2011 ANNUAL REPORT

Atlas Insurance

Artwork featured on the front cover:

'The art of losing is hard to master' - oils, graphite, ink on linen (2009-2010) by Austin Camilleri.

Austin Camilleri is the featured artist in the Atlas Insurance PCC Limited 2012 calendar which showcases a variety of high quality contemporary Maltese art.

Atlas Insurance PCC Limited

Annual Report &
Audited Financial Statements

2011

Atlas Insurance

Atlas Vision

The Atlas Group will be recognised as trusted, long term suppliers of insurance and financial services in Malta and overseas and will provide security and value to all stakeholders with a purpose beyond profit.

Atlas Mission

Atlas fosters a respectful environment between staff, clients, intermediaries and suppliers that empowers our people to

- build on their skills and training to develop and provide innovative, personalised, top quality products
- while ensuring the consistent delivery of our service promise to exceed our clients' expectations.

Atlas Values

Ambition

We have a strong work ethic and are passionate about what we do in order to maintain our competitive advantage and provide security for our stakeholders. Our strong work ethic requires us to create accountability, identify each other's strengths and to reward performance. A positive attitude is essential to develop our potential to the full.

Commitment to Service

We respond to each client as an individual while also providing the best possible products and services. We also provide excellent service to internal clients. We enjoy the challenge of responding to changing market needs and believe that professionalism in presentation and timeliness as well as consistency in approach are also paramount.

Creating Value for all stakeholders

We aim to create value for all stakeholders including clients, shareholders, staff and suppliers. We recognise that a win/win situation must exist between stakeholders as a win/lose situation will not stand the test of time. We commit to research and measure value on an ongoing basis.

Empowerment and Innovation

We create new opportunities by investing in continuous learning and we support innovation so that we can be constantly moving ahead. This includes empowerment of employees so that staff feel happy to suggest change and are supported when they take risks and it does not always work out. We value our staff and celebrate their successes and are proud to be Equal Opportunity Employers. We want our people to look forward to coming to work so that our clients will look forward to their dealings with them.

Respect

We foster a respectful environment between staff at all levels, clients, intermediaries and suppliers. This means that we endeavour to create an honest, sincere and communicative atmosphere in our dealings to ensure trust so that these relationships will endure. Regardless of position or career goals, compensation must be fair and commensurate with performance and working conditions orderly and safe. Atlas management and staff must foster this atmosphere of trust and integrity between themselves first.

Contents

Chairman's Statement

2011 was marked by excellent underwriting results for the Company. These were impacted materially by the financial market crisis with ensuing fair value diminutions charged to these same technical results. Despite this, Atlas Insurance PCC Limited registered a net profit before tax of €4.45m (2010: €4.81m).

Economic Environment

The international economic environment was characterized by the sovereign debt crisis in the Euro area causing both political and financial market uncertainty throughout the period with tensions intensifying over and after the summer period. The Maltese economy, while proving far more resilient than its Southern European neighbours, still saw a slowdown in growth in its real GDP at 2.1% compared to 2.3% in 2010. Despite the Central Bank of Malta's expectation that the real GDP growth for 2012 was expected to decelerate to 1.6%, the NSO has actually recently announced two negative quarters of GDP growth (GDP for the first quarter of 2012 at €1.1 billion down from the €1.2 billion in the first quarter of 2011) so that 2012 results may be worse than predicted.

The Maltese insurance sector remains predominantly attractive as an international domicile, experiencing substantial growth. 2011 has seen more licenses issued by the MFSA for new insurance entities writing international risk with substantial premium growth. In view of the economic slowdown, on the other hand, the local motor and general business insurance market continued to show negligible growth during the year under review.

International and local economic factors make the outlook for the Company a very challenging one for 2012, with the executive management focussing on maintaining the Company's local strategic position as a leader in underwriting Maltese risk, and through prudent measured international growth through the PCC operation.

During the year under review the Cell operation continued to grow and delivered further opportunities to the Cell shareholders. Revenue from the cell operation for non-cellular (core) shareholders continues to become more material as the number of cells increases. Improved results are expected here during 2012 with a growing number of cells and as the recession overseas, which has held back profitability to some extent, abates.

Financial Results

During the year, the Company registered a net profit before tax of €4.45m (2010: €4.81m). Included in this result is a profit before tax of €2.14m (2010: €2.88m), which after taxation of €0.81m (2010: €1.02m) left €1.34m (2010: €1.86m) accruing to our core shareholders. The results also included a loss on investments net of expenses and diminution in fair value of €0.09m (2010: Profit €0.93m) This represents earnings per share of 45c (2010: 62c). The core profit before tax represented a return of 14% of capital employed (2010: 20%). On cell profits, taxation amounted to €0.81m (2010: €0.67m) leaving a sum of €1.50m (2010: €1.25m) attributable exclusively to cell shareholders.

Your directors paid €0.74m (2010: €1.42m) in dividends to core shareholders. Furthermore, and upon requests made by cellular shareholders, dividends paid to cellular shareholders during the year 2011 totalled €0.28m (2010: €0.45m).

Despite the net investment losses incurred during the year, the investment committee saw no reason to alter the underlying investment strategy and continues to entrust its investment portfolio to independent investment managers, operating within the prudent parameters set by the Investment Committee, thus not only causing spread of market risk, but also spread in investment talent and opportunity.

Solvency II

The Company's preparation for the Solvency II regime is well underway. While regulatory implementation has been delayed until January 2014, the board recognises that the Malta Financial Services Authority expects local insurance undertakings to be compliant by 2013. I am proud to report that this major change has continued to be rigorously addressed by our executives. The Company is undergoing a gap analysis on all three Pillars of Solvency II and is implementing various processes for Solvency II compliance. The Company has updated its 2009 QIS5 results and I am pleased to report that we believe our risk profile is such that we continue to be more than adequately capitalised to sustain the impact of the new Solvency capital regime. We recognise that Solvency II will continue to lead to changes in the way we carry out the governance of our business and apart from the new capital requirements under the new solvency regime, Pillar 2 will require the maintenance of ever more rigorous corporate governance requirements.

Sponsorship of Netball Fundamentals in the Netball League

The Risk Management Committee continues to work closely with the Company's Solvency II working group. This issue is taken seriously by all concerned to ensure that any key risks are properly monitored.

Atlas in the Community

During 2011, various Corporate Social Responsibilities continued with Sport and Wellness as overriding themes. We again involved staff in actuating many of our CSR initiatives. Our major sponsorship of the Melita Football Club Youth Nursery continued during the year and various other sport related initiatives were supported including the Player of the Month project on 'L-Argument' on One TV where players nominated by sports journalists could donate €200 monthly to a charity of their choice. Other sports and fitness events were sponsored by the Company including football and netball tournaments as well as the Pilates at Atlas project for staff as part of the wellness initiative started this year. As part of the same project we started a series of seminars related to various areas of health and fitness including dental care and melanoma awareness. We also have an in-house charity, where members of staff choose specific deserving cases nominated by 'Appoġġ' and regularly donate to them. Finally, we actively collect for various charities including 'id-Dar tal-Providenza' through our salary deduct scheme as well as ad hoc collections such as for food and water during the recent Libyan crisis.

Hawaiian team building staff event

Atlas also continues to support local cultural activities including 'Patrimonju' and 'Din L-Art Ħelwa' as well as its annual calendar which this year featured works by the contemporary Gozitan artist, Austin Camilleri.

Finally I must once again sincerely thank my fellow board members, some of which have not presented themselves for re-election on this board this year and members of the various board committees for their contribution during this difficult year. I would also like to particularly thank our staff who have worked very hard in contributing particularly to the excellent technical results.

This last year has not been an easy one, with ever increasing compliance requirements, a difficult local market, and a poor investment scenario, creating an environment for all concerned with which we were not particularly comfortable. We continue however to have a strong strategic direction for measured and profitable growth in key sectors and feel confident that with the investments we are making and innovations we are putting through we will emerge even stronger to face the challenges of the future.

Richard Clough
Chairman

CEO's Report

Atlas Insurance PCC has produced very satisfactory overall results in 2011 for both our non-cellular (core) and cellular business as a result of a prudent underwriting philosophy despite the intense competition in our sector. Technical results outperformed last year's already satisfactory results however 2011 technical performance was dampened by a diminution in fair value on investments following the unstable global financial market conditions prevailing throughout the year. Whilst gross premiums written increased by just under 14% from €25.39m in 2010 to €28.86m in 2011, overall profit before taxation in 2011 is being reported at €4.45m compared to €4.81m in 2010.

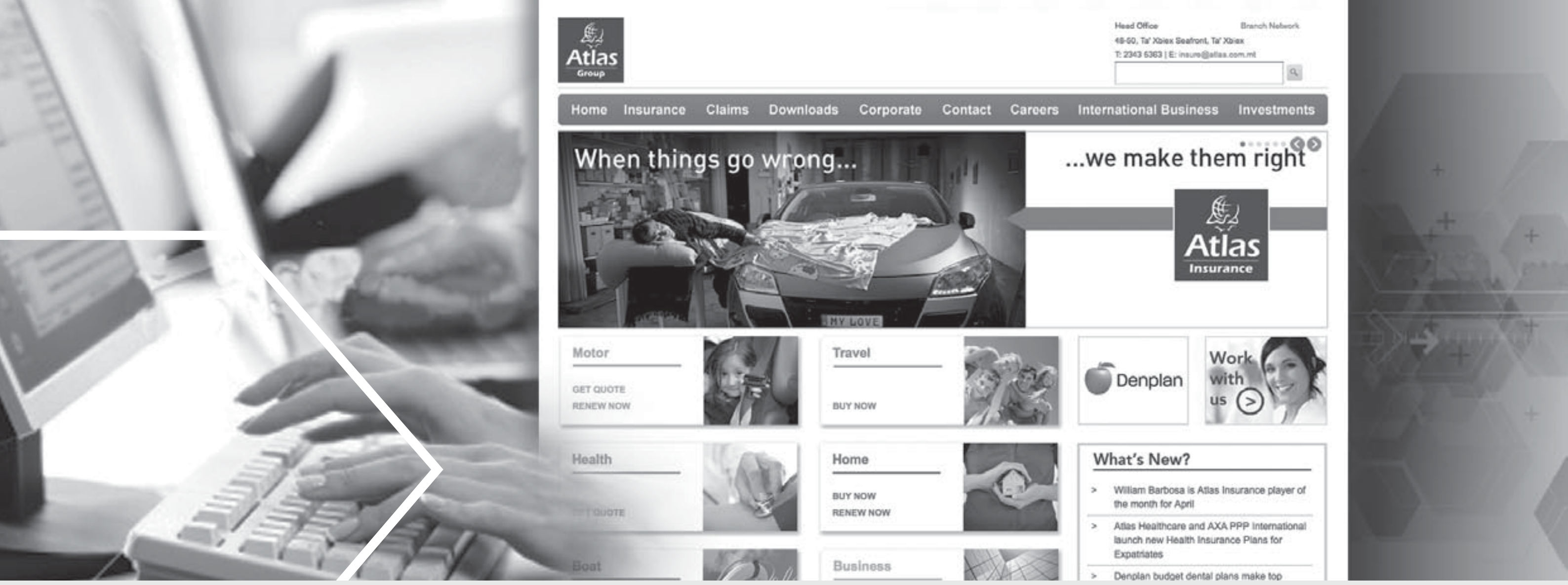
Gross premiums written by the Core increased by 2% to €17.84m. However, resulting profit before tax amounted to €2.14m down from the previous year's €2.88m due, as I have mentioned, to the diminution in fair value on investments. Despite increased realised investment income of €0.75m in 2011 compared to €0.65m in 2010, the negative fair value movement of €0.66m in 2011 (compared to a positive movement of €0.48m in 2010) resulted in an overall loss on investments of €0.09m compared to a net income of €0.93m in the previous year 2010.

Ultimately I believe that the key to our success has always been our prudent underwriting policy and strong technical performance and certainly the year under review has proved this point. Net claims incurred for the core amounted to €5.52m (2010: €5.86m) and the increased net premium earned of €10.49m (2010: €10.02m) resulted in technical profits of €2.29m (2010: €3.03m) after taking account of a net investment loss of €0.09m (2010: net income of €0.93m) allocated to the technical account. Our prudent and focused policy towards insurance risk continues to be key to our strategic direction in this competitive environment and we consider our careful selection of risk and management of exposures to be central to our ability to continue to deliver competitively priced products for good risks.

Another contributing factor to the positive technical account results is our continued commitment to contain management expenses within the terms of our business strategy. While accepting the necessary investment in increased costs of operation arising from regulation and competitive pressures, the Company works to realise economies of scale in the operational areas. In order to combat the diminishing revenue caused by the discounting of premiums and increased corporate governance costs, we are investing in business process reengineering including more advanced technology systems that should, in the long run, see us operate more effectively and efficiently.

During 2011, the international operation continued to grow both in terms of premium income and through the addition of a new cell. The new cell was licensed to transact reinsurance inwards bringing the total number of active cells to four with a very diverse spread of risk. Gross premiums written by the cells also increased to €11.02m, an increase over last year of just over 40% whilst profit before tax attributable to the respective cell shareholders increased from €1.92m to €2.30m. Activity in the cell line of business is expected to further increase in 2012 in contrast to the local market where, despite the ever increasing costs related to regulatory compliance, pricing competition is ever fiercer. It remains to be seen how sustainable this is in a small market such as ours where organic growth is hard to come by.

In line with our strategy to ensure optimum business continuity, during 2011 substantial investment in new IT resources was carried out. This has now given us the ability to provide uninterrupted IT services and support in the eventuality of needing to activate our disaster recovery plan. We also see our considerable investment in IT as crucial for our strategy of making us 'easier to do business with'. Amongst other ongoing improvements to our core systems, we have also implemented our own integrated document management system which has given us significant efficiencies in many areas of our operations. A new website was also launched last year with a new clean look and feel both for local core business and international business. This focus on client convenience has also led to the development



of increased web services during the period where most classes of business can now be renewed on line at any time of the day or night. This emphasis towards accessibility fits in well with our continued efforts to bring our services closer to clients through our enhanced branch network. During 2011 we opened a further branch in St Paul's Bay increasing our presence in the north of the island.

With Solvency II now on the horizon and implementation scheduled for 2014, we have and will continue to be dedicating much time and effort to corporate governance issues to ensure we are more than compliant in all aspects. The Company has carried out a detailed gap analysis on both Pillar 2 and Pillar 3 of Solvency II and work is ongoing to complete the remaining required policies and reporting procedures as well as our ORSA model by mid 2013. The current solvency position is already exceptionally solid at a ratio of 3.49 and we are very confident that under the new and more stringent Solvency II regime we will also be more than adequately capitalized as reported through our quantitative impact study (QIS5) participation under the EIOPA direction.

Various steps towards an improved internal controls system continued during 2011 and to this end we have also implemented a major change in our performance management system which ensures that compliance with overall company strategic direction is rewarded throughout the organization. We have active compliance and internal audit functions and during the period our risk management function also completed the objective of a complete re-evaluation of our key risks and their mitigation measures. We continue to stress the importance of training and development. Today over half of our staff members are now professionally qualified either as diploma/certificate holders of the Chartered Insurance Institute, chartered by the same institute or holding other varied qualifications ranging from risk management, human resources management, credit control and investments to IT. In short we feel proud of our human resources and will continue to invest in them - their efforts to succeed in this challenging market continue to impress.

Our reinsurance programme has served us well since the obtaining of a license to transact general insurance business in 2004 and our treaties are adjusted as business lines necessitate from year to year. By and large we adopt a very conservative approach to ensure that we are not exposed to cyclical adverse events. As can be seen in these financial statements, we pay a significant proportion of our premiums received to highly rated reinsurers to ensure we are well protected. Coupled with our professional staff's underwriting skills and experience we are also better placed to take a lead position on major commercial risks and continue to be market leaders in this important sector of the economy.

Nothing is possible without our staff who make our service promise reality and I thank them for their untiring efforts to keep Atlas delivering this promise. It is also important for me to sincerely thank our clients and intermediaries for their continued support and assure them of our commitment to continue to provide the service levels and financial backing to maintain our position as prudent and trusted insurance providers.

Although no one can be sure how the Eurozone crisis may continue to affect Malta, I remain confident that with the professional and experienced managerial team as well as the ongoing programme of investment in strategic change we have in place at Atlas, we can look forward to 2012 and beyond with confidence.

Michael Gatt
Managing Director and CEO

Board Members & Board/Executive Committees

Board of Directors
Richard Clough FCA (Chairman)
Michael Gatt (Managing)
Catherine Calleja BA (Hons) ACII (Company Secretary)
Walter Camilleri
Albert Formosa
John Formosa
Bryan Gera DBA
Brian Valenzia
Matthew von Brockdorff FCII
Robert von Brockdorff

Audit Committee
Richard Clough FCA (Chairman)
Walter Camilleri
Albert Formosa
Bryan Gera DBA
Robert von Brockdorff

Investments Committee
Richard Clough FCA (Chairman)
John P Bonett
Mark Camilleri
Walter Camilleri
Albert Formosa
Michael Gatt
Robert von Brockdorff

Remuneration Committee
Walter Camilleri (Chairman)
Richard Clough FCA
Albert Formosa
Bryan Gera DBA
Robert von Brockdorff

Group Compliance Committee
Mark Camilleri (Chairman)
John P Bonett
Catherine Calleja BA (Hons) ACII
Michelle Lundquist ACII
Elaine Scerri B Com (Hons)

Protected Cells Committee
Michael Gatt (Chairman)
John P Bonett
Catherine Calleja BA (Hons) ACII
Mark Camilleri
David Mifsud FCII
Ian-Edward Stafrace MIRM FCII PIOR
Matthew von Brockdorff FCII

Risk Management Committee
Matthew von Brockdorff FCII (Chairman)
Catherine Calleja BA (Hons) FCII
Ian-Edward Stafrace MIRM FCII PIOR

Offices and Branches

Head Office
47-50, Ta' Xbiex Seafront, Ta' Xbiex XBX 1021

Finance and Compliance/Branch Office
Abate Rigord Street, Ta' Xbiex XBX 1121

Paola Regional Office
Valletta Road, Paola PLA 1517

Birkirkara Branch
1, Psaila Street, Birkirkara BKR 9070

Qormi Branch
Triq Manwel Dimech, Qormi QRM 9061

Rabat Branch
45, Vjal il-Haddiem, Rabat RBT 1769

St Paul's Bay Branch
2, Toni Bajada Street, St Paul's Bay SPB 3227

Zurrieq Branch
29, Blue Grotto Avenue, Zurrieq ZRQ 4015

Cells

Perfecthome Cell
Travelodge Cell
Ocado Cell
Totemic Cell 1

Professional Services

Legal Advisors
Cefai and Associates
Ganado & Associates
Mamo TCV Advocates
SDC Advocates
Zammit McKeon & Associates

Auditors
PricewaterhouseCoopers

Bankers
APS Bank Limited
Banif Bank (Malta) Limited
Bank of Valletta plc
Deutsche Bank AG - Frankfurt
HSBC Bank Malta plc
Lombard Bank Malta plc
Volksbank Malta Limited

Investment Managers
Atlas JMFS Investment Services Limited
HSBC Global Asset Management (Malta) Limited
Rizzo Farrugia & Co (Stockbrokers) Limited

Financial Statements

The directors present their report and the audited financial statements for the year ended 31 December 2011.

Principal activities

The principal activities of the Company are that of a cell company licensed in terms of section 7 of the Insurance Business Act, 1998 by the Malta Financial Services Authority to write general business in Malta and in accordance with the Companies Act (Cell Companies carrying on business of insurance) Regulations, 2004.

The board of directors report that 2011 saw a downturn in the company's profitability with excellent and improved technical results over the prior year being impacted by negative fair value movements in its investment portfolio due primarily to the prevailing global economic crisis and debt crisis in the Eurozone.

Atlas Insurance PCC Limited registered an aggregate net profit before tax for the year of €4.46m (2010: €4.81m) and a net profit after tax of €2.83m (2010: €3.11m). Profits accruing to our non-cellular (Core) shareholders amounted to €2.14m (2010: €2.88m) before taxation. The Core operation has maintained these profitable results in difficult market conditions due to its prudent underwriting and reinsurance policy. Losses on investments have been limited again due to the board's cautious and effective investment policy. The operating cells have further contributed to the profitability showing substantial growth in their results, which portion of aggregation in profit accrues to cell shareholders.

The Company's solvency position as at 31 December 2011 stands at 3.49 times of the minimum solvency requirements.

The Company expects to continue to pursue prudent and profitable growth and cautious investment strategies in the light of the global economic environment. During 2012, the Company will continue to focus on consolidation and management of core operating costs in the local market. The board anticipates further growth and profitability for its current cells as well as new cells during the period.

During the year under review, the company registered its Totemic Cell 1 which was licensed by the MFSA on the 13 July 2011.

Core assets, cellular assets and share capital

The core assets comprise the assets of the Company which are non-cellular assets relating to the core operation. The assets of Atlas Insurance PCC Limited are either core assets or cellular assets. The assets attributable to a cell comprise assets represented by the proceeds of cell share capital, reserves and other assets attributable to the cell.

During the year the Cells carried on operations registering very positive results with a combined profit before tax at €2.30m (2010: €1.92m) and after tax at €1.50m (2010: €1.25m) accruing to the cell shareholders.

The directors of the Company who held office during the year were:

Richard Clough – Chairman
Michael Gatt – Managing Director
Matthew von Brockdorff – Deputy Managing Director
Catherine Calleja – Group Company Secretary
Bryan Gera
Walter Camilleri
Albert Formosa
John Formosa
Robert von Brockdorff
Brian Valenzia

The latter five directors will not be presenting themselves for re-election at the forthcoming Annual General Meeting.

Results and dividends

The profit and loss account is set out on pages 16 and 17. Interim ordinary dividends of €728,200 were declared to the non-cellular shareholders and €276,745 declared to the cell shareholders. In addition, preference dividends of €6,988 were paid during the year.

The directors propose the payment of a final net dividend of €535,000 to the ordinary core shareholders.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese 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 Company as at the end of each financial 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 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 Maltese Insurance Business Act, 1998 and with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In terms of the Companies Act (Cell companies carrying on business of insurance) Regulations, 2004, the directors are responsible to keep separate accounts and records as may be necessary to evidence the assets and liabilities of each cell as distinct and separate from the assets and liabilities of other cells in the same Company.

The financial statements of Atlas Insurance PCC Limited for the year ended 31 December 2011 are included in the Annual Report 2011, which is published in hard-copy printed form and may be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website 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.

Auditors

PricewaterhouseCoopers have expressed willingness to continue in office as auditors of the Company and a resolution proposing their reappointment will be put to the forthcoming Annual General Meeting.

On behalf of the board

Richard Clough	Michael Gatt
Chairman	Managing Director

Registered office
47-50 Ta' Xbiex Seafront
Ta' Xbiex
Malta

6 June 2012

Corporate Governance - Statement of Compliance

The board of directors is the mainstay of the system of governance and is accountable to the Company's shareholders for good corporate governance. The Atlas Insurance PCC Limited board uses various models of best practice in this area including but not limited to the Principles of Good Corporate Governance for Public Interest Companies, Insurance Rule 27 of 2009 on Insurers' Internal Controls under the Insurance Business Act (Cap 403), as well the System of Governance documentation issued by the MFSA in 2010 which has now been followed up in January 2012 summarizing the Pillar 2 requirements under the upcoming Solvency 2 regime.

The Board of Directors

The board is appointed as per statute by the Group holding company, Atlas Holdings Limited. The composition of the board of directors of the Company has remained unchanged during the period under review although a number of 'shareholder directors' have notified the board of their decision not to offer themselves for re-election. A number of changes in board composition are being presented for approval during the AGM.

Board and board committee meetings are scheduled at the start of the year. The board sets and reviews financial and operational strategy and policies in various areas to ensure adherence to its risk appetite and objectives. The board of directors receives detailed monthly financial reports as well as non financial key performance indicators. The board met ten times during the period under review.

The positions of Chairman and Chief Executive Officer are held by different individuals with clear division of responsibilities to differentiate leading the board from executing agreed strategy and running of the business. The Chairman is independent and his responsibilities also include setting the board agenda and with the Company Secretary he ensures that board members receive relevant and timely information and are updated on Corporate Governance requirements. The remainder of the board of directors is also non executive excluding the CEO, the Deputy Managing Director and the Company Secretary who are executive directors.

The CEO, executive directors and board committees are delegated specific areas of responsibility.

Board and Executive Committees

These committees have terms of reference which are set and annually reviewed by the board and committee meeting progress is regularly reported at board level.

Audit

The Audit Committee meets four times a year and is composed entirely of non executive directors and is currently chaired by the independent Chairman of the Company, who is a Chartered Accountant with the relevant qualifications in accounting and/or auditing. The committee monitors the external audit function as well plans, review and assesses the effectiveness of the internal audit function. Priorities for the internal audit are decided by the Audit committee, due input to the board having been received from the Risk Management committee.

During the period under review, Martin Gauci, the internal auditor, relinquished all links with any functional areas which he previously managed. He now operates completely independently in line with the requirements of the Solvency 2 regime. The internal auditor prepares quarterly presentations to the internal audit committee and attends relevant meetings.

The Audit Committee together with the Group Financial Controller, is actively involved in planning the external audit, discussing any issues with external auditors and executive directors, and reviewing the financial statements prior to approval by the board.

Remuneration

This committee, composed entirely of non executive directors, met twice during the period under review. The committee oversees the remuneration strategy and budget for each financial year. It also reviews the organisational remuneration policy including the awarding of performance bonuses which are tied to the achievement of strategic goals. It is responsible for salary or benefit setting and/increases for the executive directors and senior management team.

No director is involved in deciding his or her own remuneration.

Investments

The Investment Committee sets the investment policy of the Company reflecting its conservative risk appetite in prudent guardianship of its investment portfolio. It is responsible for monitoring the performance of the discretionary investment managers appointed by the same committee. Exposure to individual holdings as well as asset classes and currencies are limited to ensure maximum spread of risk. During the year under review, the markets were characterised by uncertainty and very regular reporting meetings continued to be held with investment advisors and the board of directors.

Group Compliance

During the period, the Compliance function was reviewed and the terms of reference widened. A new Compliance Officer for Atlas Insurance PCC Limited was designated and strategy for the committee which is now being actioned during 2012 was put together. The committee is responsible to oversee group compliance and during 2011 was chaired by the Group Financial Controller, Mark Camilleri.

Risk Management

The Risk Management Committee is currently an executive committee led by the Deputy Managing Director Matthew von Brockdorff who is the director responsible for Risk Management. The committee meets on a quarterly basis with working sessions held more regularly with various other members of the organisation including a Solvency 2 working group. The committee is responsible for the coordination, facilitation and oversight of the risk management function. During the period a major review of the Company's top risks as well as risk mitigation procedures was carried out with involvement across the organisation. During the year, the risk management committee was also instrumental in commissioning a Gap Analysis of the current Governance structures in preparation for the Solvency 2 Directive.

Protected Cells

This Executive Committee led by the CEO, is responsible for the administration of the protected cells and meets regularly to propose policy and analyse new cell prospects as well as to monitor and report on the performance of the existing cells. Members of this Committee liaise with insurance managers and form part of the investment and underwriting committees of the relative cells. Representatives of the committee regularly make presentations to the board of directors about the progress of the existing cells as well as prior to any new cell application being presented to the MFSA.

Relations with Shareholders

The level of disclosure to shareholders within the Group continues to be in excess of statutory requirements under the Companies Act. An Annual General Meeting for shareholders of Atlas Holdings Limited is held each year and, besides the statutory business of the Annual General Meeting as laid down in the Memorandum and Articles of the Company, reports for all Group companies are presented.

Directors' and Officers' Liability Insurance

The Company has purchased directors' and officers' liability insurance for the benefit of the directors and officers of the Company as well as its fellow subsidiary companies of Atlas Holdings Limited.

Approved by the Board of Directors on 6 June 2012 and signed on its behalf by:

Richard Clough
Chairman

Michael Gatt
Managing Director

pwc

To the Shareholders of Atlas Insurance PCC Limited

Report on the Financial Statements for the year ended 31 December 2011

We have audited the financial statements of Atlas Insurance PCC Limited, as a standalone company, on pages 16 to 64, which comprise the balance sheet as at 31 December 2011, the profit and loss account and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 12 to 13, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as modified by Article 174 of the Maltese Companies Act, 1995 and the requirements of the said Act and of the Maltese Insurance Business Act, 1998 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of the company, as a standalone company, as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU as modified by Article 174 of the Maltese Companies Act, 1995; and
- have been properly prepared in accordance with the requirements of the said Act and of the Maltese Insurance Business Act, 1998.

Report on Other Legal and Regulatory Requirements

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

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

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

PricewaterhouseCoopers

167 Merchants Street
Valletta
Malta

Joseph A. Camilleri
Partner

6 June 2012

Profit and Loss Account - Technical Account - General Business

Year ended 31 December

		Core		Cells		Total	
		2011	2010	**2011**	2010	**2011**	2010
	Notes	**€**	€	**€**	€	**€**	€
Earned premiums, net of reinsurance							
Gross premiums written	4	**17,843,405**	17,548,244	**11,015,978**	7,845,386	**28,859,383**	25,393,630
Outward reinsurance premiums		**(7,128,105)**	(7,470,585)	**(238,244)**	(227,919)	**(7,366,349)**	(7,698,504)
Net premiums written		**10,715,300**	10,077,659	**10,777,734**	7,617,467	**21,493,034**	17,695,126
Change in the provision for unearned premiums							
- gross amount	23	**(128,914)**	(20,037)	**9,251**	(1,252,944)	**(119,663)**	(1,272,981)
- reinsurers' share	23	**(97,218)**	(36,262)	**1,160**	176,757	**(96,058)**	140,495
		(226,132)	(56,299)	**10,411**	(1,076,187)	**(215,721)**	(1,132,486)
Earned premiums, net of reinsurance		**10,489,168**	10,021,360	**10,788,145**	6,541,280	**21,277,313**	16,562,640
Allocated investment (expense)/ return transferred from the non-technical account	6	**(87,567)**	929,214	**5,756**	43,331	**(81,811)**	972,545
Total technical income		**10,401,601**	10,950,574	**10,793,901**	6,584,611	**21,195,502**	17,535,185
Claims incurred, net of reinsurance							
Claims paid							
- gross amount	23	**7,554,728**	8,250,744	**951,564**	493,381	**8,506,292**	8,744,125
- reinsurers' share	23	**(1,812,185)**	(2,321,529)	**-**	-	**(1,812,185)**	(2,321,529)
		5,742,543	5,929,215	**951,564**	493,381	**6,694,107**	6,422,596
Change in the provision for claims							
- gross amount	23	**(1,061,700)**	18,765	**1,270,797**	243,656	**209,097**	262,421
- reinsurers' share	23	**836,217**	(85,652)	**-**	-	**836,217**	(85,652)
		(225,483)	(66,887)	**1,270,797**	243,656	**1,045,314**	176,769
Claims incurred, net of reinsurance		**5,517,060**	5,862,328	**2,222,361**	737,037	**7,739,421**	6,599,365
Net operating expenses	5	**2,598,791**	2,060,228	**6,248,834**	3,915,174	**8,847,625**	5,975,402
Total technical charges		**8,115,851**	7,922,556	**8,471,195**	4,652,211	**16,587,046**	12,574,767
Balance on the technical account for general business (page 17)		**2,285,750**	3,028,018	**2,322,706**	1,932,400	**4,608,456**	4,960,418

Profit and Loss Account - Non-Technical Account

Year ended 31 December

		Core		Cells		Total	
	Notes	**2011** **€**	2010 €	**2011** **€**	2010 €	**2011** **€**	2010 €
Balance on technical account – general business (page 16)		**2,285,750**	3,028,018	**2,322,706**	1,932,400	**4,608,456**	4,960,418
Investment income	6	**765,150**	1,130,379	**22,815**	43,331	**787,965**	1,173,710
Investment expenses and charges	6	**(852,717)**	(201,165)	**(17,059)**	-	**(869,776)**	(201,165)
Allocated investment expense/(return) transferred to the general business technical account	6	**87,567**	(929,214)	**(5,756)**	(43,331)	**81,811**	(972,545)
Administrative expenses	7	**(144,529)**	(145,874)	**(18,371)**	(8,032)	**(162,900)**	(153,906)
Profit before tax		**2,141,221**	2,882,144	**2,304,335**	1,924,368	**4,445,556**	4,806,512
Tax expense	9	**(806,194)**	(1,023,710)	**(806,519)**	(673,529)	**(1,612,713)**	(1,697,239)
Profit for the year		**1,335,027**	1,858,434	**1,497,816**	1,250,839	**2,832,843**	3,109,273

Statement of Comprehensive Income

		Core		Cells		Total	
	Notes	**2011 €**	2010 €	**2011 €**	2010 €	**2011 €**	2010 €
Profit for the year		**1,335,027**	1,858,434	**1,497,816**	1,250,839	**2,832,843**	3,109,273
Other comprehensive income:							
Net reporting currency differences arising on translation from functional currency to presentation currency	22	**-**	-	**145,782**	45,462	**145,782**	45,462
Fair value gains	22	**410,607**	-	**-**	-	**410,607**	-
Movement in deferred tax relating to property, plant and equipment	17	**(46,317)**	2,432	**-**	-	**(46,317)**	2,432
Total other comprehensive income, net of tax		**364,290**	2,432	**145,782**	45,462	**510,072**	47,894
Total comprehensive income for the year		**1,699,317**	1,860,866	**1,643,598**	1,296,301	**3,342,915**	3,157,167

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component is disclosed in Notes 9 and 17.

The notes on pages 23 to 64 are an integral part of these financial statements.

Balance Sheet

As at 31 December

	Notes	Core 2011 €	Core 2010 €	Cells 2011 €	Cells 2010 €	Total 2011 €	Total 2010 €
ASSETS							
Intangible assets	12	124,899	188,749	-	-	124,899	188,749
Tangible assets:							
- land, buildings and improvements	13	3,317,424	2,942,603	-	-	3,317,424	2,942,603
- plant and equipment	13	683,202	775,539	-	-	683,202	775,539
Investments:							
- land and buildings	14	210,000	197,997	-	-	210,000	197,997
- investment in subsidiary	15	-	2,562	-	-	-	2,562
- other financial investments	16	18,525,365	17,329,350	2,384,086	2,006,078	20,909,451	19,335,428
Reinsurers' share of technical provisions	23	5,370,073	6,303,508	187,591	178,318	5,557,664	6,481,826
Deferred acquisition costs	18	654,710	722,665	61,514	48,642	716,224	771,307
Deferred taxation	17	88,068	-	-	-	88,068	-
Stock – property for development	19	2,573,014	2,114,205	-	-	2,573,014	2,114,205
Receivables:							
- debtors arising out of direct insurance operations	20	3,188,849	3,134,370	-	-	3,188,849	3,134,370
- debtors arising out of reinsurance operations	20	-	-	245,940	-	245,940	-
- other debtors	20	477,095	347,075	2,053,234	1,694,725	2,530,329	2,041,800
Taxation recoverable		-	362,697	-	-	-	362,697
Prepayments and accrued income	20	252,363	205,115	63,214	35,776	315,577	240,891
Cash and cash equivalents	27	2,230,988	3,521,890	4,399,781	2,063,476	6,630,769	5,585,366
Total assets		37,696,050	38,148,325	9,395,360	6,027,015	47,091,410	44,175,340
EQUITY							
Capital and reserves							
Share capital	21	7,500,000	7,500,000	1,418,970	1,143,970	8,918,970	8,643,970
Other reserves	22	917,587	553,297	176,366	30,584	1,093,953	583,881
Profit and loss account	22	7,249,349	6,649,510	2,531,402	1,310,331	9,780,751	7,959,841
Total equity		15,666,936	14,702,807	4,126,738	2,484,885	19,793,674	17,187,692
LIABILITIES							
Technical provisions	23	19,229,890	20,162,676	3,137,258	1,704,025	22,367,148	21,866,701
Payables:							
- borrowings	24	25,884	1,767	-	-	25,884	1,767
- creditors arising out of direct insurance operations	25	678,363	990,912	356,345	245,035	1,034,708	1,235,947
- creditors arising out of reinsurance operations	25	328,237	784,508	19,818	19,232	348,055	803,740
- other creditors	25	129,362	137,077	725,404	825,128	854,766	962,205
Deferred taxation	17	-	24,978	-	-	-	24,978
Taxation payable		145,051	-	832,832	658,150	977,883	658,150
Accruals and deferred income	25	1,492,327	1,343,600	196,965	90,560	1,689,292	1,434,160
Total liabilities		22,029,114	23,445,518	5,268,622	3,542,130	27,297,736	26,987,648
Total equity and liabilities		37,696,050	38,148,325	9,395,360	6,027,015	47,091,410	44,175,340

The notes on pages 23 to 64 are an integral part of these financial statements.

The financial statements on pages 16 to 64 were authorised for issue by the board on 6 June 2012 and were signed on its behalf by:

Richard Clough
Chairman

Michael Gatt
Managing Director

Statement of Changes in Equity

		Core			
	Notes	Share capital €	Other reserves €	Profit and loss account €	Total €
Balance at 1 January 2010		7,500,000	550,865	6,213,689	14,264,554
Comprehensive income					
Profit for the year		-	-	1,858,434	1,858,434
Other comprehensive income					
Net reporting currency differences arising on translation from functional currency to presentation currency	22	-	-	-	-
Movement in deferred tax relating to property, plant and equipment	17, 22	-	2,432	-	2,432
Total other comprehensive income		-	2,432	-	2,432
Total comprehensive income		-	2,432	1,858,434	1,860,866
Transactions with owners					
Increase in share capital	21	-	-	-	-
Dividends	11	-	-	(1,422,613)	(1,422,613)
Total transactions with owners		-	-	(1,422,613)	(1,422,613)
Balance at 31 December 2010		**7,500,000**	**553,297**	**6,649,510**	**14,702,807**
Balance at 1 January 2011		7,500,000	553,297	6,649,510	14,702,807
Comprehensive income					
Profit for the year		-	-	1,335,027	1,335,027
Other comprehensive income					
Net reporting currency differences arising on translation from functional currency to presentation currency	22	-	-	-	-
Fair value gains	22	-	410,607	-	410,607
Movement in deferred tax relating to property, plant and equipment	17, 22	-	(46,317)	-	(46,317)
Total other comprehensive income		-	364,290	-	364,290
Total comprehensive income		-	364,290	1,335,027	1,699,317
Transactions with owners					
Issue of cell shares	21	-	-	-	-
Dividends	11	-	-	(735,188)	(735,188)
Total transactions with owners		-	-	(735,188)	(735,188)
Balance at 31 December 2011		**7,500,000**	**917,587**	**7,249,349**	**15,566,936**

The notes on pages 23 to 64 are an integral part of these financial statements.

Cells				Total			
Share capital €	Other reserves €	Profit and loss account €	Total €	Share capital €	Other reserves €	Profit and loss account €	Total €
460,000	(14,878)	514,430	959,552	7,960,000	535,987	6,728,119	15,224,106
-	-	1,250,839	1,250,839	-	-	3,109,273	3,109,273
-	45,462	-	45,462	-	45,462	-	45,462
-	-	-	-	-	2,432	-	2,432
-	45,462	-	45,462	-	47,894	-	47,894
-	45,462	1,250,839	1,296,301	-	47,894	3,109,273	3,157,167
683,970	-	-	683,970	683,970	-	-	683,970
-	-	(454,938)	(454,938)	-	-	(1,877,551)	(1,877,551)
683,970	-	(454,938)	229,032	683,970	-	(1,877,551)	(1,193,581)
1,143,970	**30,584**	**1,310,331**	**2,484,885**	**8,643,970**	**583,881**	**7,959,841**	**17,187,692**
1,143,970	30,584	1,310,331	2,484,885	8,643,970	583,881	7,959,841	17,187,692
-	-	1,497,816	1,497,816	-	-	2,832,843	2,832,843
-	145,782	-	145,782	-	145,782	-	145,782
-	-	-	-	-	410,607	-	410,607
-	-	-	-	-	(46,317)	-	(46,317)
-	145,782	-	145,782	-	510,072	-	510,072
-	145,782	1,497,816	1,643,598	-	510,072	2,832,843	3,342,915
275,000	-	-	275,000	275,000	-	-	275,000
-	-	(276,745)	(276,745)	-	-	(1,011,933)	(1,011,933)
275,000	-	(276,745)	(1,745)	275,000	-	(1,011,933)	(736,933)
1,418,970	**176,366**	**2,531,402**	**4,126,738**	**8,918,970**	**1,093,953**	**9,780,751**	**19,793,674**

Statement of Cash Flows

Year ended 31 December

	Notes	Core		Cells		Total	
		2011	2010	**2011**	2010	**2011**	2010
		€	€	**€**	€	**€**	€
Cash flows from operating activities							
Cash generated from operations	26	**550,335**	3,904,418	**2,650,473**	1,312,612	**3,200,808**	5,217,030
Income tax paid		**(457,809)**	(495,176)	**(631,837)**	(407,605)	**(1,089,646)**	(902,781)
Net cash from operating activities		**92,526**	3,409,242	**2,018,636**	905,007	**2,111,162**	4,314,249
Cash flows from investing activities							
Purchase of property, plant and equipment		**(210,163)**	(227,262)	**-**	-	**(210,163)**	(227,262)
Purchase of intangible assets		**(4,753)**	(1,859)	**-**	-	**(4,753)**	(1,859)
Disposal of property, plant and equipment		**5,300**	4,000	**-**	-	**5,300**	4,000
Purchase of stock – property for development		**(458,809)**	(372,681)	**-**	-	**(458,809)**	(372,681)
Net cash used in investing activities		**(668,425)**	(597,802)	**-**	-	**(668,425)**	(597,802)
Cash flows from financing activities							
Dividends paid		**(735,188)**	(1,422,613)	**(276,745)**	(454,938)	**(1,011,933)**	(1,877,551)
Issue of share capital		**-**	-	**275,000**	683,970	**275,000**	683,970
Net cash (used in)/from financing activities		**(735,188)**	(1,422,613)	**(1,745)**	229,032	**(736,933)**	(1,193,581)
Movement in cash and cash equivalents		**(1,311,087)**	1,388,827	**2,016,891**	1,134,039	**705,804**	2,522,866
Cash and cash equivalents at beginning of year		**3,520,123**	2,101,451	**2,063,476**	838,080	**5,583,599**	2,939,531
Exchange gains/(losses) on cash and cash equivalents		**(3,932)**	29,845	**319,414**	91,357	**315,482**	121,202
Cash and cash equivalents at end of year	27	**2,205,104**	3,520,123	**4,399,781**	2,063,476	**6,604,885**	5,583,599

The notes on pages 23 to 64 are an integral part of these financial statements.

1. Summary of significant accounting policies

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

1.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as modified by Article 174 of the Maltese Companies Act, 1995 and in accordance with the requirements of the said Act and the requirements of the Maltese Insurance Business Act, 1998. Atlas Holdings Limited (Note 33) prepares consolidated financial statements in a manner equivalent to that required by the Maltese Companies Act, 1995 and these are delivered to the Registrar of Companies in Malta in terms of section 174 (2) (e). Accordingly, Atlas Insurance PCC Limited is exempt from the preparation of consolidated financial statements by virtue of section 174 of the Companies Act, 1995.

The financial statements of Atlas Insurance PCC Limited include the financial performance and financial position of the Core operation together with the operations of the Cells.

As at 31 December 2011, the Company had four Cells, the Perfecthome Cell, the Travelodge Cell, the Ocado Cell and the Totemic Cell 1 Cell, referred to in these financial statements as Cell 1, Cell 2, Cell 4 and Cell 5 respectively. The Company maintains separate accounts for each Cell. Cellular assets and liabilities are separate and separately identifiable from Core and Cellular assets attributable to other Cells. Separate balance sheets, profit and loss accounts and statements of comprehensive income, changes in equity and cash flows have accordingly been prepared for the Cells.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of Land and buildings - investment property, Land and buildings – property, plant and equipment, and financial assets at fair value through profit or loss.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Standards, interpretations and amendments to published standards effective in 2011

In 2011, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2011. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2011. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the Company'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 effective for financial periods beginning on, or after, 1 January 2015. The Company is considering the implications of the standard and its impact on the Company's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is considering the implications of the standard and its impact on the Company's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Amendment to IAS 12, 'Income taxes', on deferred tax currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Company is considering the implications of the amendment and its impact on the Company's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

1.2 Revenue recognition

Revenue comprises the fair value for services and is recognised as follows:

(a) Rendering of services

Premium recognition is described in accounting policy 1.15 dealing with insurance contracts.

(b) Interest income

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

(c) Dividend income

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

(d) Rental income

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

1.3 Investment return

Investment return comprises investment income including fair value movements, interest income, dividends and rental income, and is net of investment expenses, charges and interest. Dividends are recorded on the date when the shareholder's right to receive income is established. Interest and expenses are accounted for on an accruals basis.

Investment return is initially recorded in the non-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.

1.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 are presented in the profit and loss account within 'investment expenses and charges'.

The results and the financial position of the cells are translated from GBP 'the functional currency' into Euro 'the presentation currency' as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
(ii) income and expenses for each profit and loss account are translated at average exchange rates.

All resulting exchange differences are recognised as a component of equity and are accounted for in the functional currency exchange reserve (Note 22).

1. Summary of significant accounting policies - continued

1.5 Intangible assets

(a) Customer relationships

Acquired customer relationships are shown at historical cost. Customer relationships have an indefinite useful life.

(b) Computer software

Acquired computer software is 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 three years.

All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

1.6 Tangible assets – Property, plant and equipment

Tangible fixed assets comprising land and buildings, computer equipment and furniture and fittings are initially recorded at cost. Property is subsequently shown at fair value, based on valuations by the directors after seeking due professional advice, less subsequent depreciation. 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 balance sheet date. All other tangible fixed assets are stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Buildings	1
Improvement to leasehold premises	10
Furniture, equipment and motor vehicles	10 - 20

Freehold land is not depreciated.

Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

1.7 Land and buildings – Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company, is classified as investment property. Investment property comprises freehold buildings.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, 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 Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors after seeking professional advice.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company 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. Changes in fair values are recorded in the profit and loss account.

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in the profit and loss account.

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

1. Summary of significant accounting policies - continued

1.8 Investment in subsidiary

Investment in subsidiary, is accounted for at cost. The results of the subsidiary undertaking are reflected in the Company's financial statements only to the extent of dividends receivable.

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

1.9 Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. The directors determine the appropriate classification of the investments at the time of purchase and re-evaluate such designation at every reporting date.

1.9.1 Classification

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise all securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, if so designated by the directors. These financial assets are managed and their performance is evaluated and reported on a fair value basis to the Company's key management personnel in accordance with a documented investment strategy.

(b) Loans and receivables

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 Company intends to sell in the short term or that it has designated as fair value through profit or loss. They include, inter alia, deposits held with credit or financial institutions, debtors and cash and cash equivalents.

1.9.2 Recognition and measurement

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase and sell the asset. 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 derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

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

The fair values of quoted investments and units in collective investment schemes are based on quoted market prices at the reporting date. If the market for an investment is not active, the Company establishes fair value by using valuation techniques. Equity securities for which the fair value cannot be measured reliably are recognised at cost less impairment.

On disposal, the difference between the net disposal proceeds and the carrying amount is included in the net profit or loss for the period.

1.10 Impairment of assets

(a) Impairment of financial assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event or events have 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 Company about the following events:

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

1. Summary of significant accounting policies - continued

1.10 Impairment of assets - continued

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company 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 assessed individually 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) Impairment of financial assets carried at fair value

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

(c) Impairment of other non-financial assets

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

1.11 Operating leases

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

1.12 Stock – Property for development

Property held for development is intended in the main for resale purposes, and is accordingly classified in the financial statements as stock. Any elements of the project which are identified for business operation or long-term investments properties are transferred at their carrying amount or fair value to Property, plant and equipment or Investment properties when such identification is made and the cost thereof can be reliably segregated.

The development property is carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the property, expenses incidental to acquisition, development costs together with any borrowing costs attributable to the development phases of the project. The purchase cost of acquiring the property represents the cash equivalent value of the contracted price.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Gains and losses on disposal of development property are determined by reference to their carrying amount and are taken into account in determining gross profit.

1.13 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts, and other short-term highly liquid investments with original maturities of three months or less. In the balance sheet, bank overdrafts are included in borrowings.

1.14 Current and deferred tax

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

1. Summary of significant accounting policies - continued

1.14 Current and deferred tax - continued

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date 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 tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

1.15 Insurance contracts - classification

The Company issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Company defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance contracts – General business

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

(i) Premiums written relate to business incepted during the year together with any differences between the booked premiums for prior years and thus previously accrued, less cancellations.

(ii) 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.

(iii) 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 are 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.

(iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provision for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

(v) 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 Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company 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 likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported. The Company does not discount its liabilities for unpaid claims.

    The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available.

(vi) Provision in the form of an unexpired risk provision will be made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Reinsurance contracts held

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

The benefits to which the Company 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 insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured

1. Summary of significant accounting policies - continued

1.15 Insurance contracts - classification - continued

insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Company 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.

Receivables and payables related to insurance contracts

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

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

1.16 Provisions

Provisions for legal claims are recognised when the Company 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.17 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.

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

1.18 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.19 Dividend distribution

Dividends on ordinary shares or on cell shares are recognised in equity in the period in which they are declared by the directors or approved by the Company's shareholders.

2. Critical accounting estimates and judgements in applying accounting policies

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

Provision is made as and when claims are notified for the estimated cost of claims. This estimate will include expenses to be incurred in settling the claim. All provisions for claims incurred but not settled by balance sheet date are carried forward to the following financial period. Given the uncertainty in establishing claims provisions, it is possible that the final outcome may prove to be different from the original liability estimated.

In reporting claims incurred and balance sheet provisions the Company takes all reasonable steps to curtail any future deviations in establishing its liabilities by ensuring that it has appropriate information regarding its claims exposures and related future liabilities from the outset, the results of which are elaborated in the claims cost progression tables disclosed in Note 23.

The Company believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end.

3. Management of insurance and financial risk

3.1. Insurance risk

The Company issues contracts that transfer the insurance risk of the Company's clients. This section summarises these risks and how the Company manages them.

The risk under any one insurance contract is the uncertainty of whether the insured will sustain the contingency insured against. If that happens, then further uncertainty lies in how many times this can happen and how much it will cost, i.e. the frequency and severity of resultant claims.

Insurance risk is by its nature random and unpredictable. Consequently the Company writes portfolios of risk with the intention of taking refuge within the theory of probability (large numbers) and thus being able to correctly construct pricing of its insurance contracts.

The risk the Company faces however remains that actual claims incurred exceed the amounts of such provisions since the frequency and severity incurred exceed the estimated ones.

Insurance events, due to their random nature, can vary in severity and frequency from year to year. However the larger the portfolio involved, the lower the deviation from estimates which is why the Company endeavours to acquire growth in areas of insurance risk which it deems attractive.

Another method used to mitigate random deviations is that of diversification in portfolio characteristics. Atlas Insurance PCC Limited is not unduly dependant on one class or sector of business and in fact is deemed to be privileged with a balanced mix of various classes of Motor, Liability, Marine, Miscellaneous Accident, Property and Travel and Personal Accident. Likewise the Company's portfolio is evenly spread between personal lines and commercial lines business.

The Company has a rather even geographical spread of property risks within the Maltese isles and is well spread among the various sectors of commerce e.g. tourism and hotel accommodation; manufacture; services and it is not unduly dependent on one sector alone.

Once again this diversification ensures that the type and amount of risks presented are spread out without there being undue concentrations in one area alone.

During the year the Company concluded the process of licensing Totemic Cell 1, which was authorized by the MFSA on the 13 July 2011 to write affiliated reinsurance risk under classes of business 1 – Accident, 2 – Sickness, 6 - Miscellaneous financial loss. The Cell maintains its own solvency with the Minimum Guarantee Fund being afforded by the core capital.

Perfecthome Cell, Travelodge Cell, Ocado Cell and Totemic Cell 1 carried on business during the year in accordance with their licence conditions, where as determined by their authorisation each cell is to maintain at all times its own solvency margin while the Minimum Guarantee Fund is afforded by the core capital. The cells write property, sickness, motor, motor liability and miscellaneous financial risks, all in the United Kingdom. The property risks are equally well-spread geographically. The cells' results are amply reflected in these financial statements.

3.1.1. Frequency and severity of claims

Motor and liability

The danger is that the frequency and severity of claims be seriously affected by:

(i) the long lifetime which motor and other liability claims tend to have and which can lead to:

  (a) negative effects of inflation on claim amounts;
  (b) increased court awards arising from increased sensitivity of courts to the plight of accident victims spurred also by EU directives and "pro-victim" court/ legislative tendencies in other EU jurisdictions; and
  (c) increased responsibilities of employers and business owners in the light of health and safety and consumer legislation; and

(ii) the latent effect of disease claims on the employers' liability and products liability portfolio.

Property

From the property point of view, climatic changes give rise to the more frequent and severe extreme weather events e.g. flash floods and their consequences. The year 2010 included a severe storm event in October which affected the property result to a degree, which result was further impacted in the same month by a large single fire loss. Correct reinsurance protection ensured that the impact on net results was relatively low.

3. Management of insurance and financial risk - continued

3.1. Insurance risk - continued

3.1.1. Frequency and severity of claims - continued

Miscellaneous accident, and personal accident and travel

The nature of claims on Money, Glass, Goods in Transit and Fidelity relate very much to the prevalence of crime in Malta and the 2011 year shows no extraordinary sustained phenomenon experienced in this regard.

Marine

The marine account is mainly based on cargo business which tends to produce regular patterns of claim frequency though years of increased frequency can arise owing to particular localised problems. The hull portfolio is affected by weather patterns and crime patterns.

Miscellaneous Financial Risk

Risk carried by the Company and managed under this class of business did not materially impact on the results of the company and the risk profiles do not offer any threat to the Company's core capital.

The Company manages all the above via:

(a) underwriting strategy,
(b) adequate reinsurance arrangements, and
(c) proactive claims handling.

(a) Underwriting strategy

The Company follows strict risk acceptance selection processes and only accepts risks that possess characteristics which the Company feels will lead to low or average frequency and severity of losses. This criteria applies across all classes and for this purpose the Company uses underwriting guidelines and sets limits on the overall retention of the risks it writes.

The Company inserts certain exclusions in its contracts to enforce underwriting criteria. For example, in the context of liability exposures, the Company applies asbestos liabilities exclusions on all liability policies.

The Company closely scrutinises the business activities of its client base to determine any undue exposure to long-term industrial disease claims and to assist in this process and that of analysing other potential exposures, the Company views several property, accident and liability risks first hand via its policy of risk surveying (in-house and external).

The Company also has a regular renewal analysis and reserves the right to reassess each contract based on its claims experience and any other changes in material information. The majority of the marine cargo account is based on open covers. Thorough controls on each marine open cover are carried out regularly ensuring that performance is acceptable.

Malta's storm and flood exposure is localised in particular areas of flash flood exposure. With the Company's pre-risk survey strategy and with the added knowledge of flood-prone areas, the Company filters the incoming new business portfolio or alternatively manages the risk of storm.

The Company, as a standard, applies limits on all motor and liability policies. The only areas of unlimited liability left are on Motor EU use (in line with legislation).

The Company's internal underwriting authority limits mean that authority to bind is delegated in a controlled manner. The Company's agencies and branches likewise follow and are subject to specific underwriting limitations beyond which they must seek head office approval.

The risks underwritten by the Company may also be in the form of reinsurance contracts issued on a proportional basis whereby it assumes a portion of the risk which the ceding insurance undertakings undertake with their direct clients.

(b) Reinsurance

The Company places its reinsurance programme with overseas reinsurers who all meet the financial approval of the local regulator. It is generally the Company's policy for reinsurance to be placed in the Lloyd's market or with listed multinational reinsurance companies whose credit rating is not less than A. The portfolio programme is a mix of proportional and non-proportional protection which also includes inter alia "stop loss protection" which protects the Company from unexpected adverse development of claims transferred in 2004 and 2005 from AXA Insurance plc to Atlas Insurance PCC Limited.

The Company's decision on the type of reinsurance obtained, the level of retention and the width of cover are recommended by the Company's own technical personnel in collaboration with overseas consultants and the board of directors approves the reinsurance programme on an annual basis.

3. Management of insurance and financial risk - continued

3.1. Insurance risk - continued

3.1.1. Frequency and severity of claims - continued

(c) Claims techniques

Claims are handled and reserved on a claim by claim basis.

The Company employs in-house specialised claims personnel. In addition to having in place authority levels for its staff to negotiate claims, it also employs a panel of external loss adjusters and technical experts who are regularly utilised in the Company's quest for sound and equitable claim handling.

The Company has a policy of analysing claims progressions and thus determines if reserving policies adopted in the past have been successful. This procedure has pre-dated the setting up of the Company as an underwriter and the Company in fact tracks claims which were incurred in years during which the Company formerly acted as an agent for overseas principals.

The Company actively pursues early settlement of all claims to reduce exposure to unpredictable developments and equally the Company maintains a proactive system that ensures that timely action is taken on all claims and reviews are carried out when required. This is particularly important in the context of motor and liability claims. In the context of reserving active use is made of a panel of legal advisors and full acquaintance is made with courtroom developments by our specialist claims team headed by the claims director.

3.1.2. Sources of uncertainty in estimation of future claims payments

Owing to the fact that liability claims are normally payable on a *claims occurrence* basis, a claim is payable if the accident occurred in the year of insurance even if the loss is discovered long afterwards. Therefore not only can known liability claims take longer to be settled owing to lengthy court proceedings and the like, but claims can take long to be registered and are therefore also very much in need of an IBNR (incurred but not reported) claims provision in that known claims outstanding provisions must be adequately increased by a provision every year for IBNR.

Therefore when estimating the cost due to be paid in future the Company looks at:

(i) the monetary provision for the future payment of claims for bodily injuries to employees or third party victims of accidents. This is based on the accepted basis of:

  (a) loss of future earnings as a result of disability percentages along with estimated rehabilitation expenses;
  (b) an element of direct damages; and
  (c) costs of settlement including legal and other fees and court expenses; and

(ii) to the above provision for known reported claims, the Company adds an IBNR provision with particular emphasis on the motor and liability class.

The Company also makes a provision for the unexpired period of cover of policies running at the time of the balance sheet date.

Like all claims, large claims are assessed on a case by case basis and accurately analysed and Atlas will take pessimistic scenarios based on legal precedent (of particular relevance to motor and liability class) and similar cases plus the Company will note current trends.

The Company takes care to ensure it is in possession of knowledge on all bodily injury claims notified and carries out active reviews of the larger/ more serious bodily injury cases on motor and liability classes.

IBNR percentages are taken as a factor on outstanding claims provision and are arrived at on the basis of historical analyses of different classes' performance vis-a-vis actual IBNR experienced over a five-year period.

Uncertainty on the estimation of claim payments on property classes is considerably lower than that on motor and liability classes. The same can be said of personal accident, travel and miscellaneous accident.

Uncertainty in general is reduced by ensuring thorough knowledge of the circumstances and extent of losses reported; and through the use of medical and loss assessors and adjusters to ensure correct reserving.

While under the marine class doubt on value of claims can be influenced by the influx of late notifications on insured export claims, the Company actually insures very few export consignments so this factor does not affect its IBNR provision. Indeed a high degree of certainty on marine claims is achieved via collection of survey evidence and value documentation.

3.2 Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets would not be sufficient to fund the obligations arising from its insurance contracts and investing activity.

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

The most important components of the Company's financial risk are market risk (cash flow and fair value interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks mainly arise on open positions in interest rate, debt and equity products, and currency exposures, which are all subject to market movements.

The Company's investment strategy reflects its profile of liabilities to ensure that sufficient assets of appropriate nature, term and liquidity enable it to meet the liabilities as they become due.

3.2.1 Market risk

(a) Cash flow and fair value interest-rate risk

In general, the Company is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Financial instruments issued at variable rates expose the Company to cash flow interest rate risk. Financial instruments issued at fixed rates expose the Company to fair value interest rate risk. The Company holds investments mostly in equity and debt securities. Debt securities are subject to interest rate risk.

Interest rate risk is the risk that the relative value of a security will worsen due to an interest rate increase. Interest rate risk is mitigated through the distribution of fixed interest investments over a range of maturity dates. Moreover, the Company's asset allocation policy limits the amount of investment in any one asset or towards any one counterparty. Notes 16 and 27 incorporate interest rate and maturity information with respect to the Company's assets.

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

	2011	2010
	€	€
Assets at floating interest rates - bank balances	**6,088,625**	5,177,120
Assets at fixed interest rates		
- Listed debt securities	**9,585,432**	8,478,757
- Deposits with banks or financial institutions	**4,737,001**	4,159,268
- Amounts owed from related parties	**3,704,442**	3,526,668
	24,115,500	21,341,813
Liabilities at floating interest rates - bank balance overdrawn	**25,884**	1,767

Bank and other borrowing facilities are not commonly availed of and the directors traditionally sanction the use of such facilities for short-term operational cash flow bridging as and when the requirement arises. The exposure to interest rate risk in respect of borrowings is accordingly not material.

Deposits with banks or financial institutions potentially expose the Company to fair value interest rate risk. However, since these instruments are not fair valued there is no exposure to the Company.

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 2011 the Company was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities. If interest rates at that date would have been 50 basis points (2010: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €198,600 lower (2010: €185,513 lower). An increase of 150 basis points (2010: 150 basis points), with all other variables held constant, would have resulted in pre-tax profits being €206,371 higher (2010: €193,557 higher). Up to the end of the reporting period the Company did not have any hedging policy with respect to interest rate risk on other financial instruments as exposure to such risks was not deemed to be significant by the directors.

(b) Equity price risk

The Company is exposed to market price risk on its equity investments. These investments are subject to stock market volatility and the value can decline significantly in response to adverse political, market or economic developments. The Company reduces this risk by diversifying its investments in different countries and in different sectors.

The Company's investment portfolio is overseen by the Investment Committee that meets on a regular basis in order to review the position of its investments and to plan its investment strategy in accordance with established guidelines. Investment decisions are taken on the basis of an Asset Allocation Policy approved by the Board. The Asset Allocation Policy includes benchmarks and guidelines on various aspects of portfolio management, including currency, instrument, rating, localisation, concentration and maturity. It is periodically reviewed by the Investment Committee and, subject to Board approval, amended as necessary so as to reflect the Company's overall investment objective, which is principally the preservation of capital and liabilities.

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.1 Market risk - continued

(b) Equity price risk - continued

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

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Assets subject to equity price risk						
Equity securities	**1,749,102**	2,082,620	**-**	-	**1,749,102**	2,082,620
Units in unit trusts	**1,013,685**	1,088,115	**119,789**	-	**1,133,474**	1,088,115
	2,762,787	3,170,735	**119,789**	-	**2,882,576**	3,170,735

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The sensitivity for equity price risk is derived based on global equity returns, assuming that currency exposures are hedged. 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% (2010: 10%) in equity prices, with all other variables held constant, would result in an impact on the pre-tax profit for the year of €276,249 (2010: €317,073). An increase and a decrease of 10% (2010: Nil) in equity prices of the Cells, with all other variables held constant, would result in an impact on the Cells pre-tax profit for the year of €11,979 (2010: Nil).

(c) Currency risk

Currency risk relates to the risk of fluctuations in the value of financial instruments and assets and liabilities due to changes in exchange rates. The Company may experience losses arising from a decrease in values of its assets held in foreign currency or an increase in value of its technical reserves denominated in foreign currencies. The board of directors implements a policy of currency matching rules thus minimising the Company's exposure to such risk.

As the Company's technical reserves arising from its core operation are wholly denominated in Euro due to the fact that all insurance policies are written in Euro, funds covering such liabilities are largely invested in euro instruments.

Similarly, in managing its cells, the Company applies the same currency matching policy by identifying the currency in which cellular technical provisions arise and as such administers a balance of matched assets.

In an effort to maximise return on investment the board directs its investments committee to prudently apply a certain degree of flexibility which is limited to the extent of not compromising the Company's financial strength in matching its liabilities, primarily its insurance technical provisions.

At 31 December 2011, foreign currency exposure, principally comprising a mix of US Dollar and UK Pound, amounted to €1,040,588 (2010: €1,201,944). If the above currencies had weakened/strengthened by 15% against the Euro with all other variables held constant, pre-tax profit for the year would have been lower by €183,633 (2010: €212,108) / higher by €135,729 (2010: €180,291).

3.2.2 Credit risk

The Company is exposed to credit risk, that risk of loss due to a counterparty being unable to pay amounts in full when due. The following are the areas where credit risk is identified:

(i) reinsurers' share of insurance technical provisions;
(ii) amounts due from reinsurers in respect of claims already paid;
(iii) amounts due from insurance contract holders;
(iv) amounts due from insurance intermediaries; and
(v) investments and cash and cash equivalents.

Limits of authority and segregation of duties in the granting of credit are in place to maintain objectivity, independence and control over new and existing lending exposures.

The credit risk management team assesses the creditworthiness of all reinsurers, intermediaries and customers by using credit grade references provided by rating agencies, and other publicly available financial information. Where this information is not available, detailed analysis is carried out by investigating both financial strength and market repute. The Company experiences a low level of bad debts and concentration of credit risk with respect to debts is limited due to the large number of customers comprising the Company's debtor base.

Routine reviews of payment history and the status of any ongoing negotiations with counterparties is carried out by the credit risk management in order to detect any deterioration in the creditworthiness of individual counterparties.

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.2 Credit risk - continued

While reinsurance is used to manage insurance risk, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by the directors on an ongoing basis by reviewing their financial strength within the terms of their credit ratings as stated in Note 3.1.1 (b).

The Company is also exposed to credit risk for its investments and its cash at bank. The Company's cash is placed with quality financial institutions. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuers.

The Investment Committee takes account of the credit risk inherent in the Company's investment portfolio by adopting similar cautious practices in identifying investment opportunities and monitoring portfolio performance. The investment instruments acquired are highly rated by the internationally-renowned credit rating agencies like Moody's and Standard and Poor's. The policy adopted by the Investment Committee is that of directing most of the funds available for investment to A-rated securities and deposits. There are certain instances whereby the committee may opt for placing these funds in B-rated securities only once the circumstances of such an opportunity are fully assessed and are beneficial to the performance of the investment portfolio.

The following table illustrates the assets that expose the Company to credit risk as at the balance sheet date and includes the Standard & Poor's (or equivalent) composite rating, when available. Financial assets that are not rated principally comprise locally traded bonds on the Malta Stock Exchange, debtors and certain deposits with local bank institutions for which no international rating is available.

Assets bearing credit risk at the end of the reporting period, split up between Core and Cell operations are analysed as follows:

Core

	As at 31 December 2011				
	AAA to AA €	A to A- €	BBB to B €	Not rated €	Total €
Investments					
Debt securities - listed fixed interest rate	2,311,370	4,780,084	816,172	1,477,954	9,385,580
Deposits with banks or financial institutions	-	-	671,396	3,031,559	3,702,955
Treasury bills	-	199,852	-	-	199,852
	2,311,370	4,979,936	1,487,568	4,509,513	13,288,387
Loans and receivables					
Amounts receivable from related parties	-	-	-	2,474,193	2,474,193
Debtors and prepayments and accrued income	-	-	-	3,918,307	3,918,307
Cash equivalents	-	914,478	28,234	734,901	1,677,613
	-	914,478	28,234	7,127,401	8,070,113
Reinsurers' share of technical provisions	454,870	4,915,203	-	-	5,370,073
Total assets bearing credit risk	2,766,240	10,809,617	1,515,802	11,634,914	26,728,573

Cells

	As at 31 December 2011				
	Cell 1 Not rated €	**Cell 2** Not rated €	**Cell 4** Not rated €	**Cell 5** Not rated €	**Total**
Investments					
Deposits with banks or financial institutions	420,652	613,394	-	-	1,034,046
Loans and receivables					
Amounts receivable from related parties	930,648	299,601	-	-	1,230,249
Debtors and prepayments and accrued income	730,302	38,411	1,332,237	261,438	2,362,388
Cash equivalents	1,417,546	37,821	2,126,598	817,816	4,399,781
	3,078,496	375,833	3,458,835	1,079,254	7,992,418
Total assets bearing credit risk	3,499,148	989,227	3,458,835	1,079,254	9,026,464

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.2 Credit risk - continued

Core	As at 31 December 2010				
	AAA to AA €	A to A- €	BBB to B €	Not rated €	Total €
Investments					
Debt securities - listed fixed interest rate	1,944,472	4,442,266	547,000	1,470,229	8,403,967
Deposits with banks or financial institutions	-	-	888,309	2,269,386	3,157,695
Treasury bills	-	74,790	-	-	74,790
	1,944,472	4,517,056	1,435,309	3,739,615	11,636,452
Loans and receivables					
Amounts receivable from related parties	-	-	-	2,522,163	2,522,163
Debtors and prepayments and accrued income	-	-	-	3,686,560	3,686,560
Taxation recoverable	-	362,697	-	-	362,697
Cash equivalents	-	1,723,489	22,032	1,368,123	3,113,644
	-	2,086,186	22,032	7,576,846	9,685,064
Reinsurers' share of technical provisions	5,836,808	466,700	-	-	6,303,508
Total assets bearing credit risk	7,781,280	7,069,942	1,457,341	11,316,461	27,625,024

Cells	As at 31 December 2010			
	Cell 1 Not rated €	**Cell 2** Not rated €	**Cell 4** Not rated €	**Total** €
Investments				
Deposits with banks or financial institutions	407,233	594,340	-	1,001,573
Loans and receivables				
Amounts receivable from related parties	1,004,505	-	-	1,004,505
Debtors and prepayments and accrued income	443,721	20,850	1,265,930	1,730,501
Cash equivalents	794,240	351,930	917,306	2,063,476
	2,242,466	372,780	2,183,236	4,798,482
Total assets bearing credit risk	2,649,699	967,120	2,183,236	5,800,055

3.2.3 Liquidity risk

The Company's exposure to liquidity risk arises from the eventuality that the frequency or severity of claims are greater than estimated. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The directors do not consider this risk as significant given the nature of the Company's financial assets and liabilities. The Company's financial assets are considered to be readily realisable as they consist of local and foreign securities listed on recognised stock markets and deposits held with first-class-rated credit institutions. Moreover, the Company ensures that a reasonable level of funds is available at any point in time for unexpected large claims and the Company may also resort to an overdraft facility which provides a short-term means of finance.

The table below analyses the Company's financial liabilities (gross of reinsurers' share of claims outstanding (Note 23)) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash outflows.

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.3 Liquidity risk - continued

Liquidity risk is split up between Core and Cell operations as follows:

Core
As at 31 December 2011

	Contracted undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Trade and other creditors	1,135,962	-	-	-	1,135,962
Accruals and deferred income	1,492,327	-	-	-	1,492,327
	2,628,289	-	-	-	2,628,289

	Expected undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions					
- Claims outstanding	6,232,917	1,918,604	1,183,339	2,361,853	11,696,713

Cells
As at 31 December 2011

	Contracted undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Trade and other creditors	1,101,567	-	-	-	1,101,567
Accruals and deferred income	196,965	-	-	-	196,965
	1,298,532	-	-	-	1,298,532

	Expected undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions					
- Claims outstanding					
Cell 1	17,958	-	-	-	17,958
Cell 2	48,123	-	-	-	48,123
Cell 4	1,179,015	280,320	-	-	1,459,335
Cell 5	185,739	-	-	-	185,739
	1,430,835	280,320	-	-	1,711,155

Core
As at 31 December 2010

	Contracted undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Trade and other creditors	1,912,497	-	-	-	1,912,497
Accruals and deferred income	1,343,600	-	-	-	1,343,600
	3,256,097	-	-	-	3,256,097

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.3 Liquidity risk - continued

Core - continued

As at 31 December 2010		**Expected undiscounted cash outflows**			
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions					
- Claims outstanding	5,879,967	1,805,249	1,823,784	3,249,413	12,758,413

Cells

As at 31 December 2010		**Contracted undiscounted cash outflows**			
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Trade and other creditors	1,089,395	-	-	-	1,089,395
Accruals and deferred income	90,560	-	-	-	90,560
	1,179,955	-	-	-	1,179,955

		Expected undiscounted cash outflows			
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions					
- Claims outstanding					
Cell 1	17,427	-	-	-	17,427
Cell 2	45,863	-	-	-	45,863
Cell 4	267,257	-	-	-	267,257
	330,547	-	-	-	330,547

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2011 and 2010

	Core		**Cells**	**Total**	
	2011	2010	**2011**	**2011**	2010
	Level 1		Level 1	Level 1	
	€	€	**€**	**€**	€
Assets					
Financial assets at fair value through profit or loss					
- Equity securities and units in unit trusts	**2,762,787**	3,170,735	**119,789**	**2,882,576**	3,170,735
- Debt securities	**9,385,580**	8,403,967	**-**	**9,385,580**	8,403,967
- Treasury bills	**199,852**	74,790	**-**	**199,852**	74,790
Total assets	**12,348,219**	11,649,492	**119,789**	**12,468,008**	11,649,492

3. Management of insurance and financial risk - continued

3.3 Fair value estimation - continued

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active 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. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. At 31 December 2011 and 2010, the carrying amount of the Company's other financial assets and liabilities approximate their fair value.

4. Segmental analysis

General business

The classifications below are based on Legal Notice 103 of 2000 of the Insurance Business Act (Cap 403) on Insurance Business (Companies Accounts) Regulations, 2000.

Gross premiums written and gross premiums earned by class of business:

(a) Gross premiums written	**Core**		**Cells**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**4,654,626**	2,276,728	**186,550**	71,538	**4,841,176**	2,348,266
Motor (other classes)	**3,489,704**	5,601,222	**1,407,898**	1,567,379	**4,897,602**	7,168,601
Fire and other damage to property	**5,617,956**	5,719,097	**6,669,180**	4,491,578	**12,287,136**	10,210,675
Other classes	**4,081,119**	3,951,197	**1,809,277**	1,714,891	**5,890,396**	5,666,088
Reinsurance acceptances						
Other classes	**-**	-	**943,073**	-	**943,073**	-
	17,843,405	17,548,244	**11,015,978**	7,845,386	**28,859,383**	25,393,630

Gross premiums written for the cellular operations are attributable as follows:

Gross premium written	**Cell 1**		**Cell 2**		**Cell 4**		**Cell 5**
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Direct insurance							
Motor (third party liability)	**-**	-	**-**	-	**186,550**	71,538	**-**
Motor (other classes)	**-**	-	**-**	-	**1,407,898**	1,567,379	**-**
Fire and other damage to property	**6,669,180**	4,491,578	**-**	-	**-**	-	**-**
Other classes	**-**	-	**1,738,540**	1,714,891	**70,737**	-	**-**
Reinsurance acceptances							
Other classes	**-**	-	**-**	-	**-**	-	**943,073**
	6,669,180	4,491,578	**1,738,540**	1,714,891	**1,665,185**	1,638,917	**943,073**

(b) Gross premiums earned	**Core**		**Cells**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**4,584,358**	2,271,852	**189,934**	307,099	**4,774,292**	2,578,951
Motor (other classes)	**3,437,022**	5,589,228	**1,433,445**	61,426	**4,870,467**	5,650,654
Fire and other damage to property	**5,588,590**	5,725,887	**6,641,401**	-	**12,229,991**	5,725,887
Other classes	**4,104,521**	3,941,240	**1,817,376**	6,223,917	**5,921,897**	10,165,157
Reinsurance acceptances						
Other classes	**-**	-	**943,073**	-	**943,073**	-
	17,714,491	17,528,207	**11,025,229**	6,592,442	**28,739,720**	24,120,649

All gross premiums written on general insurance business emanate from contracts concluded in European Union member states.

4. Segmental analysis - continued

Gross premiums earned for the cellular operations are attributable as follows:

Gross premium earned	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Direct insurance							
Motor (third party liability)	**-**	-	**-**	-	**189,934**	307,099	**-**
Motor (other classes)	**-**	-	**-**	-	**1,433,445**	61,426	**-**
Fire and other damage to property	**6,641,401**	4,473,290	**-**	-	**-**	-	**-**
Other classes	**-**	-	**1,745,355**	1,750,627	**72,021**	-	**-**
Reinsurance acceptances							
Other classes	**-**	-	**-**	-	**-**	-	**943,073**
	6,641,401	4,473,290	**1,745,355**	1,750,627	**1,695,400**	368,525	**943,073**

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

(c) Gross claims incurred	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**1,918,795**	2,309,430	**1,202,310**	273,948	**3,121,105**	2,583,378
Motor (other classes)	**2,142,713**	2,836,778	**63,279**	-	**2,205,992**	2,836,778
Fire and other damage to property	**1,723,557**	2,339,432	**277,358**	130,642	**2,000,915**	2,470,074
Other classes	**707,963**	783,869	**330,453**	332,447	**1,038,416**	1,116,316
Reinsurance acceptances						
Other classes	**-**	-	**348,961**	-	**348,961**	-
	6,493,028	8,269,509	**2,222,361**	737,037	**8,715,389**	9,006,546

Gross claims incurred for the cellular operations are attributable as follows:

Gross claims incurred	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Direct insurance							
Motor	**-**	-	**-**	-	**1,265,589**	273,948	**-**
Fire and other damage to property	**277,358**	130,642	**330,453**	332,447	**-**	-	**-**
Other classes	**-**	-	**-**	-	**-**	-	**-**
Reinsurance acceptances							
Other classes	**-**	-	**-**	-	**-**	-	**348,961**
	277,358	130,642	**330,453**	332,447	**1,265,589**	273,948	**348,961**

4. Segmental analysis - continued

(d) Gross operating expenses	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**1,358,278**	637,497	**148,852**	13,709	**1,507,130**	651,206
Motor (other classes)	**1,018,309**	1,568,992	**19,724**	30,146	**1,038,033**	1,599,138
Fire and other damage to property	**1,638,875**	1,574,492	**5,046,642**	2,914,117	**6,685,517**	4,488,609
Other classes	**1,190,621**	1,218,992	**983,249**	957,202	**2,173,870**	2,176,194
Reinsurance acceptances						
Other classes	**-**	-	**50,377**	-	**50,377**	-
	5,206,083	4,999,973	**6,248,844**	3,915,174	**11,454,927**	8,915,147

Gross operating expenses incurred for the cellular operations are attributable as follows:

Gross operating expenses	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Direct insurance							
Motor (third party liability)	**-**	-	**-**	-	**148,852**	13,709	**-**
Motor (other classes)	**-**	-	**-**	-	**19,724**	30,146	**-**
Fire and other damage to property	**5,046,642**	2,914,117	**-**	-	**-**	-	
Other classes	**-**	-	**983,249**	957,202	**-**	-	**-**
Reinsurance acceptances							
Other classes	**-**	-	**-**	-	**-**	-	**50,377**
	5,046,642	2,914,117	**983,249**	957,202	**168,576**	43,855	**50,377**

(e) Reinsurance balance	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**86,061**	202,638	**209,345**	14,939	**295,406**	217,577
Motor (other classes)	**64,623**	248,713	**27,739**	36,223	**92,362**	284,936
Fire and other damage to property	**2,683,347**	1,063,080	**-**	-	**2,683,347**	1,063,080
Other classes	**808,032**	645,490	**-**	-	**808,032**	645,490
	3,642,063	2,159,921	**237,084**	51,162	**3,879,147**	2,211,083

The reinsurance balance for the cellular operations is attributable to Cell 4.

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

5. Net operating expenses

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Acquisition costs	**2,784,259**	2,715,476	**5,783,132**	3,683,706	**8,567,391**	6,399,182
Change in deferred acquisition costs (Note 18)	**67,955**	(15,067)	**(9,630)**	4,606	**58,325**	(10,461)
Administrative expenses	**2,732,487**	2,586,213	**287,542**	118,086	**3,020,029**	2,704,299
Reinsurance commissions earned	**(2,607,292)**	(2,939,745)	**-**	-	**(2,607,292)**	(2,939,745)
Other net technical (income)/expense	**(378,618)**	(286,649)	**187,790**	108,776	**(190,828)**	(177,873)
	2,598,791	2,060,228	**6,248,834**	3,915,174	**8,847,625**	5,975,402

Net operating expenses are attributable to the cellular operations as follows:

	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Acquisition costs	**4,913,860**	2,826,258	**869,272**	857,448	**-**	-	**-**
Change in deferred acquisition costs (Note 18)	**(13,890)**	(9,144)	**4,260**	13,750	**-**	-	**-**
Administrative expenses	**96,740**	48,397	**63,787**	42,111	**94,118**	27,578	**32,897**
Other net technical expenses	**49,932**	48,606	**45,930**	43,893	**74,458**	16,277	**17,470**
	5,046,642	2,914,117	**983,249**	957,202	**168,576**	43,855	**50,367**

Total commissions included in acquisition costs and accounted for in the financial period amounted to: €1,583,826 in respect of the Core operations (2010: €1,758,276), €4,913,860 in respect of Cell 1 (2010: €2,826,258) and €869,272 in respect of Cell 2 (2010: €857,448).

6. Investment return

Investment income	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Interest receivable from financial assets that are not at fair value through profit or loss	**251,858**	176,210	**21,572**	15,440	**273,430**	191,650
Income from financial assets at fair value through profit or loss:						
- interest income	**414,754**	352,693	**-**	-	**414,754**	352,693
- dividend income	**76,751**	80,846	**-**	-	**76,751**	80,846
Fair value gains on investment property	**12,003**	-	**-**	-	**12,003**	-
Net fair value gains on financial assets at fair value through profit or loss (Note 16)	**-**	482,399	**-**	-	**-**	482,399
Exchange differences	**-**	29,845	**1,243**	27,891	**1,243**	57,736
Rental income	**9,784**	8,386	**-**	-	**9,784**	8,386
	765,150	1,130,379	**22,815**	43,331	**787,965**	1,173,710

6. Investment return - continued

Investment expenses and charges	Core 2011 €	Core 2010 €	Cells 2011 €	Cells 2010 €	Total 2011 €	Total 2010 €
Interest expense and charges for financial liabilities that are not at fair value through profit or loss	**44,111**	29,072	**518**	-	**44,629**	29,072
Net fair value losses on financial assets at fair value through profit or loss (Note 16)	**662,391**	-	**-**	-	**662,391**	-
Investment expenses	**142,283**	172,093	**-**	-	**142,283**	172,093
Exchange differences	**3,932**	-	**16,541**	-	**20,473**	-
	852,717	201,165	**17,059**	-	**869,776**	201,165
Total investment (expense)/return	**(87,567)**	929,214	**5,756**	43,331	**(81,811)**	972,545
Allocated as follows:						
Allocated investment (expense)/return transferred to the general business technical account	**(87,567)**	929,214	**5,756**	43,331	**(81,811)**	972,545

Investment (expense)/return is attributable to the cellular operations as follows:

Investment income	Cell 1 2011 €	Cell 1 2010 €	Cell 2 2011 €	Cell 2 2010 €	Cell 4 2011 €	Cell 4 2010 €	Cell 5 2011 €
Interest receivable from financial assets that are not at fair value through profit or loss	**17,055**	13,903	**3,739**	1,449	**620**	88	**158**
Interest expenses and charges for financial liabilities that are not at fair value through profit or loss	**-**	-	**-**	-	**(496)**	-	**(22)**
Exchange differences	**(13,578)**	19,061	**(2,889)**	1,954	**(74)**	6,876	**1,243**
	3,477	32,964	**850**	3,403	**50**	6,964	**1,379**

7. Expenses by nature

	Core 2011 €	Core 2010 €	Cells 2011 €	Cells 2010 €	Total 2011 €	Total 2010 €
Employee benefit expense and directors' fees	**2,353,279**	2,174,768	**-**	-	**2,353,279**	2,174,768
Commissions payable	**1,583,826**	1,758,276	**5,783,132**	3,683,706	**7,366,958**	5,441,982
Change in deferred acquisition costs	**67,955**	(15,067)	**(9,630)**	4,606	**58,325**	(10,461)
Reinsurance commissions earned	**(2,607,292)**	(2,939,745)	**-**	-	**(2,607,292)**	(2,939,745)
Amortisation of intangible assets (Note 12)	**19,549**	34,679	**-**	-	**19,549**	34,679
Impairment of intangible assets (Note 12)	**49,054**	42,840	**-**	-	**49,054**	42,840
Impairment of loan to subsidiary	**126,557**	-	**-**	-	**126,557**	-
Depreciation of property, plant and equipment (Note 13)	**338,284**	320,035	**-**	-	**338,284**	320,035
Auditor's fees	**68,488**	52,828	**8,032**	8,032	**76,520**	60,860
Other expenses	**743,620**	777,488	**485,671**	226,862	**1,229,291**	1,004,350
Total operating and administrative expenses	**2,743,320**	2,206,102	**6,267,205**	3,923,206	**9,010,525**	6,129,308
Allocated to:						
Technical account	**2,598,791**	2,060,228	**6,248,834**	3,915,174	**8,847,625**	5,975,402
Non-technical account	**144,529**	145,874	**18,371**	8,032	**162,900**	153,906

7. Expenses by nature - continued

Operating and administrative expenses are attributable to the cellular operations as follows:

	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Commissions payable	**4,913,860**	2,826,258	**869,272**	857,448	**-**	-	**-**
Change in deferred acquisition costs	**(13,890)**	(9,144)	**4,260**	13,750	**-**	-	**-**
Other expenses	**152,618**	100,181	**114,685**	89,563	**174,519**	45,150	**51,881**
	5,052,588	2,917,295	**988,217**	960,761	**174,519**	45,150	**51,881**

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2011 and 2010 relate to the following:

	2011	2010
	€	€
Annual statutory audit	**40,245**	36,050
Other assurance services	**8,400**	8,400
Tax advisory and consultancy services	**24,195**	9,810
Other non-audit services	**3,680**	6,600
	76,520	60,860

8. Employee benefit expense

	2011	2010
	€	€
Salaries (including directors' salaries)	**2,812,091**	2,579,554
Social security costs	**159,857**	150,995
	2,971,948	2,730,549
Inter-company payroll charge	**(209,230)**	(172,508)
	2,762,718	2,558,041

The average number of persons employed during the year was:

	2011	2010
Directors	**10**	11
Managerial	**12**	12
Managerial - part time	**3**	2
Clerical	**70**	74
Clerical - reduced hours	**20**	
Clerical - part time	**3**	19
	118	118

9. Tax expense

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Current tax expense	**961,951**	1,031,557	**806,519**	673,529	**1,768,470**	1,705,086
Deferred tax (credit)/charge (Note 17)	**(159,363)**	6,319	**-**	-	**(159,363)**	6,319
Under/(over) provision in previous years	**3,606**	(14,166)	**-**	-	**3,606**	(14,166)
	806,194	1,023,710	**806,519**	673,529	**1,612,713**	1,697,239

9. Tax expense - continued

Income tax expense is attributable to the cellular operations as follows:

	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Current tax expense	**460,226**	510,411	**149,638**	161,288	**6,391**	1,830	**190,264**

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

	2011	2010
	€	€
Profit before tax	**4,445,556**	4,806,512
Tax on profit at 35%	**1,555,945**	1,682,279
Tax effect of:		
Differences due to the application of Flat Rate Foreign Tax Credit	**(40,020)**	(36,739)
Income subject to reduced rates of tax	**(2,103)**	(4,575)
Expenses not deductible for tax purposes	**115,684**	53,577
Under/(over) provision in previous year	**3,606**	(14,166)
Other movements	**(20,399)**	16,863
Tax charge in the accounts	**1,612,713**	1,697,239

10. Directors' emoluments

	2011	2010
	€	€
Directors' fees	**104,929**	106,924
Salaries and other emoluments	**293,456**	237,190
	398,385	344,114
Recharged to group undertakings	**-**	(1,171)
	398,385	342,943

During the year, benefits in kind valued at €15,392 (2010: €16,545) were provided to the directors.

11. Dividends declared

	2011	2010
	€	€
To the ordinary shareholders:		
Net	**728,200**	1,415,625
Dividends per ordinary share	**0.24**	0.47
To the preference shareholders:		
Net	**6,988**	6,988
Dividends per preference share	**4.66**	4.66
To the cell shareholders:		
Cell 1	**-**	333,118
Cell 2	**276,745**	121,820
Net	**276,745**	454,938
Dividends per preference share		
Cell 1	**-**	2.78
Cell 2	**1.79**	0.79
Total dividends	**1,011,933**	1,877,551

At the forthcoming Annual General Meeting a net dividend in respect of 2011 amounting to €535,000 is to be proposed. On 16 January 2012, the Company distributed a net dividend amounting to €999,000 to Cell 1 shareholders.

These financial statements do not recognise this dividend payable, which will be accounted for in shareholders' equity as an apportionment of retained earnings in the year ending 31 December 2012.

12. Intangible assets

	Customer relationships €	Computer software €	Total €
At 1 January 2010			
Cost	194,735	419,168	613,903
Accumulated amortisation	-	(349,494)	(349,494)
Net book amount	194,735	69,674	264,409
Year ended 31 December 2010			
Opening net book amount	194,735	69,674	264,409
Additions	-	1,859	1,859
Impairment charge	(42,840)	-	(42,840)
Amortisation charge	-	(34,679)	(34,679)
Closing net book amount	151,895	36,854	188,749
At 31 December 2010			
Cost	194,735	421,027	615,762
Accumulated amortisation and impairment	(42,840)	(384,173)	(427,013)
Net book amount	151,895	36,854	188,749
Year ended 31 December 2011			
Opening net book amount	151,895	36,854	188,749
Additions	-	4,753	4,753
Impairment charge	(49,054)	-	(49,054)
Amortisation charge	-	(19,549)	(19,549)
Closing net book amount	102,841	22,058	124,899
At 31 December 2011			
Cost	194,735	425,780	620,515
Accumulated amortisation and impairment	(91,894)	(403,722)	(495,616)
Net book amount	**102,841**	**22,058**	**124,899**

The customer relationships intangible asset arose during 2007 as a result of the Company entering into an agreement to acquire insurance business at a cost of €256,231. In the opinion of the directors, customer relationships have an indefinite useful life.

During 2008, a revision in the cost of the acquired insurance business resulted in a reduction of €61,496.

The carrying amount of customer relationships has been reduced to its recoverable amount through the recognition of an impairment loss of €49,054 (2010: €42,840). This loss has been included in 'net operating expenses' in the profit and loss account.

13. Property, plant and equipment

	Land and buildings €	Improvements to leasehold premises €	Furniture, equipment and motor vehicles €	Total €
At 1 January 2010				
Cost or revaluation	2,657,415	688,862	2,587,524	5,933,801
Accumulated depreciation	(57,936)	(308,998)	(1,755,952)	(2,122,886)
Net book amount	2,599,479	379,864	831,572	3,810,915
Year ended 31 December 2010				
Opening net book amount	2,599,479	379,864	831,572	3,810,915
Additions	-	52,884	174,378	227,262
Disposals	-	-	(14,186)	(14,186)
Depreciation charge	(20,270)	(69,354)	(230,411)	(320,035)
Depreciation released on disposal	-	-	14,186	14,186
Closing net book amount	2,579,209	363,394	775,539	3,718,142

13. Property, plant and equipment - continued

	Land and buildings €	Improvements to leasehold premises €	Furniture, equipment and motor vehicles €	Total €
At 31 December 2010				
Cost or revaluation	2,657,415	741,746	2,747,716	6,146,877
Accumulated depreciation	(78,206)	(378,352)	(1,972,177)	(2,428,735)
Net book amount	2,579,209	363,394	775,539	3,718,142
Year ended 31 December 2011				
Opening net book amount	2,579,209	363,394	775,539	3,718,142
Additions	20,000	42,228	147,933	210,161
Revaluation increase	410,607	-	-	410,607
Disposals	-	-	(19,441)	(19,441)
Depreciation charge	(30,980)	(67,034)	(240,270)	(338,284)
Depreciation released on disposal	-	-	19,441	19,441
Closing net book amount	2,978,836	338,588	683,202	4,000,626
At 31 December 2011				
Cost or revaluation	3,088,022	783,974	2,876,208	6,748,204
Accumulated depreciation	(109,186)	(445,386)	(2,193,006)	(2,747,578)
Net book amount	**2,978,836**	**338,588**	**683,202**	**4,000,626**

In line with Company policy, the land and buildings are valued on a regular basis. On 28 February 2011, land and buildings, including investment property, were valued by an independent professionally qualified valuer. The valuation was based on a free and open market valuation and consideration was given to the specific location of the property, the facilities included therein, the size of the site and the availability of similar properties in the area. The directors reviewed this valuation and the basis on which it was drawn up.

The carrying value of land and buildings has been adjusted to the valuations and the net resultant adjustment comprised an increase in the carrying values amounting of €410,607. The revaluation increase has been recognised in other comprehensive income as an increase in the revaluation reserve within shareholders' equity.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2011 €	2010 €
Cost	**2,434,340**	2,414,340
Accumulated depreciation	**(146,464)**	(120,321)
Net book amount	**2,287,876**	2,294,019

14. Land and buildings – investment property

	2011 €	2010 €
Year ended 31 December		
At beginning of year	**197,997**	197,997
Fair value increase	**12,003**	-
At end of year	**210,000**	197,997
At 31 December		
Cost	**106,569**	106,569
Accumulated fair value gains	**103,431**	91,428
Net book amount	**210,000**	197,997

14. Land and buildings – investment property - continued

The fair value of the investment property was established in 2011 based on an independent professional valuation as described in Note 13.

The carrying value of investment property has been adjusted to the valuations and the net resultant adjustment comprised an increase in the carrying value amounting of €12,003. The fair value increase has been recognised in profit or loss.

If the investment property was stated on the historical cost basis, the amounts would be as follows:

	2011	2010
	€	€
Cost	**106,569**	106,569
Accumulated depreciation	**(8,526)**	(7,460)
Net book amount	**98,043**	99,109

15. Investment in subsidiary

	2011	2010
	€	€
Year ended 31 December		
At beginning of year	**2,562**	2,562
Impairment charge	**(2,562)**	-
At end of year	**-**	2,562

The subsidiary at 31 December 2011 and 2010 is shown below:

			Percentage of shares held	
Name of subsidiary	**Registered office**	**Class of shares**	**2011**	2010
Stuart Property Development Limited	48-50, Ta' Xbiex Seafront, Ta' Xbiex	Ordinary 'A' shares Ordinary 'B' shares	**45.8%**	45.8%

The investment of Atlas Insurance PCC Limited in Stuart Property Development Limited represents 45.8% of the shares issued, and 50% of the voting shares. In terms of the Memorandum of Association, Atlas Insurance PCC Limited is entitled to appoint two directors out of a board of four directors.

As an ordinary 'A' shareholder, Atlas Insurance PCC Limited is entitled to elect the Chairman of the Board. The Chairman has a casting vote both in the case of a tie during board meetings, as well as in case of a tie during general meetings.

Accordingly, such investment is being considered as a subsidiary since Atlas Insurance PCC Limited is in a position to govern the financial and operating policies of the company.

During 2011, an impairment of €2,562 was recognised in respect of Stuart Property Development Limited.

16. Investments

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

	2011	2010
	€	€
Fair value through profit or loss	**12,468,008**	11,649,492
Loans and receivables	**8,441,443**	7,685,936
	20,909,451	19,335,428

16. Investments - continued

(a) Investments at fair value through profit or loss

	Core		Cells	Total	
	2011	2010	**2011**	**2011**	2010
	€	€	**€**	**€**	€
At 31 December					
Equity securities and units in unit trusts	**2,762,787**	3,170,735	**119,789**	**2,882,576**	3,170,735
Debt securities					
– listed fixed interest rate	**9,385,580**	8,403,967	**-**	**9,385,580**	8,403,967
Treasury bills	**199,852**	74,790	**-**	**199,852**	74,790
	9,585,432	8,478,757	**-**	**9,585,432**	8,478,757
Total investments at fair value through profit or loss	**12,348,219**	11,649,492	**119,789**	**12,468,008**	11,649,492

Equity securities and units in unit trusts are classified as non-current.

Maturity of fixed income debt securities and treasury bills:

	2011	2010
	€	€
Within 1 year	**630,983**	475,685
Between 1 and 2 years	**756,323**	354,528
Between 2 and 5 years	**4,505,542**	4,746,153
Over 5 years	**3,692,584**	2,902,391
	9,585,432	8,478,757
Weighted average effective interest rate	**4.56%**	4.81%

The movements for the year are summarised as follows:

	Core		Cells	Total	
	2011	2010	**2011**	**2011**	2010
	€	€	**€**	**€**	€
Year ended 31 December					
At beginning of year	**11,649,492**	12,108,814	**-**	**11,649,492**	12,108,814
Additions	**7,459,752**	7,586,730	**119,789**	**7,579,541**	7,586,730
Disposals	**(6,098,642)**	(8,528,451)	**-**	**(6,098,642)**	(8,528,451)
Net fair value (losses) /gains (Note 6)	**(662,383)**	482,399	**-**	**(662,383)**	482,399
At end of year	**12,348,219**	11,649,492	**119,789**	**12,468,008**	11,649,492
As at 31 December					
Cost	**12,711,892**	11,539,278	**119,789**	**12,831,681**	11,539,278
Accumulated net fair value (losses)/gains	**(363,673)**	110,214	**-**	**(363,673)**	110,214
	12,348,219	11,649,492	**119,789**	**12,468,008**	11,649,492

(b) Loans and receivables

	2011	2010
	€	€
At 31 December		
Deposits with banks or financial institutions (i)	**4,737,001**	4,159,268
Discounted securities (ii)	**1,725,249**	1,664,505
Loan to subsidiary company (iii)	**1,979,193**	1,862,163
	8,441,443	7,685,936

16. Investments - continued

(b) Loans and receivables - continued

(i) Deposits with banks or financial institutions

Deposits with banks or financial institutions are made up as follows:

	2011 €	2010 €
Core	**3,702,955**	3,157,695
Cells		
Cell 1	**420,652**	407,233
Cell 2	**613,394**	594,340
	1,034,046	1,001,573
Total deposits with banks or financial institutions	**4,737,001**	4,159,268

Maturity of deposits with banks or financial institutions:

	Core		Cells		Total	
	2011 €	2010 €	**2011 €**	2010 €	**2011 €**	2010 €
Within 3 months	**1,605,327**	2,939,929	**1,034,046**	1,001,573	**2,639,373**	3,941,502
Within 1 year but exceeding 3 months	**1,997,628**	117,766	**-**	-	**1,997,628**	117,766
Between1 and 2 years	**100,000**	100,000	**-**	-	**100,000**	100,000
	3,702,955	3,157,695	**1,034,046**	1,001,573	**4,737,001**	4,159,268

The deposits with banks or financial institutions earn interest as follows:

	2011 €	2010 €
At fixed rates	**4,737,001**	4,159,268
Weighted average effective interest rate	**1.95%**	1.95%

(ii) Discounted securities

These consist of discounted securities issued by the parent and related parties. No guarantees have been given or received in respect of these notes and the amounts outstanding will be settled in cash. Details for their redemption dates and values and effective interest rates are as follows:

As at 31 December 2011

	Original note value	Redemption date	Redemption value	Effective interest rate %	Value in balance sheet €
Redemption period calculated from the balance sheet date:					
Within one year					
Core					
- Issued to parent	€495,000	21/12/2012	€504,900	2.00	495,000
Cell 1					
- Issued to cell owners	GBP200,000	20/01/2012	GBP205,199	2.51	245,329
- Issued to cell owners	GBP570,000	31/12/2011	GBP572,447	1.96	685,319
Cell 2					
- Issued to cell owners	GBP250,000	18/06/2012	GBP252,993	2.35	299,601
					1,725,249

16. Investments - continued

(ii) Discounted securities - continued

As at 31 December 2010

	Original note value	Redemption date	Redemption value	Effective interest rate %	Value in balance sheet €
Redemption period calculated from the balance sheet date:					
Within one year					
Core					
- Issued to parent	€660,000	21/12/2011	€673,200	2.00	660,000
Cell 1					
- Issued to cell owners	GBP306,000	19/01/2011	GBP311,059	2.12	359,087
- Issued to cell owners	GBP300,000	19/01/2011	GBP303,220	2.02	352,046
- Issued to cell owners	GBP250,000	19/01/2011	GBP251,227	1.74	293,372
					1,664,505

As at 1 January 2012, the Company entered into an agreement with cell owners of Cell 1 to extend the redemption date of GBP 500,880 to 31 March 2012.

(iii) Loan to subsidiary company

The loan to subsidiary company is classified as non-current. Included in the loan is an amount of €1,725,524 (2010: €1,608,494) which bears interest at 6% p.a. (2010: 6% p.a.). During the year, an impairment loss of €123,995 was recognised in respect of the loan to the subsidiary company.

17. Deferred taxation

	2011 €	2010 €
Year ended 31 December		
At beginning of year	**(24,978)**	(21,091)
(Charged)/credited to other comprehensive income (Note 22)	**(46,317)**	2,432
Credited/(charged) to profit and loss account (Note 9)	**159,363**	(6,319)
At end of year	**88,068**	(24,978)

The total deferred tax liability is not expected to fall due within 12 months.

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2010: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes are calculated using a principal tax rate of 12% of the carrying amount (2010: 12%).

The balance at 31 December represents temporary differences on:

	2011 €	2010 €
Land and buildings – tangible assets	**(66,102)**	(19,785)
Land and buildings – investment property	**(25,200)**	(23,760)
Financial investments at fair value through profit or loss	**160,299**	(4,618)
Fixed assets	**(5,387)**	(1,273)
Provisions	**24,458**	24,458
	88,068	(24,978)

Deferred income taxes and liabilities are offset when there is a legally enforceable right to set-off under the Malta Income Tax regime.

18. Deferred acquisition costs

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Year ended 31 December						
At beginning of year	**722,665**	707,598	**48,642**	50,992	**771,307**	758,590
Net amount (charged)/ credited to profit and loss account (Note 5)	**(67,955)**	15,067	**9,630**	(4,606)	**(58,325)**	10,461
Exchange differences resulting from translation to presentation currency	**-**	-	**3,242**	2,256	**3,242**	2,256
At end of year	**654,710**	722,665	**61,514**	48,642	**716,224**	771,307
Current portion	**654,710**	722,665	**61,514**	48,642	**716,224**	771,307

Deferred acquisition costs are attributable to the cellular operations as follows:

	Cell 1		Cell 2	
	2011	2010	**2011**	2010
	€	€	**€**	€
Year ended 31 December				
At beginning of year	**25,875**	15,996	**22,767**	34,996
Net amount credited/ (charged) to profit and loss account (Note 5)	**13,890**	9,144	**(4,260)**	(13,750)
Exchange differences resulting from translation to presentation currency	**1,567**	735	**1,675**	1,521
At end of year	**41,332**	25,875	**20,182**	22,767

19. Stock – property for development

	2011	2010
	€	€
Year ended 31 December		
At beginning of year	**2,114,205**	1,741,524
Additions	**458,809**	372,681
At end of year	**2,573,014**	2,114,205

20. Debtors and prepayments and accrued income

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Debtors arising from direct insurance operations						
Due from policyholders	**1,327,952**	1,419,434	**-**	-	**1,327,952**	1,419,434
Due from agents, brokers and intermediaries	**1,860,897**	1,714,936	**-**	-	**1,860,897**	1,714,936
	3,188,849	3,134,370	**-**	-	**3,188,849**	3,134,370
Debtors arising out of reinsurance operations	**-**	-	**245,940**	-	**245,940**	-

20. Debtors and prepayments and accrued income - continued

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Other debtors						
Receivable from parent	**61,486**	46,771	**-**	-	**61,486**	46,771
Receivable from subsidiaries	**382,332**	252,022	**-**	-	**382,332**	252,022
Receivable from related parties	**-**	-	**1,643,951**	1,388,619	**1,643,951**	1,388,619
Amounts owed by directors/ shareholders	**13,531**	22,480	**-**	-	**13,531**	22,480
Other debtors	**19,746**	25,802	**409,283**	306,106	**429,029**	331,908
	477,095	347,075	**2,053,234**	1,694,725	**2,530,329**	2,041,800
Prepayments and accrued income						
Prepayments	**44,146**	27,228	**63,214**	35,776	**107,360**	63,004
Accrued interest	**208,217**	177,887	**-**	-	**208,217**	177,887
	252,363	205,115	**63,214**	35,776	**315,577**	240,891
Total debtors and prepayments and accrued income	**3,918,307**	3,686,560	**2,362,388**	1,730,501	**6,280,695**	5,417,061
Current portion	**3,918,307**	3,686,560	**2,362,388**	1,730,501	**6,280,695**	5,417,061

Debtors and prepayments and accrued income are attributable to the cellular operations as follows:

	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Debtors arising out of reinsurance operations	**-**	-	**-**	-	**-**	-	**245,940**
Other debtors							
Receivables from related parties	**717,432**	443,721	**38,411**	20,850	**888,108**	924,048	**-**
Other debtors	**-**	-	**-**	-	**409,283**	306,106	**-**
	717,432	443,721	**38,411**	20,850	**1,297,391**	1,230,154	**-**
Prepayments and accrued income							
Prepayments	**12,870**	-	**-**	-	**34,846**	35,776	**15,498**
Total debtors and prepayments and accrued Income	**730,302**	443,721	**38,411**	20,850	**1,332,237**	1,265,930	**261,438**

Core debtors are presented net of an allowance for impairment of €69,881 (2010: €69,881). As at 31 December 2011, total debtors amounting to €2,678,199 (2010: €2,553,369) were fully performing, whereas debtors amounting to €987,745 (2010: €928,076) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of significant default. The ageing analysis of amounts past due but not impaired is as follows:

	2011	2010
	€	€
Less than 6 months but more than 3 months	**555,268**	567,479
Less than 12 months but more than 6 months	**226,917**	236,287
More than 12 months	**205,560**	124,310
	987,745	928,076

Receivables from group undertakings and related parties are unsecured, interest free and repayable on demand.

21. Share capital

	2011 €	2010 €
Authorised share capital:		
4,997,000 'A' ordinary voting shares of €2.50 each	**12,492,500**	12,492,500
3,000 'B' cumulative preference shares of €2.50 each	**7,500**	7,500
3,000,000 cell shares of €2.50 each	**7,500,000**	7,500,000
	20,000,000	20,000,000
Core		
Issued and fully paid up share capital:		
2,997,000 'A' ordinary voting shares of €2.50 each	**7,492,500**	7,492,500
3,000 'B' cumulative preference shares of €2.50 each	**7,500**	7,500
	7,500,000	7,500,000
Cells		
Cell 1		
Issued and 50% paid up share capital:		
120,000 cell shares of €2.50 each	**150,000**	150,000
Cell 2		
Issued and 80% paid up share capital:		
155,000 cell shares of €2.50 each	**310,000**	310,000
Cell 4		
Issued and 60% paid up share capital:		
455,980 cell shares of €2.50 each	**683,970**	683,970
Cell 5		
Issued and 100% paid up share capital:		
110,000 cell shares of €2.50 each	**275,000**	-
	1,418,970	1,143,970
Total share capital	**8,918,970**	8,643,970

Cell shares are issued as redeemable preference shares.

In terms of a resolution dated 12 October 2010, the shareholders resolved to increase the issued share capital of the Company by the issue of 455,980 cell shares of €2.50 each 60% paid up in relation to Cell 4.

In terms of a resolution dated 4 July 2011, the shareholders resolved to increase the issued share capital of the Company by the issue of 110,000 cell shares of €2.50 each fully paid up in relation to Cell 5.

In terms of a resolution dated 16 January 2012, the shareholders resolved to settle the sum of €150,000 in consideration for the 50% balance of the 120,000 cell shares which were 50% paid up and to increase the issued share capital of the Company by the issue of 339,600 cell shares of €2.50 each, fully paid up in relation to Cell 1. In terms of a resolution dated 15 March 2012, the shareholders resolved to increase the issued share capital of the Company by 48,000 cell shares of €2.50 each, 60% paid up in relation to Cell 4. These transactions will be accounted for in shareholder's equity as increases in share capital in the year ending 31 December 2012.

22. Reserves

	Core		**Cells**		**Total**	
	2011 €	2010 €	**2011 €**	2010 €	**2011 €**	2010 €
Revaluation reserve	**648,377**	284,087	**-**	-	**648,377**	284,087
Functional currency exchange reserve	**-**	-	**176,366**	30,584	**176,366**	30,584
General reserve	**201,542**	201,542	**-**	-	**201,542**	201,542
Investment property reserve	**67,668**	67,668	**-**	-	**67,668**	67,668
Total other reserves	**917,587**	553,297	**176,366**	30,584	**1,093,953**	583,881

22. Reserves - continued

Revaluation reserve

	Core	
	2011	2010
	€	€
Year ended 31 December		
At beginning of year	**284,087**	281,655
Revaluation increase on land and buildings (Note 13)	**410,607**	-
Movement in deferred tax relating to property, plant and equipment (Note 17)	**(46,317)**	2,432
At end of year	**648,377**	284,087

Functional currency exchange reserve

	Cells	
	2011	2010
	€	€
Year ended 31 December		
At beginning of year	**30,584**	(14,878)
Exchange differences resulting from translation to presentation currency	**145,782**	45,462
At end of year	**176,366**	30,584

The functional currency exchange reserve is attributable to the cellular operations as follows:

	Cell 1		**Cell 2**		**Cell 4**		**Cell 5**
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Functional currency exchange reserve	(73,192)	4,532	(38,514)	20,348	(27,581)	5,704	(37,079)

Investment property reserve

	Core	
	2011	2010
	€	€
Year ended 31 December		
At beginning and at end of year	**67,668**	67,668

Revaluation reserve represents the revaluation surplus on freehold and other property, net of deferred tax.

Functional currency exchange reserve represents movements in the exchange to the reporting currency of those assets and liabilities held by cellular operations in the currency it operates in, the functional currency.

Investment property reserve represents the difference between the original cost and the fair value of investment property, net of deferred tax.

The directors consider other reserves to be non-distributable.

Profit and loss account

	2011	2010
	€	€
Core	**7,249,349**	6,649,510
Cells		
Cell 1	**1,854,150**	999,444
Cell 2	**308,640**	307,488
Cell 4	**15,267**	3,399
Cell 5	**353,345**	-
	2,531,402	1,310,331
Total profit and loss account	**9,780,751**	7,959,841

The profit and loss account balance represents the amount available for dividend distribution to the non-preference shareholders, except any amount that is not distributable in terms of the solvency capital requirements under the Insurance Business (Assets and Liabilities), Regulations 2007 and any amount that is not distributable under the Maltese Companies Act, 1995, as it represents unrealised profits.

23. Technical provisions and reinsurance assets

Gross technical provisions	Core 2011 €	Core 2010 €	Cells 2011 €	Cells 2010 €	Total 2011 €	Total 2010 €
Claims reported and loss adjustment expenses	**10,473,776**	11,280,110	**793,346**	67,706	**11,267,122**	11,347,816
Claims incurred but not reported	**1,222,937**	1,478,303	**917,809**	262,841	**2,140,746**	1,741,144
Unearned premiums	**7,533,177**	7,404,263	**1,426,103**	1,373,478	**8,959,280**	8,777,741
Total insurance liabilities, gross	**19,229,890**	20,162,676	**3,137,258**	1,704,025	**22,367,148**	21,866,701
Reinsurers' share of technical provisions						
Claims reported and loss adjustment expenses	**2,371,957**	3,057,689	**-**	-	**2,371,957**	3,057,689
Claims incurred but not reported	**188,044**	338,529	**-**	-	**188,044**	338,529
Unearned premiums	**2,810,072**	2,907,290	**187,591**	178,318	**2,997,663**	3,085,608
Total reinsurers' share of insurance liabilities	**5,370,073**	6,303,508	**187,591**	178,318	**5,557,664**	6,481,826
Net technical provisions						
Claims reported and loss adjustment expenses	**8,101,819**	8,222,421	**793,346**	67,706	**8,895,165**	8,290,127
Claims incurred but not reported	**1,034,893**	1,139,774	**917,809**	262,841	**1,952,702**	1,402,615
Unearned premiums	**4,723,105**	4,496,973	**1,238,512**	1,195,160	**5,961,617**	5,692,133
	13,859,817	13,859,168	**2,949,667**	1,525,707	**16,809,484**	15,384,875
Current portion	**13,859,817**	13,859,168	**2,949,667**	1,525,707	**16,809,484**	15,384,875

Technical provisions for the cellular operations are attributable as follows:

Gross technical provisions	Cell 1 2011 €	Cell 1 2010 €	Cell 2 2011 €	Cell 2 2010 €	Cell 4 2011 €	Cell 4 2010 €	Cell 5 2011 €
Claims reported and loss adjustment expenses	**-**	-	**35,802**	31,848	**722,262**	35,858	**35,282**
Claims incurred but not reported	**17,958**	17,427	**12,321**	14,015	**737,073**	231,399	**150,457**
Unearned premiums	**82,664**	51,750	**32,291**	36,426	**1,311,148**	1,285,302	**-**
	100,622	69,177	**80,414**	82,289	**2,770,483**	1,552,559	**185,739**

Net technical provisions	Cell 1 2011 €	Cell 1 2010 €	Cell 2 2011 €	Cell 2 2010 €	Cell 4 2011 €	Cell 4 2010 €	Cell 5 2011 €
Claims reported and loss adjustments	**-**	-	**35,802**	31,848	**722,262**	35,858	**35,282**
Claims incurred but not reported	**17,958**	17,427	**12,321**	14,015	**737,073**	231,399	**150,457**
Unearned premiums	**82,664**	51,750	**32,291**	36,426	**1,123,557**	1,106,984	**-**
	100,622	69,177	**80,414**	82,289	**2,582,892**	1,374,241	**185,739**

23. Technical provisions and reinsurance assets - continued

The Company recognises liabilities arising from its operations, and specifically identifies those arising from premium written and claims incurred, while also establishing recoverability from reinsurers.

The Company uses various techniques in estimating liabilities arising from claims. A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until several years after the event. In calculating the estimate cost of unpaid claims the Company uses statistical analyses of historical experience in order to identify the IBNR component to be added to its known claims reserves. The basic assumption that the development pattern of the current claims will be consistent with past experience is also complemented with allowance 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.

Unearned premium reserves are formulated on a 365ths time apportionment basis of calculation. This method of calculation proves to be most accurate in identifying arising liabilities at the time of Balance Sheet reporting. These liabilities are reflective of that amount of premium remaining unearned on an individual policy basis, aggregated to determine the Company's total liability at any point in time.

Provision is also made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

The risk and claim profile of the Company do not indicate any conditions or variables that are likely to impact significantly upon the Company's cash flow. During the year there were no significant changes required in the assumptions used to estimate the ultimate cost of claims.

The reasonableness of the estimation processes on claims is monitored using claims' cost progression tables. These are reproduced below:

Estimate of the ultimate Gross claims costs for the Core:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	€	€	€	€	€	€	€	€	€	€	€
At end of reporting year											
- one year later	4,915,262	9,463,748	6,177,817	6,467,477	9,150,864	8,047,207	7,990,595	10,233,170	10,031,590	8,302,389	80,780,119
- two years later	4,910,585	8,941,279	6,138,199	5,683,096	8,769,573	7,611,020	7,164,318	9,374,647	9,005,458		67,598,175
- three years later	4,835,649	8,301,640	5,293,774	5,376,344	8,053,417	7,090,024	6,907,429	8,673,410			54,531,687
- four years later	4,800,804	7,948,181	4,620,124	5,396,822	7,918,791	6,420,626	6,827,888				43,933,236
- five years later	4,734,300	7,734,971	4,588,986	5,379,192	7,751,403	6,395,977					36,584,829
- six years later	4,673,275	7,673,138	4,584,692	5,246,340	7,612,015						29,789,460
- seven years later	4,677,767	7,640,986	4,557,898	5,155,170							22,031,821
- eight years later	4,628,286	7,652,841	4,548,282								16,829,409
- nine years later	4,616,497	7,643,653									12,260,150
- ten years later	4,613,270										4,613,270
Current estimates of :											
Cumulative claims	4,613,270	7,643,653	4,548,282	5,155,170	7,612,015	6,395,977	6,827,888	8,673,410	9,005,458	8,302,389	68,777,512
Cumulative payments to date	(4,340,885)	(7,508,975)	(4,447,441)	(4,951,856)	(7,193,463)	(6,188,131)	(6,070,289)	(7,763,238)	(6,412,689)	(3,965,969)	(58,842,936)
Liability recognised in the balance sheet	272,385	134,678	100,841	203,314	418,552	207,846	757,599	910,172	2,592,769	4,336,420	9,934,576
Reserve in respect of prior years											1,762,137
Total reserve included in the balance sheet											11,696,713

23. Technical provisions and reinsurance assets - continued

Estimate of the ultimate Net claims costs for the Core:

	2006 €	2007 €	2008 €	2009 €	2010 €	2011 €	Total €
At end of reporting year							
- one year later	6,684,758	5,411,727	5,738,975	6,478,050	6,736,170	6,822,148	37,871,828
- two years later	6,277,653	4,983,702	5,244,482	5,806,238	5,993,703		28,305,778
- three years later	5,548,068	4,570,697	5,094,412	5,259,385			20,472,562
- four years later	5,428,170	4,486,886	5,033,480				14,948,536
- five years later	5,272,624	4,483,513					9,756,137
- six years later	5,136,321						5,136,321
Current estimates of :							
Cumulative claims	5,136,321	4,483,513	5,033,480	5,259,385	5,993,703	6,822,148	32,728,550
Cumulative payments to date	(4,718,384)	(4,278,446)	(4,424,610)	(4,651,991)	(4,477,988)	(3,378,419)	(25,929,838)
Liability recognised in the balance sheet	417,937	205,067	608,870	607,394	1,515,715	3,443,729	6,798,712
Reserve in respect of prior years							2,338,000
Total reserve included in the balance sheet							9,136,712

Estimate of the ultimate Gross and Net claims costs for the Cells:

Cell 1	2008 €	2009 €	2010 €	2011 €	Total €
At end of reporting year					
- one year later	6,607	91,226	128,320	278,624	504,777
- two years later	10,596	93,549	127,054		231,199
- three years later	10,596	93,549			104,145
- four years later	10,596				10,596
Current estimates of:					
Cumulative claims	10,596	93,549	127,054	278,624	509,823
Cumulative payments to date	(10,352)	(93,756)	(127,337)	(262,729)	(494,174)
Other movements	(244)	207	283	2,063	2,309
Liability recognised in the balance sheet	-	-	-	17,958	17,958

Cell 2	2008 €	2009 €	2010 €	2011 €	Total €
At end of reporting year					
- one year later		345,312	348,692	300,129	994,133
- two years later		329,067	379,015		708,082
- three years later		329,067			329,067
Current estimates of:					
Cumulative claims		329,067	379,015	300,129	1,008,211
Cumulative payments to date		(328,199)	(381,805)	(262,766)	(972,770)
Other movements		(868)	2,790	10,760	12,682
Liability recognised in the balance sheet		-	-	48,123	48,123

23. Technical provisions and reinsurance assets - continued

Estimate of the ultimate Gross and Net claims costs for the Cells:

Cell 4	2010 €	2011 €	Total €
At end of reporting year			
- one year later	273,948	1,169,313	1,443,261
- two years later	370,225		370,225
Current estimates of:			
Cumulative claims	370,225	1,169,313	1,539,538
Cumulative payments to date	(46,296)	(114,579)	(160,875)
Other movements	5,298	75,374	80,672
Liability recognised in the balance sheet	329,227	1,130,108	1,459,335

(a) Claims and loss adjustment expenses

Claims and loss adjustment expenses - Core

	Year ended 31 December 2011		
	Gross €	Reinsurance €	Net €
Notified claims still outstanding	11,280,110	(3,057,689)	8,222,421
Incurred but not reported	1,478,303	(338,529)	1,139,774
Total at beginning of year	12,758,413	(3,396,218)	9,362,195
Increase in liabilities:			
- arising from current year claims	8,302,389	(1,480,241)	6,822,148
- arising from prior year claims	(2,323,729)	504,273	(1,819,456)
Claims settled during the year	(7,040,360)	1,812,185	(5,228,175)
Total at the end of year	**11,696,713**	**(2,560,001)**	**9,136,712**
Notified claims still outstanding	10,473,776	(2,371,957)	8,101,819
Incurred but not reported	1,222,937	(188,044)	1,034,893
Total at the end of year	**11,696,713**	**(2,560,001)**	**9,136,712**

	Year ended 31 December 2010		
	Gross €	Reinsurance €	Net €
Notified claims still outstanding	11,223,325	(2,966,122)	8,257,203
Incurred but not reported	1,516,323	(344,444)	1,171,879
Total at beginning of year	12,739,648	(3,310,566)	9,429,082
Increase in liabilities:			
- arising from current year claims	10,031,590	(3,295,420)	6,736,170
- arising from prior year claims	(2,252,278)	888,239	(1,364,039)
Claims settled during the year	(7,760,547)	2,321,529	(5,439,018)
Total at the end of year	**12,758,413**	**(3,396,218)**	**9,362,195**
Notified claims still outstanding	11,280,110	(3,057,689)	8,222,421
Incurred but not reported	1,478,303	(338,529)	1,139,774
Total at the end of year	**12,758,413**	**(3,396,218)**	**9,362,195**

23. Technical provisions and reinsurance assets - continued

(a) Claims and loss adjustment expenses - continued

Claims and loss adjustment expenses - Cells
Gross and net

	Year ended 31 December 2011				
	Cell 1	Cell 2	Cell 4	Cell 5	Total
	€	€	€	€	€
Notified claims still outstanding	-	31,848	35,858	-	67,706
Incurred but not reported	17,427	14,015	231,399	-	262,841
Total at beginning of year	17,427	45,863	267,257	-	330,547
Increase in liabilities:					
-arising from current year claims	278,624	300,129	1,169,313	348,961	2,097,027
-arising from prior year claims	(1,266)	30,324	96,276	-	125,334
Claims settled during the year	(278,881)	(340,040)	(155,091)	(177,552)	(951,564)
Other movements	2,054	11,847	81,580	14,330	109,811
Total at the end of year	**17,958**	**48,123**	**1,459,335**	**185,739**	**1,711,155**
Notified claims still outstanding	-	35,802	722,262	35,282	793,346
Incurred but not reported	17,958	12,321	737,073	150,457	917,809
Total at the end of year	**17,958**	**48,123**	**1,459,335**	**185,739**	**1,711,155**

	Year ended 31 December 2010			
	Cell 1	Cell 2	Cell 4	Total
	€	€	€	€
Notified claims still outstanding	-	30,457	-	30,457
Incurred but not reported	7,319	48,100	-	55,419
Total at beginning of year	7,319	78,557	-	85,876
Increase in liabilities:	130,642	332,447	273,948	737,037
Claims settled during the year	(120,832)	(366,765)	(5,784)	(493,381)
Other movements	298	1,624	(907)	1,015
Total at the end of year	**17,427**	**45,863**	**267,257**	**330,547**
Notified claims still outstanding	-	31,848	35,858	67,706
Incurred but not reported	17,427	14,015	231,399	262,841
Total at the end of year	**17,427**	**45,863**	**267,257**	**330,547**

(b) Unearned premiums - Core

	Year ended 31 December 2011		
	Gross	Reinsurance	Net
	€	€	€
At beginning of year	7,404,263	(2,907,290)	4,496,973
Net charge to profit and loss	128,914	97,218	226,132
At the end of year	**7,533,177**	**(2,810,072)**	**4,723,105**

	Year ended 31 December 2010		
	Gross	Reinsurance	Net
	€	€	€
At beginning of year	7,384,226	(2,943,552)	4,440,674
Net charge to profit and loss	20,037	36,262	56,299
At the end of year	**7,404,263**	**(2,907,290)**	**4,496,973**

23. Technical provisions and reinsurance assets - continued

(b) Unearned premiums - Cells

Gross unearned premiums - Cells

		Year ended 31 December 2011		
	Cell 1	Cell 2	Cell 4	Total
	€	€	€	€
At beginning of year	51,750	36,426	1,285,302	1,373,478
Net charge/(credit) to profit and loss	27,779	(6,814)	(30,216)	(9,251)
Other movements	3,135	2,679	56,062	61,876
At the end of year	**82,664**	**32,291**	**1,311,148**	**1,426,103**

		Year ended 31 December 2010		
	Cell 1	Cell 2	Cell 4	Total
	€	€	€	€
At beginning of year	31,993	69,991	-	101,984
Net charge/(credit) to profit and loss	18,288	(35,736)	1,270,392	1,252,944
Other movements	1,469	2,171	14,910	18,550
At the end of year	**51,750**	**36,426**	**1,285,302**	**1,373,478**

Net unearned premiums - Cells

		Year ended 31 December 2011		
	Cell 1	Cell 2	Cell 4	Total
	€	€	€	€
At beginning of year	51,750	36,426	1,106,984	1,195,160
Net charge/(credit) to profit and loss	27,779	(6,814)	(31,376)	(10,411)
Other movements	3,135	2,679	47,949	53,763
At the end of year	**82,664**	**32,291**	**1,123,557**	**1,238,512**

		Year ended 31 December 2010		
	Cell 1	Cell 2	Cell 4	Total
	€	€	€	€
At beginning of year	31,993	69,991	-	101,984
Net charge/(credit) to profit and loss	18,288	(35,736)	1,093,635	1,076,187
Other movements	1,469	2,171	13,349	16,989
At the end of year	**51,750**	**36,426**	**1,106,984**	**1,195,160**

24. Borrowings

	2011	2010
	€	€
Bank balance overdrawn (Note 27)	**25,884**	1,767

The Company has the following undrawn borrowing facilities:

	2011	2010
	€	€
Floating rate and expiring within one year	**698,820**	711,640

25. Creditors and accruals and deferred income

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Creditors arising out of direct insurance operations	**678,363**	990,912	**356,345**	245,035	**1,034,708**	1,235,947
Creditors arising out of reinsurance operations	**328,237**	784,508	**19,818**	19,232	**348,055**	803,740
Other creditors						
Payable to related parties	**-**	-	**725,404**	825,128	**725,404**	825,128
Other creditors	**129,362**	137,077	**-**	-	**129,362**	137,077
	129,362	137,077	**725,404**	825,128	**854,766**	962,205
Accruals and deferred income	**1,492,327**	1,343,600	**196,965**	90,560	**1,689,292**	1,434,160
Total creditors and accruals and deferred income	**2,628,289**	3,256,097	**1,298,532**	1,179,955	**3,926,821**	4,436,052
Current portion	**2,628,289**	3,256,097	**1,298,532**	1,179,955	**3,926,821**	4,436,052

Creditors and accruals and deferred income are attributable to the cellular operations as follows:

	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Creditors arising out of direct insurance operations	**172,703**	93,817	**78,462**	68,591	**105,180**	82,627	**-**
Creditors arising out of Reinsurance operations	**-**	-	**-**	-	**19,818**	19,232	**-**
Other creditors							
Payable to related parties	**725,404**	808,212	**-**	11,141	**-**	5,775	**-**
Accruals and deferred income	**105,919**	55,457	**37,370**	28,645	**15,850**	6,458	**37,826**
Total creditors and accruals and deferred income	**1,004,026**	957,486	**115,832**	108,377	**140,848**	114,092	**37,826**

26. Cash generated from operations

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Insurance premiums received	**17,788,926**	17,343,292	**11,015,978**	7,845,386	**28,804,904**	25,188,678
Reinsurance premiums paid	**(7,715,872)**	(7,161,051)	**(237,658)**	(208,687)	**(7,953,530)**	(7,369,738)
Claims paid	**(7,554,728)**	(8,250,744)	**(976,920)**	(493,381)	**(8,531,648)**	(8,744,125)
Reinsurance claims received	**1,812,185**	2,321,529	**-**	-	**1,812,185**	2,321,529
Commission and other income	**2,756,019**	2,790,697	**106,404**	40,917	**2,862,423**	2,831,614
Cash paid to employees, related parties and other suppliers for services and goods	**(5,400,606)**	(4,369,724)	**(6,900,378)**	(4,762,789)	**(12,300,984)**	(9,132,513)
Interest received	**636,282**	584,661	**21,054**	15,440	**657,336**	600,101
Dividends received	**76,751**	80,846	**-**	-	**76,751**	80,846
Rental Income	**9,784**	8,386	**-**	-	**9,784**	8,386
Net (purchase)/disposal of operating assets:						
- loans and receivables	**(497,289)**	(385,195)	**(378,007)**	(1,124,274)	**(875,296)**	(1,509,469)
- financial assets at fair value through profit or loss	**(1,361,117)**	941,721	**-**	-	**(1,361,117)**	941,721
Cash generated from operations	**550,335**	3,904,418	**2,650,473**	1,312,612	**3,200,808**	5,217,030

27. Cash and cash equivalents

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

	Core		Cells		Total	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Cash at bank and in hand	**825,295**	1,363,575	**4,399,781**	2,063,476	**5,225,076**	3,427,051
Held with investment managers	**1,405,693**	2,158,315	**-**	-	**1,405,693**	2,158,315
Bank balance overdrawn	**(25,884)**	(1,767)	**-**	-	**(25,884)**	(1,767)
At end of year	**2,205,104**	3,520,123	**4,399,781**	2,063,476	**6,604,885**	5,583,599

Cash and cash equivalents are attributable to cellular operations as follows:

	Cell 1		Cell 2		Cell 4		Cell 5
	2011	2010	**2011**	2010	**2011**	2010	**2011**
	€	€	**€**	€	**€**	€	**€**
Cash at bank and in hand	**1,417,546**	794,240	**37,821**	351,930	**2,126,598**	917,306	**817,816**

The effective interest rate on bank balances was 0.06% p.a. (2010: 0.10% p.a.).

28. Related party transactions

All companies forming part of the Atlas Group of Companies are considered by the directors to be related parties since these companies are ultimately owned and controlled by Atlas Holdings Limited.

The following transactions were carried out by the Company with related parties:

	2011	2010
	€	€
Income		
Parent company:		
Interest charged	**13,200**	20,625
Fellow subsidiaries:		
Payroll costs charged	**184,824**	151,794
Subsidiaries:		
Interest charged	**101,056**	83,065
Other related entities:		
Payroll costs charged	**24,406**	21,885
Expenditure		
Fellow subsidiaries:		
Commissions	**16,012**	9,569
Other related entities:		
Management fees	**43,672**	39,917

In relation to Cell 1, Cell 2, Cell 4 and Cell 5, companies ultimately owned and controlled by the Cell owners are considered as related parties in connection with the respective cells. As part of the ordinary course of business, the cells transact business with related parties including the collection of premiums, settlement of claims and payment of commissions.

Year end balances owed by or to group undertakings and other related parties are disclosed in Notes 20 and 25 to these financial statements respectively.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 10 to these financial statements.

29. Capital management

The Company's objectives when managing capital are:

- To comply with the obligations to maintain positive solvency position based on the requirements under regulation;
- To ensure sufficient capital funding in order that the Company may continue as a going concern;
- To safeguard the interests of policy holders arising from the Company's contractual obligations;
- To provide adequate returns for shareholders; and
- To ensure that shareholder and other stakeholder interests are safeguarded at all times.

In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders.

The Company is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Malta Financial Services Authority (MFSA). The minimum capital requirement (defined as 'the required minimum margin') must be maintained at all times throughout the year. The Company monitors its capital level on a regular basis at least once a month through detailed reports compiled with the management accounts. Such reports are circulated to the Board and senior management. Any transactions that may potentially affect the Company's solvency position are immediately reported to the directors and shareholders for resolution prior to notifying the MFSA.

As at 31 December the Company's admissible assets covering the core operation and the cellular operations were calculated by the directors to be €46.0m (2010: €42.4m). The capital of the Company has been maintained in excess of regulatory requirements at all times during both 2011 and 2010.

Liabilities arising from cell operations

In terms of Legal Notice 412 of 2007 of the Companies Act, (Cell Companies carrying on business of insurance), where any liability arises which is attributable to a particular cell of a cell company –

(a) the cellular assets attributable to that cell shall be primarily used to satisfy the liability;
(b) the Company's core assets shall be secondarily used to satisfy the liability, provided that the cellular assets attributable to the relevant cell have been exhausted; and
(c) any cellular assets not attributable to the relevant cell shall not be used to satisfy the liability.

The Company has taken the following safeguards in this respect:

(a) if the assets of the cell are at any time insufficient to meet any payments, liabilities or obligations due or about to become due by the Cell, the Company shall notify the Cell owners in writing and the Cell owners shall ensure forthwith that the Cell is adequately funded to meet all payments, liabilities or other obligations due or becoming due by the cell.

(b) in the event that the Cellular Assets of the Cell are exhausted, the Cell Owner agrees to indemnify the Company for any assets paid or otherwise transferred to creditors of the Cell asset of the non-cellular assets of the Company.

30. Commitments

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

	2011 **€**	2010 €
Authorised but not contracted	**50,000**	153,804

Operating lease commitments where the Company is the lessee

As at year-end in terms of a property lease agreement expiring in 2013, the Company had total commitments under non-cancellable operating leases where the Company is the lessee for a total amount of €10,715 (2010: €21,430).

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

	2011 **€**	2010 €
No later than 1 year	**10,715**	10,715
Later than 1 year and no later than 5 years	**-**	10,715
	10,715	21,430

During the current year, operating lease payments in respect of cancellable and non-cancellable leases amounting to €49,965 (2010: €43,160) were recognised as an operating expense in profit or loss.

31. Contingent liabilities

As at 31 December 2011, the Company had issued special bank guarantees of €43,698 (2010: €42,483) in favour of third parties.

32. Comparative Information

Certain comparative figures disclosed in the main components of the financial statements have been reclassified to conform with the current year's disclosures for the purpose of fairer presentation.

33. Statutory information

Atlas Insurance PCC Limited is a limited liability Company and is incorporated in Malta. The immediate parent Company of Atlas Insurance PCC Limited is Atlas Holdings Limited, a Company registered in Malta, with its registered address at 47-50, Ta' Xbiex Seafront, Ta' Xbiex, which prepares consolidated financial statements.

Atlas Insurance PCC Limited
Registered Office 47-50 Ta' Xbiex Seafront, Ta' Xbiex XBX 1021, Malta
Tel (+356 23 435 363 **Fax** (+356) 21 344 666
E-mail insure@atlas.com.mt **www.atlas.com.mt**

Company Registration Number C5601