MIDDLESEA
A MEMBER OF THE MAPFRE GROUP

CONTENTS

GROUP MISSION STATEMENT

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

BUSINESS PHILOSOPHY

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

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

We embrace Professionalism and seek Excellence in everything we do.

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

CHAIRMAN'S STATEMENT

CHAIRMANS REPORT 2014

2014 has proved to be a satisfactory year for the group. Group profitability before tax has remained in line with previous year whilst premium and market share showed remarkable growth both at Middlesea Insurance p.l.c. ('Middlesea') as well as at MSV Life p.l.c.('MSV') where the increase in Single Premium sales has been nothing short of spectacular. For Middlesea this growth has meant that we have managed to make up for the loss of one of our past principal agencies which made up almost 20% of total premium written, in under two years, with an even better technical result. At MSV, this growth did not result in increased profits as a result of the increased technical provisions increasing as a result of dwindling valuation interest rate.

The increases in premium did not happen by chance but are the culmination of the implementation of a strategy to hone the companies' commercial skills, to concentrate on acquiring business, servicing our customers whilst maintaining a prudent attitude to risk.

It is pertinent to note that in these times of low investment returns, where adequate returns are difficult to achieve without taking unacceptable risks, the main source of profit has come from the Group's technical business. Notwithstanding this MSV has been able to achieve higher than market investment returns especially on its with-profits portfolio.

DIVIDENDS

In 2013 the dividend we received from MSV was totally paid from untaxed profits. This year, the dividend received from MSV was mainly subject to the normal rate of tax and consequently the profit after tax for the Company has been reduced from €5.21 million to €4.28million. In spite of this the Board has decided to maintain the dividend payout to the same level as last year which works out at about 82% of the current year's profit after tax. In doing this we have looked at the company's requirements as regards capital investment, as well as its solvency with regard to current legal requirements as well as under Solvency II which will come into force in 2016. We are pleased therefore, to ask for your approval a net dividend of €3,520,000 (2013: €3,520,000) translating into a Gross Dividend of €4,716,890 (2013: €4,140,222).

EXTERNAL FACTORS

Political and economic uncertainty continue to dominate the international scene. Conflict in the Middle East, as well as on the fringes of Europe, the rise of anti Europe parties at the heart of Europe, which questions the political and economic thinking of a generation, as well as the continuing drag of the 2008 recession which continues to affect most of the Euro zone countries, means that conditions have not been ideal for a return to growth. Eurozone countries have diverse economies, and national governments have concentrated on their own economic issues as well as their respective electorates fatigue on austerity or frustration at the laggard countries seeming inability to put their house in order. There is a focus on austerity - policies intended to bring Government expenditure and debt under control, which has as yet been unable to deliver significant growth. Inflation is at an all-time low and could turn to deflation whilst interest rates are pitifully low and even negative. China and Russia's increasing aggressiveness on the world stage puts Europe's increasing fragmentation and infighting into perspective. Greece and to an extent Ukraine only serve to accentuate Europe's differences.

Not all is negative. There have been signs of economic improvement in many European countries (albeit faltering). The ECB has acted decisively with quantitative easing, and bank regulation has been tightened up.

The International insurance market has had to contend with low interest rates and insurers have been struggling to find safe investments which give an adequate return. This is especially true for Life companies which need to match their long term commitments with their policy holders. Increasingly unstable weather conditions, conflict and an increasingly litigious environment have all continued to increase challenges faced by insurance companies.

During this period, Malta seems to have been able to weather the storm. Growth has remained positive during 2014 and indeed has gathered a modest momentum. Perhaps most importantly unemployment remains at enviously low levels maintaining social cohesion and the ability to continue reforms at a moderate pace. The policy of maintaining a diverse economy has no doubt proved crucial in this respect. The general business insurance market has in fact grown by some 7 percent after many years of incremental growth and it is with much pride that I can report that Middlesea has outperformed this growth by double. In the Life market MSV has essentially taken up all the market growth in 2014.

Our economy, however, is small and exposed, and our growth is by no means guaranteed in the future. We must therefore continue to invest in the skills which are relevant in today's world, and continue the process of reform which will help provide a sustainable return for the country. For the Group this means that we

CHAIRMAN'S STATEMENT

must ensure that we remain at the cutting edge of the insurance industry. We must invest to ensure that we can provide the best service to our customers, that we manage risk which remains our core skill, and that we can then provide an adequate return for our shareholders. This investment has been done in three ways - In our staff, in our infrastructure and in our services both directly to our clients as well as to our tied intermediaries and agents.

STAFF

Staff at all the Group remains highly skilled and motivated. This has not happened by chance but through a conscious effort by management. During 2014 we have changed the management structure to ensure greater focus on the core business. As our business becomes increasingly competitive we have made increasing demands on our employees and they have responded well to the challenge. Increased training programmes both in Malta and abroad has meant that our employees are equipped to cope with this. Studies have shown that morale has increased and that our Group remains a great place to work. The number of hours of training has continued to increase. We are plugged in to the training systems of our parent company, Mapfre, who provide residential training abroad to key staff, as well as on line training to others. Local and in house trainers are also used and each employee has received an average of 40 hours of training during 2014. We are proud of our staff since it is largely through their efforts that the implementation of policies and programs rests.

INFRASTRUCTURE

As regards our infrastructure, we now have two regional offices (Birkirkara and Floriana) and are soon to open a third. This outreach to our clients (both ultimate customers and tied intermediaries) has paid dividends and we feel that much of the growth is attributable to both the new management structures which focus on the customer as well as ease of access for clients and distributors at our regional offices. The new office near Luqa will be opened later this year and as with the Birkirkara office, will house staff from both Middlesea and MSV.

Our ongoing investment in IT continues, perhaps not at the speed at which I would like. Technology is changing the way business is done and Middlesea Group is determined to remain at the forefront of change. It is however a difficult and complex process to manage this. As I reported last year this is a medium term project and we should be able to report substantial progress by the next Annual General Meeting. At each stage of the change process we maintain the highest level of security and integrity of data.

SERVICES TO OUR CLIENTS

Middlesea serves both the ultimate insured as well as those who bring us the business; agents, brokers and tied insurance intermediaries. It is incumbent on us to ensure that we provide relevant, innovative and competitive insurance cover for our clients. To this end we have tried to ensure that we maintain high levels of service, including through Middlesea Assist, on line assistance for renewals, new outlets referred to above where clients also can drive in to have vehicles surveyed, and other small yet significant improvements that show our commitment. With regards to our distribution network, we view this as one of the central pillars through which we generate income. At Middlesea, Agents provide 39% of our turnover, Tied intermediaries 20% and brokers 30%. Almost across the board our distributors have increased their sales and shared in our success. Our new commercial department has been tasked with ensuring that they are well supported and this level of support is intended to be enhanced. On behalf of the board of directors as well as the management and staff of Middlesea group I should like to recognise the efforts of all our distributors who continue to yield good results for the company. Their loyalty to Middlesea is acknowledged and indeed reciprocated.

CORPORATE SOCIAL RESPONSIBILITY

The Group is cognisant that we form part of society and that we should be in a position to give something back where we can. In the respect Fundacion Mapfre has increasingly taken up this role and we have been fortunate that we have been able to introduce a number of initiatives in Malta. During 2014 we have continued the Healthy living campaign in Maltese schools and introduced workshop for parents with the aim of helping parents bring up their children in a healthy environment. Fundacion Mapfre also sponsored a campaign to promote road safety awareness among children of secondary schools and supported an initiative of Equal Partners Foundation to help children with special needs.

As in previous years the Group supported the efforts of the Inspire Foundation by offering employment to a number of people with disability. We have also continued to support the Community Chest Fund, and are proud to do so. In the area of conservation and environment Middlesea in conjunction with MSV Life supported the rehabilitation of Majjistral project.

SHAREHOLDERS

Middlesea is owned 54.56% by Mapfre, 31.08% by Bank of Valletta and 14.36% by some 4000 individual or corporate

CHAIRMAN'S STATEMENT

shareholders. The Company remains a subsidiary of Mapfre which provides some considerable advantages where technical support, staff training, IT architecture is concerned, as well as ensuring that the Company remains at the forefront of development. As a subsidiary we need to align policies and practices in line with Mapfre and as a Board we have found that this has been to the Company's advantage. Mapfre is one of the 10 largest insurance companies in the world. It is represented in 47 countries and last year generated €26.37 billion in revenue (2013 €25.89 billion) and attributable profits after tax of €845.1 million (2013 €790.5 million). It is my opinion that the steady increase in premium and profit at Middlesea is at least in part attributable to the changes that have been implemented in recent years with the input and support of Mapfre. These reforms are ongoing as we increasingly adopt group practice. These changes include increased control, expertise as well as training.

We will be asking the shareholders to adopt the resolution to change the name of the company to Mapfre Middlesea p.l.c. This proposal is not cosmetic but reflects the changes the company is undergoing as well as its identity as part of the global enterprise of Mapfre. Apart from this you will see that Mapfre is expanding and that the brand will now be present in Italy and Germany as well as increasing its market share worldwide. Capitalising on the brand name is increasingly important in the globalised world where we can increasingly expect international brands to set up and compete in Malta. I urge you to vote in favour of this change in name for the Company.

Bank of Valletta p.l.c ('BOV'). remains a committed shareholder and partner in the Group. The fact that it generates a very significant part of the revenue of MSV where it owns 50%, only reinforces this. The relationship remains strong. The Bank's representation on the Board along with the two independent directors representing the remaining shareholders ensures that there is balance and focus in contributing to the group's success.

DIRECTORS

During 2014 we lost a long standing director who provided sound advice and direction to the board. Lino Spiteri passed away after a long illness bravely fought. I will say that we will miss his quiet wisdom, intelligence, insight and indeed his friendship.

During 2014 Felipe Navarro Lopez de Chicheri representing Mapfre was replaced by Nikos Antimissaris. Mr Antimissaris is the CEO of the EMEA region of Mapfre which covers Europe and the Middle East and Africa. Along with Javier Fernandez Cid Plañiol who is on the main Executive Committee of Mapfre S.A. and Pedro López Solanes who is the General Manager and Chief Financial Officer of Mapfre Internacional S.A. means that we have a very high profile representation from Mapfre. This is the same for BOV who are represented by Mr John Cassar White and Mr Charles Borg the Bank's Chairman and CEO respectively. Indeed Mr Cassar White remains the chairman of MSV Life. The remaining shareholders are represented by Mr Paul Testaferrata Moroni Viani and Mr Gaston Debono Grech. This board has provided the balanced direction which ensures that the Company continues to progress. It has been a privilege for me to work with them.

CONCLUSION

In conclusion I believe the shareholders can be satisfied with the Company's results; indeed that we have been able to maintain profitability and maintain shareholders returns. On behalf of the Board I would like to thank the President and CEO of Middlesea, Alfredo Munoz Perez, as well as the CEO of MSV David Curmi, as well as all the staff of the group companies for their drive and energy in ensuring that the Group continues to grow, and provide a professional service to our customers. This enables us to face the challenges of the future with renewed confidence.

MARTIN GALEA
CHAIRMAN
MIDDLESEA INSURANCE P.L.C.

11 MARCH 2015

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MIDDLESEA GROUP HIGHLIGHTS - 2014

During 2014 the Middlesea Group had overall a very good performance. In terms of premium written growth it was an excellent year, with both Life, primarily business generated by MSV Life p.l.c. ('MSV'), and General business, growing at double digit rates and reaching the highest levels in the Group's history. Market shares in both Life and General (based on preliminary market data) have increased once again to consolidate the Middlesea Group as the leader in the local insurance market. In terms of profits General Business improved significantly compared to the previous years, while the Life operations, again the main contributor to the Group results, achieved high profits. Apart from business growth, we must remark the improvement of technical ratios in General Business and the excellent performance of the investment portfolio on the long term businesses.

The Group is also looking at the long term issues, and is consistently developing an ambitious strategic plan to have robust competitive advantages in different areas such as distribution, customer service, internal processes, computer systems and staff development. In the near future we will see significant changes in the market, clients will have new requirements in terms of service or the way they approach us and we must be ready to meet their expectations and maintain their trust in us. That will be the determinant factor to grow our business.

There will be new and increased opportunities in our market. We still face significant issues, such as the increased competition and low rates in some classes of insurance, however, economic growth and improved standard of living and lifestyles in Malta will bring new chances to those who will be ready to accept the challenge, invest and innovate.

Our Group is well prepared to offer a wide range of solutions with the additional contribution of its service arms, Middlesea Assist Ltd, Growth Investments Ltd, as well as Bee Insurance Management Limited, who is successfully attracting foreign companies to base their businesses in our country, and adding new experiences to our local expertise.

GENERAL BUSINESS

The gross premiums written under the General Business technical account increased during the year by 12.6%, far ahead of the sector as a whole. All classes grew in absolute terms, and all distribution channels had a positive contribution to the sales increase, not only the most consolidated channels, such as agencies and brokers, but even more so the direct sales and the network of Tied Insurance Intermediaries. The extension and branding of TII offices now allow most of the population to have a Middlesea branded office in their hometown.

The number of policies written increased by more than 14%, with considerable increases in the retail lines business and new policies. Retention rates are still very high and clients' perception is overall very good as shown in customer service perception surveys carried out, with lost clients essentially due to the intensive price competition in the non-life market.

The company kept on retaining a larger percentage of premiums based on its high capitalization and spread of risks. This explains why reinsurance cessions continued to drop, being 25% lower than the previous year, with earned premiums net of reinsurance increasing by 19.5%. In comparison, net claims incurred increased by 8.7%, with net claims ratio improving by 5 percentage points in spite of some high value claims.

Net operating expenses grew by 24% mainly due to the reduction in reinsurance commissions that higher retention implies with acquisition expenses remaining contained to previous year's level. Administrative expenses also increased, as required to serve the new business, but significantly less in terms of ratio: staff headcount in parent company increased in average terms by 4 employees. Refurbishment expenses had to be incurred in our regional offices coupled with investment in systems.

Technical account balance improved by 55% to 4.2 million, essentially based on strong growth of the portfolio and improved claims ratios. Strict controls on internal expenses and lower average commission rates due to improvements in our distribution mix allowed us to achieve a positive technical margin, despite some large claims.

The allocated investment income increased by 31% to €0.87m but in the context of low interest rates is and will probably be in the near future a secondary contribution to the technical profit that has to rely on the insurance technical performance, even when the portfolio is showing now a diversified but prudent combination of assets and there have been significant investments in real estate property, that will provide higher returns in the coming years.

LONG TERM BUSINESS

For a second consecutive year, the Technical Account for Long Term Business (MSV together with Middlesea's relatively small Group Life account) experienced a large increase in premium written (42%), a major feat in the context of the rest of the market having a nearly nil increase in this line during 2014.

The increase in new business was even higher, boosted by the high reputation our Group enjoys in the market, the successful contribution of the partnership with Bank of Valletta p.l.c., and very competitive savings products, awarding clients substantial returns, thanks to a diversified and well managed portfolio.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

Investment income had a record year, with high fair value movements, reaching in total €119 million (21% more than in the already successful year 2013). During 2014 MSV has also set up two segregated portfolios to have a tailored investment strategy and assets mix for non-participating business. The average return of investments reached 8.78%, while the with-profits fund experienced a return of 9.48%, clearly above the rates registered in 2013, with a well-balanced combination of stable and high return securities, from local and foreign issuers.

Total benefits did not substantially vary (1.2% over 2013), with maturities increasing as expected by 16% and surrenders down by the same rate compared to the year before; this figure clearly shows how current clients trust the company and value its products.

Total invested assets in MSV increased by 11% to €1.43 billion whilst Life Technical Provisions grew at a rate of 15%. The rally in the bonds market implied a reduction in valuation interest rates leading to an increase in the liability figures that the company has been able to absorb without any major impact in profitability.

Net operating expenses shows an increase of 20%, but this is to be partially attributed to changes in reinsurance treaties and to a higher level of commissions paid as a result of the increased premium income. Administrative charges grew at a much lower rate (8%).

Overall, the long term business technical account showed a marginal 0.3% improvement over the year before. The maintenance of previous year's result can be considered a success in the context of declining rates and strong increase of new business which demand additional expenses.

CONSOLIDATED RESULTS

During 2014 the Group registered a net profit before tax of €17.3m, equal to the previous year, as the decrease of the non-technical investment income, as a result of MSV's new asset segregation, has offset the increase in the General Business technical balance.

The tax expense for the year was (effective rate of 28.5% of pretax profit) lower than in 2013 (in line with corporate rate), because of taxation on real estate investments. This took consolidated result after tax to €12.37 million, 13% higher than the previous year.

It is worth mentioning that tax in parent company, which impacts profits distribution, came back to normal rates after an unusually low charge in 2013 derived from untaxed Group dividends.

Earnings per share attributable to shareholders have reached a very positive level of €0.078. This does not mean that profit available for distribution has increased as well, since dividend is paid by the parent company, whose result has reduced because of heavier tax burden. Middlesea has a clear policy to deliver a return to its shareholders representing an important part of the Company's profits for the year. With solvency ratios clearly above legal requirements and no indication of strains in the future, the proposed dividend amounts to €0.05127 (gross) and €0.03826 (net) per share, higher than last year in gross to get the same net figure. It is to be remarked that pay out in net terms means 82% of the Company's after tax result.

BALANCE SHEET

The total assets of the Group increased by 13% and totalled €1.62 billion. Almost all this increase corresponds to return-seeking assets (investments and cash) derived from the increase in MSV's customer funds under management. These funds are invested in a number of diversified securities (local and foreign), managed in-house or by external highly-reputable entities. The Group has also a relevant portfolio of rented property investments and property related shares. Accrued interest and rent is reported under the "Insurance and other receivables" item in the balance sheet.

Remarkable is the increase in value of the Intangible Asset item mainly relating to the estimated value of MSV's in-force business (actuarial estimation based on expected future profits from current portfolio) which increased by 14% to €59.4 million.

On the liabilities side, more than 97% of the balance belongs to technical provisions. Apart from the increase in the Life provisions there was a decrease of claims outstanding of 10% in net terms, due to faster settlement or closure of files. The other relevant figure belongs to the Deferred income tax, that is a result of fair value movements on the investment portfolios, which also increased.

Total equity including non-controlling interests increased by 9.3% or €13 million during 2014. This was mainly brought about by the increase of the Value of In-Force business and retained profits.

REVIEW OF OPERATIONS

The Middlesea Group bases its financial performance in two pillars, the final customer and the insurance intermediaries, being both the object of differentiated features and programs in order to ensure that all of them perceive our Group as the preferred insurance partner they can trust.

The distribution network continued its development, with the support of the new Regional Offices, where our stakeholders can fulfill all their insurance needs, inclusive of Life and Non-Life products. Proximity and accessibility have been enhanced, not only based on physical locations, but also on the telephone, with new services available on a 24x7 basis, and new features on websites

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

and mobility tools such as "apps". Presence in social networks has also been strengthened, being leaders in the sector in terms of followers.

The Group is committed with a clear multichannel approach, allowing the same opportunities to clients whatever outlet they choose. Distribution networks count now on dedicated areas to support them, specializing in their needs - a new Agency Unit has been setup in this regard. The online channel is gradually incorporating part of the commercial offer, and after adding Boat and Pet insurance, it offers all the essential basic retail Non-Life products.

A new IT tool to streamline the quotation process has been launched in order to improve the service to brokers. Internal processes are under constant review, with specialized staff appointed to look after systematic improvements. An important line of work is empowering and training distribution channels and direct offices staff to conclude operations without unnecessary bureaucratic leads. Training actions for distributors have been formalized and are executed on a periodic basis, inclusive of specific programs on retirement awareness. The Banking network is also supported with a systematic visit scheme. The compensation system is permanently under review to ensure that it is in line with business objectives and targets.

The recently implemented structure, that was designed in line with the Mapfre Group organizational guidelines, has proven to be efficient to reach higher targets in terms of business developments, and to ensure a proper transmission of Mapfre Group experiences and guidelines.

In terms of services Middlesea has reinforced features to allow clients being served in the most convenient way, such as the sites for motor surveys, but also started developing business leads through its call-centre (such as the facility to open a claim over the phone) and simplified the underwriting requirements for Life policies. More regular communication with clients is a strategic step that has been reinforced with the new electronic newsletter. It is also worth mentioning the introduction of "Insure and Save", the loyalty program that allows clients to enjoy advantages such as discounts in a number of outlets and services, which is having an excellent acceptance among members.

Product offer has been increased again in 2014, with some very innovative features such as Motormax, the first insurance product in Malta supported by telematics, Purchase protection Insurance, Medical Malpractice Schemes and Life products such as MSV Living Benefits, Distribution Bond or new Whole of Life Plan. Other commercial proposals have been re-priced to be more competitive.

Technological developments move ahead, with the migration to new policy administration systems underway, ambitious projects that require a significant investment, and that in the case of MSV Life will add new tools for quick underwriting and investments based products management.

Investments is a key area to meet the expense of competitive offers to clients , and the portfolios have been further diversified to new assets and issuers, with the input of specialized managers whilst keeping very demanding standards in terms of quality and rating.

Control areas have been enhanced with policies and procedures developed and new resources. New advances in contingency solutions, reinforced communications networks and specialized intrusion tests reinforce the trust in the data processing capacities and the security of client data. The introduction of an internal legal area in the parent company, the development of the fraud detection unit, and the appointment of whistleblower functions shall increase the peace of mind of stakeholders, who can feel how governance mechanisms are a permanent concern for the management and Board of Directors.

SUBSIDIARIES

BEE INSURANCE MANAGEMENT LTD

The Group management services company, a fully owned subsidiary of Middlesea, had a very positive year with a 29% increase in its pre-tax profit , and the incorporation of a new client (a Protected Cell Company). It also played a very active role at international events, establishing new business leads and contributing to extend the knowledge of Malta as an excellent jurisdiction to operate from. New prospects are in the pipeline and some of them might materialize during 2015. One of the key and challenging developments of the year has been the adaptation of clients to the new Solvency II regulation; this duty will continue during next year, to have new procedures and controls in place before the final implementation date of 1 January 2016.

MIDDLESEA ASSIST LTD

Middlesea Assist, a joint-venture between Middlesea and Mapfre Asistencia, had an excellent year with increased revenues and profits four times larger than the previous year. Volume of services provided to the Middlesea Group increased substantially, in number and variety while keeping the quality of service provided and satisfaction levels at the highest rates. The optimal use of its own network has been instrumental to improve financial results.

It also had an instrumental role in the development and service handling of specialized innovative classes of insurance that increased the public's awareness of the Group innovation capacity. Memberships are now available to the public as a standalone product.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

LOOKING FORWARD

Middlesea Group has a positive vision of the Maltese insurance and services market, since we firmly believe that in general terms our citizens are under-insured and the improved standard of living will lead to an increase in demand of insurance policies, sums insureds and service requirements. And it will continue in its endeavours to be considered as the trusted insurance provider that can offer the widest range of solutions in the Maltese market, all this with a long-term view and based on prestige and reputation.

Increasing regulations and consumer awareness will oblige service providers to be faster, more efficient, and clearly add value to our proposals beyond marketing statements. To be in a position to properly serve our clients we will need an adequate size and as a result the increase in the volume of business is a permanent objective, therefore we must be able to continue improving our market share. Our sizeable customer base and our ability to offer combined products (with Non- Life and Life coverages) for individuals but also in the area of employee benefits place our Group with excellent prospects to further grow.

The amalgamation of an international Insurance group , the leading banking institution in Malta and the local capabilities of a qualified, expert and motivated team places us in a favorable position to continue growing. New areas of development like pensions and the provision of health services will be of special interest to the Group and will require a significant part of our efforts in the mid-term.

Internally we will continue strengthening our structures, planning and monitoring tools, and control features to ensure effectiveness when implementing our strategies. The different initiatives which started over the last few years will be further developed, with our outlook in a society that will be increasingly more digital and innovative.

From a governance point of view, we must abide to the new Solvency II regulations, which will certainly be a challenge for the insurance sector but for which Middlesea will be well prepared. The increasing size of regulations is a concern, however most of them are in line with the institutional principles of the Group shareholders and will not impose a radical change of philosophy to our Group, which will continue to have a positive contribution to the society with its Corporate Social Responsibility initiatives.

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

11 MARCH 2015

BOARD OF DIRECTORS & COMPANY SECRETARY

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

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

MR NIKOS ANTIMISSARIS
(APPOINTED ON THE 29 APRIL 2014)
NED
FORMERLY: Member of the Board of Directors of many of the subsidiaries of Mapfre Asistencia

AT PRESENT: CEO EMEA (Europe, Middle East and Africa Region) of the MAPFRE Group, MAPFRE Genel Sigorta A.S. (Turkey) and MAPFRE Genel Yasam Sigorta A.S. (Turkey).

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

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

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

At present: Chairman Bank of Valletta plc, MSV Life plc, Valletta Fund Management Limited and Valletta Fund Services Limited.

MR GASTON DEBONO GRECH
L.P. F.I.S.M.M. (Luton), B.A. (Leg.), Mag. Jur. (Int. Law) Dip. Trib.Eccl.Melita
NED I
FORMERLY: Director Malta Drydocks, Director Malta International Transport, Director Tug Malta, Director Smithtug Valletta. Served for 18 years as G.W.U. representative for the Security Department.

AT PRESENT: Legal Procurator.

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

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

MR PEDRO LÓPEZ SOLANES
NED
AT PRESENT: Controller - Deputy General Manager in Mapfre S. A., General Manager and Chief Financial Officer of Mapfre Internacional S.A. in Spain, Director of Mapfre Inversion Sociedad de Valores (Spain), Director of MSV Life plc, (Malta), Director of Mapfre Re (Spain), Director of RMI Inc. (USA).

MR PAUL S. TESTAFERRATA MORONI VIANI
NED I
AT PRESENT: Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of GO plc., Innovate Software Limited, Mobisle Communications Limited, Worldwide Communications Limited, Go Data Centre Services Limited, St. George's Park Co. Ltd, SGP Projects Ltd, Euro Appliances Co. Ltd, Spinola Hotels Ltd, Reliant Ltd, Cambridge Place Ltd, Sales & Letting Ltd, Aragon Co. Limited, BPG Properties Ltd and Testaferrata Moroni Viani Holdings Ltd , Vltava Fund SICAV plc."

MR JOSEPH F. X. ZAHRA
B.A. (HONS) ECON., M.A. (ECON.), FCIM, MMRS
NED I
FORMERLY: Head of Research, Malta Development Corporation, Director, Central Bank of Malta, Director, Malta Development Corporation, Director, Corinthia Hotels International Ltd, Chairman, Bank of Valletta plc, Chairman, Middlesea Valletta Life Assurance Co. Ltd, Chairman, Maltacom plc., Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education, Chairman, Middlesea Insurance plc; Chairman, Euro Globe Holdings Ltd, Chairman, Church Wharf Properties Ltd; Director, MSV Life plc; Chairman, Bee Insurance Management Ltd; Chairman, EuroMed Risk Solutions Ltd and Chairman, Malta Council for Culture and the Arts

BOARD OF DIRECTORS & COMPANY SECRETARY

AT PRESENT: Director Medserv plc, Director, Nemea Bank plc, Managing Director, Market Intelligence Services Co. Ltd, Managing Director, MISCO International Ltd, Chairman, C. Fino & Sons Ltd, Chairman, Document Archive Management Ltd, Chairman, Impetus Europe Consulting Group Ltd, Chairman, Multi Risk Limited, Chairman, Multi Risk Indemnity Ltd, Chairman, Forestals Investments Ltd, Director, Multi Risk Benefits Ltd, Director, PowerImage Services Ltd, (Cyprus), Director, Promise Professional Services Ltd, (Cyprus), Director, 3a Malta Ltd, Director, Surge Consulting Ltd, Director, United Group Ltd, Director United Finance plc., Pendergardens Developments plc and FIRE Spa (Italy).

MR CARLO FARRUGIA
DIP. GEN. MGMT (MAASTRICHT), PGDTI, M.A. (TRANSL. & INTERP.).
FORMERLY: Previously employed at the Central Bank of Malta and Malta Financial Services Authority and appointed as a bank inspector for a number of years.

AT PRESENT: Director BEE Insurance Management Ltd; Director EuroMed Risk Solutions Ltd; Joined the Middlesea Group in 2007 and was appointed Company Secretary and Compliance Officer of the group companies. Serves as committee secretary to the Board Committees of Middlesea Insurance plc and to the majority of Middlesea's subsidiaries. He is also a visiting lecturer at the University of Malta for Translation and Interpreting, published the Dictionary for Financial Services and is involved in the Olympic Movement and a member of the Maltese Olympic Academy.

Mr Felipe Navarro López de Chicheri was not re-appointed as a Director during the AGM held on the 29 April 2014 and was therefore a Director between the 1 January and 29 April 2014. Mr Lino Spiteri passed away on the 14 November 2014.

NED – Non Executive Director
I - Independent

HEAD OFFICES & AGENCIES

HEAD OFFICES

MIDDLESEA INSURANCE P.L.C.
Middle Sea House
Floriana, FRN 1442
Tel: (00356) 2124 6262
Fax: (00356) 2124 8195
e-mail: middlesea@middlesea.com
website: www.middlesea.com

BIRKIRKARA REGIONAL OFFICE
83-89, Wignacourt Str
Birkirkara, BKR 4711
Tel: (00356) 2569 4800
e-mail: middlesea@middlesea.com

LOCAL AGENCIES

BONNICI INSURANCE AGENCY LIMITED
222, The Strand
Gzira, GZR 1022
Tel: (00356) 2133 9110
Fax: (00356) 2131 0390
e-mail: info@bonniciinsurance.com

ENGLAND INSURANCE AGENCY LIMITED
190, 1st Floor, Marina Street
Pieta, PTA 1904
Tel: (00356) 2125 1015
Fax: (00356) 2124 4507
e-mail: info@england.com.mt

LAFERLA INSURANCE AGENCY LIMITED
Vincenti Buildings
Blk. 13, Flt. 18/19, Strait Street
Valletta, VLT 1453
Tel: (00356) 2122 4405
Fax: (00356) 2124 0811
e-mail: info@laferla.com.mt

MELITAUNIPOL INSURANCE AGENCY LIMITED
17 Market Street
Floriana, FRN 1081
Tel: (00356) 2206 7000 / 2123 6363
Fax: (00356) 2124 1954
e-mail: agency@melitaunipol.com

SMS INSURANCE AGENCY LIMITED (AGENTS FOR MOTOR ONLY)
Villa Venezia
Ta' Xbiex Terrace
Ta' Xbiex, XBX 1035
Tel: (00356) 2577 5000
Fax: (00356) 2123 4107
e-mail: ship@sms.com.mt

PROFESSIONAL SERVICES

The Company and its subsidiaries, in addition to its regular staff complement, as at 31 December 2014 utilised the professional services of the following individuals and institutions:

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

AUDITORS
Ernst and Young
PricewaterhouseCoopers

ACTUARIES
MAPFRE S.A.
Towers Watson

BANKERS
Bank of Valletta p.l.c.
Lombard Bank (Malta) p.l.c.
HSBC Bank (Malta) Ltd.
National Westminster Bank
APS Bank Limited

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

GROUP COMMITTEES

THE INVESTMENT COMMITTEE
Mr John Cassar White (Chairman)
Mr Martin Galea
Mr Pedro López Solanes
Late Mr Lino Spiteri

THE AUDIT COMMITTEE
Mr Charles Borg (Chairman)
Mr Nikos Antimissaris (appointed on the 29 April 2014)
Mr Martin Galea (appointed on the 11 March 2015)
Mr Pedro López Solanes (member until the 29 April 2014)
Late Mr Lino Spiteri
Mr Paul Testaferrata Moroni Viani

THE REMUNERATION COMMITTEE
Mr Javier Fernández-Cid Plañiol (Chairman)
Mr Martin Galea
Mr John Cassar White

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE
Mr Gaston Debono Grech (Chairman)
Mr Martin Galea (appointed on the 11 March 2015)
Mr Pedro López Solanes
Late Mr Lino Spiteri

The Company Secretary, Mr Carlo Farrugia, acts as the committee secretary to the above mentioned committees.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

Middlesea Insurance p.l.c. registered a profit before tax of €6.38 million during the year ended 31 December 2014 (FY 2014), an increase of 8.1% over the €5.9 million registered in FY 2013. Premiums written by the stand-alone parent Company increased by 12.7% to €35.3 million (2013: €31.4 million), the highest premium level ever achieved.

The Group registered a profit before tax of €17.3 million for the year to 31 December 2014 (FY 2014) same as that achieved in FY 2013 with sustained profitability achieved by the life subsidiary MSV Life p.l.c. where revenues were supported by the continuing resilience and upturn in the equity and bond markets.

Middlesea Insurance p.l.c.'s solvency position as at 31 December 2014 on its general business stood at 486% of the minimum solvency requirement (2013: 515%).

Middlesea's Group capital and reserves attributable to shareholders at 31 December 2014 amounted to €80.1 million (2013: €73.1 million) on a consolidated basis with a net asset value per share of €0.87 as at 31 December 2014.

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

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 34. A gross dividend in respect of year ended 31 December 2014 of €0.05127 per share amounting to a total dividend of €4,716,890 (2013: €4,140,222) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.03826 per share amounting to a total net dividend of €3,520,000 (2013: €3,520,000).

DIRECTORS

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

Martin Galea
Charles Borg
John Cassar White
Gaston Debono Grech
Javier Fernández-Cid Plañiol
Pedro López Solanes
Lino Spiteri (deceased 14 November 2014)
Paul Testaferrata Moroni Viani
Joseph F.X. Zahra

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

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

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

The financial statements of Middlesea Insurance p.l.c. for the year ended 31 December 2014 are included in the Annual Report 2014, which is published in hard-copy printed form and may be made available on the parent company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

- the consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO LISTING RULE 5.64

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

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

The directors confirm that as at 31 December 2014, only MAPFRE Internacional (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

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

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

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

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

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

DIRECTORS' REPORT

INFORMATION PURSUANT TO LISTING RULE 5.64 - CONTINUED

It is hereby declared that as at 31 December 2014, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

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

AUDITORS

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

By order of the Board

Martin Galea
Chairman

Charles Borg
Director

Middle Sea House
Floriana, Malta

11 March 2015

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

1. INTRODUCTION

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

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

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

2. COMPLIANCE WITH THE CODE

Principle 1 – The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. As at the 31 December 2014 the Board was composed of a non-executive Chairman and eight non-executive Directors, following the demise of the late Lino Spiteri on the 14 November 2014. The maximum number of Directors is ten. Martin Galea was re-appointed as a non-executive Chairman during the Board meeting held on the 29 April 2014 which followed the Annual General Meeting held on the same day.

During the Annual General Meeting held on the 29 April 2014, all retiring Directors were re-appointed as Directors by the shareholders of the Company. Nikos Antimissaris was appointed by the Board of Directors in lieu of Felipe Navarro López de Chicheri in line with changes effected by one of the said institutional shareholders and in accordance with Article 100 of the Memorandum and Articles of Association.

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

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 2 – Chairman and CEO

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

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

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

Principle 3 – Composition of the Board

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

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

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

The composition of the Board is determined by the Company's Articles of Association. The appointment of Directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy. Article 100 of the Memorandum and Articles of Association empowers the Board of Directors to appoint one Director in addition to the Directors appointed by the shareholders. Nikos Antimissaris was appointed by the Board of Directors in line with the said article. All Directors are required to fulfil the fit and proper procedures carried out by the Malta Financial Services Authority in line with standard regulatory due diligence procedures. In addition, during 2014 a new internal fit and proper regime was implemented within the Company in accordance with Solvency II requirements. The said internal fit and proper regime for key functionnaires will be carried out on an annual basis.

During the period under review, the Board consisted of five independent Directors (including the Chairman) and five non-independent Directors (as indicated on pages 13 and 20 of the Annual Report) as defined by the Code. The number of independent Directors was reduced to four following the demise of the late Lino Spiteri.

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

Principle 4 – The Responsibilities of the Board

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Audit Committee's terms of reference are modelled mainly on the recommendations of the Cadbury Report and its principles, whilst also reflecting the provisions of the relative Listing Rules. The responsibilities of the Audit Committee include:-

- the monitoring of the financial reporting process
- the monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems
- the monitoring of the audit of the annual and consolidated accounts
- the maintenance of communication on such matters between the Board, management, the external Auditors and the internal Auditors
- the making of recommendations to the Board in relation to the appointment of the external Auditor and the approval of the remuneration and terms of engagement of the external Auditor following appointment by the Shareholders in general meeting
- the monitoring and reviewing of the external Auditor's independence and in particular the provision of additional services
- the development and implementation of a policy on the engagement of the external Auditor to supply non-audit services
- the reviewing of actuarial reports
- the management of financial risks
- the arm's length nature of related party transactions and
- the audit process.

The terms and conditions of new contracts negotiated with related parties (regarding banking, reinsurance and agent related matters) are also reviewed by the Audit Committee.

The composition of the Company's Audit Committee is also regulated by the Listing Rules. In terms of Listing Rule 5.118, the late Lino Spiteri was the Director whom the Board considers as independent and competent in accounting/auditing due to his experience, knowledge and high profile appointments during his career which also included posts in the financial services sector. The late Lino Spiteri was a Director for more than twelve consecutive years. For the purposes of Listing Rule 5.119, such period is to be taken into consideration when determining the independence or otherwise of a director. The Board took the view that the length of service of the late Lino Spiteri did not undermine the said Director's ability to consider appropriately the issues which were brought before the Audit Committee. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that the late Lino Spiteri was able to exercise independent judgment and was free from any relationship which could hinder his objectivity. Charles Borg was appointed as interim Chairman of the Audit Committee and Martin Galea started attending Audit Committee meetings, following the demise of Lino Spiteri, until such time that the Board of Directors seeks approval from the Malta Financial Services Authority for the appoinment of a new Committee member and Chairman who will satisfy the above listed requirements.

The Audit Committee held four meetings during 2014. The Audit Committee members and relative attendance to meetings is listed below.

Late Lino Spiteri (Chairman)	1
Charles Borg	4 (appointed as Interim Chairman)
Nikos Antimissaris	3 (appointed on the 29 April 2014)
Pedro López Solanes	1 (not re-appointed on the 29 April 2014)
Paul Testaferrata Moroni Viani	4

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

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

COMPLIANCE, PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

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

The Compliance, Prevention of Money Laundering and Risk Management Committee held four meetings during 2014. The Committee members and relative attendance to meetings is listed below.

Late Lino Spiteri (Chairman)	3
Gaston Debono Grech	4 (appointed as Interim Chairman)
Pedro López Solanes	4

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

INVESTMENTS COMMITTEE

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

The Investments Committee held four meetings during 2014. The Committee members and relative attendance to meetings is listed below.

John Cassar White (Chairman)	3
Martin Galea	4
Pedro López Solanes	4
Late Lino Spiteri	0

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

REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2014 Annual Report. The Board of Directors approves the remuneration of Directors and Chief Officers on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

The President & CEO and Chief Officer HR and Mapfre Regional Head of HR attend the Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

Principle 5 – Board Meetings

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

During the 2014 financial year, the Board of Directors of the Company held five meetings. The attendance of Directors to the Board meetings is listed below.

Martin Galea (Chairman)	5
Nikos Antimissaris	3 (appointed on the 29 April 2014)
Charles Borg	5
John Cassar White	4
Gaston Debono Grech	5
Javier Fernández-Cid Plañiol	5
Pedro López Solanes	5
Felipe Navarro López de Chicheri	1 (not re-appointed on the 29 April 2014)
Late Lino Spiteri	2
Paul Testaferrata Moroni Viani	5
Joseph F.X. Zahra	4

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

During 2014 the Directors continued to hold Directors' Briefings to enable the Directors to be updated on current corporate governance requirements together with other statutory requirements emanating from law together with the coming into force of Solvency II. In fact five Directors' Briefings were held during the year which were attended by Board Directors and dealt with legal matters, strategic plan, reinsurance, FLAOR Report, Solvency II and Board policies amongst other. In addition, the Company Secretary directs members of the Board to seminars or conferences that are organized by different entities in Malta, which serve as professional development for Directors in the discharge of their functions on the Board and Committees.

Principle 6 – Information and Professional Development

The new Director appointed during 2014 was provided with an information pack that is tailored to obtain a good knowledge of the Company together with its structure and operations for new directors. In addition the new director was invited to attend a purposely held meeting which specifically dealt with the Company's organisation and activities and the responsibilities of individuals who are appointed as Directors.

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

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

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

Principle 7 – Evaluation of the Board's Performance

During the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not per se appoint a committee to carry out this performance evaluation, but the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Company Secretary in liaison with the Chairman. The Chairman prepared a report following the replies submitted by the Directors and the said report was submitted to the Board. During 2015 the Chairman will be meeting the Board members individually to obtain more in depth feedback and the Board will then be taking up the recommendations made by the Chairman and evaluate any required action that might be required to be implemented.

Principle 8 – Committees

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 9 – Relations with Shareholders and with the Market

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

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

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

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

The Chairman ensures that sufficient contact is maintained with major shareholders to understand issues and concerns. In addition the Chairman, CEO and Company Secretary have met with the Malta Association of Small Shareholders during 2014 to discuss various aspects related to the benefit of the smaller shareholders.

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

Principle 10 – Institutional Shareholders

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

Principle 11 – Conflicts of Interest

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 11 – Conflicts of Interest - continued

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

Directors' interests in the share capital of the Company as at 31 December 2014 were as follows:

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

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

Principle 12 – Corporate Social Responsibility

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

In addition, during the year under review, the Company provided specific support in the fields of arts and culture in the form of sponsorships and other activities. During 2014 Middlesea with the support of Fundación Mapfre has continued the healthy living campaign in Maltese schools and introduced workshop for parents with the aim of helping parents bring up their children in a healthy environment. Fundación Mapfre also sponsored a campaign to promote street/traffic safety awareness among children of secondary schools and supported an initiative of Equal Partners Foundation on Transdisciplinary Early Intervention - a Head start. Further cooperation is being planned in Malta, for next year, by Fundación Mapfre.

Middlesea has sponsored Paqpaqli Għall-Istrina, for the fifth consecutive year, with all proceeds going to The Malta Community Chest Fund and l-Istrina. In the area of conservation and environment Middlesea, in conjunction with MSV Life, has supported the rehabilitation of an area within the Majjistral Park.

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

Internal Control and Risk Management System

This information is being provided in terms of Listing Rule 5.97.4.

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

COMPLIANCE WITH THE CODE - CONTINUED

Internal Control and Risk Management System - continued

Risk Identification - The management of each of the Group members is responsible for the identification and evaluation of key risks applicable to their areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed. The Solvency II regime has also involved the company in the submission of the FLAOR Report to the Competent Authority, which identifies risk scenarios and their effect on the company through risk scenarios.

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

General Meetings

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

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

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

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

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE

Principle 3 – Composition of the Board: Code Provision 3.2

The Board is composed of nine non-executive Directors as at 31 December 2014.

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

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

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

In view of the fact that the appointment of Directors is (a) a matter reserved exclusively to the Company's shareholders (except where the need arises to fill a casual vacancy), (b) that every director retires from office at the Annual General Meeting, and (c) taking into account the Directors' non-executive role, the Company does not consider at this point in time the necessity to have in place a succession policy for the Board of Directors. During 2014, the Board of Directors approved the Succession Policy for Senior Management and the recommendation to have a succession policy for Board Directors will be kept under review.

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

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

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

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

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

The Code clearly defines an independent non-executive Director under Principle 3. The Chairman of the Remuneration Committee until the 29 April 2014, namely Martin Galea, does fall within the definition of an independent non-executive Director in accordance with Principle 3. However, the Chairman of the Remuneration Committee from the 29 April 2014, namely Javier Fernández-Cid Plañiol does not fall within the definition of an independent non-executive Director in accordance with Principle 3. However the compostion of the Remuneration Committee is the same, namely Javier Fernández-Cid Plañiol, John Cassar White and Martin Galea, and decisions are always reached through the consensus of all three members. Consequently the change in the Committee Chairmanship did not affect the modus operandi of the Remuneration Committee. Two of the Committee members, namely John Cassar White and Javier Fernández-Cid Plañiol are non-executive Directors appointed by the main institutional shareholders of the Company and the Board has taken the view that the position held by by the Committee members does not undermine the said Directors' ability to consider appropriately the issues which are brought before the Remuneration Committee. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that the Committee members are able to exercise independent judgment.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

Principle 8B – Nomination Committee

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

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

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

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

Charles Borg
Director

Gaston Debono Grech
Director

11 March 2015

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

1. TERMS OF REFERENCE AND MEMBERSHIP

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

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

Between 1 January and 29 April 2014, the Committee was composed of Martin Galea (Chairman), John Cassar White and Javier Fernández-Cid Plañiol. On the 29 April, following the Annual General Meeting held on the same day, the Board of Directors appointed Javier Fernández-Cid Plañiol (Chairman), John Cassar White and Martin Galea as Remuneration Committee members. All the Committee members are non-executive directors and Martin Galea is the independent non-executive director as required under Section 8.A.1. The President & CEO, Alfredo Muñoz Perez, and other members of senior management are invited to attend Committee meetings as and when required. The Company Secretary, Carlo Farrugia, acts as the Secretary to the Committee.

2. MEETINGS

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

Member	Attended
Javier Fernández-Cid Plañiol (Chairman)	3
John Cassar White	3
Martin Galea	3

The Committee determined and/or discussed the following matters:

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

3. REMUNERATION STATEMENT

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT

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

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

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

There have been no significant changes in the Company's remuneration policy for Senior Management during the financial year under review. A performance appraisal system which was implemented during 2013, in relation to competences was further developed during 2014 to lead to the performance bonus scheme which was implemented in 2014. The said performance bonus scheme is based on achieving the company's departmental and personal objectives. The remuneration policy was submitted for approval to the Remuneration Committee on the 28 February 2014.

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

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT - CONTINUED

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

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

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

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

Total emoluments received by Senior Management during FY 2014 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed in this Report.

3.2 REMUNERATION POLICY – DIRECTORS

As at the 31 December 2014, the Board of Directors of Middlesea Insurance p.l.c. was composed of nine non-executive directors. Three Directors, namely Javier Fernández-Cid Plañiol, Pedro López Solanes and Nikos Antimissaris, did not receive a fee in accordance with the established policy of the parent shareholder company, MAPFRE Internacional, with which they are employed and which appointed them. In addition Charles Borg did not receive a fee as from 29 April 2014 (when the AGM was held) since he is a Bank of Valletta p.l.c. employee and is appointed on the Board of Directors as the CEO of Bank of Valletta p.l.c. The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was fixed at an aggregate sum of €250,000 per annum at the thirty Second Annual General Meeting held on the 29 April 2014. The Company does not intend to make any changes to this maximum amount at the next Annual General Meeting to be held in 2015.

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

	In Euro
Directors' Fees	
Chairman	43,000
Other Directors	18,000

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

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

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3.3 CODE PROVISION 8.A.5

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

Emoluments of Directors:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€133,451	None	None	None

Fees payable to directors in respect of 2014 amounted in total to €133,451 (2013: €146,000) and were paid as directors' fees as follows:-

	Directors' Fees
Charles Borg	€ 3,750
John Cassar White	€ 18,500
Gaston Debono Grech	€ 16,500
Martin Galea	€ 45,000
Lino Spiteri	€ 18,201
Paul Testaferrata Moroni Viani	€ 16,500
Joseph F. X. Zahra	€ 15,000

Martin Galea
Member
Remuneration Committee

11 March 2015

INDEPENDENT AUDITOR'S REPORT

EY

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

We have audited the financial statements of Middlesea Insurance p.l.c. ('the Company') and of the Group of which the Company is the parent, set on pages 32 to 124, which comprise the consolidated and parent company statements of financial position as at 31 December 2014 and the consolidated and parent company statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As described in the Directors' Report set out on pages 14 to 16, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Companies Act, Cap. 386 of the Laws of Malta, and the Insurance Business Act, Cap. 403 of the Laws of Malta, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Group and the Company as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta, and the Insurance Business Act, Cap. 403 of the Laws of Malta.

INDEPENDENT AUDITOR'S REPORT

REPORT ON CORPORATE GOVERNANCE

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also have responsibilities:

- Under the Companies Act, Cap. 386 of the Laws of Malta, to report to you if in our opinion:
  - The information given in the Directors' report is not consistent with the financial statements.
  - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

- Under the Listing Rules to review the statement made by the Directors, set out on page 16, that the business is a going concern, together with supporting assumptions or qualifications as necessary.

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

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

Ernst & Young Malta Limited
Certified Public Accountants

11 March 2015

STATEMENTS OF PROFIT AND LOSS TECHNICAL ACCOUNT - GENERAL BUSINESS

	Notes	2014 €'000	2013 €'000
		Year ended 31 December	
		Group and Company	
Earned premiums, net of reinsurance			
Gross premiums written	6	**33,807**	29,935
Outward reinsurance premiums		**(8,437)**	(11,305)
Net premiums written		**25,370**	18,630
Change in the gross provision for unearned premiums		**(2,229)**	1,027
Change in the provision for unearned premiums, reinsurers' share		**(900)**	(1,038)
		(3,129)	(11)
Earned premiums, net of reinsurance		**22,241**	18,619
Allocated investment return transferred from the non-technical account	8	**872**	663
Total technical income		**23,113**	19,282
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**19,690**	18,291
- reinsurers' share		**(5,431)**	(5,263)
		14,259	13,028
Change in the provision for claims			
- gross amount		**(4,666)**	(1,842)
- reinsurers' share		**2,129**	(403)
		(2,537)	(2,245)
Claims incurred, net of reinsurance		**11,722**	10,783
Net operating expenses	7	**7,223**	5,808
Total technical charges		**18,945**	16,591
Balance on the technical accounts for general business (page 34)		**4,168**	2,691

STATEMENTS OF PROFIT AND LOSS
TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December			
		Group		Company	
	Notes	**2014 €'000**	2013 €'000	**2014 €'000**	2013 €'000
Earned premiums, net of reinsurance					
Gross premiums written	6	**153,885**	108,324	**1,464**	1,428
Outward reinsurance premiums		**(3,746)**	(3,656)	**(524)**	(580)
Earned premiums, net of reinsurance		**150,139**	104,668	**940**	848
Investment income					
Income from investments	8	**115,801**	92,892	**206**	205
Other technical income, net of reinsurance	9	**575**	580	**-**	-
Total technical income		**266,515**	198,140	**1,146**	1,053
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**78,948**	79,603	**533**	695
- reinsurers' share		**(1,062)**	(900)	**(162)**	(377)
		77,886	78,703	**371**	318
Change in the provision for claims					
- gross amount		**3,084**	416	**328**	(162)
- reinsurers' share		**(302)**	226	**(209)**	100
		2,782	642	**119**	(62)
Claims incurred, net of reinsurance		**80,668**	79,345	**490**	256
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		**46,718**	39,800	**28**	(58)
- reinsurers' share		**20**	51	**20**	51
		46,738	39,851	**48**	(7)
Investments contracts with DPF – gross		**118,019**	59,630	**-**	-
		164,757	99,481	**48**	(7)
Net operating expenses	7	**10,342**	8,598	**292**	227
Total technical charges		**255,767**	187,424	**830**	476
Balance on the technical accounts for long term business (page 34)		**10,748**	10,716	**316**	577

STATEMENTS OF PROFIT AND LOSS NON-TECHNICAL ACCOUNT

		Year ended 31 December			
		Group		Company	
	Notes	2014 €'000	2013 €'000	2014 €'000	2013 €'000
Balances on technical accounts					
General business (page 32)		**4,168**	2,691	**4,168**	2,691
Long term business (page 33)		**10,748**	10,716	**316**	577
Total income from insurance activities		**14,916**	13,407	**4,484**	3,268
Other investment income	8	**5,087**	6,715	**4,638**	5,148
Investment expenses and charges	8	**(122)**	(492)	**(100)**	(332)
Allocated investment return transferred to the general business technical account	8	**(872)**	(663)	**(872)**	(663)
Other income	9	**1,086**	1,117	**-**	-
Administrative expenses	7	**(2,782)**	(2,779)	**(1,770)**	(1,521)
Profit for the financial year before tax		**17,313**	17,305	**6,380**	5,900
Tax expense	12	**(4,943)**	(6,354)	**(2,102)**	(692)
Profit for the financial year		**12,370**	10,951	**4,278**	5,208
Attributable to:					
- shareholders		**7,165**	6,028	**4,278**	5,208
- non-controlling interests		**5,205**	4,923	**-**	-
		12,370	10,951	**4,278**	5,208
Earnings per share attributable to Shareholders	14	**7.8c**	6.6c		

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

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
		Year ended 31 December			
Profit for the financial year		**12,370**	10,951	**4,278**	5,208
Other comprehensive income:					
Other comprehensive income to be reclassified to profit and loss in subsequent periods					
Change in fair value of available-for-sale investments	28	**316**	23	**320**	24
Other comprehensive income not to be reclassified to profit and loss in subsequent periods					
Re-measurement actuarial (loss)/gain in provision for other liabilities and charges		**(246)**	27	**(246)**	27
Increase in value of in-force business	16	**6,558**	3,494	**-**	-
Total other comprehensive income, net of tax		**6,628**	3,544	**74**	51
Total comprehensive income for the year		**18,998**	14,495	**4,352**	5,259
Attributable to:					
- shareholders		**10,514**	7,825		
- non-controlling interests		**8,484**	6,670		
Total comprehensive income for the year		**18,998**	14,495		

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

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

STATEMENTS OF FINANCIAL POSITION

		Year ended 31 December			
		Group		Company	
	Notes	**2014 €'000**	2013 €'000	**2014 €'000**	2013 €'000
ASSETS					
Intangible assets	16	**59,437**	52,118	**1,084**	1,303
Property, plant and equipment	17	**9,333**	8,950	**1,634**	1,633
Investment property	18	**86,275**	82,231	**9,700**	8,956
Investment in subsidiary undertakings	19	**-**	-	**57,214**	57,214
Investment in associated undertakings	20	**17,648**	15,318	**294**	294
Other investments	21	**1,355,425**	1,218,822	**20,761**	20,575
Deferred income tax	22	**2,261**	2,265	**1,116**	1,108
Reinsurers' share of technical provisions	23	**15,564**	18,311	**15,169**	18,009
Deferred acquisition costs	24	**3,220**	2,836	**3,220**	2,836
Insurance and other receivables	25	**24,277**	21,512	**9,605**	8,817
Income tax receivable		**7,749**	6,751	**82**	423
Cash and cash equivalents	26	**44,679**	10,846	**2,496**	2,705
Total assets		**1,625,868**	1,439,960	**122,375**	123,873
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	27	**19,320**	19,320	**19,320**	19,320
Share premium account		**688**	688	**688**	688
Other reserves	28	**28,275**	24,680	**35,055**	34,735
Profit and loss account		**31,846**	28,414	**6,646**	6,101
		80,129	73,102	**61,709**	60,844
Non-controlling interests		**73,566**	67,563	**-**	-
Total equity		**153,695**	140,665	**61,709**	60,844
LIABILITIES					
Deferred income tax	22	**18,427**	14,498	**1,056**	955
Provision for other liabilities and charges	29	**1,860**	1,511	**1,860**	1,511
Technical provisions:					
- Insurance contracts and investment contracts with DPF	23	**1,373,918**	1,208,534	**50,961**	53,041
- Investment contracts without DPF	23	**62,873**	63,792	**-**	-
Derivative financial instruments	21	**515**	-	**-**	-
Insurance and other payables	31	**14,580**	10,960	**6,789**	7,522
Total liabilities		**1,472,173**	1,299,295	**60,666**	63,029
Total equity and liabilities		**1,625,868**	1,439,960	**122,375**	123,873

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

The financial statements on pages 32 to 124 were authorised for issue by the Board on 11 March 2015 and were signed on its behalf by:

Martin Galea
Chairman

Charles Borg
Director

Alfredo Muñoz Perez
President & Chief Executive Officer

STATEMENTS OF CHANGES IN EQUITY

Group

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

STATEMENTS OF CHANGES IN EQUITY

Group - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total €'000
		Attributable to shareholders						
Balance at 1 January 2014		19,320	688	24,680	28,414	73,102	67,563	140,665
Comprehensive income								
Profit for the financial year		-	-	-	7,165	7,165	5,205	12,370
Other comprehensive income:								
Change in available-for-sale investment's fair value	28	-	-	316	-	316	-	316
Re-measurement actuarial loss on provision for other liabilities and charges	29	-	-	-	(246)	(246)	-	(246)
Increase in value of in-force business	16	-	-	3,279	-	3,279	3,279	6,558
Total other comprehensive income, net of tax		-	-	3,595	(246)	3,349	3,279	6,628
Total comprehensive income		-	-	3,595	6,919	10,514	8,484	18,998
Transactions with owners								
Dividends for 2013	15	-	-	-	(3,520)	(3,520)	(2,481)	(6,001)
Write-back of prior year dividends		-	-	-	33	33	-	33
Total transactions with owners		-	-	-	(3,487)	(3,487)	(2,481)	(5,968)
Balance at 31 December 2014		**19,320**	**688**	**28,275**	**31,846**	**80,129**	**73,566**	**153,695**

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

STATEMENTS OF CHANGES IN EQUITY

Company

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

STATEMENTS OF CHANGES IN EQUITY

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2014		19,320	688	34,735	6,101	60,844
Comprehensive income						
Profit for the financial year		-	-	-	4,278	4,278
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	320	-	320
Re-measurement actuarial loss on provision for other liabilities and charges	29	-	-	-	(246)	(246)
Total other comprehensive income, net of tax		-	-	320	(246)	74
Total comprehensive income		-	-	320	4,032	4,352
Transactions with owners						
Dividend for 2013	15	-	-	-	(3,520)	(3,520)
Write-back of prior years' dividends		-	-	-	33	33
Total transactions with owners of the company		-	-	-	(3,487)	(3,487)
Balance at 31 December 2014		**19,320**	**688**	**35,055**	**6,646**	**61,709**

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

STATEMENTS OF CASH FLOWS

		Year ended 31 December			
		Group		Company	
	Notes	**2014 €'000**	2013 €'000	**2014 €'000**	2013 €'000
Cash flows from operating activities					
Cash generated from/(used in) operations	32	**58,787**	15,140	**1,331**	(1,129)
Dividends received		**10,277**	10,027	**3,680**	4,237
Interest received		**27,906**	31,450	**474**	568
Interest paid		**-**	(22)	**-**	(40)
Income tax paid		**(1,846)**	(1,105)	**(1,508)**	(955)
Net cash generated from operating activities		**95,124**	55,490	**3,977**	2,681
Cash flows from investing activities					
Purchase of investment property	18	**(865)**	(943)	**(460)**	(394)
Disposal of investment property	18	**3**	2	**3**	2
Increase in investment in associated undertaking	20	**-**	(10,147)	**-**	(147)
Purchase of financial investments		**(518,125)**	(577,389)	**(24,979)**	(7,250)
Disposal of financial investments		**466,156**	540,903	**25,030**	6,004
Purchase of property, plant and equipment and intangible assets	16,17	**(2,493)**	(1,777)	**(294)**	(967)
Disposal of property, plant and equipment and intangible assets	16,17	**1**	-	**1**	-
Net cash used in investing activities		**(55,323)**	(49,351)	**(699)**	(2,752)
Cash flows from financing activities					
Bank loans	30	**-**	(8,500)	**-**	(2,500)
Dividends paid to shareholders		**(3,487)**	(1,745)	**(3,487)**	(1,745)
Dividends paid to non-controlling interests		**(2,481)**	(4,018)	**-**	-
Net cash used in financing activities		**(5,968)**	(14,263)	**(3,487)**	(4,245)
Net movement in cash and cash equivalents		**33,833**	(8,124)	**(209)**	(4,316)
Cash and cash equivalents at beginning of year		**10,846**	18,970	**2,705**	7,021
Cash and cash equivalents at end of year	26	**44,679**	10,846	**2,496**	2,705

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

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

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

Standards, interpretations and amendments to published standards effective in 2014

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

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

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. Application of IFRS 12 required additional disclosures that are provided in Note 19.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2014. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9, 'Financial Instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is tentatively effective for financial periods beginning on, or after, 1 January 2018. The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

IFRS 15, 'Revenue from contracts with customers' was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. 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.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES

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

2.1 CONSOLIDATION

(a) Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary (or group) undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies over which the Group has control, either by way of majority shareholding, through contractual agreements with the other vote holders of the investee or rights arising from other contractual agreements, giving it the power to govern the financial and operating policies of the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

Acquisition-related costs are expensed as incurred.

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

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A list of the Group's subsidiaries is set out in Note 19.

(b) Associated undertakings

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. Except for investment-linked insurance funds, interests in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(b) Associated undertakings - continued

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

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

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

2.2 SEGMENT REPORTING

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

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.4 INTANGIBLE ASSETS

Value of in-force business

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

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

Computer software

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

Deferred policy acquisition costs – long term contracts

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

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

2.5 PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

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

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

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

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

2.6 INVESTMENT PROPERTY

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

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

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

2.7 INVESTMENTS IN GROUP UNDERTAKINGS

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

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

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

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

2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS

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

Classification

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Group's Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance and investment contracts liabilities are also designated at inception as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them on different bases. Derivatives are also classified as fair value through profit or loss.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated as fair value through profit or loss. They include, inter alia, insurance and other receivables, income tax receivable, cash and cash equivalents in the balance sheet as well as other financial investments (comprising deposits with credit institutions, and loans) classified as loans and receivables within Note 21.

- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include inter alia unlisted equities.

Recognition and measurement

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement - continued

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

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

(c) Impairment of other non-financial assets

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

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

2.12 CASH AND CASH EQUIVALENTS

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

2.13 SHARE CAPITAL

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

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

2.14 INSURANCE AND INVESTMENT CONTRACTS

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

(a) Classification

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

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

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

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

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

(b) Recognition and measurement

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

(i) Short-term insurance contracts - General business

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

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

- Premiums written comprise all amounts due during the financial year in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.

- Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

- Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ('DAC') in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

- Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

- Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the balance sheet date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

(ii) Group Life insurance contracts

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

(iii) Long term insurance contracts – individual life

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

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

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

(iv) Long term insurance contracts with DPF

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

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

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

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

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

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

(v) Investment contracts with DPF

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

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

(c) Reinsurance contracts held

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(c) Reinsurance contracts held - continued

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

(d) Receivables and payables related to insurance contracts

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

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

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

(e) Liability adequacy test

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

(f) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

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

2.15 BORROWINGS

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.16 CURRENT AND DEFERRED INCOME TAX

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

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

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

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

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

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

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

2.17 PROVISIONS FOR PENSION OBLIGATIONS

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

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

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

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

2.18 REVENUE RECOGNITION

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

(a) Rendering of services

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.18 REVENUE RECOGNITION - CONTINUED

(a) Rendering of services - continued

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

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

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

- Front-end fees are charged to the client on inception. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.

- Regular fees are charged to the customer periodically (monthly, quarterly, half yearly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

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

(b) Dividend income

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

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

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

(d) Interest income

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

(e) Rental income

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

2.19 INVESTMENT RETURN

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

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

2.20 LEASES

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

NOTES TO THE FINANCIAL STATEMENTS

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.21 DIVIDEND DISTRIBUTION

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Value of in-force business

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

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2014 is disclosed in Note 16 to the accounts.

Insurance and investment contracts liabilities

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

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

(b) General business insurance contract liabilities

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

(c) Investment contract liabilities without DPF

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

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

Consolidation of entities in which the Group holds less than majority of voting rights

The Group considers that it controls MSV Life p.l.c. ('MSV') even though it does not own more than 50% of the voting rights. This is because strategic, operating and financing policies of MSV are directed by means of shareholders' agreement which provides Middlesea Insurance plc with the right to select, appoint and remove the key management personnel of MSV and approve its business plan and capital expenditure.

For all the financial years up to 31 December 2010, MSV was considered to be an associate and was accounted for using the equity method. Following the shareholders' agreement, on 29 July 2011, Middlesea Insurance p.l.c. acquired control over MSV based on the factors explained above and started consolidating MSV as from that date.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK

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

4.1 INSURANCE RISK

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

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

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

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

(a) Short term business insurance contracts – general insurance

Frequency and severity of claims

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

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

- The increasing levels of court awards in cases where damages are suffered as a result of injuries, the divergence of awards that is dependent on the territory of the claim and the jurisdiction of the court, the effect of inflation due to the prolonged period typically required to settle such cases; and

- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

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

Frequency and severity of claims - continued

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than A. No rating limitation shall apply to treaty placements with Mapfre Re or any Mapfre Group company designated to write any or all of the Mapfre Group Reinsurance treaties. At 31 December 2014, Mapfre's rating stood at A. The Board will monitor the security rating of Mapfre on a periodic basis.

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

Concentration of insurance risk

Up until 31 December 2014, 100% of the Group's business was written in Malta (2013: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 21% (2013: 24%) and accident and health comprising 23% (2013: 25%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 23% (2013: 19%) and fire and other damage to property at 17% (2013: 17%). The remaining 16% (2013: 15%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred by insurance business class is provided in Note 6 to these financial statements.

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(b) Long term business insurance contracts

Frequency and severity of claims

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

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

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

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

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

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

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

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

4.2 FINANCIAL RISK

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

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

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk

(i) Cash flow and fair value interest rate risk

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

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

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

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

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

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

Furthermore, in respect of all contracts with DPF (with the exception of some contracts that have been in force more than a certain number of years), the Group reserves the right to increase the level of the 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 a MVR.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

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

		2014				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	9,837	50,742	158,501	481,638	700,718
Collective investment schemes	21	8,289	-	-	-	8,289
Loans and receivables:						
- Deposits with banks and credit institutions	21	164,741	10,747	10,800	-	186,288
- Loans secured on policies	21	9,390	-	-	-	9,390
- Cash and cash equivalents	26	44,679	-	-	-	44,679
Total interest bearing assets		236,936	61,489	169,301	481,638	949,364
Liabilities						
Long-term insurance contracts	23	-	-	-	1,275,918	1,275,918
Total interest bearing liabilities		-	-	-	1,275,918	1,275,918

		2013				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	6,302	27,637	156,223	404,557	594,719
Collective investment schemes	21	2,280	-	-	-	2,280
Loans and receivables:						
- Deposits with banks and credit institutions	21	153,867	58,223	4,000	-	216,090
- Loans secured on policies	21	9,903	-	-	-	9,903
- Cash and cash equivalents	26	10,846	-	-	-	10,846
Total interest bearing assets		183,198	85,860	160,223	404,557	833,838
Liabilities						
Long-term insurance contracts	23	-	-	-	1,115,598	1,115,598
Total interest bearing liabilities		-	-	-	1,115,598	1,115,598

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

Company	Notes	2014 Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities – listed fixed interest rate	21	1,392	928	10,547	2,682	15,549
Loans and receivables:						
- Deposits with banks and credit institutions	21	1,822	-	-	-	1,822
- Cash and cash equivalents	26	2,496	-	-	-	2,496
Total interest bearing assets		5,710	928	10,547	2,682	19,867

Company	Notes	2013 Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities – listed fixed interest rate	21	1,041	1,430	1,851	2,500	6,822
Loans and receivables:						
- Deposits with banks and credit institutions	21	11,584	-	-	-	11,584
- Cash and cash equivalents	26	2,705	-	-	-	2,705
Total interest bearing assets		15,330	1,430	1,851	2,500	21,111

The company had no interest bearing liabilities as at 31 December 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Assets held at variable rates				
Collective investment schemes	**8,289**	2,280	**-**	-
Deposits with banks or credit institutions	**2,835**	2,013	**-**	-
Debt securities	**28,828**	23,424	**-**	-
Cash and cash equivalents	**44,679**	10,846	**2,496**	2,705
	84,631	38,563	**2,496**	2,705
Liabilities issued at variable rates				
Long-term insurance contracts	**1,275,918**	1,115,598	**-**	-
	1,275,918	1,115,598	**-**	-

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €39.83m (2013: €35.45m) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
Loans secured on polices	**9,390**	9,903	**-**	-
Deposits with banks or credit institutions	**183,453**	214,077	**1,822**	11,584
Debt securities	**671,890**	571,295	**15,549**	6,822
	864,733	795,275	**17,371**	18,406

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

In managing its portfolio, during the year ended 31 December 2014, the Group entered into fixed income security futures contracts. Accordingly, it is exposed to movements in interest rates in the respective markets of the underlying, which comprise short, medium and long-term sovereign debt. The notional amount of futures contracts outstanding at 31 December 2014 is shown below:

	Group	
	2014	2013
	€'000	€'000
Long positions		
- Federal Republic of Germany	**37,512**	15,674
Short positions		
- Federal Republic of Germany	**7,950**	871
- United Kingdom Government	**4,313**	1,537
- United States Government	**12,993**	8,017
- Italian Government	**3,390**	-
	28,646	10,425

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

Sensitivity Analysis – interest rate risk

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

At 31 December 2014, if interest rates at that date would have been 90 basis points (2013: 90 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have improved by €2.64 million (2013: €1.83 million) and €0.36 million (2013: €0.15 million) respectively. An increase of 90 basis points (2013: 90 basis points), with all other variables held constant, would have resulted in a decrease in the Group's and Company's pre-tax results for the year of €1.72 million (2013: €3.13 million) and €0.34 million (2013: €0.13 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

(ii) Equity price risks

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

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

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

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

	Group		**Company**	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**366,957**	314,092	**3,684**	2,463
The above includes:				
Component of investments in associated undertakings (Note 20)*	**17,529**	15,238	**294**	294
Component of equity securities and units in unit trusts (Note 21)	**349,428**	298,854	**3,390**	2,169
	366,957	314,092	**3,684**	2,463

*Investments in associates (Note 20) amounting to €0.12m (2013: €0.08m) have been excluded from equity price risk since they are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

(ii) Equity price risks - continued

In managing its portfolio during the year ended 31 December 2014, the Group also entered into equity index futures contracts and accordingly it is exposed to movements in the price of the underlying equity index. The notional amount of futures contracts outstanding at 31 December 2014 is shown below:

	Group	
	2014	2013
	€'000	€'000
Long positions		
- European equity indices	**6,078**	1,585

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

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

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

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €3.30 million (2013: €4.72 million) and a negative impact of €3.32 million (2013: €4.42 million) on the Group's pre-tax profit and a positive or negative impact of €0.34 million on the Company's pre-tax results (2013: €0.22 million).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

(iii) Currency risk

The Group and Company have assets and liabilities denominated in major international currencies other than Euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major international currencies. At 31 December 2014, foreign currency exposure amounted to €53.17 million (2013: €39.55 million).

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

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

Group

31 December 2014

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	23,118	12,481	10,637
CHF	25,487	-	25,487
GBP	12,638	8,590	4,048
SEK	5,936	-	5,936
DKK	5,257	-	5,257
Others	2,289	482	1,807
	74,725	21,553	53,172

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

(iii) Currency risk - continued

31 December 2013

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

Within the table above, €49.0m of the unhedged exposure relates to equity investments (2013: €38.0m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

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

Company

31 December 2014

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(448)	-	(448)
GBP	436	-	436
Others	(35)	-	(35)
	(47)	-	(47)

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

(iii) Currency risk - continued

31 December 2013

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

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

(b) Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Debt securities	**700,718**	594,719	**15,549**	6,822
Other financial assets (including deposits with banks and credit institutions)	**186,288**	216,090	**1,822**	11,584
Forward foreign exchange contracts	**88**	252	**-**	-
Reinsurers share of technical provisions	**11,476**	13,303	**11,081**	13,001
Insurance and other receivables	**19,499**	19,783	**8,650**	8,184
Cash and cash equivalents	**44,679**	10,846	**2,496**	2,705
Total	**962,748**	854,993	**39,598**	42,296

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

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
AAA	**69,648**	60,408	**-**	-
AA	**59,345**	57,096	**4,219**	6,989
A	**55,059**	48,264	**7,651**	2,405
BBB	**722,126**	610,356	**18,976**	22,490
Not rated	**56,570**	78,869	**8,752**	10,412
	962,748	854,993	**39,598**	42,296

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

Financial assets that are past due but not impaired

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

	Group and Company	
	2014	2013
	€'000	€'000
Within credit terms	**4,583**	2,543
Not more than three months	**1,201**	1,665
Within three to twelve months	**714**	346
Over twelve months	**44**	79
	6,542	4,633

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

The overall exposure of the Group in terms of IFRS 7 is €6.54 million (2013: €4.63 million), of which €4.58 million (2013: €2.54 million) is not contractually due. It is the view of the directors that no impairment charge is necessary, due to the following reasons:

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

Trade receivables at 31 December 2014 did not comprise any amounts (2013: €0.22 million) whose terms had been renegotiated from the original terms and which were classified as fully performing.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

Financial assets that are impaired

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

	Group and Company	
	2014	2013
	€'000	€'000
Over three months but less than twelve months	**-**	153
Over twelve months	**333**	341
	333	494

These balances are covered by the following:

	Group and Company	
	2014	2013
	€'000	€'000
Provision for impairment of receivables (Note 25)	**333**	494
	333	494

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

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

(c) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

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

	Group expected cash flows (undiscounted) (€ millions) 2014						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance contracts and investment contracts with DPF	68.0	96.2	78.3	87.5	141.6	1,071.4	1,543.0
Technical provisions – claims outstanding	14.8	7.1	4.0	2.6	2.1	2.2	32.8
Insurance and other payables (contractual)	14.6	-	-	-	-	-	14.6

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

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

	Company expected cash flows (undiscounted) (€ millions) 2014						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	14.8	7.1	4.0	2.6	2.1	2.1	32.7
Insurance and other payables (contractual)	6.8	-	-	-	-	-	6.8

	Company expected cash flows (undiscounted) (€ millions) 2013						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	12.2	6.8	3.5	1.9	1.8	11.2	37.4
Insurance and other payables (contractual)	7.5	-	-	-	-	-	7.5

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	2014	2013
	€'000	€'000
At 31 December		
Forward foreign exchange contracts		
- outflow	**(30,193)**	(20,394)
- inflow	**29,678**	20,509

At 31 December 2014 and 2013, the above derivatives were due to be settled within three months after year end.

4.3 FAIR VALUES

The following table presents the assets measured in the balance sheet at fair value by level of the following fair value measurement hierarchy at 31 December 2014:

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES – CONTINUED

The following tables present the assets measured at fair value at 31 December 2014.

Group

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	457,209	212	33	457,454
- Debt securities	690,237	-	-	690,237
Other available-for-sale investments	11,894	-	74	11,968
Derivative financial instruments	88	-	-	88
Intangible asset-value of in-force business	-	-	55,768	55,768
Investment property	-	-	86,275	86,275
Investment in associated undertakings	17,205	-	443	17,648
Total assets	**1,176,633**	**212**	**142,593**	**1,319,438**
Liabilities				
Unit linked financial liabilities	-	101,150	-	101,150
Derivative financial instruments	-	515	-	515
Total liabilities	**-**	**101,665**	**-**	**101,665**

Company

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	1,977	-	1,977
- Debt securities	5,068	-	5,068
Other available-for-sale investments	11,894	-	11,894
Investment property	-	9,700	9,700
Investment in associated undertakings	-	294	294
Total assets	**18,939**	**9,994**	**28,933**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES – CONTINUED

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

Group

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	397,472	270	33	397,775
- Debt securities	593,840	-	-	593,840
Other available-for-sale investments	881	-	81	962
Derivative financial instruments	137	115	-	252
Intangible asset-value of in-force business	-	-	49,210	49,210
Investment property	-	-	82,231	82,231
Investment in associated undertakings	14,901	-	417	15,318
Total assets	**1,007,231**	**385**	**131,972**	**1,139,588**
Liabilities				
Unit linked financial liabilities	-	98,921	-	98,921
Derivative financial instruments	-	-	-	-
Total liabilities	**-**	**98,921**	**-**	**98,921**

Company

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	2,169	-	2,169
- Debt securities	5,941	-	5,941
Other available-for-sale investments	881	-	881
Investment property	-	8,956	8,956
Investment in associated undertakings	-	294	294
Total assets	**8,991**	**9,250**	**18,241**

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES – CONTINUED

Investment property has been classified as Level 3. Note 18 details the valuation process and techniques in respect of investment property. The valuation of the value of in-force business is further analysed in Note 16. Level 3 securities constitute investment in unlisted equities. Fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement.

The following table presents the changes in Level 3 securities for the year ended 31 December 2014.

Group	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening balance	417	114	531
Share of associated undertakings results	38	-	38
Net fair value losses	(12)	(7)	(19)
Closing balance	**443**	**107**	**550**

Company	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening and closing balance	**294**	**-**	**294**

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

Group	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening balance	256	115	371
Additions	147	-	147
Share of associated undertakings results	15	-	15
Net fair value losses	(1)	(1)	(2)
Closing balance	**417**	**114**	**531**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES – CONTINUED

Company	Investments in associates €'000	Other available-for-sale investments €'000	Total €'000
Opening balance	147	-	147
Additions	147	-	147
Closing balance	**294**	**-**	**294**

At 31 December 2014 and 2013, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

5. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

The defined regulatory capital for Middlesea Insurance p.l.c. ("MSI" or "the Company") comprises shareholders' equity and subordinated loans. The minimum own funds required by Insurance Rule 1 at 31 December 2014 amounted to €7.8 million (2013: €7.4 million). In addition, the Insurance Business Regulations stipulate 'the required margin of solvency' that the Company is required to hold. Regulatory capital requirements may be set at a multiple of this requirement. The minimum required capital must be maintained at all times throughout the year. Given the composite nature of the Company, Middlesea Insurance p.l.c. is obliged to abide with capital requirements for both its long term and its general insurance business.

With respect to its general business, the Company held net admissible assets of €20.20 million (2013: €19.06 million) which exceeded the 'required margin of solvency' of €4.10 million (2013: €3.70 million) by €16.10 million (2013: €15.36 million) and also exceeded the multiple set by the regulator. With respect to its long term business, the Company held net admissible assets of €4.61 million (2013: €4.64 million) which exceeded the 'required margin of solvency' of €3.70 million (2013: €3.70 million) by €0.91 million (2013: €0.94 million), and also exceeded the multiple set by the regulator. The Company was compliant at all times with its capital requirements to both its general and long-term business. The Company is also sufficiently capitalised in terms of the forthcoming Solvency II regime.

All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period and MSV Life p.l.c. is also sufficiently capitalized in terms of the forthcoming Solvency II regime.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

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

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

The Group operates in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. The segment results for the years ended 31 December 2014 and 2013 are indicated below.

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Gross premiums written		**Gross premiums earned**	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**8,243**	5,991	**7,550**	6,240
Motor (other classes)	**7,275**	7,421	**6,663**	7,729
Fire and other damage to property	**5,952**	5,223	**5,709**	5,624
Accident and health	**8,228**	7,806	**8,121**	7,968
Other classes	**4,109**	3,494	**3,535**	3,401
	33,807	29,935	**31,578**	30,962

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

General business - continued

100% (2013: 100%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in Note 35.

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

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2014	2013	**2014**	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**5,602**	5,918	**2,559**	2,041	**(380)**	(1,429)
Motor (other classes)	**4,097**	5,838	**2,313**	2,527	**-**	-
Fire and other damage to property	**1,864**	723	**1,877**	2,109	**1,345**	2,290
Accident and health	**4,844**	3,995	**2,248**	2,304	**358**	526
Other classes	**(1,383)**	(25)	**1,084**	1,182	**1,854**	935
	15,024	16,449	**10,081**	10,163	**3,177**	2,322

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

Long term business

(i) Gross premium written

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Direct insurance	**153,885**	108,324	**1,462**	1,426
Reinsurance inwards	**-**	-	**2**	2
	153,885	108,324	**1,464**	1,428

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(i) Gross premium written - continued

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

Group direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Non-participating	**10,949**	10,147	**-**	-
Participating	**30,227**	30,248	**108,518**	63,467
Linked	**2,748**	2,852	**1,443**	1,610
	43,924	43,247	**109,961**	65,077

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

	Periodic premiums		Single premiums	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Investment contracts	**1,386**	1,422	**2,236**	2,995

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

(ii) Reinsurance balance

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Charge for reinsurance outwards	**1,004**	1,625	**166**	337

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Insurance contracts	**34,611**	34,230	**1,464**	1,428
Investment contracts with DPF	**119,274**	74,094	**-**	-
	153,885	108,324	**1,464**	1,428
Claims incurred, net of reinsurance				
Insurance contracts	**23,855**	21,628	**490**	256
Investment contracts with DPF	**56,813**	57,717	**-**	-
	80,668	79,345	**490**	256

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

	Group	
	2014	2013
	€'000	€'000
Profit on general business	**4,168**	2,691
Profit on long term business	**10,748**	10,716
Net investment income not allocated to the technical accounts	**4,093**	5,560
Other income	**1,086**	1,117
Administrative expenses	**(2,782)**	(2,779)
Profit for the financial year before tax	**17,313**	17,305

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

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

	Company	
	2014	2013
	€'000	€'000
Profit on general business	**4,168**	2,691
Profit on long term business	**316**	577
Net investment income not allocated to the technical accounts	**3,666**	4,153
Administrative expenses	**(1,770)**	(1,521)
Profit for the financial year before tax	**6,380**	5,900

Geographical information

The segment results for the years ended 31 December 2014 and 2013 by geographical area are indicated below:

	Group Gross premiums written		Company Gross premiums written	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Malta	**187,691**	138,204	**35,270**	31,308
Other locations in run-off	**1**	55	**1**	55
	187,692	138,259	**35,271**	31,363

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Group segment assets and liabilities

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

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long-term business €'000	Unallocated €'000	Total €'000
At 31 December 2014								
Assets allocated to business segments	16,590	12,777	8,637	5,431	9585	1,386,994	8,261	1,448,275
Assets allocated to shareholders	-	-	-	-	-	-	177,593	177,593
Total assets	16,590	12,777	8,637	5,431	9,585	1,386,994	185,854	1,625,868
At 31 December 2013								
Assets allocated to business segments	17,050	13,161	8,222	5,184	11,457	1,220,091	7,812	1,282,977
Assets allocated to shareholders	-	-	-	-	-	-	156,983	156,983
Total assets	17,050	13,161	8,222	5,184	11,457	1,220,091	164,795	1,439,960

The total of non-current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts of €155.05 million (2013: €143.29 million) are all located in Malta.

NOTES TO THE FINANCIAL STATEMENTS

7. NET OPERATING EXPENSES

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Acquisition costs	**14,060**	12,343	**7,255**	6,763
Change in deferred acquisition costs, net of reinsurance	**(900)**	(59)	**(900)**	(59)
Administrative expenses	**10,566**	10,350	**5,279**	4,909
Reinsurance commissions and profit participation	**(3,379)**	(5,449)	**(2,349)**	(4,057)
	20,347	17,185	**9,285**	7,556
Allocated to:				
General business technical account	**7,223**	5,808	**7,223**	5,808
Long term business technical account	**10,342**	8,598	**292**	227
Non-technical account (administrative expenses)	**2,782**	2,779	**1,770**	1,521
	20,347	17,185	**9,285**	7,556

Total commissions for direct business accounted for in the financial year amounted to €10.17 million (2013: €9.55 million) in the Group's technical result and €5.36 million (2013: €6.31 million) in the Company's technical result. €3.45 million (2013: €2.92 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 11. Further detail relating to administrative expenses is included in Note 10.

Finance costs payable on the subordinated loan at Group level amounting to €0.20 million in 2013 are included within administrative expenses.

NON-TECHNICAL ACCOUNT

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

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT RETURN

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Investment income				
Dividend income from group undertakings	**-**	-	**3,596**	4,090
Share of profit of other associated undertaking, net of tax	**38**	15	**-**	-
Rent receivable from investment property	**4,818**	4,598	**305**	330
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	**4,546**	3,446	**86**	222
Income from financial assets at fair value through profit or loss				
- dividend income	**6,678**	6,195	**148**	231
- other net fair value gains	**103,083**	86,527	**164**	444
Income from available-for-sale assets				
- dividend income	**1**	-	**1**	-
- other net fair value gains	**113**	36	**113**	36
Net fair value gains on investment property	**3,182**	237	**287**	-
Other investment income	**1,041**	928	**-**	-
Exchange differences	**144**	-	**144**	-
	123,644	101,982	**4,844**	5,353
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**427**	480	**47**	97
Interest expense for financial liabilities that are not at fair value through profit or loss	**52**	55	**52**	55
Net fair value losses on investment property	**-**	94	**-**	33
Other investment expenses	**2,398**	2,091	**1**	-
Exchange differences	**1**	147	**-**	147
	2,878	2,867	**100**	332
Net investment income	**120,766**	99,115	**4,744**	5,021
Analysed between:				
Allocated investment return transferred to the general business technical account	**872**	663	**872**	663
Investment return included in the long term business technical account	**115,801**	92,892	**206**	205
Other investment income included in the non-technical account	**4,093**	5,560	**3,666**	4,153
	120,766	99,115	**4,744**	5,021

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Other technical income, net of reinsurance				
Investment management fees	**422**	418	**-**	-
Other	**153**	162	**-**	-
	575	580	**-**	-
Other income – non technical				
Management fees	**526**	493	**-**	-
Other income	**560**	624	**-**	-
	1,086	1,117	**-**	-

10. PROFIT BEFORE TAX

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

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Employee compensation (Note 11)	**6,897**	6,279	**3,667**	3,333
Depreciation/amortisation:				
- intangible assets (Note 16)	**822**	996	**285**	372
- property, plant and equipment (Note 17)	**527**	464	**227**	191
Release of provision for impairment on receivables (Note 25)	**(171)**	(157)	**(171)**	(157)
Impairment of receivables	**36**	11	**36**	11
Write-backs of payables	**(1)**	(1)	**(1)**	(1)
Increase in provision for impairment on receivables (Note 25)	**10**	59	**10**	59
Directors' and officers' insurance	**77**	67	**46**	21

NOTES TO THE FINANCIAL STATEMENTS

10. PROFIT BEFORE TAX - CONTINUED

The financial statements include fees charged by the parent company auditor for services rendered during the financial periods ended 31 December 2014 and 2013 relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Parent company auditor				
Annual statutory audit	**87**	83	**76**	71
Other assurance services	**13**	13	**13**	13
Other	**6**	8	**6**	8
Other component auditors				
Annual statutory audit	**70**	66	**-**	-
Other assurance services	**-**	5	**-**	-
Tax advisory and compliance services	**19**	21	**11**	12
Other	**17**	6	**-**	-
	212	202	**106**	104

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

	Group	
	2014	2013
	€'000	€'000
Annual statutory audit	**56**	53

11. EMPLOYEE COMPENSATION

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Salaries	**6,553**	5,955	**3,477**	3,159
Social security costs	**344**	324	**190**	174
	6,897	6,279	**3,667**	3,333

The average number of persons employed during the year was:

	Group		Company	
	2014	2013	**2014**	2013
Key management personnel	**23**	23	**12**	12
Managerial	**24**	30	**14**	21
Technical	**121**	105	**65**	51
Administrative	**11**	14	**7**	10
	179	172	**98**	94

NOTES TO THE FINANCIAL STATEMENTS

12. TAX EXPENSE

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Current tax expense	**870**	511	**1,871**	553
Deferred tax expense (Note 22)	**4,073**	5,843	**231**	139
Income tax expense	**4,943**	6,354	**2,102**	692

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

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Profit before tax	**17,313**	17,305	**6,380**	5,900
Tax at 35%	**6,060**	6,057	**2,233**	2,065
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	**(116)**	(204)	**(66)**	(1,455)
Under provision for tax in prior year	**4**	427	**4**	8
Withholding tax regime on investment property	**(984)**	56	**(10)**	56
Other	**(21)**	18	**(59)**	18
Income tax expense	**4,943**	6,354	**2,102**	692

13. DIRECTORS' EMOLUMENTS

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Directors' fees	**153**	166	**133**	146

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

14. EARNINGS PER SHARE

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

	Group	
	2014	2013
	€'000	€'000
Profit attributable to shareholders	**7,165**	6,028
Number of ordinary shares in issue (Note 27)	**92,000,000**	92,000,000
Earnings per share attributable to shareholders (€)	**7.8c**	6.6c

15. DIVIDENDS

A gross dividend in respect of year ended 31 December 2014 of €0.05127 (2013: €0.045) per share amounting to a total dividend of €4,716,890 (2013: €4,140,222) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.03826 (2013: €0.03826) per share amounting to a total net dividend of €3,520,000 (2013: €3,520,000). These financial statements do not reflect this dividend.

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

Group	Value of in-force business (ii) €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 1 January 2013				
Cost or valuation	45,716	10,596	3,032	59,344
Accumulated amortisation and impairment	-	(8,550)	(2,102)	(10,652)
Net book amount	45,716	2,046	930	48,692
Year ended 31 December 2013				
Opening net book amount	45,716	2,046	930	48,692
Increase in value of in-force business credited to reserves (Note 28)	3,494	-	-	3,494
Additions	-	820	108	928
Amortisation charge	-	(793)	(203)	(996)
Closing net book amount	49,210	2,073	835	52,118
At 31 December 2013				
Cost or valuation	49,210	11,416	3,140	63,766
Accumulated amortisation and impairment	-	(9,343)	(2,305)	(11,648)
Net book amount	**49,210**	**2,073**	**835**	**52,118**
Year ended 31 December 2014				
Opening net book amount	49,210	2,073	835	52,118
Increase in value of in-force business credited to reserves (Note 28)	6,558	-	-	6,558
Additions	-	1,490	93	1,583
Disposals	-	(13)	-	(13)
Amortisation charge	-	(641)	(181)	(822)
Amortisation released on disposal	-	13	-	13
Closing net book amount	55,768	2,922	747	59,437
At 31 December 2014				
Cost or valuation	55,768	12,893	3,233	71,894
Accumulated amortisation and impairment	-	(9,971)	(2,486)	(12,457)
Net book amount	**55,768**	**2,922**	**747**	**59,437**

Amortisation of €0.32 million (2013: €0.37 million) is included in acquisition costs and €0.50 million (2013: €0.63 million) is included in administration expenses.

Fully amortised assets that were still in use for the Group as at the financial year amounted to €6.2m (2013: €6.0m).

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

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

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

Assumptions

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

The valuation assumes a real return of 2% (2013: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 7.5% (2013: 7.5%). The calculation also assumes lapse rates varying by product from 0.5% to 8% pa (2013: 0.5% to 8% pa), and an expense inflation rate of 3.5% pa (2013: 3.5% pa).

Changes in assumptions

Demographic assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process. Economic assumptions are set to be internally consistent and reflect the real long-term returns required and the risk appetite of the Directors. To maintain the internal consistency, any changes to the economic assumptions are considered as a whole. Any changes to the assumptions that do not change the internal consistency will not significantly change the value of the in-force business.

Sensitivity analysis

The value of in-force business is calculated using 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 2014 € million	Impact on value of in-force business 2013 € million
Investment returns	+1.00%	6.4	5.8
Investment returns	-1.00%	(6.4)	(5.8)
Risk adjusted discount rate	+1.00%	(3.1)	(2.9)
Risk adjusted discount rate	-1.00%	3.5	3.2
Renewal expense	+10.00%	(0.7)	(0.6)
Renewal expense	-10.00%	0.7	0.6
Lapse rate	+2.00%	1.4	1.0
Lapse rate	-2.00%	(1.0)	(0.8)
Mortality	+15.00%	(0.9)	(1.0)
Mortality	-15.00%	0.9	1.0

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

Computer software	Company €'000
At 1 January 2013	
Cost	3,368
Accumulated amortisation	(2,362)
Net book amount	1,006
Year ended 31 December 2013	
Opening net book amount	1,006
Additions	669
Amortisation charge	(372)
Closing net book amount	1,303
At 31 December 2013	
Cost	4,037
Accumulated amortisation	(2,734)
Net book amount	**1,303**
Year ended 31 December 2014	
Opening net book amount	1,303
Additions	66
Amortisation charge	(285)
Closing net book amount	1,084
At 31 December 2014	
Cost	4,103
Accumulated amortisation	(3,019)
Net book amount	**1,084**

Amortisation expense has been charged in administrative expenses.

Fully amortised assets that were still in use for the Company as at the financial year amounted to €1.4m (2013: €1.3m).

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2013					
Cost	5,953	2,006	6	4,229	12,194
Accumulated depreciation	(44)	(449)	(6)	(3,005)	(3,504)
Net book amount	5,909	1,557	-	1,224	8,690
Year ended 31 December 2013					
Opening net book amount	5,909	1,557	-	1,224	8,690
Additions	191	142	13	503	849
Disposals	-	(117)	-	(82)	(199)
Depreciation charge	(21)	(109)	(1)	(333)	(464)
Depreciation released on disposal	-	30	-	44	74
Closing net book amount	6,079	1,503	12	1,356	8,950
At 31 December 2013					
Cost	6,144	2,031	19	4,650	12,844
Accumulated depreciation	(65)	(528)	(7)	(3,294)	(3,894)
Net book amount	**6,079**	**1,503**	**12**	**1,356**	**8,950**
Year ended 31 December 2014					
Opening net book amount	6,079	1,503	12	1,356	8,950
Additions	210	151	-	549	910
Disposals	-	-	-	(16)	(16)
Depreciation charge	(20)	(148)	(3)	(356)	(527)
Depreciation released on disposal	-	-	-	16	16
Closing net book amount	6,269	1,506	9	1,549	9,333
At 31 December 2014					
Cost	6,354	2,182	19	5,183	13,738
Accumulated depreciation	(85)	(676)	(10)	(3,634)	(4,405)
Net book amount	**6,269**	**1,506**	**9**	**1,549**	**9,333**

Land and buildings are shown at fair value (Level 3). The Group's land and buildings were revalued at 31 December 2014 by independent valuers. Valuations were made on the basis of market value. As at 31 December 2014 and 2013, the fair value of the freehold land and buildings is not significantly different as compared to its historical cost and carrying amount.

Depreciation expense has been charged in administrative expenses.

Fully depreciated assets that were still in use for the Group as at the financial year amounted to €1.9m (2013: €1.6m).

17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2013					
Cost	135	1,348	-	2,029	3,512
Accumulated depreciation	(8)	(343)	-	(1,635)	(1,986)
Net book amount	127	1,005	-	394	1,526
Year ended 31 December 2013					
Opening net book amount	127	1,005	-	394	1,526
Additions	-	106	13	179	298
Depreciation charge	(2)	(51)	(1)	(137)	(191)
Closing net book amount	125	1,060	12	436	1,633
At 31 December 2013					
Cost	135	1,454	13	2,208	3,810
Accumulated depreciation	(10)	(394)	(1)	(1,772)	(2,177)
Net book amount	**125**	**1,060**	**12**	**436**	**1,633**
Year ended 31 December 2014					
Opening net book amount	125	1,060	12	436	1,633
Additions	-	151	-	77	228
Depreciation charge	(1)	(92)	(2)	(132)	(227)
Closing net book amount	124	1,119	10	381	1,634
At 31 December 2014					
Cost	135	1,605	13	2,285	4,038
Accumulated depreciation	(11)	(486)	(3)	(1,904)	(2,404)
Net book amount	**124**	**1,119**	**10**	**381**	**1,634**

Freehold land and buildings are shown at fair value. As at 31 December 2014 and 2013, the fair value of the freehold land and buildings is not significantly different as compared to its historical cost and carrying amount.

Depreciation expense has been charged to administrative expenses.

Fully depreciated assets that were still in use for the Company as at the financial year amounted to €1.2m (2013: €1.0m).

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2013		
Cost	55,717	5,156
Accumulated fair value gains	25,430	3,441
Net book amount	81,147	8,597
Year ended 31 December 2013		
Opening net book amount	81,147	8,597
Additions	943	394
Disposal	(2)	(2)
Net fair value gains/(losses)	143	(33)
Net book amount	82,231	8,956
At 31 December 2013		
Cost	56,658	5,548
Accumulated fair value gains	25,573	3,408
Net book amount	**82,231**	**8,956**
Year ended 31 December 2014		
Opening net book amount	82,231	8,956
Additions	865	460
Disposal	(2)	(2)
Net fair value gains	3,181	286
Net book amount	86,275	9,700
At 31 December 2014		
Cost	57,521	6,006
Accumulated fair value gains	28,754	3,694
Net book amount	**86,275**	**9,700**

Fair value of land and buildings

An independent valuation of the Group's and Company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2014 and 2013. The fair value movements were credited to profit and loss and are presented within 'investment return' (Note 8).

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

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

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY - CONTINUED

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

Valuation processes

On an annual basis, the Group and Company engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings. As at 31 December 2014, 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 €86.27 million (2013: €82.23 million) for the Group and €9.70 million (2013: €8.96 million) for the Company, the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

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

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

			Range of significant unobservable inputs	
Description	Fair value at 31 December 2014 €	Valuation technique	Rental value €	Capitalisation rate %
Office buildings	86.27m	Capitalisation of future net income streams	4.9m	4.25 - 6.5

			Range of significant unobservable inputs	
Description	Fair value at 31 December 2013 €	Valuation technique	Rental value €	Capitalisation rate %
Office buildings	82.23m	Capitalisation of future net income streams	4.6m	4.5 - 8

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

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2013	
Opening and closing net book amount and deemed cost	**57,214**
Year ended 31 December 2014	
Opening and closing net book amount and deemed cost	**57,214**

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2014	Percentage of shares held 2013
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MSV Life p.l.c.	Level 7 The Mall Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

The Group's aggregated assets and liabilities and the results of its subsidiary undertakings that have non-controlling interest are as follows:

2014	Registered office	Assets	Liabilities	Revenues	Profit before tax	% Held by non-controlling interests
		€'000	€'000	€'000	€'000	
MSV Life p.l.c.	Level 7 The Mall, Floriana	1,559,451	1,412,319	156,045	14,261	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	2,532	303	-	245	25%
		1,561,983	1,412,622	156,045	14,506	

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

2013	Registered office	Assets	Liabilities	Revenues	Profit/(Loss) before tax	% Held by non-controlling interests
		€'000	€'000	€'000	€'000	
MSV Life p.l.c.	Level 7 The Mall, Floriana	1,372,103	1,236,976	111,315	15,484	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	2,287	273	-	(4)	20%
		1,374,390	1,237,249	111,315	15,480	

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

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

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2014	2013
Growth Investment Limited (held indirectly by MSV Life p.l.c.)	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2013		
Cost	4,481	147
Accumulated fair value movements	581	-
Net book amount	5,062	147
Year ended 31 December 2013		
Opening net book amount	5,062	147
Additions	10,147	147
Share of associated undertaking's profits and movement in reserves	15	-
Fair value movements	94	-
Closing net book amount	15,318	294
At 31 December 2013		
Cost	14,628	294
Accumulated fair value movements	690	-
Net book amount	**15,318**	**294**
Year ended 31 December 2014		
Opening net book amount	15,318	294
Additions	-	-
Share of associated undertaking's results and movement in reserves	38	-
Fair value movements	2,292	-
Closing net book amount	17,648	294
At 31 December 2014		
Cost	14,628	294
Accumulated fair value movements	3,020	-
Net book amount	**17,648**	**294**

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

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

2014	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	842	244	1,106	85	49%

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

In addition to the associated undertakings above MSV also held the following investments in associated undertakings:

	Registered office	Class of shares held	Percentage of shares held Company (MSV) 2014	2013	Group 2014	2013
Premium Realty Limited	Middlesea House Floriana	Ordinary shares	25%	25%	37.5%	37.5%
Plaza Centres p.l.c.	The Plaza Commercial Cenre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%	28.36%	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	34.56%	34.56%	34.56%	34.56%

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2014 was €0.65 and €0.60 respectively (31 December 2013: €0.575 and €0.515 respectively).

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**1,147,779**	991,867	**7,045**	8,110
Other available-for-sale	**11,968**	962	**11,894**	881
Loans and receivables	**195,678**	225,993	**1,822**	11,584
	1,355,425	1,218,822	**20,761**	20,575

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

Analysed by type of investment as follows:

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**356,304**	298,854	**1,977**	2,169
Debt securities	**690,237**	593,840	**5,068**	5,941
Assets held to cover linked liabilities – collective investment schemes	**101,150**	98,921	**-**	-
Forward foreign exchange contracts	**88**	252	**-**	-
Total investments at fair value through profit or loss	**1,147,779**	991,867	**7,045**	8,110

Technical provisions for linked liabilities amounted to €101 million as at 31 December 2014 (2013: €98 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2014 and 2013, the Group and Company had no financial commitments in respect to uncalled capital.

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

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

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

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2013		
Opening net book amount	973,774	9,395
Additions	489,828	54
Disposals	(526,058)	(1,488)
Net fair value gains	54,323	149
Closing net book amount	**991,867**	**8,110**
Year ended 31 December 2014		
Opening net book amount	991,867	8,110
Additions	491,265	42
Disposals	(413,367)	(1,040)
Net fair value gains/(losses)	77,499	(67)
Closing net book amount	**1,147,264**	**7,045**

Derivative financial instruments amounting to €0.5 million (2013: nil) included in the table above are classified within liabilities in the statement of financial position.

(b) Other available-for-sale financial assets

	Group		Company	
	2014 €'000	2013 €'000	**2014 €'000**	2013 €'000
Listed debt securities	**10,481**	881	**10,481**	881
Listed shares	**1,413**	-	**1,413**	-
Unlisted shares	**74**	81	**-**	-
	11,968	962	**11,894**	881

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

	Group		Company	
	2014 €'000	2013 €'000	**2014 €'000**	2013 €'000
Year ended 31 December				
Opening net book amount	**962**	940	**881**	857
Additions	**10,787**	-	**10,787**	-
Net fair value gains (Note 28)	**219**	22	**226**	24
Closing net book amount	**11,968**	962	**11,894**	881

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Deposits with banks or credit institutions	**186,288**	216,090	**1,822**	11,584
Loans secured on policies	**9,390**	9,903	**-**	-
Other loan	**-**	-	**-**	-
	195,678	225,993	**1,822**	11,584

As at 31 December 2014 an amount of €0.94million (2013: €0.39million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

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

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

	Group Year ended 2014		
	Loans secured on policies €'000	**Other loan** €'000	**Total** €'000
Total at beginning of year	9,903	-	9,903
Additions	1,723	-	1,723
Disposals (sales and redemptions)	(2,236)	-	(2,236)
Closing net book amount	9,390	-	9,390

The above loans earn interest at fixed rates.

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**12,233**	6,378	**(153)**	(307)
Movements during the year:				
Profit and loss account (Note 12)	**4,073**	5,843	**231**	139
Other comprehensive income	**(140)**	12	**(138)**	15
Balance at 31 December – net	**16,166**	12,233	**(60)**	(153)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2013: 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 (2013: 12%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**495**	351	**176**	134
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	**55,839**	34,735	**944**	820
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(39,882)**	(22,542)	**(796)**	(796)
Temporary differences attributable to other provisions	**(286)**	(311)	**(384)**	(311)
Balance at 31 December – net	**16,166**	12,233	**(60)**	(153)

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(2,261)**	(2,265)	**(1,116)**	(1,108)
Deferred tax liability	**18,427**	14,498	**1,056**	955
	16,166	12,233	**(60)**	(153)

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX - CONTINUED

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

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

The Group and Company have unutilsed capital losses of €15.91 million (2013: €24.30 million), which give rise to a deferred tax asset of €5.57 million (2013: €8.51 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €3.11 million (2013: €3.11 million) giving rise to a further deferred tax asset of €1.09 million (2013: €1.09 million) which has not been recognised in these financial statements.

The Group's and Company's deferred tax liability was established on the basis of tax rates that were substantively enacted as at the financial year end.

Revisions to the taxation rules on capital gains upon a transfer of immovable property were announced by the Minister of Finance during the budget speech for the financial year 2015, and in respect of which a Bill was published in December 2014 entitled 'An Act to implement Budget measures for the financial year 2015 and other administrative measures'. Although the Budget Bill was published in December 2014, the announcement of the revised tax regime by the Minister of Finance and the subsequent publication of the Bill do not, as yet, have the substantive effect of actual enactment. Tax rates used for the calculation of deferred tax are the ones in effect prior to the measures announced in the Budget Speech for the financial year 2015 – the tax rate on capital gains relating to property is calculated at the rate of 35% on profit or 12% of the gross selling price, as applicable. Should the Bill referred to above be enacted, the net impact on the deferred tax liability would be an increase amounting to €0.06 million for the Group and a decrease of €0.20 million for the Company.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF

	Group		Company	
	2014 €'000	2013 €'000	**2014 €'000**	2013 €'000
Gross				
Short-term insurance contracts – general business				
- claims outstanding	**32,764**	37,430	**32,764**	37,430
- provision for unearned premiums and unexpired risks	**17,034**	14,805	**17,034**	14,805
Group life insurance contracts				
- claims outstanding	**513**	185	**513**	185
- long term business provision	**650**	622	**650**	621
Long term contracts				
- individual life insurance contracts	**509,235**	461,823	**-**	-
- investment contracts with DPF	**813,722**	693,669	**-**	-
Total technical provisions, gross	**1,373,918**	1,208,534	**50,961**	53,041
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	**10,779**	12,908	**10,779**	12,908
- provision for unearned premiums and unexpired risks	**3,878**	4,778	**3,878**	4,778
Group life insurance contracts				
- claims outstanding	**302**	93	**302**	93
- long term business provision	**210**	230	**210**	230
Long term contracts				
- individual life insurance contracts	**395**	302	**-**	-
Total reinsurers' share of insurance liabilities	**15,564**	18,311	**15,169**	18,009
Net				
Short-term insurance contracts				
- claims outstanding	**21,985**	24,522	**21,985**	24,522
- provision for unearned premiums and unexpired risks	**13,156**	10,027	**13,156**	10,027
Group life insurance contracts				
- claims outstanding	**211**	92	**211**	92
- long term business provision	**440**	392	**440**	391
Long term contracts				
- individual life insurance contracts	**508,840**	461,521	**-**	-
- investment contracts with DPF	**813,722**	693,669	**-**	-
Total technical provisions, net	**1,358,354**	1,190,223	**35,792**	35,032

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

(a) Short-term insurance contracts – claims outstanding

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2014 and 2013 are not material.

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

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

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

Company

Accident year	2004 €'000	2005 €'000	2006 €'000	2007 €'000	2008 €'000	2009 €'000	2010 €'000	2011 €'000	2012 €'000	2013 €'000	2014 €'000	Total €'000
Estimate of the ultimate claims costs:												
- at end of accident year	14,335	13,196	13,470	14,423	15,458	15,248	17,111	15,972	15,756	16,104	17,775	
- one year later	14,147	13,257	12,783	13,517	15,661	15,319	15,871	15,402	14,183	14,205		
- two years later	13,174	11,729	11,569	12,674	13,415	13,367	13,114	13,702	12,932			
- three years later	12,170	11,212	10,887	11,582	12,781	12,486	12,263	12,694				
- four years later	11,850	10,871	10,030	11,411	12,464	12,147	11,805					
- five years later	11,445	10,447	9,935	10,978	12,199	12,321						
- six years later	10,590	10,251	9,686	10,750	11,964							
- seven years later	10,421	10,098	9,679	10,634								
- eight years later	10,347	10,078	9,512									
- nine years later	10,335	10,037										
- ten years later	10,258											
Current estimates of cumulative claims	10,258	10,037	9,512	10,634	11,964	12,321	11,805	12,694	12,932	14,205	17,775	134,137
Cumulative payments to date	(9,744)	(9,719)	(9,035)	(10,420)	(11,460)	(11,424)	(11,144)	(11,611)	(11,039)	(11,580)	(9,038)	(116,214)
Liability recognised in the balance sheet	514	318	477	214	504	897	661	1,083	1,893	2,625	8,737	17,923
Liability in respect of prior years												4,062
Total reserve included in the balance sheet												21,985

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

Movements in claims and loss adjustment expenses:

	Group and Company Year ended 2013		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	39,272	(12,505)	26,767
Claims settled during the year	(18,291)	5,263	(13,028)
Increase/(decrease) in liabilities			
- arising from current year claims	21,887	(6,514)	15,373
- arising from prior year claims	(5,438)	848	(4,590)
At end of year	37,430	(12,908)	24,522

	Group and Company Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	37,430	(12,908)	24,522
Claims settled during the year	(19,690)	5,431	(14,259)
Increase/(decrease) in liabilities			
- arising from current year claims	22,779	(5,004)	17,775
- arising from prior year claims	(7,755)	1,702	(6,053)
At end of year	32,764	(10,779)	21,985

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Movements in claims and loss adjustments expenses - continued

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

The Company registered a gross favourable run-off of €7.76 million (2013: €5.44 million). After the effect of reinsurance, this amounts to €6.05 million (2013: €4.59 million). This run-off arose principally from a favourable development on claims in the motor and liability classes of direct general business of insurance. This is attributable, inter alia, to savings made during the claims handling process.

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

The movements for the year are summarised as follows:

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

	Group and Company Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	14,805	(4,778)	10,027
Net charge/(credit) to profit and loss	2,229	900	3,129
At end of year	17,034	(3,878)	13,156

The balance at 31 December 2014 includes a provision for unexpired risks of €0.66 million (2013: €0.67 million).

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(c) Group Life insurance contracts

Claims outstanding

Movement in claims outstanding is summarised as follows:

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

	Group and Company Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	185	(93)	92
Claims settled during the year	(533)	162	(371)
Increase/(decrease) in liabilities	861	(371)	490
At end of year	513	(302)	211

Long term business provision

The balance on the long term business provision has been certified by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2014. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows:

	2014 €'000	2013 €'000
Investments	**4,451**	4,027
Insurance and other receivables	**664**	597
Cash at bank and in hand	**471**	738
Claims outstanding	**(211)**	(92)
Insurance and other payables	**(4,935)**	(4,878)
Long term business provision, net of reinsurance	**440**	392

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts

	2014	2013
	€'000	€'000
Gross technical provisions		
- claims outstanding	**2,030**	1,307
- long term business provision	**507,205**	460,516
	509,235	461,823
Reinsurers' share of technical provisions		
- claims outstanding	**395**	302
	395	302
Net technical provisions		
- claims outstanding	**1,635**	1,005
- long term business provision	**507,205**	460,516
	508,840	461,521

The movements for the year are summarised as follows:

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

	Group Year ended 2014		
	Gross	Reinsurance	Net
	€'000	€'000	€'000
Year ended 31 December			
At beginning of year	461,823	(302)	461,521
Charge to the profit and loss account	47,412	(93)	47,319
At end of year	509,235	(395)	508,840

The above liabilities are substantially non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts - continued

	Group 2014 €'000	Group 2013 €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**5,175**	3,141
- long term business provision	**808,547**	690,528
	813,722	693,669

The movements for the year are summarised as follows:

	2014 €'000	2013 €'000
Year ended 31 December		
At beginning of year	**693,669**	633,393
Charge to the profit and loss account	**120,053**	60,276
At end of year	**813,722**	693,669

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 overseen 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.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

(i) Assumptions

Rate of future investment return

During 2014, the Group undertook an asset segregation exercise in order to adopt separate investment strategies for the non-participating and participating business. 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.

Bonus rates

The current 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 maintain equity between different generations of contract holders and products with different characteristics.. Future bonus rates are not guaranteed and the assumptions are set to allow for a fair and orderly run-off of the fund.

The levels of reversionary bonus rates are affected by measures taken to provide resilience to market conditions, and to provide for future payments of terminal bonuses. These measures are not intended, over the long term, to be a source of profit or loss.

Policy maintenance expenses

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

Minimum reserve

The minimum reserve is determined on a policy by policy basis and is set to the current surrender value or zero whichever is the greater.

Mortality

The Group makes reference to AMC00 (2013: AMC00) mortality tables.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

(ii) Changes in assumptions

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

(iii) Sensitivity analysis

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

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

TECHNICAL PROVISIONS - INVESTMENT CONTRACTS WITHOUT DPF

	2014 €'000	2013 €'000
Long term business provision	**61,500**	63,621
Claims outstanding	**1,373**	171
	62,873	63,792

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

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Year ended 31 December				
Opening net book amount	**2,836**	3,092	**2,836**	3,092
Net amount charged to the profit and loss	**384**	(256)	**384**	(256)
Closing net book amount	**3,220**	2,836	**3,220**	2,836

Deferred acquisition costs are all classified as current assets.

25. INSURANCE AND OTHER RECEIVABLES

	Group 2014 €'000	Group 2013 €'000	Company 2014 €'000	Company 2013 €'000
Receivables arising from direct insurance operations:				
- due from policyholders	**343**	248	**343**	248
- due from agents, brokers and intermediaries	**7,421**	7,272	**7,421**	7,272
- due from reinsurers	**620**	579	**509**	579
Receivables arising from reinsurance operations:				
- due from reinsurers	**210**	207	**210**	207
Deposits with ceding undertakings	**147**	147	**147**	147
Other loans and receivables:				
- prepayments	**2,027**	1,729	**955**	633
- accrued interest and rent	**13,809**	11,757	**241**	162
- receivables from group undertakings	**-**	-	**112**	63
- other receivables	**33**	67	**-**	-
Provision for impairment of receivables	**(333)**	(494)	**(333)**	(494)
	24,277	21,512	**9,605**	8,817
Current portion	**24,277**	21,512	**9,605**	8,817

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

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE AND OTHER RECEIVABLES - CONTINUED

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Balance as at 1 January	**494**	592	**494**	592
Provision for impairment	**10**	59	**10**	59
Release of provision for impairment during the year	**(171)**	(157)	**(171)**	(157)
Balance as at 31 December	**333**	494	**333**	494

26. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**44,679**	10,846	**2,496**	2,705

27. SHARE CAPITAL

	Group and Company	
	2014	2013
	€'000	€'000
Authorised		
150 million ordinary shares of €0.21 each	**31,500**	31,500
Issued and fully paid		
92 million ordinary shares of €0.21 each	**19,320**	19,320

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER RESERVES

Group

	Value of in-force business €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2013	22,859	51	22,910
Fair value movements – gross (Note 21)	-	22	22
Fair value movements – tax	-	1	1
Share of increase in value of in-force business of subsidiary Undertaking	1,747	-	1,747
Balance at 31 December 2013	24,606	74	24,680
Balance at 1 January 2014	24,606	74	24,680
Fair value movements – gross (Note 21)	-	308	308
Fair value movements – tax	-	8	8
Share of increase in value of in-force business of subsidiary Undertaking	3,279	-	3,279
Balance at 31 December 2014	27,885	390	28,275

The above reserves are not distributable reserves.

Company

	Investment in subsidiary undertaking €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2013	34,663	48	34,711
Fair value movements – gross (Note 20 and 21)	-	24	24
		-	
Balance at 31 December 2013	34,663	72	34,735
Balance at 1 January 2014	34,663	72	34,735
Fair value movements – gross (Note 20 and 21)	-	314	314
Fair value movements – tax	-	6	6
Balance at 31 December 2014	34,663	392	35,055

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

29. PROVISION FOR OTHER LIABILITIES AND CHARGES

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

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

	Group and Company	
	2014	2013
	€'000	€'000
1 January	**1,511**	1,582
Interest expense – profit and loss (Note 8)	**52**	52
Settlements	**(81)**	(81)
Re-measurements actuarial gain/(loss) – other comprehensive income	**378**	(42)
At 31 December	**1,860**	1,511

The following payments as expected in the future years:

	Group and Company	
	2014	2013
	€'000	€'000
Within one year	**81**	81
After more than one year	**1,779**	1,430
	1,860	1,511

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

	Group and Company	
	2014	2013
Mortality	**AMC00**	AMC00
Discount rate	**1.4%**	3.5%
Inflation rate	**2.0%**	2.0%

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

	Group and Company	
	2014	2013
	€000's	€000's
Discount rate – 1% pt increase	**(204)**	(152)
Discount rate – 1% pt decrease	**247**	181
Inflation rate – 1% pt increase	**233**	174
Inflation rate – 1% pt decrease	**(197)**	(150)

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS

During 2013 the Group and Company repaid all their subordinated loans. As at 31 December 2014, the Group's undrawn borrowing facility amounted to €4m.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Creditors arising out of direct insurance operations	**7,362**	4,108	**1,728**	1,929
Creditors arising out of reinsurance operations	**222**	222	**222**	222
Amounts owed to associated undertaking	**206**	134	**206**	31
Amounts owed to group undertakings	**-**	-	**1,012**	1,002
Social security and other tax payables	**1,015**	799	**230**	489
Accruals	**4,074**	3,344	**2,208**	2,139
Deferred income	**1,701**	2,353	**1,183**	1,710
	14,580	10,960	**6,789**	7,522
Current	**14,419**	10,797	**6,789**	7,522
Non-current	**161**	163	**-**	-
	14,580	10,960	**6,789**	7,522

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

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

NOTES TO THE FINANCIAL STATEMENTS

32. CASH GENERATED FROM/(USED IN) OPERATIONS

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Profit before tax	**17,313**	17,305	**6,380**	5,900
Adjusted for:				
Depreciation (Note 17)	**527**	464	**227**	191
Impairment charges	**36**	11	**36**	11
Increase in provision for impairment of receivables (Note 25)	**(161)**	(98)	**(161)**	(98)
Other provision for liabilities and charges (Note 29)	**(81)**	(81)	**(81)**	(81)
Amortisation (Note 16)	**822**	996	**285**	372
Adjustments relating to investment return	**(129,336)**	(102,524)	**(4,405)**	(4,919)
(Profit)/Loss on sale of property, plant and equipment	**(1)**	125	**-**	-
Movements in:				
Insurance and other receivables	**(759)**	1,352	**(593)**	677
Deferred acquisition costs (Note 24)	**(384)**	256	**(384)**	256
Reinsurers' share of technical provisions	**2,747**	913	**2,840**	786
Technical provisions	**164,465**	98,741	**(2,080)**	(3,090)
Insurance and other payables	**3,599**	(2,320)	**(733)**	(1,134)
Cash generated from/(used in) operations	**58,787**	15,140	**1,331**	(1,129)

Non-cash transactions

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

33. COMMITMENTS

Capital commitments

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Authorised and not contracted for				
- property, plant and equipment	**285**	322	**285**	196
- intangible assets	**2,914**	2,559	**1,653**	1,045

Operating lease commitments – where the company is a lessor

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

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**3,594**	3,864	**209**	240
Later than 1 year and not later than 5 years	**4,059**	5,852	**95**	309
Later than 5 years	**-**	126	**-**	-
	7,653	9,842	**304**	549

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

Investment property includes properties valued at €4.20 million (2013: €4.18 million) on which the lessees have an option to buy these properties at a pre-determined price and within a pre-determined time. The fair value of these properties does not exceed the pre-determined option price.

NOTES TO THE FINANCIAL STATEMENTS

34. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.20million (2013: €0.21 million) not arising under contracts of insurance.

35. RELATED PARTY TRANSACTIONS

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

Relevant particulars of related party transactions are as follows:

	2014 **€'000**	2013 €'000
(a) Sales of insurance contracts and other services		
Sale of insurance contracts		
- subsidiaries	**135**	130
- associates	**8**	7
- shareholders represented on the Board	**1,488**	1,449
Claim recoveries from shareholders represented on the board	**3,568**	4,633
Reimbursement of expenses for back-office services provided		
- subsidiaries (after business combination)	**116**	87
Investment income		
- subsidiaries (dividends/interest receivable)	**3,596**	4,090
- shareholders represented on the Board (dividends/interest receivable)	**5,068**	4,774
Rent receivable from subsidiary/associate	**112**	85

	2014 **€'000**	2013 €'000
(b) Purchases of products and services		
Reinsurance premium ceded to shareholders (represented on the Board) net of commissions	**6,877**	7,797
Acquisition costs payable to intermediaries where directors of the Company are directors or shareholders in companies that act as insurance agents or intermediaries	**3,634**	2,774
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	**-**	209

NOTES TO THE FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS - CONTINUED

Key management personnel during 2014 and 2013 comprised the President & Chief Executive Officer, Chief Executive Officers, Assistant General Managers, General Manager, Chief Financial Officer, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel amounted to €2.18 million (Company: €1.12 million). Corresponding figures for 2013 were €2.04 million and €1.12 million.

Year-end balances arising from the above transactions:

	Group		Company	
	2014	2013	**2014**	2013
	€'000	€'000	**€'000**	€'000
Debtors arising out of direct insurance operations	**33**	103	**33**	103
Creditors arising out of direct insurance operations	**222**	191	**222**	191
Amounts owed by subsidiary undertakings	**-**	-	**112**	64
Amounts owed to subsidiary undertaking	**-**	-	**1,011**	1,002
Amounts owed to associated undertaking	**206**	115	**206**	115
Reinsurers share of technical provisions	**10,393**	9,615	**10,393**	9,615
Investments with related parties	**219,246**	182,540	**2,698**	8,385

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

36. STATUTORY INFORMATION

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

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

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