend takes into account foreseeable investment requirements, as well as ensuring adequate solvency cover.

MAPFRE

In mid 2011 Middlesea became a subsidiary of Mapfre Internacional S.A.. Since then the Company has been able to draw on the enormous wealth of expertise of this global player which is represented in 46 countries and had a global turnover of €25.3 billion.

This access to Mapfre's expertise and experience has helped us review and update our policies which has ultimately allowed the Company remain more relevant to its customers - providing risk cover in a comprehensive, understandable way, at rates which are competitive. We are using their existing platforms to introduce new forms of cover into Malta which we feel are relevant, innovative and of use to our customers. These new policies have been well received and had an impact of 2.17% increase on the Company's turnover, a good contribution to the overall 10.7% increase in total gross premiums written. We expect this figure to increase substantially over time.

CHAIRMAN'S STATEMENT

Being part of a worldwide group we are also able to tap into human resource systems which are gradually being adopted by the Company as well as IT systems which are in the initial phases of undergoing a complete overhaul.

AGENTS

Middlesea has a diverse distribution network with much of its income coming from Agents, Tied Insurance Intermediaries and Brokers. We remain committed to offering the best service to our agents which means remaining competitive, innovative and as supportive as possible in these tight economic times.

One of our major Agents has decided to set up its own insurance company and the agency agreement we had with them was terminated in January of this year. Middlesea is taking every action to make up for the potential drop in turnover and mitigate the effect on its bottom line.

PROGRESS AND GIBRALTAR

As reported by my predecessor in his report last year, Professor Avv. Andrea Gemma in his capacity as Liquidator appointed by IVASS (previously ISVAP, the Italian insurance regulator), to oversee the administration of the Progress Assicurazioni S.p.A., had filed for bankruptcy with the Italian courts in Palermo in February 2011. I can state that there have been no further developments for us to report with respect to Progress since our last announcement. Gibraltar, where we had ceased writing business as from 1 January 2011, remains in run-off and a substantial amount of claims have now been closed.

I believe refocusing of the Company to Malta has allowed it to make significant inroads into the market resulting in the topline gains noted above, and indeed in the improved profitability recorded for the year.

CORPORATE IMAGE

You will have noticed that between late 2011 and early 2012 both Middlesea Insurance p.l.c. and MSV Life p.l.c. changed their corporate identity. It was felt that the Group, although still the market leader in Malta, should raise its profile as part of its bid to increase its market share. The opportunity was taken to introduce the Mapfre colours and logo to advertise its strong link and association with Middlesea. The result I believe is successful and is helping reinforce the renewed commitment to change within the Company.

CORPORATE SOCIAL RESPONSIBILITY

During 2012, the Company stayed true to its corporate values and the principles of corporate social responsibility. We believe that a company cannot operate in a vacuum, ignoring the environment and community in which it operates. Among the initiatives supported by Middlesea Insurance p.l.c., it is worth noting the support given to the Malta Community Chest Fund, through supporting the annual charity, I-Istrina. Middlesea also continued to support the Insurance Major within the Bachelor of Commerce course at the University of Malta. This course was set up with the support of the Middlesea Group in order to offer tertiary education to those interested in establishing a career in insurance.

We also received support by Fundación MAPFRE, the ultimate parent company and social arm of the Group. During 2012, in conjunction with Fundación MAPRE, Middlesea Insurance p.l.c. supported a National Road Safety campaign in order to highlight the consequences of dangerous driving by creating awareness of safe driving habits. This campaign will continue also in the current year. Opportunities for further collaboration will continue being sought in 2013.

GOVERNANCE AND RISK

Governance and risk mitigation remain high on the Board's agenda. The Board has reviewed its policies on Reinsurance, Underwriting, as well as its policy on investments. At the same time the Company remains committed to mitigating its own risk through the spread of its portfolio, careful risk assessment, adequate reinsurance and appropriate pricing. This is now a continuous process of change – a mindset we are inculcating in staff which was touched upon by the previous chairman in his address to you last year.

In this way the Company is able to respond to an ever changing economic landscape, where customers become more demanding, more knowledgeable and aware of the competition – pressing for more cover at more competitive prices. I can report however that in spite of two significant storms and some motor fatalities, the net claims have been reduced for the second year running. This is in part due to better risk management, and our very prudent reinsurance policy.

CHAIRMAN'S STATEMENT

DIRECTORS

We welcome two new directors to the Board; Mr Fredrick Mifsud Bonnici who is the Chairman of Bank of Valletta p.l.c. and Felipe Navarro López de Cicheri representing Mapfre Internacional S.A. Both bring considerable expertise and experience to the board and their council is highly valued. Mr Andres Jimenez Herradon did not seek re-appointment during the last Annual General Meeting after serving seven years on the Board as a representative of Mapfre. On behalf of my fellow directors I should like to thank him warmly for his services to the Group.

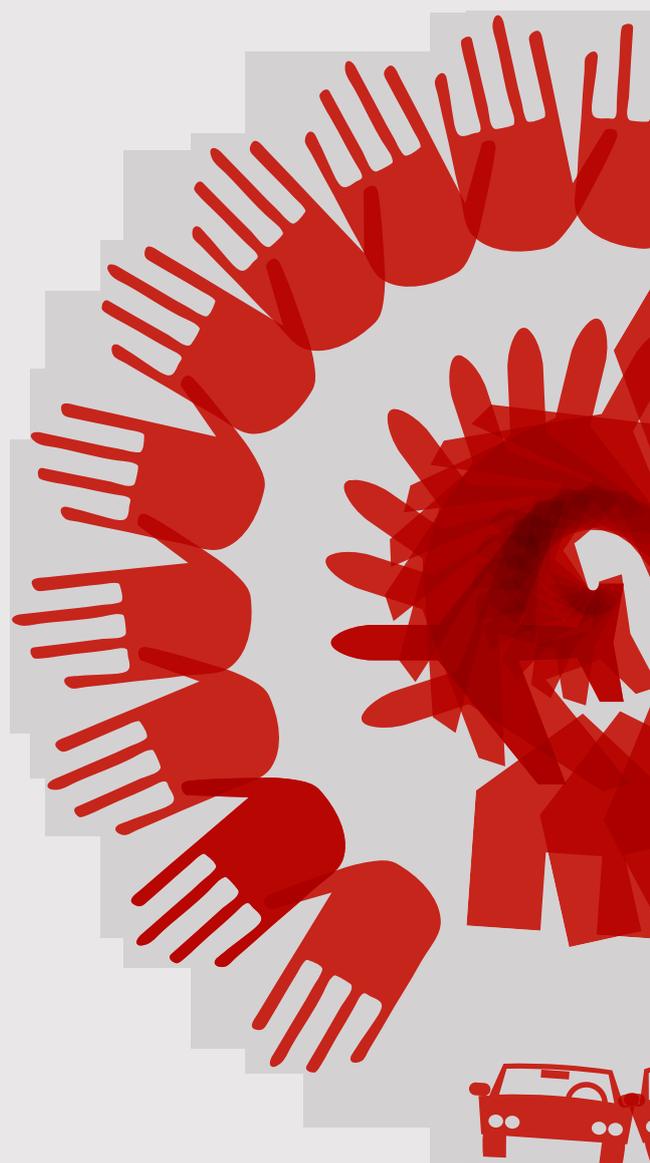
Unfortunately Mr Roderick Chalmers had to resign for personal reasons during the year under review, and I know I have the full support of the Board when I say that he will be missed.

I must thank all my directors for their advice, direction and support during the year. On behalf of myself and the Directors I thank the President and CEO, Alfredo Muñoz Perez, and the management and staff of the Company and its subsidiaries who have all contributed to the successes of 2012. This success can only make us more confident to face the challenges of the year ahead.



MARTIN GALEA
CHAIRMAN
MIDDLESEA INSURANCE P.L.C.

27 FEBRUARY 2013



PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MIDDLESEA GROUP DEVELOPMENTS 2012

The year under review saw the balance on the Company's General Business technical account increase by 43% when compared to 2011. Meanwhile, the Technical Business account for MSV Life p.l.c. ("MSV") increased by 115% over the previous year, due to the highly positive investment performance. These, together with improved income registered directly in the non-technical account, have made financial year 2012 an exceptional one.

The Group registered a net profit after tax amounting to €17.3 million for the year (€2.0 million in 2011). MSV's deferred tax was significantly impacted by the recognition of all unutilised tax amounts available for relief against future taxable income in terms of the applicable law in 2012. This had a positive impact of €5.1 million on the Profit and Loss account. Earnings per share attributable to shareholders reached 10.2 eurocents and is almost five times higher than the amount registered in the previous year. This explains the increase in the proposed dividend when compared to that paid out in the previous year. This is in line with the Company's policy to deliver a significant return to its shareholders, subject to extraordinary financial and/or regulatory requirements.

Comparisons between 2011 and 2012 figures for the Group need to allow for the fact that different accounting methods were adopted. Following the increase in the Mapfre Group's shareholding in Middlesea which resulted in Mapfre becoming the major shareholder in Middlesea on 29 July 2011, Middlesea acquired *de-facto* control over MSV. Prior to that date, MSV was recognised as an associated undertaking and on consolidation was accounted for using equity accounting. As from 29 July 2011, MSV was classified as a subsidiary and accordingly income,

expenses and other movements in reserves are fully consolidated on a line-by-line basis in the consolidated financial statements as from that date. 2012 represents a full year consolidation of MSV in the Group financial statements. The Group accounts for the year also include, for the first time, Middlesea Assist, a joint venture between Middlesea Insurance p.l.c. and MAPFRE Asistencia. This had no material impact on the results.

MSV had an excellent return in 2012, registering the highest level of profits in these last years. The company's highly professional management, which includes specialised in-house and external investment managers, provided the necessary support by closely monitoring all investment activities.

BALANCE SHEET AND SOLVENCY

The assets for the Group increased by 8% and reached €1.34 billion, with investments and cash accounting for €1.14 billion in total. The increase is mainly derived from a rise in MSV customers' funds under management. An improvement in collection processes within the parent company meant that receivables did not register any significant increase during the year under review. On the liabilities side the technical provisions, mainly MSV's Life Fund increased by 7.7% to reach €1.17 billion.

Total Equity increased by €20 million compared to 2011, mainly as a result of the year's profits which is prior to the proposed gross dividend distribution which amounts to €0.025 per share. Middlesea's solvency position on its general business stood at 603% of the minimum solvency requirement, as opposed to the already high 386% registered in 2011. MSV's standalone solvency position is also higher than the established statutory requirements. The improvement in the solvency position is also primarily due to the annual profits

pre-dividend distribution. The Group is in a good position to pay back a considerable amount of the outstanding subordinated loans, which will be effected during 2013, thus reducing the financial charges. The value in force for MSV (actuarial estimation based on expected future profits from current portfolio) increased by €4.0 million after decreasing by €0.8 million during 2011. This is a good indicator of sustainable long term return to shareholders.

TECHNICAL RESULTS

During 2012, there was a significant increase in Non-Life Business premiums (11%), a positive result in the context of a market having low growth rates coupled with intensive price competition. This business is now entirely based in Malta since the last operations abroad (namely that in Gibraltar) have been practically closed down. The diversification in the different classes of our business portfolio is very much in line with current trends for market demand. During 2012, the number of policies written by the Company increased by 12%. Customer retention, in a price driven market, remains high and is on the increase, with growth being registered across all our distribution channels. The gross total cost of claims decreased by 0.4% in Non-Life, despite two significant local storms which mainly affected the property risk, as well as some motor fatalities and the new assistance coverage for the entire motor and home portfolio. The net rate of decrease amounted to 6.5%, which is mainly due to extensive reinsurance protection. The number of reported claims has increased by 10% in Non-Life excluding Health and up to 18% in Health. However, average costs have been contained. The manner in which claims have developed over the past years confirms the prudent approach taken by the Company on claims reserving.

Although turnover in MSV single premium products were affected by

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

the economic and financial turmoil of 2012, the Group has focused on regular premium and protection schemes, as a means of expanding the existing customer base. Strategies to retain customers have also proved successful as confirmed by the high number of clients who are reinvesting their benefits in the company's financial products, thus demonstrating trust in the company. Life benefits at the end of 2012 were at the same level reached during 2011, with a slight reduction in the amount of surrenders, which in the current economic climate should be considered as additional proof of the trust shown by our clients in the Company.

REVIEW OF OPERATIONS

A total of nine new Tied Insurance Intermediaries and Introducers joined our network during 2012. The year under review also saw the appointment of a new agency while an agency agreement was terminated at the beginning of 2013. During the second half of 2012 we reached an agreement with Maltapost plc with regard to the setting up a subsidiary company, to be licensed by the MFSA, as an Insurance Agency writing business on behalf of Middlesea. Once the company is set up, Maltapost will apply for a Tied Insurance Intermediary license to sell Middlesea products on behalf of the new agency. The agency application for this new subsidiary company has been submitted to MFSA and is awaiting regulatory approval.

Following the implementation of the Group's multichannel approach we continued to develop our distribution channels so as to give our clients multiple avenues of access to our products. This will ensure that we keep in step with market trends and continue to attract potential customers who do not have the required insurance cover. I am pleased to state that our Group today boasts extensive expertise in the simultaneous operation of diverse

distribution channels. As a result of a refreshed online presence with a new website, clients are now in a position to purchase more of our products online in addition to travel insurance.

In line with the Company's strategy, 2012 saw the launch of new or revamped tailor-made products, such as Insurance for Small and Medium Enterprises, the Boat Policy and Wedding Insurance Cover. These provide cover which is in line with current demand, which is more complete and therefore more competitive. Traditional products have been upgraded to include additional coverage designed to meet some of our clients' more regular requirements, such as roadside and home assistance. These have been extended across the portfolio, and generally are not restricted to the most expensive offers. Middlesea has also started covering risks in the aviation class, through the expertise and support of Mapfre Global Risks, our Group partners.

During the year under review, new Life protection schemes tailored for specific groups of clients were launched. These include collective policies and corporate agreements with a high potential social impact. Reinsurance agreements are subject to regular review by the Group's specialized company, MAPFRE Re, who assists Middlesea in monitoring risks and renegotiating rates to maximize shareholders' return, while at the same time protecting the Company against relevant contingencies.

MSV's net financial income amounted to €95 million, which is more than eleven times higher than the 2011 figure. The positive performance of the financial markets has resulted in high capital gains when compared to 2011, where the situation was completely the opposite. Some of these gains have already been realised.

The portfolios enabled the Company to have higher liquidity levels to ensure lack of operational stress and to allow a quick response to future opportunities. Real estate portfolios experienced a moderate revaluation. The investment managers have, for the first time and within strict limitations, used some derivatives to manage portfolio durations.

The profile of expenses in our accounts confirms the prudent management adopted by the Company. Net operating expenses on Non-Life decreased by 1.4%, over the previous year, while net operating expenses for MSV decreased by 14.8% (full year figures). General administrative expenses are being contained at both Middlesea and MSV level, reflecting the fact that we managed to stabilise the number of employees (168 in average) even though operational needs have increased.

The rebranding process and the boost in the promotion of our brand – including advertising and the branding of our intermediaries' offices – led to increased market visibility, while the Company's premises were refurbished in order to give clients and employees an improved holistic experience. Although these initiatives led to an increase in marketing expenses, we consider this an important investment in our brand.

Over the year we have invested in a new generation of computer applications and technological tools designed to assist our clients and to enable us to customise our products accordingly. During 2012 these systems were extended to our intermediaries to enable them to further improve their customers' experience and at the same time reduce processing costs. Processes for Life products issued by MSV have also been redefined to speed the issuing of policies and reduce underwriting costs.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

We are proud of the fact that Middlesea can count on highly qualified, professional and experienced employees. During 2012 we continued working towards achieving a flatter and flexible structure by allocating personnel to projects as required and adopting a performance-oriented structure. In the year under review, the role and structure of the HR and Administration department was redesigned with a view to better address the development of employees and to optimize the service being provided to clients and partners.

GROUP COMPANIES

BEE INSURANCE MANAGEMENT (BEE)

This specialized management services company, a fully owned subsidiary of Middlesea, increased its pre-tax profit by 92% when compared to 2011. The year under review once again witnessed a high degree of client satisfaction with the level of services offered by this subsidiary. New clients are using BEE's services and the objective is to continue expanding the Company's portfolio. An intensive commercial plan, coupled with participation in specialised overseas events, was implemented in 2012 in order to raise awareness about the services offered by the company, as well as Malta's advantages for foreign companies. BEE's team was strengthened to enable it to meet new challenges and to handle the increasing volume of business.

MIDDLESEA ASSIST

This was the first year of activity for Middlesea Assist, a joint venture between Middlesea and Mapfre Asistencia. The financial performance of this company is in line with our original projections, despite the pre-operational expenses required to set up the company in Malta. The high level of service delivered by our team

at Middlesea Assist during its first year of operation – during which Middlesea Assist followed up more than 10,000 requests for assistance – is reflected in the excellent feedback obtained by extremely satisfied policyholders. The Company will be offering an expanded portfolio of services to clients during 2013.

LOOKING FORWARD

In the coming years, the Middlesea Group will continue in its endeavours to be considered as the most trusted and reliable global insurance services provider in the Maltese market. Our brand is a major asset and its value will be continuously reinforced.

The achievement and maintenance of a sustainable increase in the volume of business will continue to provide the main thrust for the whole organisation. We will look for long-term relationships with all stakeholders, and a focus on client retention and strong technical performance. The Group will work towards expanding avenues for generating business through the development of our distribution channels, where we will continue to provide equal opportunities to all distributors, with the aim of reaching each and every client who requires insurance cover. A consistent increase of assets under management will be a key target. Service to clients will be optimised through operational innovation and consistent improvement in business processes. These will be continuously monitored to ensure high quality levels throughout. Claims handling will benefit from the extensive expertise at international levels derived from our links with Mapfre. The investment portfolio will be managed in line with the principles of specialisation and diversification together with a prudent mix of yield and return on assets.

Operating expenses will be contained and combined with

further investment in IT so as to gain efficiency and economies of scale. This will be supplemented with the support provided by the Mapfre Group. Efforts will also be concentrated on front office activities and a more effective alignment of the whole organisation towards customer service orientation.

Integration with the Mapfre Group is well advanced and ongoing, with the adoption of policies and procedures designed to strengthen internal controls and improve governance. Our employees and distribution networks will remain the principal driving force behind this plan. We will rely on Mapfre's multinational experiences to reach our goals and to help in the development and enhancement of the abilities and skills of our employees and distribution network. We believe that the local community should benefit from the Group's development, and both Middlesea and its parent company, through Fundación Mapfre, will continue to support various initiatives in relation to our corporate social responsibility. 2012 has been an excellent year for the Middlesea Group. However, we believe that these results are just an indication of the bright future that lies ahead for Malta, for the local insurance sector and for Middlesea.

ALFREDO MUÑOZ PEREZ
PRESIDENT & CHIEF
EXECUTIVE OFFICER
MIDDLESEA INSURANCE P.L.C.

27 FEBRUARY 2013

BOARD OF DIRECTORS & COMPANY SECRETARY

MR MARTIN GALEA
ACA (APPOINTED AS DIRECTOR
ON THE 27 FEBRUARY 2012
AND AS CHAIRMAN ON THE 20
APRIL 2012)
NED I

FORMERLY: President of the Malta Federation of Industries, Vice President of the Malta Chamber of Commerce Enterprise and Industry, Member of the Malta Council of Economic and Social Development, Director of Malta Enterprise, President of Din L-Art Helwa, Member of the Malta Olympic Committee, Editor of the Malta Independent.

AT PRESENT: Managing Director of Joinwell Limited, Director of Printex Limited, President of The Malta Rugby Football Union, Chairman of the Malta Winemakers Association.

MR GASTON DEBONO GRECH
L.P. F.I.S.M.M. (LUTON), B.A.
(LEG.), MAG.JUR. (INT. LAW) DIP.
TRIB. ECCL. MELITA
NED I

FORMERLY: Director Malta Drydocks, Director Malta International Transport, Director Tug Malta, Director Smithtug Valletta. Served for 18 years as G.W.U. representative for the Security Department.

AT PRESENT: Legal Procurator.

MR TONIO DEPASQUALE
NED

FORMERLY: Chief Executive Officer Bank of Valletta Group p.l.c., General Manager Valletta Investment Bank Ltd., where he was responsible for the introduction of investment banking and other relative services within the BOV Group, Director Board of Bank of Valletta International Ltd., Chairman BOV Investments Ltd., Chairman BOV Stockbrokers Ltd., Chairman Malta Bankers' Association, Governor Finance Malta, Director Valletta Fund Management Ltd., Director Valletta Fund Services Ltd., Director Middlesea Valletta Life Assurance Company Ltd., Director Bee Insurance Management Ltd., Director Euromed Risk Solutions Ltd.

AT PRESENT: Director Valletta Cruise Port p.l.c.

MR. JAVIER FERNÁNDEZ-CID
NED

FORMERLY: Holding a law degree from the Complutense University of Madrid. He has developed his career in the MAPFRE Group with different management positions in Spain and abroad and notably in Belgium and the US.

AT PRESENT: Chairman of Mapfre Internacional S.A., Chairman of MAPFRE USA. Board member of the following MAPFRE Group companies: MAPFRE RE, MAPFRE ASISTENCIA, MAPFRE GLOBAL RISKS, MAPFRE AMERICA, MAPFRE EMPRESAS, The Commerce Insurance Group (Massachusetts, USA) and MAPFRE INSULAR (The Philippines). He is also Board member of Vaudoise Assurances (Switzerland).

MR PEDRO LÓPEZ SOLANES
NED

AT PRESENT: General Manager and Chief Financial Officer of Mapfre Internacional S.A. in Spain, Director of Mapfre Inversion Sociedad de Valores (Spain), Director Mapfre Global Risk (Spain), Chairman of Mapfre Genel Sigorta and Mapfre Genel Yasam (Turkey), Director of MSV Life p.l.c., (Malta), Director of Mapfre Re (Spain), Director of RMI Inc. (USA).

MR FREDERICK MIFSUD
BONNICI
F.C.A., F.I.A., C.P.A. (APPOINTED
ON THE 21 AUGUST 2012)
NED

FORMERLY: An audit partner of PricewaterhouseCoopers in Malta until his retirement in 2011. Deputy Chairman and subsequently Chairman of the Malta Stock Exchange between 1990 and 1999. Elected member of the Council of the Malta Institute of Accountants uninterruptedly for over 32 years and its president for three years.

AT PRESENT: Chairman Bank of Valletta p.l.c., MSV Life p.l.c., Valletta Fund Management Ltd., Valletta Fund Services Ltd., Growth Investments Ltd., Member of the Board of Malita Investments p.l.c. Member of the Council of the Malta Institute of Accountants. He is also a visiting senior lecturer in Auditing at the University of Malta.

MR FELIPE NAVARRO LÓPEZ DE
CHICHERI
(APPOINTED ON THE 20 APRIL
2012)
NED

AT PRESENT: As Deputy General Manager of Investee Companies and Institutional Relations, Mr. Navarro is responsible for the Life Bancassurance Joint Ventures in Spain. Mr. Navarro is also the General Manager of Duero Pensiones EGFP S.A., Director of CCM VyP S.A., Director of Bankinter Seguros de Vida S.A., Director of Unión del Duero S.A., Director of Duero Pensiones E.G.F.P. S.A. and Director of MSV Life p.l.c.

MR. LINO SPITERI
K.O.M, M.A. (OXON.)
NED I

FORMERLY: Member of Parliament, Co-Chairman Malta-EU Joint Parliamentary Committee, Minister of Finance, Minister of Trade & Economic Development, Chairman Public Accounts Committee, Deputy Governor and Chairman Central Bank of Malta, Research Officer Malta Chamber of Commerce, Head of Publications Union Press, Editor Malta News, Executive Editor It-Torca, Chairman University Selection Board, Member Malta Broadcasting Authority, Director Progress Assicurazioni S.p.A.

AT PRESENT: Chairman Bortex Group, Vbie Group, P. Cutajar Ltd. and Famalco Group Ltd.; sits on various other domestic boards and on boards of foreign financial institutions registered in Malta; columnist, The Times and Sunday Times of Malta.

MR PAUL S. TESTAFERRATA
MORONI VIANI
NED I

AT PRESENT: Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of Bank of Valletta p.l.c., GO p.l.c., Innovate Software Limited, Mobisile Communications Limited, Worldwide Communications Limited, Go Data Centre Services

BOARD OF DIRECTORS & COMPANY SECRETARY

Limited, St. George's Park Co. Ltd., SGP Projects Ltd., Euro Appliances Co. Ltd., Spinola Hotels Ltd., Reliant Ltd., Cambridge Place Ltd., Sales & Letting Ltd. (formerly Circles Ltd.) and Testaferrata Moroni Viani Holdings Ltd. (formerly Macapps Ltd.), Vltava Fund SICAV p.l.c., BMIT Limited, Bellnet Limited and BM Support Services Limited.

MR JOSEPH F. X. ZAHRA
B.A. (HONS) ECON., M.A. (ECON.),
FCIM, MMRS (RESIGNED AS
CHAIRMAN ON THE 20 APRIL
2012 AND REMAINED AS A
DIRECTOR ON THE BOARD)
NED I

FORMERLY: Head of Research, Malta Development Corporation, Director, Central Bank of Malta, Director, Malta Development Corporation, Director, Corinthia Hotels International Ltd., Chairman, Bank of Valletta p.l.c., Chairman, Middlesea Valletta Life Assurance Co. Ltd., Chairman, Maltacom p.l.c., Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education, Chairman, Middlesea Insurance p.l.c.; Chairman, Euro Globe Holdings Ltd., Chairman, Church Wharf Properties Ltd., and Chairman, Malta Council for Culture and the Arts.

AT PRESENT: Director, Middlesea Insurance p.l.c.; MSV Life p.l.c., Chairman, BEE Insurance Management Ltd., Chairman, EuroMed Risk Solutions Ltd.; Director Medserv p.l.c., Director, Nemea Bank p.l.c., Managing Director, Market Intelligence Services Co. Ltd., Managing Director, MISCO International Ltd., Chairman, C. Fino & Sons Ltd., Chairman, Document Archive Management Ltd., Chairman, Impetus Europe Consulting Group Ltd., Chairman, Multi Risk Limited, Chairman, Multi Risk Indemnity Ltd., Director, Multi Risk Benefits Ltd., Director, PowerImage Services Ltd., (Cyprus), Director, Promise Professional Services Ltd., (Cyprus), Director, 3a Malta Ltd., Director, Surge Consulting Ltd., Director, Combined Maritime Services Ltd., Director, Foundation for Medical Services, Director, United Group Ltd. and Director United Finance p.l.c.

MR CARLO FARRUGIA
DIP. GEN. MGMT (MAASTRICHT),
PGDTI, M.A. (TRANSL. &
INTERP.).

FORMERLY: Previously employed at the Central Bank of Malta and Malta Financial Services Authority and appointed as a bank inspector for a number of years.

AT PRESENT: Joined the Middlesea Group in 2007 and was appointed Company Secretary and Compliance Officer of the group companies. Serves as committee secretary to the Board Committees of Middlesea Insurance p.l.c. He is also a visiting lecturer at the University of Malta for Translation and Interpreting, published the Dictionary for Financial Services and is involved in the Olympic Movement and a member of the Maltese Olympic Academy.

**MR ANDRÉS JIMÉNEZ
HÉRRADON**

Retired from his post as First Vice President within the MAPFRE Group and was not reappointed as a Director of Middlesea during the Annual General Meeting held on the 20 April 2012.

MR RODERICK E. D. CHALMERS
Resigned on the 16 June 2012.

**NED – Non Executive Director
I – Independent**

HEAD OFFICES, BRANCHES & AGENCIES

HEAD OFFICES

MIDDLESEA INSURANCE P.L.C.

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Floriana, FRN 1442
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website: www.middlesea.com

BRANCH

MIDDLESEA UNIVERSITY BRANCH

University of Malta
Msida
Tel: (00356) 2124 9812

LOCAL AGENCIES

BONNICI INSURANCE AGENCY LIMITED

222, The Strand
Gzira, GZR 1022
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Fax: (00356) 2131 0390
e-mail: info@bonniciinsurance.com

ENGLAND INSURANCE AGENCY LIMITED

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LAFERLA INSURANCE AGENCY LIMITED

Vincenti Buildings
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MELITAUNIPOL INSURANCE AGENCY LIMITED

17 Market Street
Floriana, FRN 1081
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Fax: (00356) 2124 1954
e-mail: agency@melitaunipol.com

SMS INSURANCE AGENCY LIMITED

Villa Venezia
Ta' Xbiex Terrace
Ta' Xbiex, XBX 1035
Tel: (00356) 2577 5000
Fax: (00356) 2123 4107
e-mail: ship@sms.com.mt

GROUP FINANCIAL HIGHLIGHTS

	2012		2011	
	GBP'000	US\$'000	GBP'000	US\$'000
Gross premiums written:				
General Business	27,583	44,593	24,848	40,172
Life Business	70,955	114,714	38,095	61,588
Total gross premiums	98,538	159,307	62,943	101,760
Group investment income	79,118	127,911	5,181	8,377
Profit for the financial year	14,141	22,863	1,671	2,701
Net Dividend proposed	1,424	2,302	488	789
Share Capital	15,767	25,491	15,767	25,491
Net technical reserves:				
General Business	30,019	48,531	31,171	50,394
Life Business	912,055	1,474,532	844,632	1,365,528
Shareholders' Funds	54,875	88,716	46,122	74,566
Net assets value per €0.21 share	0.60	0.96	0.50	0.81
Total number of ordinary shares in issue	92,000,000	92,000,000	92,000,000	92,000,000

All figures have been translated at the rate of exchange ruling at 31 December 2012

	2012	2011
	€'000	€'000
Gross premiums written		
- General Business	33,798	30,447
- Life Business	86,944	46,679
General business results	3,464	2,422
Life business results	11,326	843
Investment return	96,946	6,349
Profit attributable to shareholders	9,352	1,929
Dividend proposed (net)	1,745	598
Earnings per share	10.2c	2.1c
Net asset value per share	€0.73	€0.61

PROFESSIONAL SERVICES

The Company and its subsidiaries, in addition to its regular staff complement, as at 31 December 2012 utilised the professional services of the following individuals and institutions:

LEGAL ADVISORS

Mamo TCV Advocates
Schriha, Attard Montalto, Galea & Associates
Camilleri Preziosi

AUDITORS

PricewaterhouseCoopers

ACTUARIES

Towers Watson

BANKERS

Bank of Valletta p.l.c.
Lombard Bank (Malta) p.l.c.
HSBC Bank (Malta) Ltd.
National Westminster Bank
SG Hambros Bank & Trust (Gibraltar) Limited
APS Bank Limited

SPONSORING STOCKBROKERS

Bank of Valletta p.l.c. - Financial Markets &
Investments Division
Charts Investment Management Service Limited

GROUP COMMITTEES

THE INVESTMENT COMMITTEE

Mr Frederick Mifsud Bonnici F.C.A., F.I.A., C.P.A.
(Chairman) (appointed 21 August 2012)
Mr Roderick E. D. Chalmers MA Div (Edin), FCA, ATII,
FCPA, FIA (resigned 16 June 2012)
Mr Tonio Depasquale (member till 20 April 2012)
Mr Martin Galea, ACA (appointed 20 April 2012)
Mr Pedro López Solanes
Mr Lino Spiteri K.O.M., MA (Oxon)

THE AUDIT COMMITTEE

Mr Lino Spiteri K.O.M., MA (Oxon) (Chairman)
Mr Roderick E. D. Chalmers MA Div (Edin), FCA, ATII,
FCPA, FIA (resigned 16 June 2012)
Mr Pedro López Solanes
Mr Paul Testaferrata Moroni Viani
Mr Frederick Mifsud Bonnici F.C.A., F.I.A., C.P.A.
(appointed 21 August 2012)

THE REMUNERATION COMMITTEE

Mr Martin Galea, ACA (Chairman) (appointed 20 April
2012)
Mr Tonio Depasquale (Chairman till 20 April 2012
then appointed as a member)
Mr Javier Fernández-Cid Plañol

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

Mr Lino Spiteri K.O.M., MA (Oxon) (Chairman)
Mr Gaston Debono Grech L.P. FISMM (Luton), BA (Leg),
Mag Jur. (Int. Law), Dip. Trib. Eccl. Melita
Mr Pedro López Solanes

The Company Secretary, Mr Carlo Farrugia, Dip.Gen.Mgmt.(Maastricht), PGDTI, MA (Trans. and Interp.), acts as the committee secretary to the above mentioned committees.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Group consist of the business of insurance. The Group is licensed to carry on general and long-term business. The Group is also authorised to provide investment services.

REVIEW OF BUSINESS

Middlesea Insurance p.l.c. registered a profit before tax of €3.26 million during the year ended 31 December 2012. Premium written by the stand-alone parent Company increased to €35.2 million, up by 10.7% over the 2011 volumes.

The Group registered a profit before tax of €18.0 million for the year to 31 December 2012 (FY 2012) compared to a profit in FY 2011 of €3.1 million as a result of a very satisfactory result achieved by the life subsidiary MSV Life p.l.c., despite the challenging investment conditions in both the local and international markets.

As detailed in note 33 to these financial statements, on 29 July 2011, Middlesea Insurance p.l.c. acquired *de-facto* control over MSV Life p.l.c. ("MSV"). MSV was previously recognised as an associated undertaking and on consolidation was accounted for using equity accounting and therefore, measured in the balance sheet at an amount that reflected the share of net assets in the associated undertaking. As from 29 July 2011, MSV was classified as a subsidiary and accordingly income, expenses and other movements in reserves are fully consolidated on a line-by-line basis as from that date.

Middlesea Insurance p.l.c.'s solvency position as at 31 December 2012 on its general business stood at 603% of the minimum solvency requirement (2011: 386%).

Middlesea's Group capital and reserves attributable to shareholders' at 31 December 2012 amounted to €67.2 million (2011: €56.5 million) on a consolidated basis with a net asset value per share of €0.73 as at 31 December 2012.

The directors expect that the present level of operational activity will be sustained in the foreseeable future within the Company and its subsidiaries. The Group has defined strategies for growth in the core business of each of the Group companies within the local market that are expected to continue strengthening the level of financial stability of the Group.

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 34. A gross dividend in respect of year ended 31 December 2012 of €0.025 per share amounting to a total dividend of €2,300,000 (2011: €920,000) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.01897 per share amounting to a total net dividend of €1,745,000 (2011: €598,000).

DIRECTORS

The directors of the Company who held office during the period under review were:

Martin Galea (appointed on the 27 February 2012)

Joseph F.X. Zahra

Roderick E. D. Chalmers (resigned on the 20 June 2012)

Gaston Debono Grech

Tonio Depasquale

Javier Fernández-Cid Plañol

Pedro López Solanes (appointed on the 20 April 2012)

Frederick Mifsud Bonnici (appointed on the 21 August 2012)

Lino Spiteri

Paul Testaferrata Moroni Viani

Andrés Jimenez Herradon (not re-appointed on the 20 April 2012)

Felipe Navarro López de Chicheri was appointed by the Board of Directors in line with Article 100 of the Memorandum and Articles of Association.

In accordance with the Articles of Association of the Company, all directors retire from office at the Annual General Meeting and are eligible for re-election or re-appointment. Further information is given in the Statement of Corporate Governance.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are required by the Insurance Business Act, 1998 and the Maltese Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Group and the parent Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Middlesea Insurance p.l.c. for the year ended 31 December 2012 are included in the Annual Report 2012, which is published in hard-copy printed form and may be made available on the parent company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

The directors confirm that, to the best of their knowledge:

- the consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO LISTING RULE 5.64

The Company has an authorised share capital of €31,500,000 divided into 150,000,000 ordinary shares with a nominal value of €0.21 each.

The issued share capital of the Company is €19,320,000 divided into 92,000,000 ordinary shares of €0.21 each. The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached.

The directors confirm that as at 31 December 2012, only Mapfre Internacional S.A. (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders (in line also with general and commonly accepted practice in Malta). Shareholders with 11% or more of the shares in issue are entitled to appoint one director for every 11% holding, whilst the other shareholders are entitled to appoint the remaining Board members at the Annual General Meeting in accordance with the provisions of the Articles of Association. The Chairman shall be appointed by the Board of Directors.

The rules governing the appointment and replacement of the Company's directors are contained in Articles 93 to 102 of the Company's Articles of Association.

DIRECTORS' REPORT

INFORMATION PURSUANT TO LISTING RULE 5.64 - CONTINUED

The Directors can only issue shares following an extraordinary resolution passed in the General Meeting.

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution of the Company during general meetings.

There are no agreements between the Company and the Directors on the Company's Board or employees providing for compensation on termination or cessation of their office for any reason whatsoever.

It is hereby declared that as at 31 December 2012, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

The Directors, as required by Listing Rule 5.62 have considered the Group's and Company's operational performance, the statement of financial position as at year end as well as the business plans for the coming year, and that they have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis in preparing the financial statements.

AUDITORS

Whilst thanking PricewaterhouseCoopers for their sterling service given over the past years, in line with the Mapfre Group policy the appointment of Ernst & Young will be proposed at the Annual General Meeting.

By order of the Board



Martin Galea
Chairman

Middle Sea House
Floriana, Malta

27 February 2013



Lino Spiteri
Director

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

1. INTRODUCTION

Issuers whose securities are listed on the Malta Stock Exchange are required to include in their Annual Financial Report a Corporate Governance Statement of Compliance (the 'Statement') providing, amongst others, an explanation of the extent to which they adopted the Code of Principles of Good Corporate Governance (the 'Code') contained in Appendix 5.1 of Chapter 5 of the current applicable Listing Rules of the Malta Financial Services Authority ('MFSA'). In terms of Listing Rule 5.94, Middlesea Insurance p.l.c. (the 'Company' or 'Middlesea' or 'MSI') is obliged to prepare a report explaining its compliance with the provisions of the Code. The Issuer's Auditors are to include a report on the Corporate Governance Statement of Compliance in the Annual Financial Report.

The Company notes that the Code does not prescribe mandatory rules but recommends principles so as to provide proper incentives for the Board of Directors (the 'Board') and the Company's management to pursue objectives that are in the interests of the Company and its shareholders. The Board strongly believes that it would be in the interest of the Company and its shareholders if it adopts the Code to the fullest extent that it is practical to do so.

Good corporate governance is the responsibility of the Board, and in this regard the Chairman together with the Company Secretary continued with the review and action plan implementation, started during 2011, in relation to the requirements under the said Code.

As demonstrated by the information set out in this Statement and that contained in the Remuneration Statement, the Company believes that it has, save as indicated herein in the section entitled Non-Compliance with Code applied the principles and complied with the provisions of the Code throughout the accounting period under review. In the Non-Compliance Section, the Board indicates and explains the instances where it has departed from or where it has not applied the provisions of the Code, as allowed by the same Code.

2. COMPLIANCE WITH THE CODE

Principle 1 – The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. As at the 31 December 2012 the Board was composed of a non-executive Chairman and nine non-executive Directors. Martin Galea was appointed as a non-executive Director with effect from the 27 February 2012 and as non-executive Chairman during the Board meeting, held on the 20 April 2012, immediately after the Annual General Meeting replacing Joseph F.X. Zahra who stepped down as non-executive Chairman of the Board. Joseph F.X. Zahra remained as a non-executive Director following his appointment by the Shareholders.

During 2012, Andrés Jimenez Herradon retired from his post as First Vice President within the MAPFRE Group and was not reappointed as a Director of Middlesea. Pedro López Solanes was appointed in his stead while Felipe Navarro López de Chiecheri was appointed by the Board of Directors in line with Article 100 of the Memorandum and Articles of Association. Roderick E.D. Chalmers resigned as a Director on the 16 June 2012 and Frederick Mifsud Bonnici was appointed as a non-executive Director on the 21 August 2012.

The Board is in regular contact with Alfredo Muñoz Perez, President & Chief Executive Officer (CEO) of the Company, who was appointed on the 5 August 2011, in order to ensure that the Board is in receipt of timely and appropriate information in relation to the business of the Company and management performance. This enables the Board to contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls.

The Board delegates specific responsibilities to a number of committees, namely the Audit Committee, the Compliance, Prevention of Money Laundering and Risk Management Committee, the Investments Committee and the Remuneration Committee, each of which operates under formal terms of reference approved by the Board.

Further detail in relation to the Committees and the responsibilities of the Board is found in Principles 4 and 5 of this Statement.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 2 – Chairman and CEO

The Chairman is responsible to lead the Board and to set its agenda. The Chairman ensures that the Board's discussions on any issue put before it go into adequate depth, that the opinions of all the Directors are taken into account, and that all the Board's decisions are supported by adequate and timely information. The Chairman ensures that the CEO develops a strategy which is agreed to by the Board. The Chairman of the Company is Martin Galea.

On the other hand, the CEO leads the Senior Management, whose main role and responsibilities are the execution of agreed strategy and managing the Company's business.

The Company's current organisational structure incorporates the position of a President & CEO, a position which is occupied by Alfredo Muñoz Perez who was appointed by the Board on the 5 August 2011.

The positions of the Chairman of the Board and CEO are well defined with specific roles rendering these positions completely separate from one another.

Principle 3 – Composition of the Board

The Board considers that the size of the Board, whilst not being so large as to be unwieldy is appropriate, taking into account the size of the Company and its operations.

The combined and varied knowledge, experience and skills of the Board members provide a balance of competences that are required, and add value to the functioning of the Board and its direction to the Company.

As stated above, the Board is composed exclusively of non-executive Directors. Although not a Director, the President & CEO is invited to attend Board meetings with a view to ensuring a full understanding and appreciation of the Board's policy and strategy and so that he can provide direct input to the Board's deliberations. In addition, certain members of Senior Management report to the Board as and when required.

The composition of the Board is determined by the Company's Articles of Association. The appointment of Directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy. All Directors are required to fulfil the fit and proper procedures carried out by the Malta Financial Services Authority in line with standard regulatory due diligence procedures.

During the period under review, the Board consisted of five independent Directors (including the Chairman) and five non-independent Directors (as indicated on pages 14 and 21 of the Annual Report) as defined by the Code.

In determining the independence or otherwise of its Directors, the Board considered, amongst others, the principles relating to independence of directors contained in the Code, the Company's own practice as well as general principles of good practice. The Board has taken the view that the length of service on the Board of two of its Board members, namely Lino Spiteri and Gaston Debono Grech, does not undermine the said Directors' ability to consider appropriately and independently the issues which are brought before the Board. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that the two Directors in question are able to exercise independent judgement and are free from any relationship which can hinder their objectivity.

Principle 4 – The Responsibilities of the Board

The Board acknowledges its statutory mandate in setting policy and direction and monitoring the implementation thereof. The Board is fulfilling this mandate and discharging its duty of responsibility through the execution of the four basic principles of corporate governance namely, accountability, monitoring, strategy formulation and policy development.

The Board regularly reviews all the different aspects of the Company within the parameters of all relevant laws, regulations and codes of best practice, applies high ethical standards whilst taking into account stakeholders' interests, maintains an effective dialogue with all stakeholders, monitors the application of management policies and motivates Company Management.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

BOARD COMMITTEES

The activities of the Board and of the Company's senior management team were monitored and supported by the Company's Committees that were structured to assist in specialist activities and governance issues. The said Board Committees are the Audit Committee, the Compliance, Prevention of Money Laundering and Risk Management Committee, the Investments Committee and the Remuneration Committee. The Terms of Reference of all the Board Committees have been approved by the Board of Directors and by the Malta Financial Services Authority.

AUDIT COMMITTEE

The Audit Committee's terms of reference are modelled mainly on the recommendations of the Cadbury Report and its principles, whilst also reflecting the provisions of the relative Listing Rules. The responsibilities of the Audit Committee include, the monitoring of the financial reporting process, the monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems, the monitoring of the audit of the annual and consolidated accounts, the maintenance of communication on such matters between the Board, management, the external Auditors and the internal Auditors, the making of recommendations to the Board in relation to the appointment of the external Auditor and the approval of the remuneration and terms of engagement of the external Auditor following appointment by the Shareholders in general meeting, the monitoring and reviewing of the external Auditor's independence and in particular the provision of additional services, the development and implementation of a policy on the engagement of the external Auditor to supply non-audit services, the reviewing of actuarial reports, the management of financial risks, the arm's length nature of related party transactions and the audit process. The terms and conditions of new contracts negotiated with related parties (regarding banking, reinsurance and agent related matters) are also reviewed by the Audit Committee.

The composition of the Company's Audit Committee is also regulated by the Listing Rules. In terms of Listing Rule 5.118, Lino Spiteri is the Director whom the Board considers as independent and competent in accounting/auditing due to his experience, knowledge and high profile appointments during his career which also included the financial services sector. Lino Spiteri has been a Director for more than twelve consecutive years. For the purposes of Listing Rule 5.119, such period is to be taken into consideration when determining the independence or otherwise of a director. The Board has taken the view that the length of service of Lino Spiteri does not undermine the said Director's ability to consider appropriately the issues which are brought before the Audit Committee. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that Lino Spiteri is able to exercise independent judgment and is free from any relationship which can hinder his objectivity.

The Audit Committee held four meetings during 2012. The Audit Committee members and relative attendance to meetings is listed below.

Lino Spiteri (Chairman)	3
Roderick E.D. Chalmers	2 (resigned on the 16 June 2012)
Frederick Mifsud Bonnici	1 (appointed on the 21 August 2012)
Pedro López Solanes	4
Paul Testaferrata Moroni Viani	4

The President & CEO, Chief Financial Officer, BEE General Manager and Internal Auditor attend the Audit Committee meetings by invitation as and when requested. The external auditors are invited to attend specific meetings of the Audit Committee and are also entitled to convene a meeting of the committee if they consider that it is necessary. The Company Secretary also acts as Secretary to the Audit Committee.

Internal Audit is an independent appraisal function established within the Group to examine and evaluate its activities. The Internal Auditor reports to the Audit Committee and attends its meetings. The task assigned by the Audit Committee to the Internal Auditor is to adopt business process risk-based audits aimed at assessing the adequacy of controls and business process efficiency.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

COMPLIANCE, PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

This Committee assists the Board in overseeing the Group's compliance with the obligations imposed by legislation, codes, rules and regulations that are relevant to the Group and its business. This Committee is responsible for the proper implementation and review of the Group's risk policies and assessing the different types of risk to which the Group is exposed. It reports to the Board on the adequacy, or otherwise, of such policies. The respective Prevention of Money Laundering Reporting Officers of the Company and its Subsidiary also report directly to this Committee.

The Compliance, Prevention of Money Laundering and Risk Management Committee held five meetings during 2012. The Committee members and relative attendance to meetings is listed below.

Lino Spiteri (Chairman)	3
Gaston Debono Grech	5
Pedro López Solanes	5

The President & CEO, Chief Financial Officer, BEE General Manager, Internal Auditor, Compliance Officers, Money Laundering Officers and Risk Officer attend the Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

INVESTMENTS COMMITTEE

The Investments Committee oversees the investment activities of the Company and its Subsidiaries, executes its policies and guidelines, scrutinises and approves material transactions and monitors results.

The Investments Committee held four meetings during 2012. The Committee members and relative attendance to meetings is listed below.

Frederick Mifsud Bonnici (Chairman)	1 (appointed on the 21 August 2012)
Roderick E.D. Chalmers	1 (resigned on the 16 June 2012)
Tonio Depasquale	1 (until the 20 April 2012)
Martin Galea	3 (appointed on the 20 April 2012)
Pedro López Solanes	4
Lino Spiteri	3

The President & CEO, Chief Financial Officer and the Manager in charge of investment attend the Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2012 Annual Report. The Board of Directors approves the remuneration of Directors and Chief Officers on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

The President & CEO attends the Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

Principle 5 – Board Meetings

The activities of the Board of Directors are exercised in a manner designed to ensure that the Board effectively sets policies and supervises the operations of the Company. Management updates and provides the directors with a report at each Board Meeting, which sets out the Company's management accounts including key performance indicators since the date of the previous Board meeting. The report also provides a management commentary on the results and on relevant events and decisions and sets out background information on various subjects including any matter requiring the approval of the Board. Apart from setting the strategy and direction of the Company, the Board was actively involved in monitoring progress against budgets and plans and in approving material or significant transactions.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

During the 2012 financial year, the Board of Directors of the Company held five meetings. The attendance of Directors to the Board meetings is listed below.

Martin Galea (Chairman)	5 (appointed as Chairman on the 20 April 2012)
Roderick E.D. Chalmers	3 (resigned on the 16 June 2012)
Gaston Debono Grech	5
Tonio Depasquale	4
Javier Fernández-Cid	3
Andrés Jiménez Herradón	1 (not appointed on the 20 April 2012)
Pedro López Solanes	4
Frederick Mifsud Bonnici	1 (appointed on the 21 August 2012)
Felipe Navarro López de Chicheri	4 (appointed on the 20 April 2012)
Lino Spiteri	5
Paul Testaferrata Moroni Viani	5
Joseph F.X. Zahra (Chairman)	5 (resigned as Chairman on the 20 April 2012 and stayed on as a Director)

The President & CEO attends the Board meetings by invitation as and when requested.

During 2012 the Directors continued to hold Directors' Briefings to enable the Directors to be updated on current corporate governance requirements together with other statutory requirements emanating from law. In fact three Directors' Briefings were held during the year which were well attended by Board Directors. In addition, the Company Secretary directs members of the Board to seminars or conferences which serve as professional development for Directors in the discharge of their functions on the Board and Committees.

Principle 6 – Information and Professional Development

New Directors appointed during 2012 were provided with an information pack for new directors. In addition all new directors attended a purposely held meeting which specifically dealt with the Company's organisation and activities and the responsibilities of individuals who are appointed as Directors.

Directors may, where they judge it necessary to discharge their duties as Directors, take independent professional advice on any matter at the Company's expense.

Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring adherence to Board procedures as well as good information flows within the Board and its Committees.

The President & CEO enjoys the full confidence of the Board. The CEO, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and with the Board on the appointment of, and on the succession plan for senior management. Training (both internal and external) of management and employees is a priority and is implemented through the Human Resources Department.

Principle 7 – Evaluation of the Board's Performance

During the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not *per se* appoint a committee to carry out this performance evaluation, but the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Company Secretary in liaison with the Chairman. The Chairman prepared a report following the replies submitted by the Directors and the said report was submitted to the Board. During 2013 the Board will be taking up the recommendations made in the report and evaluate any required action.

Principle 8 – Committees

The Remuneration Committee is dealt with under the separate Remuneration Report, which also includes the Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4.

The Company has opted not to set up a Nomination Committee. Further explanation is provided under the section entitled Non-Compliance with the Code of this Statement.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 9 – Relations with Shareholders and with the Market

The Company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood. The Board is of the view that during the period under review the Company has communicated effectively with the market through a number of company announcements and press releases.

The Company also communicates with its shareholders through the Company's Annual General Meeting (AGM) (further detail is provided under the section entitled General Meetings). The Chairman ensures that the necessary arrangements are in place so that the Chairmen of the respective Committees are present at the AGM to answer questions as and when required.

Apart from the AGM, the Company communicates with its shareholders through the Annual Report and Financial Statements, which are circulated to the shareholders on a yearly basis. The Company's website (www.middlesea.com) also contains information about the Company and its business, including the six-monthly financial statements and all issued company announcements.

In addition the company has launched a new corporate image and website during 2012 which includes a section which is entirely dedicated to investor relations for the benefit of all Shareholders and the general public.

The Company holds a meeting for stockbrokers and financial intermediaries before the publication of its annual financial statements.

The Chairman ensures that sufficient contact is maintained with major shareholders to understand issues and concerns.

Individual shareholders can raise matters relating to their shareholding and the business of the Company at any time throughout the year to the Office of the Company Secretary. Shareholders are also given the opportunity to ask questions at the AGM or submit written questions in advance. In terms of Article 52 of the Articles of Association of the Company and Article 129 of the Companies Act (Cap.386 of the Laws of Malta), the Board may call an extraordinary general meeting on the requisition of shareholders.

Principle 10 – Institutional Shareholders

Institutional shareholders keep the market updated on issues related to their company through company announcements and press releases. During the year under review, the Company has issued various press releases related to the controlling shareholder, namely Mapfre Internacional S.A. in connection with the latter's operations abroad. The other institutional shareholder, namely Bank of Valletta p.l.c., is a listed company on the Malta Stock Exchange and consequently a steady flow of information is provided through company announcements and press releases. In addition the six monthly and yearly results normally include a section on the insurance interests of institutional shareholders.

Principle 11 – Conflicts of Interest

The Directors are strongly aware of their responsibility to act at all times in the interest of the Company and its shareholders as a whole and of their obligation to avoid conflicts of interest. During the period under review, the Board maintained its practice that when a potential conflict of interest may or is perceived to arise in respect of a Director in connection with any transaction or other matter, this interest is declared and the individual concerned refrains from taking part in proceedings or decisions relating to the matter. The Board minutes include a record of such declarations and of the action taken by the individual director concerned. As an exception to this rule, in order that the directors may discharge their responsibilities efficiently and effectively, it was agreed that directors appointed by shareholders need not disclose a conflict of interest or potential conflict of interest where this arises due to a conflict or potential conflict between the Company and the shareholder who appointed such director. In such a case, directors are allowed to participate in the discussions provided that they are required to act honestly and in good faith and always in the best interest of the Company.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 11 – Conflicts of Interest - continued

The Code of Conduct launched in 2010 clearly sets out the Company's principles and direction on the management of conflicts of interest. The said Code of Conduct is being updated to come in line with the Code of Ethics and Conduct of the parent company. It is planned that the new Code of Ethics and Conduct for all Directors and Employees of the Middlesea Group will be launched during 2013.

The Company has in place a document entitled 'Code of Dealing for Directors & Selected Officers and Employees' addressed to all directors and selected officers of the Company and its subsidiary undertakings. The aim behind this Code is to ensure compliance with the Principles and the dealing rules including those contained in the Listing Rules. The Company has in place a system for recording all advance notices received in connection with permitted dealings by directors and selected officers and acknowledgements of such advance notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform to the Code of Dealing on a yearly basis.

Directors' interests in the share capital of the Company as at 31 December 2012 were as follows:

	Beneficial Interest	Non-Beneficial Interest
Gaston Debono Grech	51,942 shares	-
Joseph FX Zahra	1,214 shares	-

Paul Testaferrata Moroni Viani has indirect shareholding in the Company's shares through his shareholding in other companies.

Principle 12 – Corporate Social Responsibility

The Company seeks to be an active player within the Community in which it operates and has a long history of addressing society's needs through business success, particularly in the fields of education and philanthropy. The Company was the pioneer in establishing professional insurance studies in Malta, ensuring a platform and a continuous supply of trained professionals for the whole insurance market. The Company's commitment to education continued with its supporting the establishment of the first Insurance and Finance degree course at the University of Malta.

In addition, during the year under review, the Company provided specific support in the fields of arts, culture and sports in the form of sponsorships and other activities. In addition Middlesea, with the support of Fundación Mapfre, along with Transport Malta are the official sponsors of a road safety campaign which boldly brings to light a number of causes of deaths and injuries that occur every year on the road. Over a 12 month period Middlesea and Fundación Mapfre will support education print, TV, online and on street campaign which will highlight the consequences of dangerous driving. Another important event was held during 2012 in which Fundación Mapfre provided the business game ITS programme for university students attending the insurance degree course. Further cooperation is being planned in Malta, for next year, by Fundación Mapfre.

The Company seeks to put into practice good CSR principles on a daily basis with its own employees. The Company considers itself to be a good employer, encouraging open communication and personal development whilst creating opportunities based on performance, creativity and teamwork.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 12 – Corporate Social Responsibility - continued

Internal Control and Risk Management System

This information is being provided in terms of Listing Rule 5.97.4

Authority to operate the Company is delegated to the President & CEO within the limits set by the Board. The Board is ultimately responsible for the Group's systems of internal control and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable as opposed to absolute assurance against material misstatement or loss. Through the Audit Committee and the Compliance, Prevention of Money Laundering and Risk Management Committee, the Board reviews the process and procedures to ensure the effectiveness of the Group's systems of internal control, which are monitored by the Internal Audit Department. The key features of the Group's systems of internal control are as follows:

Organisation - The Company also operates through the boards of directors of subsidiary and associated companies with clear reporting lines and delegation of powers. The Middlesea Chairman is also kept informed on the operations of the subsidiary companies either by sitting directly on the respective Boards or through the other company directors.

Risk Identification - The management of each of the Group members is responsible for the identification and evaluation of key risks applicable to their areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed.

Reporting - Functional, operating and financial reporting standards are applicable to all entities of the Group. Systems and procedures are in place to identify, control and to report on the major risks. The Board receives periodic management information giving comprehensive analysis of financial and business performance including variances against budgets.

General Meetings

This information is being provided in terms of Listing Rule 5.97.6.

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the auditors, the authorisation of the directors to set their remuneration, and other special business, are proposed and approved at the Company's Annual General Meeting (AGM). The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders. The AGM is conducted in accordance with the Memorandum and Articles of the Company and has the powers therein defined. The Shareholders' rights can be exercised in accordance with the articles of association of the Company.

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution of the Company during general meetings.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Company to include items on the agenda of a general meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Company at least forty six (46) days before the date set for the relative general meeting.

A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Company. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for that purpose.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE

Principle 3 – Composition of the Board: Code Provision 3.2

The Board is composed of ten non-executive Directors.

In terms of Code provision 3.2.5, a Director is not deemed to be independent if he/she 'has served on the Board for more than twelve consecutive years'. The Board has taken the view that the length of service on the Board of two of its Board members, namely Lino Spiteri and Gaston Debono Grech, does not undermine the said Directors' ability to consider appropriately the issues which are brought before the Board. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that the two Directors in question are able to exercise independent judgment and are free from any relationship which can hinder their objectivity.

Principle 4 – The Responsibilities of the Board: Code Provision 4.2.7

This Code Provision recommends "the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility".

In view of the fact that the appointment of Directors is (a) a matter reserved exclusively to the Company's shareholders (except where the need arises to fill a casual vacancy), (b) that every director retires from office at the Annual General Meeting, and (c) taking into account the Directors' non-executive role, the Company does not consider at this point in time the necessity to have in place a succession policy. However, the recommendation to have a policy will be kept under review.

Principle 7 – Evaluation of the Board's Performance: Code Provision 7.1

This Code Provision recommends that "the Board should appoint a committee chaired by a non-executive Director in order to carry out a performance evaluation of its role".

The Board has in place its standard evaluation exercise procedure through the compilation of the Board Effectiveness Questionnaire and the Board did not appoint a specific committee to carry out this performance evaluation which was delegated to the Chairman.

Principle 8A – Remuneration Committee: Code Provision 8.A.1

This Code Provision recommends that "the Board of Directors should establish a Remuneration Committee composed of non-executive Directors with no personal financial interest other than as shareholders in the Company, one of whom shall be independent and shall chair the Committee".

The Code clearly defines an independent non-executive Director under Principle 3. The Chairman of the Remuneration Committee, for the period 1 January to 20 April 2012, namely Tonio Depasquale, does not fall within the definition of independent non-executive Director in accordance with Principle 3 in view of his previous position with one of the Company's major shareholders. However the Board has taken the view that the position held by Tonio Depasquale with one of the major shareholders of the Company does not undermine the said Director's ability to consider appropriately the issues which are brought before the Remuneration Committee. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that Tonio Depasquale is able to exercise independent judgment and is free from any relationship which can hinder his objectivity. In addition this position was rectified on the 20 April 2012 when Martin Galea was appointed as Remuneration Committee Chairman. Tonio Depasquale remained as a member of the Remuneration Committee.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

Principle 8B – Nomination Committee

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders (in line also with general and commonly accepted practice in Malta). Shareholders with 11% or more of the shares in issue are entitled to appoint one director for every 11% holding, whilst the other shareholders are entitled to appoint the remaining Board members at the Annual General Meeting in accordance with the provisions of the Articles of Association.

Within this context, the Board believes that the setting up of a Nomination Committee is currently not required by the Company. The Company also considers that some of the functions of the Nomination Committee (particularly those relating to succession planning and the appointment of senior management) are already dealt with by the Remuneration Committee. Notwithstanding this, the Board will retain under review the issue relating to the setting up of a Nomination Committee.

Code Provision 9.3 requires the Company to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. This Code Provision has become applicable to the Company following the purchase by Mapfre Internacional S.A. of Munich Re's shareholding during the last six months of 2011 whereby Mapfre Internacional S.A. became a controlling shareholder. This position of the Company will be kept under continuous review and will be evaluated in the interest of all shareholders.



Lino Spiteri
Director



Pedro López Solanes
Director

27 February 2013

REMUNERATION COMMITTEE'S REPORT TO THE SHAREHOLDERS

1. TERMS OF REFERENCE AND MEMBERSHIP

The Middlesea Insurance p.l.c. Group Remuneration Committee (the "Committee") hereby submits its Remuneration Statement to shareholders in accordance with Section 8A of the Principles of Good Corporate Governance (Appendix 5.1 of the Listing Rules).

The Committee concentrates on recommending the remuneration policy for the non-executive directors and senior management, outlining the appropriate packages of their remuneration and monitoring the level and structure of on the basis of adequate information provided by Management.

During 2012, the Committee was composed of Tonio Depasquale (Chairman) and Javier Fernández-Cid from the 1 January until the 20 April 2012. On that day the Board of Directors appointed Martin Galea (Chairman), Tonio Depasquale and Javier Fernández-Cid as Remuneration Committee members following the Annual General Meeting held on the same day. All the Committee members are non-executive directors and Martin Galea is the independent non-executive director as required under Section 8.A.1. The President & CEO, Alfredo Muñoz Perez, and other members of senior management are invited to attend Committee meetings as and when required. The Company Secretary, Carlo Farrugia, acts as the Secretary to the Committee.

2. MEETINGS

The Remuneration Committee held three meetings during the period under review and the attendance to the meetings was the following:-

Member	Attended
Martin Galea (Chairman)	2 (appointed on the 20 April 2012)
Tonio Depasquale	3 (Chairman till the 20 April 2012 and then appointed as a member)
Javier Fernández-Cid	3

The Committee determined and/or discussed the following matters:

- Remuneration Statement for the Annual Report
- Negotiations with the Union re the Collective Agreement
- Remuneration for Senior Executives
- Performance appraisal system for employees
- Human Resources strategy
- Training and development programme for employees
- Recommendation for the maximum emoluments to Board Directors

3. REMUNERATION STATEMENT

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT

The members of the Board determine the framework of the overall remuneration policy for Senior Management based on recommendations from the Remuneration Committee. The Committee also establishes the individual remuneration arrangements of the Senior Management, namely the President & CEO, Vice Presidents, Company Secretary, Chief Officers, and Internal Auditor.

The Committee has access to independent external advice on remuneration matters as and when required.

The Committee considers that the current Senior Management remuneration packages are based upon the appropriate local market equivalents, and are fair and reasonable for the responsibilities involved. The Committee also believes that the remuneration packages are such as to enable the Company to attract, retain and motivate executives having the appropriate skills and qualities to ensure the proper management of the organisation.

There have been no significant changes in the Company's remuneration policy for Senior Management during the financial year under review. A performance bonus scheme is being planned for all employees during 2013 in line with the implementation of a performance appraisal system across the company. It is to be noted that during the last financial year, the two Vice Presidents left the company and were not replaced. Their responsibilities were taken over by the President & CEO together with the Chief Officers. The remuneration policy should be finalised during 2013 and presented to the Board of Directors for approval.

The terms and conditions of employment of Senior Management are set out in their indefinite contracts of employment, where applicable. As a general rule, such contracts do not contain provisions for termination payments and other payments linked to early termination. Share options and profit sharing are not part of the Company's remuneration policy for Senior Management.

The President & CEO is eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives and targets as recommended by the Remuneration Committee and approved by the Board.

REMUNERATION COMMITTEE'S REPORT TO THE SHAREHOLDERS

The Senior Management is eligible for an annual salary increase within a maximum salary range approved by the Remuneration Committee. The said annual salary increase and bonus are not directly performance related. No supplementary pension or other pension benefits are payable to Senior Management.

In the case of the President & CEO, the Remuneration Committee is of the view that the linkage between fixed remuneration and performance bonus is reasonable and appropriate.

In the case of the Senior Management, there is no direct linkage between remuneration and performance since, as explained above, the annual salary increases are not directly performance related. However this system will be addressed during 2013 with the introduction of the performance appraisal system coupled with a performance bonus scheme.

Non-cash benefits to which Senior Management are entitled include the use of a company car and health insurance. The death-in-service benefit also forms part of the non-cash benefits and the same terms are applicable to all other Company employees.

Total emoluments received by Senior Management during FY 2012 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed in this Report.

3.2 REMUNERATION POLICY – DIRECTORS

As at the 31 December 2012, the Board of Directors of Middlesea Insurance p.l.c. was composed of ten non-executive directors. Three Directors, namely Javier Fernández-Cid, Pedro López Solanes and Felipe Navarro López de Chicheri, did not receive a fee in accordance with the established policy of the parent shareholder company, MAPFRE Internacional S.A., with which they are employed and which appointed them. The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was fixed at an aggregate sum of €250,000 per annum at the thirty first Annual General Meeting held on the 20 April 2012. The Company does not intend to make any changes to this maximum amount at the next Annual General Meeting to be held in 2013.

Based on the recommendations of the Committee, the current directors' fees, for each Director, as approved by the Board, which are similar to the previous year, are as follows:

Directors' Fees	In Euro
Chairman	40,000
Other Directors	12,000
Board Committees Fees	
Chairman	4,000
Members	3,000

None of the Company's directors have any service contracts with either the Company or any of its subsidiaries as at the end of the financial year.

Directors' emoluments are designed to reflect the time committed by Directors to the Company's affairs, including the different Board committees of which Directors are members, and their responsibilities on such committees. None of the Directors, in their capacity as a Director of the Company and/or Committee members, is entitled to profit sharing, share options, pension benefits or any other remuneration.

Total emoluments received by Directors during FY 2012 are reported below in terms of Code Provisions 8.A.5.

REMUNERATION COMMITTEE'S REPORT TO THE SHAREHOLDERS

3.3 CODE PROVISION 8.A.5

As explained above the emoluments of Senior Management are not being disclosed since these are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6.

Emoluments of Directors:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€140,000	None	None	None

Fees payable to directors in respect of 2012 amounted in total to €140,000 (2011: €139,750) and were paid as directors' fees as follows:-

Directors' Fees

Roderick E. D. Chalmers	€9,500 (resigned on the 16 June 2012)
Gaston Debono Grech	€15,000
Tonio Depasquale	€16,215
Martin Galea	€34,504 (appointed as Director on the 27 February 2012 and as Chairman on the 20 April 2012)
Frederick Mifsud Bonnici	€6,273 (appointed on the 21 August 2012)
Lino Spiteri	€23,000
Paul Testaferrata Moroni Viani	€15,000
Joseph F. X. Zahra	€20,508 (resigned as Chairman on the 20 April 2012 and stayed on as a Director)

As already explained above and in line with the established policy of the parent shareholder company, MAPFRE Internacional S.A., all the Directors appointed on the Board of Directors of Middlesea who are also MAPFRE employees do not receive any directors's fee from Middlesea.



Martin Galea
Chairman
Remuneration Committee
27 February 2013

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Middlesea Insurance p.l.c.

REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

We have audited the consolidated and stand-alone parent Company financial statements of Middlesea Insurance p.l.c. (together the "financial statements") on pages 32 to 120, which comprise the consolidated and parent Company balance sheets as at 31 December 2012, and the consolidated and parent Company profit and loss accounts, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more comprehensively in the Statement of Directors' responsibilities for the financial statements on page 15, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements

- give a true and fair view of the financial position of the Group and the stand-alone parent as at 31 December 2012, and of their financial performance and their cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

REPORT ON CORPORATE GOVERNANCE

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 17 to 26 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

INDEPENDENT AUDITOR'S REPORT



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also have responsibilities:

- Under the Maltese Companies Act, 1995 to report to you if, in our opinion:
 - The information given in the directors' report is not consistent with the financial statements.
 - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
 - The financial statements are not in agreement with the accounting records and returns.
 - We have not received all the information and explanations we require for our audit.
 - Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- Under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers

78 Mill Street
Qormi
Malta

A handwritten signature in black ink, appearing to read 'Lucienne Pace Ross'.

Lucienne Pace Ross
Partner

27 February 2013

PROFIT AND LOSS ACCOUNTS

TECHNICAL ACCOUNTS – GENERAL BUSINESS

		Year ended 31 December	
		Group and Company	
	Notes	2012 €'000	2011 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	33,798	30,447
Outward reinsurance premiums		(14,844)	(12,960)
Net premiums written		18,954	17,487
Change in the gross provision for unearned premiums			
		(1,838)	1,043
Change in the provision for unearned premiums, reinsurers' share			
		805	(204)
		(1,033)	839
Earned premiums, net of reinsurance			
		17,921	18,326
Allocated investment return transferred from the non-technical account			
	8	1,444	793
Total technical income		19,365	19,119
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		17,731	16,544
- reinsurers' share		(5,087)	(4,996)
		12,644	11,548
Change in the provision for claims			
- gross amount		(832)	426
- reinsurers' share		(1,613)	(1,060)
		(2,445)	(634)
Claims incurred, net of reinsurance			
		10,199	10,914
Net operating expenses			
	7	5,702	5,783
Total technical charges		15,901	16,697
Balance on the technical accounts for general business (page 34)			
		3,464	2,422

PROFIT AND LOSS ACCOUNTS TECHNICAL ACCOUNTS – LONG TERM BUSINESS

Year ended 31 December

	Notes	Group		Company	
		2012 €'000	2011 €'000	2012 €'000	2011 €'000
Earned premiums, net of reinsurance					
Gross premiums written	6	86,944	46,679	1,448	1,380
Outward reinsurance premiums		(3,901)	(2,119)	(790)	(769)
Earned premiums, net of reinsurance		83,043	44,560	658	611
Investment income					
Income from investments	8	90,541	3,791	236	128
Other technical income, net of reinsurance	9	597	269	-	-
Total technical income		174,181	48,620	894	739
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		75,060	29,638	671	395
- reinsurers' share		(1,107)	(579)	(343)	(152)
		73,953	29,059	328	243
Change in the provision for claims					
- gross amount		2,475	(819)	270	(57)
- reinsurers' share		(361)	303	(161)	9
		2,114	(516)	109	(48)
Claims incurred, net of reinsurance		76,067	28,543	437	195
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		32,772	2,207	42	(44)
- reinsurers' share		(8)	2,669	(8)	(4)
Investments contracts with DPF – gross		32,764	4,876	34	(48)
		46,050	10,517	-	-
Net operating expenses	7	78,814	15,393	34	(48)
		7,974	3,841	177	(19)
Total technical charges		162,855	47,777	648	128
Balance on the technical account for long term business (page 34)		11,326	843	246	611

PROFIT AND LOSS ACCOUNTS

NON-TECHNICAL ACCOUNTS

		Year ended 31 December			
		Group		Company	
Notes		2012 €'000	2011 €'000	2012 €'000	2011 €'000
Balances on technical accounts					
	General business (page 32)	3,464	2,422	3,464	2,422
	Long term business (page 33)	11,326	843	246	611
		14,790	3,265	3,710	3,033
	Share of profit of associated undertaking	8	-	1,644	-
		14,790	4,909	3,710	3,033
	Total income from insurance activities	14,790	4,909	3,710	3,033
	Other investment income	8	6,797	2,037	2,247
	Investment expenses and charges	8	(392)	(1,123)	(966)
	Allocated investment return transferred to the general business technical account	8	(1,444)	(793)	(793)
	Other income	9	1,170	856	-
	Administrative expenses	7	(2,940)	(2,776)	(1,767)
		17,981	3,110	3,260	1,754
	Profit for the financial year before tax	17,981	3,110	3,260	1,754
	Tax expense	12	(653)	(1,063)	(711)
		17,328	2,047	2,384	1,043
		17,328	2,047	2,384	1,043
Attributable to:					
	- shareholders	9,352	1,929	2,384	1,043
	- non-controlling interests	7,976	118	-	-
		17,328	2,047	2,384	1,043
Earnings per share attributable to shareholders					
		14	10.2c	2.1c	

The Notes on pages 42 to 120 are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Year ended 31 December

	Notes	Group		Company	
		2012 €'000	2011 €'000	2012 €'000	2011 €'000
Profit for the financial year		17,328	2,047	2,384	1,043
Other comprehensive income:					
Share of fair value gain on investment in associated undertakings	28	-	-	-	529
Change in fair value of available-for-sale investments	28	(4)	20	25	23
Increase in value of in-force business	16	3,950	1,434	-	-
Share of decrease in value of in-force business of associated undertaking	28	-	(1,100)	-	-
Total other comprehensive income, net of tax		3,946	354	25	552
Total comprehensive income for the year		21,274	2,401	2,409	1,595
Attributable to:					
- shareholders		11,323	1,566		
- non-controlling interests		9,951	835		
Total comprehensive income for the year		21,274	2,401		

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component is disclosed in Notes 22 and 28.

The Notes on pages 42 to 120 are an integral part of these financial statements.

BALANCE SHEETS

At 31 December

	Notes	Group		Company	
		2012 €'000	2011 €'000	2012 €'000	2011 €'000
ASSETS					
Intangible assets	16	48,692	44,725	1,006	498
Property, plant and equipment	17	8,690	4,787	1,526	1,579
Investment property	18	81,147	66,537	8,597	8,111
Investment in subsidiary undertakings	19	-	-	57,214	57,214
Investment in associated undertakings	20	5,062	5,208	147	147
Other investments	21	1,121,111	1,056,563	19,167	25,634
Deferred income tax	22	2,273	2,351	1,077	1,113
Reinsurers' share of technical provisions	23	19,223	16,436	18,795	16,208
Deferred acquisition costs	24	3,092	2,898	3,092	2,898
Insurance and other receivables	25	22,175	21,835	9,375	9,306
Income tax receivable		6,137	4,725	-	416
Cash and cash equivalents	26	18,970	7,380	7,021	952
Total assets		1,336,572	1,233,445	127,017	124,076
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	27	19,320	19,320	19,320	19,320
Share premium account		688	688	688	688
Other reserves	28	22,910	20,939	34,711	34,686
Profit and loss account		24,322	15,568	2,829	1,043
Non-controlling interests		67,240	56,515	57,548	55,737
		64,911	55,825	-	-
Total equity		132,151	112,340	57,548	55,737
LIABILITIES					
Deferred income tax	22	8,800	8,200	920	927
Income tax payable		11	-	11	-
Provisions for other liabilities and charges	29	1,215	1,199	1,215	1,199
Technical provisions:					
- Insurance contracts and investment contracts with DPF	23	1,111,557	1,029,254	56,131	54,813
- Investment contracts without DPF	23	62,027	60,338	-	-
Derivative financial instruments	21	15	189	-	-
Borrowings	30	8,500	8,500	2,500	2,500
Insurance and other payables	31	12,296	13,425	8,692	8,900
Total liabilities		1,204,421	1,121,105	69,469	68,339
Total equity and liabilities		1,336,572	1,233,445	127,017	124,076

The Notes on pages 42 to 120 are an integral part of these financial statements.

The financial statements on pages 32 to 120 were authorised for issue by the Board on 27 February 2013 and were signed on its behalf by:



Martin Galea
Chairman



Lino Spiteri
Director



Alfredo Muñoz Perez
President & Chief Executive Officer

STATEMENTS OF CHANGES IN EQUITY

Group

	Notes	Attributable to shareholders						Total €'000
		Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000	Non-controlling interests €'000	
Balance at 1 January 2011		55,200	2,221	21,302	(23,774)	54,949	-	54,949
Comprehensive income								
Profit for the financial year		-	-	-	1,929	1,929	118	2,047
Other comprehensive income:								
Change in available-for-sale investments' fair values	28	-	-	20	-	20	-	20
Increase in value of in-force business	16	-	-	717	-	717	717	1,434
Share of decrease in value of in-force business of associated undertaking	28	-	-	(1,100)	-	(1,100)	-	(1,100)
Total other comprehensive income, net of tax		-	-	(363)	-	(363)	717	354
Total comprehensive income		-	-	(363)	1,929	1,566	835	2,401
Transactions with owners								
Reduction of capital against accumulated losses	27	(35,880)	(1,533)	-	37,413	-	-	-
Non-controlling interest arising on business combination	33	-	-	-	-	-	54,990	54,990
Total transactions with owners		(35,880)	(1,533)	-	37,413	-	54,990	54,990
Balance at 31 December 2011		19,320	688	20,939	15,568	56,515	55,825	112,340

STATEMENTS OF CHANGES IN EQUITY

Group - continued

		Attributable to shareholders						
	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance at 1 January 2012		19,320	688	20,939	15,568	56,515	55,825	112,340
Comprehensive income								
Profit for the financial year		-	-	-	9,352	9,352	7,976	17,328
Other comprehensive income:								
Change in available-for-sale investments' fair values	28	-	-	(4)	-	(4)	-	(4)
Increase in value of in-force business	16	-	-	1,975	-	1,975	1,975	3,950
Total other comprehensive income, net of tax		-	-	1,971	-	1,971	1,975	3,946
Total comprehensive income		-	-	1,971	9,352	11,323	9,951	21,274
Transactions with owners								
Dividends for 2011	15	-	-	-	(598)	(598)	(865)	(1,463)
Total transactions with owners		-	-	-	(598)	(598)	(865)	(1,463)
Balance at 31 December 2012		19,320	688	22,910	24,322	67,240	64,911	132,151

STATEMENTS OF CHANGES IN EQUITY

Company

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000
Balance at 1 January 2011		55,200	2,221	34,134	(37,413)	54,142
Comprehensive income						
Profit for the financial year		-	-	-	1,043	1,043
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	23	-	23
Fair value gain on investment in associated undertaking	28	-	-	529	-	529
Total other comprehensive income, net of tax		-	-	552	-	552
Total comprehensive income		-	-	552	1,043	1,595
Transactions with owners						
Reduction of capital against accumulated losses	27	(35,880)	(1,533)	-	37,413	-
Total transactions with owners of the company		(35,880)	(1,533)	-	37,413	-
Balance at 31 December 2011		19,320	688	34,686	1,043	55,737

STATEMENTS OF CHANGES IN EQUITY

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000
Balance at 1 January 2012		19,320	688	34,686	1,043	55,737
Comprehensive income						
Profit for the financial year		-	-	-	2,384	2,384
Other comprehensive income: Change in available-for-sale investments' fair values	28	-	-	25	-	25
Total other comprehensive income, net of tax		-	-	25	-	25
Total comprehensive income		-	-	25	2,384	2,409
Transactions with owners						
Dividend for 2011	15	-	-	-	(598)	(598)
Total transactions with owners of the company		-	-	-	(598)	(598)
Balance at 31 December 2012		19,320	688	34,711	2,829	57,548

The Notes on pages 42 to 120 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Year ended 31 December					
		Group		Company	
Notes	2012	2011	2012	2011	
	€'000	€'000	€'000	€'000	€'000
Cash flows from operating activities					
Cash (used in)/generated from operations	32	(3,922)	5,178	(467)	(4,145)
Dividends received		6,490	1,468	1,418	879
Interest received		31,602	12,669	663	1,199
Interest paid		(145)	(576)	(145)	(576)
Income tax paid		(1,332)	(1,055)	(390)	(617)
Net cash generated from/(used in) operating activities		32,693	17,684	1,079	(3,260)
Cash flows from investing activities					
Purchase of investment property	18	(17,292)	(85)	(219)	(21)
Increase in investment in associated undertaking		-	(147)	-	(147)
Purchase of financial investments	21	(463,132)	(209,000)	(10,284)	(27,788)
Disposal of financial investments	21	462,550	193,428	17,086	41,621
Purchase of property, plant and equipment and intangible assets	16,17	(1,775)	(893)	(995)	(543)
Disposal of property, plant and equipment and intangible assets	16,17	9	115	-	-
Net cash (used in)/generated from investing activities		(19,640)	(16,582)	5,588	13,122
Cash flows from financing activities					
Bank loans	30	-	(10,785)	-	(10,785)
Dividends paid to shareholders		(598)	-	(598)	-
Dividends paid to non-controlling interests		(865)	-	-	-
Net cash used in financing activities		(1,463)	(10,785)	(598)	(10,785)
Net movement in cash and cash equivalents		11,590	(9,683)	6,069	(923)
Cash and cash equivalents at beginning of year		7,380	2,734	952	1,875
Acquisition of subsidiary undertakings	33	-	14,329	-	-
Cash and cash equivalents at end of year	26	18,970	7,380	7,021	952

The Notes on pages 42 to 120 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

The financial statements are prepared under the historical cost convention as modified by the revaluation of property, plant and equipment, investment property, investment in associated undertaking, financial assets and financial liabilities (including derivatives) at fair value through profit or loss, available-for-sale investments and the value of in-force business.

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

The balance sheet is organised in increasing order of liquidity, with additional disclosures on the current or non-current nature of the Group's assets and liabilities provided within the Notes to the financial statements. All amounts in the Notes are shown in thousands of euro, rounded to the nearest thousand, unless otherwise stated.

On 29 July 2011, Middlesea Insurance p.l.c. acquired *de-facto* control over MSV Life p.l.c. ("MSV"). MSV was previously recognised as an associated undertaking and on consolidation was accounted for using the equity method of accounting and therefore measured in the balance sheet at an amount that reflected the share of net assets in the associated undertaking. As further explained in Note 33, as from 29 July 2011, MSV was classified as a subsidiary and fully consolidated on a line by line basis. Income, expenses and other movements in reserves for the year ended 31 December 2011 are reflected accordingly for the period between 29 July 2011 and 31 December 2011.

Standards, interpretations and amendments to published standards effective in 2012

In 2012, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2012. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2012. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether subsequently, they are potentially reclassifiable to profit or loss (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards.

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

IFRS 9, 'Financial Instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

the financial assets. IFRS 9, 'Financial Instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2015. The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group has assessed IFRS 10's impact on the investment in MSV Life p.l.c. and does not expect the standard to have an impact on the determination of control over this group company.

2. OTHER ACCOUNTING POLICIES

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

2.1 CONSOLIDATION

(a) Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary (or group) undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which effective control is transferred to the Group.

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. A list of the Group's subsidiaries is set out in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(b) Associated undertakings

Associated undertakings are entities over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, but which it does not control. Except for investment-linked insurance funds, interests in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Equity accounting involves recognising in the profit and loss the share of the associated undertaking's post-acquisition profits or losses and recognising in other comprehensive income its share of post-acquisition movements in reserves. The interest in the associated undertaking is carried in the balance sheet at an amount that reflects the share of the net assets of the associated undertaking. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intra-group gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intra-group losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for associated undertakings are changed where necessary to ensure consistency with the policies adopted by the Group. A list of the Group's associated undertakings is set out in Note 20.

Interests in associated undertakings that are allocated to the insurance fund are designated as financial assets at fair value through profit or loss. They are accounted for in accordance with the recognition and measurement principles described in Note 2.9.

2.2 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management which implements the strategic decisions taken by the Board. In identifying the Group's business segments, the chief operating decision-maker is also guided by the Regulations under the Insurance Business Act, 1998 on the disclosure requirements relevant to specified insurance classes of business.

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The euro is the Group's and Company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

All foreign exchange gains and losses that relate to net claims incurred are presented in the technical profit and loss account within 'claims incurred'. All other foreign exchange gains and losses are presented in the profit and loss account within 'investment income' or 'investment expense'.

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.4 INTANGIBLE ASSETS

Value of in-force business

The value of in-force business is determined by the directors after considering the advice of the Group's Approved Actuary. The valuation represents the discounted value of projected future transfers to shareholders from contracts in force at the year end, after making a provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned.

Gross investment returns and asset allocations assumed vary depending upon the mix of investments held by the Company and expected market conditions. Annual movements in the value of the in-force business are credited or debited to other comprehensive income.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of five years. All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Deferred policy acquisition costs – long term contracts

Incremental costs that are incurred in acquiring new investment contracts without DPF are capitalised as deferred acquisition costs (DAC). The DAC is subsequently amortised over the life of the contracts as follows:

- For long term investment contracts with a fixed maturity date, DAC is amortised over the life of the contract.
- For long term investment contracts with no fixed date of maturity, DAC is amortised over the estimated useful life of the contract. This basis is reviewed periodically with reference to the historical experience of surrenders for these contracts.

2.5 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is initially recorded at historical cost. Freehold land and buildings, are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the re-valued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

Buildings	100 years
Leasehold improvements	10 - 40 years
Motor vehicles	5 years
Furniture, fittings and equipment	3 - 10 years

The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (accounting policy 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the profit and loss account. When revalued amounts are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

2.6 INVESTMENT PROPERTY

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

Freehold and leasehold properties treated as investment property principally comprise office and other commercial buildings that are held for long term rental yields and that are not occupied by the Group. Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Changes in fair values are reported in the profit and loss account.

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

2.7 INVESTMENTS IN GROUP UNDERTAKINGS

In the Company's financial statements, investments in group undertakings are accounted for by the cost method of accounting less impairment.

Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the impairment is identified. 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 by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

The dividend income from such investments is included in the profit and loss account in the accounting year in which the Company's rights to receive payment of any dividend is established.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account and included within investment income.

2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

In the Company's financial statements, investments in associated undertakings are accounted at fair value. Changes in the fair value of associated undertakings are recognised in other comprehensive income. Fair value is determined by using valuation techniques that are commonly accepted.

When investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account. Dividends are recognised in the profit and loss account when the Company's right to receive payments is established. Both are included within investment income.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, other available-for-sale investments and loans and receivables. The classification is dependent on the purpose for which the investments were acquired. The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation at every reporting date.

Classification

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Group's Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance and investment contracts liabilities are also designated at inception as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them on different bases. Derivatives are also classified as fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated as fair value through profit or loss. They include, *inter alia*, insurance and other receivables, income tax receivable, cash and cash equivalents in the balance sheet as well as other financial investments (comprising deposits with credit institutions, and loans) classified as loans and receivables within Note 21.
- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include *inter alia* unlisted equities.

Recognition and measurement

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets. All investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are de-recognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss and other available-for-sale investments are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

Gains or losses arising from changes in the value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the profit and loss account within investment income.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes. The quoted market price used for financial assets held by the group is the current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices and other valuation techniques, as appropriate. Subsequent changes in the fair value of any derivative instruments are recognised immediately in the profit and loss account. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement - continued

The Group enters into currency forward contracts to hedge the foreign exchange risk arising on its investments denominated in a foreign currency. These transactions provide effective economic hedges under the Group's risk management policies. However hedge accounting under the specific rules in IAS 39 is not required because the change in the value of the hedged financial instrument is recognised in the profit and loss account.

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

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

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

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

(b) Assets classified as investments in associated undertakings/other available-for-sale investments

The Group assesses at end of the reporting period whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not subsequently reversed through the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

(c) Impairment of other non-financial assets

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

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

2.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at face value. In the cash flow statement, cash and cash equivalents include cash in hand and deposits held at call with banks, which are held for operational purposes.

2.13 SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.14 INSURANCE AND INVESTMENT CONTRACTS

The Group issues contracts that transfer insurance risk or financial risk or both.

(a) Classification

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

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

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are based on realised and/or unrealised investment returns on underlying assets held by the Group.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus), and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders, also considering the advice of the Approved Actuary.

(b) Recognition and measurement

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

(i) Short-term insurance contracts - General business

The results for general business are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) *Recognition and measurement* - continued

(i) Short-term insurance contracts - General business - continued

- Premiums written comprise all amounts due during the financial year in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.
- Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.
- Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.
- Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).
- Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the balance sheet date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

(ii) Group Life insurance contracts

Group life business (classified as long-term insurance business under the Insurance Business Act, 1998) consists of annual policies that cover the lives of a group of customers' employees for the year under cover. Premiums, including reinsurance premiums, and claims are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. The long-term business provision is based on the net "unearned premiums" method as adjusted to take into account the premium written. The valuation is carried out in conjunction with the Company's appointed independent actuary. Profits, which accrue as a result of actuarial valuations, are released to the non-technical profit and loss account. Any shortfall between actuarial valuations and the balance on the long-term business provision is appropriated from the non-technical profit and loss account.

(iii) Long term insurance contracts – individual life

These contracts insure events associated with human life (for example death or survival) over a long and fixed duration. The guaranteed and fixed element for these contracts relates to the sum assured, i.e. the benefit payable on death or maturity.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

Maturity claims are charged to income as incurred when due for payment, at which date they cease to be included within the calculation of the liability. Surrenders are accounted for as incurred when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the liability. Death claims are accounted for when notified. Claims payable include related claims handling costs.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) *Recognition and measurement* - continued

(iii) Long term insurance contracts – individual life - continued

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. For traditional life insurance contracts, the liability is calculated on the basis of a prudent prospective actuarial method, using assumptions regarding mortality, maintenance expenses and investment income, and includes a margin for adverse deviations. Additionally, liabilities under unit-linked life insurance contracts reflect the value of assets held within unithised investment pools. The liability is recalculated at each balance sheet date. It is determined by the Group's Approved Actuary following his annual investigation of the financial condition of the Group's long term business as required under the Insurance Business Act, 1998. The above method of calculation satisfies the minimum liability adequacy test required by IFRS 4.

(iv) Long term insurance contracts with DPF

These contracts further combine a DPF that entitles the holder to receive a bonus as declared by the Group from the DPF eligible surplus.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

Maturity claims are charged to income as incurred when due for payment, at which date they cease to be included within the calculation of the liability. Surrenders are accounted for as incurred when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the liability. Death claims are accounted for when notified. Claims payable include related claims handling costs.

Bonuses charged to the long term business technical account in a given year comprise:

- (i) new reversionary bonuses declared in respect of that year, which are provided within the calculation of the respective liability;
- (ii) terminal bonuses paid out to policyholders on maturity and included within claims paid;
- (iii) terminal bonuses declared at the Group's discretion and included within the respective liability.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the future cash flows based on bonuses consistent with the bonus policy and prudent rates of future investment return, expenses and mortality, and includes margins for adverse deviations. The liability is recalculated at each balance sheet date. The liability is determined by the Group's Approved Actuary following his annual investigation of the financial condition of the Group's long term business as required under the Insurance Business Act, 1998. The above method of calculation satisfies the liability adequacy test required by IFRS 4.

(v) Investment contracts with DPF

These contracts do not expose the Group to significant insurance risk. They contain a DPF that entitles the holder to receive a bonus as declared by the Group from the DPF eligible surplus.

Recognition and measurement principles are the same as for insurance contracts with DPF as described above. Additionally, liabilities under unit-linked investment contracts reflect the value of assets held within unithised investment pools.

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(c) Reinsurance contracts held - continued

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 2.10.

(d) Receivables and payables related to insurance contracts

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

If there is objective evidence that an insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost.

The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 2.10.

(e) Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision as described above). Any DAC written off as a result of this test cannot subsequently be reinstated.

(f) Investment contracts without DPF

The Group issues investment contracts without DPF.

Premium arising on these contracts is classified as a financial liability – investment contracts without DPF. The fair value of these contracts is dependent on the fair value of underlying financial assets. These are designated at inception as fair value through profit or loss. The fair value of a unit linked financial liability is determined using the current unit values that reflect the fair values of the financial assets linked to the financial liability. This is multiplied by the number of units attributed to the contract holder at the balance sheet date.

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, where applicable. Other benefits payable are also accrued as appropriate.

2.15 BORROWINGS

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.16 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in other comprehensive income.

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

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

Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

Deferred tax related to fair value re-measurements charged or credited directly in other comprehensive income or to equity, is also credited or charged directly to equity and subsequently recognised in the profit and loss account together with the deferred gain or loss.

2.17 PROVISIONS FOR PENSION OBLIGATIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

A defined benefit plan defines an amount of pension that an employee will receive on retirement. In the Group's case, this amount is dependent upon an employee's final compensation upon retirement.

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period. The present value of a defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate yields of government or high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in assumptions are charged or credited to profit or loss in the period in which they arise.

2.18 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met as described below.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.18 REVENUE RECOGNITION - CONTINUED

(a) Rendering of services

Premium recognition is described in Note 2.14 dealing with insurance contracts and investment contracts with DPF.

Revenue arising from the issue of investment contracts without DPF and other related services offered by the Group, is recognised in the accounting period in which the services are rendered.

Fees include investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. The Group recognises these fees on a straight-line basis over the estimated life of the contract.

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

- Front-end fees are charged to the client on inception. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically (monthly, quarterly, half yearly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Other revenue receivable by the Group mainly comprises commission or trailer fees receivable on account of investment or other services provided in an intermediary capacity which is accounted for on an accruals basis.

(b) Dividend income

Dividend income is recognised in the profit and loss account as part of investment income when the right to receive payment is established.

(c) Other net fair value gains/(losses) from financial assets at fair value through profit or loss

Other gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the profit and loss account within 'other investment income' or 'investment expenses and charges' in the period in which they arise.

(d) Interest income

Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method.

(e) Rent receivable

Rent receivable from investment property is accounted for on an accruals basis in accordance with the substance of the relevant lease agreements.

2.19 INVESTMENT RETURN

Investment return includes dividend income, other net fair value movements on financial assets at fair value through profit or loss (including interest income from financial assets classified as fair value through profit or loss), interest income from financial assets not classified as fair value through profit or loss, rental receivable, share of associated undertaking's result, and is net of investment expenses, charges and interest payable.

Investment return is initially recorded in the non-technical account, except for income attributed to long term business which is recognised immediately in the long term business technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments supporting the insurance technical provisions. With respect to its group long-term business the investment return is apportioned between the technical and non-technical profit and loss accounts on a basis which takes into account that technical provisions are fully backed by investments and that intangible assets, property, plant and equipment, and working capital are financed in their entirety from shareholders' funds.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.20 LEASES

Property leased out under operating leases are included in investment property. Rental income is recognised in the profit and loss account over the period of the lease to which it relates.

2.21 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which an obligation to pay a dividend is established.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, other than the following:

Value of in-force business

The Group's value of in-force business is a projection of future shareholders' cash flows expected from contracts in force at the year end, appropriately adjusted for taxation and discounted by a risk adjusted discount rate. In assessing the projected cash flows, the directors assume a long term view of a maintainable level of investment return. This valuation requires the use of a number of assumptions relating to future mortality, persistence, levels of expenses, investment returns and asset allocations over the longer term. This valuation is inherently uncertain and assumptions are reviewed on an annual basis as experience and the reliability of the estimation process develop.

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2012 is disclosed in Note 16 to the accounts.

4. MANAGEMENT OF RISK

The Group is a party to contracts that transfer insurance risk and/or financial risk. This section summarises these risks and the way that the Group manages them.

4.1 INSURANCE RISK

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments are significantly different to the amounts included within technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits may vary from year to year from the estimate established using statistical techniques.

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. The Group is largely exposed to insurance risk in one geographical area, Malta.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(a) *Short term business insurance contracts – general insurance*

Frequency and severity of claims

The terms and conditions of the contracts set out the bases for the determination of the Group's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property, liability and group life. Details of gross premiums written as well as the insurance liabilities analysed by class are provided in the "Segmental Analysis" (Note 6).

The frequency and severity of claims can be affected by several factors. The following are considered by the Group to be the most significant:

- The increasing levels of court awards in cases where damages are suffered as a result of injuries, the divergence of awards that is dependent on the territory of the claim and the jurisdiction of the court, the effect of inflation due to the prolonged period typically required to settle such cases; and
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

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

The underwriting strategy ensures that the risks underwritten are well diversified in terms of type and amount of risk. The Group follows strict underwriting guidelines and sets limits on the overall retention of risk that it carries. Any risk in excess of this limit is either reinsured under a facultative cover note or is declined. Underwriting limits are in place to enforce appropriate risk selection criteria. In certain circumstances, certain exclusions to risks are included within these guidelines. For example, the Group does not insure US risks unless they are incidental. The Group can impose deductibles to help manage its costs. It also uses its experience and expertise to mitigate the risk of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all of the costs (i.e. subrogation). A significant portion of the Group's business is underwritten through an agency distribution network. Underwriting authority limits are set for individual agencies or branches, and any contracts through which the Group is committed to cover risks in excess of these authority limits require head office approval.

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than A. No rating limitation shall apply to treaty placements with Mapfre Re or any Mapfre Group company designated to write any or all of the Mapfre Group Reinsurance treaties. At 31 December 2012, Mapfre's rating stood at BBB+. The Board will monitor the security rating of Mapfre on a periodic basis.

The Group has specialised claims units dealing with the mitigation of risks surrounding known claims. These units investigate and adjust all claims. Claims are reviewed individually on a regular basis. Those claims that take more than one year to settle are reviewed regularly, and are adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions and other factors. The Group actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments. Authority limits are set for the settlement of claims through the individual agents. Any claims incurred above these limits are referred to head office for handling. In addition, all claims involving bodily injury are referred to head office irrespective of their amount.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(a) *Short term business insurance contracts – general insurance - continued*

Concentration of insurance risk

Up until 31 December 2012, 100% of the Group's business was written in Malta (2011: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 25% (2011: 25%) and accident and health comprising 24% (2011: 24%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 19% (2011: 19%) and fire and other damage to property at 18% (2011: 18%). The remaining 14% (2011: 14%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred by insurance business class is provided in Note 6 to these financial statements.

Sources of uncertainty in the estimation of future claim payments

Claims on contracts are accounted for on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims, the Group considers the results of estimation techniques that are based partly on known information at year-end and partly on statistical analysis of historical experience. The Company has constructed 'chain ladders' that triangulate the settlement of claims by accounting year or underwriting year, depending on the class of business. The 'chain ladders' include the known claims incurred (i.e. the claims paid and claims outstanding in any given year) by underwriting/accounting year, and they demonstrate how each year has progressed in the subsequent years of development. The 'chain ladder' is then projected forward giving greater weighting to recent years. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Note 23 presents the development of the estimate of ultimate claim cost for claims notified in a given year.

(b) *Long term business insurance contracts*

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

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

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of policy. Investment contracts with DPF carry negligible insurance risk.

The Group manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and level of insured benefits. Medical selection is also included in the Group's underwriting procedures with premiums varied to reflect the health condition and life expectancy of the applicants.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(b) Long term business insurance contracts - continued

The Group has reinsurance protection in place to cover death claims. The type of reinsurance cover and the level of retention for each risk are based on the Group's internal risk management assessment, which takes account of the nature of the risk covered and the sum assured. The reinsurance program is approved by the Board annually. The reinsurance arrangements in place include a mix of treaty, facultative, excess of loss and catastrophe protection, which limits the liability of the Group to any one individual life or event. The Group's reinsurance is placed with listed multinational reinsurance companies whose rating is not less than BBB+.

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

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality, and the variability in contract holder behaviour. The Group uses appropriate base tables of standard mortality according to the type of contract being written. The Group does not take credit for future lapses in determining the liability for long term contracts.

Further detail on insurance risk is provided in Note 23 to these financial statements.

4.2 FINANCIAL RISK

The Group is exposed to financial risks through its financial assets, financial liabilities and insurance and reinsurance assets and liabilities. In particular, the key risk is that in the long term, the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The components of financial risks for the Group are market risk (including cash flow and fair value interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its assets and liabilities are interest rate risk and equity price risk.

The Group is developing its Asset/Liability management framework to further support the manner in which these risk positions are managed. It actively manages its assets to achieve a competitive rate of return within risk objectives delineated by asset liquidity measures, duration targets and credit quality parameters. The respective Investment Committees review and approve investment strategies on a periodic basis ensuring that assets are managed efficiently and within approved risk mandates.

(a) Market risk

i) Cash flow and fair value interest rate risk

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Several line items on the balance sheet are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. This risk is managed through investment in debt securities and deposits having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security (with the exception of investment in government securities). The Group also has assets as well as loan facilities issued at variable rates which expose it to cash flow interest rate risk. Periodic reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel.

Short term insurance and other liabilities are not directly sensitive to the level of market interest rates, as they are not discounted. In those instances where interest is payable (e.g. in the case of damages awarded by the Courts), interest is included in the claims cost whilst the investment income earned until the claim is settled is credited to the profit and loss account as it accrues.

Insurance and investment contracts with DPF at Group level have benefit payments that are fixed and guaranteed at the inception of the contract (for example, sum assured), or as annual discretionary bonuses are declared. The Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) *Cash flow and fair value interest rate risk* - continued

With the exception of the unit linked capital guaranteed products, the Group does not guarantee a positive fixed rate of return to its long-term contract policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus policy that is approved by the Board of Directors. Once a reversionary bonus is declared, it is guaranteed to be paid in full at maturity or on the prior death of the life assured. The bonus policy considers historic and current rates of return generated by the Group's investment portfolio as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. These guaranteed benefits increase as discretionary benefits are declared and allocated to contract holders.

In the case of the unit linked capital guaranteed products, the Group has guaranteed a fixed return for certain periods of each contract. Subsequent to the expiry of the guarantee, the policyholders will receive a return analogous to that being generated by the underlying units. In addition, the Group has also guaranteed any shortfall in the carrying value of the underlying assets on maturity as compared to the initial capital investment. In order to mitigate this risk, the Group has contracted a back to back guarantee with international financial service providers, which ensures that any shortfall on the guaranteed capital investment return, will be compensated by these providers. On entering this agreement the Group considered the reputation and credit worthiness of these partners taking into account, amongst other factors, the credit rating as graded by international rating agencies. The Group monitors this rating regularly.

All insurance and investment contracts with a DPF feature can be surrendered before maturity for a cash surrender value that is always less than actual contract liability. Cash surrender values are determined at the discretion of the Group, and can be varied from time to time. The primary factor affecting the level of cash surrender value is the investment return earned on the assets of the Group. In addition, the cash surrender value is affected by the expenses, tax and the cost of risk benefits (such as life cover) borne by the Group, deductions to provide a return to shareholders, as well as profits and losses arising on other contracts. The expenses include payment of commission, medical report expenses, office administration costs and other expenses incurred in the setting up and maintenance of the contract. At most, the cash surrender value will be the amount of the actual liability reduced by the surrender charge (where applicable).

Furthermore, in respect of all contracts with DPF (with the exception of some contracts that have been in force more than a certain number of years), the Group reserves the right to increase the level of surrender charge and, if necessary, to apply a Market Value Reduction (MVR). A MVR is a deduction which the Group may make on surrender of a contract with DPF. For example, if the underlying investment return, after allowing for expenses, tax, risk benefits, shareholder returns and adjustment for profits or losses on other contracts is less than the return already provided for in the form of reversionary bonuses, the Group may decide to apply an MVR.

The MVR serves to protect the interests of remaining investors and the Group, who would otherwise have to subsidise the amount paid on surrendering contracts. The Group does not apply a standard percentage deduction on all contracts but determines the deduction to apply to each individual surrender at the time the surrender is made. The amount depends on a number of factors including the length of time the contract has been in force, and the underlying investment return over the same time period. There will be no MVR at maturity or on death. This means that at maturity or on death the payment of the actual contract liability is guaranteed. The cash surrender value may also be less than the total amount of premiums paid up to the date of surrender. The Group is not required to, and does not, measure the effect of the above embedded derivative at fair value.

The Group matches its insurance liabilities with a diversified portfolio of assets which includes equity, debt securities and property. The return from debt and cash based securities is subject to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

Assets and liabilities exposed to interest rate risk and their maturities are analysed below:

		2012				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities						
- listed fixed interest rate	21	12,599	56,922	156,894	410,865	637,280
Collective investment schemes	21	2,439	-	-	-	2,439
Loans and receivables:						
- Deposits with banks and credit institutions	21	129,989	5,000	-	-	134,989
- Loans secured on policies	21	10,671	-	-	-	10,671
- Other loans	21	737	-	-	-	737
- Cash and cash equivalents	26	18,970	-	-	-	18,970
Total interest bearing assets		175,405	61,922	156,894	410,865	805,086
Liabilities						
Long-term insurance contracts	23	-	-	-	1,019,103	1,019,103
Borrowings	30	2,500	-	-	6,000	8,500
Total interest bearing liabilities		2,500	-	-	1,025,103	1,027,603
		2011				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities						
- listed fixed interest rate	21	7,094	45,390	156,052	328,503	537,039
Collective investment schemes	21	6,287	-	-	-	6,287
Loans and receivables:						
- Deposits with banks and credit institutions	21	173,894	5,000	-	-	178,894
- Loans secured on policies	21	11,619	-	-	-	11,619
- Cash and cash equivalents	26	7,380	-	-	-	7,380
Total interest bearing assets		206,274	50,390	156,052	328,503	741,219
Liabilities						
Long-term insurance contracts	23	-	-	-	943,618	943,618
Borrowings	30	-	-	-	8,500	8,500
Deposits received from reinsurers	31	165	-	-	-	165
Total interest bearing liabilities		165	-	-	952,118	952,283

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

		2012				
Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities – listed fixed interest rate	21	-	1,072	3,798	2,421	7,291
Loans and receivables:						
- Deposits with banks and credit institutions	21	8,915	-	-	-	8,915
- Cash and cash equivalents	26	7,021	-	-	-	7,021
Total interest bearing assets		15,936	1,072	3,798	2,421	23,227
Liabilities						
Borrowings	30	2,500	-	-	-	2,500
Total interest bearing liabilities		2,500	-	-	-	2,500
		2011				
Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities – listed fixed interest rate	21	-	3,221	2,857	3,977	10,055
Loans and receivables:						
- Deposits with banks and credit institutions	21	12,600	-	-	-	12,600
- Cash and cash equivalents	26	952	-	-	-	952
Total interest bearing assets		13,552	3,221	2,857	3,977	23,607
Liabilities						
Borrowings	30	-	-	-	2,500	2,500
Deposits received from reinsurers	31	165	-	-	-	165
Total interest bearing liabilities		165	-	-	2,500	2,665

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

Assets and liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst assets and liabilities issued at fixed rates expose the Group to fair value interest rate risk. The overall exposure to these two risks are as follows:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Assets held at variable rates				
Collective investment schemes	2,439	6,287	-	-
Deposits with banks or credit institutions	1,746	822	-	-
Debt securities	11,899	-	-	-
Cash and cash equivalents	18,970	7,380	7,021	952
	35,054	14,489	7,021	952
Liabilities issued at variable rates				
Long-term insurance contracts	1,019,103	943,618	-	-
Borrowings	8,500	8,500	2,500	2,500
Deposits received from reinsurers	-	165	-	165
	1,027,603	952,283	2,500	2,665

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €32.45m (2011: €29.16m) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Assets held at fixed rates				
Loans secured on policies	10,671	11,619	-	-
Other loans	737	-	-	-
Deposits with banks or credit institutions	133,243	178,072	8,915	12,600
Debt securities	625,381	537,039	7,291	10,055
	770,032	726,730	16,206	22,655

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

In managing its portfolio, during the year ended 31 December 2012, the Group entered into fixed income security futures contracts. Accordingly, it is exposed to movements in interest rates in the respective markets of the underlying debts, which comprise short, medium and long-term sovereign debt. The notional amount of futures contracts outstanding at 31 December 2012 is shown below:

	Group 2012 €'000	2011 €'000
Long positions		
- Federal Republic of Germany	4,545	-
Short positions		
- Federal Republic of Germany	2,390	-
- United Kingdom Government	2,053	-
- United States Government	3,676	-
	8,119	-

Up to the balance sheet date the Group did not have any hedging policy with respect to interest rate risk other than as described above.

Sensitivity Analysis – interest rate risk

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

The interest rate sensitivity, which considers the impact of changes in interest rates on financial assets and financial liabilities, has been based on a model of Euro Swap rates, being the Group's and Company's largest exposure. The sensitivity chosen aims to reflect a 1 in 10 year event.

At 31 December 2012, if interest rates at that date would have been 90 basis points (2011: 90 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have improved by €3.44 million (2011: €0.32 million) and €0.23 million (2011: €0.26 million) respectively. An increase of 90 basis points (2011: 90 basis points), with all other variables held constant, would have resulted in a decrease in the Group's and Company's pre-tax results for the year of €2.23 million (2011: €3.56 million) and €0.21 million (2011: €0.24 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

ii) Equity price risks

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities because of investments held and classified on the balance sheet as fair value through profit or loss or as available-for-sale.

The directors manage this risk of price volatility by entering into a diverse range of investments including equities and collective investment schemes. In addition, the Group's investments are spread geographically in a diverse number of different "Zone A and EEA countries". The Group has active Investment Committees that have established a set of investment guidelines that are also approved by the Board of Directors. Investments over prescribed limits are directly approved by the respective Boards. These guidelines provide parameters for investment management, including contracts with external portfolio managers. They include, *inter alia*, reference to an optimal spread of the investment portfolio, minimum security ratings assessment of equity issuers and maximum exposures by the Group to any one issuer and its connected parties. These parameters also consider solvency restrictions imposed by the Regulator.

Management structures are in place to monitor all the Group's overall market positions on a frequent basis. Reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel. These are also reviewed on a monthly basis by the Investment Committee and on a quarterly basis by the Board.

The total assets subject to equity price risk are the following:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Assets subject to equity price risk	245,426	238,468	3,108	3,126
The above includes:				
Component of investments in associated undertakings (Note 20)*	4,968	5,061	147	147
Component of equity securities and units in unit trusts (Note 21)	240,458	233,407	2,961	2,979
	245,426	238,468	3,108	3,126

*Investments in associates (Note 20) amounting to €0.09m (2011: 0.15m) have been excluded from equity price risk since they are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

ii) *Equity price risks* - continued

In managing its portfolio during the year ended 31 December 2012, the Group also entered into equity index futures contracts and accordingly it is exposed to movements in the price of the underlying equity index. The notional amount of futures contracts outstanding at 31 December 2012 is shown below:

	Group	
	2012	2011
	€'000	€'000
Long positions		
- European equity indices	1,464	766

In the case of assets held to cover unit-linked liabilities the exposure is carried by the contract holder. In the case of capital guaranteed products any shortfalls guaranteed upon maturity are mitigated by a back to back guarantee with international financial service providers as further referred in 4.2 (a) (i).

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

The sensitivity for equity price risk (excluding investments in associated undertakings) is derived based on global equity returns, assuming that currency exposures are hedged. The sensitivities chosen aim to reflect a 1 in 10 year event. Given the investment strategy of the Group and Company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes.

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €3.90 million (2011: €3.70 million) and a negative impact of €3.50 million (2011: €3.90 million) on the Group's pre-tax profit and a positive or negative impact of €0.30 million on the Company's pre-tax results (2011: €0.30 million).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) *Currency risk*

The Group and Company have assets and liabilities denominated in major international currencies other than Euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major international currencies. At 31 December 2012, foreign currency exposure amounted to €39.49 million (2011: €44.19 million).

The Group's and Company's exposure to exchange risk is limited through the establishment of guidelines for investing in foreign currency and hedging currency risk through forward exchange contracts where considered necessary. These guidelines are approved by the respective Boards and a manageable exposure to currency risk is thereby permitted.

The table below summarises the Group's exposure to foreign currencies other than euro.

Group

31 December 2012

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	17,985	5,111	12,874
CHF	14,133	-	14,133
GBP	8,617	4,435	4,182
SEK	3,902	-	3,902
DKK	3,432	-	3,432
Others	2,116	1,153	963
	50,185	10,699	39,486

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) *Currency risk* - continued

31 December 2011

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	25,600	3,187	22,413
CHF	10,735	61	10,674
GBP	7,468	2,537	4,931
SEK	4,126	270	3,856
DKK	1,953	-	1,953
Others	649	289	360
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	50,531	6,344	44,187
	<hr/>		<hr/>

Within the table above, €37.5m relates to equity investments (2011: €43.2m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

The table below summarises the Company's exposure to foreign currencies other than euro.

Company

31 December 2012

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(554)	-	(554)
GBP	1,793	-	1,793
Others	(58)	-	(58)
	<hr/>		
	1,181	-	1,181
	<hr/>		<hr/>

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

31 December 2011

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(632)	-	(632)
GBP	1,283	-	1,283
Others	(25)	-	(25)
	626	-	626
	626	-	626

In previous years, the Company also operated a branch in Gibraltar carrying on general business of insurance and also operated a branch in London for carrying on international reinsurance. These operations are now in run-off and create an additional source of foreign currency risk – GBP.

- The operating results of the Group's foreign branches are translated at average exchange rates prevailing during the period in the financial statements; and
- The investment in foreign branches is translated into Euro using the foreign currency exchange rate at the financial statement period-end date.

(b) Credit risk

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when a change in their credit status takes place. Key areas where the Group is exposed to credit risk are:

- Investments and cash and cash equivalents
- Reinsurers' share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries
- Counterparty risk with respect to forward foreign exchange contracts

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The Group places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy of the Group considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.

The Group structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparties. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds.

The Group's cash is placed with a number of quality financial institutions, thereby reducing the concentration of counterparty credit risk to an acceptable level.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on a quarterly basis by reviewing credit grades provided by rating agencies and other publicly available financial information, thereby ensuring the continuous financial strength of the reinsurer. At the same time as the Board approves the overall reinsurance protection of the Group, it ensures that the reinsurers' credit rating (either Standard & Poors or equivalent) is within the parameters set by it.

The Group is exposed to contract holders and intermediaries for insurance premium. Credit agreements are in place in all cases where credit is granted, and in the case of certain larger risks, premium payment warranties are in place. This limits the liability of the Group towards the insured or any third party if the premium remains unsettled after the credit period granted and allows the Group to cancel the policy *ab initio*, if considered necessary. Records are kept of the payment history for significant contract holders and intermediaries with whom regular business is conducted. Credit is not granted to contract holders or intermediaries whose payment history is not satisfactory. Credit risk with respect to debtors is further limited due to the large number of customers comprising the Group's debtor base.

The exposure to individual counterparties is also managed by other mechanisms, such as the right to offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit performs regular reviews to assess the degree of compliance with the Group's procedures on credit.

The Group does not trade in derivative contracts, with the exception of forward contracts and exchange traded futures. All derivative contracts are placed with quality financial institutions within the parameters of a hedging policy approved by the Board.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Debt securities	637,280	537,039	7,291	10,055
Other financial assets (including deposits with banks and credit institutions)	135,726	178,894	8,915	12,600
Forward foreign exchange contracts	193	-	-	-
Reinsurers share of technical provisions	13,126	11,152	12,698	10,924
Insurance and other receivables	20,841	20,648	8,653	8,579
Cash and cash equivalents	18,970	7,380	7,021	952
Total	826,136	755,113	44,578	43,110

The carrying amounts disclosed above represent the maximum exposure to credit risk.

These assets are analysed in the table below using Standard & Poors rating (or equivalent).

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
AAA	79,627	75,513	-	-
AA	61,333	25,774	7,699	10,275
A	55,125	419,302	3,639	11,117
BBB	576,228	133,764	22,256	4,525
Not rated	53,823	100,760	10,984	17,193
Total	826,136	755,113	44,578	43,110

On 16 January 2013 the Malta Government was downgraded from A to BBB with a stable outlook. Malta Government Stocks held as at 31 December 2012 included in the table above have been re-classified under the BBB rating accordingly.

The company does not hold any collateral as security to its credit risk.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

Financial assets that are past due but not impaired

The following insurance and other receivables are classified as past due but not impaired:

	Group and Company	
	2012	2011
	€'000	€'000
Within credit terms	3,367	3,079
Not more than three months	1,636	1,696
Within three to twelve months	268	309
Over twelve months	141	297
	<hr/>	<hr/>
	5,412	5,381
	<hr/>	<hr/>

IFRS 7 defines a financial asset as being past due when the counterparty has failed to make a payment when contractually due. It goes further to stipulate that full disclosure must be made of all balances due from this particular counterparty, including those, which are still within credit terms and therefore not contractually due.

The overall exposure of the Group in terms of IFRS 7 is €5.41 million (2011: €5.38 million), of which €3.37 million (2011: €3.08 million) is not contractually due. It is the view of the directors that no impairment charge is necessary, due to the following reasons:

1. Settlements after year-end.
2. In cases where the amount has not been settled, agreement for settlement has been reached or is being negotiated.

Trade receivables at 31 December 2012 comprise amounts of €0.49 million (2011: €0.52 million) whose terms have been renegotiated from the original terms and which are classified as fully performing.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

Financial assets that are impaired

Within insurance and other receivables are the following receivables that are classified as impaired:

	Group and Company	
	2012	2011
	€'000	€'000
Over three months but less than twelve months	268	-
Over twelve months	324	123
	592	123

These balances are covered by the following:

	Group and Company	
	2012	2011
	€'000	€'000
Provision for impairment of receivables (Note 25)	592	123
	592	123

A decision to impair an asset is based on the following information that comes to the attention of the Group:

- Significant financial difficulty of the debtor.
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

(c) *Liquidity risk*

The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls, principally through limits set by the Board on the minimum proportion of maturing funds available to meet such calls. Furthermore, the Group invests a majority of its assets in listed investments that can be readily disposed of.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

The following table indicates the expected timing of cash flows arising from the Group's liabilities:

Group expected cash flows (undiscounted)							
(€ millions) 2012							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance							
contracts and investment contracts with DPF	27.2	31.1	58.9	93.6	77.1	1,112.4	1,400.3
Technical provisions – claims outstanding	12.7	7.3	4.0	2.3	2.2	10.8	39.3
Borrowings (contractual)	2.9	0.3	0.3	0.3	1.8	5.0	10.6
Insurance and other payables (contractual)	12.3	-	-	-	-	-	12.3

Expected cash flows on unit linked liabilities have not been included as the directors consider that there is limited exposure to liquidity risk given that these are principally backed by unit linked assets.

Group expected cash flows (undiscounted)							
(€ millions) 2011							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance							
contracts and investment contracts with DPF	23.0	22.0	30.0	58.0	92.0	1,183.0	1,408.0
Technical provisions – claims outstanding	18.0	6.7	4.0	2.5	1.0	8.0	40.2
Borrowings (contractual)	0.5	0.5	0.5	0.5	0.5	9.1	11.6
Insurance and other payables (contractual)	13.4	-	-	-	-	-	13.4

Company expected cash flows (undiscounted)							
(€ millions) 2012							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	12.7	7.3	4.0	2.3	2.2	10.8	39.3
Borrowings (contractual)	2.5	-	-	-	-	-	2.5
Insurance and other payables (contractual)	8.6	-	-	-	-	-	8.6

Company expected cash flows (undiscounted)							
(€ millions) 2011							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	18.0	6.7	4.0	2.5	1.0	8.0	40.2
Borrowings (contractual)	0.1	0.1	0.1	0.1	0.1	2.7	3.2
Insurance and other payables (contractual)	8.9	-	-	-	-	-	8.9

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	2012 €'000	2011 €'000
At 31 December		
Forward foreign exchange contracts		
- outflow	(10,895)	(7,666)
- inflow	11,088	(7,477)

At 31 December 2012 and 2011, the above derivatives were due to be settled within three months after year end.

4.3 FAIR VALUES

The following table presents the assets measured in the balance sheet at fair value by level of the following fair value measurement hierarchy at 31 December 2012:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

Group	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	336,357	769	32	337,158
- Debt securities	636,423	-	-	636,423
Other available-for-sale investments	857	-	83	940
Derivative financial instruments	-	193	-	193
Investment in associated undertakings	4,806	-	256	5,062
Total assets	978,443	962	371	979,776
Liabilities				
Unit linked financial liabilities	-	94,261	-	94,261
Derivative financial instruments	-	15	-	15
Total liabilities	-	94,276	-	94,276
Company				
	Level 1 €'000	Level 3 €'000	Total €'000	
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	2,961	-	2,961	
- Debt securities	6,434	-	6,434	
Other available-for-sale investments	857	-	857	
Investment in associated undertakings	-	147	147	
Total assets	10,252	147	10,399	

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2011.

Group	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	328,348	502	33	328,883
- Debt securities	536,207	-	-	536,207
Other available-for-sale investments	832	-	128	960
Investment in associated undertakings	4,806	-	402	5,208
Total assets	870,193	502	563	871,258
Liabilities				
Unit linked financial liabilities	-	89,189	-	89,189
Derivative financial instruments	-	(189)	-	(189)
Total liabilities	-	89,000	-	89,000
Company				
	Level 1 €'000	Level 3 €'000	Total €'000	
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	2,979	-	2,979	
- Debt securities	9,223	-	9,223	
Other available-for-sale investments	832	-	832	
Investment in associated undertakings	-	147	147	
Total assets	13,034	147	13,181	

Fair value measurements classified as Level 1 include listed equities, debt securities, units in unit trusts and collective investments schemes.

The financial liabilities for unit linked contracts were classified as Level 2. The fair value of these contracts is determined using the current unit values that reflect the fair values of the financial assets (classified as Level 1) linked to the financial liability. Derivative foreign exchange forward contracts have been classified as Level 2. The fair value of these instruments is determined by reference to market observable forward currency rates and interest rates.

Level 3 securities constitute investment in unlisted equities. Fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following table presents the changes in Level 3 instruments for the year ended 31 December 2012.

Group	Investments in associates €'000	Other available- for-sale investments €'000	Total €'000
Opening balance	402	161	563
Share of associated undertakings results	(53)	-	(53)
Net fair value losses	(93)	(46)	(139)
	256	115	371
Company	Investments in associates €'000	Other available- for-sale investments €'000	Total €'000
Opening and closing balance	147	-	147

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

Group	Investments in associates €'000	Other available- for-sale investments €'000	Total €'000
Opening balance	-	153	153
Recognition of subsidiary	279	33	312
Additions	147	-	147
Disposals	-	(21)	(21)
Net fair value losses	(24)	(4)	(28)
	402	161	563

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

Company	Investments in associates €'000	Other available- for-sale investments €'000	Total €'000
Opening balance (restated) - Note 20	55,473	21	55,494
Additions	147	-	147
Disposal	-	(21)	(21)
Transfer to investment in group undertaking	(56,002)	-	(56,002)
Net fair value gains	529	-	529
	147	-	147
Closing balance	147	-	147

At 31 December 2012 and 2011, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

5. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- To comply with the insurance capital requirements established by the regulators of the insurance markets in which the Group operates;
- To provide for the capital requirements of the companies within the Group;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The defined regulatory capital for Middlesea Insurance p.l.c. ("MSI" or "the Company") comprises shareholders' equity and subordinated loans. The minimum own funds required by Insurance Rule 1 at 31 December 2012 amounted to €7.4 million (2011: €7.0 million). In addition, the Insurance Business Regulations stipulate 'the required margin of solvency' that the Company is required to hold. Regulatory capital requirements may be set at a multiple of this requirement. The minimum required capital must be maintained at all times throughout the year. Given the composite nature of the Company, Middlesea Insurance p.l.c. is obliged to abide with capital requirements for both its long term and its general insurance business.

NOTES TO THE FINANCIAL STATEMENTS

5. CAPITAL MANAGEMENT - CONTINUED

With respect to its general business, the Company held net admissible assets of €22.61 million (2011: €15.46 million) which exceeded the 'required margin of solvency' of €3.75 million (2011: €4.00 million) by €18.86 million (2011: €11.46 million) and also exceeded the multiple set by the regulator. With respect to its long term business, the Company held net admissible assets of €4.09 million (2011: €4.04 million) which exceeded the 'required margin of solvency' of €3.70 million (2011: €3.50 million) by €0.39 million (2011: €0.54 million), and also exceeded the multiple set by the regulator. The Company was compliant at all times with its capital requirements to both its general and long-term business.

All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period.

6. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Management team that are used to make strategic decisions. In identifying the Group's business segments, the chief operating decision-maker is also guided by the Regulations under the Insurance Business Act, 1998 on the disclosure requirements relevant to specified insurance classes of business.

The Company mainly writes its business from Malta. In previous years, the Company had also operated a branch in Gibraltar carrying on general business of insurance, which as from 1 January 2011 was put in run-off.

The Group operates in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. The segment results for the years ended 31 December 2012 and 2011 are indicated below.

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Gross premiums written	Gross premiums written	Gross premiums earned	Gross premiums earned
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Direct insurance				
Motor (third party liability)	6,654	5,968	6,322	6,285
Motor (other classes)	8,673	8,072	8,239	8,501
Fire and other damage to property	6,410	5,823	6,169	6,102
Accident and health	8,471	7,507	8,052	7,543
Other classes	3,590	3,077	3,178	3,059
	33,798	30,447	31,960	31,490

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

General business - continued

100% (2011: 100%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in Note 36.

Gross claims incurred, gross operating expenses and reinsurance balance by class of business

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Direct insurance						
Motor (third party liability)	6,583	5,212	2,064	2,120	(434)	(41)
Motor (other classes)	4,148	4,307	2,690	2,873	(562)	(29)
Fire and other damage to property	1,572	2,762	2,183	2,072	2,741	1,605
Accident and health	3,785	3,917	2,389	2,165	624	308
Other classes	811	772	1,155	1,016	191	802
	16,899	16,970	10,481	10,246	2,560	2,645

The reinsurance balance represents the charge to the technical account arising from the aggregate of all items relating to reinsurance outwards.

Long term business

(i) *Gross premium written*

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Gross premiums written				
Direct insurance	86,944	46,673	1,443	1,374
Reinsurance inwards	-	6	5	6
	86,944	46,679	1,448	1,380

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(i) *Gross premium written - continued*

The long-term business is mainly written through its subsidiary undertaking MSV Life p.l.c. ("MSV"). As further explained in Note 33, MSV became a subsidiary as from 29 July 2011 and premiums written by this group company for 2011 are reflected accordingly for the period between 29 July 2011 and 31 December 2011.

Group direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Non-participating	9,560	4,513	-	-
Participating	29,723	12,087	44,237	28,565
Linked	3,051	1,289	373	219
	42,334	17,889	44,610	28,784

In addition to the above, premium credited to liabilities in Note 23 in relation to linked products classified as investment contracts without DPF was as follows:

	Periodic premiums		Single premiums	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Investment contracts	1,457	519	355	179

Gross premiums written by way of direct business of insurance relate to individual business and group contracts. All long term contracts of insurance are concluded in or from Malta.

(ii) *Reinsurance balance*

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards mainly attributable to insurance contracts included in the long-term business technical account are as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Charge for reinsurance outwards	1,152	3,978	203	392

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Gross premiums written				
Insurance contracts	34,318	14,923	1,448	1,380
Investment contracts with DPF	52,626	31,756	-	-
	86,944	46,679	1,448	1,380
Claims incurred, net of reinsurance				
Insurance contracts	20,216	7,737	437	195
Investment contracts with DPF	55,851	20,806	-	-
	76,067	28,543	437	195

Reconciliation of reportable segment profit to profit or loss for the financial year before tax

	Group	
	2012 €'000	2011 €'000
Profit on general business	3,464	2,422
Profit on long term business	11,326	843
Net investment income not allocated to the technical accounts	4,961	1,765
Other income	1,170	856
Administrative expenses	(2,940)	(2,776)
Profit for the financial year before tax	17,981	3,110

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Reconciliation of reportable segment profit to profit or loss for the financial year before tax - continued

	Company	
	2012	2011
	€'000	€'000
Profit on general business	3,464	2,422
Profit on long term business	246	611
Net investment income not allocated to the technical accounts	1,152	488
Administrative expenses	(1,602)	(1,767)
	<hr/>	<hr/>
Profit for the financial year before tax	3,260	1,754
	<hr/>	<hr/>

Geographical information

The segment results for the years ended 31 December 2012 and 2011 by geographical area are indicated below:

	Group		Company	
	Gross premiums written		Gross premiums written	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Malta	120,739	77,070	35,243	31,771
Gibraltar – discontinued	-	51	-	51
London – discontinued	3	5	3	5
	<hr/>	<hr/>	<hr/>	<hr/>
	120,742	77,126	35,246	31,827
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Group segment assets and liabilities

The Group operates a business model which does not allocate either assets or liabilities of the operating segments in its internal reporting. Segment assets below consist principally of investments backing up the net technical reserves, reinsurers' share of technical provisions and insurance receivables.

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long- term business €'000	Unallocated €'000	Total €'000
At 31 December 2012								
Assets allocated to business segments	16,898	13,053	10,356	5,559	12,332	1,118,480	8,307	1,184,985
Assets allocated to shareholders	-	-	-	-	-	-	151,587	151,587
Total assets	16,898	13,053	10,356	5,559	12,332	1,118,480	159,894	1,336,572
At 31 December 2011								
Assets allocated to business segments	16,761	12,531	10,657	5,261	11,933	1,035,495	8,162	1,100,800
Assets allocated to shareholders	-	-	-	-	-	-	132,645	132,645
Total assets	16,761	12,531	10,657	5,261	11,933	1,035,495	140,807	1,233,445

The total of non-current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts of €138.65 million (2011: €116.05 million) are all located in Malta.

NOTES TO THE FINANCIAL STATEMENTS

7. NET OPERATING EXPENSES

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Acquisition costs	12,058	9,887	7,320	7,480
Change in deferred acquisition costs, net of reinsurance	105	34	105	34
Administrative expenses	10,803	7,447	5,208	4,682
Reinsurance commissions and profit participation	(6,350)	(4,968)	(5,152)	(4,665)
	16,616	12,400	7,481	7,531
Allocated to:				
General business technical account	5,702	5,783	5,702	5,783
Long term business technical account	7,974	3,841	177	(19)
Non-technical account (administrative expenses)	2,940	2,776	1,602	1,767
	16,616	12,400	7,481	7,531

Total commissions for direct business accounted for in the financial year amounted to €9.69 million (2011: €7.97 million) in the Group's technical result and €6.45 million (2011: €6.24 million) in the Company's technical result. €2.01 million (2011: €1.1 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 11. Further detail relating to administrative expenses is included in Note 10.

Finance costs payable on the subordinated loan at Group level amounting to €0.36 million (2011: €0.15 million) are included within administrative expenses.

Non-technical account

Administrative expenses in the non-technical profit and loss account represent expenditure after appropriate apportionments are made to the general and long term business technical accounts. They include staff costs, premises costs, depreciation charge, directors' fees, auditors' remuneration, professional fees, marketing and promotional costs, and other general office expenditure.

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT RETURN

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Investment income				
Share of profit of associated undertaking involved in insurance business, net of tax (2011 until July)	-	1,644	-	-
Dividend income from group undertakings	-	-	1,223	721
Rent receivable from investment property	3,659	1,737	297	406
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	4,306	2,275	345	392
Income from financial assets at fair value through profit or loss				
- dividend income	5,439	1,433	279	269
- other net fair value gains	83,876	-	542	-
Income from available-for-sale assets	38	30	10	30
Net fair value gains on investment property	1,157	1,048	273	325
Other investment income	845	-	-	-
Exchange differences	106	112	106	112
	99,426	8,279	3,075	2,255
Investment expenses and charges				
Share of loss of other associated undertaking, net of tax	53	-	-	-
Direct operating expenses arising from investment property that generated rental income	473	217	97	57
Interest expense for financial liabilities that are not at fair value through profit or loss	146	428	146	428
Net fair value losses	-	968	-	360
Other investment expenses	1,808	317	-	1
	2,480	1,930	243	846
Total investment income	96,946	6,349	2,832	1,409
Analysed between:				
Allocated investment return transferred to the general business technical account	1,444	793	1,444	793
Investment return included in the long term business technical account	90,541	3,791	236	128
Other investment income included in the non-technical account	4,961	1,765	1,152	488
	96,946	6,349	2,832	1,409

The share of profit of the associated undertaking involved in insurance business in 2011 reflects the share of profit of MSV Life p.l.c. ("MSV") for the period from 1 January 2011 until 29 July 2011, at which date MSV became a subsidiary of the Group. As further explained in Note 33, income and expenses were fully consolidated on a line by line basis as from 29 July 2011.

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Other technical income, net of reinsurance				
Investment management fees	405	186	-	-
Other	192	83	-	-
	597	269	-	-
Other income – non technical				
Management fees	574	610	-	-
Other income	596	246	-	-
	1,170	856	-	-

10. PROFIT BEFORE TAX

The profit before tax is stated after charging/(crediting):

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Employee benefit expense (Note 11)	6,434	4,825	3,489	3,547
Depreciation/amortisation:				
- intangible assets (Note 16)	869	511	195	193
- property, plant and equipment (Note 17)	424	293	186	189
Release of provision for impairment on receivables (Note 25)	(10)	(385)	(10)	(385)
Impairment of receivables	57	352	57	352
Impairment of intangible assets (Note 16)	225	-	-	-
Write-backs of payables	(189)	(167)	(189)	(167)
Increase in provision for impairment on receivables (Note 25)	479	12	479	12
Insurance cover purchased for directors and officers	69	38	23	25

The financial statements include fees charged by the parent company auditor for services rendered during the financial periods ended 31 December 2012 and 2011 relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Annual statutory audit	154	137	78	65
Other assurance services	19	16	13	13
Tax advisory and compliance services	19	14	10	4
Other	9	6	9	6
	201	173	110	88

In addition, fees charged by other auditors (who are also part of the network of member firms of PricewaterhouseCoopers) amounted to:

	Group	
	2012 €'000	2011 €'000
Annual statutory audit	53	53

NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Salaries	6,085	4,161	3,283	2,950
Social security costs	314	221	171	154
Provision for contracted pension obligations (Note 29)	35	443	35	443
	6,434	4,825	3,489	3,547

The average number of persons employed during the year was:

	Group		Company	
	2012	2011	2012	2011
Key management personnel	23	19	13	14
Managerial	33	29	22	22
Technical	100	72	47	47
Administrative	12	10	9	8
	168	130	91	91

The employee number under Group in 2011 includes the *pro-rata* equivalent number of employees of MSV following 29 July 2011, when MSI acquired *de-facto* control over MSV.

12. TAX EXPENSE

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Current tax (credit)/expense	(41)	498	847	532
Deferred tax expense (Note 22)	694	565	29	179
Income tax expense	653	1,063	876	711

The tax on the Group's and Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Profit before tax	17,981	3,110	3,260	1,754
Tax at 35%	6,293	1,089	1,141	614
Adjusted for tax effect of:				
Net impact of tax credits not recognised in prior years	(782)	-	-	-
Effect of certain expenses treated as non-deductible in previous years	(1,782)	-	-	-
Effect of revision of tax legislation impacting tax base on investments	(2,452)	-	-	-
Exempt income	(389)	(312)	(159)	140
Unrecognised deferred tax movements	-	250	-	-
Withholding tax regime on investment property	(148)	98	(35)	(72)
Other	(87)	(62)	(71)	29
Income tax expense	653	1,063	876	711

NOTES TO THE FINANCIAL STATEMENTS

13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Directors' fees	161	152	140	140

Group Directors' fees include fees payable to the Company's directors from all Group Companies from the date when the companies were recognised as subsidiaries.

14. EARNINGS PER SHARE

Earnings per share are based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	Group	
	2012 €'000	2011 €'000
Profit attributable to shareholders	9,352	1,929
Number of ordinary shares in issue (Note 27)	92,000,000	92,000,000
Earnings per share attributable to shareholders (€)	10.2c	2.1c

15. DIVIDENDS

A gross dividend in respect of year ended 31 December 2012 of €0.025 per share amounting to a total dividend of €2,300,000 (2011: €920,000) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.01897 (2011: €0.0065) per share amounting to a total net dividend of €1,745,000 (2011: €598,000). These financial statements do not reflect this dividend.

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

Group	Value of in-force business (ii) €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 1 January 2011				
Cost or valuation	-	2,860	-	2,860
Accumulated amortisation	-	(2,392)	-	(2,392)
Net book amount	-	468	-	468
Year ended 31 December 2011				
Opening net book amount	-	468	-	468
Assets acquired in a business combination (Note 33)	40,332	1,485	1,202	43,019
Increase in value of in-force business credited to reserves (Note 28)	1,434	-	-	1,434
Additions	-	301	14	315
Amortisation charge	-	(428)	(83)	(511)
Closing net book amount	41,766	1,826	1,133	44,725
At 31 December 2011				
Cost or valuation	41,766	9,886	3,011	54,663
Accumulated amortisation	-	(8,060)	(1,878)	(9,938)
Net book amount	41,766	1,826	1,133	44,725
Year ended 31 December 2012				
Opening net book amount	41,766	1,826	1,133	44,725
Increase in value of in-force business credited to reserves (Note 28)	3,950	-	-	3,950
Additions	-	1,132	21	1,153
Disposal	-	(422)	-	(422)
Amortisation charge	-	(645)	(224)	(869)
Amortisation released on disposal	-	380	-	380
Impairment charge	-	(225)	-	(225)
Closing net book amount	45,716	2,046	930	48,692
At 31 December 2012				
Cost or valuation	45,716	10,596	3,032	59,344
Accumulated amortisation and impairment	-	(8,550)	(2,102)	(10,652)
Net book amount	45,716	2,046	930	48,692

Amortisation of €0.40 million (2011: €0.18 million) is included in acquisition costs and €0.47 million (2011: €0.33 million) is included in administration expenses.

Fully amortised assets that were still in use for the Group as at the financial year amounted to €4.9m (2011: €4.9m).

(i) This intangible asset relates to investment contracts without DPF only.

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

(ii) Value of in-force business - assumptions, changes in assumptions and sensitivity

Assumptions

The after tax value of in-force business is determined by the directors on an annual basis, after considering the advice of the Approved Actuary. The value of in-force business depends upon assumptions made regarding future economic and demographic experience. The economic assumptions are internally consistent and reflect the directors' view of economic conditions in the longer term, which are inherently uncertain.

The valuation assumes a spread of 2% (2011: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 7.5% (2011: 7.5%). The calculation also assumes lapse rates varying by product from 2% to 10% pa (2011: 2% to 10% pa), and an expense inflation rate of 3.5% pa (2011: 3.5% pa).

Changes in assumptions

Assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process. Realistic mortality assumptions were adjusted during 2012 to adopt the AMC00 standard tables. The effect of this change on the VIF was not material.

Sensitivity analysis

The value of in-force business is sensitive to a large number of assumptions. The following table describes the impact on the value of in-force business arising from a change in the following variables, with all other variables held constant:

Assumption	Change in variable	Impact on value of in-force business 2012 € million	Impact on value of in-force business 2011 € million
Investment returns	+1.00%	5.5	5.5
Investment returns	-1.00%	(5.5)	(5.5)
Risk adjusted discount rate	+1.00%	(2.7)	(2.6)
Risk adjusted discount rate	-1.00%	3.0	2.9
Renewal expense	+10.00%	(0.6)	(0.7)
Renewal expense	-10.00%	0.6	0.7
Lapse rate	+2.00%	0.6	0.9
Lapse rate	-2.00%	(0.9)	(1.4)
Mortality	+15.00%	(0.7)	(0.9)
Mortality	-15.00%	0.7	0.9

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

Computer software	Company €'000
At 1 January 2011	
Cost	2,801
Accumulated amortisation	(2,344)
	<hr/>
Net book value	457
	<hr/>
Year ended 31 December 2011	
Opening net book amount	457
Additions	234
Amortisation charge	(193)
	<hr/>
Closing net book amount	498
	<hr/>
At 31 December 2011	
Cost	3,035
Accumulated amortisation	(2,537)
	<hr/>
Net book amount	498
	<hr/>
Year ended 31 December 2012	
Opening net book amount	498
Additions	745
Disposals	(412)
Amortisation charge	(195)
Amortisation released on disposal	370
	<hr/>
Closing net book amount	1,006
	<hr/>
At 31 December 2012	
Cost	3,368
Accumulated amortisation	(2,362)
	<hr/>
Net book amount	1,006
	<hr/>

Amortisation expense has been charged in administrative expenses.

Fully amortised assets that were still in use for the Company as at the financial year amounted to €1.1m (2011: €1.6m).

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2011					
Cost	498	1,587	8	3,016	5,109
Accumulated depreciation	(17)	(601)	(8)	(2,609)	(3,235)
Net book amount	481	986	-	407	1,874
Year ended 31 December 2011					
Opening net book amount	481	986	-	407	1,874
Assets acquired in a business combination (Note 33)	399	670	-	704	1,773
Additions	84	242	-	252	578
Transfer from investment properties (Note 18)	1,055	-	-	-	1,055
Disposals	-	(141)	-	(282)	(423)
Depreciation charge	(10)	(77)	-	(206)	(293)
Depreciation released on disposal	-	23	-	200	223
Closing net book amount	2,009	1,703	-	1,075	4,787
At 31 December 2011					
Cost	2,036	2,376	8	4,685	9,105
Accumulated depreciation	(27)	(673)	(8)	(3,610)	(4,318)
Net book amount	2,009	1,703	-	1,075	4,787
Year ended 31 December 2012					
Opening net book amount	2,009	1,703	-	1,075	4,787
Additions	84	92	-	446	622
Transfer from investment properties (Note 18)	3,833	-	-	-	3,833
Disposals	-	(462)	(2)	(902)	(1,366)
Depreciation charge	(17)	(110)	-	(297)	(424)
Depreciation released on disposal	-	334	2	902	1,238
Closing net book amount	5,909	1,557	-	1,224	8,690
At 31 December 2012					
Cost	5,953	2,006	6	4,229	12,194
Accumulated depreciation	(44)	(449)	(6)	(3,005)	(3,504)
Net book amount	5,909	1,557	-	1,224	8,690

Land and buildings are shown at fair value. The Group's land and buildings were revalued at 31 December 2012 by independent valuers. Valuations were made on the basis of market value. As at 31 December 2012 and 2011, the fair value of the freehold land and buildings is not significantly different to its historical cost and carrying amount.

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Fully depreciated assets that were still in use for the Group as at the financial year amounted to €1.6m (2011: €2.6m).

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2011					
Cost	69	1,528	2	2,643	4,242
Accumulated depreciation	(4)	(566)	(2)	(2,277)	(2,849)
Net book amount	65	962	-	366	1,393
Year ended 31 December 2011					
Opening net book amount	65	962	-	366	1,393
Additions	-	179	-	130	309
Transfer from investment property	66	-	-	-	66
Depreciation charge	(1)	(56)	-	(132)	(189)
Closing net book amount	130	1,085	-	364	1,579
At 31 December 2011					
Cost	135	1,707	2	2,773	4,617
Accumulated depreciation	(5)	(622)	(2)	(2,409)	(3,038)
Net book amount	130	1,085	-	364	1,579
Year ended 31 December 2012					
Opening net book amount	130	1,085	-	364	1,579
Additions	-	92	-	158	250
Disposals	-	(451)	(2)	(902)	(1,355)
Depreciation charge	(3)	(55)	-	(128)	(186)
Depreciation released on disposal	-	334	2	902	1,238
Closing net book amount	127	1,005	-	394	1,526
At 31 December 2012					
Cost	135	1,348	-	2,029	3,512
Accumulated depreciation	(8)	(343)	-	(1,635)	(1,986)
Net book amount	127	1,005	-	394	1,526

Freehold land and buildings are shown at fair value. As at 31 December 2012 and 2011, the fair value of the freehold land and buildings is not significantly different to its historical cost and carrying amount.

Depreciation expense has been charged to administrative expenses.

Fully depreciated assets that were still in use for the Company as at the financial year amounted to €1.0m (2011: €2.0m).

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2011		
Cost	4,505	4,933
Accumulated fair value gains	2,901	2,898
	<hr/>	<hr/>
Net book amount	7,406	7,831
	<hr/>	<hr/>
Year ended 31 December 2011		
Opening net book amount	7,406	7,831
Assets acquired in a business combination (Note 33)	59,053	-
Additions	85	21
Transfer to property, plant and equipment (Note 17)	(1,055)	(66)
Net fair value gains	1,048	325
	<hr/>	<hr/>
Net book amount	66,537	8,111
	<hr/>	<hr/>
At 31 December 2011		
Cost	42,258	4,937
Accumulated fair value gains	24,279	3,174
	<hr/>	<hr/>
Net book amount	66,537	8,111
	<hr/>	<hr/>
Year ended 31 December 2012		
Opening net book amount	66,537	8,111
Additions	17,292	219
Transfer to property, plant and equipment (Note 17)	(3,833)	-
Net fair value gains	1,151	267
	<hr/>	<hr/>
Net book amount	81,147	8,597
	<hr/>	<hr/>
At 31 December 2012		
Cost	55,717	5,156
Accumulated fair value gains	25,430	3,441
	<hr/>	<hr/>
Net book amount	81,147	8,597
	<hr/>	<hr/>

The investment properties are valued annually on 31 December at fair value comprising market value by independent professionally qualified valuers.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2011	
Opening net book amount and cost	1,212
Transfer from investment in associated undertakings (Note 20)	56,002
	<hr/>
Closing net book amount	57,214
	<hr/>
At 31 December 2011	
Deemed cost arising on business combination	57,214
	<hr/>
Year ended 31 December 2012	
Opening and closing net book amount and deemed cost	57,214
	<hr/>

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held	
			2012	2011
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MSV Life p.l.c.	Piazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

In addition to the subsidiary undertakings above, MSV Life p.l.c. also held the following investments in subsidiary undertakings:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2012	2011
Growth Investment Limited (held indirectly by MSV Life p.l.c.)	Piazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

During 2011, the Company acquired *de-facto* control of MSV Life p.l.c. following a shareholders' agreement as further explained in Note 33. MSV Life p.l.c. had previously been accounted for as an associated undertaking (Note 20). The amount of dividends that can be distributed in cash by the insurance subsidiary is restricted by the solvency requirement imposed by the MFSA regulations

As a result of this business combination, Church Wharf Properties Limited, which was previously classified as an associated undertaking, also became a subsidiary in view of the fact that the remaining interest in this company is held by MSV Life p.l.c.

As disclosed in prior years' financial statements, the Company's 100% holding in Progress Assicurazioni S.p.A. was derecognised in 2009. This was due to Progress Assicurazioni S.p.A. being put into compulsory administrative liquidation. Subsequent bankruptcy procedures were also initiated and accordingly, the investment was fully written off in previous years. A subordinated loan receivable from Progress Assicurazioni S.p.A. by a Group company amounting to €8.50 million has also been fully provided for in previous years. The Directors are not aware of any developments that could have an impact on the Company's obligations attached to this investment.

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2011		
Cost	21,339	21,339
Accumulated share of associated undertaking's profits and reserves	31,670	-
Accumulated fair value movements	-	34,134
	<hr/>	
Net book amount	53,009	55,473
	<hr/>	
Year ended 31 December 2011		
Opening net book amount	53,009	55,473
Assets acquired in a business combination (Note 33)	5,077	-
Additions	147	147
Share of associated undertaking's profits and movement in reserves	513	-
Fair value movements (Note 28)	-	529
Transfer to investment in subsidiary undertakings (Notes 33 and 19)	(53,538)	(56,002)
	<hr/>	
Closing net book amount	5,208	147
	<hr/>	
At 31 December 2011		
Cost	4,481	147
Accumulated fair value movements	727	-
	<hr/>	
Net book amount	5,208	147
	<hr/>	
Year ended 31 December 2012		
Opening net book amount	5,208	147
Share of associated undertaking's results and movement in reserves	(53)	-
Fair value movements	(93)	-
	<hr/>	
Closing net book amount	5,062	147
	<hr/>	
At 31 December 2012		
Cost	4,481	147
Accumulated fair value movements	581	-
	<hr/>	
Net book amount	5,062	147
	<hr/>	

As further explained in Note 19 and in Note 33, MSV Life p.l.c. and Church Wharf Properties Limited were re-classified as subsidiaries following the business combination that took place on 29 July 2011. Accordingly the involvement in these undertakings were transferred out from investment in associated undertakings and reclassified accordingly.

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

The Group's aggregated assets and liabilities and the share of the results of its associated undertaking, which is unlisted is as follows:

2012	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	637	446	676	(109)	49%
2011	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	300	-	-	-	49%

In addition to the associated undertakings above MSV Life p.l.c. also held the following investments in associated undertakings:

	Registered office	Class of shares held	Percentage of shares held			
			Company		Group	
			2012	2011	2012	2011
Premium Realty Limited	Middlesea House Floriana	Ordinary shares	25%	25%	37.5%	37.5%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%	28.36%	28.36%

The amount of dividends that can be distributed in cash by the insurance associate is restricted by the solvency requirements imposed by the MFSA Regulations.

21. OTHER INVESTMENTS

The investments are summarised by measurement category in the table below.

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Fair value through profit or loss	973,774	865,090	9,395	12,202
Other available-for-sale	940	960	857	832
Loans and receivables	146,397	190,513	8,915	12,600
	1,121,111	1,056,563	19,167	25,634

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Equity securities and units in unit trusts	242,897	239,694	2,961	2,979
Debt securities – listed fixed interest rate	636,423	536,207	6,434	9,223
Assets held to cover linked liabilities – collective investment schemes	94,261	89,189	-	-
Forward foreign exchange contracts	193	-	-	-
Total investments at fair value through profit or loss	973,774	865,090	9,395	12,202

Technical provisions for linked liabilities amounted to €94 million as at 31 December 2012 (2011: €89 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2012 and 2011, the Group and Company had no financial commitments in respect to uncalled capital.

Equity securities and units in unit trusts other than those at company level are substantially non-current assets in nature.

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2011		
Opening net book amount	18,463	17,967
Assets acquired in a business combination (Note 33)	877,516	-
Additions	138,373	72
Disposals	(158,479)	(4,946)
Net fair value losses	(10,783)	(891)
Closing net book amount	865,090	12,202
Year ended 31 December 2012		
Opening net book amount	865,090	12,202
Additions	450,079	54
Disposals	(393,432)	(3,105)
Net fair value gains	52,037	244
Closing net book amount	973,774	9,395

Derivatives and financial instruments amounting to €0.02 million (2011: €0.2 million) included in the table above, are classified within liabilities in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(b) *Other available-for-sale financial assets*

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Listed debt securities	857	832	857	832
Unlisted shares	83	128	-	-
	940	960	857	832

Unlisted shares are classified as non-current. The movements for the year are summarised as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Year ended 31 December				
Opening net book amount	960	153	832	21
Additions	-	809	-	809
Disposals	-	(21)	-	(21)
Net fair value (losses)/gains (Note 28)	(20)	19	25	23
	940	960	857	832

(c) *Loans and receivables*

Analysed by type of investment as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Deposits with banks or credit institutions	134,989	178,894	8,915	12,600
Loans secured on policies	10,671	11,619	-	-
Other loan	737	-	-	-
	146,397	190,513	8,915	12,600

As at 31 December 2012 an amount of €0.31million (2011: €0.6million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables - continued

The movements for the year (excluding deposits) are summarised as follows:

	Group Year ended 2011			
	Loans secured on policies €'000	Other loan €'000	Reinsurance loan €'000	Total €'000
Total at beginning of year	-	-	-	-
Assets acquired in a business combination (Note 33)	11,671	-	1,527	13,198
Disposals (sales and redemptions)	(52)	-	(1,527)	(1,579)
Closing net book amount	11,619	-	-	11,619
	Group Year ended 2012			
	Loans secured on policies €'000	Other loan €'000	Reinsurance loan €'000	Total €'000
Total at beginning of year	11,619	-	-	11,619
Additions	2,032	737	-	2,769
Disposals (sales and redemptions)	(2,980)	-	-	(2,980)
Closing net book amount	10,671	737	-	11,408

The above loans earn interest at fixed rates.

22. DEFERRED INCOME TAX

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Balance at 1 January	5,849	(1,854)	(186)	(365)
Movements during the year:				
Profit and loss account (Note 12)	694	565	29	179
Other reserves (Note 28)	(16)	(1)	-	-
Amounts acquired in a business combination (Note 33)	-	7,139	-	-
Balance at 31 December - net	6,527	5,849	(157)	(186)

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX - CONTINUED

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2011: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 12% of the carrying amount (2011: 12%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Temporary differences on property, plant and equipment	322	181	91	(8)
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	22,298	9,745	660	565
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(15,980)	(4,129)	(795)	(795)
Temporary differences attributable to other provisions	(211)	(46)	(211)	(46)
Other temporary differences, including impact of non-deductible expenses and different tax rates	98	98	98	98
Balance at 31 December – net	6,527	5,849	(157)	(186)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a current tax asset against a current tax liability. The following amounts determined after appropriate offsetting are shown in the balance sheet:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Deferred tax asset	(2,273)	(2,351)	(1,077)	(1,113)
Deferred tax liability	8,800	8,200	920	927
	6,527	5,849	(157)	(186)

The deferred income tax assets and liabilities are, principally, recoverable after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group and Company have unutilised capital losses of €29.09 million (2011: €37.49 million), which give rise to a deferred tax asset of €10.18 million (2011: €13.12 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €3.11 million (2011: €5.61 million) giving rise to a further deferred tax asset of €1.09 million (2011: €1.96 million) which has not been recognised in these financial statements. As at 31 December 2012, the deferred tax impact of all unutilised tax credits in the MSV Life p.l.c. Group has been recognised in these financial statements. The deferred tax assets are re-examined on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Gross				
Short-term insurance contracts – general business				
- claims outstanding	39,272	40,104	39,272	40,104
- provision for unearned premiums and unexpired risks	15,832	13,994	15,832	13,994
Group life insurance contracts				
- claims outstanding	347	77	347	77
- long term business provision	680	638	680	638
Long term contracts				
- individual life insurance contracts	422,033	388,693	-	-
- investment contracts with DPF	633,393	585,748	-	-
Total technical provisions, gross	1,111,557	1,029,254	56,131	54,813
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	12,505	10,892	12,505	10,892
- provision for unearned premiums and unexpired risks	5,816	5,011	5,816	5,011
Group life insurance contracts				
- claims outstanding	193	32	193	32
- long term business provision	281	273	281	273
Long term contracts				
- individual life insurance contracts	428	228	-	-
Total reinsurers' share of insurance liabilities	19,223	16,436	18,795	16,208
Net				
Short-term insurance contracts				
- claims outstanding	26,767	29,212	26,767	29,212
- provision for unearned premiums and unexpired risks	10,016	8,983	10,016	8,983
Group life insurance contracts				
- claims outstanding	154	45	154	45
- long term business provision	399	365	399	365
Long term contracts				
- individual life insurance contracts	421,605	388,465	-	-
- investment contracts with DPF	633,393	585,748	-	-
Total technical provisions, net	1,092,334	1,012,818	37,336	38,605

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Technical provisions in relation to short term insurance contracts are classified as current liabilities. Technical provisions in relation to long term business are substantially non-current.

(a) Short-term insurance contracts – claims outstanding

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2012 and 2011 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher.

The development tables below give an indication of the time it takes to settle certain claims. This is attributable to certain classes of business taking several years to develop and is also due to the length of time it takes certain classes to be resolved in court.

The top half of the table below illustrates how the Company's estimate of total claims incurred for each accident year has changed at successive year-ends on a net basis. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet on a net basis. The accident-year basis is considered to be the most appropriate for the general business written by the Company.

Company

Accident year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of the ultimate claims costs:												
- at end of accident year	15,110	15,134	14,335	13,196	13,470	14,423	15,458	15,248	17,111	15,972	15,756	
- one year later	15,660	14,165	14,147	13,257	12,783	13,517	15,661	15,319	15,871	15,402		
- two years later	14,880	13,284	13,174	11,729	11,569	12,674	13,415	13,367	13,114			
- three years later	14,262	12,543	12,170	11,212	10,887	11,582	12,781	12,486				
- four years later	14,147	12,378	11,850	10,871	10,030	11,411	12,464					
- five years later	13,842	11,798	11,445	10,447	9,935	10,978						
- six years later	13,796	11,684	10,590	10,251	9,686							
- seven years later	13,646	11,392	10,421	10,098								
- eight years later	13,661	11,284	10,347									
- nine years later	13,522	11,164										
- ten years later	13,496											
Current estimates of cumulative claims	13,496	11,164	10,347	10,098	9,686	10,978	12,464	12,486	13,114	15,402	15,756	134,991
Cumulative payments to date	(13,008)	(10,957)	(9,770)	(9,640)	(8,824)	(10,264)	(11,185)	(11,071)	(10,680)	(10,398)	(7,385)	(113,182)
Liability recognised in the balance sheet	488	207	577	458	862	714	1,279	1,415	2,434	5,004	8,371	21,809
Liability in respect of prior years												4,958
Total reserve included in the balance sheet												26,767

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Short-term insurance contracts – claims outstanding - continued

The Company continues to benefit from reinsurance programmes that were purchased in prior years and includes proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

Movements in claims and loss adjustments expenses.

	Group and Company Year ended 2011		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	39,678	(9,832)	29,846
Claims settled during the year	(16,544)	4,996	(11,548)
Increase/(decrease) in liabilities			
- arising from current year claims	22,653	(6,681)	15,972
- arising from prior year claims	(5,683)	625	(5,058)
At end of year	40,104	(10,892)	29,212

	Group and Company Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	40,104	(10,892)	29,212
Claims settled during the year	(17,731)	5,087	(12,644)
Increase/(decrease) in liabilities			
- arising from current year claims	23,168	(7,408)	15,760
- arising from prior year claims	(6,269)	708	(5,561)
At end of year	39,272	(12,505)	26,767

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) *Short-term insurance contracts – claims outstanding* - continued

Movements in claims and loss adjustments expenses - continued

The Group continuously monitors closely the development in insurance liabilities in order to ascertain the adequacy of its claims reserves. Movements in reserves in respect of claims occurring in previous years arise when these claims are actually settled and/or when reserves are revised to reflect new information that emerges.

The Company registered a gross favorable run-off of €6.27 million (2011: €5.68 million). After the effect of reinsurance, this amounts to €5.56 million (2011: €5.06 million). This run-off arose principally from a favorable development on claims in the motor and liability classes of direct general business of insurance. This is attributable, *inter alia*, to savings made during the claims handling process.

(b) *Short-term insurance contracts - provision for unearned premiums and unexpired risks*

The movements for the year are summarised as follows:

	Group and Company Year ended 2011		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	15,037	(5,215)	9,822
Net charge/(credit) to profit and loss	(1,043)	204	(839)
At end of year	13,994	(5,011)	8,983

	Group and Company Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	13,994	(5,011)	8,983
Net charge/(credit) to profit and loss	1,838	(805)	1,033
At end of year	15,832	(5,816)	10,016

The balance at 31 December 2012 includes a provision for unexpired risks of €0.70 million (2011: €0.59 million).

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(c) Group Life insurance contracts

Claims outstanding

Movement in claims outstanding is summarised as follows:

	Group and Company Year ended 2011		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	134	(41)	93
Claims settled during the year	(395)	152	(243)
Increase/(decrease) in liabilities	338	(143)	195
At year-end	77	(32)	45

	Group and Company Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	77	(32)	45
Claims settled during the year	(671)	343	(328)
Increase/(decrease) in liabilities	941	(504)	437
At year-end	347	(193)	154

Long term business provision

The balance on the long term business provision has been certified by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2012. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows:

	2012 €'000	2011 €'000
Investments	3,955	3,866
Insurance and other receivables	423	942
Cash at bank and in hand	990	168
Claims outstanding	(154)	(45)
Insurance and other payables	(4,815)	(4,566)
Long term business provision, net of reinsurance	399	365

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF

Individual life insurance contracts

	2012 €'000	2011 €'000
Gross technical provisions		
- claims outstanding	1,375	766
- long term business provision	420,658	387,927
	422,033	388,693
Reinsurers' share of technical provisions		
- claims outstanding	428	228
	428	228
Net technical provisions		
- claims outstanding	947	538
- long term business provision	420,658	387,927
	421,605	388,465

The movements for the year are summarised as follows:

	Group Year ended 2011		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	-	-	-
Liabilities acquired in a business combination (Note 33)	387,017	(3,195)	383,822
Charge to the profit and loss account	1,676	2,967	4,643
At end of year	388,693	(228)	388,465
	Group Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	388,693	(228)	388,465
Charge to the profit and loss account	33,340	(200)	33,140
At end of year	422,033	(428)	421,605

The above liabilities are substantially non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

	Group 2012 €'000	Group 2011 €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	2,495	900
- long term business provision	630,898	584,848
	633,393	585,748

The movements for the year are summarised as follows:

	2012 €'000	2011 €'000
Year ended 31 December		
At beginning of year	585,748	-
Liabilities acquired in a business combination (Note 33)	-	575,418
Charge to the profit and loss account	47,645	10,330
	633,393	585,748

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

The technical provisions in respect of long term contracts and linked long term contracts are subject to an annual statutory valuation undertaken by the Approved Actuary based on data and information provided by the Group. The technical provisions are calculated in accordance with the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2007 ('the Regulations').

Different principles and valuation methodologies are adopted depending on the type and generation of products. The key assumptions used in determining the technical provisions in respect of insurance contracts and investment contracts with DPF are described below.

(i) *Assumptions*

Rate of future investment return

The rate of future investment return (valuation interest rate) is calculated in accordance with the Regulations. The calculation of the rate of future investment return is based on a prudent assessment of the yields generated by the long term business assets, which does not include any allowance for capital growth. The weighted average yield is further reduced by certain risk adjustments.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

(i) Assumptions - continued

Bonus rates

The expected rates of reversionary and terminal bonuses are determined by the Board in consultation with the Approved Actuary. Different bonus rates are declared on different generations of contracts depending on the type of product, cost structure, past investment performance and premium rates. Different bonuses are declared to reduce the element of cross-subsidy of products with different characteristics, and to maintain equity between different generations of contract holders. The levels of reversionary bonus rates are effected by measures taken to provide resilience to market conditions, and to provide for future payments of terminal bonuses. These measures are not intended, over the long term, to be a source of profit or loss.

Policy maintenance expenses

The per policy maintenance expense has been determined by reference to the Group's cost base.

Minimum reserve

The minimum reserve on each policy is equal to the current surrender value.

Mortality

The Group makes reference to AMC00 (AM80) tables.

(ii) Changes in assumptions

In accordance with normal practice, investment return assumptions were revised to reflect market movements over the year. Similarly, our policy expense expectations were also updated. As part of this revision the per policy expense assumptions were more closely aligned with the costs incurred in administering the different product lines. Although the overall impact has been broadly neutral on technical provisions, the change has seen a significant release on non-profit products balanced by an increase on with profit lines. The combined impact of these changes in assumptions has been charged against the technical result for the year.

Reserving mortality assumptions were adjusted by MSV Life p.l.c. ("MSV") during 2012 to adopt the AMC00 standard tables. The effect of this change on the technical provisions was not material.

(iii) Sensitivity analysis

The directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The most sensitive assumption is the rate of future investment return that will be driven by market forces. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 4. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Group's bonus policy is also influenced by market conditions, which mitigates the impact of movements in the valuation interest rate on the long term liability and the profit and loss account.

The Group's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses.

Technical Provisions - Investment contracts without DPF

	2012 €'000	2011 €'000
Long term business provision	61,932	60,205
Claims outstanding	95	133
	<hr/>	<hr/>
	62,027	60,338
	<hr/>	<hr/>

The above liability is considered to be substantially non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Year ended 31 December				
Opening net book amount	2,898	2,960	2,898	2,960
Net amount charged to the profit and loss	194	(62)	194	(62)
Closing net book amount	3,092	2,898	3,092	2,898

Deferred acquisition costs are all classified as current assets.

25. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	206	66	206	66
- due from agents, brokers and intermediaries	7,472	7,532	7,472	7,532
- due from reinsurers	1,098	534	1,098	534
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	123	153	123	153
<i>Deposits with ceding undertakings</i>	147	147	147	147
<i>Other loans and receivables:</i>				
- prepayments	1,334	1,187	722	727
- accrued interest and rent	12,362	12,166	199	159
- receivables from group undertakings	-	-	-	45
- receivables from associated undertakings	-	66	-	66
- other receivables	25	107	-	-
<i>Provision for impairment of receivables</i>	(592)	(123)	(592)	(123)
	22,175	21,835	9,375	9,306
Current portion	22,175	21,835	9,375	9,306

Balances due from group undertakings and other receivables are unsecured, non-interest bearing and have no fixed date of repayment.

Movements in the provision for impairment of receivables are as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Balance as at 1 January	123	496	123	496
Provision for impairment	479	12	479	12
Release of provision for impairment during the year	(10)	(385)	(10)	(385)
Balance as at 31 December	592	123	592	123

NOTES TO THE FINANCIAL STATEMENTS

26. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Cash at bank and in hand	18,970	7,380	7,021	952

27. SHARE CAPITAL

	Group and Company	
	2012 €'000	2011 €'000
Authorised 150 million ordinary shares of €0.21 each	31,500	31,500
Issued and fully paid 92 million ordinary shares of €0.21 each	19,320	19,320

During the Annual General Meeting held on the 3 May 2011, the shareholders approved the offsetting of the Company's accumulated losses, partly through the reduction in the nominal value of each of its ordinary shares from a nominal value of €0.60 to €0.21, amounting to a reduction of the Issued Share Capital from €55,200,000 (divided into 92 million ordinary shares of €0.60 each) to €19,320,000 (divided into 92 million ordinary shares of €0.21 each).

In line with the aforesaid reduction the authorised share capital was reduced from €90,000,000 (divided into 150 million ordinary shares of €0.60 each) to €31,500,000 (divided into 150 million ordinary shares of €0.21 each).

During the Annual General Meeting held on 3 May 2011, the shareholders further approved the offsetting of the Company's remaining accumulated losses through a transfer of €1.53 million from the Share Premium Reserve.

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER RESERVES

Group

	Value of in-force business €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2011	21,267	35	21,302
Fair value movements – gross (Note 21)	-	19	19
Fair value movements – tax (Note 22)	-	1	1
Share of increase in value of in-force business of subsidiary undertaking	717	-	717
Share of increase in value of in-force business of associated undertaking	(1,100)	-	(1,100)
Balance at 31 December 2011	20,884	55	20,939
Balance at 1 January 2012	20,884	55	20,939
Fair value movements – gross (Note 21)	-	(20)	(20)
Fair value movements – tax (Note 22)	-	16	16
Share of increase in value of in-force business of subsidiary undertaking	1,975	-	1,975
Balance at 31 December 2012	22,859	51	22,910

The above reserves are not distributable reserves.

Company

	Investment in subsidiary undertaking €'000	Investment in associate undertaking €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2011	-	34,134	-	34,134
Fair value movements – gross (Note 20 and 21)	-	529	23	552
Reclassification of associate to subsidiary undertaking	34,663	(34,663)	-	-
Balance at 31 December 2011	34,663	-	23	34,686
Balance at 1 January 2012	34,663	-	23	34,686
Fair value movements – gross (Note 20 and 21)	-	-	25	25
Balance at 31 December 2012	34,663	-	48	34,711

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Provision for contracted pension obligations	1,215	1,199	1,215	1,199
Balance at 31 December	1,215	1,199	1,215	1,199

Provision for contracted pension obligations

	Group and Company	
	2012 €'000	2011 €'000
At 1 January	1,199	833
Interest cost	59	56
Actuarial losses	35	387
Payments	(78)	(77)
Balance at 31 December	1,215	1,199

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Current	81	79	81	79
Non-current	1,134	1,120	1,134	1,120
Total	1,215	1,199	1,215	1,199

The Group operates a defined benefit plan in favour of a former Executive Chairman. The pension plan defines an amount of pension benefit that he receives on retirement. The liability recognised in the balance sheet is the present value of the obligation determined by discounting estimated future cash outflows.

The key assumptions underlying this calculation include estimated life expectancy (based on published mortality rates), estimated inflation rates (based on publicly available information) and a discount rate of 4.44% reflecting the term of the liability.

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Bank loans	8,500	8,500	2,500	2,500

The carrying amounts of borrowings approximate their fair value.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Deposits received from reinsurers	-	165	-	165
Creditors arising out of direct insurance operations	5,238	6,696	2,994	3,562
Creditors arising out of reinsurance operations	228	245	228	245
Amounts owed to associated undertaking	168	-	122	-
Amounts owed to group undertakings	-	-	1,022	1,001
Social security and other tax payables	822	1,038	459	386
Accruals	3,320	3,077	1,840	1,835
Deferred income	2,520	2,204	2,027	1,706
	12,296	13,425	8,692	8,900
Current	12,108	13,214	8,692	8,900
Non-current	188	211	-	-
	12,296	13,425	8,692	8,900

Balances due to group undertakings are unsecured, non-interest bearing and have no fixed date of repayment. Other payables are unsecured, non-interest bearing and fall due within the next twelve months.

Deferred income for the Group includes front-end fees received from holders of investment contracts without DPF as a prepayment for asset management and related services and rental income received in advance. These amounts are non-refundable and are released to income as the services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

32. CASH (USED IN)/GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash (used in)/generated from operations:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Profit before tax	17,980	3,110	3,259	1,754
Adjusted for:				
Depreciation (Note 17)	424	293	186	189
Impairment charges	282	352	57	352
(Increase in)/release of provision for impairment of receivables (Note 25)	469	(373)	469	(373)
Other provision for liabilities and charges (Note 29)	16	366	16	366
Amortisation (Note 16)	869	511	195	193
Adjustments relating to investment return	(103,345)	(2,905)	(2,583)	(942)
Loss/(profit) on sale of property, plant and equipment	161	85	161	-
Movements in:				
Insurance and other receivables	396	1,243	(553)	600
Deferred acquisition costs (Note 24)	(194)	62	(194)	62
Reinsurers' share of technical provisions	(2,787)	2,115	(2,587)	(851)
Technical provisions	83,992	6,792	1,319	(718)
Insurance and other payables	(2,185)	(6,473)	(212)	(4,777)
Cash (used in)/generated from operations	(3,922)	5,178	(467)	(4,145)

Non-cash transactions

The principal non-cash transactions comprised dividends receivable from group and associated undertakings as consideration for the additional investment in these companies in addition to the de-recognition of subsidiary undertakings.

33. BUSINESS COMBINATION

On 29 July 2011, Middlesea Insurance p.l.c. acquired *de-facto* control over MSV Life p.l.c. ("MSV") without purchasing a further interest in the acquiree. Control was acquired by virtue of a shareholders' agreement that was signed as a consequence of the changed shareholding in Middlesea Insurance p.l.c. during the year, which resulted in Mapfre Internacional S.A. acquiring a controlling interest in the Company.

MSV, which was previously classified as an associated undertaking, is licensed under the Insurance Business Act, 1998 to transact long term insurance business and under the Investment Services Act, 1994 to provide investment services.

Middlesea Insurance p.l.c. held 50% of the shares of MSV before and after this business combination. The fair value of MSV at the time that control was acquired was not deemed to be significantly different to its net asset value. As in prior years, the fair value was determined by reference to MSV's embedded value that is principally made up of the net assets of MSV and the value of its in-force business, which is also accounted for in MSV's statement of financial position.

As a result of this business combination, Church Wharf Properties Limited also became a subsidiary, in view of the fact that the remaining 50% interest in this entity is held by MSV.

NOTES TO THE FINANCIAL STATEMENTS

33. BUSINESS COMBINATION - CONTINUED

The table below summarises the fair value/carrying amounts of the assets and liabilities recognised and the non-controlling interest at the acquisition date.

Recognised amounts of identifiable assets acquired and liabilities assumed

	As at 29 July 2011 €'000
Assets	
Intangible assets	43,019
Property, plant and equipment	1,773
Investment property	59,053
Investment in associated undertaking	5,077
Other investments	1,014,098
Reinsurers' share of technical provisions	3,195
Insurance and other receivables	11,967
Income tax receivable	3,829
Cash and cash equivalents	14,329
Liabilities	
Deferred income tax	(7,139)
Technical provisions	(1,027,269)
Borrowings	(6,000)
Insurance and other payables	(7,404)
Total identifiable net assets	108,528
Non-controlling interest	(54,990)
Total	53,538

These amounts also represent the fair value of the interest held by the acquirer immediately before the acquisition date and have been transferred accordingly from investments in associates to investments in subsidiary undertakings.

The premium written by MSV included in the consolidated statement of comprehensive income of 2011 for the period from 29 July 2011 to 31 December 2011 amounted to €45.30 million. MSV and Church Wharf Properties Limited also contributed to profits of €0.24 million over the same period. Had MSV and Church Wharf Properties Limited been consolidated from 1 January 2011, the consolidated statement of income of 2011 would have shown premium written of €112.04 million and profits of €3.53 million.

34. COMMITMENTS

Capital commitments

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Authorised and not contracted for				
- property, plant and equipment	1,142	948	146	270
- intangible assets	2,363	2,596	1,011	978

Operating lease commitments – where the company is a lessor

The Group and the Company lease out certain premises under operating leases. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Not later than 1 year	3,586	2,886	252	190
Later than 1 year and not later than 5 years	5,869	3,942	218	48
Later than 5 years	878	203	-	-
Total	10,333	7,031	470	238

Rental income from operating leases recognised in profit or loss during the year is disclosed in Note 8.

NOTES TO THE FINANCIAL STATEMENTS

34. COMMITMENTS - CONTINUED

Investment property includes properties valued at €4.18 million (2011: €4.47 million) on which the lessees have an option to buy these properties at a pre-determined price and within a pre-determined time. The fair value of these properties does not exceed the pre-determined option price.

35. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.18 million (2011: €0.17 million) not arising under contracts of insurance.

36. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors and shareholders who hold a substantial amount of the votes able to cast at general meetings.

Relevant particulars of related party transactions are as follows:

	2012 €'000	2011 €'000
<i>(a) Sales of insurance contracts and other services</i>		
Sale of insurance contracts		
- subsidiaries	101	160
- associates	6	-
- shareholders represented on the Board	1,473	1,288
Claim recoveries from shareholders represented on the board	2,469	2,664
Reimbursement of expenses for back-office services provided		
- subsidiaries (after business combination)	106	63
- associate (before business combination)	-	88
- shareholders represented on the Board	-	22
Investment income		
- subsidiaries (dividends/interest receivable)	1,223	698
- associate (dividends)	-	23
- shareholders represented on the Board (dividends/interest receivable)	4,524	612
Rent receivable from subsidiary/associate	72	40
	2012	2011
	€'000	€'000
<i>(b) Purchases of products and services</i>		
Reinsurance premium ceded to shareholders (represented on the Board) net of commissions	9,320	4,887
Acquisition costs payable to intermediaries where directors of the Company are directors or shareholders in companies that act as insurance agents or intermediaries	2,184	1,122
Reimbursement of expenses payable for back-office services		
- subsidiaries	-	-
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	492	491
Rent payable to subsidiary/associate	-	6

NOTES TO THE FINANCIAL STATEMENTS

36. RELATED PARTY TRANSACTIONS - CONTINUED

During the year, the Company acquired property, plant and equipment amounting to €60k from a subsidiary and intangible assets amounting to €4k from another subsidiary in 2011.

Key management personnel during 2012 and 2011 comprised the President & Chief Executive Officer, Chief Executive Officers, Vice Presidents, General Manager, Financial Controller, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel amounted to €1.79 million (Company: €0.96 million). Corresponding figures for 2011 were €1.20 million (including MSV as from 29 July 2011) and €0.85 million.

Year-end balances arising from the above transactions:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Debtors arising out of direct insurance operations	168	7	168	7
Creditors arising out of direct insurance operations	625	442	625	442
Amounts owed by subsidiary undertakings	-	-	-	45
Amounts owed to subsidiary undertaking	-	-	1,022	1,001
Amount owed by associated undertaking	-	66	-	66
Amounts owed to associated undertaking	168	-	122	-
Reinsurers share of technical provisions	4,314	1,447	4,314	1,447
Investments with related parties	123,925	134,313	8,755	4,731
Subordinated loans	8,500	8,500	2,500	2,500
Accruals and other liabilities (key management personnel)	-	22	-	22

All balances above have arisen in the course of the Group's normal operations.

37. STATUTORY INFORMATION

Middlesea Insurance p.l.c. is a public limited company and is incorporated in Malta.

The Group is 54.56% owned by Mapfre Internacional S.A. (the "immediate parent"), a company registered in Spain, the registered office of which is situated at Paseo de Recoletos 25, 28004, Madrid.

The Group's ultimate parent is Fundación Mapfre, the registered office of which is situated at Paseo de Recoletos 23, 28004, Madrid, Spain.

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Middlesea Insurance p.l.c. (C-5553) is authorised by the Malta Financial Services Authority to carry on both Long Term and General Business under the Insurance Business Act, 1998.