

2013

**Annual Report
& Financial Statements**

MIDDLESEA
A MEMBER OF THE  **MAPFRE** GROUP

MIDDLESEA

A MEMBER OF THE  MAPFRE GROUP

CONTENTS

- 02 Mission Statement
- 03 Chairman's Statement
- 06 President & Chief Executive Officer's Statement
- 09 Board of Directors & Company Secretary
- 11 Head Offices, Branches and Agencies
- 12 Professional Services
- 13 Directors' Report
- 16 Corporate Governance – Statement of Compliance
- 26 Remuneration Committee's Statement to the Shareholders
- 29 Independent Auditor's Report
- 31 Profit and Loss Accounts
Technical Accounts – General Business
- 32 Profit and Loss Accounts
Technical Accounts – Long Term Business
- 33 Profit and Loss Accounts
Non-Technical Accounts
- 34 Statements of Comprehensive Income
- 35 Statements of Financial Position
- 37 Statements of Changes in Equity
- 41 Statements of Cash Flows
- 42 Notes to the Financial Statements



GROUP MISSION STATEMENT

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

BUSINESS PHILOSOPHY

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

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

We embrace Professionalism and seek Excellence in everything we do.

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



CHAIRMAN'S STATEMENT

CHAIRMAN'S REPORT

In my report to the shareholders last year I stated that we had enjoyed extraordinary results and said that these should be seen as such. I am pleased to report that the Group profit before tax in 2013 amounted to €17.3m compared to €18.0m in 2012. These results were achieved on the back of a strong pure technical underwriting result registered by Middlesea Insurance p.l.c. ("Middlesea") as well as good technical and investment returns registered by MSV Life p.l.c. ("MSV"). The result is all the more credible after considering the loss of the Company's largest agency – Allcare, in early 2013, which accounted for around 18.4% of the Company's total premium income in 2012

DIVIDENDS

Last year I also reported that the Company was committed to giving an adequate return to shareholders. We remain committed to this aim and having regard to the Company's funding and solvency requirements, your Board is proposing a net dividend of €3,520,000 (2012: €1,745,000) translating into a gross dividend of €4,140,222 (2012 €2,300,000).

GLOBAL ECONOMIC ENVIRONMENT

During 2013, the crisis that rocked the Eurozone and much of the world continued for most of the year. Today we are seeing some optimism as the Eurozone countries slowly move out of recession and back into growth. The gains are however small, and it is unlikely that there will be marked improvements in the short term.

This has made seeking out investment returns from traditional lower risk sources more challenging and insurance companies generally have had to deal with lower investment income or venture into riskier waters. On the claims side, extraordinary climatic conditions, which now seem to be becoming more and more regular have hit the industry in an area which was traditionally very profitable.

Regulators too have struggled to impose Europe-wide regulations in a bid to ensure that what brought about the failures of 2008, primarily within the banking sector, will not re-occur. This has resulted in a welter of complex proposals covering governance and reporting, as well as risk and potential liability calculations, which are set to enter statute books in the near future. The implications are far reaching and companies have had to invest considerable energy and resources in preparing for Solvency II – the principal legislation which is set to govern the industry, and which is expected to become law in 2016.

THE MALTESE MARKET

The Maltese market remains overcrowded and in spite of Malta being one of the lowest insured countries, it is experiencing very low growth rates. This low growth means that with additional players in the market, there is considerable downward pressure on premium rates as companies seek to increase or retain market share. The Company will not fall into the trap of writing new or retaining existing business at

any cost. Rates must reflect the level of risk the Company is prepared to assume. Customers will know that it is not only the premium cost which needs to be taken into consideration when purchasing a policy, but also the peace of mind when a claim is made as well as the professionalism and efficiency of the service provided. I will report that the Group has significant capital and reserves as well as a robust reinsurance programme to provide this peace of mind.

INVESTMENT

The Company continues to invest very heavily in human resources, IT, customer service and product development. Your Board sees this as crucial if the Company is to survive and flourish in what is an increasingly competitive market. As part of the Mapfre Group, our employees benefit from specialised intra-Group training programmes. This year our employees have benefitted from an average of one week's training, up from just a few hours a couple of years ago. This will improve the skills of our staff on which we depend to deliver a first class service to our customers.

The Company continues to invest heavily in IT with the migration of systems to a new Group platform. This is a medium term project which will ensure that the Company has a more robust and flexible platform which will enhance its capability to deliver information in the format it is needed and in a more automated way. This is all the more important when extracting and interpreting data

CHAIRMAN'S STATEMENT

for decision making and reporting purposes.

The Company is also and will keep on investing in new products although take up in the market remains slow, with the main sales of insurance products remaining those required by law or for financing purposes. The Company has also continued to invest in the service it provides to our customers including local and European Roadside Assistance and Home Emergency Assistance through Middlesea Assist, the use of our call centre for 24/7 claims assistance, and other innovative programmes that our customers benefit from.

MAPFRE

Middlesea forms part of the Mapfre Group and we are a subsidiary of Mapfre Internacional S.A.. Mapfre have recently implemented some far-reaching changes to its operational structure which I believe are of interest to all shareholders since it steps up the support it is able to provide its subsidiaries around the world.

Antonio Huertas, Mapfre's Chairman and CEO outlined his vision of the new organisational structure; 'This new model has at its core a simplification of our structure, which will not only allow us to make better use of all organisational resources, but also represents a better distribution of competencies among both business and corporate areas across the group companies'.

Mapfre remains a global player in the insurance world, being represented in 47 countries and having a

consolidated global turnover in excess of €25.89 billion and attributable profits after tax of €790.5 million.

Some of the benefits we currently enjoy include advice and assistance on reinsurance where we have registered substantial cost savings. I have already mentioned that we receive considerable assistance in IT where, compared to the current costs of the existing system, we should be able to reap additional savings for an updated computer system. The Group has also benefited from training programmes, assistance on product development and Human Resource support.

Bank of Valletta remains a significant shareholder in the Group, owning 31.08% of Middlesea and 50% of MSV. Its importance to the Group is underlined by the business it generates, principally for MSV. This synergy has allowed the group to grow over the years and remains a pillar of its strategy into the future. Good representation on the board ensures that the Bank participates fully in the development of this strategy.

DISTRIBUTION NETWORK

Most of Middlesea's business is produced by the professional and extensive efforts of its distribution network. I can report that we retain the trust and loyalty of our agents, tied insurance intermediaries and independent insurance brokers and on our part we are developing new strategies, improved support systems and incentives to assist them. We understand very well that we need to continue to offer a great service to them at competitive prices if we expect

them to achieve their own growth targets. We also need to innovate and remain ahead of the market with new products, new marketing initiatives as well as innovative ways of accessing the market. We remain in constant communication with them and on behalf of myself, the Directors and the President and CEO I would like to thank them for their efforts during 2013, which have yielded such good returns.

INTERNATIONAL

As you are very aware the Company pulled out of its international ventures in 2011. Gibraltar remains in run off, whilst the international reinsurance portfolio written in London also ceased operations in 2000 and has remained in runoff since, as claims are settled and liabilities closed. The provisions remain adequate and all foreseeable liabilities are provided for.

Progress Assicurazioni s.p.a. was put in liquidation in February 2011. I have no news to report other than to reiterate that we believe the Company to be protected from any further liabilities or claims.

CORPORATE SOCIAL RESPONSIBILITY

In line with its Corporate Social Responsibility (CSR) objectives, which are underlined by our commitment to help the local community, the Company supported a range of activities and initiatives in the areas of education, culture and philanthropy. Once again the involvement of Fundacion Mapfre was a highlight of our CSR programme. Throughout the scholastic year, Middlesea implemented a Healthy

CHAIRMAN'S STATEMENT

Living Campaign in schools across Malta with the aim of raising awareness of the benefits of healthy eating.

For the fifth year running, Middlesea continued to support the Insurance Major within the Bachelor of Commerce course at the University of Malta, which was originally set up with the support of the Company. The aim of this initiative is to offer tertiary education to those interested in pursuing insurance as a career. Middlesea once again supported the Malta Community Chest Fund through its participation in Paqpaqli għall-Istrina. As in previous years, the Middlesea Group supported the efforts of the Inspire Foundation by offering employment to a number of people with disabilities.

GOVERNANCE AND RISK

Middlesea remains prudent in its attitude towards risk. It sees itself as a long term player, adopting industry best practice with a prudent approach to business and investment. This is in congruence with Group practice at an international level. During the year the board reviewed a number of policies, and introduced others which reflect this practice and which we believe augers well for the long term growth of the business.

DIRECTORS

Last year John Cassar White and Charles Borg, Chairman and Chief Executive Officer respectively of Bank of Valletta p.l.c. were elected to the Board. They have brought a wealth of commercial experience with them as well as a good insight to the local market. They replace Frederick Mifsud Bonnici and Tonio Depasquale who I would like to thank for their loyalty, guidance and advice provided during their tenure.

CONCLUSION

Much of the Company's success depends on the management and staff. I join the Board in thanking the President and CEO , Alfredo Muñoz Perez and his management team for their energy and wholehearted efforts in driving the Company forward, as well as to all the staff who continue to provide an excellent and professional service to our customers. Through their efforts we have been able to report a successful year and look to 2014 and the challenges it will bring with renewed confidence.



MARTIN GALEA
CHAIRMAN
MIDDLESEA INSURANCE P.L.C.

13 MARCH 2014

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MIDDLESEA GROUP HIGHLIGHTS - 2013

2013 was another positive year for the Middlesea Group. The Life operations, primarily business generated by MSV Life p.l.c. ("MSV"), performed very well attaining high profits in line with 2012. This was achieved through the excellent performance of the investment portfolio and at the same time by much higher written premiums.

On the Non-Life side Middlesea Insurance p.l.c. ("Middlesea") successfully managed to overcome the loss of its largest agency (which was converted into a new insurance company) without any relevant impact on profitability. During 2013 Middlesea managed to secure significant new business and improved the pure technical result.

Financial aspects aside, the Group implemented a number of initiatives in different areas. These included business development, client relationships, internal processes and optimisation of resources. These developments contribute to the attainment of long-lasting benefits in a market that demands continuous improvement in operational efficiencies to cater for the ever-declining premium rates and increasing client demands.

Apart from the Group's two insurance companies, the consolidated statements include the share of the profits of other subsidiaries and affiliated companies like Bee Insurance Management Limited, Middlesea Assist Ltd and Growth Investments Ltd in part acquired from operations with third party clients and intragroup services.

GENERAL BUSINESS

The gross premiums written under the General Business technical account decreased by 11%. This was primarily the result of the loss of the above-mentioned agency which during 2012 accounted for 18.4% of the Company's total general business portfolio.

Notwithstanding this and the fierce competition in the local market that is continuously pushing down premium rates, Middlesea wrote a reasonable volume of new business to overcome these circumstances.

Excluding the impact arising out of the loss of the agency, sales increased across all distribution channels. This was in line with the company's strategy to assist our entire distribution network to meet its goals. Furthermore, we also managed to implement a more balanced distribution of our sources of business.

All classes of business are represented through our extensive product portfolio allowing Middlesea to offer wide-ranging solutions to our increasing customer base. Although the number of policies on our books (excluding the loss of the said agency portfolio) increased by more than 11%, our portfolio mix is almost identical to that of our market. This clearly implies the adequacy of the required spread and balance in the type of business that we write.

Earned premiums net of reinsurance, increased by 4% as lower reinsurance cessions outweighed the loss of earned premiums resulting from the loss of the agency. This was possible because of the Company's strong capitalisation that allows us to manage and maintain higher risk-retention levels. Net claims incurred increased by 6%, whilst in spite of heavy investment in new IT tools, operating expenses increased marginally by 2%.

Excluding the effect of the terminated agency, the number of claims increased by 20% in General Business. 2013 was also affected by a number of relatively large claims that significantly impacted the motor loss ratio, despite the fact that claims' frequency remained stable.

Strict controls on internal expenses and lower average commission rates due to improvements in our distribution mix allowed us to achieve

a positive technical margin, despite some large claims. Notwithstanding the improvement in the pure technical result, the decrease in allocated investment income by €0.78m (due to the lack of any capital gains and compounded by foreign exchange losses) is the reason for the reduction in the technical account balance. In line with the Mapfre Group guidelines, the profile of the company's investment portfolio is a conservative one, with a high proportion allocated to liquid assets.

LONG TERM BUSINESS

The Technical Account for Long Term Business (MSV Life business and Middlesea's relatively small Group Life account) experienced a 25% increase in premium income, supported by competitive bonuses awarded to policyholders in a market environment of declining interest rates. Financial and investments products represented most of this increase but the life protection business also performed well, showing a 10% increase. The life protection business provides an element of stability because of its relative independence from movements in the financial markets.

Total claims inclusive of surrenders and maturities of investment-type products only increased by 4% over the previous year. The high amount of reinvested maturities shows the clients' trust in our life company that is jointly owned by Bank of Valletta p.l.c. The combination of higher inflows, moderate benefits and investment income slightly above 2012 led to an increase of €99m (2012: €78m) in Life Technical Provisions. This augurs well for future profits.

Operating expenses grew at a much lower rate (8%) mostly due to a higher level of commissions paid as a result of the increased premium income. Financial income again performed exceptionally well. The well balanced portfolio experienced a return of 8.65%, similar to that recorded in 2012. This is the result of a combination of stable return securities and assets

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

with growth capacity. The real estate portfolio consists of a number of prime properties leased or rented out to third parties and which presently can be considered as fully occupied.

CONSOLIDATED RESULTS

In 2013 the Group registered a net profit before tax of €17.3m (2012: €18.0m). Despite being 4% lower than the previous year, this is an excellent achievement compared to results in earlier years. As one would generally expect, the tax expense for the year was in line with nominal rates. In 2012 the tax charge was very low due to one-off extraordinary circumstances that were duly explained in the 2012 financial statements. This had produced an abnormally high net profit.

Earnings per share attributable to shareholders have reached a very positive level of €0.066. As a result, I am glad to report that this will allow an increase in the proposed dividend to €0.045 (gross) and €0.038 (net) per share, in line with the company's policy to deliver a return to its shareholders representing an important part of the company's profits for the year.

BALANCE SHEET

The total assets of the Group increased by 8% and total €1.44 billion. Almost all this increase corresponds to return-seeking assets (investments and cash) derived from the increase in MSV's customer funds under management. These funds are invested in a number of diversified securities (local and foreign) and properties, managed in-house or by external highly-reputable entities that are constantly monitored especially with regard to the composition and performance of the portfolios. The use of derivatives is highly restricted and is never allowed for trading purposes. The increase in value of the Intangible Asset item is due to the estimated value of MSV's in-force business (actuarial estimation based on expected future profits from current portfolio) which increased by €3.5 million.

On the liabilities side, apart from the increase in technical provisions already noted above, the most relevant variances are as a result of the cancellation of the subordinated loan facilities held by both insurance companies. These facilities were no longer required given the more than adequate current solvency levels. The increase in deferred income tax is a result of fair value movements on the investment portfolios.

Total equity including non-controlling interests increased by 6.6% or €8.7 million on 2012. This was mainly brought about by the 2013 profits less the dividend distributed on 2012 profits.

REVIEW OF OPERATIONS

The Middlesea Group is continuously investing in its distribution channels, appointing new intermediaries, increasing the support provided to them, improving communication and their involvement in development initiatives and ensuring there is an open relation with them based on cooperation and trust. This is supplemented by a well-structured compensation system that is monitored on a continuous basis and, when necessary, periodically reviewed.

In order to boost the Company's commercial approach and its objective to become more customer-centric, during the course of 2013 Middlesea undertook a major restructuring exercise, defining distinct functions for commercial and insurance technical roles with the aim of having a closer and more consistent relationship with our current and potential clients. The new structure, in line with the Mapfre Group organisational guidelines, will enable an easier communication and implementation of Group initiatives. On the commercial side three new business units were set up, one covering corporate business and two primarily focused on retail clients. One of the latter is based in Floriana whilst the other operates from new offices in Birkirkara. These business units and regional offices provide dedicated

support to our distribution network whilst offering a contact point to clients in the respective areas. The Birkirkara regional office is also equipped with motor-surveying facilities, providing additional convenient and cost-effective services to our customers.

Middlesea has also started developing business leads through its call-centre and communicating with clients through established social networks. Our Facebook page has achieved significant success since its launch in May 2013, now representing another major marketing tool for the company's products and services.

Our product offer has been widened again in 2013, with products like Pet Insurance, Health Family Scheme and new Warranty covers on motor vehicles, motorbikes, appliances and gadgets. Other products have been revamped and additional services include Mediphone and Second Medical Opinion.

During 2013 MSV launched its first Fast Track life products and improved the Investment Bond, Personal Protection Plan and Loan Protection Plan products.

The claims service is another area that is continuously being addressed and improved. Customers can now report or notify us of a claim by telephone on a 24x7 basis from the comfort of their home outside of normal business hours. This does not imply that we have relaxed our rigorous assessment of claims but it demonstrates our commitment to providing a better customer service. In addition, our team of in-house motor surveyors has been enhanced and an anti-fraud unit has also been set-up.

On the technological side, both Middlesea and MSV are engaged in the process of implementing advanced systems with new and improved functionalities and efficiencies capable of developing more efficient product handling and management tools. Today, part of the General

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

Business portfolio is already handled on this new platform. Other projects have been launched to strengthen digital platforms. There have also been enhancements in security and business continuity to ensure that our service is provided to all stakeholders on an uninterrupted basis. With the new platforms the whole IT environment will be even more secure.

The investments portfolio was enriched with MSV's acquisition of a major shareholding in the most important shopping centre in Malta, while Middlesea Insurance has initiated the refurbishment of its most important property with the aim to have office space available to be marketed before the end of 2014.

SUBSIDIARIES

BEE INSURANCE MANAGEMENT LTD

This management services company, a fully-owned subsidiary of Middlesea, had a successful year following a major business development exercise that is now bearing fruit, attracting serious interest from a number of foreign clients prepared to establish their operations in Malta. The expertise accumulated over fifteen years and the personalised services provided are this company's main marketing tools. Its name is now well known abroad even as a result of its participation in specialised overseas events.

MIDDLESEA ASSIST LTD

2013 was the second full year of activity for Middlesea Assist, a joint venture between Middlesea and Mapfre Asistencia. This company achieved positive results but, more importantly, it has been instrumental in the provision of services to Middlesea and its clients who, almost on a daily basis, relay compliments on the quality service provided. Surveys indicate a positive customer experience of almost 100%. This is very significant when nearly 14,000 users had the opportunity to make use of their services.

Middlesea Assist was also instrumental in the implementation of new products and technological features, with many clients now making use of its smartphone app to call for assistance.

LOOKING FORWARD

In the coming years and in line with Mapfre Group strategy, the Middlesea Group will continue in its endeavours to be considered as the most trusted and reliable global insurance services provider in the Maltese market. Our efforts will be focused on the long-term to reinforce the prestige of our brand.

The increase in the volume of business is a permanent objective and we must be able to continue improving our market share with additional value-added services and new product features. With regards to product development, we make use of the extensive experience of Mapfre companies operating in other markets and try to replicate successful products in Malta. The local market still has growth potential in view of the lower per capita expense on insurance when compared to other European markets. This will include products and services in critical areas like health and retirement planning where the demand will be consistently increasing.

The Mapfre Group operates a multichannel distribution philosophy and Middlesea has adopted this method too. With this commitment, we firmly believe that our clients have the right to access our products and services through whichever distribution channel they choose provided that this is financially and economically viable to our distributors and us.

On this basis we will keep on investing in the development of non-traditional channels like call centres and online systems, where our group companies already provide some level of access for sales and services. However these will later be converted into integrated systems that will interact with the

client segments that are no longer interested in conventional retail outlets.

Service is the key element to take advantage of in this present gap between conventional and non-conventional products and distribution channels. Our clients need to be convinced that insurance is not simply protection against a number of rare contingencies, but something alive that can make one's life easier and more comfortable.

The preparation for the new Solvency II regulation has also been a major task during 2013 and will remain on our agenda until full implementation of the new regime in early 2016. Our companies have complete and well-structured plans in place, in some aspects even with the support of Mapfre, and will be ready on time to meet legal and regulatory requirements. Reinforced governance procedures and enhanced information analysis and reporting will be in the interest of all stakeholders, although all this already means significant additional workloads and increased costs for our companies.

All this is being done in a prudent and structured way, closely monitoring risks in line with the institutional principles of the group shareholders to whom Middlesea is aligned and whose interests and reputation must be protected and safeguarded at all times.



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

13 MARCH 2014

BOARD OF DIRECTORS & COMPANY SECRETARY

MR MARTIN GALEA

ACA - CHAIRMAN

NED I

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

AT PRESENT: Managing Director of Joinwell Limited, Director of Printex Limited, involved in other family and licensed companies.

MR CHARLES BORG

[APPOINTED ON THE 19 APRIL 2013]

NED

FORMERLY: Chairman of the Housing Authority, President of the Institute of Financial Services, Director of La Valette Funds SICAV, Director of Vilhena Funds SICAV, Director of Wignacourt Funds SICAV.

AT PRESENT: Chief Executive Officer Bank of Valletta Group p.l.c., Director of Valletta Fund Management, Director of Valletta Fund Services, Chairman of the Malta Banks' Association, Member on the Board of the World Savings Bank Institute, Member on the Board of the European Investment Fund.

MR JOHN CASSAR WHITE

[APPOINTED ON THE 19 APRIL 2013]

NED

FORMERLY: Worked with the Bank of Valletta p.l.c. for thirty seven years until becoming one of the Bank's Chief Officers in 2008. He also served on the board of various state-owned enterprises and was a director of various investment companies. Until recently he was a lecturer at the Institute of Business and Commerce of MCAST.

AT PRESENT: Chairman Bank of Valletta p.l.c., MSV Life p.l.c., Valletta Fund Management Limited and Valletta Fund Services Limited.

MR GASTON DEBONO GRECH

L.P. F.I.S.M.M. (LUTON), B.A.

(LEG.), MAG.JUR. (INT. LAW)

DIP. TRIB.ECCL.MELITA

NED I

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

AT PRESENT: Legal Procurator.

MR. JAVIER FERNÁNDEZ-CID

NED

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

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

MR PEDRO LÓPEZ SOLANES

NED

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

MR FELIPE NAVARRO LÓPEZ DE CHICHERI

NED

AT PRESENT: As Deputy General Manager of Investee Companies and Institutional Relations, Mr. Navarro is responsible for the Life Bancassurance Joint Ventures in Spain. Mr. Navarro is also the

General Manager of Duero Pensiones EGFP S.A., Director of CCM VyP S.A., Director of Bankinter Seguros de Vida S.A., Director of Unión del Duero S.A., Director of Duero Pensiones E.G.F.P. S.A. and Director of MSV Life p.l.c..

MR. LINO SPITERI

K.O.M, M.A. (OXON.)

NED I

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

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

MR PAUL S. TESTAFERRATA

MORONI VIANI

NED I

AT PRESENT: Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of Bank of Valletta p.l.c., GO plc., Innovate Software Limited, Mobisile Communications Limited, Worldwide Communications Limited, Go Data Centre Services Limited, St. George's Park Co. Ltd, SGP Projects Ltd, Euro Appliances Co. Ltd, Spinola Hotels Ltd, Reliant Ltd, Cambridge Place Ltd, Sales & Letting Ltd and Testaferrata Moroni Viani Holdings Ltd, Vltava Fund SICAV p.l.c..

BOARD OF DIRECTORS & COMPANY SECRETARY

MR JOSEPH F. X. ZAHRA
B.A. (HONS) ECON., M.A.
(ECON.), FCIM, MMRS
NED I

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

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

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

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

AT PRESENT: Joined the Middlesea Group in 2007 and was appointed Company Secretary and Compliance Officer of the group companies. Serves as committee secretary to the Board Committees of Middlesea

Insurance p.l.c.. He is also a visiting lecturer at the University of Malta for Translation and Interpreting, published the Dictionary for Financial Services and is involved in the Olympic Movement and a member of the Maltese Olympic Academy.

Mr Tonio Depasquale and Mr Frederick Mifsud Bonnici were not re-appointed as Directors during the AGM held on the 19 April 2013 and were therefore Directors between the 1 January and 19 April 2013.

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

HEAD OFFICES, BRANCHES & AGENCIES

HEAD OFFICES

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MELITAUNIPOL INSURANCE AGENCY LIMITED

17 Market Street
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Tel: (00356) 2206 7000 / 2123 6363
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SMS INSURANCE AGENCY LIMITED (AGENTS FOR MOTOR ONLY)

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

PROFESSIONAL SERVICES

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

LEGAL ADVISORS

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

AUDITORS

Ernst and Young
PricewaterhouseCoopers

ACTUARIES

Towers Watson

BANKERS

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

SPONSORING STOCKBROKERS

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

GROUP COMMITTEES

THE INVESTMENT COMMITTEE

Mr John Cassar White –
(Chairman) (appointed on the 19 April 2013)
Mr Martin Galea, ACA
Mr Pedro López Solanes
Mr Lino Spiteri K.O.M., MA (Oxon)
Mr Frederick Mifsud Bonnici F.C.A., F.I.A., C.P.A.
(Chairman till the 19 April 2013)

THE AUDIT COMMITTEE

Mr Lino Spiteri K.O.M., MA (Oxon) (Chairman)
Mr Charles Borg (appointed on the 19 April 2013)
Mr Pedro López Solanes
Mr Paul Testaferrata Moroni Viani
Mr Frederick Mifsud Bonnici F.C.A., F.I.A., C.P.A.
(member till the 19 April 2013)

THE REMUNERATION COMMITTEE

Mr Martin Galea, ACA (Chairman)
Mr John Cassar White (appointed on the 19 April 2013)
Mr Javier Fernández-Cid Plañol
Mr Tonio Depasquale (member till the 19 April 2013)

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

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

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

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

Middlesea Insurance p.l.c. registered a profit before tax of €5.9 million during the year ended 31 December 2013. Premiums written by the stand-alone parent Company decreased to €31.4 million, a drop of 11.0% from the 2012 volumes, following the termination of a major agency agreement which underwrote over 18.4% of the 2012 premiums.

The Group registered a profit before tax of €17.3 million for the year to 31 December 2013 (FY 2013) compared to a profit in FY 2012 of €18.0 million with sustained good result achieved by the life subsidiary MSV Life p.l.c., despite the challenging investment conditions in both the local and international markets.

Middlesea Insurance p.l.c.'s solvency position as at 31 December 2013 on its general business stood at 515% of the minimum solvency requirement (2012: 603%).

Middlesea's Group capital and reserves attributable to shareholders' at 31 December 2013 amounted to €73.1 million (2012: €67 million) on a consolidated basis with a net asset value per share of €0.79 as at 31 December 2013.

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

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 33. A gross dividend in respect of year ended 31 December 2013 of €0.045 per share amounting to a total dividend of €4,140,222 (2012: €2,300,000) is to be proposed by the directors at the forthcoming Annual General Meeting. This is equivalent to a net dividend of €0.03826 per share amounting to a total net dividend of €3,520,000 (2012: €1,745,000).

DIRECTORS

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

Martin Galea
Charles Borg (appointed on the 19 April 2013)
John Cassar White (appointed on the 19 April 2013)
Gaston Debono Grech
Tonio Depasquale (not re-appointed on the 19 April 2013)
Javier Fernández-Cid Plañol
Pedro López Solanes
Frederick Mifsud Bonnici (not re-appointed on the 19 April 2013)
Lino Spiteri
Paul Testaferrata Moroni Viani
Joseph F.X. Zahra

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

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

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

The financial statements of Middlesea Insurance p.l.c. for the year ended 31 December 2013 are included in the Annual Report 2013, which is published in hard-copy printed form and may be made available on the parent company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

- the consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO LISTING RULE 5.64

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

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

The directors confirm that as at 31 December 2013, only MAPFRE Internacional (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

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

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

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

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

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

DIRECTORS' REPORT

INFORMATION PURSUANT TO LISTING RULE 5.64 - CONTINUED

It is hereby declared that as at 31 December 2013, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

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

AUDITORS

The auditors, Ernst & Young Malta Limited, have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the Board



Martin Galea
Chairman

Middle Sea House
Floriana, Malta

13 March 2014



Lino Spiteri
Director

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

1. INTRODUCTION

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

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

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

2. COMPLIANCE WITH THE CODE

Principle 1 – The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. As at the 31 December 2013 the Board was composed of a non-executive Chairman and nine non-executive Directors. Martin Galea was appointed as a non-executive Chairman during the Board meeting held on the 19 April 2013 which followed the Annual General Meeting held on the same day.

During the Annual General Meeting held on the 19 April 2013, one of the main institutional shareholders of the Company appointed John Cassar White and Charles Borg in line with the changes effected in the said institutional shareholder during 2013 thus replacing Frederick Mifsud Bonnici and Tonio Depasquale who were not re-appointed as directors. Felipe Navarro López de Chicheri was appointed by the Board of Directors in line with Article 100 of the Memorandum and Articles of Association.

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

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 2 – Chairman and CEO

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

The Company's current organisational structure incorporates the position of a President & CEO, who leads the Senior Management team, whose main role and responsibilities are the execution of agreed strategy, and managing the Company's business. During 2013 the CEO setup an Executive Management Committee which meets regularly.

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

Principle 3 – Composition of the Board

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

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

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

The composition of the Board is determined by the Company's Articles of Association. The appointment of Directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy. Article 100 of the Memorandum and Articles of Association empowers the Board of Directors to appoint one Director in addition to the Directors appointed by the shareholders. Felipe Navarro López de Chicheri was appointed by the Board of Directors in line with the said article. All Directors are required to fulfil the fit and proper procedures carried out by the Malta Financial Services Authority in line with standard regulatory due diligence procedures.

During the period under review, the Board consisted of five independent Directors (including the Chairman) and five non-independent Directors (as indicated on pages 13 and 20 of the Annual Report) as defined by the Code.

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

Principle 4 – The Responsibilities of the Board

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

The Audit Committee held four meetings during 2013. The Audit Committee members and relative attendance to meetings is listed below.

Lino Spiteri (Chairman)	2
Pedro López Solanes	4
Frederick Mifsud Bonnici	2 (not re-appointed on the 19 April 2013)
Charles Borg	2 (appointed on the 19 April 2013)
Paul Testaferrata Moroni Viani	4

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

COMPLIANCE, PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

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

The Compliance, Prevention of Money Laundering and Risk Management Committee held four meetings during 2013. The Committee members and relative attendance to meetings is listed below.

Lino Spiteri (Chairman)	1
Gaston Debono Grech	4
Pedro López Solanes	4

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

INVESTMENTS COMMITTEE

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

The Investments Committee held four meetings during 2013. The Committee members and relative attendance to meetings is listed below.

John Cassar White (Chairman)	3 (appointed on the 19 April 2013)
Martin Galea	4
Pedro López Solanes	4
Frederick Mifsud Bonnici	1 (not re-appointed on the 19 April 2013)
Lino Spiteri	0

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

REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2013 Annual Report. The Board of Directors approves the remuneration of Directors and Chief Officers on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

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

Principle 5 – Board Meetings

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

During the 2013 financial year, the Board of Directors of the Company held five meetings. The attendance of Directors to the Board meetings is listed below.

Martin Galea (Chairman)	5
Charles Borg	3 (appointed on the 19 April 2013)
John Cassar White	4 (appointed on the 19 April 2013)
Gaston Debono Grech	5
Tonio Depasquale	0 (not re-appointed on the 19 April 2013)
Javier Fernández-Cid Plañiol	4
Pedro López Solanes	4
Frederick Mifsud Bonnici	1 (not re-appointed on the 19 April 2013)
Felipe Navarro López de Chicheri	4
Lino Spiteri	3
Paul Testaferrata Moroni Viani	5
Joseph F.X. Zahra	5

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

During 2013 the Directors continued to hold Directors' Briefings to enable the Directors to be updated on current corporate governance requirements together with other statutory requirements emanating from law together with the coming into force of Solvency II. In fact three Directors' Briefings were held during the year, which were well attended by Board Directors. In addition, the Company Secretary directs members of the Board to seminars or conferences that are organized by different entities in Malta, which serve as professional development for Directors in the discharge of their functions on the Board and Committees.

Principle 6 – Information and Professional Development

The new Directors appointed during 2013 were provided with an information pack that is tailored to obtain a good knowledge of the Company together with its structure and operations for new directors. In addition the new directors were invited to attend a purposely held meeting which specifically dealt with the Company's organisation and activities and the responsibilities of individuals who are appointed as Directors.

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

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

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

Principle 7 – Evaluation of the Board's Performance

During the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not per se appoint a committee to carry out this performance evaluation, but the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Company Secretary in liaison with the Chairman. The Chairman prepared a report following the replies submitted by the Directors and the said report was submitted to the Board. During 2014 the Board will be taking up the recommendations made in the report and evaluate any required action that might be required to be implemented.

Principle 8 – Committees

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 9 – Relations with Shareholders and with the Market

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

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

Apart from the AGM, the Company communicates with its shareholders through the Annual Report and Financial Statements, which are circulated to the shareholders on a yearly basis. The Company's website (www.middlesea.com) also contains information about the Company and its business, including the six-monthly financial statements and all issued company announcements together with a section which is entirely dedicated to investor relations for the benefit of all Shareholders and the general public.

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

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

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

Principle 10 – Institutional Shareholders

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

Principle 11 – Conflicts of Interest

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 11 – Conflicts of Interest - continued

During 2013 the Code of Ethics and Conduct was brought in line with the Mapfre Code and approved by the Board of Directors. This was launched in 2013 for all Directors and Employees of Middlesea and its subsidiaries.

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

Directors' interests in the share capital of the Company as at 31 December 2013 were as follows:

	Beneficial Interest	Non-Beneficial Interest
Gaston Debono Grech	54,678 shares	-
Joseph FX Zahra	1,214 shares	-

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

Principle 12 – Corporate Social Responsibility

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

In addition, during the year under review, the Company provided specific support in the fields of arts, culture and sports in the form of sponsorships and other activities. In addition Middlesea, with the support of Fundación Mapfre, along with Transport Malta are the official sponsors of a road safety campaign which boldly brings to light a number of causes of deaths and injuries that occur every year on the road. Over a 12 month period, which started in 2012, Middlesea and Fundación Mapfre will support education print, TV, online and on street campaign which will highlight the consequences of dangerous driving. During 2013 Fundación Mapfre has also started with a new healthy living campaign in Maltese schools which will continue during 2014. Further cooperation is being planned in Malta, for next year, by Fundación Mapfre.

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Internal Control and Risk Management System

This information is being provided in terms of Listing Rule 5.97.4

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

Organisation - The Company has clear reporting lines from the Boards of Directors of subsidiary and associated companies. The Middlesea Chairman is also kept informed on the operations of the subsidiary companies either by sitting directly on the respective Boards or through the other company directors who sit on the company and subsidiary boards.

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

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

General Meetings

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

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

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

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE

Principle 3 – Composition of the Board: Code Provision 3.2

The Board is composed of ten non-executive Directors.

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

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

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

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

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

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

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

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

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

The Code clearly defines an independent non-executive Director under Principle 3. The Chairman of the Remuneration Committee for 2013, namely Martin Galea, does fall within the definition of independent non-executive Director in accordance with Principle 3. The other two Committee members, namely John Cassar White (from the 20 April till the 31 December 2013 following the non re-appointment of Tonio Depasquale who was a Committee member between 1 January and the 19 April 2013) and Javier Fernández-Cid Plañol are non-executive Directors appointed by the main institutional shareholders of the Company and the Board has taken the view that the position held by the Committee members does not undermine the said Directors' ability to consider appropriately the issues which are brought before the Remuneration Committee. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that the Committee members are able to exercise independent judgment.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

Principle 8B – Nomination Committee

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

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

Principle 9 – Relations with Shareholders and with the Market: Code Provision 9.3

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



Lino Spiteri
Director

13 March 2014



Pedro López Solanes
Director

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

1. TERMS OF REFERENCE AND MEMBERSHIP

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

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

Between 1 January and 19 April 2013, the Committee was composed of Martin Galea (Chairman), Tonio Depasquale and Javier Fernández-Cid Plañiol. On the 19 April, following the Annual General Meeting held on the same day, the Board of Directors appointed Martin Galea (Chairman), John Cassar White and Javier Fernández-Cid Plañiol as Remuneration Committee members. All the Committee members are non-executive directors and Martin Galea is the independent non-executive director as required under Section 8.A.1. The President & CEO, Alfredo Muñoz Perez, and other members of senior management are invited to attend Committee meetings as and when required. The Company Secretary, Carlo Farrugia, acts as the Secretary to the Committee.

2. MEETINGS

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

Member	Attended
Martin Galea (Chairman)	3
John Cassar White	1 (appointed on the 19 April 2013)
Tonio Depasquale	1 (not re-appointed on the 19 April 2013)
Javier Fernández-Cid Plañiol	3

The Committee determined and/or discussed the following matters:

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

3. REMUNERATION STATEMENT

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT

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

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

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

There have been no significant changes in the Company's remuneration policy for Senior Management during the financial year under review. A performance appraisal system was implemented during 2013 in relation to competences and this system will continue to be developed and will lead to the performance bonus scheme which will be implemented in 2014. The said performance bonus scheme will be based on achieving the company's departmental and personal objectives. The remuneration policy was not finalized during the year and will be completed and submitted to the Board of Directors for approval during 2014.

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

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT - CONTINUED

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

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

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

In the case of Senior Management, there is no direct linkage between remuneration and performance since, as explained above, the annual salary increases are not directly performance related. However this system will be addressed with the introduction of the performance appraisal system during 2013 coupled with the performance bonus scheme during 2014.

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

Total emoluments received by Senior Management during FY 2013 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed in this Report.

3.2 REMUNERATION POLICY – DIRECTORS

As at the 31 December 2013, the Board of Directors of Middlesea Insurance plc was composed of ten non-executive directors. Three Directors, namely Javier Fernández-Cid Plañiol, Pedro López Solanes and Felipe Navarro López de Chicheri, did not receive a fee in accordance with the established policy of the parent shareholder company, MAPFRE Internacional, with which they are employed and which appointed them. The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was fixed at an aggregate sum of €250,000 per annum at the Thirty Second Annual General Meeting held on the 19 April 2013. The Company does not intend to make any changes to this maximum amount at the next Annual General Meeting to be held in 2014.

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

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

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

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

Total emoluments received by Directors during FY 2013 are reported below in terms of Code Provisions 8.A.5.

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3.3 CODE PROVISION 8.A.5

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

Emoluments of Directors:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€146,000	None	None	None

Fees payable to directors in respect of 2013 amounted in total to €146,000 (2012: €140,000) and were paid as directors' fees as follows:

	Directors' Fees
Charles Borg	€10,385 (appointed on the 19 April 2013)
John Cassar White	€13,154 (appointed on the 19 April 2013)
Gaston Debono Grech	€15,000
Tonio Depasquale	€4,615 (not re-appointed on the 19 April 2013)
Martin Galea	€47,000
Frederick Mifsud Bonnici	€5,846 (not re-appointed on the 19 April 2013)
Lino Spiteri	€23,000
Paul Testaferrata Moroni Viani	€15,000
Joseph F. X. Zahra	€12,000

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



Martin Galea
Chairman
Remuneration Committee

13 March 2014

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF MIDDLESEA INSURANCE P.L.C.

We have audited the financial statements of Middlesea Insurance p.l.c. ('the Company') and of the Group of which the Company is the parent, set on pages 31 to 124, which comprise the consolidated and parent company statements of financial position as at 31 December 2013 and the consolidated and parent company statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As described in the Directors' Report set out on pages 13 to 15, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Companies Act, Cap. 386 and the Insurance Business Act, Cap. 403 of the Laws of Malta, 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.

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

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

Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Group and the Company as at 31 December 2013, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 and the Insurance Business Act, Cap. 403 of the Laws of Malta.

REPORT ON CORPORATE GOVERNANCE

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

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

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

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

In our opinion, the Corporate Governance Statement set out on pages 16 to 25 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

INDEPENDENT AUDITOR'S REPORT



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also have responsibilities:

- Under the Companies Act, Cap. 386 of the Laws of Malta 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.
 - We have not received all the information and explanations we require for our audit.
 - Certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- Under the Listing Rules to review the statement made by the Directors, set out on page 15, that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

A handwritten signature in black ink, appearing to be 'Anthony Doublet', written in a cursive style.

*This copy of the audit report has been signed by
Anthony Doublet for and on behalf of*

Ernst & Young Malta Limited
Certified Public Accountants

13 March 2014

STATEMENTS OF PROFIT AND LOSS TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December	
		Group and Company	
	Notes	2013 €'000	2012 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	29,935	33,798
Outward reinsurance premiums		(11,305)	(14,844)
Net premiums written		18,630	18,954
Change in the gross provision for unearned premiums			
		1,027	(1,838)
Change in the provision for unearned premiums, reinsurers' share			
		(1,038)	805
		(11)	(1,033)
Earned premiums, net of reinsurance		18,619	17,921
Allocated investment return transferred from the non-technical account		663	1,444
Total technical income		19,282	19,365
Claims incurred, net of reinsurance			
Claims paid		18,291	17,731
- gross amount		(5,263)	(5,087)
- reinsurers' share			
		13,028	12,644
Change in the provision for claims			
		(1,842)	(832)
- gross amount			
		(403)	(1,613)
- reinsurers' share			
		(2,245)	(2,445)
Claims incurred, net of reinsurance		10,783	10,199
Net operating expenses		5,808	5,702
Total technical charges		16,591	15,901
Balance on the technical accounts for general business (page 33)		2,691	3,464

STATEMENTS OF PROFIT AND LOSS TECHNICAL ACCOUNT - LONG TERM BUSINESS

Year ended 31 December

	Notes	Group		Company	
		2013 €'000	2012 €'000	2013 €'000	2012 €'000
Earned premiums, net of reinsurance					
Gross premiums written	6	108,324	86,944	1,428	1,448
Outward reinsurance premiums		(3,656)	(3,901)	(580)	(790)
Earned premiums, net of reinsurance		104,668	83,043	848	658
Investment income					
Income from investments	8	92,892	90,541	205	236
Other technical income, net of reinsurance	9	580	597	-	-
Total technical income		198,140	174,181	1,053	894
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		79,603	75,060	695	671
- reinsurers' share		(900)	(1,107)	(377)	(343)
		78,703	73,953	318	328
Change in the provision for claims					
- gross amount		416	2,475	(162)	270
- reinsurers' share		226	(361)	100	(161)
		642	2,114	(62)	109
Claims incurred, net of reinsurance		79,345	76,067	256	437
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		39,800	32,772	(58)	42
- reinsurers' share		51	(8)	51	(8)
		39,851	32,764	(7)	34
Investments contracts with DPF – gross		59,630	46,050	-	-
Net operating expenses	7	99,481	78,814	(7)	34
		8,598	7,974	227	177
Total technical charges		187,424	162,855	476	648
Balance on the technical accounts for long term business (page 33)		10,716	11,326	577	246

STATEMENTS OF PROFIT AND LOSS NON-TECHNICAL ACCOUNT

Year ended 31 December					
		Group		Company	
		2013	2012 <i>restated</i>	2013	2012 <i>restated</i>
Notes		€'000	€'000	€'000	€'000
Balances on technical accounts					
General business (page 31)		2,691	3,464	2,691	3,464
Long term business (page 32)		10,716	11,326	577	246
<hr/>					
Total income from insurance activities		13,407	14,790	3,268	3,710
Other investment income		8	6,715	8	2,898
Investment expenses and charges		8	(492)	8	(332)
Allocated investment return transferred to the general business technical account		8	(663)	8	(1,444)
Other income		9	1,117	9	1,170
Administrative expenses		7	(2,779)	7	(1,521)
<hr/>					
Profit for the financial year before tax		17,305	18,011	5,900	3,290
Tax expense		12	(6,354)	12	(692)
<hr/>					
Profit for the financial year		10,951	17,369	5,208	2,425
<hr/>					
Attributable to:					
- shareholders		6,028	9,393	5,208	2,425
- non-controlling interests		4,923	7,976	-	-
<hr/>					
		10,951	17,369	5,208	2,425
<hr/>					
Earnings per share attributable to Shareholders		14	6.6c	14	10.2c

The Notes on pages 42 to 124 are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Year ended 31 December

	Notes	Group		Company	
		2013 €'000	2012 <i>restated</i> €'000	2013 €'000	2012 <i>restated</i> €'000
Profit for the financial year		10,951	17,369	5,208	2,425
Other comprehensive income:					
<i>Other comprehensive income to be reclassified to profit and loss in subsequent periods</i>					
Change in fair value of available-for-sale investments	28	23	(4)	24	25
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods</i>					
Re-measurement actuarial gain/(loss) in provision for other liabilities and charges		27	(108)	27	(108)
Increase in value of in-force business	16	3,494	3,950	-	-
Total other comprehensive income, net of tax		3,544	3,838	51	(83)
Total comprehensive income for the year		14,495	21,207	5,259	2,342
Attributable to:					
- shareholders		7,825	11,256		
- non-controlling interests		6,670	9,951		
Total comprehensive income for the year		14,495	21,207		

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

The Notes on pages 42 to 124 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

Group

		At 31 December		As at
		2013	2012	1 January
		€'000	restated €'000	restated €'000
ASSETS	Notes			
Intangible assets	16	52,118	48,692	44,725
Property, plant and equipment	17	8,950	8,690	4,787
Investment property	18	82,231	81,147	66,537
Investment in associated undertakings	20	15,318	5,062	5,208
Other investments	21	1,218,822	1,121,111	1,056,563
Deferred income tax	22	2,265	2,273	2,432
Reinsurers' share of technical provisions	23	18,311	19,223	16,436
Deferred acquisition costs	24	2,836	3,092	2,898
Insurance and other receivables	25	21,512	22,175	21,835
Income tax receivable		6,751	6,137	4,725
Cash and cash equivalents	26	10,844	18,970	7,380
Total assets		1,439,960	1,336,572	1,233,526
EQUITY				
Capital and reserves attributable to shareholders				
Share capital	27	19,320	19,320	19,320
Share premium account		688	688	688
Other reserves	28	24,680	22,910	20,939
Retained earnings		28,414	24,104	15,417
Non-controlling interests		73,102	67,022	56,364
		67,563	64,911	55,825
Total equity		140,665	131,933	112,189
LIABILITIES				
Deferred income tax	22	14,498	8,651	8,200
Income tax payable		-	11	-
Provisions for other liabilities and charges	29	1,511	1,582	1,431
Technical provisions:				
- Insurance contracts and investment contracts with DPF	23	1,208,534	1,111,557	1,029,254
- Investment contracts without DPF	23	63,792	62,027	60,338
Derivative financial instruments		-	15	189
Borrowings	30	-	8,500	8,500
Insurance and other payables	31	10,960	12,296	13,425
Total liabilities		1,299,295	1,204,639	1,121,337
Total equity and liabilities		1,439,960	1,336,572	1,233,526

The Notes on pages 42 to 124 are an integral part of these financial statements.

The financial statements on pages 31 to 132 were authorised for issue by the Board on 13 March 2014 and were signed on its behalf by:



Martin Galea
Chairman



Lino Spiteri
Director



Alfredo Muñoz Perez
President & Chief Executive Officer

STATEMENTS OF FINANCIAL POSITION

Company

	Notes	At 31 December		As at
		2013	2012	1 January
		€'000	restated €'000	restated €'000
ASSETS				
Intangible assets	16	1,303	1,006	498
Property, plant and equipment	17	1,633	1,526	1,579
Investment property	18	8,956	8,597	8,111
Investment in subsidiary undertakings	19	57,214	57,214	57,214
Investment in associated undertakings	20	294	147	147
Other investments	21	20,575	19,167	25,634
Deferred income tax	22	1,108	1,108	1,194
Reinsurers' share of technical provisions	23	18,009	18,795	16,208
Deferred acquisition costs	24	2,836	3,092	2,898
Insurance and other receivables	25	8,817	9,375	9,306
Income tax receivable		423	-	416
Cash and cash equivalents	26	2,705	7,021	952
Total assets		123,873	127,048	124,157
EQUITY				
Capital and reserves attributable to shareholders				
Share capital	27	19,320	19,320	19,320
Share premium account		688	688	688
Other reserves	28	34,735	34,711	34,686
Retained earnings		6,101	2,611	892
Total equity		60,844	57,330	55,586
LIABILITIES				
Deferred income tax	22	955	801	927
Income tax payable		-	12	-
Provisions for other liabilities and charges	29	1,511	1,582	1,431
Technical provisions:				
- Insurance contracts	23	53,041	56,131	54,813
Borrowings	30	-	2,500	2,500
Insurance and other payables	31	7,522	8,692	8,900
Total liabilities		63,029	67,718	68,571
Total equity and liabilities		123,873	127,048	124,157

The Notes on pages 42 to 124 are an integral part of these financial statements.

The financial statements on pages 31 to 124 were authorised for issue by the Board on 13 March 2014 and were signed on its behalf by:



Martin Galea
Chairman



Lino Spiteri
Director



Alfredo Muñoz Perez
President & Chief Executive Officer

STATEMENTS OF CHANGES IN EQUITY

Group

		Attributable to shareholders						Total €'000
		Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non- controlling interests €'000	
	Notes							
Balance at 1 January 2012 As previously stated		19,320	688	20,939	15,568	56,515	55,825	112,340
Effect of adopting IAS19 revised		-	-	-	(151)	(151)	-	(151)
Balance at 1 January 2012 as restated		19,320	688	20,939	15,417	56,364	55,825	112,189
Comprehensive income								
Profit for the financial year		-	-	-	9,393	9,393	7,976	17,369
Other comprehensive income:								
Change in available for-sale investments' fair value	28	-	-	(4)	-	(4)	-	(4)
Re-measurement actuarial loss on provision for other liabilities and charges	29	-	-	-	(108)	(108)	-	(108)
Increase in value of in-force business	16	-	-	1,975	-	1,975	1,975	3,950
Total other comprehensive income, net of tax		-	-	1,971	(108)	1,863	1,975	3,838
Total comprehensive income		-	-	1,971	9,285	11,256	9,951	21,207
Transactions with owners								
Dividends for 2011		-	-	-	(598)	(598)	(865)	(1,463)
Total transactions with owners		-	-	-	(598)	(598)	(865)	(1,463)
Balance at 31 December 2012		19,320	688	22,910	24,104	67,022	64,911	131,933

STATEMENTS OF CHANGES IN EQUITY

Group - continued

	Notes	Attributable to shareholders						Total €'000
		Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non- controlling interests €'000	
Balance at 1 January 2013 As previously stated		19,320	688	22,910	24,322	67,240	64,911	132,151
Effect of adopting IAS19 revised		-	-	-	(218)	(218)	-	(218)
Balance at 1 January 2013 as restated		19,320	688	22,910	24,104	67,022	64,911	131,933
Comprehensive income								
Profit for the financial year		-	-	-	6,028	6,028	4,923	10,951
Other comprehensive income:								
Change in available-for-sale investment's fair value	28	-	-	23	-	23	-	23
Re-measurement actuarial gain on provisions for other liabilities and charges	29	-	-	-	27	27	-	27
Increase in value of in-force business	16	-	-	1,747	-	1,747	1,747	3,494
Total other comprehensive income, net of tax		-	-	1,770	27	1,797	1,747	3,544
Total comprehensive income		-	-	1,770	6,055	7,825	6,670	14,495
Transactions with owners								
Dividends for 2012	15	-	-	-	(1,745)	(1,745)	(4,018)	(5,763)
Total transactions with owners		-	-	-	(1,745)	(1,745)	(4,018)	(5,763)
Balance at 31 December 2013		19,320	688	24,680	28,414	73,102	67,563	140,665

The Notes on pages 42 to 124 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

Company

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2012 As previously stated		19,320	688	34,686	1,043	55,737
Effect of adopting IAS19 revised		-	-	-	(151)	(151)
Balance at 1 January 2012 as restated		19,320	688	34,686	892	55,586
Comprehensive income						
Profit for the financial year		-	-	-	2,425	2,425
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	25	-	25
Re-measurement actuarial loss on provision for other liabilities and charges	29	-	-	-	(108)	(108)
Total other comprehensive income, net of tax		-	-	25	(108)	(83)
Total comprehensive income		-	-	25	2,317	2,342
Transactions with owners						
Dividend for 2011		-	-	-	(598)	(598)
Total transactions with owners of the company		-	-	-	(598)	(598)
Balance at 31 December 2012		19,320	688	34,711	2,611	57,330

STATEMENTS OF CHANGES IN EQUITY

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2013						
As previously stated		19,320	688	34,711	2,829	57,548
Effect of adopting IAS19 revised		-	-	-	(218)	(218)
Balance at 1 January 2013 as restated		19,320	688	34,711	2,611	57,330
Comprehensive income						
Profit for the financial year		-	-	-	5,208	5,208
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	24	-	24
Re-measurement actuarial gain on provision for other liabilities and charges	29	-	-	-	27	27
Total other comprehensive income, net of tax		-	-	24	27	51
Total comprehensive income		-	-	24	5,235	5,259
Transactions with owners						
Dividend for 2012	15	-	-	-	(1,745)	(1,745)
Total transactions with owners of the company		-	-	-	(1,745)	(1,745)
Balance at 31 December 2013		19,320	688	34,735	6,101	60,844

The Notes on pages 42 to 124 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Year ended 31 December

	Notes	Group		Company	
		2013 €'000	2012 €'000	2013 €'000	2012 €'000
Cash flows from operating activities					
Cash generated from/(used in) operations	32	15,140	(3,922)	(1,129)	(467)
Dividends received		10,027	6,490	4,237	1,418
Interest received		31,450	31,602	568	663
Interest paid		(22)	(145)	(40)	(145)
Income tax paid		(1,105)	(1,332)	(955)	(390)
Net cash generated from operating activities		55,490	32,693	2,681	1,079
Cash flows from investing activities					
Purchase of investment property	18	(943)	(17,292)	(394)	(219)
Disposal of investment property	18	2	-	2	-
Increase in investment in associated undertaking	20	(10,147)	-	(147)	-
Purchase of financial investments		(577,389)	(463,132)	(7,250)	(10,284)
Disposal of financial investments		540,903	462,550	6,004	17,086
Purchase of property, plant and equipment and intangible assets	16,17	(1,777)	(1,775)	(967)	(995)
Disposal of property, plant and equipment and intangible assets	16,17	-	9	-	-
Net cash (used in)/generated from investing activities		(49,351)	(19,640)	(2,752)	5,588
Cash flows from financing activities					
Bank loans	30	(8,500)	-	(2,500)	-
Dividends paid to shareholders		(1,745)	(598)	(1,745)	(598)
Dividends paid to non-controlling interests		(4,018)	(865)	-	-
Net cash used in financing activities		(14,263)	(1,463)	(4,245)	(598)
Net movement in cash and cash equivalents		(8,124)	11,590	(4,316)	6,069
Cash and cash equivalents at beginning of year		18,970	7,380	7,021	952
Cash and cash equivalents at end of year	26	10,846	18,970	2,705	7,021

The Notes on pages 42 to 124 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The consolidated and the separate parent Company financial statements (together referred to the “financial statements”) are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

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

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

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

Standards, interpretations and amendments to published standards effective in 2013

In 2013, the Group applied, for the first time, IAS 19 Employee Benefits (Revised 2011) that required restatement of previous financial statements. In addition, the application of IFRS 13 Fair Value Measurement and amendments to IAS 1 Financial Statements Presentation resulted in additional disclosures in the financial statements. Several other new standards, amendments and interpretations to existing standards, apply for the first time in 2013, whose adoption to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group’s accounting policies and did not impact the financial statements.

The nature and impact of the new standards and amendments is described below:

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, affect presentation only and have no impact on the financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards. Application of IFRS 13 required additional disclosures that are provided in the individual notes and Note 4.3 Fair Values.

IAS 19, Employee Benefits (Revised 2011), is applied retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated. IAS 19 (Revised 2011) changes the accounting for defined benefit plans. Moreover, the revised standard requires interest on the defined benefit plans to be recognised in profit or loss, and re-measurement as part of the other comprehensive income. IAS 19 (Revised 2011) also requires more extensive disclosures that are provided in Note 29 Provisions for other liabilities and charges.

Impact on profit or loss and other comprehensive income:

	Group and Company	
	2013	2012
	€'000	€'000
Statement of profit or loss (non-technical)		
Other investment income	59	59
Investment expenses and charges	(52)	(64)
Administrative expenses	-	35
	<hr/>	<hr/>
Profit for the financial year before tax	7	30
Tax expense	(2)	11
	<hr/>	<hr/>
Profit for the financial year	5	41
	<hr/>	<hr/>
Attributable to:		
- shareholders	5	41
- non-controlling interests	-	-
Statement of other comprehensive income		
Re-measurements	42	(166)
Income tax effect on above	(15)	58
	<hr/>	<hr/>
Other comprehensive income for the year, net of tax	27	(108)
	<hr/>	<hr/>
Total comprehensive income for the year	32	(67)
	<hr/>	<hr/>
Attributable to:		
- shareholders	32	(67)
- non-controlling interests	-	-

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Impact on equity:

	Group and Company		
	As at 31 December	As at 1 January	
	2013 €'000	2012 €'000	2012 €'000
Statement of financial position			
Provision for other liabilities and charges	(318)	(367)	(232)
Deferred tax asset	111	149	81
Net decrease in equity	(207)	(218)	(151)
Attributable to:			
- shareholders	(207)	(218)	(151)
- non-controlling interests	-	-	-

The transition did not have impact on statement of cash flows. There is no significant impact on the earnings per share.

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 2014. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

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 2014.

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 tentatively effective for financial periods beginning on, or after, 1 January 2018. The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES

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

2.1 CONSOLIDATION

(a) *Subsidiary undertakings*

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

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

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

MSV, which was previously classified as an associated undertaking and on consolidation was accounted for using the equity method of accounting and therefore measured in the balance sheet at an amount that reflected the share of net assets in the associated undertaking. Middlesea Insurance p.l.c. held 50% of the shares of MSV before and after this business combination.

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

Acquisition-related costs are expensed as incurred.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(b) *Associated undertakings*

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

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

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

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

2.2 SEGMENT REPORTING

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

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.4 INTANGIBLE ASSETS

Value of in-force business

The value of in-force business is determined by the directors after considering the advice of the Group's Approved Actuary and has been recognised before the adoption of IFRS 4. The valuation represents the discounted value of projected future transfers to shareholders from contracts in force at the year end, after making a provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned.

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

Computer software

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

Deferred policy acquisition costs – long term contracts

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

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

2.5 PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

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

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

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

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

2.6 INVESTMENT PROPERTY

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

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

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

2.7 INVESTMENTS IN GROUP UNDERTAKINGS

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

Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the impairment is identified. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

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

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

2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS

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

Classification

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

Recognition and measurement

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement - continued

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

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

(c) Impairment of other non-financial assets

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

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

2.12 CASH AND CASH EQUIVALENTS

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

2.13 SHARE CAPITAL

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

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

2.14 INSURANCE AND INVESTMENT CONTRACTS

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

(a) Classification

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

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

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

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

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

(b) Recognition and measurement

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

(i) Short-term insurance contracts - General business

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) *Recognition and measurement* - continued

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

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

(ii) Group Life insurance contracts

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

(iii) Long term insurance contracts – individual life

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

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

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. For traditional life insurance contracts, the liability is calculated on the basis of a prudent prospective actuarial method, using assumptions regarding mortality, maintenance expenses and investment income, and includes a margin for adverse deviations. Additionally, liabilities under unit-linked life insurance contracts reflect the value of assets held within 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.

(iv) Long term insurance contracts with DPF

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

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

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

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

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

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

(v) Investment contracts with DPF

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

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

(c) Reinsurance contracts held

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(c) Reinsurance contracts held - continued

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

(d) Receivables and payables related to insurance contracts

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

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

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

(e) Liability adequacy test

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

(f) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

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

2.15 BORROWINGS

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.16 CURRENT AND DEFERRED INCOME TAX

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

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

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

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

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

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

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

2.17 PROVISIONS FOR PENSION OBLIGATIONS

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

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

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

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

2.18 REVENUE RECOGNITION

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.18 REVENUE RECOGNITION - CONTINUED

(a) Rendering of services

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

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

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

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

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

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

(b) Dividend income

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

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

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

(d) Interest income

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

(e) Rental income

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

2.19 INVESTMENT RETURN

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.20 LEASES

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

2.21 DIVIDEND DISTRIBUTION

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Value of in-force business

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

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2013 is disclosed in Note 16 to the accounts.

Insurance and investment contracts liabilities

(a) Long term insurance contract liabilities (including investment contract liabilities with DPF)

The main assumptions used in measuring long term insurance contracts relate to rate of future investment return, bonus rates, policy maintenance expenses, minimum reserve and mortality.

(b) General business insurance contract liabilities

For general business insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date. The ultimate cost of outstanding claims is validated by using a standard actuarial claims projection technique, the Chain Ladder method. The main assumption underlying this technique is that past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines. Large claims are usually separately addressed by being reserved at the face value of loss estimates.

(c) Investment contract liabilities without DPF

Unit-linked investment contract fair values are determined by reference to the values of the assets backing the liabilities.

Further details on insurance and investments contract liabilities are provided in Note 23.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK

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

4.1 INSURANCE RISK

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

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

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

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

(a) Short term business insurance contracts – general insurance

Frequency and severity of claims

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

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

Frequency and severity of claims - continued

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than A. No rating limitation shall apply to treaty placements with Mapfre Re or any Mapfre Group company designated to write any or all of the Mapfre Group Reinsurance treaties. At 31 December 2013, Mapfre's rating stood at BBB+. The Board will monitor the security rating of Mapfre on a periodic basis.

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

Concentration of insurance risk

Up until 31 December 2013, 100% of the Group's business was written in Malta (2012: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 25% (2012: 26%) and accident and health comprising 26% (2012: 25%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 19% (2012: 20%) and fire and other damage to property at 17% (2012: 19%). The remaining 12% (2012: 11%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred by insurance business class is provided in Note 6 to these financial statements.

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(b) Long term business insurance contracts

Frequency and severity of claims

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK

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

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

(a) Market risk

i) Cash flow and fair value interest rate risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

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

2013						
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	6,302	27,637	156,223	404,557	594,719
Collective investment schemes	21	2,280	-	-	-	2,280
Loans and receivables:						
- Deposits with banks and credit institutions	21	153,867	58,223	4,000	-	216,090
- Loans secured on policies	21	9,903	-	-	-	9,903
- Other loans	21	-	-	-	-	-
- Cash and cash equivalents	26	10,846	-	-	-	10,846
Total interest bearing assets		183,198	85,860	160,223	404,557	833,838
Liabilities						
Long-term insurance contracts	23	-	-	-	1,115,598	1,115,598
Borrowings	30	-	-	-	-	-
Total interest bearing liabilities		-	-	-	1,115,598	1,115,598
2012						
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	12,599	56,922	156,894	410,865	637,280
Collective investment schemes	21	2,439	-	-	-	2,439
Loans and receivables:						
- Deposits with banks and credit institutions	21	129,989	5,000	-	-	134,989
- Loans secured on policies	21	10,671	-	-	-	10,671
- Other loans	21	737	-	-	-	737
- Cash and cash equivalents	26	18,970	-	-	-	18,970
Total interest bearing assets		175,405	61,922	156,894	410,865	805,086
Liabilities						
Long-term insurance contracts	23	-	-	-	1,019,103	1,019,103
Borrowings	30	2,500	-	-	6,000	8,500
Total interest bearing liabilities		2,500	-	-	1,025,103	1,027,603

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

		2013				
Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities – listed fixed interest rate	21	1,040	1,430	1,851	2,500	6,821
Loans and receivables:						
- Deposits with banks and credit institutions	21	11,586	-	-	-	11,586
- Cash and cash equivalents	26	2,705	-	-	-	2,705
Total interest bearing assets		15,331	1,430	1,851	2,500	21,112
Liabilities						
Borrowings	30	-	-	-	-	-
Total interest bearing liabilities		-	-	-	-	-
		2012				
Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities – listed fixed interest rate	21	-	1,072	3,798	2,421	7,291
Loans and receivables:						
- Deposits with banks and credit institutions	21	8,915	-	-	-	8,915
- Cash and cash equivalents	26	7,021	-	-	-	7,021
Total interest bearing assets		15,936	1,072	3,798	2,421	23,227
Liabilities						
Borrowings	30	2,500	-	-	-	2,500
Total interest bearing liabilities		2,500	-	-	-	2,500

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

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

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Assets held at variable rates				
Collective investment schemes	2,280	2,439	-	-
Deposits with banks or credit institutions	2,013	1,746	-	-
Debt securities	23,424	11,899	-	-
Cash and cash equivalents	10,846	18,970	2,705	7,021
	38,563	35,054	2,705	7,021
Liabilities issued at variable rates				
Long-term insurance contracts	1,115,598	1,019,103	-	-
Borrowings	-	8,500	-	2,500
	1,115,598	1,027,603	-	2,500

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €32.45m (2012: €32.45m) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Assets held at fixed rates				
Loans secured on policies	9,903	10,671	-	-
Other loans	-	737	-	-
Deposits with banks or credit institutions	214,077	133,243	11,584	8,915
Debt securities	571,295	625,381	6,822	7,291
	795,275	770,032	18,406	16,206

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk - continued*

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

In managing its portfolio, during the year ended 31 December 2013, 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 2013 is shown below:

	Group	
	2013 €'000	2012 €'000
Long positions		
- Federal Republic of Germany	15,674	4,545
Short positions		
- Federal Republic of Germany	871	2,390
- United Kingdom Government	1,537	2,053
- United States Government	8,017	3,676
	10,425	8,119

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

Sensitivity Analysis – interest rate risk

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

At 31 December 2013, if interest rates at that date would have been 90 basis points (2012: 90 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have improved by €1.83 million (2012: €3.44 million) and €0.15 million (2012: €0.23 million) respectively. An increase of 90 basis points (2012: 90 basis points), with all other variables held constant, would have resulted in a decrease in the Group's and Company's pre-tax results for the year of €3.13 million (2012: €2.23 million) and €0.13 million (2012: €0.21 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk - continued*

ii) *Equity price risks*

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

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

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

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Assets subject to equity price risk	314,092	247,865	2,463	3,108
The above includes:				
Component of investments in associated undertakings (Note 20)*	15,238	4,968	294	147
Component of equity securities and units in unit trusts (Note 21)	298,854	242,897	2,169	2,961
	314,092	247,865	2,463	3,108

*Investments in associates (Note 20) amounting to €0.08m (2012: €0.09m) have been excluded from equity price risk since they are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

ii) *Equity price risks* - continued

In managing its portfolio during the year ended 31 December 2013, 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 2013 is shown below:

	Group	
	2013	2012
	€'000	€'000
Long positions		
- European equity indices	1,585	1,464

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

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

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

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €4.72 million (2012: €3.90 million) and a negative impact of €4.42 million (2012: €3.50 million) on the Group's pre-tax profit and a positive or negative impact of €0.22 million on the Company's pre-tax results (2012: €0.30 million).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

iii) *Currency risk*

The Group and Company have assets and liabilities denominated in major international currencies other than Euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major international currencies. At 31 December 2013, foreign currency exposure amounted to €39.55 million (2012: €39.49 million).

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

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

Group

31 December 2013

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	16,789	10,813	5,976
CHF	18,486	-	18,486
GBP	10,722	5,969	4,753
SEK	4,956	-	4,956
DKK	4,346	-	4,346
Others	1,648	619	1,029
	56,947	17,401	39,546

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

31 December 2012

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

Within the table above, €38.0m relates to equity investments (2012: €37.5m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(iii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

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

Company

31 December 2013

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(457)	-	(457)
GBP	1,507	-	1,507
Others	(34)	-	(34)
	1,016	-	1,016

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

iii) *Currency risk* - continued

31 December 2012

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

The Company's foreign exposure relates to foreign operations now in run-off.

(b) *Credit risk*

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Debt securities	594,719	637,280	6,822	7,291
Other financial assets (including deposits with banks and credit institutions)	216,090	135,726	11,584	8,915
Forward foreign exchange contracts	252	193	-	-
Reinsurers share of technical provisions	13,303	13,126	13,001	12,698
Insurance and other receivables	19,783	20,841	8,184	8,653
Cash and cash equivalents	10,846	18,970	2,705	7,021
Total	854,993	826,136	42,296	44,578

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

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
AAA	60,408	79,627	-	-
AA	57,096	61,333	6,989	7,699
A	48,264	55,125	2,405	3,639
BBB	610,356	576,228	22,490	22,256
Not rated	78,869	53,823	10,412	10,984
Total	854,993	826,136	42,296	44,578

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) *Credit risk* - continued

Financial assets that are past due but not impaired

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

	Group and Company	
	2013	2012
	€'000	€'000
Within credit terms	2,543	3,367
Not more than three months	1,665	1,636
Within three to twelve months	346	268
Over twelve months	79	141
	<hr/>	<hr/>
	4,633	5,412

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

The overall exposure of the Group in terms of IFRS 7 is €4.63 million (2012: €5.41 million), of which €2.54 million (2012: €3.37 million) is not contractually due. It is the view of the directors that no impairment charge is necessary, due to the following reasons:

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

Trade receivables at 31 December 2013 comprised amounts of €0.22 million (2012: €0.49 million) whose terms had been renegotiated from the original terms and which were classified as fully performing.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) *Credit risk* - continued

Financial assets that are impaired

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

	Group and Company	
	2013	2012
	€'000	€'000
Over three months but less than twelve months	153	268
Over twelve months	341	324
	494	592

These balances are covered by the following:

	Group and Company	
	2013	2012
	€'000	€'000
Provision for impairment of receivables (Note 25)	494	592
	494	592

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

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

(c) *Liquidity risk*

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) *Liquidity risk* - continued

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

Group expected cash flows (undiscounted) (€ millions) 2013							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance contracts and investment contracts with DPF	35.0	60.0	95.0	78.0	84.0	1,104.2	1,456.2
Technical provisions – claims outstanding	12.2	6.8	3.5	1.9	1.8	11.2	37.4
Insurance and other payables (contractual)	11.0	-	-	-	-	-	11.0

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

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

Company expected cash flows (undiscounted) (€ millions) 2013							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	12.2	6.8	3.5	1.9	1.8	11.2	37.4
Insurance and other payables (contractual)	8.6	-	-	-	-	-	8.6

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) *Liquidity risk* - continued

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis. 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.

	2013 €'000	2012 €'000
At 31 December		
Forward foreign exchange contracts		
- outflow	(20,394)	(10,895)
- inflow	20,509	11,088

At 31 December 2013 and 2012, the above derivatives were due to be settled within three months after year end.

4.3 FAIR VALUES

The following table presents the assets measured in the balance sheet at fair value by level of the following fair value measurement hierarchy at 31 December 2013:

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES – CONTINUED

The following tables present the assets measured at fair value at 31 December 2013.

Group	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	397,472	270	33	397,775
- Debt securities	593,840	-	-	593,840
Other available-for-sale investments	879	-	83	962
Derivative financial instruments	137	115	-	252
Investment property	-	-	82,231	82,231
Investment in associated undertakings	14,901	-	417	15,318
Total assets	1,007,229	385	82,764	1,090,378
Liabilities				
Unit linked financial liabilities	-	98,921	-	98,921
Derivative financial instruments	-	-	-	-
Total liabilities	-	98,921	-	98,921
Company				
	Level 1 €'000	Level 3 €'000	Total €'000	
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	2,169	-	2,169	
- Debt securities	5,941	-	5,941	
Other available-for-sale investments	881	-	881	
Investment property	-	8,956	8,956	
Investment in associated undertakings	-	294	294	
Total assets	8,991	9,250	18,241	

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2012.

Group	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	336,357	769	32	337,158
- Debt securities	636,423	-	-	636,423
Other available-for-sale investments	857	-	83	940
Derivative financial instruments	-	193	-	193
Investment property	-	-	81,147	81,147
Investment in associated undertakings	4,806	-	256	5,062
Total assets	978,443	962	81,518	1,060,923
Liabilities				
Unit linked financial liabilities	-	94,261	-	94,261
Derivative financial instruments	-	15	-	15
Total liabilities	-	94,276	-	94,276
Company				
	Level 1 €'000		Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	2,961		-	2,961
- Debt securities	6,434		-	6,434
Other available-for-sale investments	857		-	857
Investment property	-		8,597	8,597
Investment in associated undertakings	-		147	147
Total assets	10,252		8,744	18,996

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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

Investment property has been classified as Level 3. Note 18 details the valuation process and techniques in respect of investment property. Level 3 securities constitute investment in unlisted equities. Fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement.

The following table presents the changes in Level 3 securities for the year ended 31 December 2013.

Group	Investments	Other	Total
	in associates	available- for-sale	
	€'000	investments €'000	€'000
Opening balance	256	115	371
Additions	147	-	147
Share of associated undertakings results	15	-	15
Net fair value losses	(1)	1	-
	417	116	533
Closing balance			
Company	Investments	Other	Total
	in associates	available- for-sale	
	€'000	investments €'000	€'000
Opening balance	147	-	147
Additions	147	-	147
	294	-	294
Closing balance			

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

Company	Investments in associates €'000	Other available- for-sale investments €'000	Total €'000
Opening and closing balance	147	-	147

At 31 December 2013 and 2012, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

5. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

The defined regulatory capital for Middlesea Insurance p.l.c. ("MSI" or "the Company") comprises shareholders' equity and subordinated loans. The minimum own funds required by Insurance Rule 1 at 31 December 2013 amounted to €7.4 million (2012: €7.4 million). In addition, the Insurance Business Regulations stipulate 'the required margin of solvency' that the Company is required to hold. Regulatory capital requirements may be set at a multiple of this requirement. The minimum required capital must be maintained at all times throughout the year. Given the composite nature of the Company, Middlesea Insurance p.l.c. is obliged to abide with capital requirements for both its long term and its general insurance business.

NOTES TO THE FINANCIAL STATEMENTS

5. CAPITAL MANAGEMENT - CONTINUED

With respect to its general business, the Company held net admissible assets of €19.06 million (2012: €22.61 million) which exceeded the 'required margin of solvency' of €3.70 million (2012: €3.75 million) by €15.36 million (2012: €18.86 million) and also exceeded the multiple set by the regulator. With respect to its long term business, the Company held net admissible assets of €4.64 million (2012: €4.09 million) which exceeded the 'required margin of solvency' of €3.70 million (2012: €3.70 million) by €0.94 million (2012: €0.39 million), and also exceeded the multiple set by the regulator. The Company was compliant at all times with its capital requirements to both its general and long-term business.

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

6. SEGMENT INFORMATION

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

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

The Group operates in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. The segment results for the years ended 31 December 2013 and 2012 are indicated below.

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Gross premiums written		Gross premiums earned	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
<i>Direct insurance</i>				
Motor (third party liability)	5,822	6,654	6,064	6,322
Motor (other classes)	7,590	8,673	7,905	8,239
Fire and other damage to property	5,223	6,410	5,624	6,169
Accident and health	7,806	8,471	7,968	8,052
Other classes	3,494	3,590	3,401	3,178
	29,935	33,798	30,962	31,960

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

General business - continued

100% (2012: 100%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in Note 35.

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

	Gross claims incurred		Group and Company Gross operating expenses		Reinsurance balance	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Direct insurance						
Motor (third party liability)	5,483	6,583	1,983	2,064	(619)	(434)
Motor (other classes)	6,273	4,148	2,585	2,690	(810)	(562)
Fire and other damage to property	723	1,572	2,109	2,183	2,290	2,741
Accident and health	3,995	3,785	2,304	2,389	526	624
Other classes	(25)	811	1,182	1,155	935	191
	16,449	16,899	10,163	10,481	2,322	2,560

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

Long term business

(i) *Gross premium written*

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Gross premiums written				
Direct insurance	108,324	86,944	1,426	1,443
Reinsurance inwards	-	-	2	5
	108,324	86,944	1,428	1,448

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(i) Gross premium written - continued

The long-term business is mainly written through its subsidiary undertaking MSV Life p.l.c. ("MSV").

Group direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Non-participating	10,147	9,560	-	-
Participating	30,248	29,723	63,467	44,237
Linked	2,852	3,051	1,610	373
	43,247	42,334	65,077	44,610

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

	Periodic premiums		Single premiums	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Investment contracts	1,422	1,457	2,995	355

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

(ii) Reinsurance balance

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Charge for reinsurance outwards	1,625	1,152	337	203

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Gross premiums written				
Insurance contracts	34,230	34,318	1,428	1,448
Investment contracts with DPF	74,094	52,626	-	-
	108,324	86,944	1,428	1,448
Claims incurred, net of reinsurance				
Insurance contracts	21,628	20,216	256	437
Investment contracts with DPF	57,717	55,851	-	-
	79,345	76,067	256	437

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

	Group	
	2013 €'000	2012 €'000
Profit on general business	2,691	3,464
Profit on long term business	10,716	11,326
Net investment income not allocated to the technical accounts	5,560	4,956
Other income	1,117	1,170
Administrative expenses	(2,779)	(2,905)
Profit for the financial year before tax	17,305	18,011

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

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

	Company	
	2013	2012
	€'000	€'000
Profit on general business	2,691	3,464
Profit on long term business	577	246
Net investment income not allocated to the technical accounts	4,153	1,147
Administrative expenses	(1,521)	(1,567)
	<hr/>	<hr/>
Profit for the financial year before tax	5,900	3,290
	<hr/>	<hr/>

Geographical information

The segment results for the years ended 31 December 2013 and 2012 by geographical area are indicated below:

	Group		Company	
	Gross premiums written	Gross premiums written	Gross premiums written	Gross premiums written
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Malta	138,204	120,739	31,308	35,243
Other locations in run-off	55	3	55	3
	<hr/>	<hr/>	<hr/>	<hr/>
	138,259	120,742	31,363	35,246
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Group segment assets and liabilities

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

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long- term business €'000	Unallocated €'000	Total €'000
At 31 December 2013								
Assets allocated to business segments	17,050	13,161	8,222	5,184	11,457	1,220,091	7,812	1,282,977
Assets allocated to Shareholders	-	-	-	-	-	-	156,983	156,983
Total assets	17,050	13,161	8,222	5,184	11,457	1,220,091	164,795	1,439,960
At 31 December 2012								
Assets allocated to business segments	16,898	13,053	10,356	5,559	12,332	1,118,480	8,307	1,184,985
Assets allocated to shareholders	-	-	-	-	-	-	151,587	151,587
Total assets	16,898	13,053	10,356	5,559	12,332	1,118,480	159,894	1,336,572

The total of non-current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts of €143.29 million (2012: €138.65 million) are all located in Malta.

NOTES TO THE FINANCIAL STATEMENTS

7. NET OPERATING EXPENSES

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000 <i>restated</i>	€'000	€'000 <i>restated</i>
Acquisition costs	12,343	12,058	6,763	7,320
Change in deferred acquisition costs, net of reinsurance	(59)	105	(59)	105
Administrative expenses	10,350	10,768	4,909	5,173
Reinsurance commissions and profit participation	(5,449)	(6,350)	(4,057)	(5,152)
	17,185	16,581	7,556	7,446
Allocated to:				
General business technical account	5,808	5,702	5,808	5,702
Long term business technical account	8,598	7,974	227	177
Non-technical account (administrative expenses)	2,779	2,905	1,521	1,567
	17,185	16,581	7,556	7,446

Total commissions for direct business accounted for in the financial year amounted to €9.55 million (2012: €9.69 million) in the Group's technical result and €6.31 million (2012: €6.45 million) in the Company's technical result. €2.92 million (2012: €2.01 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 11. Further detail relating to administrative expenses is included in Note 10.

Finance costs payable on the subordinated loan at Group level amounting to €0.20 million (2012: €0.36 million) are included within administrative expenses.

NON-TECHNICAL ACCOUNT

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

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT RETURN

	Group		Company	
	2013	2012	2013	2012
	€'000	<i>restated</i> €'000	€'000	<i>restated</i> €'000
Investment income				
Dividend income from group undertakings	-	-	4,090	1,223
Share of profit of other associated undertaking, net of tax	15	-	-	-
Rent receivable from investment property	4,598	3,659	330	297
Interest receivable from loans and receivables - other financial assets not at fair value through profit or loss	3,446	4,306	222	345
Income from financial assets at fair value through profit or loss				
- dividend income	6,195	5,439	231	279
- other net fair value gains	86,527	83,909	444	575
Income from available-for-sale assets	36	64	36	36
Net fair value gains on investment Property (Note 18)	237	1,151	-	267
Other investment income	928	845	-	-
Exchange differences	-	112	-	112
	101,982	99,485	5,353	3,134
Investment expenses and charges				
Share of loss of other associated undertaking, net of tax	-	53	-	-
Direct operating expenses arising from investment property that generated rental income	480	473	97	97
Interest expense for financial liabilities that are not at fair value through profit or loss	55	210	55	210
Net fair value losses on investment Property (Note 18)	94	-	33	-
Other investment expenses	2,091	1,808	-	-
Exchange differences	147	-	147	-
	2,867	2,544	332	307
Total investment income	99,115	96,941	5,021	2,827
Analysed between:				
Allocated investment return transferred to the general business technical account	663	1,444	663	1,444
Investment return included in the long term business technical account	92,892	90,541	205	236
Other investment income included in the non-technical account	5,560	4,956	4,153	1,147
	99,115	96,941	5,021	2,827

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Other technical income, net of reinsurance				
Investment management fees	418	405	-	-
Other	162	192	-	-
	580	597	-	-
Other income – non technical				
Management fees	493	574	-	-
Other income	624	596	-	-
	1,117	1,170	-	-

10. PROFIT BEFORE TAX

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

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Employee compensation (Note 11)	6,506	6,399	3,560	3,454
Depreciation/amortisation:				
- intangible assets (Note 16)	996	869	372	195
- property, plant and equipment (Note 17)	464	424	191	186
Release of provision for impairment on receivables (Note 25)	(157)	(10)	(157)	(10)
Impairment of receivables	11	57	11	57
Impairment of intangible assets (Note 16)	-	225	-	-
Write-backs of payables	(1)	(189)	(1)	(189)
Increase in provision for impairment on receivables (Note 25)	59	479	59	479
Insurance cover purchased for directors and officers	67	69	21	23

NOTES TO THE FINANCIAL STATEMENTS

10. PROFIT BEFORE TAX - CONTINUED

The financial statements include fees charged by the parent company auditor for services rendered during the financial periods ended 31 December 2013 (Ernst & Young) and 2012 (PricewaterhouseCoopers) relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
<i>Parent company auditor</i>				
Annual statutory audit	83	154	71	78
Other assurance services	13	19	13	13
Tax advisory and compliance services	-	19	-	10
Other	8	9	8	9
<i>Other component auditors</i>				
Annual statutory audit	66	-	-	-
Other assurance services	5	-	-	-
Tax advisory and compliance services	21	-	12	-
Other	6	-	-	-
	202	201	104	110

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

	Group	
	2013 €'000	2012 €'000
Annual statutory audit	53	53

11. EMPLOYEE COMPENSATION

	Group		Company	
	2013 €'000	2012 <i>restated</i> €'000	2013 €'000	2012 <i>restated</i> €'000
Salaries	6,182	6,085	3,386	3,283
Social security costs	324	314	174	171
	6,506	6,399	3,560	3,454

The average number of persons employed during the year was:

	Group		Company	
	2013	2012	2013	2012
Key management personnel	23	23	12	13
Managerial	30	33	21	22
Technical	105	100	51	47
Administrative	14	12	10	9
	172	168	94	91

NOTES TO THE FINANCIAL STATEMENTS

12. TAX EXPENSE

	Group		Company	
	2013	2012 <i>restated</i>	2013	2012 <i>restated</i>
	€'000	€'000	€'000	€'000
Current tax (credit)/expense	511	(41)	553	847
Deferred tax expense (Note 22)	5,843	683	139	18
Income tax expense	6,354	642	692	865

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

	Group		Company	
	2013	2012 <i>restated</i>	2013	2012 <i>restated</i>
	€'000	€'000	€'000	€'000
Profit before tax	17,305	18,011	5,900	3,290
Tax at 35%	6,057	6,304	2,065	1,151
Adjusted for tax effect of:				
Net exempt income and disallowed expenses (2012: after impact of tax credits not recognised in prior years)	(204)	(1,193)	(1,455)	(180)
Effect of certain expenses treated as non-deductible in previous years	-	(1,782)	-	-
Effect of revision of tax legislation impacting tax base on investments	-	(2,452)	-	-
Under provision for tax in prior year	427	-	8	-
Withholding tax regime on investment property	56	(148)	56	(35)
Other	18	(87)	18	(71)
Income tax expense	6,354	642	692	865

13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Directors' fees	166	161	146	140

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

NOTES TO THE FINANCIAL STATEMENTS

14. EARNINGS PER SHARE

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

	Group	
	2013 €'000	2012 €'000
Profit attributable to shareholders	6,028	9,393
Number of ordinary shares in issue (Note 27)	92,000,000	92,000,000
Earnings per share attributable to shareholders (€)	6.6c	10.2c

15. DIVIDENDS

A gross dividend in respect of year ended 31 December 2013 of €0.045 (2012: €0.025) per share amounting to a total dividend of €4,140,222 (2012: €2,300,000) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.03826 (2012: €0.01897) per share amounting to a total net dividend of €3,520,000 (2012: €1,745,000). These financial statements do not reflect this dividend.

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

Group	Value of in-force business (ii) €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 1 January 2012				
Cost or valuation	41,766	9,886	3,011	54,663
Accumulated amortisation	-	(8,060)	(1,878)	(9,938)
Net book amount	41,766	1,826	1,133	44,725
Year ended 31 December 2012				
Opening net book amount	41,766	1,826	1,133	44,725
Increase in value of in-force business credited to reserves (Note 28)	3,950	-	-	3,950
Additions	-	1,132	21	1,153
Disposal	-	(422)	-	(422)
Amortisation charge	-	(645)	(224)	(869)
Amortisation released on disposal	-	380	-	380
Impairment charge	-	(225)	-	(225)
Closing net book amount	45,716	2,046	930	48,692
At 31 December 2012				
Cost or valuation	45,716	10,596	3,032	59,344
Accumulated amortisation	-	(8,550)	(2,102)	(10,652)
Net book amount	45,716	2,046	930	48,692
Year ended 31 December 2013				
Opening net book amount	45,716	2,046	930	48,692
Increase in value of in-force business credited to reserves (Note 28)	3,494	-	-	3,494
Additions	-	820	108	928
Amortisation charge	-	(793)	(203)	(996)
Closing net book amount	49,210	2,073	835	52,118
At 31 December 2013				
Cost or valuation	49,210	11,416	3,140	63,766
Accumulated amortisation and impairment	-	(9,343)	(2,305)	(11,648)
Net book amount	49,210	2,073	835	52,118

Amortisation of €0.37 million (2012: €0.40 million) is included in acquisition costs and €0.63 million (2012: €0.47 million) is included in administration expenses.

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

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

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

Assumptions

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

The valuation assumes a spread of 2% (2012: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 7.5% (2012: 7.5%). The calculation also assumes lapse rates varying by product from 0.5% to 8% pa (2012: 2% to 10% pa), and an expense inflation rate of 3.5% pa (2012: 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.

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	Impact on value of in-force business
		2013 € million	2012 € million
Investment returns	+1.00%	5.8	5.5
Investment returns	-1.00%	(5.8)	(5.5)
Risk adjusted discount rate	+1.00%	(2.9)	(2.7)
Risk adjusted discount rate	-1.00%	3.2	3.0
Renewal expense	+10.00%	(0.6)	(0.6)
Renewal expense	-10.00%	0.6	0.6
Lapse rate	+2.00%	1.0	0.6
Lapse rate	-2.00%	(0.8)	(0.9)
Mortality	+15.00%	(1.0)	(0.7)
Mortality	-15.00%	1.0	0.7

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

	Company €'000
Computer software	
At 1 January 2012	
Cost	3,035
Accumulated amortisation	(2,537)
	<hr/>
Net book value	498
	<hr/>
Year ended 31 December 2012	
Opening net book amount	498
Additions	745
Disposals	(412)
Amortisation charge	(195)
Amortisation released on disposals	370
	<hr/>
Closing net book amount	1,006
	<hr/>
At 31 December 2012	
Cost	3,368
Accumulated amortisation	(2,362)
	<hr/>
Net book amount	1,006
	<hr/>
Year ended 31 December 2013	
Opening net book amount	1,006
Additions	669
Amortisation charge	(372)
	<hr/>
Closing net book amount	1,303
	<hr/>
At 31 December 2013	
Cost	4,037
Accumulated amortisation	(2,734)
	<hr/>
Net book amount	1,303
	<hr/>

Amortisation expense has been charged in administrative expenses.

Fully amortised assets that were still in use for the Company as at the financial year amounted to €1.3m (2012: €1.1m).

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2012					
Cost	2,036	2,376	8	4,685	9,105
Accumulated depreciation	(27)	(673)	(8)	(3,610)	(4,318)
Net book amount	2,009	1,703	-	1,075	4,787
Year ended 31 December 2012					
Opening net book amount	2,009	1,703	-	1,075	4,787
Additions	84	92	-	446	622
Transfer from investment properties (Note 18)	3,833	-	-	-	3,833
Disposals	-	(462)	(2)	(902)	(1,366)
Depreciation charge	(17)	(110)	-	(297)	(424)
Depreciation released on disposal	-	334	2	902	1,238
Closing net book amount	5,909	1,557	-	1,224	8,690
At 31 December 2012					
Cost	5,953	2,006	6	4,229	12,194
Accumulated depreciation	(44)	(449)	(6)	(3,005)	(3,504)
Net book amount	5,909	1,557	-	1,224	8,690
Year ended 31 December 2013					
Opening net book amount	5,909	1,557	-	1,224	8,690
Additions	191	142	13	503	849
Disposals	-	(117)	-	(82)	(199)
Depreciation charge	(21)	(109)	(1)	(333)	(464)
Depreciation released on disposal	-	30	-	44	74
Closing net book amount	6,079	1,503	12	1,356	8,950
At 31 December 2013					
Cost	6,144	2,031	19	4,650	12,844
Accumulated depreciation	(65)	(528)	(7)	(3,294)	(3,894)
Net book amount	6,079	1,503	12	1,356	8,950

Land and buildings are shown at fair value. The Group's land and buildings were revalued at 31 December 2013 by independent valuers. Valuations were made on the basis of market value. As at 31 December 2013 and 2012, the fair value of the freehold land and buildings is not significantly different as compared to its historical cost and carrying amount.

Depreciation expense has been charged in administrative expenses.

Fully depreciated assets that were still in use for the Group as at the financial year amounted to €1.6m (2012: €1.6m).

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2012					
Cost	135	1,707	2	2,773	4,617
Accumulated depreciation	(5)	(622)	(2)	(2,409)	(3,038)
Net book amount	130	1,085	-	364	1,579
Year ended 31 December 2012					
Opening net book amount	130	1,085	-	364	1,579
Additions	-	92	-	158	250
Disposals	-	(451)	(2)	(902)	(1,355)
Depreciation charge	(3)	(55)	-	(128)	(186)
Depreciation released on disposal	-	334	2	902	1,238
Closing net book amount	127	1,005	-	394	1,526
At 31 December 2012					
Cost	135	1,348	-	2,029	3,512
Accumulated depreciation	(8)	(343)	-	(1,635)	(1,986)
Net book amount	127	1,005	-	394	1,526
Year ended 31 December 2013					
Opening net book amount	127	1,005	-	394	1,526
Additions	-	106	13	179	298
Depreciation charge	(2)	(51)	(1)	(137)	(191)
Closing net book amount	125	1,060	12	436	1,633
At 31 December 2013					
Cost	135	1,454	13	2,208	3,810
Accumulated depreciation	(10)	(394)	(1)	(1,772)	(2,177)
Net book amount	125	1,060	12	436	1,633

Freehold land and buildings are shown at fair value. As at 31 December 2013 and 2012, the fair value of the freehold land and buildings is not significantly different as compared to its historical cost and carrying amount.

Depreciation expense has been charged to administrative expenses.

Fully depreciated assets that were still in use for the Company as at the financial year amounted to €1.0m (2012: €1.0m).

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2012		
Cost	42,258	4,937
Accumulated fair value gains	24,279	3,174
	<hr/>	<hr/>
Net book amount	66,537	8,111
Year ended 31 December 2012		
Opening net book amount	66,537	8,111
Additions	17,292	219
Transfer to property, plant and equipment (Note 17)	(3,833)	-
Net fair value gains	1,151	267
	<hr/>	<hr/>
Net book amount	81,147	8,597
At 31 December 2012		
Cost	55,717	5,156
Accumulated fair value gains	25,430	3,441
	<hr/>	<hr/>
Net book amount	81,147	8,597
Year ended 31 December 2013		
Opening net book amount	81,147	8,597
Additions	943	394
Disposal	(2)	(2)
Net fair value gains/(losses)	143	(33)
	<hr/>	<hr/>
Net book amount	82,231	8,956
At 31 December 2013		
Cost	56,658	5,548
Accumulated fair value gains	25,573	3,408
	<hr/>	<hr/>
Net book amount	82,231	8,956

Fair value of land and buildings

An independent valuation of the Group's and Company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2013 and 2012. The fair value movements were credited to profit and loss and are presented within 'investment return' (Note 8).

The Group's and the Company's investment property, comprising mainly office buildings, have been determined to fall within level 3 of the fair valuation hierarchy. The different levels in the fair value hierarchy have been defined in Note 4.3.

The Group's and the Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year.

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY - CONTINUED

For all properties, their current use equates to the highest and best use.

Valuation processes

On an annual basis, the Group and Company engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings. As at 31 December 2013, the fair values of the land and buildings have been determined by DHI Periti.

At each financial year end the investments department:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report;
- holds discussions with the independent valuer.

Valuation techniques

For level 3 fair value of all office buildings with a total carrying amount of €82.23 million (2012: €81.15 million) for the Group and €8.96 million (2012: €8.60 million) for the Company, the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

Future rental cash inflows	based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties;
Capitalisation rates	based on actual location, size and quality of the properties and taking into account market data at the valuation date.

Information about fair value measurements using significant unobservable inputs (level 3)

Description	Fair value at 31 December €	Valuation technique	Range of significant unobservable inputs	
			Rental value €	Capitalisation rate %
Office buildings	82.23m	Capitalisation of future net income streams	4.6m	4.5 - 8

For each valuation for which rental value and capitalisation rate have been determined to be the significant unobservable inputs, the higher the rental value and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the higher the fair value.

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2012	
Opening and closing net book amount and deemed cost	57,214
Year ended 31 December 2013	
Opening and closing net book amount and deemed cost	57,214

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held	
			2013	2012
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MSV Life p.l.c.	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

The amount of dividends that can be distributed in cash by MSV Life p.l.c. is restricted by the solvency requirements imposed by the MFSA Regulations.

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

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held	
			2013	2012
Growth Investment Limited (held indirectly by MSV Life p.l.c.)	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2012		
Cost	4,481	147
Accumulated fair value movements	727	-
	<hr/>	<hr/>
Net book amount	5,208	147
Year ended 31 December 2012		
Opening net book amount	5,208	147
Share of associated undertaking's profits and movement in reserves	(53)	-
Fair value movements (Note 28)	(93)	-
	<hr/>	<hr/>
Closing net book amount	5,062	147
At 31 December 2012		
Cost	4,481	147
Accumulated fair value movements	581	-
	<hr/>	<hr/>
Net book amount	5,062	147
Year ended 31 December 2013		
Opening net book amount	5,062	147
Additions	10,147	147
Share of associated undertaking's results and movement in reserves	15	-
Fair value movements	94	-
	<hr/>	<hr/>
Closing net book amount	15,318	294
At 31 December 2013		
Cost	14,628	294
Accumulated fair value movements	690	-
	<hr/>	<hr/>
Net book amount	15,318	294
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUES

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

2013	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	796	282	993	19	49%

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

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

	Registered office	Class of shares held	Percentage of shares held			
			Company (MSV)		Group	
			2013	2012	2013	2012
Premium Realty Limited	Middlesea House Floriana	Ordinary shares	25%	25%	37.5%	37.5%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%	28.36%	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	34.56%	-	34.56%	-

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2013 was 57.5c and 51.5c respectively.

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Fair value through profit or loss	991,867	973,774	8,110	9,395
Other available-for-sale	962	940	881	857
Loans and receivables	225,993	146,397	11,584	8,915
	1,218,822	1,121,111	20,575	19,167

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Equity securities and units in unit trusts	298,854	242,897	2,169	2,961
Debt securities	593,840	636,423	5,941	6,434
Assets held to cover linked liabilities – collective investment schemes	98,921	94,261	-	-
Forward foreign exchange contracts	252	193	-	-
Total investments at fair value through profit or loss	991,867	973,774	8,110	9,395

Technical provisions for linked liabilities amounted to €98 million as at 31 December 2013 (2012: €94 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2013 and 2012, the Group and Company had no financial commitments in respect to uncalled capital.

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

NOTES TO THE FINANCIAL STATEMENTS

21. 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
Year ended 31 December 2012		
Opening net book amount	865,090	12,202
Additions	450,079	54
Disposals	(393,432)	(3,105)
Net fair value losses	52,037	244
	973,774	9,395
Year ended 31 December 2013		
Opening net book amount	973,774	9,395
Additions	489,828	54
Disposals	(526,058)	(1,488)
Net fair value gains	54,323	149
	991,867	8,110

Derivatives and financial instruments amounting to €0.02 million in 2012 included in the table above, are classified within liabilities in the balance sheet.

(b) Other available-for-sale financial assets

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Listed debt securities	879	857	881	857
Unlisted shares	83	83	-	-
	962	940	881	857

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Year ended 31 December				
Opening net book amount	940	960	857	832
Additions	-	-	-	-
Disposals	-	-	-	-
Net fair value (losses)/gains (Note 28)	22	(20)	24	25
	962	940	881	857

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Deposits with banks or credit institutions	216,090	134,989	11,584	8,915
Loans secured on policies	9,903	10,671	-	-
Other loan	-	737	-	-
	225,993	146,397	11,584	8,915

As at 31 December 2013 an amount of €0.39million (2012: €0.31million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

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

	Group Year ended 2012		
	Loans secured on policies €'000	Other loan €'000	Total €'000
Total at beginning of year	11,619	-	11,619
Additions	2,032	737	2,769
Disposals (sales and redemptions)	(2,980)	-	(2,980)
Closing net book amount	10,671	737	11,408

	Group Year ended 2013		
	Loans secured on policies €'000	Other loan €'000	Total €'000
Total at beginning of year	10,671	737	11,408
Additions	1,934	-	1,934
Disposals (sales and redemptions)	(2,702)	(737)	(3,439)
Closing net book amount	9,903	-	9,903

The above loans earn interest at fixed rates.

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Balance at 1 January				
As previously stated	6,527	5,849	(158)	(186)
Effect of adopting IAS19 revised	(149)	(81)	(149)	(81)
Balance at 1 January as restated	6,378	5,768	(307)	(267)
Movements during the year:				
Profit and loss account (Note 12)	5,843	683	139	18
Other comprehensive income	12	(73)	15	(58)
Balance at 31 December – net	12,233	6,378	(153)	(307)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2012: 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 (2012: 12%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2013 €'000	2012 <i>restated</i> €'000	2013 €'000	2012 <i>restated</i> €'000
Temporary differences on property, plant and equipment	351	322	134	91
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	34,735	22,396	820	758
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(22,542)	(15,980)	(796)	(796)
Temporary differences attributable to other provisions	(311)	(360)	(311)	(360)
Balance at 31 December – net	12,233	6,378	(153)	(307)

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

	Group		Company	
	2013 €'000	2012 <i>restated</i> €'000	2013 €'000	2012 <i>restated</i> €'000
Deferred tax asset	(2,265)	(2,273)	(1,108)	(1,108)
Deferred tax liability	14,498	8,651	955	801
	12,233	6,378	(153)	(307)

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX - CONTINUED

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

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

The Group and Company have unutilised capital losses of €24.30 million (2012: €29.09 million), which give rise to a deferred tax asset of €8.51 million (2012: €10.18 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €3.11 million (2012: €3.11 million) giving rise to a further deferred tax asset of €1.09 million (2012: €1.09 million) which has not been recognised in these financial statements. As at 31 December 2012, the deferred tax impact of all unutilised tax credits in the MSV Life p.l.c. Group has been recognised in these financial statements. Unutilised capital losses and trading losses do not expire. The deferred tax assets are re-examined on an annual basis.

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Gross				
Short-term insurance contracts – general business				
- claims outstanding	37,430	39,272	37,430	39,272
- provision for unearned premiums and unexpired risks	14,805	15,832	14,805	15,832
Group life insurance contracts				
- claims outstanding	185	347	185	347
- long term business provision	622	680	621	680
Long term contracts				
- individual life insurance contracts	461,823	422,033	-	-
- investment contracts with DPF	693,669	633,393	-	-
Total technical provisions, gross	1,208,534	1,111,557	53,041	56,131
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	12,908	12,505	12,908	12,505
- provision for unearned premiums and unexpired risks	4,778	5,816	4,778	5,816
Group life insurance contracts				
- claims outstanding	93	193	93	193
- long term business provision	230	281	230	281
Long term contracts				
- individual life insurance contracts	302	428	-	-
Total reinsurers' share of insurance liabilities	18,311	19,223	18,009	18,795
Net				
Short-term insurance contracts				
- claims outstanding	24,522	26,767	24,522	26,767
- provision for unearned premiums and unexpired risks	10,027	10,016	10,027	10,016
Group life insurance contracts				
- claims outstanding	92	154	92	154
- long term business provision	392	399	391	399
Long term contracts				
- individual life insurance contracts	461,521	421,605	-	-
- investment contracts with DPF	693,669	633,393	-	-
Total technical provisions, net	1,190,223	1,092,334	35,032	37,336

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

(a) Short-term insurance contracts – claims outstanding

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2013 and 2012 are not material.

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

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

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

Company

Accident year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of the ultimate claims costs:												
- at end of accident year	15,134	14,335	13,196	13,470	14,423	15,458	15,248	17,111	15,972	15,756	16,104	
- one year later	14,165	14,147	13,257	12,783	13,517	15,661	15,319	15,871	15,402	14,183		
- two years later	13,284	13,174	11,729	11,569	12,674	13,415	13,367	13,114	13,702			
- three years later	12,543	12,170	11,212	10,887	11,582	12,781	12,486	12,263				
- four years later	12,378	11,850	10,871	10,030	11,411	12,464	12,147					
- five years later	11,798	11,445	10,447	9,935	10,978	12,199						
- six years later	11,684	10,590	10,251	9,686	10,750							
- seven years later	11,392	10,421	10,098	9,679								
- eight years later	11,284	10,347	10,078									
- nine years later	11,164	10,335										
- ten years later	11,138											
Current estimates of cumulative claims	11,138	10,335	10,078	9,679	10,750	12,199	12,147	12,263	13,702	14,183	16,104	132,578
Cumulative payments to date	(11,147)	(9,772)	(9,639)	(8,831)	(10,383)	(11,268)	(11,391)	(10,985)	(11,041)	(10,462)	(8,140)	(113,059)
Liability recognised in the balance sheet	(9)	563	439	848	367	931	756	1,278	2,661	3,721	7,964	19,519
Liability in respect of prior years												5,003
Total reserve included in the balance sheet												24,522

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

Movements in claims and loss adjustment expenses:

	Group and Company Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	40,104	(10,892)	29,212
Claims settled during the year	(17,731)	5,087	(12,644)
Increase/(decrease) in liabilities			
- arising from current year claims	23,168	(7,408)	15,760
- arising from prior year claims	(6,269)	708	(5,561)
At end of year	39,272	(12,505)	26,767
	Group and Company Year ended 2013		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	39,272	(12,505)	26,767
Claims settled during the year	(18,291)	5,263	(13,028)
Increase/(decrease) in liabilities			
- arising from current year claims	21,887	(6,514)	15,373
- arising from prior year claims	(5,438)	848	(4,590)
At end of year	37,430	(12,908)	24,522

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Movements in claims and loss adjustments expenses - continued

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

The Company registered a gross favorable run-off of €5.44 million (2012: €6.27 million). After the effect of reinsurance, this amounts to €4.59 million (2012: €5.56 million). This run-off arose principally from a favorable development on claims in the motor and liability classes of direct general business of insurance. This is attributable, *inter alia*, to savings made during the claims handling process.

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

The movements for the year are summarised as follows:

	Group and Company Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	13,994	(5,011)	8,983
Net charge/(credit) to profit and loss	1,838	(805)	1,033
At end of year	15,832	(5,816)	10,016
	Group and Company Year ended 2013		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	15,832	(5,816)	10,016
Net (credit)/charge to profit and loss	(1,027)	1,038	11
At end of year	14,805	(4,778)	10,027

The balance at 31 December 2013 includes a provision for unexpired risks of €0.67 million (2012: €0.70 million).

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - continued

(c) Group Life insurance contracts

Claims outstanding

Movement in claims outstanding is summarised as follows:

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

	Group and Company Year ended 2013		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	347	(193)	154
Claims settled during the year	(695)	377	(318)
Increase/(decrease) in liabilities	533	(277)	256
At year-end	185	(93)	92

Long term business provision

The balance on the long term business provision has been certified by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2013. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows:

	2013 €'000	2012 €'000
Investments	4,027	3,955
Insurance and other receivables	597	423
Cash at bank and in hand	738	990
Claims outstanding	(92)	(154)
Insurance and other payables	(4,878)	(4,815)
Long term business provision, net of reinsurance	392	399

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts

	2013 €'000	2012 €'000
Gross technical provisions		
- claims outstanding	1,307	1,375
- long term business provision	460,516	420,658
	461,823	422,033
Reinsurers' share of technical provisions		
- claims outstanding	302	428
	302	428
Net technical provisions		
- claims outstanding	1,005	947
- long term business provision	460,516	420,658
	461,521	421,605

The movements for the year are summarised as follows:

	Group Year ended 2012		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	388,693	(228)	388,465
Charge to the profit and loss account	33,340	(200)	33,140
At end of year	422,033	(428)	421,605
	Group Year ended 2013		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	422,033	(428)	421,605
Charge to the profit and loss account	39,790	126	39,916
At end of year	461,823	(302)	461,521

The above liabilities are substantially non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts - continued

	Group 2013 €'000	Group 2012 €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	3,141	2,495
- long term business provision	690,528	630,898
	693,669	633,393

The movements for the year are summarised as follows:

	2013 €'000	2012 €'000
Year ended 31 December		
At beginning of year	633,393	585,748
Charge to the profit and loss account	60,276	47,645
	693,669	633,393

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

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

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

(i) *Assumptions*

Rate of future investment return

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

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Long term contracts – assumptions, changes in assumptions and sensitivity - continued

(i) Assumptions - continued

Bonus rates

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

Policy maintenance expenses

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

Minimum reserve

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

Mortality

The Group makes reference to AMC00 (2012: AMC00) tables.

(ii) Changes in assumptions

In accordance with normal practice, investment return assumptions were reviewed to reflect market movements over the year. Similarly, our policy expense expectations were also updated. The combined impact of these changes in assumptions has been charged against the technical result for the year.

(iii) Sensitivity analysis

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

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

TECHNICAL PROVISIONS - INVESTMENT CONTRACTS WITHOUT DPF

	2013 €'000	2012 €'000
Long term business provision	63,621	61,932
Claims outstanding	171	95
	<hr/> 63,792	<hr/> 62,027

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

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Year ended 31 December				
Opening net book amount	3,092	2,898	3,092	2,898
Net amount charged to the profit and loss	(256)	194	(256)	194
Closing net book amount	2,836	3,092	2,836	3,092

Deferred acquisition costs are all classified as current assets.

25. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	248	206	248	206
- due from agents, brokers and intermediaries	7,272	7,472	7,272	7,472
- due from reinsurers	579	1,098	579	1,098
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	207	123	207	123
<i>Deposits with ceding undertakings</i>	147	147	147	147
<i>Other loans and receivables:</i>				
- prepayments	1,729	1,334	633	722
- accrued interest and rent	11,757	12,362	162	199
- receivables from group undertakings	-	-	63	-
- receivables from associated undertakings	-	-	-	-
- other receivables	67	25	-	-
<i>Provision for impairment of receivables</i>	(494)	(592)	(494)	(592)
	21,512	22,175	8,817	9,375
Current portion	21,512	22,175	8,817	9,375

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

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Balance as at 1 January	592	123	592	123
Provision for impairment	59	479	59	479
Release of provision for impairment during the year	(157)	(10)	(157)	(10)
Balance as at 31 December	494	592	494	592

NOTES TO THE FINANCIAL STATEMENTS

26. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Cash at bank and in hand	10,846	18,970	2,705	7,021

27. SHARE CAPITAL

	Group and Company	
	2013 €'000	2012 €'000
Authorised 150 million ordinary shares of €0.21 each	31,500	31,500
Issued and fully paid 92 million ordinary shares of €0.21 each	19,320	19,320

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER RESERVES

Group

	Value of in-force business €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2012	20,884	55	20,939
Fair value movements – gross (Note 21)	-	(20)	(20)
Fair value movements – tax	-	16	16
Share of increase in value of in-force business of subsidiary Undertaking	1,975	-	1,975
Balance at 31 December 2012	22,859	51	22,910
Balance at 1 January 2013	22,859	51	22,910
Fair value movements – gross (Note 21)	-	22	22
Fair value movements – tax	-	1	1
Share of increase in value of in-force business of subsidiary Undertaking	1,747	-	1,747
Balance at 31 December 2013	24,606	74	24,680

The above reserves are not distributable reserves.

Company

	Investment in subsidiary undertaking €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2012	34,663	23	34,686
Fair value movements – gross (Note 20 and 21)	-	25	25
Balance at 31 December 2012	34,663	48	34,711
Balance at 1 January 2013	34,663	48	34,711
Fair value movements – gross (Note 20 and 21)	-	24	24
Balance at 31 December 2013	34,663	72	34,735

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

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

The following table shows the changes in the present value of the pension obligation and amounts shown in the profit or loss and other comprehensive income:

	Group and Company	
	2013	2012
	€'000	€'000
1 January	1,582	1,431
Interest expense – profit and loss (Note 8)	52	64
Settlements	(81)	(79)
Re-measurements actuarial loss – other comprehensive income	(42)	166
	<hr/>	<hr/>
At 31 December	1,511	1,582
	<hr/>	<hr/>

The following payments as expected in the future years:

	Group and Company	
	2013	2012
	€'000	€'000
Within one year	81	81
After more than one year	1,430	1,501
	<hr/>	<hr/>
	1,511	1,582
	<hr/>	<hr/>

The significant assumptions used in determining the pension obligation are shown below:

	Group and Company	
	2013	2012
Mortality	AMC00	AMC00
Discount rate	3.5%	3.3%
Inflation rate	2.0%	2.0%

A quantitative analysis of the impact on the pension obligation for the significant assumptions is shown below:

	Group and Company	
	2013	2012
	€000	€000
Discount rate – 1% pt increase	(152)	(166)
Discount rate – 1% pt decrease	181	199
Inflation rate – 1% pt increase	174	191
Inflation rate – 1% pt decrease	(150)	(163)

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Bank loans	-	8,500	-	2,500

The carrying amounts of borrowings approximate their fair value. As at 31 December 2013, the Group's undrawn borrowing facility amounted to €4m.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Creditors arising out of direct insurance operations	4,108	5,238	1,929	2,994
Creditors arising out of reinsurance operations	222	228	222	228
Amounts owed to associated undertaking	134	168	31	122
Amounts owed to group undertakings	-	-	1,002	1,022
Social security and other tax payables	799	822	489	459
Accruals	3,344	3,320	2,139	1,840
Deferred income	2,353	2,520	1,710	2,027
	10,960	12,296	7,522	8,692
Current	10,797	12,108	7,522	8,692
Non-current	163	188	-	-
	10,960	12,296	7,522	8,692

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

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

NOTES TO THE FINANCIAL STATEMENTS

32. CASH GENERATED FROM/(USED IN) OPERATIONS

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

	Group		Company	
	2013	2012	2013	2012
	€'000	restated €'000	€'000	restated €'000
Profit before tax	17,305	18,011	5,900	3,290
Adjusted for:				
Depreciation (Note 17)	464	424	191	186
Impairment charges	11	282	11	57
(Increase in)/release of provision for impairment of receivables (Note 25)	(98)	469	(98)	469
Other provision for liabilities and charges (Note 29)	(81)	(20)	(81)	(20)
Amortisation (Note 16)	996	869	372	195
Adjustments relating to investment return	(102,524)	(103,340)	(4,919)	(2,578)
Loss/(profit) on sale of property, plant and equipment	125	161	-	161
Movements in:				
Insurance and other receivables	1,352	396	677	(553)
Deferred acquisition costs (Note 24)	256	(194)	256	(194)
Reinsurers' share of technical provisions	913	(2,787)	786	(2,587)
Technical provisions	98,741	83,992	(3,090)	1,319
Insurance and other payables	(2,320)	(2,185)	(1,134)	(212)
Cash generated from/(used in) operations	15,140	(3,922)	(1,129)	(467)

Non-cash transactions

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

NOTES TO THE FINANCIAL STATEMENTS

33. COMMITMENTS

Capital commitments

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Authorised and not contracted for				
- property, plant and equipment	322	1,142	196	146
- intangible assets	2,559	2,363	1,045	1,011

Operating lease commitments – where the company is a lessor

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

	Group		Company	
	2013	2012	2013	2012
	€'000	€'000	€'000	€'000
Not later than 1 year	3,864	3,586	240	252
Later than 1 year and not later than 5 years	5,852	5,869	309	218
Later than 5 years	126	878	-	-
	9,842	10,333	549	470

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

Investment property includes properties valued at €4.18 million (2012: €4.18 million) on which the lessees have an option to buy these properties at a pre-determined price and within a pre-determined time. The fair value of these properties does not exceed the pre-determined option price.

NOTES TO THE FINANCIAL STATEMENTS

34. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.21million (2012: €0.18 million) not arising under contracts of insurance.

35. RELATED PARTY TRANSACTIONS

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

Relevant particulars of related party transactions are as follows:

	2013 €'000	2012 €'000
<i>(a) Sales of insurance contracts and other services</i>		
Sale of insurance contracts		
- subsidiaries	130	101
- associates	7	6
- shareholders represented on the Board	1,449	1,473
Claim recoveries from shareholders represented on the board	4,633	2,469
Reimbursement of expenses for back-office services provided		
- subsidiaries (after business combination)	87	106
Investment income		
- subsidiaries (dividends/interest receivable)	4,090	1,223
- shareholders represented on the Board (dividends/interest receivable)	4,774	4,524
Rent receivable from subsidiary/associate	85	72
	<hr/>	<hr/>
	2013 €'000	2012 €'000
<i>(b) Purchases of products and services</i>		
Reinsurance premium ceded to shareholders (represented on the Board) net of commissions	7,797	9,320
Acquisition costs payable to intermediaries where directors of the Company are directors or shareholders in companies that act as insurance agents or intermediaries	2,774	2,184
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	209	492
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NOTES TO THE FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS - CONTINUED

During 2012, the Company acquired property, plant and equipment amounting to € 60k from a subsidiary.

Key management personnel during 2013 and 2012 comprised the President & Chief Executive Officer, Chief Executive Officers, Vice Presidents, General Manager, Financial Controller, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel amounted to €2.04 million (Company: €1.12 million). Corresponding figures for 2012 were €1.79 million and €0.96 million.

Year-end balances arising from the above transactions:

	Group		Company	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000
Debtors arising out of direct insurance operations	103	168	103	168
Creditors arising out of direct insurance operations	191	625	191	625
Amounts owed by subsidiary undertakings	-	-	64	-
Amounts owed to subsidiary undertaking	-	-	1,002	1,022
Amount owed by associated undertaking	-	-	-	-
Amounts owed to associated undertaking	115	168	115	122
Reinsurers share of technical provisions	9,615	4,314	9,615	4,314
Investments with related parties	182,540	123,925	8,385	8,755
Subordinated loans	-	8,500	-	2,500

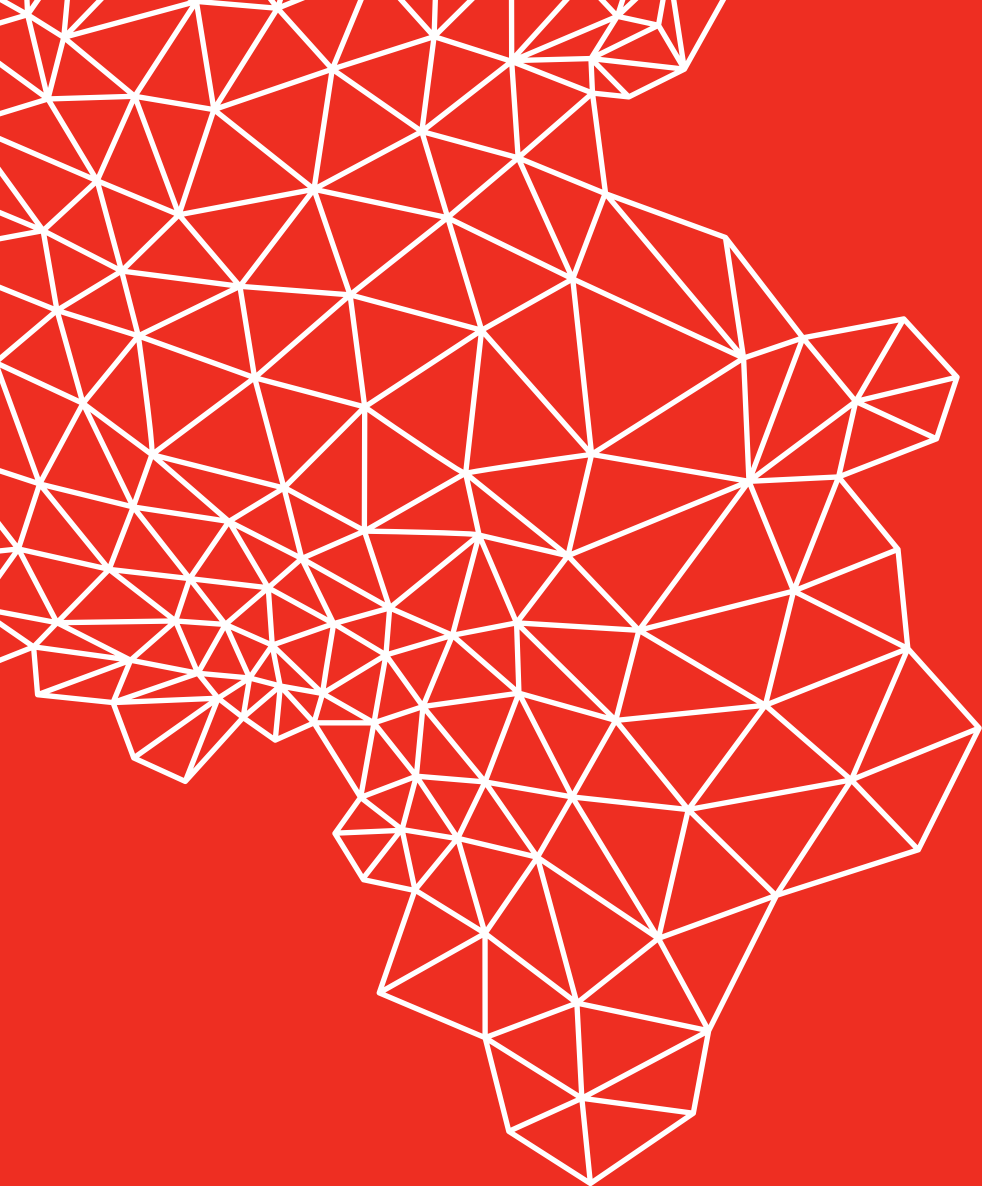
All balances above have arisen in the course of the Group's normal operations.

36. STATUTORY INFORMATION

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

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

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



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