

**MSV Life p.l.c.**

**Annual Report and Consolidated  
Financial Statements  
31 December 2012**

**Company Registration Number: C15722**

	<b>Pages</b>
Directors' report	1 - 6
Independent auditor's report	7 - 8
Consolidated profit and loss accounts	
Technical account – long term business	9
Non-technical account	10
Statements of comprehensive income	10
Consolidated balance sheets	11
Statements of changes in equity	12 - 13
Cash flow statements	14
Notes to the financial statements	15 - 80

## **Directors' report**

### **For the year ended 31 December 2012**

The directors present their annual report, together with the audited financial statements for the year ended 31 December 2012.

### **Board of Directors**

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

Frederick Mifsud Bonnici (Chairman) (appointed 27 July 2012)

Alfredo Muñoz Perez (appointed 27 February 2012)

Felipe Navarro López de Chicheri

John P. Cliff

Joseph F. X. Zahra

Michael Galea (appointed 27 February 2012)

Mario Mallia

Pedro López Solanes

Javier Fernández Cid (resigned 27 February 2012)

Roderick E.D. Chalmers (resigned 16 June 2012)

Tonio Depasquale (resigned 27 February 2012)

According to the Company's Articles of Association, every member or group of members holding in aggregate at least 10% of the issued share capital of the Company having voting rights, are entitled to appoint one director. Every member or group of members holding at least an additional 13% of the issued share capital of the Company having voting rights, are entitled to appoint an additional director for every 13% holding.

Unless appointed for a longer or shorter period, or unless they resign or are earlier removed, directors hold office for a period of one year, provided that no appointment may be made for a period exceeding three years.

### **Principal Activities**

The Company is licensed by the Malta Financial Services Authority to carry on long term business of insurance, including life insurance and life re-insurance, as authorised under the Insurance Business Act (Chapter 403 of the Laws of Malta). The Group is also authorised to provide investment services in terms of the Investment Services Act (Chapter 370 of the Laws of Malta).

## **Directors' report - continued**

### **Business review 2012**

MSV Life p.l.c. ("MSV Life" and "MSV Group") registered a profit before tax of €15.98 million for the year ended 31 December 2012 a significant increase over the profit before tax of €5.43 million recorded in 2011. This was mainly due to the upturn in the equity and bond markets which resulted in a significant increase in net investment income. Furthermore, 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 change contributed positively to the Group's after-tax profit of €15.95 million for the year.

Moving forward, the Company envisages that, with all unutilised tax credits now recognised, the ongoing tax expense rate, with effect from financial year 2013, will be close to the current corporate tax rate of 35%.

Total comprehensive income, inclusive of the movement in the value of in-force business, was €19.90 million (2011: €2.76 million).

Gross premiums written (including investment contracts without DPF) contracted for financial year 2012 amounted to €87.31 million compared to €128.02 million in 2011. This was due to a lower demand for single premium. On the other hand, new sales of our protection and regular savings policies held up well against prior year despite the subdued consumer confidence, and were well spread across all principal product groups.

The MSV Group's total assets increased from €1,165.11 million at the end of 2011 to €1,265.5 million at the end of 2012, whilst the Life Fund (including investment contracts without DPF) increased by 7.97% from €1,034.55 million in 2011 to €1,117.02 million in 2012.

The value of in-force business, disclosed as an intangible asset, increased by 9.46% from €41.77 million in 2011 to €45.72 million in 2012. The value of in-force business reflects the value of the projected future transfers to shareholders arising from policies in force at the end of the year.

The upturn in equity and bond markets increased net investment income substantially from €8.11 million in 2011 to €95.44 million in 2012. The strong investment performance was underpinned by the company's conservative and diversified portfolio of assets, as well as by the rigorous and prudent investment management process that is so important in the management of life insurance companies.

## **Directors' report - continued**

### **Business review 2012 - continued**

At the end of 2012 the level of net admissible assets for statutory solvency purposes stood at €86.49 million (2011: €72.61 million), which represents an excess of €40.88 million (2011: €30.27 million) over the 'required margin of solvency' as stipulated in the Insurance Business Regulation of €45.61 million (2011: €42.35 million). This surplus is also above the multiple set by the regulator.

Total shareholders' funds at the close of 2012 amounted to €129.82 million (2011: €111.65 million), an increase of 16.27% over the previous year.

The net asset value per share has increased from €5.10 as at the end of 2011 to €5.93 per share driven by the underlying profitability of the business.

The shareholders of MSV Life are wholly committed to ensuring that MSV Life remains adequately capitalised at all times and well positioned for business growth. MSV Life remains focused on the generation of capital and its disciplined allocation.

In February 2013, The Board of Directors of MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of with-profits plans held with MSV Life for the year ending 31 December 2012. These amounted to 2.90% for the MSV Comprehensive Life Plan (regular and single premium policies), 3.10% in respect of the MSV Comprehensive Flexi Plan (regular and single premium policies), 3.10% under the MSV Single Premium Plan and 3.10% under the with-profits options of the MSV Investment Bond and of the MSV Retirement Plan. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2.2% of the basic sum assured plus bonuses was declared.

In addition the Board also approved the declaration of a Final Bonus in respect of the Comprehensive Life Plan (single and regular premium) and the Comprehensive Flexi Plan (single and regular premium) policies that have been in force for more than 10 years. The Final Bonus will be paid on claims payable as a result of death or maturity between 1 January 2013 and the next bonus declaration, at a rate of 0.75% for every year after the 10<sup>th</sup> year of the policy. This final bonus will be paid on the value of the Policy Account as at the date of death or maturity.

The Board also approved a Regular Bonus of 3.10% on those Secure Growth policies which formed part of the portfolio of business transferred to MSV Life from Assicurazioni Generali S.p.A. during 2000. Finally the Board also approved a Regular Bonus of 1.75% on the Alico 78 policies and a Regular Bonus of 2.0% on the Alico 66 policies which formed part of the portfolio of business transferred to MSV Life in 2011 from American Life Insurance Company ("ALICO").

## **Directors' report - continued**

### **Business review 2012 - continued**

Notwithstanding the prudent investment policy adopted by MSV Life, past performance is no guarantee for the future. Although MSV's with-profits investments have generally provided policyholders with satisfactory returns when compared with other similar investment products, in the light of the current uncertainty in the capital markets, investment returns could fluctuate further. Fair value movements and investment returns impinge directly on the rates of bonuses declared by MSV Life. Regular Bonuses are therefore expected to vary over the lifetime of the policy whilst Final Bonuses are likely to be highly volatile and very dependent on the investment performance of the company.

In 2012 the life insurance market in Malta experienced a lower demand for Single Premium and Unit Linked business. This has led to a reduction in the business written by MSV Life. On the other hand, new sales of our protection and regular savings policies held up well against prior year despite the subdued consumer confidence, and were well spread across all principal product groups. We continue to see good momentum in all our product groupings as customers continue to choose MSV Life, reflecting trust in our brand and in the quality of our service proposition.

The Maltese life insurance market remains an underinsured market. Although life insurance companies are playing an increasingly important role in Maltese household savings, comparative studies with other European life insurance markets show that whilst the Maltese life insurance market has grown significantly between 1994 and 2011, the per capita spend on life insurance is less than half of the average European spend. We therefore see life protection and long term savings as the medium term major areas of growth in the local life insurance market and we are looking forward with enthusiasm to play an important role in the expected national pension reform particularly in the creation and provision of second and third pillar retirement solutions once the required legislative framework is put in place.

Going forward we will increasingly focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end we will continue to invest and innovate in information technology and during 2012 we embarked on a major IT programme which will involve the migration of our business to the latest technology in our business which will in turn lead to a vastly superior service to our clients.

Whilst we have an important role to provide our customers with prosperity and peace of mind we acknowledge that we have a wider commitment to society by also supporting those who are not our customers. Over the years we have developed a Corporate Social Responsibility (CSR) policy framework which encompasses shareholders, the environment, people, communities and customers. Through our CSR programme we provide financial assistance to various sectors ranging from art, culture, heritage, sport, education and charity.

Training and development of our people continued to feature high on our agenda during 2012. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas.

## **Directors' report - continued**

### **Business review 2012 - continued**

In order to ensure the well-being and ongoing development of our people we are continuously reviewing and updating our HR policies and implementing new policies and employment practices. Specifically in the area of gender equality during 2012, MSV Life was awarded the Gender Equality Mark by the National Commission for the Promotion of Equality.

The Board of MSV Life thanked Mr. Roderick Chalmers, who resigned as Chairman of the Group on 16 June 2012, for his immense contribution to the Group. Mr. Chalmers' vision, foresight and stewardship have no doubt had an important bearing on the excellent results achieved by the Company in 2012.

The Board also expressed its gratitude and appreciation to the management and staff for their commitment and contribution to another satisfactory year, to intermediaries for their continued support and to the many loyal customers for placing their trust in MSV Life.

### **Dividends**

The directors recommend the payment of a final net dividend of €8.04 million (2011: €1.73m).

### **Actuaries**

The Company's Approved Actuary is Mr. Scott Robinson FIA, a partner of Towers Watson Limited.

### **Statement of directors' responsibilities**

The directors are required by the Insurance Business Act, 1998 and the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Group and 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 Company will continue in business as a going concern.

## **Directors' report - continued**

### **Statement of directors' responsibilities - continued**

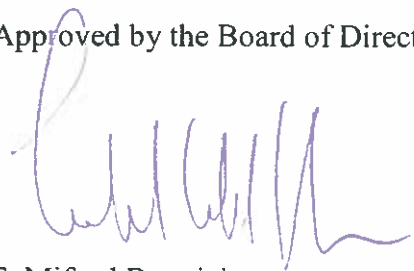
The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act, 1998 and with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of MSV Life 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 Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on 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.


### **Auditors**

The auditors PricewaterhouseCoopers have indicated their willingness to continue in office.

Approved by the Board of Directors on 26 February 2013 and signed on its behalf by:



F. Mifsud Bonnici  
Chairman



A. Muñoz Perez  
Director



D.G. Curmi  
Chief Executive Officer

### **Registered Office**

MSV Life p.l.c.  
Pjazza Papa Giovanni XXIII  
Floriana FRN1420  
Malta





## **Independent auditor's report**

To the Shareholders of MSV Life p.l.c.

### **Report on the Financial Statements for the year ended 31 December 2012**

We have audited the financial statements of MSV Life p.l.c. and its subsidiary (the "Group") and of MSV Life p.l.c. (the "parent company") on pages 9 to 80 which comprise the balance sheets as at 31 December 2012 and the profit and loss accounts, statements of comprehensive income, statements of changes in equity and statements of 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 pages 5 and 6, 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.



## **Independent auditor's report - continued**

### **Report on the Financial Statements for the year ended 31 December 2012 - continued**

#### *Opinion*

In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and the parent Company as at 31 December 2012 and of their financial performance and 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 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.

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

#### **PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

Romina Soler  
Partner

26 February 2013

## Consolidated profit and loss accounts

### Technical account – long term business

		Year ended 31 December	
		Group and Company	
		2012	2011
		€'000	€'000
	Notes		
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	85,501	125,513
Outward reinsurance premiums		(3,116)	(3,445)
<b>Net premiums written</b>		<b>82,385</b>	<b>122,068</b>
<b>Investment income</b>	5	<b>49,107</b>	<b>32,987</b>
<b>Unrealised gains on investments</b>	5	<b>43,286</b>	<b>-</b>
<b>Other technical income, net of reinsurance</b>	6	<b>597</b>	<b>703</b>
<b>Total technical income</b>		<b>175,375</b>	<b>155,758</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- gross amount		74,389	72,687
- reinsurers' share		(763)	(1,475)
		<b>73,626</b>	<b>71,212</b>
<b>Change in the provision for claims</b>			
- gross amount		2,204	(840)
- reinsurers' share		(200)	893
		<b>2,004</b>	<b>53</b>
<b>Claims incurred, net of reinsurance</b>	4	<b>75,630</b>	<b>71,265</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Insurance contracts			
- gross amount		32,730	3,825
- reinsurers' share		-	2,254
		<b>32,730</b>	<b>6,079</b>
Investment contracts with DPF – gross		<b>46,050</b>	<b>38,638</b>
<b>Change in other technical provisions, net of reinsurance</b>		<b>78,780</b>	<b>44,717</b>
<b>Net operating expenses</b>	4	<b>7,798</b>	<b>9,156</b>
<b>Unrealised losses on investments</b>	5	<b>-</b>	<b>24,450</b>
<b>Investment expenses and charges</b>	5	<b>2,088</b>	<b>1,009</b>
<b>Total technical charges</b>		<b>164,296</b>	<b>150,597</b>
<b>Balance on the long term business technical account</b>		<b>11,079</b>	<b>5,161</b>

The notes on pages 15 to 80 are an integral part of these financial statements.

## Consolidated profit and loss accounts Non-technical account

		Year ended 31 December			
		Group		Company	
	Notes	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Balance on the long term business technical account		11,079	5,161	11,079	5,161
Investment income	5	2,934	2,020	3,301	2,011
Unrealised gains/(losses) on investments	5	2,296	(1,403)	2,296	(1,383)
Investment expenses and charges	5	(95)	(32)	(95)	(32)
Other income – commission receivable		596	590	-	-
Other charges – administrative expenses	4	(833)	(902)	(417)	(437)
<b>Profit before tax</b>		<b>15,977</b>	<b>5,434</b>	<b>16,164</b>	<b>5,320</b>
Tax expense	9	(27)	(1,905)	(91)	(1,862)
<b>Profit for the year</b>		<b>15,950</b>	<b>3,529</b>	<b>16,073</b>	<b>3,458</b>
<b>Earnings per share (cents)</b>	11	<b>72c8</b>	<b>16c1</b>		

## Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Note	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Profit for the year		15,950	3,529	16,073	3,458
<b>Other comprehensive income:</b>					
Movement in value of in-force business	13	3,951	(767)	3,951	(767)
<b>Total comprehensive income</b>		<b>19,901</b>	<b>2,762</b>	<b>20,024</b>	<b>2,691</b>

The notes on pages 15 to 80 are an integral part of these financial statements.

## Consolidated balance sheets

		As at 31 December			
	Notes	Group	Company		
		2012	2011	2012	2011
		€'000	€'000	€'000	€'000
<b>ASSETS</b>					
Intangible assets	13	47,682	44,220	47,680	44,207
Tangible assets - property, plant and equipment	14	5,231	1,757	5,231	1,755
Investments:					
Land and buildings - investment property	15	74,808	60,054	74,808	60,054
Investment in group undertaking	16	-	-	466	466
Investments in associated undertakings	17	5,980	6,073	5,980	6,073
Other investments	18	1,100,990	1,029,999	1,100,985	1,029,757
Reinsurers' share of technical provisions	24	428	228	428	228
Income tax receivable		6,098	4,264	6,029	4,151
Debtors	20	-	26	237	152
Prepayments and accrued income	20	12,740	12,406	12,615	12,279
Cash at bank and in hand	21	11,541	6,078	10,731	5,576
<b>Total assets</b>		<b>1,265,498</b>	<b>1,165,105</b>	<b>1,265,190</b>	<b>1,164,698</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves attributable to shareholders of the Company</b>					
Called up share capital	22	54,750	54,750	54,750	54,750
Other reserves	23	39,544	35,593	39,544	35,593
Profit and loss account		35,530	21,310	35,287	20,944
<b>Total equity</b>		<b>129,824</b>	<b>111,653</b>	<b>129,581</b>	<b>111,287</b>
Technical provisions:					
Insurance contracts	24	422,032	388,693	422,032	388,693
Investment contracts with DPF	24	633,393	585,748	633,393	585,748
Investment contracts without DPF	25	62,027	60,338	62,027	60,338
Subordinated loan	26	6,000	6,000	6,000	6,000
Provision for other risks and charges:					
Deferred income tax	19	7,609	6,986	7,609	6,984
Derivative financial instruments	18	15	189	15	189
Creditors	27	2,700	3,807	2,653	3,783
Accruals and deferred income	27	1,898	1,691	1,880	1,676
<b>Total liabilities</b>		<b>1,135,674</b>	<b>1,053,452</b>	<b>1,135,609</b>	<b>1,053,411</b>
<b>Total equity and liabilities</b>		<b>1,265,498</b>	<b>1,165,105</b>	<b>1,265,190</b>	<b>1,164,698</b>

The notes on pages 15 to 80 are an integral part of these financial statements. The financial statements on pages 9 to 80 were authorised for issue by the Board on 26 February 2013 and were signed on its behalf by:

  
F. Mifsud Bonnici  
Chairman

  
A. Muñoz Perez  
Director

  
D.G. Curmi  
Chief Executive Officer

## Statements of changes in equity

Group	Notes	Share capital €'000	Other reserves €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2011		54,750	36,360	17,781	108,891
<b>Comprehensive income</b>					
Profit for the financial year		-	-	3,529	3,529
Other comprehensive income:					
Decrease in value of in-force business	23	-	(767)	-	(767)
Total comprehensive income for the year		-	(767)	3,529	2,762
<b>Balance at 31 December 2011</b>		<b>54,750</b>	<b>35,593</b>	<b>21,310</b>	<b>111,653</b>
Balance at 1 January 2012		54,750	35,593	21,310	111,653
<b>Comprehensive income</b>					
Profit for the financial year		-	-	15,950	15,950
Other comprehensive income:					
Increase in value of in-force business	23	-	3,951	-	3,951
Total comprehensive income for the year		-	3,951	15,950	19,901
<b>Transactions with owners</b>					
Dividends in respect of 2011	12	-	-	(1,730)	(1,730)
<b>Balance at 31 December 2012</b>		<b>54,750</b>	<b>39,544</b>	<b>35,530</b>	<b>129,824</b>

The notes on pages 15 to 80 are an integral part of these financial statements

### Statements of changes in equity - continued

Company	Notes	Share capital €'000	Other reserves €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2011		54,750	36,360	17,486	108,596
<b>Comprehensive income</b>					
Profit for the financial year		-	-	3,458	3,458
Other comprehensive income: Decrease in value of in-force business	23	-	(767)	-	(767)
Total comprehensive income for the year		-	(767)	3,458	2,691
<b>Balance at 31 December 2011</b>		<b>54,750</b>	<b>35,593</b>	<b>20,944</b>	<b>111,287</b>
Balance at 1 January 2012		54,750	35,593	20,944	111,287
<b>Comprehensive income</b>					
Profit for the financial year		-	-	16,073	16,073
Other comprehensive income: Increase in value of in-force business	23	-	3,951	-	3,951
Total comprehensive income for the year		-	3,951	16,073	20,024
<b>Transactions with owners</b>					
Dividends in respect of 2011	12	-	-	(1,730)	(1,730)
<b>Balance at 31 December 2012</b>		<b>54,750</b>	<b>39,544</b>	<b>35,287</b>	<b>129,581</b>

The notes on pages 15 to 80 are an integral part of these financial statements.

## Cash flow statements

		Year ended 31 December			
	Notes	Group		Company	
		2012 €'000	2011 €'000	2012 €'000	2011 €'000
<b>Operating activities</b>					
Cash (used in)/generated from operations	28	(2,352)	38,897	(2,692)	38,676
Dividends received		5,043	5,095	5,428	5,094
Interest received		30,911	29,810	30,911	29,808
Taxation paid		(1,238)	(1,311)	(1,344)	(1,143)
Net cash generated from operating activities		32,364	72,491	32,303	72,435
<b>Investing activities</b>					
Purchase of intangible assets	13	(408)	(306)	(408)	(306)
Purchase of property, plant and equipment	14	(369)	(1,095)	(369)	(1,095)
Purchase of investment property	15	(17,073)	(102)	(17,073)	(102)
Purchase of other financial investments	18	(452,544)	(459,876)	(452,542)	(459,872)
Disposal of property, plant and equipment		11	116	11	116
Disposal of other financial investments		445,212	389,697	444,963	389,694
Net cash used in investing activities		(25,171)	(71,566)	(25,418)	(71,565)
<b>Financing activities</b>					
Dividends paid	12	(1,730)	-	(1,730)	-
Net cash used in financing activities		(1,730)	-	(1,730)	-
<b>Net movement in cash and cash equivalents</b>		5,463	925	5,155	870
<b>Cash and cash equivalents at beginning of year</b>		6,078	5,153	5,576	4,706
<b>Cash and cash equivalents at end of year</b>	21	11,541	6,078	10,731	5,576

The notes on pages 15 to 80 are an integral part of these financial statements.



## Notes to the financial statements

### 1. Summary of significant accounting policies

The principal 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.

#### 1.1 General information

MSV Life p.l.c. ("the Company"), and its subsidiary, (together forming "the Group") are licensed under the Insurance Business Act, 1998 to transact long term insurance business and under the Investment Services Act, 1994 to provide investment services.

The Group offers a range of individual life insurance and investment contracts that can be broadly classified into long term contracts and linked long term contracts. Long term contracts consist mainly of life protection and/or savings contracts. Linked long term contracts are essentially investment contracts that are intended to provide customers with asset management solutions for their savings and retirement needs. Linked long term contracts are more commonly referred to as unit linked contracts.

The following is the current product portfolio of the Group:

- Term contracts – these products are pure insurance contracts where the only obligation of the Group towards the insured is the payment of a death benefit, if the death occurs whilst the policy is in force.
- With profits life contracts – these insurance contracts combine a discretionary participation feature (DPF) where the obligation of the Group towards the insured also includes an annual discretionary investment return (bonus declaration).
- Investment contracts with DPF – these are substantially savings products where the annual investment return is also discretionary (declared bonus rate).
- Unit linked capital guaranteed contracts – these are unit linked products where the obligation of the Group towards the insured includes a guaranteed element of return and capital.
- Other unit linked investment contracts – these are unit linked products where the obligation of the Group towards the insured is represented by the value of the underlying units.

## 1. Summary of significant accounting policies - continued

### 1.2 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, the Insurance Business Act, 1998 and the Companies Act, 1995.

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property, financial assets and financial liabilities (including derivatives) at fair value through profit or loss, 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 2.

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.

#### *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 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 IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

## **1. Summary of significant accounting policies - continued**

### **1.2 Basis of preparation - continued**

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 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.

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 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 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

## **1. Summary of significant accounting policies - continued**

### **1.3 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 in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All intercompany transactions between group companies are eliminated. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group. A list of the Group's undertakings is set out in Note 16.

#### *(b) Associated undertakings*

Interests in associated undertakings that are allocated to the insurance and investment contract liabilities 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 1.13. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. A list of the Group's associated undertakings is set out in Note 17.

### **1.4 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 consolidated financial statements are presented in euro, which is the Company's functional currency and the Group's 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 or valuation where items are re-measured. 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. Translation differences on non-monetary items, mainly arising on equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

## **1. Summary of significant accounting policies - continued**

### **1.5 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 three main categories depending on the duration of risk and whether or not the terms and conditions are fixed.

##### **(i) Long term insurance contracts**

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.

**1. Summary of significant accounting policies - continued**

**1.5 Insurance and investment contracts - continued**

*(b) Recognition and measurement - continued*

*(i) Long term insurance contracts - continued*

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.

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 unitised 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.

*(ii) 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.

**1. Summary of significant accounting policies - continued**

**1.5 Insurance and investment contracts - continued**

*(b) Recognition and measurement - continued*

**(ii) Long term insurance contracts with DPF - continued**

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.

**(iii) 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 unitised investment pools.

**1. Summary of significant accounting policies - continued**

**1.5 Insurance and investment contracts - continued**

*(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, as described above, 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 reinsurers' share of technical provisions or receivables from reinsurers (unless netted off against amounts payable to reinsurers). These assets consist of short term balances due from reinsurers (classified within debtors), as well as longer term receivables (classified as 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.

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 Note 1.14.

*(d) 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.



## **1. Summary of significant accounting policies - continued**

### **1.6 Revenue**

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.

#### *(a) Rendering of services*

Premium recognition is described in Note 1.5 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 when the right to receive payment is established.

## **1. Summary of significant accounting policies - continued**

### **1.6 Revenue - continued**

#### *(c) Other net fair value gains or 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 unrealised gains or losses on investments 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.

### **1.7 Investment return**

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

The investment return is apportioned between the technical and non-technical profit and loss account on a basis which takes into account that technical provisions are fully backed by investments and that the intangible assets, property, plant and equipment and working capital are financed in their entirety from shareholders' funds.

## **1. Summary of significant accounting policies - continued**

### **1.8 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.

### **1.9 Intangible assets**

#### *Value of in-force business*

The value of in-force business is determined by the directors after considering the advice of the Company'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*

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.

**1. Summary of significant accounting policies - continued**

**1.10 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, but at least triennial, 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 revalued 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss 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 comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Land is not depreciated as it is deemed to have an indefinite life. 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
Furniture, fittings and equipment	3 - 10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. 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. Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

## **1. Summary of significant accounting policies - continued**

### **1.11 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.

### **1.12 Investment in group undertakings**

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

### **1.13 Financial assets**

The Group classifies its financial assets (other than investments in subsidiaries) into the following two categories: a) financial assets at fair value through profit or loss, and b) loans and receivables. The classification is dependant on the purpose for which the financial assets were acquired. The directors determine the appropriate classification of financial assets at the time of purchase and re-evaluate such designation at every reporting date.

- (a) Financial assets that are held to match insurance and investment contract liabilities are 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. Financial assets that are attributable to shareholders are designated at inception as fair value through profit or loss if they 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 in accordance with a documented investment strategy.

## **1. Summary of significant accounting policies - continued**

### **1.13 Financial assets - continued**

- (b) Loans and receivables are 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, receivables and cash and cash equivalents in the balance sheet as well as other financial investments classified as loans and receivables within Note 18.

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. Investments are derecognised when the rights to receive cash flows from the investments 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 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. Realised and unrealised gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

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 in active markets, 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.

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.

## **1. Summary of significant accounting policies - continued**

### **1.14 Impairment of assets**

#### *(a) Impairment of financial assets at amortised cost*

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

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

- (i) significant financial difficulty of the issuer or debtors;
- (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; and
- (iv) 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.

**1. Summary of significant accounting policies - continued**

**1.14 Impairment of assets - continued**

*(b) 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).

**1.15 Offsetting financial instruments**

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

**1.16 Borrowings**

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.



## **1. Summary of significant accounting policies - continued**

### **1.17 Current and deferred 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. In this case, the tax is also recognised in other comprehensive income or directly in other comprehensive income, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not accounted for if it 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. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

### **1.18 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 for operational purposes with banks.

### **1.19 Share capital**

Shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds, net of tax.

### **1.20 Dividends**

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.

## **2. Critical accounting estimates and judgments in applying accounting policies**

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

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 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 13. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2012 is disclosed in Note 13 to the accounts.

## **3. Management of risk**

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

### **3.1 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 exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

### 3. Management of risk - continued

#### 3.1 Insurance risk - continued

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 variability of the expected outcome.

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

#### *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.

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+.

### **3. Management of risk - continued**

#### **3.1 Insurance risk - continued**

##### *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 the process for estimation is provided in Note 24 to these financial statements.

#### **3.2 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 Investment Committee reviews and approves 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*

Insurance and investment contracts with DPF 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.

### 3. Management of risk - continued

#### 3.2 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 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).

**3. Management of risk - continued**

**3.2 Financial risk - continued**

**(a) Market risk - continued**

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

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.

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets/liabilities issued at variable rates expose the Group to cash flow interest risk. Assets/liabilities issued at fixed rates expose the Group to fair value interest rate risk. This risk is managed through investment in debt securities having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security. Periodic reports are prepared at portfolio, legal entity and asset class level that are circulated to the Group's key management personnel. Note 18 incorporates maturity information with respect to the Group's and Company's investments.

### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (a) Market risk - continued

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

The total assets and liabilities subject to interest rate risk are the following:

Assets	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Assets at floating interest rates	26,064	21,083	25,474	20,669
Assets at fixed interest rates	752,957	694,309	752,957	694,189
	<b>779,021</b>	<b>715,392</b>	<b>778,431</b>	<b>714,858</b>
Reconciled to the notes to the financial statements as follows:				
Loans and receivables (Note 18)	137,125	177,612	137,125	177,612
Debt securities (Note 18)	629,474	526,483	629,474	526,364
A component of equity securities and units in unit trusts (Note 18)	2,440	6,287	2,440	6,287
Interest bearing cash and cash equivalents (Note 21)	9,982	5,010	9,392	4,595
	<b>779,021</b>	<b>715,392</b>	<b>778,431</b>	<b>714,858</b>
<b>Liabilities</b>				
Gross long term business provision excluding linked long term contracts (Note 24)*	1,019,103	943,618	1,019,103	943,618
Subordinated loan	6,000	6,000	6,000	6,000
	<b>1,025,103</b>	<b>949,618</b>	<b>1,025,103</b>	<b>949,618</b>

\*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.

### 3. Management of risk - continued

#### 3.2 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, which comprise short, medium and long-term sovereign debt. The notional amount of futures contracts outstanding at 31 December 2012 is shown below:

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

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.

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 has been based on a model of euro swap rates (being the most relevant rate to use given the composition of the Group's investments). The sensitivities chosen aim to reflect 1 in 10 year events, given the long term nature of the portfolio.



### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (a) Market risk - continued

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

At 31 December 2012, had interest rates been 90 basis points lower with all other variables held constant, pre-tax profit for the year would have been €3.18m higher (2011: €0.04m higher). An increase of 90 basis points, with all other variables held constant, would have resulted in pre-tax profits being €2.0m lower (2011: €3.3m lower). The above sensitivity considers the impact of changes in interest rates on liabilities and fixed income and floating interest rate assets.

##### (ii) Equity price risk

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities. The directors manage the 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 an active Investment Committee that has established a set of investment guidelines that is also approved by the Board of Directors. Investments over prescribed limits are directly approved by the Board. 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 (with the exception of investments in Government paper). 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 class level that are circulated to the Group's 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:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Assets subject to equity price risk	<b>243,477</b>	236,501	<b>243,472</b>	236,378

Reconciled to the notes to the financial statements as follows:

Investment in associated undertakings (Note 17)	<b>5,980</b>	6,073	<b>5,980</b>	6,073
A component of equity securities and units in unit trusts (Note 18)	<b>237,497</b>	230,428	<b>237,492</b>	230,305
	<b>243,477</b>	236,501	<b>243,472</b>	236,378

### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (a) Market risk - continued

##### (ii) Equity price risk - 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 and Company	
	2012 €'000	2011 €'000
<b>Long positions</b>		
- 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 3.2 (a) (i).

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

Given the investment strategy and asset mix 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 €3.6m (2011: €3.4m) and a negative impact of €3.2m (2011: €3.6m) respectively, on the pre-tax profit for the year. The above sensitivity includes the impact of changes in equity returns on liabilities and assets.

##### (iii) Currency risk

The Group's liabilities are substantially denominated in euro. The Group's exposure to foreign currency risk arises primarily from equity securities denominated in major international currencies. The Group hedges its foreign currency denominated debt securities using foreign exchange forward 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 table below summarises the Group's exposure to foreign currencies other than euro.

### 3. Management of risk - continued

#### 3.2 Financial risk – continued

##### (a) Market risk - continued

##### (iii) Currency risk - continued

#### Group and Company

##### 31 December 2012

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
<b>Currency of exposure:</b>			
USD	18,539	5,111	13,428
CHF	14,133	-	14,133
GBP	6,824	4,435	2,389
SEK	3,902	-	3,902
DKK	3,432	-	3,432
Others	2,174	1,153	1,021
	<b>49,004</b>	<b>10,699</b>	<b>38,305</b>

##### 31 December 2011

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
<b>Currency of exposure:</b>			
USD	26,232	3,187	23,045
CHF	10,735	61	10,674
GBP	6,185	2,537	3,648
SEK	4,126	270	3,856
DKK	1,953	-	1,953
Others	674	289	385
	<b>49,905</b>	<b>6,344</b>	<b>43,561</b>

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 3.2 (a) (ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (b) Credit risk

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when changes in their credit status take place.

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

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

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 counterparty. 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. At the same time that the Board approves the overall reinsurance protection for the Group, it ensures that the reinsurers' credit rating (either Standard & Poors or equivalent) is within the parameters set by it.

It is not normal for credit to be extended to insurance policyholders due to the nature of the Group's business, unless automatic policy loans are advanced up to the surrender value of the contract (refer to Note 18).

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.

### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (b) Credit risk - continued

The total assets bearing credit risk are the following:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Fair value through profit or loss</b>				
- Debt securities	629,474	526,483	629,474	526,364
- Forward foreign exchange contracts	193	-	193	-
	<b>629,667</b>	<b>526,483</b>	<b>629,667</b>	<b>526,364</b>
<b>Loans and receivables</b>				
- Deposits with banks or credit institutions	125,717	165,993	125,717	165,993
- Other loan	737	-	737	-
	<b>126,454</b>	<b>165,993</b>	<b>126,454</b>	<b>165,993</b>
Reinsurers' share of technical provisions	428	228	428	228
Insurance and other receivables	12,300	12,033	12,537	12,157
Cash at bank and in hand	11,541	6,078	10,731	5,576
<b>Total exposure</b>	<b>780,390</b>	<b>710,815</b>	<b>779,817</b>	<b>710,318</b>

The assets above are analysed in the table below using Standard and Poors rating (or equivalent).

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
AAA	79,627	75,513	79,627	75,513
AA	53,634	15,499	53,634	15,499
A	51,487	61,386	51,487	61,387
A - Malta Government Stocks	-	346,299	-	346,179
BBB - Malta Government Stocks	413,441	-	413,441	-
BBB	139,646	128,720	138,843	128,230
Below BBB or not rated	42,555	83,398	42,785	83,510
	<b>780,390</b>	<b>710,815</b>	<b>779,817</b>	<b>710,318</b>

On 16 January 2013 the Malta Government was downgraded from A to BBB with a stable outlook.

The Group has no receivables that are past due or impaired. Debt securities and loans and receivables that are not rated are primarily held with highly reputable financial institutions.

### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (c) Liquidity risk

The Group is exposed to daily calls on its available cash resources mainly from claims and benefits arising from long term 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 maturity funds available to meet such calls. Furthermore, the Group invests a majority of its assets in listed investments that can be readily disposed of.

The following table indicates the expected timing of cash flows arising from the maturity of the Group's liabilities. The expected cash flows do not consider the impact of early surrenders.

##### At 31 December 2012

	Expected cash flows (undiscounted)						Total
	0 – 5 Years	6 – 10 years	11 – 15 years	16 – 20 years	21 – 25 years	25 > years	
	€ million						
Technical provisions - Insurance contracts and investment contracts with DPF	288	379	264	224	90	155	1,400
Subordinated loan	3	5	-	-	-	-	8
Creditors	4	-	-	-	-	-	4
	<b>295</b>	<b>384</b>	<b>264</b>	<b>224</b>	<b>90</b>	<b>155</b>	<b>1,412</b>

##### At 31 December 2011

	Expected cash flows (undiscounted)						Total
	0 – 5 years	6 – 10 years	11 – 15 years	16 – 20 years	21 – 25 years	25 > years	
	€ million						
Technical provisions - Insurance contracts and investment contracts with DPF	225	365	283	259	107	169	1,408
Subordinated loan	2	6	-	-	-	-	8
Creditors	5	-	-	-	-	-	5
	<b>232</b>	<b>371</b>	<b>283</b>	<b>259</b>	<b>107</b>	<b>169</b>	<b>1,421</b>

### 3. Management of risk - continued

#### 3.2 Financial risk - continued

##### (c) Liquidity risk - continued

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.

The table below analyses the company'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.

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
<b>At 31 December</b>		
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.

#### 3.3 Capital management

The Company's policy is to maintain a strong capital base to support its business growth plans and comply with all regulatory requirements on an ongoing basis whilst assessing the impact of shareholder returns on its capital employed. The Company defines capital as shareholders' equity, and the subordinated loan.

The Insurance Business Regulations stipulate the 'required margin of solvency' that the Company is required to hold. Regulatory capital requirements have been set at a multiple of this requirement. The following processes were in place for the Company to monitor capital and solvency requirements during the year:

- Admissibility tests were carried out on assets held to cover technical liabilities in order to determine that adequate cover was maintained. As at 31 December 2012, the Company held net admissible assets of €86.49 million (2011: €72.61 million) which represent an excess of €40.88 million (2011: €30.27 million) over the 'required margin of solvency' of €45.61 million (2011: €42.34 million), and also above the multiple set by the regulator. Solvency calculations are finalised at the point of submission of the regulatory returns and, in principle, represent estimates until this process is concluded.

### 3. Management of risk - continued

#### 3.3 Capital management - continued

- MSV employs prudent scenario tests to allocate capital and manage risk.
- A tranche of subordinated loan amounting to €6.00 million was raised in May 2010 to further supplement regulatory capital resources. The Company also has an undrawn facility of €4.00 million.

The Group was compliant at all times with the regulatory capital requirements as stipulated by the Malta Financial Services Authority.

#### 3.4 Fair value hierarchy

The table below analyses financial instruments carried out at fair value, by valuation method. The fair value measurement hierarchy is defined as follows:

- 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).

The following tables analyse the assets and liabilities carried at fair value by valuation method:

#### Group – 31 December 2012

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	333,396	769	32	334,197
- Debt securities	629,474	-	-	629,474
Derivative financial Instruments	-	193	-	193
Investments in associated undertakings	4,806	-	1,174	5,980
<b>Total assets</b>	<b>967,676</b>	<b>962</b>	<b>1,206</b>	<b>969,844</b>
<b>Liabilities</b>				
Unit linked financial liabilities	-	94,261	-	94,261
Derivative financial instruments	-	15	-	15
<b>Total liabilities</b>	<b>-</b>	<b>94,276</b>	<b>-</b>	<b>94,276</b>



### 3. Management of risk - continued

#### 3.4 Fair value hierarchy - continued

##### Group – 31 December 2011

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	325,369	502	33	325,904
- Debt securities	526,483	-	-	526,483
Investments in associated undertakings	4,806	-	1,267	6,073
<b>Total assets</b>	<b>856,658</b>	<b>502</b>	<b>1,300</b>	<b>858,460</b>
<b>Liabilities</b>				
Unit linked financial liabilities	-	89,189	-	89,189
Derivative financial instruments	-	189	-	189
<b>Total liabilities</b>	<b>-</b>	<b>89,378</b>	<b>-</b>	<b>89,378</b>

##### Company – 31 December 2012

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	333,392	769	32	334,193
- Debt securities	629,474	-	-	629,474
Derivative financial instruments	-	193	-	193
Investments in associated undertakings	4,806	-	1,174	5,980
<b>Total assets</b>	<b>967,672</b>	<b>962</b>	<b>1,206</b>	<b>969,840</b>
<b>Liabilities</b>				
Unit linked financial liabilities	-	94,261	-	94,261
Derivative financial instruments	-	15	-	15
<b>Total liabilities</b>	<b>-</b>	<b>94,276</b>	<b>-</b>	<b>94,276</b>

### 3. Management of risk - continued

#### 3.4 Fair value hierarchy - continued

Company – 31 December 2011

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investments schemes	325,246	502	33	325,781
- Debt securities	526,364	-	-	526,364
Investments in associated undertakings	4,806	-	1,267	6,073
<b>Total assets</b>	<b>856,416</b>	<b>502</b>	<b>1,300</b>	<b>858,218</b>
<b>Liabilities</b>				
Unit linked financial liabilities	-	89,189	-	89,189
Derivative financial instruments	-	189	-	189
<b>Total liabilities</b>	<b>-</b>	<b>89,378</b>	<b>-</b>	<b>89,378</b>

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.

At 31 December 2012, 0.1% (2011: 0.1%) of the financial assets measured at fair value on a recurring basis were classified as Level 3. They constitute investment in unlisted equities and their 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.

### 3. Management of risk - continued

#### 3.4 Fair value hierarchy - continued

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

##### Group and Company 2012

	Financial assets at fair value through profit or loss		
	Equity securities €'000	Investments in associated undertakings €'000	Total Assets €'000
Opening balance	33	1,267	1,300
Total losses recognised in profit or loss	(1)	(93)	(94)
Closing balance	32	1,174	1,206
Total losses for the period included in profit or loss for assets held at the end of year	(1)	(93)	(94)

##### Group and Company 2011

	Financial assets at fair value through profit or loss		
	Equity securities €'000	Investments in associated undertakings €'000	Total Assets €'000
Opening balance	33	1,291	1,324
Total losses recognised in profit or loss	-	(24)	(24)
Closing balance	33	1,267	1,300
Total losses for the period included in profit or loss for assets held at the end of year	-	(24)	(24)

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 financial liabilities emanating from investment contracts with DPF. It is impracticable 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.

#### 4. Other information - technical account

In the opinion of the directors, the Group primarily operates in a single business segment being that of long term and linked long term insurance business.

##### (i) Gross premiums written

Gross premium income is made up of:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Direct insurance	<b>85,501</b>	125,513
Gross premiums written	<b>85,501</b>	125,513

Direct insurance is further analysed between:

	<b>Periodic premiums</b>		<b>Single premiums</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Non-participating	<b>8,117</b>	7,431	-	-
Participating	<b>29,723</b>	29,500	<b>44,237</b>	84,352
Linked	<b>3,051</b>	3,232	<b>373</b>	998
	<b>40,891</b>	40,163	<b>44,610</b>	85,350

In addition to the above, premium credited to liabilities in Note 25 in relation to linked products classified as investment contracts without DPF was as follows:

	<b>Periodic premiums</b>		<b>Single premiums</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Investment contracts	<b>1,457</b>	1,574	<b>355</b>	931

Gross premiums written by way of direct business of insurance principally relates to individual business. 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, amounted to a charge of €0.95m to the long term business technical account for the year ended 31 December 2012 (2011: €4.3m).

#### 4. Other information - technical account - continued

##### (iii) Analysis between insurance and investment contracts

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
<b>Gross premiums written</b>		
Insurance contracts	32,875	33,330
Investment contracts with DPF	52,626	92,183
	<b>85,501</b>	<b>125,513</b>
<b>Claims incurred, net of reinsurance</b>		
Insurance contracts	19,778	17,430
Investment contracts with DPF	55,852	53,835
	<b>75,630</b>	<b>71,265</b>

##### (iv) Net operating expenses

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Acquisition costs	4,739	5,815	4,739	5,815
Administrative expenses	5,090	5,104	4,674	4,639
Reinsurance commissions	(1,198)	(861)	(1,198)	(861)
	<b>8,631</b>	<b>10,058</b>	<b>8,215</b>	<b>9,593</b>

##### Allocated to:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Technical profit and loss account	7,798	9,156	7,798	9,156
Non-technical profit and loss account	833	902	417	437
	<b>8,631</b>	<b>10,058</b>	<b>8,215</b>	<b>9,593</b>

Total commission payable for direct business accounted for in the financial year amounted to €3.24m (2011: €4.19m). €2.01m of this charge arose on investment contracts (2011: €3.00m).

Finance costs payable on the subordinated loan amounting to €0.36m (2011: €0.36m) are included within administrative expenses. Further detail on administrative expenses is provided in Note 7 to these financial statements.

#### 4. Other information - technical account - continued

##### (v) Bonuses and rebates, net of reinsurance

An amount of €27.8m (2011: €16.4m) has been provided for as reversionary bonuses within technical provisions. Provision for reversionary bonuses for 2012 and 2011 is further analysed as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Insurance contracts	11,570	5,598
Investment contracts with DPF	16,214	10,824
	<b>27,784</b>	<b>16,422</b>

#### 5. Investment return

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Dividend income from shares in group undertaking	-	-	385	-
Rent receivable from investment property	3,362	3,300	3,362	3,300
Interest receivable from loans and receivables	3,950	4,045	3,946	4,043
Income from financial assets at fair value through profit or loss:				
- dividend income - associates	368	332	368	332
- dividend income - other	4,792	4,829	4,792	4,828
- other net fair value gains/(losses)	83,297	(4,077)	83,283	(4,063)
Net fair value gains on investment property	1,009	725	1,009	725
Direct operating expenses arising from investment property that generated rental income	(375)	(349)	(375)	(349)
Other investment income	845	-	845	-
Other investment expenses	(1,808)	(692)	(1,808)	(692)
<b>Total investment return</b>	<b>95,440</b>	<b>8,113</b>	<b>95,807</b>	<b>8,124</b>
Apportioned as follows:				
Technical profit and loss account	90,305	7,528	90,305	7,528
Non-technical profit and loss account	5,135	585	5,502	596
	<b>95,440</b>	<b>8,113</b>	<b>95,807</b>	<b>8,124</b>

## 6. Other technical income, net of reinsurance

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Investment management fees	405	483
Other	192	220
	<b>597</b>	<b>703</b>

## 7. Profit before tax

Profit before tax is stated after charging:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Employee benefit expense (Note 8)	2,574	2,271	2,486	2,181
Actuarial valuation fees	250	223	250	223
Depreciation/amortisation:				
- intangible assets (Note 13)	672	814	661	796
- property, plant and equipment (Note 14)	212	153	210	147
Impairment of intangible assets (Note 13)	225	225	225	225
Directors and officers insurance	46	49	46	49
Reimbursement of expenses for back office support services (Note 30)	46	151	46	151

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2012 and 2011 relate to the following:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Annual statutory audit	63	65	57	60
Other assurance services	1	2	1	2
Tax advisory and compliance services	14	11	14	11
	<b>78</b>	<b>78</b>	<b>72</b>	<b>73</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Annual statutory audit	53	53	53	53

## 8. Employee benefit expense

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Salaries	2,447	2,152	2,363	2,066
Social security costs	127	119	123	115
	<b>2,574</b>	<b>2,271</b>	<b>2,486</b>	<b>2,181</b>

The average number of persons employed during the year was:

	Group		Company	
	2012	2011	2012	2011
Key management	7	7	7	7
Managerial	8	9	8	9
Technical	52	51	50	49
Administrative	2	2	2	2
Average number of employees	<b>69</b>	<b>69</b>	<b>67</b>	<b>67</b>

## 9. Tax expense

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Current tax (credit)/expense	(596)	55	(534)	-
Deferred taxation charge (Note 19)	623	1,850	625	1,862
Tax expense	<b>27</b>	<b>1,905</b>	<b>91</b>	<b>1,862</b>

The tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Group's country of incorporation, are reconciled as follows:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Profit before tax	15,977	5,434	16,164	5,320
Tax profit at 35%	5,592	1,902	5,657	1,862
Tax effect of:				
Property withholding tax at 12%	(113)	171	(113)	171
Net exempt income and expenses (after impact of tax credits not recognised in prior years)	(1,150)	(43)	(1,151)	(44)
Current and deferred tax effect of certain expenses treated as non-deductible in prior years	(1,782)	-	(1,782)	-
Effect of deferred tax adjustments connected to the sale of investments	(2,452)	-	(2,452)	-
Other differences	(68)	(125)	(68)	(127)
Income tax expense	<b>27</b>	<b>1,905</b>	<b>91</b>	<b>1,862</b>



## 10. Directors' emoluments

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Directors' fees	<b>50</b>	<b>39</b>

The Company has paid insurance premiums of €2,000 during the year (2011: €2,000) in respect of insurance cover in favour of its directors.

## 11. Earnings per share

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

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
Net profit attributable to shareholders (€'000)	<b>15,950</b>	<b>3,529</b>
Weighted average number of ordinary shares in issue	<b>21,900,000</b>	<b>21,900,000</b>
Earnings per share (€)	<b>72c8</b>	<b>16c1</b>

## 12. Dividends

At the forthcoming Annual General Meeting, a net dividend in respect of 2012 of 36c7 per share, amounting to a total net dividend of €8.04m is to be proposed. The final dividend declared in respect of 2011 was €1.73m representing 7c9 per share.

### 13. Intangible assets

Group	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
<b>At 31 December 2010</b>				
Cost or valuation	42,533	6,528	2,976	52,037
Accumulated amortisation	-	(4,673)	(1,644)	(6,317)
Net book amount	<b>42,533</b>	<b>1,855</b>	<b>1,332</b>	<b>45,720</b>
<b>Year ended 31 December 2011</b>				
Opening net book amount	42,533	1,855	1,332	45,720
Decrease in value of in-force business credited to reserves (Note 23)	(767)	-	-	(767)
Additions	-	271	35	306
Amortisation charge	-	(580)	(234)	(814)
Impairment charge	-	(225)	-	(225)
Closing net book amount	<b>41,766</b>	<b>1,321</b>	<b>1,133</b>	<b>44,220</b>
<b>At 31 December 2011</b>				
Cost or valuation	41,766	6,799	3,011	51,576
Accumulated amortisation and impairment	-	(5,478)	(1,878)	(7,356)
Net book amount	<b>41,766</b>	<b>1,321</b>	<b>1,133</b>	<b>44,220</b>
<b>Year ended 31 December 2012</b>				
Opening net book amount	41,766	1,321	1,133	44,220
Increase in value of in-force business credited to reserves (Note 23)	3,951	-	-	3,951
Additions	-	387	21	408
Amortisation charge	-	(448)	(224)	(672)
Impairment charge	-	(225)	-	(225)
Closing net book amount	<b>45,717</b>	<b>1,035</b>	<b>930</b>	<b>47,682</b>
<b>At 31 December 2012</b>				
Cost or valuation	45,717	7,186	3,032	55,935
Accumulated amortisation and impairment	-	(6,151)	(2,102)	(8,253)
Net book amount	<b>45,717</b>	<b>1,035</b>	<b>930</b>	<b>47,682</b>

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

Amortisation of €0.40m (2011: €0.46m) is included in acquisition costs and €0.27m (2011: €0.35m) is included in administration expenses.

### 13. Intangible assets - continued

Company	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
<b>At 31 December 2010</b>				
Cost or valuation	42,533	6,258	2,976	51,767
Accumulated amortisation	-	(4,434)	(1,644)	(6,078)
Net book amount	<b>42,533</b>	<b>1,824</b>	<b>1,332</b>	<b>45,689</b>
<b>Year ended 31 December 2011</b>				
Opening net book amount	42,533	1,824	1,332	45,689
Decrease in value of in-force business debited to reserves (Note 23)	(767)	-	-	(767)
Additions	-	271	35	306
Amortisation charge	-	(562)	(234)	(796)
Impairment charge	-	(225)	-	(225)
Closing net book amount	<b>41,766</b>	<b>1,308</b>	<b>1,133</b>	<b>44,207</b>
<b>At 31 December 2011</b>				
Cost or valuation	41,766	6,529	3,011	51,306
Accumulated amortisation and impairment	-	(5,221)	(1,878)	(7,099)
Net book amount	<b>41,766</b>	<b>1,308</b>	<b>1,133</b>	<b>44,207</b>
<b>Year ended 31 December 2012</b>				
Opening net book amount	41,766	1,308	1,133	44,207
Increase in value of in-force business credited to reserves (Note 23)	3,951	-	-	3,951
Additions	-	387	21	408
Amortisation charge	-	(437)	(224)	(661)
Impairment charge	-	(225)	-	(225)
Closing net book amount	<b>45,717</b>	<b>1,033</b>	<b>930</b>	<b>47,680</b>
<b>At 31 December 2012</b>				
Cost or valuation	45,717	6,916	3,032	55,665
Accumulated amortisation and impairment	-	(5,883)	(2,102)	(7,985)
Net book amount	<b>45,717</b>	<b>1,033</b>	<b>930</b>	<b>47,680</b>

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

Amortisation of €0.40m (2011: €0.45m) is included in acquisition costs and €0.26m (2011: €0.34m) is included in administration expenses.

Fully amortised assets that were still in use for the Group and Company as at the financial year end amounted to €3.8m (2011: €3.1m).

### 13. Intangible assets - continued

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 value of in-force business 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 €m	Impact on value of in-force business 2011 €m
Investment return	+1.00%	5.5	5.5
Investment return	-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

## 14. Property, plant and equipment

Group	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Total €'000
<b>At 31 December 2010</b>				
Cost	314	338	1,457	2,109
Accumulated depreciation	-	(41)	(1,052)	(1,093)
Net book account	<b>314</b>	<b>297</b>	<b>405</b>	<b>1,016</b>
<b>Year ended 31 December 2011</b>				
Opening net book amount	314	297	405	1,016
Additions	169	445	481	1,095
Disposals	-	(141)	(282)	(423)
Depreciation charge	-	(29)	(124)	(153)
Depreciation released on disposals	-	22	200	222
Closing net book amount	<b>483</b>	<b>594</b>	<b>680</b>	<b>1,757</b>
<b>At 31 December 2011</b>				
Cost	483	642	1,656	2,781
Accumulated depreciation	-	(48)	(976)	(1,024)
Net book amount	<b>483</b>	<b>594</b>	<b>680</b>	<b>1,757</b>
<b>Year ended 31 December 2012</b>				
Opening net book amount	483	594	680	1,757
Additions	84	-	285	369
Transfer from land and buildings - investment property (Note 15)	3,328	-	-	3,328
Disposals	-	(11)	-	(11)
Depreciation charge	-	(54)	(158)	(212)
Closing net book amount	<b>3,895</b>	<b>529</b>	<b>807</b>	<b>5,231</b>
<b>At 31 December 2012</b>				
Cost	3,895	631	1,941	6,467
Accumulated depreciation	-	(102)	(1,134)	(1,236)
Net book amount	<b>3,895</b>	<b>529</b>	<b>807</b>	<b>5,231</b>

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. Fully depreciated assets that were still in use at the year-end amounted to €0.4m (2011: €0.4m).

#### 14. Property, plant and equipment - continued

Company	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Total €'000
<b>At 31 December 2010</b>				
Cost	314	333	1,355	2,002
Accumulated depreciation	-	(40)	(959)	(999)
Net book amount	<b>314</b>	<b>293</b>	<b>396</b>	<b>1,003</b>
<b>Year ended 31 December 2011</b>				
Opening net book amount	314	293	396	1,003
Additions	169	445	481	1,095
Disposals	-	(136)	(249)	(385)
Depreciation charge	-	(29)	(118)	(147)
Depreciation released on disposals	-	21	168	189
Closing net book amount	<b>483</b>	<b>594</b>	<b>678</b>	<b>1,755</b>
<b>At 31 December 2011</b>				
Cost	483	642	1,587	2,712
Accumulated depreciation	-	(48)	(909)	(957)
Net book amount	<b>483</b>	<b>594</b>	<b>678</b>	<b>1,755</b>
<b>Year ended 31 December 2012</b>				
Opening net book amount	483	594	678	1,755
Additions	84	-	285	369
Transfer from land and buildings – investment property (Note 15)	3,328	-	-	3,328
Disposals	-	(11)	-	(11)
Depreciation charge	-	(54)	(156)	(210)
Closing net book amount	<b>3,895</b>	<b>529</b>	<b>807</b>	<b>5,231</b>
<b>At 31 December 2012</b>				
Cost	3,895	631	1,872	6,398
Accumulated depreciation	-	(102)	(1,065)	(1,167)
Net book amount	<b>3,895</b>	<b>529</b>	<b>807</b>	<b>5,231</b>

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. Fully depreciated assets that were still in use at the year-end amounted to €0.4m (2011: €0.4m).

## 15. Investment property

	Group and Company €'000
<b>At 31 December 2010</b>	
Cost	39,503
Accumulated fair value gains	19,726
Net book amount	<u>59,229</u>
<b>Year ended 31 December 2011</b>	
Opening net book amount	59,229
Additions	102
Net fair value gains	723
Closing net book amount	<u>60,054</u>
<b>At 31 December 2011</b>	
Cost	39,605
Accumulated fair value gains	20,449
Net book amount	<u>60,054</u>
<b>Year ended 31 December 2012</b>	
Opening net book amount	60,054
Additions	17,073
Transfer to tangible assets – property, plant and equipment (Note 14)	(3,328)
Net fair value gains	1,009
Closing net book amount	<u>74,808</u>
<b>At 31 December 2012</b>	
Cost	53,350
Accumulated fair value gains	21,458
Net book amount	<u>74,808</u>

The investment properties are valued annually on 31 December at fair value as determined by an independent valuation expert.

## 16. Investment in group undertaking

	Company €'000
<b>Year ended 31 December 2011</b>	
Opening and closing net book amount	<u>466</u>
<b>Year ended 31 December 2012</b>	
Opening and closing net book amount	<u>466</u>

## 16. Investment in group undertaking - continued

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2012 & 2011
Growth Investments Limited	Development House Piazza Papa Giovanni XXIII Floriana, FRN 1402	Ordinary shares	100%

## 17. Investments in associated undertakings

	Group and Company €'000
<b>At 31 December 2010</b>	
Cost	5,129
Accumulated net fair value gains	674
Net book amount	<u>5,803</u>
<b>Year ended 31 December 2011</b>	
Opening net book amount	5,803
Net fair value gains	270
Closing net book amount	<u>6,073</u>
<b>At 31 December 2011</b>	
Cost	5,129
Accumulated net fair value gains	944
Net book amount	<u>6,073</u>
<b>Year ended 31 December 2012</b>	
Opening net book amount	6,073
Net fair value losses	(93)
Closing net book amount	<u>5,980</u>
<b>At 31 December 2012</b>	
Cost	5,129
Accumulated net fair value gains	851
Net book amount	<u>5,980</u>



## 17. Investments in associated undertakings - continued

The associates at 31 December are shown below:

Associated undertakings	Registered office	Class of shares held	Percentage of shares held 2012 & 2011
Premium Realty Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	25%
Church Wharf Properties Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	28.36%

## 18. 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	963,865	852,387	963,860	852,145
Loans and receivables	137,125	177,612	137,125	177,612
	<b>1,100,990</b>	<b>1,029,999</b>	<b>1,100,985</b>	<b>1,029,757</b>

### (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	239,937	236,715	239,932	236,592
Debt securities	629,474	526,483	629,474	526,364
Assets held to cover linked liabilities - collective investment schemes	94,261	89,189	94,261	89,189
Forward foreign exchange contracts	193	-	193	-
Total investments at fair value through profit or loss	<b>963,865</b>	<b>852,387</b>	<b>963,860</b>	<b>852,145</b>

## 18. Other investments - continued

### (a) Investments at fair value through profit or loss - continued

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

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

Equity securities and collective investments schemes are considered to be substantially non-current assets in nature. The maturity of fixed income debt securities is detailed below:

	Group		Company	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Within one year	12,599	7,094	12,599	6,974
Between 1 and 2 years	55,850	42,480	55,850	42,480
Between 2 and 5 years	153,096	153,064	153,096	153,064
Over 5 years	407,929	323,845	407,929	323,846
	<b>629,474</b>	<b>526,483</b>	<b>629,474</b>	<b>526,364</b>

## 18. Other investments - continued

### (a) Investments at fair value through profit or loss - continued

The movements for the year are summarised as follows:

	Group €'000	Company €'000
<b>At 31 December 2010</b>		
Cost	802,051	801,826
Accumulated net fair value gains	54,796	54,760
Net book amount	<b>856,847</b>	<b>856,586</b>
<b>Year ended 31 December 2011</b>		
Opening net book amount	856,847	856,586
Additions	416,287	416,283
Disposals	(389,150)	(389,147)
Net fair value losses	(31,786)	(31,766)
Closing net book amount	<b>852,198</b>	<b>851,956</b>
<b>At 31 December 2011</b>		
Cost	829,023	828,794
Accumulated net fair value gains	23,175	23,162
Net book amount	<b>852,198</b>	<b>851,956</b>
<b>Year ended 31 December 2012</b>		
Opening net book amount	852,198	851,956
Additions	449,775	449,773
Disposals	(390,074)	(389,835)
Net fair value gains	51,951	51,951
Closing net book amount	<b>963,850</b>	<b>963,845</b>
<b>At 31 December 2012</b>		
Cost	888,737	888,732
Accumulated net fair value gains	75,113	75,113
Net book amount	<b>963,850</b>	<b>963,845</b>

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

**18. Other investments - continued**

*(b) Loans and receivables*

Analysed by type of investment as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Deposits with banks or credit institutions	<b>125,717</b>	165,993
Loans secured on policies	<b>10,671</b>	11,619
Other loan	<b>737</b>	-
	<b>137,125</b>	177,612

Maturity of deposits with bank or credit institutions:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Within 3 months	<b>1,746</b>	91,339
Within 1 year but exceeding 3 months	<b>118,971</b>	69,654
Between 1 and 5 years	<b>5,000</b>	5,000
	<b>125,717</b>	165,993

The above deposits earn interest as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
At floating rates	<b>1,746</b>	823
At fixed rates	<b>123,971</b>	165,170
	<b>125,717</b>	165,993

As at 31 December 2012, an amount of €0.31m (2011: €0.06m) included within deposits with banks or credit institutions was held in a margin account as collateral against exchange traded futures.

## 18. Other investments - continued

### (b) Loans and receivables - continued

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

#### Group and Company

	Loans secured on policies €'000	Other loan €'000	Reinsurance loan €'000	Total €'000
<b>Year ended 31 December 2011</b>				
Opening net book amount	12,170	-	1,514	13,684
Additions	1,491	-	-	1,491
Disposals (sales and redemptions)	(2,042)	-	(1,514)	(3,556)
Closing net book amount	<b>11,619</b>	-	-	<b>11,619</b>
<b>Year ended 31 December 2012</b>				
Opening net book amount	11,619	-	-	11,619
Additions	2,032	737	-	2,769
Disposals (sales and redemptions)	(2,980)	-	-	(2,980)
Closing net book amount	<b>10,671</b>	<b>737</b>	-	<b>11,408</b>

The above loans earn interest at fixed rates.

## 19. Deferred income tax

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Balance at 1 January	(6,986)	(5,136)	(6,984)	(5,122)
Movement during the year:				
Profit and loss account (Note 9)	(623)	(1,850)	(625)	(1,862)
<b>Balance at 31 December (net)</b>	<b>(7,609)</b>	<b>(6,986)</b>	<b>(7,609)</b>	<b>(6,984)</b>

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.

## 19. Deferred income tax - continued

The analysis of deferred tax assets/(liabilities) is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Temporary differences attributable to investment property	(6,468)	(6,233)	(6,468)	(6,233)
Temporary differences attributable to fair value adjustments on financial investments	(14,899)	(2,660)	(14,899)	(2,662)
Temporary differences attributable to property, plant and equipment	(227)	(195)	(227)	(191)
Temporary differences attributable to unabsorbed tax credits	13,985	2,102	13,985	2,102
<b>Balance at 31 December (net)</b>	<b>(7,609)</b>	<b>(6,986)</b>	<b>(7,609)</b>	<b>(6,984)</b>

Movements in the amounts disclosed in the table above are recognised in the profit and loss account.

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Deferred tax liability	(7,609)	(6,986)	(7,609)	(6,984)
	<b>(7,609)</b>	<b>(6,986)</b>	<b>(7,609)</b>	<b>(6,984)</b>

The directors consider that the above temporary differences are substantially non-current in nature.

Unutilised tax credits available for relief against future taxable income amounted to €2.5m as at 31 December 2011, with a deferred tax impact of €0.8m which had not been recognised in these financial statements. As at 31 December 2012, the deferred tax impact of all unutilised tax credits has been recognised in these financial statements. The Group's deferred tax liability was established on the basis of tax rates that were substantively enacted as at the financial year end.

## 20. Debtors and prepayments and accrued income

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
<b>Debtors</b>				
Amount due from group undertaking (Note 30)	-	-	237	126
Amount due from immediate parent company (Note 30)	-	26	-	26
	-	26	237	152
<b>Prepayments and accrued income</b>				
Accrued interest and rent	12,145	12,007	12,020	11,951
Other prepayments and accrued income	595	399	595	328
	12,740	12,406	12,615	12,279

All of the above receivables are considered to be current in nature.

## 21. Cash and cash equivalents

For the purposes of the cash flow statements, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
Cash at bank and in hand	11,541	6,078	10,731	5,576

Deposits held with banks included in cash at bank and in hand, earn interest as follows:

	Group		Company	
	2012	2011	2012	2011
	€'000	€'000	€'000	€'000
At floating rates	9,982	5,010	9,392	4,595

## 22. Share capital

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
<b>Authorised</b>		
24,000,000 Ordinary shares of €2.50 each	<b>60,000</b>	60,000
<b>Issued and fully paid</b>		
21,900,000 Ordinary shares of €2.50 each	<b>54,750</b>	54,750

## 23. Other reserves

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
<b>Value of in-force business</b>		
Balance at 1 January	<b>35,593</b>	36,360
Increase/(decrease) in value of in-force business (Note 13)	<b>3,951</b>	(767)
Balance at 31 December	<b>39,544</b>	35,593

The above reserve is non-distributable.



**24. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions**

**(i) Insurance contracts**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Gross technical provisions		
- claims outstanding	1,375	766
- long term business provision	420,657	387,927
	<b>422,032</b>	<b>388,693</b>
Reinsurers' share of technical provisions		
- claims outstanding	428	228
	<b>428</b>	<b>228</b>
Net technical provisions		
- claims outstanding	947	538
- long term business provision	420,657	387,927
	<b>421,604</b>	<b>388,465</b>

Movements are as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2012</b>
	<b>€'000</b>	<b>€'000</b>
	<b>Gross</b>	<b>Reinsurance</b>
<b>Year ended 31 December</b>		
At beginning of year	388,693	228
Charge/credit to the profit and loss account	33,339	200
At end of year	<b>422,032</b>	<b>428</b>

	<b>Group and Company</b>	
	<b>2011</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
	<b>Gross</b>	<b>Reinsurance</b>
<b>Year ended 31 December</b>		
At beginning of year	385,722	3,375
Charge to the profit and loss account	2,971	(3,147)
At end of year	<b>388,693</b>	<b>228</b>

The above liabilities are substantially non-current in nature.

**24. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers’ share of technical provisions - continued**

(ii) Investment contracts with DPF

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

Movements are as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
<b>Year ended 31 December</b>		
At beginning of year	<b>585,748</b>	547,096
Charge to the profit and loss account	<b>47,645</b>	38,652
At end of year	<b>633,393</b>	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.

(a) *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.

**24. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions - continued**

*(a) 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 Company's cost base.

*Minimum reserve*

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

*Mortality*

The Company makes reference to AMC00 (2011: AM80) tables.

*(b) 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 during 2012 to adopt the AMC00 standard tables. The effect of this change on the technical provisions was not material.

**24. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers’ share of technical provisions - continued**

*(c) 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 3. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Company’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 Company’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.

**25. Technical provisions – investment contracts without DPF**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Long term business provision	<b>61,932</b>	60,204
Claims outstanding	<b>95</b>	134
	<b>62,027</b>	60,338

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

**26. Subordinated loan**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Subordinated loan	<b>6,000</b>	6,000

On 11 May 2010, the Company entered into a subordinated loan agreement with Bank of Valletta p.l.c. Interest is charged at a floating rate of 5.70% (2011: 5.70%) per annum. As at 31 December 2012, the undrawn borrowing facility amounts to €4m.

The loan is repayable between seven to ten years from the first drawdown date.

## 27. Creditors and accruals and deferred income

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Creditors</b>				
Creditors arising out of direct insurance operations	2,244	3,134	2,244	3,134
Amount owed to immediate parent company (Note 30)	46	-	46	-
Indirect taxation	363	649	363	649
Other creditors	47	24	-	-
	<b>2,700</b>	<b>3,807</b>	<b>2,653</b>	<b>3,783</b>
<b>Accruals and deferred income</b>				
Accruals	1,399	1,191	1,381	1,176
Deferred income	499	500	499	500
	<b>1,898</b>	<b>1,691</b>	<b>1,880</b>	<b>1,676</b>
<b>Total liabilities</b>	<b>4,598</b>	<b>5,498</b>	<b>4,533</b>	<b>5,459</b>
<b>Current</b>	<b>4,410</b>	<b>5,287</b>	<b>4,345</b>	<b>5,248</b>
<b>Non-current</b>	<b>188</b>	<b>211</b>	<b>188</b>	<b>211</b>
	<b>4,598</b>	<b>5,498</b>	<b>4,533</b>	<b>5,459</b>

Deferred income 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.

## 28. Note to the cash flow statements

Reconciliation of profit before tax to cash generated from operations:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Profit before tax	<b>15,977</b>	5,434	<b>16,164</b>	5,320
Adjusted for:				
Amortisation (Note 13)	<b>672</b>	814	<b>661</b>	796
Impairment charge (Note 13)	<b>225</b>	225	<b>225</b>	225
Depreciation (Note 14)	<b>212</b>	153	<b>210</b>	147
Investment return	<b>(100,862)</b>	(905)	<b>(101,237)</b>	(922)
Loss on sale of tangible assets	-	85	-	80
Movement in:				
Technical provisions	<b>82,473</b>	34,114	<b>82,473</b>	34,114
Debtors, prepayments and accrued income	<b>(149)</b>	5	<b>(262)</b>	(40)
Creditors, accruals and deferred income	<b>(900)</b>	(1,028)	<b>(926)</b>	(1,044)
<b>Cash (used in)/generated from operations</b>	<b>(2,352)</b>	38,897	<b>(2,692)</b>	38,676

## 29. Commitments

### *Capital commitments*

Commitments for capital expenditure not provided for in these financial statements are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Authorised and not contracted:				
- property, plant and equipment	<b>996</b>	678	<b>996</b>	678
- intangible assets	-	1,618	-	1,618
	<b>996</b>	2,296	<b>996</b>	2,296
Authorised and contracted:				
- intangible assets	<b>1,352</b>	-	<b>1,352</b>	-

## 29. Commitments - continued

### *Operating lease commitments – where the Company is the lessor*

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

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Not later than 1 year	3,334	2,696
Later than 1 year and not later than 5 years	5,651	3,894
Later than 5 years	878	203
	<b>9,863</b>	<b>6,793</b>

Investment property includes properties valued at €4.18m (2011: €4.47m) 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.

## 30. Related party transactions

In the normal course of business, the Group enters into various transactions with related parties.

On 31 July 2011, Middlesea Insurance p.l.c. obtained *de facto* control over the Company without acquiring a further interest in the acquiree. Control was acquired by virtue of a shareholders' agreement following the change in shareholding in Middlesea Insurance p.l.c. during the year, which resulted in Mapfre Internacional S.A.(the "intermediate parent") acquiring a controlling interest in Middlesea Insurance p.l.c. From this date, MSV Life p.l.c. was classified as a subsidiary of Middlesea Insurance p.l.c.

Transactions with related parties during the year include, amongst others, transactions with Middlesea Insurance p.l.c. (immediate parent) and the Bank of Valletta p.l.c. Group (other related parties). The Bank is a related party in light of its shareholding in the Company.

### 30. Related party transactions - continued

Relevant particulars of related party transactions are as follows:

#### (a) Sale of insurance contracts and other services

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Transactions with parent undertaking:				
Commission received	39	-	39	-
Transactions with the Company's subsidiary:				
Trailer fees receivable	-	-	149	159
Management fees	-	-	62	60
Transactions with other related parties:				
Trailer fees receivable	15	16	15	16
Rental income on investment property	58	52	58	52

#### (b) Purchase of products and services

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Transactions with the immediate parent undertaking:				
Rent payable	70	40	70	40
Purchase of insurance cover and other services	92	133	92	133
Reimbursement of expenses for back office support services (Note 7)	46	151	46	151
Transactions with parent undertaking:				
Reinsurance premium ceded	119	-	119	-
Transactions with the Company's subsidiary:				
Investment transaction costs	-	-	30	30
Transactions with other related parties:				
Acquisition costs payable	2,184	2,952	2,184	2,952
Bank charges	41	38	33	30
Interest payable on subordinated loan	346	358	346	358
Hosting of IT server	4	13	4	13



### 30. Related party transactions - continued

#### (c) Investments

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Investments in securities issued by other related parties	<b>14,894</b>	13,945
Deposits held with other related parties	<b>109,419</b>	120,439
	<b>124,313</b>	134,384
Investment return, net of expenses and other charges: - other related parties	<b>4,342</b>	3,900

Further to the above, details of dividend income receivable from the Company's subsidiary are provided in Note 5 to these financial statements.

Year end receivables/(payables) arising from the above and other transactions are presented below:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Amount due from subsidiary (Note 20)	-	-	237	126
Amount due from immediate parent company (Note 20)	-	26	-	26
Accrued income from other related parties	<b>482</b>	513	<b>482</b>	513
Subordinated loan - other related parties (Note 26)	<b>(6,000)</b>	(6,000)	<b>(6,000)</b>	(6,000)
Creditors arising out of direct insurance operations – other related parties	<b>(156)</b>	(257)	<b>(158)</b>	(259)
Amounts owed to immediate parent company (Note 27)	<b>(46)</b>	-	<b>(46)</b>	-
Accruals and deferred income from other related parties	<b>(87)</b>	(92)	<b>(87)</b>	(92)
Creditors arising out of insurance operations – parent undertaking	<b>(22)</b>	-	<b>(22)</b>	-

All the amounts receivable or payable are unsecured and interest free, except for the subordinated loan (Note 26).

Total salary remuneration paid by the Group to key management personnel during the year amount to €0.65m (Company: €0.61m). Corresponding figures for 2011 were €0.61m and €0.57m respectively.

**31. Statutory information**

MSV Life p.l.c. is a public limited liability company and is incorporated in Malta.

Middlesea Insurance p.l.c. (the “immediate parent”) is a company registered in Malta, the registered office of which is Middle Sea House, Floriana, FRN 1442, Malta.

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

**32. Comparative information**

Comparative figures disclosed in certain notes of these financial statements have been reclassified to conform with the current year’s presentation format for the purpose of fairer presentation.