MSV Life p.l.c.

Annual Report and Consolidated Financial Statements
31 December 2013

Company Registration Number: C15722

Directors' report

For the year ended 31 December 2013

The directors present their annual report, together with the audited financial statements for the year ended 31 December 2013.

Board of Directors

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

John Cassar White (Chairman – appointed 19 April 2013)Alfredo Muñoz Perez
Felipe Navarro López de Chicheri
John P. Cliff
Joseph F. X. Zahra
Mario Mallia
Pedro López Solanes
Peter Perotti (appointed on 29 May 2013)
Frederick Mifsud Bonnici (resigned on 8 April 2013)
Michael Galea (resigned on 25 April 2013)

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

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

Principal Activities

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

Directors' report - continued

Business review 2013

MSV Life p.l.c. ("MSV Life" and "MSV Group") registered a profit before tax of €15.48 million for the year ended 31 December 2013 sustaining the profitability patterns emerging in the prior year which saw the Group report a €15.98 million profit before tax.

Revenues were supported by the continuing resilience and upturn in the equity and bond markets which kept net investment income at similar levels to prior year.

In prior year there was a significant one-off deferred tax gain whereby all unutilised tax amounts available for relief against future taxable income in terms of the applicable law were recognised.

In 2013 the Group recorded an after-tax profit of €9.85 million for the year.

Gross premiums written (including investment contracts without DPF) for financial year 2013 increased by 27.5% from €87.31 million to €111.32 million. This was due to increases across various classes of protection business and stronger single premium business.

The MSV Group's total assets increased by 8.4% from €1,265.50 million at the end of 2012 to €1,372.10 million at the end of 2013, whilst the net technical provisions (including investment contracts without DPF) increased by 9.1% from €1,117.02 million in 2012 to €1,218.98 million in 2013.

The value of in-force business, disclosed as an intangible asset, increased by 7.6% from €45.72 million in 2012 to €49.21 million in 2013. The value of in-force business reflects the value of the projected future transfers to shareholders arising from policies in force at the end of the year.

The resilience and upturn in equity and bond markets kept returns similar to prior year with net investment income increasing from €95.44 million in 2012 to €98.19 million in 2013. The strong investment performance was underpinned by the company's conservative and diversified portfolio of assets, as well as by the rigorous and prudent investment management process that is so important in the management of life insurance companies.

Directors' report - continued

Business review 2013 - continued

At the end of 2013 the level of net admissible assets for statutory solvency purposes stood at €82.92 million (2012: €86.49 million), which represents an excess of €33.27 million (2012: €40.88 million) over the 'required margin of solvency' as stipulated in the Insurance Business Regulation of €49.66 million (2012: €45.61 million). This surplus is also above the multiple set by the regulator. During the year the Group repaid €6 million in qualifying subordinated debt, reducing interest costs and still retaining excess solvency cover.

Total shareholders' funds at the close of 2013 amounted to €135.13 million (2012: €129.82 million), an increase of 4.1% over the previous year.

The net asset value per share has increased from €5.93 as at the end of 2012 to €6.17 per share driven by the underlying profitability of the business.

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

In March 2014, The Board of Directors of MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of with-profits plans held with MSV Life for the year ending 31 December 2013. These amounted to 3.15% for the MSV Comprehensive Life Plan (regular and single premium policies), 3.35% in respect of the MSV Comprehensive Flexi Plan (regular and single premium policies), 3.35% under the MSV Single Premium Plan and 3.35% under the with-profits options of the MSV Investment Bond and of the MSV Retirement Plan. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2.20% of the basic sum assured plus bonuses was declared. In addition the Board also approved the declaration of a Final Bonus in respect of the Comprehensive Life Plan (single and regular premium) and the Comprehensive Flexi Plan (single and regular premium) policies that have been in force for more than 10 years. The Final Bonus will be paid on claims payable as a result of death or maturity between 1 January 2014 and the next bonus declaration, at a rate of 1.00% for every year after the 10th year of the policy. This final bonus will be paid on the value of the Policy Account as at the date of death or maturity.

The Board also approved a Regular Bonus of 3.35% on those Secure Growth policies which formed part of the portfolio of business transferred to MSV Life from Assicurazioni Generali S.p.A. during 2000. Finally the Board also approved a Regular Bonus of 1.75% on the Alico 78 policies and a Regular Bonus of 2.00% on the Alico 66 polices which formed part of the portfolio of business transferred to MSV Life in 2011 from American Life Insurance Company ("ALICO").

Directors' report - continued

Business review 2013 - continued

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

In 2013 the life insurance market in Malta experienced a pick up in demand for Single Premium and Unit Linked business with appetite recovering from the decline encountered in 2012. Our policy contracts in issue maintained their growth momentum and we closed off the year just short of issuing our one hundred thousandth active policy.

We continue to see good momentum in all our product groupings as customers continue to choose MSV Life, reflecting trust in our brand and in the quality of our service proposition.

The Maltese life insurance market remains an underinsured market. Although life insurance companies are playing an increasingly important role in Maltese household savings, comparative studies with other European life insurance markets show that whilst the Maltese life insurance market has grown significantly between 1994 and 2011, the per capita spend on life insurance is positioned at almost half of the average European spend. We therefore see significant life protection and long term savings uplift potential in the local life insurance market. We look forward with enthusiasm to the opportunity for us to play an important role in the expected national pension reform particularly in the creation and provision of second and third pillar retirement solutions once the required legislative framework is put in place.

Going forward we will maintain our strong focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end we will continue to invest and innovate in information technology. During 2013 we embarked on a major IT programme which will involve the migration of our business to the latest technology in our business. This will enable us to offer superior levels of service to our customer base. In tandem we have a number of initiatives lined up to strengthen further our digital platform and widen our digital marketing strategy.

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

Directors' report - continued

Business review 2013 - continued

Training and development of our people continued to feature high on our agenda during 2013. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas.

In order to ensure the well-being and ongoing development of our people we are continuously reviewing and updating our HR policies and implementing new policies and employment practices.

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

Dividends

The directors recommend the payment of a final net dividend of €4.96 million (2012: €8.04m).

Actuaries

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

Statement of directors' responsibilities

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

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

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

Directors' report - continued

Statement of directors' responsibilities - continued

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

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

Auditors

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

Approved by the Board of Directors on 13 March 2014 and signed on its behalf by:

J. Cassar White Chairman	A. Muñoz Perez Director	D.G. Curmi Chief Executive Officer

Registered Office

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

pwc

Independent auditor's report

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

Report on the Financial Statements for the year ended 31 December 2013

We have audited the consolidated and stand-alone parent company financial statements of MSV Life p.l.c. (the "parent company") on pages 9 to 81 which comprise the consolidated and parent Company balance sheets as at 31 December 2013 and the consolidated and parent Company profit and loss accounts, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 5 and 6, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

pwc

Independent auditor's report - continued

Report on the Financial Statements for the year ended 31 December 2013 - continued

Opinion
In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and the parent Company as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

Report on Other Legal and Regulatory Requirements

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

Romina Soler
Partner

13 March 2014

Consolidated profit and loss accounts
Technical account – long term business

	Notes	Year ended 31 December Group and Company 2013 €'000	2012 €'000
Earned premiums, net of reinsurance			
Gross premiums written	4	**106,898**	85,501
Outward reinsurance premiums		**(3,078)**	(3,116)
Net premiums written		**103,820**	82,385
Investment income	5	**46,129**	49,107
Unrealised gains on investments	5	**48,917**	43,286
Other technical income, net of reinsurance	6	**580**	597
Total technical income		**199,446**	175,375
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**78,908**	74,389
- reinsurers' share		**(523)**	(763)
		78,385	73,626
Change in the provision for claims			
- gross amount		**578**	2,204
- reinsurers' share		**126**	(200)
		704	2,004
Claims incurred, net of reinsurance	4	**79,089**	75,630
Change in other technical provisions, net of reinsurance			
Insurance contracts – gross amounts		**39,858**	32,730
Investment contracts with DPF – gross		**59,630**	46,050
Change in other technical provisions, net of reinsurance		**99,488**	78,780
Net operating expenses	4	**8,371**	7,798
Investment expenses and charges	5	**2,359**	2,088
Total technical charges		**189,307**	164,296
Balance on the long term business technical account		**10,139**	11,079

The notes on pages 15 to 81 are an integral part of these financial statements.

Consolidated profit and loss accounts
Non-technical accounts

	Notes	Group 2013 €'000	Group 2012 €'000	Company 2013 €'000	Company 2012 €'000
		Year ended 31 December			
Balance on the long term business technical account		**10,139**	11,079	**10,139**	11,079
Investment income	5	**2,846**	2,934	**3,151**	3,301
Unrealised gains on investments	5	**2,768**	2,296	**2,768**	2,296
Investment expenses and charges	5	**(114)**	(95)	**(114)**	(95)
Other income – commission receivable		**624**	596	**-**	-
Other charges – administrative expenses	4	**(779)**	(833)	**(339)**	(417)
Profit before tax		**15,484**	15,977	**15,605**	16,164
Tax expense	9	**(5,637)**	(27)	**(5,679)**	(91)
Profit for the year		**9,847**	15,950	**9,926**	16,073
Earnings per share (cents)	11	**45c0**	72c8		

Statements of comprehensive income

	Note	Group 2013 €'000	Group 2012 €'000	Company 2013 €'000	Company 2012 €'000
		Year ended 31 December			
Profit for the year		**9,847**	15,950	**9,926**	16,073
Other comprehensive income:					
Movement in value of in-force business	13	**3,493**	3,951	**3,493**	3,951
Total comprehensive income		**13,340**	19,901	**13,419**	20,024

The notes on pages 15 to 81 are an integral part of these financial statements.

Consolidated balance sheets

		As at 31 December			
		Group		Company	
	Notes	2013 €'000	2012 €'000	2013 €'000	2012 €'000
ASSETS					
Intangible assets	13	**50,811**	47,682	**50,810**	47,680
Tangible assets - property, plant and equipment	14	**5,410**	5,231	**5,410**	5,231
Investments:					
Land and buildings - investment property	15	**75,594**	74,808	**75,594**	74,808
Investment in group undertaking	16	**-**	-	**466**	466
Investments in associated undertakings	17	**16,074**	5,980	**16,074**	5,980
Other investments	18	**1,197,175**	1,100,990	**1,197,169**	1,100,985
Reinsurers' share of technical provisions	24	**302**	428	**302**	428
Income tax receivable		**6,294**	6,098	**6,280**	6,029
Debtors	20	**-**	-	**45**	237
Prepayments and accrued income	20	**12,638**	12,740	**12,554**	12,615
Cash at bank and in hand	21	**7,805**	11,541	**7,212**	10,731
Total assets		**1,372,103**	1,265,498	**1,371,916**	1,265,190
EQUITY AND LIABILITIES					
Capital and reserves attributable to shareholders of the Company					
Called up share capital	22	**54,750**	54,750	**54,750**	54,750
Other reserves	23	**43,037**	39,544	**43,037**	39,544
Profit and loss account		**37,340**	35,530	**37,176**	35,287
Total equity		**135,127**	129,824	**134,963**	129,581
Technical provisions:					
Insurance contracts	24	**461,822**	422,032	**461,822**	422,032
Investment contracts with DPF	24	**693,669**	633,393	**693,669**	633,393
Investment contracts without DPF	25	**63,792**	62,027	**63,792**	62,027
Subordinated loan	26	**-**	6,000	**-**	6,000
Provision for other risks and charges:					
Deferred income tax	19	**13,288**	7,609	**13,288**	7,609
Derivative financial instruments	18	**-**	15	**-**	15
Creditors	27	**2,596**	2,700	**2,587**	2,653
Accruals and deferred income	27	**1,809**	1,898	**1,795**	1,880
Total liabilities		**1,236,976**	1,135,674	**1,236,953**	1,135,609
Total equity and liabilities		**1,372,103**	1,265,498	**1,371,916**	1,265,190

The notes on pages 15 to 81 are an integral part of these financial statements. The financial statements on pages 9 to 81 were authorised for issue by the Board on 13 March 2014 and were signed on its behalf by:

J. Cassar White
Chairman

A. Muñoz Perez
Director

D.G. Curmi
Chief Executive Officer

Statements of changes in equity

Group	Notes	Share capital €'000	Other reserves €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2012		54,750	35,593	21,310	111,653
Comprehensive income					
Profit for the financial year		-	-	15,950	15,950
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	3,951	-	3,951
Total comprehensive income for the year		-	3,951	15,950	19,901
Transactions with owners					
Dividends in respect of 2011	12	-	-	(1,730)	(1,730)
Balance at 31 December 2012		**54,750**	**39,544**	**35,530**	**129,824**
Balance at 1 January 2013		54,750	39,544	35,530	129,824
Comprehensive income					
Profit for the financial year		-	-	9,847	9,847
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	3,493	-	3,493
Total comprehensive income for the year		-	3,493	9,847	13,340
Transactions with owners					
Dividends in respect of 2012	12	-	-	(8,037)	(8,037)
Balance at 31 December 2013		**54,750**	**43,037**	**37,340**	**135,127**

The notes on pages 15 to 81 are an integral part of these financial statements

Statements of changes in equity - continued

Company	Notes	Share capital €'000	Other reserves €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2012		54,750	35,593	20,944	111,287
Comprehensive income					
Profit for the financial year		-	-	16,073	16,073
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	3,951	-	3,951
Total comprehensive income for the year		-	3,951	16,073	20,024
Transactions with owners					
Dividends in respect of 2011	12	-	-	(1,730)	(1,730)
Balance at 31 December 2012		**54,750**	**39,544**	**35,287**	**129,581**
Balance at 1 January 2013		54,750	39,544	35,287	129,581
Comprehensive income					
Profit for the financial year		-	-	9,926	9,926
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	3,493	-	3,493
Total comprehensive income for the year		-	3,493	9,926	13,419
Transactions with owners					
Dividends in respect of 2012	12	-	-	(8,037)	(8,037)
Balance at 31 December 2013		**54,750**	**43,037**	**37,176**	**134,963**

The notes on pages 15 to 81 are an integral part of these financial statements.

Cash flow statements

		Year ended 31 December			
		Group		Company	
	Notes	**2013**	2012	**2013**	2012
		€'000	€'000	**€'000**	€'000
Operating activities					
Cash generated from/(used in) operations	28	**20,288**	(2,352)	**20,293**	(2,692)
Dividends received		**5,790**	5,043	**6,098**	5,428
Interest received		**30,867**	30,911	**30,867**	30,911
Taxation paid		**(154)**	(1,238)	**(251)**	(1,344)
Net cash generated from operating activities		**56,791**	32,364	**57,007**	32,303
Investing activities					
Purchase of intangible assets	13	**(259)**	(408)	**(259)**	(408)
Purchase of property, plant and equipment	14	**(550)**	(369)	**(550)**	(369)
Purchase of investment property	15	**(549)**	(17,073)	**(549)**	(17,073)
Purchase of other financial investments	18	**(570,030)**	(452,544)	**(570,029)**	(452,542)
Purchase of associate undertaking	17	**(10,000)**	-	**(10,000)**	-
Disposal of property, plant and equipment		**-**	11	**-**	11
Disposal of other financial investments		**534,898**	445,212	**534,898**	444,963
Net cash used in investing activities		**(46,490)**	(25,171)	**(46,489)**	(25,418)
Financing activities					
Dividends paid	12	**(8,037)**	(1,730)	**(8,037)**	(1,730)
Subordinated loans repayments	26	**(6,000)**	-	**(6,000)**	-
Net cash used in financing activities		**(14,037)**	(1,730)	**(14,037)**	(1,730)
Net movement in cash and cash equivalents		**(3,736)**	5,463	**(3,519)**	5,155
Cash and cash equivalents at beginning of year		**11,541**	6,078	**10,731**	5,576
Cash and cash equivalents at end of year	21	7,805	11,541	7,212	10,731

The notes on pages 15 to 81 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 General information

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

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

The following is the current product portfolio of the Group:

- Term contracts – these products are pure insurance contracts where the only obligation of the Group towards the insured is the payment of a death benefit, if the death occurs whilst the policy is in force.

- With profits life contracts – these insurance contracts combine a discretionary participation feature (DPF) where the obligation of the Group towards the insured also includes an annual discretionary investment return (bonus declaration).

- Investment contracts with DPF – these are substantially savings products where the annual investment return is also discretionary (declared bonus rate).

- Unit linked capital guaranteed contracts – these are unit linked products where the obligation of the Group towards the insured includes a guaranteed element of return and capital.

- Other unit linked investment contracts – these are unit linked products where the obligation of the Group towards the insured is represented by the value of the underlying units.

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

1.2 Basis of preparation

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

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

The preparation of financial statements in conformity with the above reporting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

The balance sheet is organised in increasing order of liquidity, with additional disclosures on the current or non-current nature of the Group's assets and liabilities provided within the notes to the financial statements.

Standards, interpretations and amendments to published standards effective in 2013

In 2013, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2013. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies. The impact of the adoption of IFRS 13 is described below.

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.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

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 2013. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

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. 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 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.

1.3 Consolidation

(a) Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary (or group) undertaking drawn up to 31 December each year. Subsidiary undertakings are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

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

1.3 Consolidation

(a) Subsidiary undertakings - continued

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

(b) Associated undertakings

Interests in associated undertakings that are allocated to the insurance and investment contract liabilities are designated as financial assets at fair value through profit or loss. They are accounted for in accordance with the recognition and measurement principles described in Note 1.13. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. A list of the Group's associated undertakings is set out in Note 17.

1.4 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling on the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Translation differences on non-monetary items, mainly arising on equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

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

1.5 Insurance and investment contracts

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

(a) Classification

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

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

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

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

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

(b) Recognition and measurement

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

1. Summary of significant accounting policies - continued

(b) Recognition and measurement - continued

(i) Long term insurance contracts

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

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

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

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

(ii) Long term insurance contracts with DPF

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

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

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

1.5 Insurance and investment contracts - continued

(b) Recognition and measurement - continued

(ii) Long term insurance contracts with DPF - continued

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.

(iii) Investment contracts with DPF

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

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

1. Summary of significant accounting policies - continued

1.5 Insurance and investment contracts - continued

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, as described above, are classified as reinsurance contracts held.

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

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 1.14.

(d) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

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

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

1.6 Revenue

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

(a) Rendering of services

Premium recognition is described in Note 1.5 dealing with insurance contracts and investment contracts with DPF.

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

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

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

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

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

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

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

1.6 Revenue - continued

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

Other gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the profit and loss account within unrealised gains or losses on investments in the period in which they arise.

(d) Interest income

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

(e) Rent receivable

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

1.7 Investment return

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

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

1. Summary of significant accounting policies - continued

1.8 Leases

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

1.9 Intangible assets

Value of in-force business

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

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

Computer software

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

Deferred policy acquisition costs

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

- For long term investment contracts with a fixed maturity date, DAC is amortised over the life of the contract.

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

1. Summary of significant accounting policies - continued

1.10 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Freehold land and buildings, are subsequently shown at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

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

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

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

1. Summary of significant accounting policies - continued

1.11 Investment property

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

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

1.12 Investment in group undertakings

In the Company's financial statements, investments in group undertakings are accounted for by the cost method of accounting, less impairment. The dividend income from such investments is included in the profit and loss account in the accounting year in which the Company's rights to receive payment of any dividend is established. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

1.13 Financial assets

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

(a) Financial assets that are held to match insurance and investment contract liabilities are designated at inception as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them, on different bases. Financial assets that are attributable to shareholders are designated at inception as fair value through profit or loss if they are part of a group of investments that is managed on a portfolio basis, and whose performance is evaluated and reported internally on a fair value basis to the Group's Board in accordance with a documented investment strategy.

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

1.13 Financial assets - continued

(b) Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated as fair value through profit or loss. They include, inter alia, receivables and cash and cash equivalents in the balance sheet as well as other financial investments classified as loans and receivables within Note 18.

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

Financial assets at fair value through profit or loss are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment. Realised and unrealised gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

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

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

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

1. Summary of significant accounting policies - continued

1.14 Impairment of assets

(a) Impairment of financial assets at amortised cost

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

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

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

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

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

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

1. Summary of significant accounting policies - continued

1.14 Impairment of assets - continued

(b) Impairment of other non-financial assets

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

1.15 Offsetting financial instruments

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

1.16 Borrowings

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

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

1. Summary of significant accounting policies - continued

1.17 Current and deferred tax

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

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

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

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

1.18 Cash and cash equivalents

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

1.19 Share capital

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

1.20 Dividends

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

2. Critical accounting estimates and judgments in applying accounting policies

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

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

Value of in-force business

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

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 13. The impact of a change to key assumptions supporting the value of in-force business is disclosed in Note 13 to the accounts.

3. Management of risk

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

3.1 Insurance risk

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

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

3. Management of risk - continued

3.1 Insurance risk - continued

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

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

Frequency and severity of claims

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

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

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

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

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

3. Management of risk - continued

3.1 Insurance risk - continued

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

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

Further detail on the process for estimation is provided in Note 24 to these financial statements.

3.2 Financial risk

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

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

(a) Market risk

(i) Cash flow and fair value interest rate risk

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

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

With the exception of the unit linked capital guaranteed products, the Group does not guarantee a positive fixed rate of return to its policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus philosophy of 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 philosophy considers historic and current rates of return generated by the Group's investment portfolio as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. These guaranteed benefits increase as discretionary benefits are declared and allocated to contract holders.

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

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

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

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

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

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

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

Assets

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Assets at floating interest rates	**33,811**	26,064	**33,290**	25,474
Assets at fixed interest rates	**775,880**	752,957	**775,881**	752,957
	809,691	779,021	**809,171**	778,431

Reconciled to the notes to the financial statements as follows:

Loans and receivables (Note 18)	**213,942**	137,125	**213,942**	137,125
Debt securities (Note 18)	**587,375**	629,474	**587,375**	629,474
A component of equity securities and units in unit trusts (Note 18)	**2,280**	2,440	**2,280**	2,440
Interest bearing cash and cash equivalents (Note 21)	**6,094**	9,982	**5,574**	9,392
	809,691	779,021	**809,171**	778,431
Liabilities				
Gross long term business provision excluding linked long term contracts (Note 24)*	**1,115,598**	1,019,103	**1,115,598**	1,019,103
Subordinated loan (Note 26)	**-**	6,000	**-**	6,000
	1,115,598	1,025,103	**1,115,598**	1,025,103

*Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature, amounting to €35.45m (2012: €32.45m), has been excluded as the directors consider the exposure to be insignificant.

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

In managing its portfolio, 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 is shown below:

	Group and Company	
	2013	2012
	€'000	€'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.

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.

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

At 31 December 2013, had interest rates been 90 basis points lower with all other variables held constant, pre-tax profit for the year would have been €1.67m higher (2012: €3.18m higher). An increase of 90 basis points, with all other variables held constant, would have resulted in pre-tax profits being €2.98m lower (2012: €2.0m lower). The above sensitivity considers the impact of changes in interest rates on liabilities and fixed income and floating interest rate assets.

(ii) Equity price risk

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

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

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**310,479**	243,477	**310,473**	243,472
Reconciled to the notes to the financial statements as follows:				
Investment in associated undertakings (Note 17)	**16,074**	5,980	**16,074**	5,980
A component of equity securities and units in unit trusts (Note 18)	**294,405**	237,497	**294,399**	237,492
	310,479	243,477	**310,473**	243,472

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

(ii) Equity price risk - continued

In managing its portfolio, 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 is shown below:

	Group and Company	
	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 3.2 (a) (i).

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

Given the investment strategy and asset mix of the Group and Company a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €4.5m (2012: €3.6m) and a negative impact of €4.2m (2012: €3.2m) respectively, on the pre-tax profit for the year. The above sensitivity includes the impact of changes in equity returns on liabilities and assets.

(iii) Currency risk

The Group's liabilities are substantially denominated in euro. The Group's exposure to foreign currency risk arises primarily from equity securities denominated in major international currencies. The Group hedges its foreign currency denominated debt securities using foreign exchange forward contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates.

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

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

(iii) Currency risk - continued

Group and Company

31 December 2013

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	17,246	10,813	6,433
CHF	18,486	-	18,486
GBP	9,215	5,969	3,246
SEK	4,956	-	4,956
DKK	4,346	-	4,346
Others	1,682	619	1,063
	55,931	**17,401**	**38,530**

31 December 2012

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

Within the table above, €37.98m 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 3.2 (a) (ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

3. **Management of risk** - continued

3.2 Financial risk - continued

(b) Credit risk

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

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

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

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

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

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

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

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

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

3. Management of risk - continued

3.2 Financial risk - continued

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss				
- Debt securities (Note 18)	**587,375**	629,474	**587,375**	629,474
- Forward foreign exchange contracts (Note 18)	**252**	193	**252**	193
	587,627	629,667	**587,627**	629,667
Loans and receivables				
- Deposits with banks or credit institutions (Note 18)	**204,039**	125,717	**204,039**	125,717
- Other loan (Note 18)	**-**	737	**-**	737
	204,039	126,454	**204,039**	126,454
Reinsurers' share of technical provisions (Note 24)	**302**	428	**302**	428
Insurance and other receivables	**11,992**	12,300	**12,036**	12,537
Cash at bank and in hand (Note 21)	**7,805**	11,541	**7,212**	10,731
Total exposure	**811,765**	780,390	**811,216**	779,817

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
AAA	**60,408**	79,627	**60,408**	79,627
AA	**50,107**	53,634	**50,107**	53,634
A	**45,860**	51,487	**45,860**	51,487
BBB - Malta Government Stocks	**354,681**	413,441	**354,681**	413,441
BBB-Other	**232,174**	139,646	**231,581**	138,843
Below BBB or not rated	**68,534**	42,555	**68,578**	42,785
	811,764	780,390	**811,215**	779,817

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

3. Management of risk - continued

3.2 Financial risk - continued

(c) Liquidity risk

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

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

At 31 December 2013	Expected cash flows (undiscounted)						
	0 – 5 Years	6 – 10 years	11 – 15 years	16 – 20 years	21 - 25 years	25> years	Total
				€ million			
Technical provisions - Insurance contracts and investment contracts with DPF	352	389	268	205	85	157	1,456
Creditors	4	-	-	-	-	-	4
	356	**389**	**268**	**205**	**85**	**157**	**1,460**

At 31 December 2012	Expected cash flows (undiscounted)						
	0 – 5 Years	6 – 10 years	11 – 15 years	16 – 20 years	21 - 25 years	25> years	Total
				€ million			
Technical provisions - Insurance contracts and investment contracts with DPF	288	379	264	224	90	155	1,400
Subordinated loan	3	5	-	-	-	-	8
Creditors	4	-	-	-	-	-	4
	295	**384**	**264**	**224**	**90**	**155**	**1,412**

3. **Management of risk** - continued

3.2 Financial risk - continued

(c) Liquidity risk - continued

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

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

	Group and Company	
	2013	2012
	€'000	€'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.

3.3 Capital management

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

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

- Admissibility tests were carried out on assets held to cover technical liabilities in order to determine that adequate cover was maintained. As at 31 December 2013, the Company held net admissible assets of €82.92 million (2012: €86.49 million) which represent an excess of €33.27 million (2012: €40.88 million) over the 'required margin of solvency' of €49.66 million (2012: €45.61 million), and also above the multiple set by the regulator. Solvency calculations are finalised at the point of submission of the regulatory returns and, in principle, represent estimates until this process is concluded.

3. Management of risk - continued

3.3 Capital management - continued

- MSV employs prudent scenario tests to allocate capital and manage risk.
- A tranche of subordinated loan amounting to €6.00 million was raised in May 2010 to further supplement regulatory capital resources. The Company has repaid this loan during 2013 and the Company has an undrawn facility of €4.00 million.

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

3.4 Fair value hierarchy

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

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

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

Group – 31 December 2013	**Level 1** €'000	**Level 2** €'000	**Level 3** €'000	**Total Balance** €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	395,303	270	33	395,606
- Debt securities	587,375	-	-	587,375
Derivative financial instruments	137	115	-	252
Investments in associated undertakings	14,905	-	1,169	16,074
Total assets	**997,720**	**385**	**1,202**	**999,307**
Liabilities				
Unit linked financial liabilities	-	98,921	-	98,921
Total liabilities	**-**	**98,921**	**-**	**98,921**

3. Management of risk - continued

3.4 Fair value hierarchy - continued

Group – 31 December 2012

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

Company – 31 December 2013

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	395,297	270	33	395,600
- Debt securities	587,375	-	-	587,375
Derivative financial instruments	137	115	-	252
Investments in associated undertakings	14,905	-	1,169	16,074
Total assets	**997,714**	**385**	**1,202**	**999,301**
Liabilities				
Unit linked financial liabilities	-	98,921	-	98,921
Total liabilities	**-**	**98,921**	**-**	**98,921**

3. Management of risk - continued

3.4 Fair value hierarchy - continued

Company – 31 December 2012

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

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

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

At 31 December 2013, 0.1% (2012: 0.1%) of the financial assets measured at fair value on a recurring basis were classified as Level 3. They constitute investment in unlisted equities and their fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement.

The analysis of investment property is included within Note 15.

3. Management of risk - continued

3.4 Fair value hierarchy - continued

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

Group and Company 2013

	Financial assets at fair value through profit or loss		
	Equity securities €'000	**Investments in associated undertakings €'000**	**Total Assets €'000**
Opening balance	32	1,174	1,206
Total gains/(losses) recognised in profit or loss	1	(5)	(4)
Closing balance	**33**	**1,169**	**1,202**
Total gains/(losses) for the period included in profit or loss for assets held at the end of year	**1**	**(5)**	**(4)**

Group and Company 2012

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

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 financial liabilities emanating from investment contracts with DPF. It is impracticable to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

4. Other information - technical account

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

(i) Gross premiums written

Gross premium income is made up of:

	Group and Company	
	2013	2012
	€'000	€'000
Direct insurance	**106,898**	85,501
Gross premiums written	**106,898**	85,501

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Non-participating	**8,721**	8,117	**-**	-
Participating	**30,248**	29,723	**63,467**	44,237
Linked	**2,852**	3,051	**1,610**	373
	41,821	40,891	**65,077**	44,610

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

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

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

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards mainly attributable to insurance contracts, amounted to a charge of €1.29m to the long term business technical account for the year ended 31 December 2013 (2012: €0.95m).

4. Other information - technical account - continued

(iii) Analysis between insurance and investment contracts

	Group and Company 2013 €'000	Group and Company 2012 €'000
Gross premiums written		
Insurance contracts	**32,804**	32,875
Investment contracts with DPF	**74,094**	52,626
	106,898	85,501
Claims incurred, net of reinsurance		
Insurance contracts	**21,372**	19,778
Investment contracts with DPF	**57,717**	55,852
	79,089	75,630

(iv) Net operating expenses

	Group 2013 €'000	Group 2012 €'000	Company 2013 €'000	Company 2012 €'000
Acquisition costs	**5,582**	4,739	**5,582**	4,739
Administrative expenses	**4,960**	5,090	**4,520**	4,674
Reinsurance commissions	**(1,392)**	(1,198)	**(1,392)**	(1,198)
	9,150	8,631	**8,710**	8,215

Allocated to:

	Group 2013 €'000	Group 2012 €'000	Company 2013 €'000	Company 2012 €'000
Technical profit and loss account	**8,371**	7,798	**8,371**	7,798
Non-technical profit and loss account	**779**	833	**339**	417
	9,150	8,631	**8,710**	8,215

Total commission payable for direct business accounted for in the financial year amounted to €4.03m (2012: €3.24m). €2.92m of this charge arose on investment contracts (2012: €2.01m).

Finance costs payable on the subordinated loan amounting to €0.20m (2012: €0.36m) are included within administrative expenses. Further detail on administrative expenses is provided in Note 7 to these financial statements.

4. Other information - technical account - continued

(v) Bonuses and rebates, net of reinsurance

An amount of €29.6m (2012: €27.8m) has been provided for as reversionary bonuses within technical provisions. Provision for reversionary bonuses for 2013 and 2012 is further analysed as follows:

	Group and Company	
	2013	2012
	€'000	€'000
Insurance contracts	**11,815**	11,570
Investment contracts with DPF	**17,781**	16,214
	29,596	27,784

5. Investment return

	Group		**Company**	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Dividend income from shares in group undertaking	**-**	-	**308**	385
Rent receivable from investment property	**4,268**	3,362	**4,268**	3,362
Interest receivable from loans and receivables	**3,213**	3,950	**3,210**	3,946
Income from financial assets at fair value through profit or loss:				
- dividend income - associates	**305**	368	**305**	368
- dividend income - other	**5,659**	4,792	**5,659**	4,792
- other net fair value gains	**86,050**	83,297	**86,050**	83,283
Net fair value gains on investment property	**237**	1,009	**237**	1,009
Direct operating expenses arising from investment property that generated rental income	**(383)**	(375)	**(383)**	(375)
Other investment income	**928**	845	**928**	845
Other investment expenses	**(2,090)**	(1,808)	**(2,090)**	(1,808)
Total investment return	**98,187**	95,440	**98,492**	95,807
Apportioned as follows:				
Technical profit and loss account	**92,687**	90,305	**92,687**	90,305
Non-technical profit and loss account	**5,500**	5,135	**5,805**	5,502
	98,187	95,440	**98,492**	95,807

6. Other technical income, net of reinsurance

	Group and Company	
	2013	2012
	€'000	€'000
Investment management fees	**418**	405
Other	**162**	192
	580	597

7. Profit before tax

Profit before tax is stated after charging:

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Employee benefit expense (Note 8)	**2,649**	2,574	**2,564**	2,486
Actuarial valuation fees	**238**	250	**238**	250
Depreciation/amortisation:				
- intangible assets (Note 13)	**623**	672	**622**	661
- property, plant and equipment (Note 14)	**246**	212	**246**	210
Impairment of intangible assets (Note 13)	**-**	225	**-**	225
Directors and officers insurance	**46**	46	**46**	46
Reimbursement of expenses for back office support services (Note 30)	**46**	46	**45**	46

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2013 and 2012 relate to the following:

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Annual statutory audit	**66**	63	**59**	57
Other assurance services	**5**	1	**5**	1
Tax advisory and compliance services	**9**	14	**9**	14
Other	**6**	-	**6**	-
	86	78	**79**	72

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

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

8. Employee benefit expense

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Salaries	**2,515**	2,447	**2,434**	2,363
Social security costs	**134**	127	**130**	123
	2,649	2,574	**2,564**	2,486

The average number of persons employed during the year was:

	Group		Company	
	2013	2012	**2013**	2012
Key management	**8**	7	**8**	7
Managerial	**7**	8	**7**	8
Technical	**52**	52	**50**	50
Administrative	**3**	2	**3**	2
Average number of employees	**70**	69	**68**	67

9. Tax expense

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Current tax credit	**(42)**	(596)	**-**	(534)
Deferred taxation charge (Note 19)	**5,679**	623	**5,679**	625
Tax expense	**5,637**	27	**5,679**	91

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Profit before tax	**15,484**	15,977	**15,605**	16,164
Tax profit at 35%	**5,419**	5,592	**5,462**	5,657
Tax effect of:				
Property withholding tax at 12%	**(20)**	(113)	**(20)**	(113)
Net exempt income and disallowed expenses (2012: after impact of tax credits not recognised in prior years)	**(181)**	(1,218)	**(182)**	(1,219)
Under provision of tax in prior year	**419**	-	**419**	-
Current and deferred tax effect of certain expenses treated as non-deductible in prior years	**-**	(1,782)	**-**	(1,782)
Effect of deferred tax adjustments connected to the sale of investments	**-**	(2,452)	**-**	(2,452)
Income tax expense	**5,637**	27	**5,679**	91

10. Directors' emoluments

	Group and Company	
	2013	2012
	€'000	€'000
Directors' fees	**41**	50

The Company has paid insurance premiums of €46,000 during the year (2012: €48,000) in respect of insurance cover in favour of its directors.

11. Earnings per share

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

	Group	
	2013	2012
Net profit attributable to shareholders (€'000)	**9,847**	15,950
Weighted average number of ordinary shares in issue	**21,900,000**	21,900,000
Earnings per share (€)	**45c0**	72c8

12. Dividends

At the forthcoming Annual General Meeting, a net dividend in respect of 2013 of 22c7 per share, amounting to a total net dividend of €4.96m is to be proposed. The final dividend declared during 2013 in respect of 2012 was €8.04m representing 36c7 per share. The final dividend declared during 2012 in respect of 2011 was €1.73m representing 7c9 per share.

13. Intangible assets

Group	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 31 December 2011				
Cost or valuation	41,766	6,799	3,011	51,576
Accumulated amortisation and impairment	-	(5,478)	(1,878)	(7,356)
Net book amount	**41,766**	**1,321**	**1,133**	**44,220**
Year ended 31 December 2012				
Opening net book amount	41,766	1,321	1,133	44,220
Increase in value of in-force business credited to reserves (Note 23)	3,951	-	-	3,951
Additions	-	387	21	408
Amortisation charge	-	(448)	(224)	(672)
Impairment charge	-	(225)	-	(225)
Closing net book amount	**45,717**	**1,035**	**930**	**47,682**
At 31 December 2012				
Cost or valuation	45,717	7,186	3,032	55,935
Accumulated amortisation and impairment	-	(6,151)	(2,102)	(8,253)
Net book amount	**45,717**	**1,035**	**930**	**47,682**
Year ended 31 December 2013				
Opening net book amount	45,717	1,035	930	47,682
Increase in value of in-force business credited to reserves (Note 23)	3,493	-	-	3,493
Additions	-	151	108	259
Amortisation charge	-	(420)	(203)	(623)
Closing net book amount	**49,210**	**766**	**835**	**50,811**
At 31 December 2013				
Cost or valuation	49,210	7,337	3,140	59,687
Accumulated amortisation and impairment	-	(6,571)	(2,305)	(8,876)
Net book amount	**49,210**	**766**	**835**	**50,811**

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

Amortisation of €0.37m (2012: €0.40m) is included in acquisition costs and €0.25m (2012: €0.27m) is included in administration expenses.

13. Intangible assets - continued

Company	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 31 December 2011				
Cost or valuation	41,766	6,529	3,011	51,306
Accumulated amortisation and impairment	-	(5,221)	(1,878)	(7,099)
Net book amount	**41,766**	**1,308**	**1,133**	**44,207**
Year ended 31 December 2012				
Opening net book amount	41,766	1,308	1,133	44,207
Increase in value of in-force business credited to reserves (Note 23)	3,951	-	-	3,951
Additions	-	387	21	408
Amortisation charge	-	(437)	(224)	(661)
Impairment charge	-	(225)	-	(225)
Closing net book amount	**45,717**	**1,033**	**930**	**47,680**
At 31 December 2012				
Cost or valuation	45,717	6,916	3,032	55,665
Accumulated amortisation and impairment	-	(5,883)	(2,102)	(7,985)
Net book amount	**45,717**	**1,033**	**930**	**47,680**
Year ended 31 December 2013				
Opening net book amount	45,717	1,033	930	47,680
Increase in value of in-force business credited to reserves (Note 23)	3,493	-	-	3,493
Additions	-	151	108	259
Amortisation charge	-	(419)	(203)	(622)
Closing net book amount	**49,210**	**765**	**835**	**50,810**
At 31 December 2013				
Cost or valuation	49,210	7,067	3,140	59,417
Accumulated amortisation and impairment	-	(6,302)	(2,305)	(8,607)
Net book amount	**49,210**	**765**	**835**	**50,810**

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

Amortisation of €0.37m (2012: €0.40m) is included in acquisition costs and €0.25 (2012: €0.26m) is included in administration expenses.

13. **Intangible assets** - continued

Value of in-force business - assumptions, changes in assumptions and sensitivity

Assumptions

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

The valuation assumes a spread of 2% (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 2013 €m**	Impact on value of in-force business 2012 €m
Investment return	+1.00%	**5.8**	5.5
Investment return	-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

14. Property, plant and equipment

Group	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Total €'000
At 31 December 2011				
Cost	483	642	1,656	2,781
Accumulated depreciation	-	(48)	(976)	(1,024)
Net book amount	**483**	**594**	**680**	**1,757**
Year ended 31 December 2012				
Opening net book amount	483	594	680	1,757
Additions	84	-	285	369
Transfer from land and buildings - investment property (Note 15)	3,328	-	-	3,328
Disposals	-	(11)	-	(11)
Depreciation charge	-	(54)	(158)	(212)
Closing net book amount	**3,895**	**529**	**807**	**5,231**
At 31 December 2012				
Cost	3,895	631	1,941	6,467
Accumulated depreciation	-	(102)	(1,134)	(1,236)
Net book amount	**3,895**	**529**	**807**	**5,231**
Year ended 31 December 2013				
Opening net book amount	3,895	529	807	5,231
Additions	191	36	323	550
Disposals	-	(117)	(82)	(199)
Depreciation charge	-	(57)	(189)	(246)
Depreciation released on disposal	-	30	44	74
Closing net book amount	**4,086**	**421**	**903**	**5,410**
At 31 December 2013				
Cost	4,086	550	2,182	6,818
Accumulated depreciation	-	(129)	(1,279)	(1,408)
Net book amount	**4,086**	**421**	**903**	**5,410**

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.

14. Property, plant and equipment - continued

Company	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Total €'000
At 31 December 2011				
Cost	483	642	1,587	2,712
Accumulated depreciation	-	(48)	(909)	(957)
Net book amount	**483**	**594**	**678**	**1,755**
Year ended 31 December 2012				
Opening net book amount	483	594	678	1,755
Additions	84	-	285	369
Transfer from land and buildings – investment property (Note 15)	3,328	-	-	3,328
Disposals	-	(11)	-	(11)
Depreciation charge	-	(54)	(156)	(210)
Closing net book amount	**3,895**	**529**	**807**	**5,231**
At 31 December 2012				
Cost	3,895	631	1,872	6,398
Accumulated depreciation	-	(102)	(1,065)	(1,167)
Net book amount	**3,895**	**529**	**807**	**5,231**
Year ended 31 December 2013				
Opening net book amount	3,895	529	807	5,231
Additions	191	36	323	550
Disposals	-	(117)	(82)	(199)
Depreciation charge	-	(57)	(189)	(246)
Depreciation released on disposals	-	30	44	74
Closing net book amount	**4,086**	**421**	**903**	**5,410**
At 31 December 2013				
Cost	4,086	550	2,113	6,749
Accumulated depreciation	-	(129)	(1,210)	(1,339)
Net book amount	**4,086**	**421**	**903**	**5,410**

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.

15. Investment property

	Group and Company Level 3 €'000
At 31 December 2011	
Cost	39,605
Accumulated fair value gains	20,449
Net book amount	**60,054**
Year ended 31 December 2012	
Opening net book amount	60,054
Additions	17,073
Transfer to tangible assets – property, plant and equipment (Note 14)	(3,328)
Net fair value gains	1,009
Closing net book amount	**74,808**
At 31 December 2012	
Cost	53,350
Accumulated fair value gains	21,458
Net book amount	**74,808**
Year ended 31 December 2013	
Opening net book amount	74,808
Additions	549
Net fair value gains	237
Closing net book amount	**75,594**
At 31 December 2013	
Cost	53,899
Accumulated fair value gains	21,695
Net book amount	**75,594**

Fair value of land and buildings

An independent valuation of the Group'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 5).

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 3.4.

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.

15. Investment property - continued

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

Valuation processes

On an annual basis, the Group 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 €75.59 million (2012: €74.81 million), 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)

			Range of significant unobservable inputs	
Description	**Fair value at 31 December €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Office buildings	75.6m	Capitalisation of future net income streams	4.2m	4.5 - 7

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 lower the fair value.

16. Investment in group undertaking

	Company €'000
Year ended 31 December 2012	
Opening and closing net book amount	466
Year ended 31 December 2013	
Opening and closing net book amount	**466**

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2013 & 2012
Growth Investments Limited	Development House Pjazza Papa Giovanni XXIII Floriana, FRN 1402	Ordinary shares	100%

17. Investments in associated undertakings

	Group and Company €'000
At 31 December 2011	
Cost	5,129
Accumulated net fair value gains	944
Net book amount	**6,073**
Year ended 31 December 2012	
Opening net book amount	6,073
Net fair value losses	(93)
Closing net book amount	**5,980**
At 31 December 2012	
Cost	5,129
Accumulated net fair value gains	851
Net book amount	**5,980**
Year ended 31 December 2013	
Opening net book amount	5,980
Additions	10,000
Net fair value gains	94
Closing net book amount	**16,074**
At 31 December 2013	
Cost	15,129
Accumulated net fair value gains	945
Net book amount	**16,074**

17. Investments in associated undertakings - continued

The associates at 31 December are shown below:

Associated undertakings	Registered office	Class of shares held	Percentage of shares held 2013	2012
Premium Realty Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	**25%**	25%
Church Wharf Properties Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	**50%**	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	**28.36%**	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	**35.46%**	-

18. Other investments

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**983,233**	963,865	**983,227**	963,860
Loans and receivables	**213,942**	137,125	**213,942**	137,125
	1,197,175	1,100,990	**1,197,169**	1,100,985

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**296,685**	239,937	**296,679**	239,932
Debt securities	**587,375**	629,474	**587,375**	629,474
Assets held to cover linked liabilities				
- collective investment schemes	**98,921**	94,261	**98,921**	94,261
Forward foreign exchange contracts and futures	**252**	193	**252**	193
Total investments at fair value through profit or loss	**983,233**	963,865	**983,227**	963,860

18. Other investments - continued

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

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

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

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

	Group		**Company**	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Within one year	**4,251**	12,599	**4,251**	12,599
Between 1 and 2 years	**26,207**	55,850	**26,207**	55,850
Between 2 and 5 years	**155,384**	153,096	**155,384**	153,096
Over 5 years	**401,533**	407,929	**401,533**	407,929
	587,375	629,474	**587,375**	629,474

18. **Other investments** - continued

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

The movements for the year are summarised as follows:

	Group €'000	Company €'000
At 31 December 2011		
Cost	829,023	828,794
Accumulated net fair value gains	23,175	23,162
Net book amount	**852,198**	**851,956**
Year ended 31 December 2012		
Opening net book amount	852,198	851,956
Additions	449,775	449,773
Disposals	(390,074)	(389,835)
Net fair value gains	51,951	51,951
Closing net book amount	**963,850**	**963,845**
At 31 December 2012		
Cost	888,737	888,732
Accumulated net fair value gains	75,113	75,113
Net book amount	**963,850**	**963,845**
Year ended 31 December 2013		
Opening net book amount	963,850	963,845
Additions	489,774	489,773
Disposals	(524,570)	(524,570)
Net fair value gains	54,179	54,179
Closing net book amount	**983,233**	**983,227**
At 31 December 2013		
Cost	870,735	870,730
Accumulated net fair value gains	112,498	112,497
Net book amount	**983,233**	**983,227**

18. Other investments - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	Group and Company	
	2013	2012
	€'000	€'000
Deposits with banks or credit institutions	**204,039**	125,717
Loans secured on policies	**9,903**	10,671
Other loan	**-**	737
	213,942	137,125

Maturity of deposits with bank or credit institutions:

	Group and Company	
	2013	2012
	€'000	€'000
Within 3 months	**31,714**	1,746
Within 1 year but exceeding 3 months	**110,100**	118,971
Between 1 and 5 years	**62,225**	5,000
	204,039	125,717

The above deposits earn interest as follows:

	Group and Company	
	2013	2012
	€'000	€'000
At floating rates	**2,013**	1,746
At fixed rates	**202,026**	123,971
	204,039	125,717

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

18. Other investments - continued

(b) Loans and receivables - continued

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

Group and Company

	Loans secured on policies €'000	Other loan €'000	Total €'000
Year ended 31 December 2012			
Opening net book amount	11,619	-	11,619
Additions	2,032	737	2,769
Disposals (sales and redemptions)	(2,980)	-	(2,980)
Closing net book amount	**10,671**	**737**	**11,408**

Group and Company

	Loans secured on policies €'000	Other loan €'000	Total €'000
Year ended 31 December 2013			
Opening net book amount	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.

19. Deferred income tax

	Group		**Company**	
	2013 €'000	2012 €'000	**2013 €'000**	2012 €'000
Balance at 1 January	**(7,609)**	(6,986)	**(7,609)**	(6,984)
Movement during the year:				
Profit and loss account (Note 9)	**(5,679)**	(623)	**(5,679)**	(625)
Balance at 31 December (net)	**(13,288)**	(7,609)	**(13,288)**	(7,609)

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.

19. **Deferred income tax** - continued

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Temporary differences attributable to investment property	**(6,531)**	(6,468)	**(6,531)**	(6,468)
Temporary differences attributable to fair value adjustments on financial investments	**(27,115)**	(14,899)	**(27,115)**	(14,899)
Temporary differences attributable to property, plant and equipment	**(212)**	(227)	**(212)**	(227)
Temporary differences attributable to unabsorbed tax losses and capital allowances	**20,570**	13,985	**20,570**	13,985
Balance at 31 December (net)	**(13,288)**	(7,609)	**(13,288)**	(7,609)

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

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

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

At 31 December 2012, the deferred tax impact of all unutilised tax credits was recognised in these financial statements. The Group's deferred tax liability was established on the basis of tax rates that were substantively enacted as at the financial year end.

20. Debtors and prepayments and accrued income

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Debtors				
Amount due from group undertaking (Note 30)	**-**	-	**45**	237
	-	-	**45**	237
Prepayments and accrued income				
Accrued interest and rent	**11,587**	12,145	**11,503**	12,020
Other prepayments and accrued income	**1,051**	595	**1,051**	595
	12,638	12,740	**12,554**	12,615

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

21. Cash and cash equivalents

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**7,805**	11,541	**7,212**	10,731

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
At floating rates	**6,094**	9,982	**5,574**	9,392

22. Share capital

	Group and Company	
	2013	2012
	€'000	€'000
Authorised		
24,000,000 Ordinary shares of €2.50 each	**60,000**	60,000
Issued and fully paid		
21,900,000 Ordinary shares of €2.50 each	**54,750**	54,750

23. Other reserves

	Group and Company	
	2013	2012
	€'000	€'000
Value of in-force business		
Balance at 1 January	**39,544**	35,593
Increase in value of in-force business (Note 13)	**3,493**	3,951
Balance at 31 December	**43,037**	39,544

The above reserve is non-distributable.

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

(i) Insurance contracts

	Group and Company	
	2013	2012
	€'000	€'000
Gross technical provisions		
- claims outstanding	1,307	1,375
- long term business provision	460,515	420,657
	461,822	422,032
Reinsurers' share of technical provisions		
- claims outstanding	302	428
	302	428
Net technical provisions		
- claims outstanding	1,005	947
- long term business provision	460,515	420,657
	461,520	421,604

Movements are as follows:

	Group and Company	
	2013	2013
	€'000	€'000
	Gross	Reinsurance
Year ended 31 December		
At beginning of year	422,032	428
Charge to the profit and loss account	39,790	(126)
At end of year	461,822	302

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

The above liabilities are substantially non-current in nature.

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

(ii) Investment contracts with DPF

	Group and Company	
	2013	2012
	€'000	€'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

Movements are as follows:

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

(a) Assumptions

Rate of future investment return

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

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

(a) Assumptions - continued

Bonus rates

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

Policy maintenance expenses

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

Minimum reserve

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

Mortality

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

(b) 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 was charged against the technical result for the year.

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

(c) Sensitivity analysis

The directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The most sensitive assumption is the rate of future investment return that will be driven by market forces. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 3. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Company's bonus policy is also influenced by market conditions, which mitigates the impact of movements in the valuation interest rate on the long term liability and the profit and loss account. The Company's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses.

25. Technical provisions – investment contracts without DPF

	Group and Company	
	2013	2012
	€'000	€'000
Long term business provision	**63,621**	61,932
Claims outstanding	**171**	95
	63,792	62,027

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

26. Subordinated loan

	Group and Company	
	2013	2012
	€'000	€'000
Subordinated loan	**-**	6,000

On 11 May 2010, the Company entered into a subordinated loan agreement with Bank of Valletta p.l.c. Interest was charged at a floating rate of 5.5% (2012: 5.7%) per annum. During 2013 the Company repaid the subordinated loan. As at 31 December 2013, the undrawn borrowing facility amounted to €4m.

27. Creditors and accruals and deferred income

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Creditors				
Creditors arising out of direct insurance operations	**2,179**	2,244	**2,179**	2,244
Amount owed to immediate parent company (Note 30)	**103**	46	**103**	46
Indirect taxation	**305**	363	**305**	363
Other creditors	**9**	47	**-**	-
	2,596	2,700	**2,587**	2,653
Accruals and deferred income				
Accruals	**1,166**	1,399	**1,152**	1,381
Deferred income	**643**	499	**643**	499
	1,809	1,898	**1,795**	1,880
Total liabilities	**4,405**	4,598	**4,382**	4,533
Current	**4,241**	4,410	**4,218**	4,345
Non-current	**164**	188	**164**	188
	4,405	4,598	**4,382**	4,533

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

28. Note to the cash flow statements

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Profit before tax	**15,484**	15,977	**15,605**	16,164
Adjusted for:				
Amortisation (Note 13)	**623**	672	**622**	661
Impairment charge (Note 13)	**-**	225	**-**	225
Depreciation (Note 14)	**246**	212	**246**	210
Investment return	**(97,658)**	(100,862)	**(97,966)**	(101,237)
Loss on disposal of tangible assets	**125**	-	**125**	-
Movement in:				
Technical provisions	**101,957**	82,473	**101,957**	82,473
Debtors, prepayments and accrued income	**(296)**	(149)	**(145)**	(262)
Creditors, accruals and deferred income	**(193)**	(900)	**(151)**	(926)
Cash generated from/(used in) operations	**20,288**	(2,352)	**20,293**	(2,692)

29. Commitments

Capital commitments

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

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Authorised and contracted:				
- property, plant and equipment	**126**	-	**126**	-
- intangible assets	**1,514**	1,352	**1,514**	1,352

29. Commitments - continued

Operating lease commitments - where the Company is the lessor

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

	Group and Company	
	2013	2012
	€'000	€'000
Not later than 1 year	**3,624**	3,334
Later than 1 year and not later than 5 years	**5,543**	5,651
Later than 5 years	**126**	878
	9,293	9,863

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

30. Related party transactions

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

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

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

30. Related party transactions - continued

Relevant particulars of related party transactions are as follows:

(a) Sale of insurance contracts and other services

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Transactions with a parent undertaking:				
Commission income	**40**	39	**40**	39
Transactions with the Company's subsidiary:				
Trailer fee income	**-**	-	**155**	149
Management fee income	**-**	-	**63**	62
Transactions with other related parties:				
Trailer fee income	**14**	15	**14**	15
Rental income on investment property	**59**	58	**59**	58

(b) Purchase of products and services

	Group		Company	
	2013	2012	**2013**	2012
	€'000	€'000	**€'000**	€'000
Transactions with the immediate parent undertaking:				
Rent expense	**85**	70	**85**	70
Purchase of insurance cover and other services	**124**	92	**124**	92
Reimbursement of expenses for back office support services (Note 7)	**45**	46	**45**	46
Transactions with a parent undertaking:				
Reinsurance premium ceded	**115**	119	**115**	119
Transactions with the Company's subsidiary:				
Investment transaction costs	**-**	-	**54**	30
Transactions with other related parties:				
Acquisition costs	**2,774**	2,184	**2,774**	2,184
Bank charges	**37**	41	**25**	33
Interest expense on subordinated loan	**205**	346	**205**	346
Costs in relation to hosting of IT server	**28**	4	**28**	4

30. Related party transactions - continued

(c) Investments

	Group and Company 2013 €'000	2012 €'000
Investments in securities issued by other related parties	**18,081**	14,894
Deposits held with other related parties	**162,005**	109,419
	180,086	124,313
Investment return, net of expenses and other charges: - other related parties	**4,613**	4,342

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

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

	Group 2013 €'000	2012 €'000	Company 2013 €'000	2012 €'000
Amount due from subsidiary (Note 20)	**-**	-	**45**	237
Accrued income from other related parties	**911**	482	**911**	482
Subordinated loan - other related parties (Note 26)	**-**	(6,000)	**-**	(6,000)
Creditors arising out of direct insurance operations – other related parties	**(248)**	(156)	**(248)**	(158)
Amounts owed to immediate parent company (Note 27)	**(103)**	(46)	**(103)**	(46)
Accruals and deferred income from other related parties	**-**	(87)	**-**	(87)
Creditors arising out of insurance operations – parent undertaking	**(22)**	(22)	**(22)**	(22)

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

Total salary remuneration paid by the Group to key management personnel during the year amount to €0.84m (Company: €0.8m). Corresponding figures for 2012 were €0.65m and €0.61m respectively.

31. Statutory information

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

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

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

32. Comparative information

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