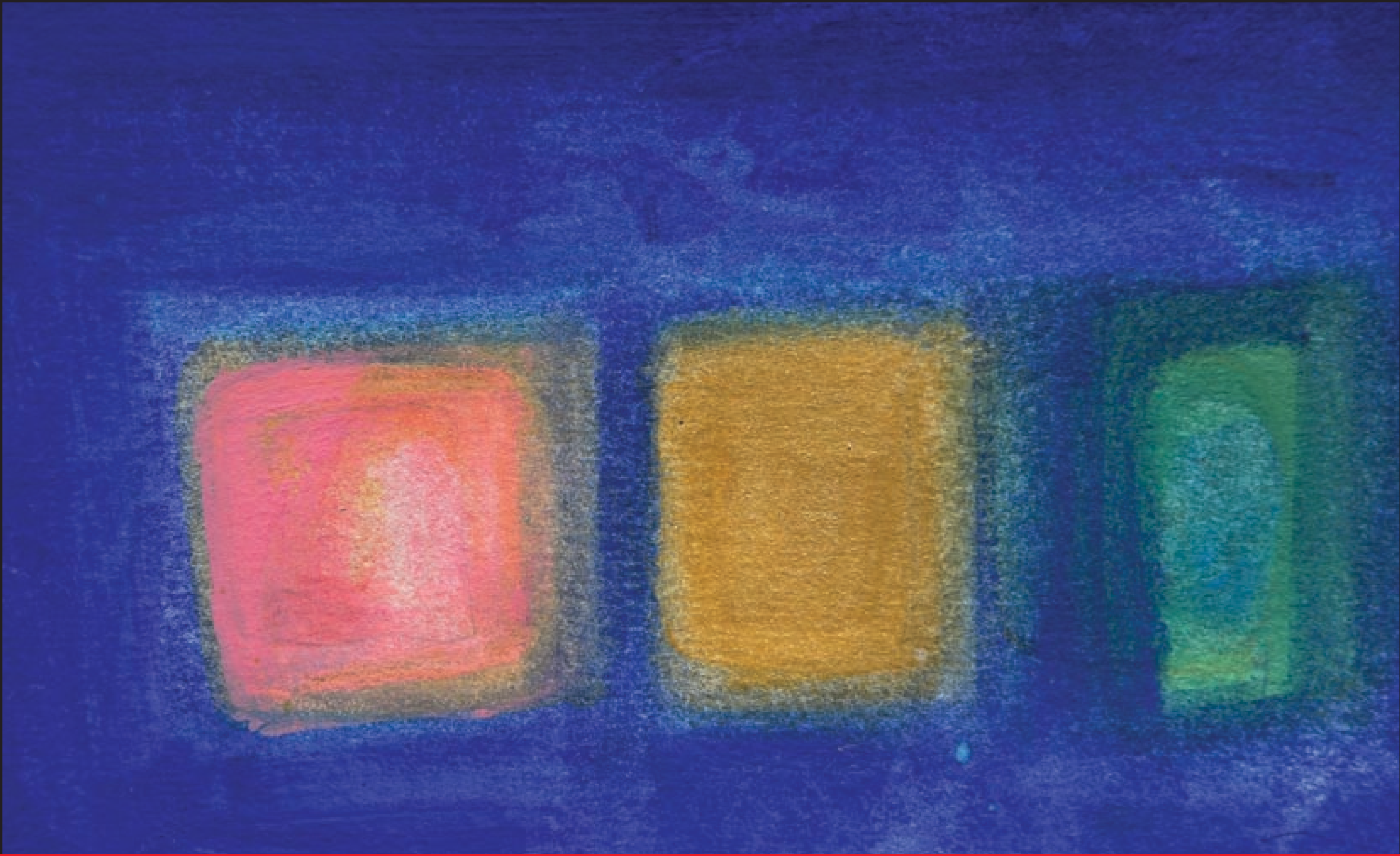

ANNUAL REPORT 10

Atlas Insurance

Artwork featured on the front cover: 'Luce di Citta', acrylic on paper - (2001) by Josette Caruana.

Josette Caruana is the featured artist in this year's edition of Atlas Insurance PCC 2011 calendar which showcases a variety of high quality Maltese contemporary art.

Atlas Insurance PCC Limited

Annual Report & Audited Financial Statements

10

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

> "Our risk profile is such that we are more than adequately capitalised to sustain the impact of Solvency 2."

Chairman's Statement

I am pleased to present the Annual Report and Financial Statements for Atlas Insurance PCC Limited for the year ending 31 December 2010.

The results show the benefit of our investment in the cell operation, the performance of which continued to be excellent, growing profitability and delivering opportunities to the cell shareholders. Revenue from the cell operation for the core shareholders continues to become more material as the number of cells increases. We remain convinced that this operation is a prudent method of expanding our business overseas to escape the confines of the mature Maltese market, which, in turn, we have addressed by continuing our expansion of the branch network.

In the year to 31 December 2010, Atlas Insurance PCC Limited registered a net profit before tax of €4.81m (2009: €4.14m). Included in this result is a profit before tax of €2.88m (2009: €3.01m), which after taxation of €1.02m (€2009: €1.10m) left €1.86m (2009: €1.91m) accruing to our core (non-cellular) shareholders. This represents earnings per share of 62c (2009: 64c). The core profit before tax represented a return of 20% of capital employed (2009: 21%). On cell profits, taxation amounted to €0.67m (2009: €0.39m) leaving a sum of €1.25m (2009: €0.74m) attributable exclusively to cell shareholders.

Despite the fact that Malta was quite resilient to the many challenges faced by the euro in 2010 and indeed GDP growth nationally recovered to 3.7%, the local non life insurance industry was generally characterised by a lack of growth and increased competition. Domestic demand remained weak, putting pressure on the sectors within which our Company operates. However, the Company's locally written core premiums decreased only marginally during the period to €17.55m (2009: €17.93m).

Investment performance also decreased to €0.93m (2009: €0.97m). This was in line with the financial markets for the year and the investment committee, therefore, saw no reason to alter the underlying strategy and continues to entrust its investment portfolio to three independent investment managers, operating within very prudent parameters set by the said committee.

From the core post-tax result, your directors paid out €1.42m (2009: €0.01m) in dividends to core shareholders, inclusive of the interim dividend of €0.62m paid to ordinary shareholders out of 2008 profits in April 2010.

Interim dividends to cell shareholders were paid during the year amounting to €0.45m (2009: €0.23m). During the year, cell capital was introduced of €0.68m, a reflection of the new cell and the higher levels of business presently being written by the existing cells.

As mentioned above, a further cell was registered in 2010. Given the continuing severity of the international economic downturn, and the number of enquiries on hand at today's date, your Directors consider this to be a satisfactory performance.

The impending Solvency 2 regime, which has now been delayed until 2013, has been rigorously addressed by our executives, including participation in QIS5 and I am pleased to report that currently we believe our risk profile is such that we are more than adequately capitalised to sustain its impact. We recognise that Solvency 2 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. During the year under review, various areas of governance have been addressed and the process continues during 2011. The risk management committee has worked closely with the Company's Solvency 2 working group and various board presentations, on the results of the most recent Quantitative Impact Assessment, as well as Pillar 2 related non quantitative issues, have been and will continue to be held during 2011. The issue of the


Staff members and their families during a cultural visit to Valletta.

documentation and reporting channels, relating to the Company's internal control system, is taken very seriously to ensure that any key risks are properly monitored. The compliance function of the Company is also under review and its terms of reference are being widened.

During 2010, the main focus of our Corporate Social Responsibility projects was encouraging sport and sportsmanship. The Company feels that this encourages positive development of our young and not so young people and brings the Company closer to its public. Our major sponsorships during the period were the Melita Football Club Youth Nursery and the Life Cycle Challenge. 0ther sporting events and clubs, from many diverse fields, have also been suppored including the Malta Young Sailors, the Vittoriosa Lawn Tennis Club, Mqabba Football Club Youth Nursery, Zurrieq Wolves Running Club, Sliema Aquatic Sports Club and others. Atlas has also sponsored a Player of the Month award where the chosen player chooses a charity to which Atlas donates €200.

Our staff social club continues to remain actively involved in our corporate social responsibility initiatives and has collected significant funds, which were matched by the Company, for the charity of the staff's choice – 'Appogg'. Donations to various other charities were made and staff generously gave of their time to help refurbishment of Angela House. In addition, various staff sporting events continue to be supported by the Company.

Atlas supports children's development through sport.

During the latter part of the year, our document management project was implemented and we have now taken significant steps to reduce our paper usage and filing requirements in various departments. This continues to reduce our impact on the environment.

Finally I must once again thank my fellow board members, members of the various board committees and particularly all our staff, who have worked very hard in contributing to these results.

It has not been the easiest of years. However, with the decisions taken to expand, using our overseas potential and our expansion of our branch network, I am confident that the Company will emerge stronger and leaner for the challenges ahead.

Richard Clough
Chairman

> Our management team has managed to evolve and meet the many challenges of 2010 through constant innovation and improvement.

CEO's Report

The 2010 financial statements in this report represent the results of the Company, the non-cellular business (Core) as well as the results of the cell operations. The Company has seen growth and increased profitability in the cell business while the results of the Core have remained largely at similar levels to the previous year.

The continued lack of growth in the non-life local insurance market caused increased pressures on pricing during the period under review. The prudent approach, which has characterised the Company's strategy vis-à-vis underwriting risk since its inception, has continued with some difficult decisions being taken during the year relating to certain lowly rated risks. This has led to a slight downturn in gross premiums written by the Core from €17.93m in 2009 to €17.55m this year.

The loss ratio for the Core operation performed slightly better in the commercial lines portfolio with motor business, a very price sensitive sector, declining in profitability. Again in this area, timely decisions to adjust pricing in certain sectors of the portfolio towards the latter part of the year are already bearing fruit. Due to the reduction in operating expenses, technical charges actually improved marginally with a reduction from €7.95m in 2009 to €7.92m in the period under review, resulting in the operating profit on the technical account falling only slightly from €3.16m in 2009 to €3.03m. A similar drop in investment performance, again tempered by reduced administrative expenses led to a pre-tax profit for the Core operation for the year of €2.9m compared to €3.0m the previous year.

The number of cells increased with an additional cell being licensed during the period and an application for a fourth cell being close to submission by year end. Performance of the existing cells continued to improve with pre-tax profit for this sector of the business rising from €1.1m in 2009 to €1.9m in 2010. Investment in human resources in this sector continues and interest in new cells showed an upsurge in the latter part of the year as the economy in the Eurozone showed signs of recovery. Underwriting performance and control of cell operations continues to be a priority for the board of directors and regular underwriting and investment committee meetings are held together with cell owners and managers. The board feels that this continued improvement in results proves the soundness of our strategy of prudent overseas growth through this route.

The direction the Company has taken to grow mainly the personal lines sector with further branch development and continued investment in marketing the Atlas brand has paid off. Growth in personal lines has been encouraging bearing in mind the current soft market environment particularly on motor business.

Atlas sustained its investment in marketing, with the brand values of reliability and trust being reinforced, with the campaign featuring Joseph Calleja, the Maltese tenor, continuing to raise the Company's profile. A decision to internally host the Company's website has resulted in faster response to demand as well as reduced operating costs, a major priority over the past couple of years. Varied e-commerce initiatives during the period have allowed our clients the options of being able to obtain quotations, buy insurance and renew policies online. The website is also crucial to achieving the international visibility required to expand our cell operations.

The Company has continued to look at processes with a view to eliminating waste as well as improving quality and control. The 'lean management' initiative continues and is an essential element of our continuous systems design and improvement procedure. The Company recognises that this review and documentation of policy processes and procedures is a key building block of governance under Solvency 2. Indeed, in

Atlas sustained its investment in marketing, with the brand values of reliability and trust being reinforced, with the campaign featuring Joseph Calleja, the Maltese tenor.

preparation for the new regime in January 2013, Pillar 2 aspects continue to be addressed. The Risk Management function continues to evolve and internal reporting is becoming integrated within the development of an internal control structure with active monitoring and reporting of key risks essential to the process. The compliance function is also being addressed and its scope widened.

The internal audit function has been improved during the year and is now completely independent from operations, reporting directly to the Audit committee.

Actuarial help during the year was outsourced for the completion of QIS5 and advice on Pillar 2 of Solvency 2. Solvency capital continues to be more than adequate with 3.4 times the solvency requirement under the current solvency regime.

The IT department is responsible for the upkeep and new development of our management information systems. These are fundamental for keeping operation costs down and continuing to deliver improvements to our systems. During the year, a new motor quotation and underwriting system was launched, with tied insurance intermediaries being able to use this system in recent months. Furthermore, the motor claims management system was also strengthened, which contributed to the fact that, despite increases in the number of claims, staff numbers have been kept stable. A document management system has also been implemented in key areas.

An area which greatly affects the Company's exposure to risk, as well as its financial performance, is our reinsurance arrangements. Excellent relationships are maintained with our panel of A rated reinsurers and efforts to improve terms in the various classes continue. An extremely prudent approach to the purchase of reinsurance continues to be the Company's main focus.

The human resources function plays an important role in the Company, with our recognition that continuity and investment in human capital is vital to our development. Retention of the right people is a priority, while acknowledgement and understanding of our core values has been the way of achieving this. We dedicate much time and effort to continue to increase effective communication of our strategic direction and values across all group personnel. During 2010, a comprehensive review of the group's remuneration strategy was undertaken, with reward being closely related to achievement of objectives, which tie in with the Company's strategic direction.

Despite the varied pressures caused by the economic situation and constantly increasing compliance and corporate governance requirements, our management team has managed to evolve and meet the many challenges of 2010 through constant innovation and improvement. I thank all our staff and the board of directors for their support during this challenging year and look forward to working together to achieve our 2011 goals. It is appropriate that I end this report by thanking intermediaries and most of all our clients for continuing to 'choose Atlas' and assure them that we will continue to work hard to ensure that we achieve our goal of exceeding expectations in the highest standards of efficiency and trust.

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
Walter Camilleri
Richard Clough FCA
Albert Formosa
Bryan Gera DBA
Robert von Brockdorff

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

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

Group Compliance Committee
John P Bonett
Mark Camilleri
Catherine Calleja BA (Hons) ACII
Michelle Lundquist ACII

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

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

> The internal audit function is now completely independent from operations.

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-Ħaddiem, Rabat RBT 1769

Żurrieq Branch
29, Blue Grotto Avenue, Żurrieq ZRQ 4015

Cells

PerfectHome Cell
Travelodge Cell
Ocado Cell

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 Fund Management (Malta) Limited
Rizzo Farrugia & Co (Stockbrokers) Limited

Financial Statements

Atlas Insurance

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities

The principal activities of the Company are that of an insurance 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. The Company was licensed to transact general insurance business in April 2004 and in accordance with the Companies Act (Cell Companies carrying on business of insurance) Regulations, 2004 was subsequently granted a license to act as a cell Company in November 2006.

Review of the business

The board of directors report that 2010 saw the Company's operations registering good results in profitability. Atlas Insurance PCC Limited registered a net profit before tax for the year of €4,806,512 (2009: €4,140,379) and a net profit after tax of €3,109,273 (2009: €2,648,672).

The core operation has maintained profitable results with due recognition in these accounts of the prudent reinsurance strategy in place. 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 expects to continue to pursue prudent and profitable growth and cautious investment strategies in the light of the global economic environment. During 2011, 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 Ocado Cell which was licensed by the MFSA on the 14 October 2010.

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 €1,924,368 and after tax at €1,250,839 accruing to the cell shareholders.

Directors

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
Walter Camilleri
Albert Formosa
John Formosa
Bryan Gera
Robert von Brockdorff
Brian Valenzia

In accordance with the Articles of Association, the present directors remain in office.

Results and dividends

The profit and loss account is set out on pages 16 to 18. Interim ordinary dividends of €1,415,623 were declared solely to the non-cellular shareholders and €454,938 declared solely to the cell shareholders. In addition, preference dividends of €6,988 (2009: €11,080) were paid during the year.

The directors propose the payment of a final net dividend of €550,000 to the ordinary shareholders.

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

1 June 2011

Statement of directors' responsibilities

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 as modified by Article 174 of the Maltese Companies Act, 1995;
- 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 2010 are included in the Annual Report 2010, 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.

Corporate Governance - Statement of Compliance

The Atlas Insurance PCC Limited board of directors is accountable to the Company's shareholders for good corporate governance. It 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 as System of Governance requirements under Pillar 2 of the Solvency 2 regime.

The Board of Directors

The board of directors of the Company 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.

Board and Board Committee meetings are scheduled at the start of the year. There are usually ten board meetings a year and detailed reports including financial information as well non financial key performance indicators are furnished to board members on a monthly basis. The directors, both executive and non executive, are involved in the strategic planning and budgeting processes as well as the regular monitoring of management performance and development. Information sessions with senior executives are held apart from the regular board business and in the period under review various areas were presented in some detail including reinsurance and underwriting, protected cell business and Solvency 2 including QIS5 results and implications for the Company.

The Chairman leads the board and the Chief Executive leads the executive management of the Company. The Chairman's 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 Chairman is an independent non executive director. 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. Minutes of committee meetings are circulated to the board as are updates during board meetings.

Board and Executive Committees

Members of these committees are listed on page 8.

Audit

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

Martin Gauci, the internal auditor, prepares quarterly presentations to the Internal Audit Committee and attends relevant meetings. During 2010 the focus of the internal audit was on two main areas. The claims function was reviewed with sampling of claims being carried out as well as the testing of the Company's reserves. The second major area focused upon was motor business with internal controls specifically related to underwriting authority and cash controls reviewed in detail. Business continuity was also focused upon. The internal audit function also regularly carries out compliance visits with tied insurance intermediaries for which the Company is responsible. The internal audit function is from this year moving towards complete independence from any other function within the organization.

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, oversees the remuneration strategy and budget for each financial year as well as setting the remuneration for the executive directors and senior management team and the overall policy for remuneration for the rest of the organisation. This Committee met four times during the year and during the period there was a comprehensive review of the remuneration policy for the Company including a performance bonus system tied to the achievement of strategic goals.

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

Investments

The Investment Committee is delegated responsibility for setting policy with regard to the administering of the investment portfolio of the Company and reflecting the Company's risk appetite in the guidelines given to the three discretionary investment managers appointed by the same Committee. Exposure to individual holdings as well as asset classes and currencies are limited and regular reporting meetings are held with discretionary investment advisors and the board of directors.

Group Compliance

This large executive Committee oversees compliance issues affecting group companies regulated by the Insurance Business Act (Cap. 403) and the Insurance Intermediaries Act (Cap. 487). The Committee is chaired by the Group Financial Controller and Compliance Officer, Mark Camilleri, and generally reviews and gives feedback on new directives under the abovementioned legislation as well as ensuring that group companies continue to comply with current obligations under various other aspects of relevant legislation.

Risk Management

The Risk Management Committee is 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 within a 'Three lines of Defence Model' where the board, business units and individuals within the organisation take responsibility for the management and control of the various risks. During the period under review, the Risk Management Committee focused on the Systems of Governance Requirements under the Pillar 2 of the Solvency 2 directive and the upgrading and formalisation of the Company's System of Internal Controls.

Protected Cells

This Committee which is composed of board members as well as senior executives responsible for the administration of the protected cells, 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 1 June 2011 and signed on its behalf by:

Richard Clough
Chairman

Michael Gatt
Managing Director

To the Shareholders of Atlas Insurance PCC Limited

Report on the Financial Statements

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 2010, 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 page 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 2010, 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

1 June 2011

Profit and Loss Account - Technical Account - General Business

Year ended 31 December

		Core		Cells		Total	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**€**	€	**€**	€	**€**	€
Earned premiums, net of reinsurance							
Gross premiums written	4	**17,548,244**	17,925,590	**7,845,386**	3,566,967	**25,393,630**	21,492,557
Outward reinsurance premiums		**(7,470,585)**	(7,727,171)	**(227,919)**	-	**(7,698,504)**	(7,727,171)
Net premiums written		**10,077,659**	10,198,419	**7,617,467**	3,566,967	**17,695,126**	13,765,386
Change in the provision for unearned premiums							
- gross amount	23	**(20,037)**	(170,905)	**(1,252,944)**	(57,248)	**(1,272,981)**	(228,153)
- reinsurers' share	23	**(36,262)**	120,344	**176,757**	-	**140,495**	120,344
		(56,299)	(50,561)	**(1,076,187)**	(57,248)	**(1,132,486)**	(107,809)
Earned premiums, net of reinsurance		**10,021,360**	10,147,858	**6,541,280**	3,509,719	**16,562,640**	13,657,577
Allocated investment return transferred from the non-technical account	6	**929,214**	967,915	**43,331**	5,009	**972,545**	972,924
Total technical income		**10,950,574**	11,115,773	**6,584,611**	3,514,728	**17,535,185**	14,630,501
Claims incurred, net of reinsurance							
Claims paid							
- gross amount		**8,250,744**	7,901,982	**493,381**	359,169	**8,744,125**	8,261,151
- reinsurers' share	23	**(2,321,529)**	(2,542,613)	**-**	-	**(2,321,529)**	(2,542,613)
		5,929,215	5,359,369	**493,381**	359,169	**6,422,596**	5,718,538
Change in the provision for claims							
- gross amount	23	**18,765**	1,249,192	**243,656**	81,357	**262,421**	1,330,549
- reinsurers' share	23	**(85,652)**	(811,750)	**-**	-	**(85,652)**	(811,750)
		(66,887)	437,442	**243,656**	81,357	**176,769**	518,799
Claims incurred, net of reinsurance		**5,862,328**	5,796,811	**737,037**	440,526	**6,599,365**	6,237,337
Net operating expenses	5	**2,060,228**	2,155,220	**3,915,174**	1,942,084	**5,975,402**	4,097,304
Total technical charges		**7,922,556**	7,952,031	**4,652,211**	2,382,610	**12,574,767**	10,334,641
Balance on the technical account for general business (page 17)		**3,028,018**	3,163,742	**1,932,400**	1,132,118	**4,960,418**	4,295,860

Profit and Loss Account - Non-Technical Account

Year ended 31 December

		Core		Cells		Total	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**€**	€	**€**	€	**€**	€
Balance on technical account - general business (page 16)		**3,028,018**	3,163,742	**1,932,400**	1,132,118	**4,960,418**	4,295,860
Investment income	6	**1,130,379**	1,152,990	**43,331**	5,009	**1,173,710**	1,157,999
Investment expenses and charges	6	**(201,165)**	(185,075)	**-**	-	**(201,165)**	(185,075)
Allocated investment return transferred to the general business technical account	6	**(929,214)**	(967,915)	**(43,331)**	(5,009)	**(972,545)**	(972,924)
Administrative expenses	7	**(145,874)**	(151,713)	**(8,032)**	(3,768)	**(153,906)**	(155,481)
Profit before tax		**2,882,144**	3,012,029	**1,924,368**	1,128,350	**4,806,512**	4,140,379
Tax expense	9	**(1,023,710)**	(1,099,222)	**(673,529)**	(392,485)	**(1,697,239)**	(1,491,707)
Profit for the year		**1,858,434**	1,912,807	**1,250,839**	735,865	**3,109,273**	2,648,672

Statement of Comprehensive Income

	Notes	Core		Cells		Total	
		2010	2009	**2010**	2009	**2010**	2009
		€	€	**€**	€	**€**	€
Profit for the year		**1,858,434**	1,912,807	**1,250,839**	735,865	**3,109,273**	2,648,672
Other comprehensive income:							
Net reporting currency differences arising on translation from functional currency to presentation currency	22	**-**	-	**45,462**	50,069	**45,462**	50,069
Movement in deferred tax relating to property, plant and equipment	17	**2,432**	2,432	**-**	-	**2,432**	2,432
Total other comprehensive income, net of tax		**2,432**	2,432	**45,462**	50,069	**47,894**	52,501
Total comprehensive income for the year		**1,860,886**	1,915,239	**1,296,301**	785,934	**3,157,167**	2,701,173

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

		Core		Cells		Total	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**€**	€	**€**	€	**€**	€
ASSETS							
Intangible assets	12	**188,749**	264,409	**-**	-	**188,749**	264,409
Tangible assets:							
- land, buildings and improvements	13	**2,942,603**	2,979,343	**-**	-	**2,942,603**	2,979,343
- plant and equipment	13	**775,539**	831,572	**-**	-	**775,539**	831,572
Investments:							
- land and buildings	14	**197,997**	197,997	**-**	-	**197,997**	197,997
- investment in subsidiary	15	**2,562**	2,562	**-**	-	**2,562**	2,562
- other financial investments	16	**17,329,350**	17,403,477	**2,006,078**	881,804	**19,335,428**	18,285,281
Reinsurers' share of technical provisions	23	**6,303,508**	6,254,118	**178,318**	-	**6,481,826**	6,254,118
Deferred acquisition costs	18	**722,665**	707,598	**48,642**	50,992	**771,307**	758,590
Stock – property for development	19	**2,114,205**	1,741,524	**-**	-	**2,114,205**	1,741,524
Receivables:							
- debtors arising out of direct insurance operations	20	**3,134,370**	2,929,418	**-**	-	**3,134,370**	2,929,418
- other debtors	20	**347,075**	556,824	**1,694,725**	284,893	**2,041,800**	841,717
Taxation recoverable		**362,697**	884,912	**-**	-	**362,697**	884,912
Prepayments and accrued income	20	**205,115**	474,199	**35,776**	10,415	**240,891**	484,614
Cash and cash equivalents	27	**3,521,890**	2,105,051	**2,063,476**	838,080	**5,585,366**	2,943,131
Total assets		**38,148,325**	37,333,004	**6,027,015**	2,066,184	**44,175,340**	39,399,188
EQUITY							
Capital and reserves							
Share capital	21	**7,500,000**	7,500,000	**1,143,970**	460,000	**8,643,970**	7,960,000
Other reserves	22	**553,297**	550,865	**30,584**	(14,878)	**583,881**	535,987
Profit and loss account	22	**6,649,510**	6,213,689	**1,310,331**	514,430	**7,959,841**	6,728,119
Total equity		**14,702,807**	14,264,554	**2,484,885**	959,552	**17,187,692**	15,224,106
LIABILITIES							
Technical provisions	23	**20,162,676**	20,123,874	**1,704,025**	187,860	**21,866,701**	20,311,734
Payables:							
- interest bearing borrowings	24	**1,767**	3,600	**-**	-	**1,767**	3,600
- creditors arising out of direct insurance operations	25	**676,602**	617,987	**245,035**	114,772	**921,637**	732,759
- creditors arising out of reinsurance operations	25	**784,508**	533,589	**19,232**	-	**803,740**	533,589
- other creditors	25	**451,387**	275,661	**825,128**	362,131	**1,276,515**	637,792
Deferred taxation	17	**24,978**	21,091	**-**	-	**24,978**	21,091
Taxation payable		**-**	-	**658,150**	392,226	**658,150**	392,226
Accruals and deferred income	25	**1,343,600**	1,492,648	**90,560**	49,643	**1,434,160**	1,542,291
Total liabilities		**23,445,518**	23,068,450	**3,542,130**	1,106,632	**26,987,648**	24,175,082
Total equity and liabilities		**38,148,325**	37,333,004	**6,027,015**	2,066,184	**44,175,340**	39,399,188

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 1 June 2011 and were signed on its behalf by:

Richard Clough
Chairman

Michael Gatt
Managing Director

Statement of changes in equity

	Notes	Share capital €	Other reserves €	Profit and loss account €	Total €
		Core			
Balance at 1 January 2009		7,500,000	548,433	4,315,712	12,364,145
Comprehensive income					
Profit for the year		-	-	1,912,807	1,912,807
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	-	2,432	-	2,432
Total other comprehensive income		-	2,432	-	2,432
Total comprehensive income		-	2,432	1,912,807	1,915,239
Transactions with owners					
Repurchase of preference shares	21	-	-	(3,750)	(3,750)
Decrease in share capital	21	-	-	-	-
Release of reserves attributable to Cell 3 shareholders	22	-	-	-	-
Dividends	11	-	-	(11,080)	(11,080)
Total transactions with owners		-	-	(14,830)	(14,830)
Balance at 31 December 2009		**7,500,000**	**550,865**	**6,213,689**	**14,264,554**
Balance at 1 January 2010		7,500,000	550,865	6,213,689	14,264,554
Comprehensive income					
Profit for the the year		-	-	1,858,434	1,858,434
Other comprehensive income					
Net reporting currency difference arising on translation from functional currency to presentation currency	22	-	-	-	-
Movement in deferred tax relating to property, plant and equipment	17	-	2,432	-	2,432
Total other comprehensive Income		-	2,432	-	2,432
Total comprehensive income		-	2,432	1,858,434	1,860,886
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**

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 €
692,937	(99,720)	(19)	593,198	8,192,937	448,713	4,315,693	12,957,343
-	-	735,865	735,865	-	-	2,648,672	2,648,672
-	50,069	-	50,069	-	50,069	-	50,069
-	-	-	-	-	2,432	-	2,432
-	50,069	-	50,069	-	52,501	-	52,501
-	50,069	735,865	785,934	-	52,501	2,648,672	2,701,173
-	-	-	-	-	-	(3,750)	(3,750)
(232,937)	-	-	(232,937)	(232,937)	-	-	(232,937)
-	34,773	12,470	47,243	-	34,773	12,470	47,243
-	-	(233,886)	(233,886)	-	-	(244,966)	(244,966)
(232,937)	34,773	(221,416)	(419,580)	(232,937)	34,773	(236,246)	(434,410)
460,000	**(14,878)**	**514,430**	**959,552**	**7,960,000**	**535,987**	**6,728,119**	**15,224,106**
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**

Statement of cash flows

Year ended 31 December

		Core		Cells		Total	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**€**	€	**€**	€	**€**	€
Cash flows from operating activities							
Cash generated from operations	26	**3,904,418**	3,237,150	**1,312,612**	1,184,952	**5,217,030**	4,422,102
Income tax paid		**(495,176)**	(1,022,113)	**(407,605)**	(10,713)	**(902,781)**	(1,032,826)
Net cash from operating activities		**3,409,242**	2,215,037	**905,007**	1,174,239	**4,314,249**	3,389,276
Cash flows from investing activities							
Purchase of property, plant and equipment		**(227,262)**	(388,766)	**-**	-	**(227,262)**	(388,766)
Purchase of intangible assets		**(1,859)**	(21,525)	**-**	-	**(1,859)**	(21,525)
Disposal of property, plant and equipment		**4,000**	3,483	**-**	-	**4,000**	3,483
Purchase of stock – property for development		**(372,681)**	(432,699)	**-**	-	**(372,681)**	(432,699)
Net cash used in investing activities		**(597,802)**	(839,507)	**-**	-	**(597,802)**	(839,507)
Cash flows from financing activities							
Dividends paid		**(1,422,613)**	(11,080)	**(454,938)**	(233,886)	**(1,877,551)**	(244,966)
Issue/(reduction) of share capital		**-**	-	**683,970**	(232,937)	**683,970**	(232,937)
Net cash (used in)/from financing activities		**(1,422,613)**	(11,080)	**229,032**	(466,823)	**(1,193,581)**	(477,903)
Movement in cash and cash equivalents		**1,388,827**	1,364,450	**1,134,039**	707,416	**2,522,866**	2,071,866
Cash and cash equivalents at beginning of year		**2,101,451**	741,137	**838,080**	38,708	**2,939,531**	779,845
Exchange gains/(losses) on cash and cash equivalents		**29,845**	(4,136)	**91,357**	91,956	**121,202**	87,820
Cash and cash equivalents at end of year	27	**3,520,123**	2,101,451	**2,063,476**	838,080	**5,583,599**	2,939,531

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 32) 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 2010, the Company had three Cells, the Perfect Home Cell, the Travelodge Cell and the Ocado Cell, referred to in these financial statements as Cell 1, Cell 2 and Cell 4 respectively. Another Cell, the Zopa Cell, referred to in these financial statements as Cell 3, was registered during 2008 and wound up during 2009. 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, statements of comprehensive income, statements of changes in equity and cash flow statements have accordingly been prepared for 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 2010

In 2010, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2010. 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 2010. 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 2013. 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.

1.2 Foreign currency translation

(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 financial statements are presented in euro, which is the Company's functional and presentation currency.

1.2 Foreign currency translation - continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 profit or loss.

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).

1.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

(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.

1.4 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.

1.5 Operating leases

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

1.6 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.

1.7 Tangible assets – Property, plant and equipment

Tangible fixed assets comprising land and buildings, computer equipment and furniture and fittings are initially recorded at historical cost. Property is subsequently shown at fair value, based on periodic valuations by the directors after seeking due professional advice, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other tangible fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation 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.

Land is not depreciated as it is deemed to have an indefinite life. 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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.9).

Gains and losses on disposal of tangible fixed assets are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

1.8 Land and buildings – Investment property

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

Investment property is measured initially at its historical cost, including related transaction costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure 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. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

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.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it

1.8 Land and buildings – Investment property - continued

reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

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

1.9 Impairment of 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.10 Investment in subsidiary

Investment in subsidiary undertaking, is accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate 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 profit or loss.

1.11 Financial assets

1.11.1 Classification

The Company classifies its financial assets (other than its investment in subsidiary) 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.

(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. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(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.

1.11.2 Recognition and measurement

The Company recognises a financial asset in its balance sheet when it becomes a party to the contractual provisions of the instrument. 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.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any provision for impairment. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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 or has not retained control of the asset.

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. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Company's right to receive payments is established.

The fair values of quoted investments and units in collective investment schemes are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. 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.

1.11.3 Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a 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 occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

Assets carried at amortised cost

For financial assets 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. 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 an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.12 Stock – Property for development

When the main object of a property project is development for resale purposes, the asset is classified in the financial statements as stock. Property is also classified as inventory where there is a change in use of investment property evidenced by the commencement of development with a view to sale. Such property would be reclassified at the deemed cost, which is the fair value at the date of reclassification. 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.

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 borrowings 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

Cash and cash equivalents are carried in the balance sheet at face value. In 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.

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 against which the temporary differences can be utilised.

1.14 Current and deferred tax - continued

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

1.15 Insurance contracts

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 end of the reporting period, 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.

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 reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

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.

The Company assesses its reinsurance assets and its receivables related to insurance contracts for impairment on a regular basis. If there is objective evidence that the reinsurance asset or the insurance receivable is impaired, the Company will reduce the carrying amount to its recoverable amount and recognise that impairment loss in the profit and loss account. The Company gathers the objective evidence that a reinsurance asset or insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 1.11.

1.16 Share capital

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

1.17 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.18 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.

1.19 Dividend distribution

Dividends on shares of the core and 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 judgments 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.

3.1. Insurance risk - continued

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.

Perfect Home Cell and Travelodge Cell 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 and miscellaneous financial risks respectively, both in the United Kingdom. The property risks are equally well-spread geographically. The cells' results are amply reflected in these accounts.

During the year the Company concluded the process of licensing Ocado Cell, which was authorized by the MFSA on the 14th October 2010 to underwrite risk under classes of business 1 – Accident, 3 – Land vehicles, 7 – Goods in transit, 10 – Motor vehicle liability and 13 – General liability. The Cell maintains its own solvency with the Minimum Guarantee Fund being afforded by the core capital.

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.

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 2010 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.

(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.

(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.

3.1.2. Sources of uncertainty in estimation of future claims payments - continued

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.

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:

	2010	2009
	€	€
Assets at floating interest rates – bank balances	**5,177,120**	2,771,859
Assets at fixed interest rates		
- Listed debt securities	**8,478,757**	9,580,749
- Deposits with banks or financial institutions	**4,159,268**	3,523,657
- Amounts owed from related parties	**3,526,668**	2,399,141
	21,341,813	18,275,406
Liabilities at floating interest rates – bank balance overdrawn	**1,767**	3,600

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 2010 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 (2009: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €185,513 lower (2009 - €178,176 lower). An increase of 150 basis points (2009: 150 basis points), with all other variables held constant, would have resulted in pre-tax profits being €193,557 higher (2009 - €186,597 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.

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

	2010	2009
	€	€
Assets subject to equity price risk		
Equity securities	**2,082,620**	1,471,507
Units in unit trusts	**1,088,115**	1,056,558
	3,170,735	2,528,065

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% (2009: 10%) in equity prices, with all other variables held constant, would result in an impact on the pre-tax profit for the year of €317,073 (2009: €252,807).

3.2.1 Market risk - continued

(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 committees 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 2010, foreign currency exposure, principally comprising a mix of US Dollar and UK Pound, amounted to €1,201,944 (2009: €879,715). 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 €212,108 (2009: €155,244) / higher by €180,291 (2009: €114,745).

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.

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 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

Core

As at 31 December 2009

	AAA to AA €	A to A- €	BBB to B €	Not rated €	Total €
Investments					
Debt securities – listed fixed interest rate	2,183,835	4,051,168	368,563	1,782,953	8,386,519
Deposits with banks or financial institutions	-	-	773,304	2,175,066	2,948,370
Treasury bills	-	1,194,230	-	-	1,194,230
	2,183,835	5,245,398	1,141,867	3,958,019	12,529,119

3.2.2 Credit risk - continued

Core - continued

	As at 31 December 2009				
	AAA to AA €	A to A- €	BBB to B €	Not rated €	Total €
Loans and receivables					
Amounts receivable from related parties	-	-	-	2,346,293	2,346,293
Debtors and prepayments and accrued income	-	-	-	3,960,441	3,960,441
Taxation recoverable	-	884,912	-	-	884,912
Cash equivalents	446,672	-	21,720	1,465,387	1,933,779
	446,672	884,912	21,720	7,772,121	9,125,425
Reinsurers' share of technical provisions	435,574	5,818,544	-	-	6,254,118
Total assets bearing credit risk	3,066,081	11,948,854	1,163,587	11,730,140	27,908,662

Cells

	As at 31 December 2009		
	Cell 1 Not rated €	**Cell 2** Not rated €	**Total** €
Investments			
Deposits with banks or financial institutions	-	575,287	575,287
Loans and receivables			
Amounts receivable from related parties	306,517	-	306,517
Debtors and prepayments and accrued income	284,800	10,508	295,308
Cash equivalents	704,000	134,080	838,080
Total assets bearing credit risk	1,295,317	144,588	1,439,905
Total assets bearing credit risk	1,295,317	719,875	2,015,192

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.

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

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

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	7,429,168	2,040,391	2,395,008	893,846	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

3.2.3 Liquidity risk - continued

Core

As at 31 December 2009	**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	1,427,237	-	-	-	1,427,237
Accruals and deferred income	1,492,648	-	-	-	1,492,648
	2,919,885	-	-	-	2,919,885

	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	7,326,592	2,011,558	2,684,097	717,401	12,739,648

Cells

As at 31 December 2009	**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	476,903	-	-	-	476,903
Accruals and deferred income	49,643	-	-	-	49,643
	526,546	-	-	-	526,546

	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	7,319	-	-	-	7,319
Cell 2	78,557				78,557
	85,876	-	-	-	85,876

3.2 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 2010 and 2009

	2010	2009
	Level 1	Level 1
	€	€
Assets		
Financial assets at fair value through profit or loss		
- Equity securities and units in unit trusts	**3,170,735**	2,528,065
- Debt securities	**8,403,967**	8,386,519
- Treasury bills	**74,790**	1,194,230
Total assets	**11,649,492**	12,108,814

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 2010 and 2009, 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**	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**2,276,728**	2,286,332	**71,538**	-	**2,348,266**	2,286,332
Motor (other classes)	**5,601,222**	5,624,851	**1,567,379**	-	**7,168,601**	5,624,851
Fire and other damage						
to property	**5,719,097**	5,644,851	**-**	-	**5,719,097**	5,644,851
Other classes	**3,951,197**	4,369,556	**6,206,469**	3,566,967	**10,157,666**	7,936,523
	17,548,244	17,925,590	**7,845,386**	3,566,967	**25,393,630**	21,492,557

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

Gross premium written	**Cell 1**		**Cell 2**		**Cell 4**	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**-**	-	**-**	-	**71,538**	-
Motor (other classes)	**-**	-	**-**	-	**1,567,379**	-
Other classes	**4,491,578**	2,204,370	**1,714,891**	1,362,597	**-**	-
	4,491,578	2,204,370	**1,714,891**	1,362,597	**1,638,917**	-

(b) Gross premiums earned	**Core**		**Cells**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**2,271,852**	2,261,537	**307,099**	-	**2,578,951**	2,261,537
Motor (other classes)	**5,589,228**	5,563,852	**61,426**	-	**5,650,654**	5,563,852
Fire and other damage						
To property	**5,725,887**	5,540,567	**-**	-	**5,725,887**	5,540,567
Other classes	**3,941,240**	4,388,729	**6,223,917**	3,509,719	**10,165,157**	7,898,448
	17,528,207	17,754,685	**6,592,442**	3,509,719	**24,120,649**	21,264,404

4. Segmental analysis - continued

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

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

Gross premium earned	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**-**	-	**-**	-	**307,099**	-
Motor (other classes)	**-**	-	**-**	-	**61,426**	-
Other classes	**4,473,290**	2,214,980	**1,750,627**	1,294,739	**-**	-
	4,473,290	2,214,980	**1,750,627**	1,294,739	**368,525**	-

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

(c) Gross claims incurred	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**2,309,430**	1,505,813	**273,948**	-	**2,583,378**	1,505,813
Motor (other classes)	**2,836,778**	2,796,507	**-**	-	**2,836,778**	2,796,507
Fire and other damage to property	**2,339,432**	2,458,665	**-**	-	**2,339,432**	2,458,665
Other classes	**783,869**	2,390,189	**463,089**	440,526	**1,246,958**	2,830,715
	8,269,509	9,151,174	**737,037**	440,526	**9,006,546**	9,591,700

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

Gross claims incurred	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor	**-**	-	**-**	-	**273,948**	-
Other classes	**130,642**	95,214	**332,447**	345,312	**-**	-
	130,642	95,214	**332,447**	345,312	**273,948**	-

(d) Gross operating expenses	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**637,497**	424,914	**13,709**	-	**651,206**	424,914
Motor (other classes)	**1,568,992**	1,065,049	**30,416**	-	**1,599,408**	1,065,049
Fire and other damage to property	**1,574,492**	1,226,283	**-**	-	**1,574,492**	1,226,283
Other classes	**1,218,992**	991,401	**3,871,319**	2,029,592	**5,090,311**	3,020,993
	4,999,973	3,707,647	**3,915,174**	2,029,592	**8,915,147**	5,737,239

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

Gross operating expenses	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**-**	-	**-**	-	**13,709**	-
Motor (other classes)	**-**	-	**-**	-	**30,146**	-
Other classes	**2,914,117**	1,185,569	**957,202**	844,023	**-**	-
	2,914,117	1,185,569	**957,202**	844,023	**43,855**	-

4. Segmental analysis - continued

(e) Reinsurance balance	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**202,638**	65,461	**14,939**	-	**217,577**	65,461
Motor (other classes)	**248,713**	158,722	**36,223**	-	**284,936**	158,722
Fire and other damage to property	**1,063,080**	670,858	**-**	-	**1,063,080**	670,858
Other classes	**645,490**	409,726	**-**	-	**645,490**	409,726
	2,159,921	1,304,767	**51,162**	-	**2,211,083**	1,304,767

The reinsurance balance for the cellular operations is attributable as follows:

Reinsurance balance	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Direct insurance						
Motor (third party liability)	**-**	-	**-**	-	**14,939**	-
Motor (other classes)	**-**	-	**-**	-	**36,223**	-
	-	-	**-**	-	**51,162**	-

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	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Acquisition costs	**2,715,476**	2,713,123	**3,683,706**	1,782,190	**6,399,182**	4,495,313
Change in deferred acquisition costs (Note 18)	**(15,067)**	24,357	**4,606**	(28,632)	**(10,461)**	(4,275)
Administrative expenses	**2,586,213**	2,630,033	**118,086**	115,411	**2,704,299**	2,745,444
Reinsurance commissions earned	**(2,939,745)**	(2,947,697)	**-**	-	**(2,939,745)**	(2,947,697)
Other net technical (income)/expense	**(286,649)**	(264,596)	**108,776**	73,115	**(177,873)**	(191,481)
	2,060,228	2,155,220	**3,915,174**	1,942,084	**5,975,402**	4,097,304

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Acquisition costs	**2,826,258**	1,102,188	**857,448**	680,002	**-**	-
Change in deferred acquisition costs (Note 18)	**(9,144)**	5,306	**13,750**	(33,938)	**-**	-
Administrative expenses	**48,397**	53,903	**42,111**	61,508	**27,578**	-
Other net technical expenses	**48,606**	39,350	**43,893**	33,765	**16,277**	-
	2,914,117	1,200,747	**957,202**	741,337	**43,855**	-

Total commissions included in acquisition costs and accounted for in the financial period amounted to: €1,758,276 in respect of the core operations (2009: €1,769,289), €2,826,258 in respect of Cell 1 (2009: €1,102,188) and €857,448 in respect of Cell 2 (2009: €680,002).

6. Investment return

Investment income	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Interest receivable from financial assets that are not at fair value through profit or loss	**176,210**	159,491	**15,440**	5,009	**191,650**	164,500
Income from financial assets at fair value through profit or loss:						
- interest income	**352,693**	415,147	**-**	-	**352,693**	415,147
- dividend income	**80,846**	63,295	**-**	-	**80,846**	63,295
Net fair value gains on financial assets at fair value through profit or loss (Note 16)	**482,399**	506,671	**-**	-	**482,399**	506,671
Exchange differences	**29,845**	-	**27,891**	-	**57,736**	-
Rental income	**8,386**	8,386	**-**	-	**8,386**	8,386
	1,130,379	1,152,990	**43,331**	5,009	**1,173,710**	1,157,999

Investment expenses and charges	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Interest expense and charges for financial liabilities that are not at fair value through profit or loss	**29,072**	24,838	-	-	29,072	24,838
Investment expenses	**172,093**	156,101	-	-	172,093	156,101
Exchange differences	**-**	4,136	-	-	-	4,136
	201,165	185,075	-	-	201,165	185,075
Total investment return	**929,214**	967,915	43,331	5,009	972,545	972,924
Allocated as follows:						
Allocated investment return transferred to the general business technical account	**929,214**	967,915	43,331	5,009	972,545	972,924

Investment return is attributable to the cellular operations as follows:

Investment income	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Interest receivable from financial assets that are not at fair value through profit or loss	**13,903**	3,516	**1,449**	1,493	**88**	-
Exchange differences	**19,061**	-	**1,954**	-	**6,876**	-
	32,964	3,516	**3,403**	1,493	**6,964**	-

7. Expenses by nature

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Employee benefit expense and directors' fees	**2,174,768**	2,281,189	**-**	-	**2,174,768**	2,281,189
Commissions payable	**1,758,276**	1,769,289	**3,683,706**	1,782,190	**5,441,982**	3,551,479
Change in deferred acquisition costs	**(15,067)**	24,357	**4,606**	(28,632)	**(10,461)**	(4,275)
Reinsurance commissions earned	**(2,939,745)**	(2,947,697)	**-**	-	**(2,939,745)**	(2,947,697)
Amortisation of intangible assets (Note 12)	**34,679**	46,619	**-**	-	**34,679**	46,619
Impairment of intangible assets (Note 12)	**42,840**	-	**-**	-	**42,840**	-
Depreciation of property, plant and equipment (Note 13)	**320,035**	296,844	**-**	-	**320,035**	296,844
Auditor's fees	**50,268**	56,560	**8,032**	4,300	**58,300**	60,860
Other expenses	**780,048**	779,772	**226,862**	187,994	**1,006,910**	967,766
Total operating and administrative expenses	**2,206,102**	2,306,933	**3,923,206**	1,945,852	**6,129,308**	4,252,785
Allocated to:						
Technical account	**2,060,228**	2,155,220	**3,915,174**	1,942,084	**5,975,402**	4,097,304
Non-technical account	**145,874**	151,713	**8,032**	3,768	**153,906**	155,481

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Commissions payable	**2,826,258**	1,102,188	**857,448**	680,002	**-**	-
Change in deferred acquisition costs	**(9,144)**	5,306	**13,750**	(33,938)	**-**	-
Other expenses	**100,181**	95,895	**89,563**	96,399	**45,150**	-
	2,917,295	1,203,389	**960,761**	742,463	**45,150**	-

Auditor's fees

Fees charged by the auditor for services rendered during the financial year ended 31 December 2010 and 2009 relate to the following:

	2010	2009
	€	€
Annual statutory audit	**39,780**	36,050
Other assurance services	**8,400**	8,400
Tax advisory and consultancy services	**6,120**	9,810
Other non-audit services	**4,000**	6,600
	58,300	60,860

8. Employee benefit expense

	2010	2009
	€	€
Salaries (including directors' salaries)	**2,579,554**	2,583,936
Social security costs	**150,995**	151,940
	2,730,549	2,735,876
Inter-Company payroll charge	**(172,508)**	(88,830)
	2,558,041	2,647,046

The average number of persons employed during the year was:

	2010	2009
Directors	**11**	11
Managerial	**12**	11
Managerial - part time	**2**	4
Clerical	**74**	73
Clerical - part time	**19**	20
	118	119

9. Tax expense

	Core		Cells		Total	
	2010	2009	2010	2009	2010	2009
	€	€	€	€	€	€
Current tax expense	**1,031,557**	860,212	**673,529**	392,485	**1,705,086**	1,252,697
Deferred tax charge (Note 17)	**6,319**	238,729	**-**	-	**6,319**	238,729
(Over)/under provision in previous years	**(14,166)**	281	**-**	-	**(14,166)**	281
	1,023,710	1,099,222	**673,529**	392,485	**1,697,239**	1,491,707

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	2010	2009	2010	2009
	€	€	€	€	€	€
Current tax expense	**510,411**	322,607	**161,288**	69,878	**1,830**	-

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

	2010	2009
	€	€
Profit before tax	**4,806,512**	4,140,379
Tax on profit at 35%	**1,682,279**	1,449,133
Tax effect of:		
Differences due to the application of Flat Rate Foreign Tax Credit	**(36,739)**	(30,129)
Income subject to reduced rates of tax	**(4,575)**	(1,967)
Expenses not deductible for tax purposes	**53,577**	84,682
Unrecognised temporary difference relating to prior year	**-**	(3,082)
Other movements	**16,863**	(7,211)
(Over)/under provision in previous year	**(14,166)**	281
Tax charge in the accounts	**1,697,239**	1,491,707

10. Directors' emoluments

	2010	2009
	€	€
Directors' fees	**106,924**	111,261
Salaries and other emoluments	**237,190**	239,172
	344,114	350,433
Recharged to group undertakings	**(1,171)**	(280)
	342,943	350,153

During the year, benefits in kind valued at €16,545 (2009: €13,212) were provided to the directors.

11. Dividends declared

	2010	2009
	€	€
To the ordinary shareholders:		
Net	**1,415,625**	-
Dividends per ordinary share	**0.47**	-
To the preference shareholders:		
Net	**6,988**	11,080
Dividends per preference share	**4.66**	3.69
To the cell shareholders:		
Cell 1	**333,118**	233,886
Cell 2	**121,820**	-
Net	**454,938**	233,886
Dividends per preference share		
Cell 1	**2.78**	1.95
Cell 2	**0.79**	-
Total dividends	**1,877,551**	244,966

At the forthcoming Annual General Meeting a net dividend in respect of 2010 amounting to €550,000 is to be proposed. 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 2011.

12. Intangible assets

	Customer relationships	Computer software	Total
	€	€	€
At 1 January 2009			
Cost	194,735	397,643	592,378
Accumulated amortisation	-	(302,875)	(302,875)
Net book amount	194,735	94,768	289,503
Year ended 31 December 2009			
Opening book amount	194,735	94,768	289,503
Additions	-	21,525	21,525
Amortisation charge	-	(46,619)	(46,619)
Closing net book amount	194,735	69,674	264,409

12. Intangible assets - continued

	Customer relationships €	Computer software €	Total €
At 31 December 2009			
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 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**

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 has 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 €42,840 (2009: €Nil). 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 2009				
Cost or revaluation	2,657,415	599,823	2,306,432	5,563,670
Accumulated depreciation	(37,666)	(251,179)	(1,554,900)	(1,843,745)
Net book amount	2,619,749	348,644	751,532	3,719,925
Year ended 31 December 2009				
Opening net book amount	2,619,749	348,644	751,532	3,719,925
Additions	-	89,039	299,727	388,766
Disposals	-	-	(18,635)	(18,635)
Depreciation charge	(20,270)	(57,819)	(218,755)	(296,844)
Depreciation released on disposal	-	-	17,703	17,703
Closing net book amount	2,599,479	379,864	831,572	3,810,915
At 31 December 2009				
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

13. Property, plant and equipment - continued

	Land and buildings €	Improvements to leasehold premises €	Furniture, equipment and motor vehicles €	Total €
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
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**

In line with Company policy, the land and buildings are valued on a regular basis. In 2006, 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 directors commissioned another independent professionally valuation as at 28 February 2011 to value the land and buildings, including investment property. The carrying amount of the land and buildings is not significantly different from their fair value as included in this valuation.

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

	2010 €	2009 €
Cost	**2,414,340**	2,414,340
Accumulated depreciation	**(120,321)**	(96,178)
Net book amount	**2,294,019**	2,318,162

14. Land and buildings - investment property

	2010 €	2009 €
Year ended 31 December		
At beginning and end of year	**197,997**	197,997
At 31 December		
Cost	**106,569**	106,569
Fair value gains	**91,428**	91,428
Net book amount	**197,997**	197,997

The fair value of the investment property was established in 2006 based on an independent professional valuation as described in Note 13.

In line with Company policy, the directors reviewed the fair value on 31 December. The carrying amount of the investment property is not significantly different from its fair value.

14. Land and buildings – investment property - continued

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

	2010	2009
	€	€
Cost	**106,569**	106,569
Accumulated depreciation	**(7,460)**	(6,394)
Net book amount	**99,109**	100,175

15. Investment in subsidiary

	2010	2009
	€	€
Year ended 31 December		
At beginning and end of year	**2,562**	2,562

The subsidiary at 31 December 2010 and 2009 is shown below:

			Percentage of shares held	
Name of subsidiary	**Registered office**	**Class of shares**	**2010**	2009
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 ordinary 'A' shareholders, 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.

16. Investments

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

	2010	2009
	€	€
Fair value through profit or loss	**11,649,492**	12,108,814
Loans and receivables	**7,685,936**	6,176,467
	19,335,428	18,285,281

(a) Investments at fair value through profit or loss

	2010	2009
	€	€
At 31 December		
Equity securities and units in unit trusts	**3,170,735**	2,528,065
Debt securities – listed fixed interest rate	**8,403,967**	8,386,519
Treasury bills	**74,790**	1,194,230
	8,478,757	9,580,749
Total investments at fair value through profit or loss	**11,649,492**	12,108,814

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

16. Investments - continued

Maturity of fixed income debt securities and treasury bills:

	2010 €	2009 €
Within 1 year	**475,685**	2,001,908
Between 1 and 2 years	**354,528**	386,483
Between 2 and 5 years	**4,746,153**	3,776,921
Over 5 years	**2,902,392**	3,415,437
	8,478,757	9,580,749
Weighted average effective interest rate	**4.81%**	4.62%

The movements for the year are summarised as follows:

	2010 €	2009 €
Year ended 31 December		
At beginning of year	**12,108,814**	12,195,575
Additions	**7,586,730**	10,974,410
Disposals	**(8,528,451)**	(11,567,842)
Net fair value gains (Note 6)	**482,399**	506,671
At end of year	**11,649,492**	12,108,814
As at 31 December		
Cost	**11,539,278**	12,119,185
Accumulated net fair value gains/(losses)	**110,214**	(10,371)
	11,649,492	12,108,814

(b) Loans and receivables

	2010 €	2009 €
At 31 December		
Deposits with banks or financial institutions (i)	**4,159,268**	3,523,657
Discounted securities (ii)	**1,664,505**	1,131,517
Loan to subsidiary Company (iii)	**1,862,163**	1,521,293
	7,685,936	6,176,467

(i) Deposits with banks or financial institutions

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

	2010 €	2009 €
Core	**3,157,695**	2,948,370
Cells		
Cell 1	**407,233**	-
Cell 2	**594,340**	575,287
	1,001,573	575,287
Total deposits with banks or financial institutions	**4,159,268**	3,523,657

16. Investments - continued

Maturity of deposits with banks or financial institutions:

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Within 3 months	**2,939,929**	2,832,724	**1,001,573**	575,287	**3,941,502**	3,408,011
Within 1 year but exceeding 3 months	**117,766**	115,646	**-**	-	**117,766**	115,646
Between 1 and 2 years	**100,000**	-	**-**	-	**100,000**	-
	3,157,695	2,948,370	**1,001,573**	575,287	**4,159,268**	3,523,657

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

	2010	2009
	€	€
At fixed rates	**4,159,268**	3,523,657
Weighted average effective interest rate	**1.95%**	2.51%

(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 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 31 December 2009

	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	€825,000	21/12/2010	€845,625	2.50	825,000
Cell 1					
- Issued to cell owners	GBP269,815	31/05/2010	GBP274,756	2.34	306,517
					1,131,517

(iii) Loan to subsidiary Company

The loan to subsidiary Company is classified as non-current. Included in the loan is an amount of €1,608,494 (2009: €1,267,624) which bears interest at 6% p.a. (2009: 6% p.a.).

17. Deferred taxation

	2010	2009
	€	€
Year ended 31 December		
At beginning of year	**(21,091)**	215,206
Credited to other comprehensive income (Note 22)	**2,432**	2,432
Charged to profit and loss account (Note 9)	**(6,319)**	(238,729)
At end of year	**(24,978)**	(21,091)

The total deferred tax liability/asset 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% (2009: 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 (2009: 12%).

The balance at 31 December represents temporary differences on:

	2010	2009
	€	€
Land and buildings – tangible assets	**(19,785)**	(22,217)
Land and buildings – investment property	**(23,760)**	(23,760)
Financial investments at fair value through profit or loss	**(4,618)**	8,237
Fixed assets	**(1,273)**	(7,809)
Provisions	**24,458**	24,458
	(24,978)	(21,091)

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**	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Year ended 31 December						
At beginning of year	**707,598**	731,955	**50,992**	18,522	**758,590**	750,477
Net amount credited/ (charged) to profit and loss account (Note 5)	**15,067**	(24,357)	**(4,606)**	28,632	**10,461**	4,275
Exchange differences resulting from translation to presentation currency	**-**	-	**2,256**	3,838	**2,256**	3,838
At end of year	**722,665**	707,598	**48,642**	50,992	**771,307**	758,590
Current portion	**722,665**	707,598	**48,642**	50,992	**771,307**	758,590

18. Deferred acquisition costs - continued

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

	Cell 1		Cell 2	
	2010	2009	**2010**	2009
	€	€	**€**	€
Year ended 31 December				
At beginning of year	**15,996**	18,522	**34,996**	-
Net amount credited/ (charged) to profit and loss account (Note 5)	**9,144**	(5,306)	**(13,750)**	33,938
Exchange differences resulting from translation to presentation currency	**735**	2,780	**1,521**	1,058
At end of year	**25,875**	15,996	**22,767**	34,996

19. Stock - property for development

	2010	2009
	€	€
Year ended 31 December		
At beginning of year	**1,741,524**	1,308,825
Additions	**372,681**	432,699
At end of year	**2,114,205**	1,741,524

20. Debtors and prepayments and accrued income

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Debtors arising from direct insurance operations						
Due from policyholders	**1,419,434**	1,300,431	**-**	-	**1,419,434**	1,300,431
Due from agents, brokers and intermediaries	**1,714,936**	1,628,987	**-**	-	**1,714,936**	1,628,987
	3,134,370	2,929,418	**-**	-	**3,134,370**	2,929,418
Other debtors						
Receivable from parent	**46,771**	35,963	**-**	-	**46,771**	35,963
Receivable from subsidiaries	**252,022**	303,105	**-**	-	**252,022**	303,105
Receivable from related parties	**-**	-	**1,388,619**	284,893	**1,388,619**	284,893
Amounts owed by directors/ shareholders	**22,480**	186,351	**-**	-	**22,480**	186,351
Other debtors	**25,802**	31,405	**306,106**	-	**331,908**	31,405
	347,075	556,824	**1,694,725**	284,893	**2,041,800**	841,717
Prepayments and accrued income						
Prepayments	**27,228**	240,554	**35,776**	10,415	**63,004**	250,969
Accrued interest	**177,887**	233,645	**-**	-	**177,887**	233,645
	205,115	474,199	**35,776**	10,415	**240,891**	484,614
Total debtors and prepayments and accrued income	**3,686,560**	3,960,441	**1,730,501**	295,308	**5,417,061**	4,255,749
Current portion	**3,686,560**	3,960,441	**1,730,501**	295,308	**5,417,061**	4,255,749

20. Debtors and prepayments and accrued income - continued

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Other debtors						
Receivables from related parties	**443,721**	274,385	**20,850**	10,508	**924,048**	-
Other debtors	**-**	-	**-**	-	**306,106**	-
	443,721	274,385	**20,850**	10,508	**1,230,154**	-
Prepayments and accrued income						
Prepayments	**-**	10,415	**-**	-	**35,776**	-
Total debtors and prepayments and accrued income	**443,721**	284,800	**20,850**	10,508	**1,265,930**	-

Core debtors are presented net of an allowance for impairment of €69,881 (2009: €69,881). As at 31 December 2010, total debtors amounting to €2,553,369 (2009: €2,802,442) were fully performing, whereas debtors amounting to €928,076 (2009: €683,800) 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:

	2010	2009
	€	€
Less than 6 months but more than 3 months	**567,479**	446,738
Less than 12 months but more than 6 months	**236,287**	176,662
More than 12 months	**124,310**	60,400
	928,076	683,800

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

21. Share capital

	2010	2009
	€	€
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 (2009: Nil) cell shares of €2.50 each	**683,970**	-
	1,143,970	460,000
Total share capital	**8,643,970**	7,960,000

21. Share capital - continued

Cell shares are issued as redeemable preference shares.

In terms of a resolution dated 28 December 2009, the shareholders resolved to repurchase 1,500 'B' preference shares with a nominal value of €2.50 each fully paid up for a consideration equal to the nominal value of the respective shares, which is financed from distributable profits in terms of article 106(1)(e) of the Companies Act, 1995.

In terms of a resolution dated 16 March 2010, the rights of the 1,500 "B" preference shares repurchased by the Company in 2009 were altered so that these shares did not grant the Company any rights to dividends.

Following the closure and winding up of the Zopa Cell, in terms of a resolution dated 22 January 2009, the issued share capital was reduced by the cancellation of 186,350 cell shares of €2.50, each 50% paid up.

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.

22. Reserves

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Revaluation reserve	**284,087**	281,655	**-**	-	**284,087**	281,665
Functional currency exchange reserve	**-**	-	**30,584**	(14,878)	**30,584**	(14,878)
General reserve	**201,542**	201,542	**-**	-	**201,542**	201,542
Investment property reserve	**67,668**	67,668	**-**	-	**67,668**	67,668
Total other reserves	**553,297**	550,865	**30,584**	(14,878)	**583,881**	535,987

Revaluation reserve

	Core	
	2010	2009
	€	€
Year ended 31 December		
At beginning of year	**281,655**	279,223
Movement in deferred tax relating to property, plant and equipment	**2,432**	2,432
At end of year	**284,087**	281,655

Functional currency exchange reserve

	Cells	
	2010	2009
	€	€
Year ended 31 December		
At beginning of year	**(14,878)**	(99,720)
Release of losses attributable to Cell 3 shareholders	**-**	34,773
Exchange differences resulting from translation to presentation currency	**45,462**	50,069
At end of year	**30,584**	(14,878)

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Functional currency exchange reserve	**4,532**	(16,216)	**20,348**	1,338	**5,704**	-

22. Reserves - continued

Investment property reserve

	Core	
	2010	2009
	€	€
Year ended 31 December		
At beginning of year	**67,668**	108,665
Transfer of fair value gains on investment property	**-**	(40,997)
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

	2010	2009
	€	€
Core	**6,649,510**	6,213,689
Cells		
Cell 1	**999,444**	384,657
Cell 2	**307,488**	129,773
Cell 4	**3,399**	-
	1,310,331	514,430
Total profit and loss account	**7,959,841**	6,728,119

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

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
Gross technical provision	**€**	€	**€**	€	**€**	€
Claims reported and loss adjustments	**11,280,110**	11,223,325	**67,706**	30,457	**11,347,816**	11,253,782
Claims incurred but not reported	**1,478,303**	1,516,323	**262,841**	55,419	**1,741,144**	1,571,742
Unearned premiums	**7,404,263**	7,384,226	**1,373,478**	101,984	**8,777,741**	7,486,210
Total insurance liabilities, gross	**20,162,676**	20,123,874	**1,704,025**	187,860	**21,866,701**	20,311,734
Reinsurers' share of technical provisions						
Claims reported and loss adjustment expenses	**3,057,689**	2,966,122	**-**	-	**3,057,689**	2,966,122
Claims incurred but not reported	**338,529**	344,444	**-**	-	**338,529**	344,444
Unearned premiums	**2,907,290**	2,943,552	**178,318**	-	**3,085,608**	2,943,552
Total reinsurers' share of insurance liabilities	**6,303,508**	6,254,118	**178,318**	-	**6,481,826**	6,254,118

23. Technical provisions and reinsurance assets - continued

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
Net technical provision	**€**	€	**€**	€	**€**	€
Claims reported and loss adjustment expenses	**8,222,421**	8,257,203	**67,706**	30,457	**8,290,127**	8,287,660
Claims incurred but not reported	**1,139,774**	1,171,879	**262,841**	55,419	**1,402,615**	1,227,298
Unearned premiums	**4,496,973**	4,440,674	**1,195,160**	101,984	**5,692,133**	4,542,658
	13,859,168	13,869,756	**1,525,707**	187,860	**15,384,875**	14,057,616
Current portion	**13,859,168**	13,869,756	**1,525,707**	187,860	**15,384,875**	14,057,616

Technical provisions for the cellular operations are attributable as follows:

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
Gross technical provision	**€**	€	**€**	€	**€**	€
Claims reported and loss adjustments	**-**	-	**31,848**	30,457	**35,858**	-
Claims incurred but not reported	**17,427**	7,319	**14,015**	48,100	**231,399**	-
Unearned premiums	**51,750**	31,993	**36,426**	69,991	**1,285,302**	-
	69,177	39,312	**82,289**	148,548	**1,552,559**	-

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
Net technical provision	**€**	€	**€**	€	**€**	€
Claims reported and loss adjustments	**-**	-	**31,848**	30,457	**35,858**	-
Claims incurred but not reported	**17,427**	7,319	**14,015**	48,100	**231,399**	-
Unearned premiums	**51,750**	31,993	**36,426**	69,991	**1,106,984**	-
	69,177	39,312	**82,289**	148,548	**1,374,241**	-

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 end of the reporting period.

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:

	2001 €	2002 €	2003 €	2004 €	2005 €	2006 €	2007 €	2008 €	2009 €	2010 €	Total €
At end of reporting year	5,445,404	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	77,923,136
- one year later	4,998,565	4,910,585	8,941,279	6,138,199	5,683,096	8,769,573	7,611,020	7,164,318	9,374,647		63,591,282
- two years later	4,942,164	4,835,649	8,301,640	5,293,774	5,376,344	8,053,417	7,090,024	6,907,429			50,800,441
- three years later	4,923,909	4,800,804	7,948,181	4,620,124	5,396,822	7,918,791	6,420,626				42,029,255
- four years later	4,878,355	4,734,300	7,734,971	4,588,986	5,379,192	7,751,403					35,067,207
- five years later	4,794,852	4,673,275	7,673,138	4,584,692	5,246,340						26,972,297
- six years later	4,728,137	4,677,767	7,640,986	4,557,898							21,604,787
- seven years later	4,686,629	4,628,286	7,652,841								16,967,755
- eight years later	4,698,257	4,616,497									9,314,755
- nine years later	4,698,199										4,698,199
Current estimates of :											
Cumulative claims	4,698,199	4,616,497	7,652,841	4,557,898	5,246,340	7,751,403	6,420,626	6,907,429	9,374,647	10,031,590	67,257,470
Cumulative payments to date	(4,684,619)	(4,336,629)	(7,503,631)	(4,444,836)	(4,869,455)	(7,185,730)	(6,135,068)	(5,957,319)	(7,444,002)	(4,289,461)	(56,850,750)
Liability recognised in the balance sheet	13,580	279,868	149,209	113,062	376,886	565,672	285,558	950,111	1,930,645	5,742,129	10,406,720
Reserve in respect of prior years											2,351,693
Total reserve included in the balance sheet											12,758,413

Estimate of the ultimate Net claims costs:

	2006 €	2007 €	2008 €	2009 €	2010 €	Total €
At end of reporting year	6,684,758	5,411,727	5,738,975	6,478,050	6,736,170	31,049,680
- one year later	6,277,653	4,983,702	5,244,482	5,806,238		22,312,075
- two years later	5,548,068	4,570,697	5,094,412			15,213,177
- three years later	5,428,170	4,486,886				9,915,056
- four years later	5,272,624					5,272,624
Current estimates of :						
Cumulative claims	5,272,624	4,486,886	5,094,412	5,806,238	6,736,170	27,396,330
Cumulative payments to date	(4,712,124)	(4,225,787)	(4,322,272)	(4,498,280)	(3,384,440)	(21,142,904)
Liability recognised in the balance sheet	560,500	261,099	772,139	1,307,958	3,351,730	6,253,426
Reserve in respect of prior years						3,108,769
Total reserve included in the balance sheet						9,362,195

23. Technical provisions and reinsurance assets - continued

(a) Claims and loss adjustment expenses

Claims and loss adjustment expenses - Core

	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**

	Year ended 31 December 2009		
	Gross	Reinsurance	Net
	€	€	€
Notified claims still outstanding	10,107,082	(2,230,171)	7,876,911
Incurred but not reported	1,383,374	(268,645)	1,114,729
Total at beginning of year	11,490,456	(2,498,816)	8,991,640
Increase in liabilities:			
- arising from current year claims	10,233,170	(3,954,248)	6,278,922
- arising from prior year claims	(1,546,834)	599,885	(946,949)
Claims settled during the year	(7,437,144)	2,542,613	(4,894,531)
Total at the end of year	**12,739,648**	**(3,310,566)**	**9,429,082**
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 the end of year	**12,739,648**	**(3,310,566)**	**9,429,082**

Claims and loss adjustment expenses - Cells
Gross and net

	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**

23. Technical provisions and reinsurance assets - continued

Gross and net

	Year ended 31 December 2009		
	Cell 1	Cell 2	Total
	€	€	€
Notified claims still outstanding	-	-	-
Incurred but not reported	5,098	-	5,098
Total at beginning of year	5,098	-	5,098
Increase in liabilities:	95,214	345,312	440,526
Claims settled during the year	(93,203)	(265,966)	(359,169)
Other movements	210	(789)	(579)
Total at the end of year	**7,319**	**78,557**	**85,876**
Notified claims still outstanding	-	30,457	30,457
Incurred but not reported	7,319	48,100	55,419
Total at the end of year	**7,319**	**78,557**	**85,876**

(b) Unearned premiums - Core

	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**

	Year ended 31 December 2009		
	Gross	Reinsurance	Net
	€	€	€
At beginning of year	7,213,321	(2,823,208)	4,390,113
Net charge/(credit) to profit and loss	170,905	(120,344)	50,561
At the end of year	**7,384,226**	**(2,943,552)**	**4,440,674**

Gross unearned premiums - Cells

	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**

	Year ended 31 December 2009		
	Cell 1	Cell 2	Total
	€	€	€
At beginning of year	37,043	-	37,043
Net charge/(credit) to profit and loss	(10,610)	67,858	7,248
Other movements	5,560	2,133	7,693
At the end of year	**31,993**	**69,991**	**101,984**

23. Technical provisions and reinsurance assets - continued

Net unearned premiums - Cells

	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**

	Year ended 31 December 2009		
	Cell 1	Cell 2	Total
	€	€	€
At beginning of year	37,043	-	37,043
Net (credit)/charge to profit and loss	(10,610)	67,858	57,248
Other movements	5,560	2,133	7,693
At the end of year	**31,993**	**69,991**	**101,984**

24. Borrowings

	2010	2009
	€	€
Bank balance overdrawn (Note 27)	**1,767**	3,600

The Company has the following undrawn borrowing facilities:

	2010	2009
	€	€
Floating rate and expiring within one year	**711,640**	1,385,842

25. Creditors and accruals and deferred income

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	€	€	€	€
Creditors arising out of direct insurance operations	**676,602**	617,987	**245,035**	114,772	**921,637**	732,759
Creditors arising out of reinsurance operations	**784,508**	533,589	**19,232**	-	**803,740**	533,589
Other creditors						
Payable to related parties	-	-	**825,128**	148,191	**825,128**	148,191
Dividends payable to cell shareholders	-	-	-	213,940	-	213,940
Other creditors	**451,387**	275,661	-	-	**451,387**	275,661
	451,387	275,661	**825,128**	362,131	**1,276,515**	637,792

25. Creditors and accruals and deferred income - continued

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Accruals and deferred income						
Accrued expenses and deferred income	**1,343,600**	1,492,648	**90,560**	49,643	**1,434,160**	1,542,291
Total creditors and accruals and deferred income	**3,256,097**	2,919,885	**1,179,955**	526,546	**4,436,052**	3,446,431
Current portion	**3,256,097**	2,919,885	**1,179,955**	526,546	**4,436,052**	3,446,431

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Creditors arising out of direct insurance operations	**93,817**	55,964	**68,591**	58,808	**82,627**	-
Creditors arising out of reinsurance operations	**-**	-	**-**	-	**19,232**	-
Other creditors						
Payable to related parties	**808,212**	133,779	**11,141**	14,413	**5,775**	-
Dividends payable to Cell shareholders	**-**	213,940	**-**	-	**-**	-
	808,212	347,719	**11,141**	14,413	**5,775**	-
Accruals and deferred income						
Accrued expenses and deferred income	**55,457**	27,523	**28,645**	22,119	**6,458**	-
Total creditors and accruals and deferred income	**957,486**	431,206	**108,377**	95,340	**114,092**	-

26. Cash generated from operations

	Core		Cells		Total	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Insurance premiums received	**17,343,292**	17,925,329	**7,845,386**	3,566,967	**25,188,678**	21,492,296
Reinsurance premium paid	**(7,161,051)**	(7,826,168)	**(208,687)**	-	**(7,369,738)**	(7,826,168)
Claims paid	**(8,250,744)**	(7,901,982)	**(493,381)**	(359,169)	**(8,744,125)**	(8,261,151)
Reinsurance claims received	**2,321,529**	2,542,613	**-**	-	**2,321,529**	2,542,613
Commission and other income	**2,790,697**	3,144,582	**40,917**	2,995,404	**2,831,614**	6,139,986
Cash paid to employees, related parties and other suppliers for services and goods	**(4,369,724)**	(5,171,957)	**(4,762,789)**	(4,693,941)	**(9,132,513)**	(9,865,898)
Interest received	**584,661**	505,760	**15,440**	5,009	**600,101**	510,769
Dividends received	**80,846**	63,295	**-**	-	**80,846**	63,295
Rental Income	**8,386**	8,386	-	-	**8,386**	8,386
Net (purchase)/disposal of operating assets:						
- loans and receivables	**(385,195)**	(646,140)	**(1,124,274)**	(329,318)	**(1,509,469)**	(975,458)
- financial assets at fair value through profit or loss	**941,721**	593,432	**-**	-	**941,721**	593,432
Cash generated from operations	**3,904,418**	3,237,150	**1,312,612**	1,184,952	**5,217,030**	4,422,102

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	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Cash at bank and in hand	**1,363,575**	1,060,234	**2,063,476**	838,080	**3,427,051**	1,898,314
Held with investment managers	**2,158,315**	1,044,817	**-**	-	**2,158,315**	1,044,817
Bank balance overdrawn	**(1,767)**	(3,600)	**-**	-	**(1,767)**	(3,600)
At end of year	**3,520,123**	2,101,451	**2,063,476**	838,080	**5,583,599**	2,939,531

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

	Cell 1		Cell 2		Cell 4	
	2010	2009	**2010**	2009	**2010**	2009
	€	€	**€**	€	**€**	€
Cash at bank and in hand	**794,240**	704,000	**351,930**	134,080	**917,306**	-

The effective interest rate on bank balances was 0.1% p.a. (2009: 0.1% 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:

	2010	2009
	€	€
Income		
Parent Company:		
Interest charged	**20,625**	-
Other income	**-**	6,487
Fellow subsidiaries:		
Payroll costs charged	**151,794**	73,377
Other expenses	**-**	38,906
Subsidiaries:		
Interest charged	**83,065**	57,790
Charge for use of office premises	**-**	27,968
Other related entities:		
Payroll costs charged	**21,885**	15,733
Other expenses	**-**	6,988
Charge for use of office premises	**-**	14,067
Expenditure		
Fellow subsidiaries:		
Commissions	**9,569**	11,966
Other related entities:		
Management fees	**39,917**	36,656

In relation to Cell 1, Cell 2 and Cell 4, 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 €42.4m (2009: €38.7m). The capital of the Company has been maintained in excess of regulatory requirements at all times during both 2010 and 2009.

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 property development expenditure not provided for in these financial statements are as follows:

	2010	2009
	€	€
Authorised but not contracted	**153,804**	667,000

As at year end the Company had fulfilled its contractual obligations to lend funds to its subsidiary (2009: €247,000 committed but not yet drawn). Notwithstanding this, and in view of a formal request by the subsidiary, the board of directors of the Company have agreed to advance further amounts not exceeding €200,000.

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 €21,430 (2009: €32,145).

30. Commitments - continued

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

	2010	2009
	€	€
No later than 1 year	**10,715**	10,715
Later than 1 year and no later than 5 years	**10,715**	21,430
	21,430	32,145

During the current year, operating lease payments in respect of cancellable and non-cancellable leases amounting to €43,160 (2009: €45,506) were recognised as an operating expense in profit or loss.

31. Contingent liabilities

As at 31 December 2010, the Company had issued special bank guarantees of €42,483 (2009: €11,545) in favour of third parties.

32. 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.

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