MAPFRE MSV Life p.l.c.

Annual Report
31 December 2017

Company Registration Number: C15722

Directors' report

For the year ended 31 December 2017

The directors present their annual report for the year ended 31 December 2017.

Board of Directors

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

John Cassar White (Chairman)
Felipe Navarro López de Chicheri
John P. Cliff (resigned on 31 December 2017)
Joseph Brincat
Mario Mallia
Martin Galea
Nikolaos Antimisaris
Pedro López Solanes

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

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

Principal Activities

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

Business review 2017

MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life" and "MAPFRE MSV Group") registered a profit before tax of €12.3 million for the year ended 31 December 2017, up 6.6% on the previous year where an €11.6 million profit before tax was generated. Profit after tax is recorded at €10.0 million, up 16.7% on the previous year.

Directors' report - continued

Business review 2017 - continued

Operating results were supported by strong inflows of premium revenue across the Company's range of insurance and investment products resulting from stronger customer demand.

Gross premiums written for financial year 2017 increased by 6.1% from €272.6 million to €289.2 million. This was mainly due to an increased demand across all products in particular single premium savings contracts and life protection business.

Claims decreased to €137.4 million through the year compared to a prior year €144.4 million. During the year the Company had a lower mix of maturing medium-term single premium contracts, the large proportion of which has subsequently been re-invested in new medium-term contracts.

In aggregate, the balance on the long term business technical account increased to €11.8 million from a prior year €10.7 million as a result of a technical result improvement well supported by strong business growth and underwriting performance.

The MAPFRE MSV Group's total assets increased by 9.7% from €1,930.4 million at the end of 2016 to €2,116.8 million at the end of 2017, whilst net technical provisions (including investment contracts without DPF) increased by 10.7% from €1,733.4 million in 2016 to €1,918.8 million in 2017.

The value of in-force business, which projects future transfers to shareholders arising from policies in force at the end of the year, increased by 4.0% from €60.0 million in 2016 to €62.4 million in 2017. This is partially attributable to the future value of business written during the year and the impact of the year's updated mortality assumptions.

Total shareholders' funds at the close of 2017 amounted to €161.2million (2016: €160.3 million), an increase of 0.6% over the previous year.

The net asset value per share has increased from €7.32 as at the end of 2016 to €7.36 per share driven by the underlying profitability of the business.

The shareholders of MAPFRE MSV Life are wholly committed to ensuring that the Company remains adequately capitalised at all times and well positioned for both business growth and the regulatory capital requirements of the Solvency II framework. The smooth and seamless transition into the Solvency II regime has allowed MAPFRE MSV Life to recognise a higher element of excess regulatory capital. This has been taken into consideration by the Directors when drawing up dividend and retention proposals.

Directors' report – continued

Business review 2017 - continued

The Directors recommend the payment of a final net dividend of €12.30 million (2016: €11.55million). MAPFRE MSV Life remains focused on the generation of capital and its disciplined allocation and appropriation.

The MAPFRE MSV With Profits Fund stood at €1.79 billion at 31 December 2017 (2016: €1.61 billion). The Fund is invested in a very diverse portfolio of assets and underpinned by a rigorous and prudent investment management process and robust governance framework. 2017 was another strong year for the equity markets and the satisfactory investment returns registered by the Fund were driven mainly by the positive returns of the major equity markets.

In March 2018, the Board of Directors of MAPFRE MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of with-profits plans held with MAPFRE MSV Life for the year ending 31 December 2017. These amounted to 3.00% for the Comprehensive Life Plan (regular and single premium policies), 3.10% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 3.10% under the Single Premium Plan and 3.10% under the with-profits options of the Investment Bond and of the Retirement Plan. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2.25% of the basic sum assured plus bonuses was declared. In addition, the Board also approved the declaration of a Final Bonus in respect of the Comprehensive Life Plan (single and regular premium) and the Comprehensive Flexi Plan (single and regular premium), policies that have been in force for more than 10 years. The Final Bonus will be paid on claims payable as a result of death or maturity between 1 March 2018 and the next bonus declaration, at a rate of 2.50% for every year after the 10th year of the policy capped at the rate of 10.00%. This final bonus will be paid on the value of the Policy Account as at the date of death or maturity.

The Board also approved a Regular Bonus of 3.00% on those Secure Growth policies which formed part of the portfolio of business transferred to MAPFRE MSV Life from Assicurazioni Generali S.p.A. during 2000. Finally the Board also approved a Regular Bonus of 1.60% on the ALICO 78 policies and a Regular Bonus of 1.85% on the ALICO 66 polices which formed part of the portfolio of business transferred to MAPFRE MSV Life in 2011 from American Life Insurance Company ("ALICO").

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

Directors' report - continued

Business review 2017 - continued

In 2017, the life insurance market in Malta retained strong demand patterns. We continue to see good momentum in all our product groupings as customers continue to choose MAPFRE MSV Life, reflecting trust in our brand and in the quality of our service proposition.

Going forward we will maintain strong focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end we will continue to invest and innovate in information technology. During 2016 we progressed on our major IT programme and commenced on a series of product rollouts from old legacy systems to new technologies. This will enable us offer superior levels of service to our customer base.

In tandem we have a number of initiatives lined up to strengthen further our digital platform and widen our digital marketing strategy. During 2017 we have substantially completed the development work in connection with SavviSave, an innovative simplified digital savings product that uses mobile technology and which we have developed jointly with Munich RE and MAPFRE Group. We expect to launch SavviSave in the first half of 2018.

We consider our distribution footprint in Malta to be one of our key strengths. Whilst bancassurance remains our most important distribution channel, to ensure that we provide customers with greater accessibility and a better service, we are continuously seeking to strengthen all other distribution channels.

MAPFRE MSV Life continues to seek growth in its core business lines and believes that its increasing integration with MAPFRE Group strategies will further strengthen and consolidate business prospects.

Whilst we have an important role to provide our customers with prosperity and peace of mind we acknowledge that we have a wider commitment to society by also supporting those who are not our customers. Over the years we have developed a Corporate Social Responsibility (CSR) policy framework which encompasses shareholders, the environment, people, communities and customers. Through our CSR programme we cooperate with and assist a number of public and private institutions, NGOs, museums, foundations and associations who share similar goals and values as us.

Training and development of our people continued to feature high on our agenda during 2017. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas.

Directors' report - continued

Business review 2017 - continued

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

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

Market developments

The Maltese life insurance market has, for a number of years, registered growth that is significantly above the average in Europe but remains an underinsured market. Although life insurance companies are playing an increasingly important role in Maltese household savings, comparative studies with other European life insurance markets show that whilst the Maltese life insurance market has grown significantly between 1996 and 2017, the life insurance density and life insurance penetration still trail well behind the European average. We therefore see attractive potential for an uplift in life protection, long term savings in the local life insurance market.

We also look forward to developments within the Voluntary Occupational Pension Scheme (VOPS) following Government's introduction of a number of fiscal incentives to encourage employers to set up VOPS for their employees. We believe we are well positioned to lead on the creation and provision of eligible schemes in this area.

Outlook

The outlook of the Board of Directors for 2018 is one of cautious optimism. The growth registered in the local economy and the low levels of unemployment are expected to continue throughout the year. Within this context, the demand for protection, savings and investments products is expected to remain strong.

At the global level, business and consumer confidence is showing signs of improvement. Many believe, that this could be the beginning of a period of normalization in interest rates. Though a gradual process of interest rate increases, would, generally speaking, be a positive economic development, a sharp increase in interest rates could have serious negative repercussions on the economy and the financial markets. The road to normalization is likely to result in rising volatility and inflation which will in turn lead to a more balanced relationship between returns from equities and bonds. Interest rate increases will mean higher yields but will also lead to a reduction in the value of the fixed income financial assets held in our portfolio, a lower demand for bank borrowing and an increase in the demand for other competing savings and investment products and instruments.

Directors' report - continued

Outlook - continued

The uncertainty surrounding Brexit and the other geo-political risks that exist in Europe continue to be crucial for the future of the European Union. Problems in the EU, would have profound implications on an open economy like Malta. The implications of this on our Company are twofold. Firstly, a slowdown in the local economy would have a direct impact on the demand for the Company's products. Secondly, the impact of uncertainty and instability on the financial markets could bring about significant volatility in the equity markets resulting in lower investment returns.

Going forward one can also expect to see greater supervisory scrutiny as more regulations are expected to directly affect the insurance industry. The Insurance Distribution Directive, which is expected to be introduced on 1 October 2018, will impact the conduct of business between insurers and consumers and will require insurers to strengthen their product governance. Similarly the General Data Protection Regulation (GDPR) is also expected to have a significant impact on the insurance industry.

The changing customer behaviours, the dramatic technological developments, the product innovation and the disruption that is taking place in the insurance industry will require insurance companies to adapt to these challenges to be in a position to exploit the many opportunities that will certainly arise.

Principal Risks and Uncertainties

The Company's principal risks and uncertainties are further disclosed in Note 3 dealing with management of risk as supplemented by Note 2 relating to critical accounting estimates and judgements in applying accounting policies, Note 13 on intangible assets covering details on the Company's value of in-force business and Note 24 discussing the assumptions underlying the technical provisions.

Dividends

The directors recommend the payment of a final net dividend of €12.30 million (2016: €11.55 million).

Actuaries

The Company's Approved Actuary is Mr. Michael Green FIA, a director of Willis Towers Watson PLC.

Statement of directors' responsibilities

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

Directors' report - continued

Statement of directors' responsibilities - continued

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

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

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

The financial statements of MAPFRE MSV Life p.l.c. for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and will be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

KPMG have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 2 March 2018 and signed on its behalf by:

J. Cassar White	F. Navarro López de Chicheri	D. G. Curmi
Chairman	Director	Chief Executive Officer

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Independent Auditors' Report

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

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MAPFRE MSV Life p.l.c. (the "Company"), and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2017, the statements of profit or loss – technical account – long term business, profit or loss – non-technical account, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) (the "Insurance Business Act").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. During the course of our audit, we maintained our independence from the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Assumptions underlying the calculations of the 'long-term business provision' (excluding unit-linked business) (the "LTBP") and 'value of in force business' ("VIF")
Accounting policy note 1.5 and 1.9(a) to the financial statements and notes 13 and 24 for further disclosures

Long-term business provision ("LTBP") (€1,805,923 thousand) included in Technical Provisions; and value of in-force business ("VIF") (€62,372 thousand) included in Intangible Assets.

Due to inherent estimation uncertainty, the outcomes of the estimated outflows (being the ultimate total settlement value) in relation to LTBP (which represent 92.4% of the Company's total liabilities) may be different from the amounts provided, and those differences may be material. Similarly, the projected future transfers to shareholders arising from policies in force at the end of the year are also subject to inherent estimation uncertainty.

The key actuarial assumptions impacting LTBP and VIF include both economic assumptions (namely, valuation rate of interest, inflation, risk discount rate and the investment return), and non-economic (operating) assumptions (namely, mortality and lapse rates). The valuation of the actuarial elements (that is: the LTBP and the VIF) therefore requires significant judgement.

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Independent Auditors' Report (continued)

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

Key audit matters (continued)

Our response

We involved our actuarial specialist to assess the appropriateness of the following key assumptions underlying the calculations of the actuarial elements:

Economic assumptions

— We assessed the valuation rate of interest ("VIR") against the valuation rules used for accounting purposes. We have further assessed whether this methodology: (i) took into account the key factors impacting the portfolio yield, and (ii) contains prudence consistent with the solvency regulations on which those valuation rules were based.

— Specifically in relation to the LTBP calculations, we assessed the appropriateness of the inflation assumption, whereby the expense inflation was set as equal to the VIR for each product, by considering the movements in Malta's Consumer Price Index, published by the National Office of Statistics, and the economic forecasts prepared by the Central Bank of Malta.

— Specifically in relation to the VIF calculations, we assessed whether: (i) the assumptions surrounding the risk discount rate, the investment return and inflation are set in line with the Company's long-term expectations, and (ii) the Company's approach to these assumptions reflects industry practice.

Non-economic assumptions

— We assessed the Company's best estimate mortality assumptions against observed data over recent years and compared such assumptions to those used for the calculations of the actuarial results for accounting purposes.

— We assessed the appropriateness of the changes to the Company's best estimate lapse assumptions impacting the VIF calculations, in the light of the Company's actuarial team's retrospective analysis, through observed data over recent years.

Key Observation

During the course of our audit, we have considered the level of prudence (and the consistency of its application) underlying the actuarial assumptions, and, therefore, built into the calculations of the actuarial results for accounting and financial reporting purposes which is allowed under current accounting practice. In the run-up to the full implementation of a new solvency regime and the revised financial reporting standard for insurance contracts, the Company started a process of aligning its current reserving with a more balanced approach adopted by those forthcoming changes, based on best estimates.

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Independent Auditors' Report (continued)

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

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors' Responsibilities, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' Report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Insurance Business Act, 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.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the financial reporting process.

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Independent Auditors' Report (continued)

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit 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 Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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Independent Auditors' Report (continued)

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

Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent Auditors' Report (continued)

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

2 Opinion on the Directors' Report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and

- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements; and

- we have not identified material misstatements in the directors' report.

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Independent Auditors' Report (continued)

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

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the shareholders on 15 July 2015, and subsequently reappointed at the Company's general meetings for each financial year thereafter. The period of total uninterrupted engagement is three years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

Matters on which we are required to report by exception by the Act

Pursuant to articles 179(10) and 179(11) of the Act, we have nothing to report to you with respect to the following matters:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Hilary Galea-Lauri.

KPMG
Registered Auditors

2 March 2018

Statements of profit or loss
Technical account – long term business

		Year ended 31 December	
		Group and Company	
		2017	2016
	Notes	€'000	€'000
Earned premiums, net of reinsurance			
Gross premiums written	4	**289,167**	272,632
Outward reinsurance premiums		**(3,302)**	(2,931)
Net premiums written		**285,865**	269,701
Investment income	5	**50,154**	36,234
Unrealised gains on investments	5	**20,711**	45,026
Other technical income, net of reinsurance	6	**473**	519
Total technical income		**357,203**	351,480
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**135,059**	141,343
- reinsurers' share		**(1,232)**	(574)
		133,827	140,769
Change in the provision for claims			
- gross amount		**3,708**	3,963
- reinsurers' share		**(107)**	(368)
		3,601	3,595
Claims incurred, net of reinsurance	4	**137,428**	144,364
Change in other technical provisions, net of reinsurance			
Insurance contracts		**(3,541)**	9,906
Investment contracts with DPF		**190,358**	167,449
Change in other technical provisions, net of reinsurance		**186,817**	177,355
Net operating expenses	4	**16,269**	15,116
Investment expenses and charges	5	**4,864**	3,905
Total technical charges		**345,378**	340,740
Balance on the long term business technical account		**11,825**	10,740

The notes on pages 22 to 88 are an integral part of these financial statements.

Statements of profit or loss
Non-technical accounts

		Year ended 31 December			
		Group		Company	
	Notes	**2017**	2016	**2017**	2016
		€'000	€'000	**€'000**	€'000
Balance on the long term business technical account		**11,825**	10,740	**11,825**	10,740
Investment income	5	**399**	752	**821**	751
Investment expenses and charges	5	**(4)**	(7)	**(4)**	(7)
Other income – commission receivable		**567**	572	**-**	-
Other charges – administrative expenses	4	**(477)**	(505)	**(43)**	(49)
Profit before tax		**12,310**	11,552	**12,599**	11,435
Tax expense	9	**(2,287)**	(2,961)	**(2,388)**	(2,920)
Profit for the year		**10,023**	8,591	**10,211**	8,515
Earnings per share (cents)	11	**45c8**	39c2		

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Note	**2017**	2016	**2017**	2016
		€'000	€'000	**€'000**	€'000
Profit for the year		**10,023**	8,591	**10,211**	8,515
Other comprehensive income:					
Movement in value of in-force business, net of deferred tax	13	**2,417**	6,527	**2,417**	6,527
Total comprehensive income		**12,440**	15,118	**12,628**	15,042

The notes on pages 22 to 88 are an integral part of these financial statements.

Statements of financial position

	Notes	Group 2017 €'000	Group 2016 €'000	Company 2017 €'000	Company 2016 €'000
ASSETS					
Intangible assets	13	**66,475**	64,209	**66,471**	64,202
Tangible assets - property, plant and equipment	14	**9,034**	5,735	**9,034**	5,735
Investments:					
Land and buildings - investment property	15	**87,855**	87,993	**87,855**	87,993
Investment in group undertaking	16	**-**	-	**466**	466
Investments in associated undertakings	17	**31,777**	33,903	**31,777**	33,903
Other investments	18	**1,855,226**	1,658,490	**1,855,215**	1,658,483
Reinsurers' share of technical provisions	24	**609**	1,589	**609**	1,589
Income tax receivable		**2,789**	2,912	**2,783**	2,902
Debtors	20	**-**	10	**32**	171
Prepayments and accrued income	20	**13,980**	13,184	**13,846**	13,041
Cash at bank and in hand	21	**49,046**	62,368	**48,512**	61,527
Total assets		**2,116,791**	1,930,393	**2,116,600**	1,930,012
EQUITY AND LIABILITIES					
Capital and reserves attributable to shareholders of the Company					
Called up share capital	22	**54,750**	54,750	**54,750**	54,750
Other reserves	23	**56,199**	53,782	**56,199**	53,782
Retained earnings		**50,261**	51,788	**50,145**	51,484
Total equity		**161,210**	160,320	**161,094**	160,016
Technical provisions:					
Insurance contracts	24	**535,915**	539,528	**535,915**	539,528
Investment contracts with DPF	24	**1,334,385**	1,141,334	**1,334,385**	1,141,334
Investment contracts without DPF	25	**49,067**	54,141	**49,067**	54,141
Deferred tax liability	19	**26,485**	25,386	**26,483**	25,384
Income tax payable		**666**	-	**666**	-
Derivative financial instruments	18	**-**	320	**-**	320
Creditors	26	**6,593**	6,439	**6,587**	6,438
Accruals and deferred income	26	**2,470**	2,925	**2,403**	2,851
Total liabilities		**1,955,581**	1,770,073	**1,955,506**	1,769,996
Total equity and liabilities		**2,116,791**	1,930,393	**2,116,600**	1,930,012

As at 31 December

The notes on pages 22 to 88 are an integral part of these financial statements. The financial statements on pages 16 to 88 were authorised for issue by the Board on 2 March 2018 and were signed on its behalf by:

J. Cassar White
Chairman

F. Navarro López de Chicheri
Director

D.G. Curmi
Chief Executive Officer

Statements of changes in equity

Group	Notes	**Share capital €'000**	**Other reserves €'000**	**Retained earnings €'000**	**Total €'000**
Balance at 1 January 2016		54,750	47,255	48,197	150,202
Comprehensive income					
Profit for the financial year		-	-	8,591	8,591
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	6,527	-	6,527
Total comprehensive income for the year		-	6,527	8,591	15,118
Transactions with owners					
Dividends	12	-	-	(5,000)	(5,000)
Balance at 31 December 2016		**54,750**	**53,782**	**51,788**	**160,320**
Balance at 1 January 2017		54,750	53,782	51,788	160,320
Comprehensive income					
Profit for the financial year		-	-	10,023	10,023
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	2,417	-	2,417
Total comprehensive income for the year		-	2,417	10,023	12,440
Transactions with owners					
Dividends	12	-	-	(11,550)	(11,550)
Balance at 31 December 2017		**54,750**	**56,199**	**50,261**	**161,210**

The notes on pages 22 to 88 are an integral part of these financial statements

Statements of changes in equity - continued

Company	Notes	**Share capital €'000**	**Other reserves €'000**	**Retained earnings €'000**	**Total €'000**
Balance at 1 January 2016		54,750	47,255	47,969	149,974
Comprehensive income					
Profit for the financial year		-	-	8,515	8,515
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	6,527	-	6,527
Total comprehensive income for the year		-	6,527	8,515	15,042
Transactions with owners					
Dividends	12	-	-	(5,000)	(5,000)
Balance at 31 December 2016		**54,750**	**53,782**	**51,484**	**160,016**
Balance at 1 January 2017		54,750	53,782	51,484	160,016
Comprehensive income					
Profit for the financial year		-	-	10,211	10,211
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	2,417	-	2,417
Total comprehensive income for the year		-	2,417	10,211	12,628
Transactions with owners					
Dividends	12	-	-	(11,550)	(11,550)
Balance at 31 December 2017		**54,750**	**56,199**	**50,145**	**161,094**

The notes on pages 22 to 88 are an integral part of these financial statements.

Cash flow statements

		Year ended 31 December			
		Group		Company	
	Notes	**2017**	2016	**2017**	2016
		€'000	€'000	**€'000**	€'000
Operating activities					
Cash generated from operations	27	**128,702**	109,216	**129,112**	109,265
Dividends received		**7,604**	7,803	**7,604**	7,803
Interest received		**25,013**	26,046	**25,012**	26,045
Taxation (paid)/received		**(83)**	665	**(188)**	667
Net cash generated from operating activities		**161,236**	143,730	**161,540**	143,780
Investing activities					
Purchase of intangible assets	13	**(477)**	(776)	**(477)**	(776)
Purchase of property, plant and equipment	14	**(533)**	(321)	**(533)**	(321)
Purchase of investment property	15	**(594)**	(659)	**(594)**	(659)
Purchase of other financial investments		**(1,298,280)**	(1,104,756)	**(1,298,275)**	(1,104,755)
Disposal of investment property	15	**-**	98	**-**	98
Disposal of other financial investments		**1,136,876**	996,359	**1,136,874**	996,358
Net cash used in investing activities		**(163,008)**	(110,055)	**(163,005)**	(110,055)
Financing activities					
Dividends paid	12	**(11,550)**	(5,000)	**(11,550)**	(5,000)
Cash used in financing activities		**(11,550)**	(5,000)	**(11,550)**	(5,000)
Net movement in cash and cash equivalents		**(13,322)**	28,675	**(13,015)**	28,725
Cash and cash equivalents at beginning of year		**62,368**	33,693	**61,527**	32,802
Cash and cash equivalents at end of year	21	**49,046**	62,368	**48,512**	61,527

The notes on pages 22 to 88 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 General information

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

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

The following is the current product portfolio of the Group:

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

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

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

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

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

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

1.2 Basis of preparation

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

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

As permitted by IFRS 4, the Group continues to apply existing accounting practices for value of in-force business, insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in the respective accounting policies.

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

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

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2017. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the standards discussed below, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

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

The Group is considering the implications of the below standards on the Company's financial results and position, and the timing of their adoption.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group, having its activities 'predominantly connected with insurance', is considering the temporary exemption from IFRS 9 for annual reporting periods beginning before 1 January 2021, and deferring its application to be concurrent with the effective date of IFRS 17 'Insurance Contracts', being 1 January 2021.

IFRS 15, 'Revenue from contracts with customers' was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

1.3 Consolidation

(a) Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary (or group) undertaking drawn up to 31 December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

1.3 Consolidation - continued

(a) Subsidiary undertakings - continued

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

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

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(b) Associated undertakings

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

1.4 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

1.5 Insurance and investment contracts

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

(a) Classification

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

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

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

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

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

(b) Recognition and measurement

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

(i) Long term insurance contracts

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

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised.

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

1.5 Insurance and investment contracts - continued

(b) Recognition and measurement - continued

(i) Long term insurance contracts - continued

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

(ii) Long term insurance contracts with DPF

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

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

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

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

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

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

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

1.5 Insurance and investment contracts – continued

(b) Recognition and measurement - continued

(ii) Long term insurance contracts with DPF - continued

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

(iii) Investment contracts with DPF

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

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

(c) Reinsurance contracts held

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

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

1. Summary of significant accounting policies - continued

1.5 Insurance and investment contracts - continued

(c) Reinsurance contracts held - continued

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

The Group gathers objective evidence that a reinsurance asset is impaired using the process described for financial assets held at amortised cost. The impairment loss is also calculated following the same method described for these financial assets. These processes are described in Note 1.14.

(d) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

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

1.6 Revenue

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

Rendering of services

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

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

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

1.6 **Revenue** - continued

Rendering of services - continued

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

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

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

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

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

1.7 Investment return

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

(a) Dividend income

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

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

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

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

1.7 Investment return - continued

(c) Interest income

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

(d) Rent receivable

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

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

1.8 Leases

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

1.9 Intangible assets

(a) Value of in-force business

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

Gross investment returns and asset allocations assumed vary depending upon the mix of investments held by the Company and expected market conditions. Annual movements in the value of the in-force business are credited or debited to other comprehensive income. Note 13 contains further information in relation to this asset.

(b) Computer software

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

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

1.9 **Intangible assets** - continued

(c) Deferred policy acquisition costs

Incremental costs that are incurred in acquiring new investment contracts without DPF are capitalised as deferred acquisition costs (DAC).

The DAC is subsequently amortised over the life of the contracts as follows:

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

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

1.10 **Property, plant and equipment**

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

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

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

1. Summary of significant accounting policies - continued

1.10 Property, plant and equipment - continued

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

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

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

1.11 Investment property

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

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

1.12 Investment in group undertakings

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

1. Summary of significant accounting policies - continued

1.13 Financial assets

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

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

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

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

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

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges. The quoted market price used for financial assets held by the group is the current bid price.

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

1.13 Financial assets - continued

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

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

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

1.14 Impairment of assets

(a) Impairment of financial assets not at fair value through profit or loss

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

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

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

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

1.14 Impairment of assets - continued

(a) Impairment of financial assets not at fair value through profit or loss- continued

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

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

(b) Impairment of non-financial assets

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

1.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when the Group currently has a legally enforceable right to set-off the recognised amounts and it intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

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

1.16 Financial liabilities

Financial liabilities are initially recognised on the trade date, which is the date the Company becomes a party to the contractual provisions of the instruments and derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

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

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

1.17 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. Current tax is measured using tax rates enacted or substantively enacted at the reporting date.

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profit improves.

1. Summary of significant accounting policies – continued

1.17 Current and deferred tax - continued

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

1.18 Cash and cash equivalents

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

1.19 Share capital

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

1.20 Dividends

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

2. Critical accounting estimates and judgments in applying accounting policies

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

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, 'Presentation of financial statements'. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2018 is included below:

- Value of in-force business

The value of in-force business is a projection of future shareholders' cash flows expected from contracts in force at the year end, appropriately adjusted for taxation and discounted by a risk adjusted discount rate. In assessing the projected cash flows, the directors assume a long term view of a maintainable level of investment return and fund size.

2. Critical accounting estimates and judgments in applying accounting policies - continued

- Value of in-force business - continued

This valuation requires the use of a number of assumptions relating to future mortality, persistency levels of expenses, investment returns and asset allocations over the longer term. The valuation is inherently uncertain and assumptions are reviewed on an annual basis as experience and the reliability of the estimation process develop.

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

- Insurance and participating investment contract liabilities

The technical provisions in respect of long term contracts and linked long term contracts are subject to an annual statutory valuation overseen by the Approved Actuary based on data and information provided by the Group.

Different principles and valuation methodologies are adopted depending on the type and generation of products. The key assumptions used in determining the technical provisions in respect of insurance contracts and investment contracts with DPF are described in Note 24 to the financial statements.

3. Management of risk

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

3.1 Insurance risk

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

3. **Management of risk** - continued

3.1 **Insurance risk** - continued

The Group has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

Frequency and severity of claims

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

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

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

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

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

3. **Management of risk** - continued

3.1 Insurance risk – continued

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

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

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

3.2 Financial risk

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

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

(a) Market risk

(i) Cash flow and fair value interest rate risk

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

3. Management of risk - continued

3.2 Financial risk - continued

(b) Market risk - continued

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

The Group does not guarantee a positive fixed rate of return to its policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus philosophy of the Board of Directors. Once a reversionary bonus is declared, it is guaranteed to be paid in full at maturity or on the prior death of the life assured. Also policyholders have the option to withdraw their current year's bonus without any charges following the date the bonus is declared.

The bonus philosophy considers historic and current rates of return generated by the Group's investment portfolio as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. These guaranteed benefits increase as discretionary benefits are declared and allocated to contract holders.

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

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

3. **Management of risk** - continued

3.2 **Financial risk** - continued

(a) Market risk - continued

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

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

The cash surrender value may also be less than the total amount of premiums paid up to the date of surrender. The Group is not required to, and does not, measure the effect of the above embedded derivative at fair value.

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

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

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

Assets

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Assets at floating interest rates	**115,152**	118,958	**114,621**	118,117
Assets at fixed interest rates	**937,685**	954,462	**937,685**	954,462
	1,052,837	1,073,420	**1,052,306**	1,072,579

Reconciled to the notes to the financial statements as follows:

Loans and receivables (Note 18)	**197,080**	205,970	**197,080**	205,970
Debt securities (Note 18)	**785,359**	787,067	**785,359**	787,067
A component of equity securities and units in unit trusts (Note 18)	**26,383**	19,514	**26,383**	19,514
Interest bearing cash and cash equivalents (Note 21)	**44,015**	60,869	**43,484**	60,028
	1,052,837	1,073,420	**1,052,306**	1,072,579
Liabilities				
Net long term business provision excluding linked long term contracts (Note 24)	**1,805,923**	1,621,331	**1,805,923**	1,621,331
	1,805,923	1,621,331	**1,805,923**	1,621,331

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature, amounting to €46.31m (2016: €44.08m), has been excluded as the directors consider the exposure to be insignificant.

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

	Group and Company	
	2017	2016
	€'000	€'000
Long positions		
- Federal Republic of Germany	**18,818**	41,425
Short positions		
- Federal Republic of Germany	**56,390**	36,077
- United Kingdom Government	**-**	1,327
- United States Government	**3,236**	5,259
	59,626	42,663

Up to the reporting date, the Group did not have any hedging policy with respect to interest rate risk other than as described in note 1.13 above.

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

At 31 December 2017, had interest rates been 100 basis points lower with all other variables held constant, pre-tax profit for the year would have been €1.52m lower (2016: €0.46m lower). An increase of 100 basis points, with all other variables held constant, would have resulted in pre-tax profits being €0.69m higher (2016: €0.14m lower). The above sensitivity considers the impact of changes in interest rates on liabilities and fixed income and floating interest rate asset values; although in the case that the reduced interest rate would be negative a floor of 0% is applied and the change in the asset value calculated accordingly.

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk - continued

(ii) Equity price risk

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

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

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

	Group		**Company**	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**783,472**	582,733	**783,461**	582,726
Reconciled to the notes to the financial statements as follows:				
Investment in associated undertakings (Note 17)	**31,777**	33,903	**31,777**	33,903
A component of equity securities and units in unit trusts (Note 18)	**751,695**	548,830	**751,684**	548,823
	783,472	582,733	**783,461**	582,726

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk - continued

(ii) Equity price risk - continued

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

	Group and Company	
	2017	2016
	€'000	€'000
Long positions		
- European equity indices	**2,201**	2,818

In the case of assets held to cover unit-linked liabilities the exposure is carried by the contract holder. In the case of capital guaranteed products any shortfalls guaranteed upon maturity are mitigated by a back to back guarantee with international financial service providers as further referred in 3.2 (a) (i).

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

Given the investment strategy and asset mix of the Group and Company a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €0.22m (2016: €0.16m) and a negative impact of €0.22m (2016: €0.16m) respectively, on the pre-tax profit for the year. The above sensitivity includes the impact of changes in equity returns on liabilities and assets.

(iii) Currency risk

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

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

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

(iii) Currency risk - continued

Group and Company

31 December 2017

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	67,988	8,280	59,708
CHF	27,188	-	27,188
GBP	16,195	4,429	11,766
SEK	7,306	4,629	2,677
DKK	8,967	-	8,967
Others	25,716	452	25,264
	153,360	**17,790**	**135,570**

31 December 2016

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	24,456	9,177	15,279
CHF	27,814	-	27,814
GBP	10,194	7,311	2,883
SEK	7,075	-	7,075
DKK	5,303	-	5,303
Others	10,846	10,951	(105)
	85,688	**27,439**	**58,249**

Within the table above, €128.05m of the unhedged exposure relates to equity investments (2016: €50.23m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 3.2 (a) (ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

3. Management of risk - continued

3.2 Financial risk - continued

(b) Credit risk

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

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

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

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

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

The Group's cash is placed with a number of core domestic credit institutions and investment grade international banks, thereby reducing the concentration of counterparty credit risk to an acceptable level.

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

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

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

3. Management of risk - continued

3.2 Financial risk - continued

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss				
- Debt securities (Note 18)	**785,359**	787,067	**785,359**	787,067
- Forward foreign exchange contracts (Note 18)	**710**	-	**710**	-
	786,069	787,067	**786,069**	787,067
Loans and receivables				
- Deposits with banks or credit institutions (Note 18)	**187,569**	196,727	**187,569**	196,727
Reinsurers' share of technical provisions (Note 24)	**609**	1,589	**609**	1,589
Debtors and accrued income	**12,829**	9,007	**12,861**	9,027
Cash at bank and in hand (Note 21)	**49,046**	62,368	**48,512**	61,527
Total exposure	**1,036,122**	1,056,758	**1,035,620**	1,055,937

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
AAA	**74,870**	69,943	**74,870**	69,943
AA	**81,780**	94,107	**81,780**	94,105
A	**420,667**	444,662	**420,667**	444,659
BBB	**405,255**	416,003	**404,721**	415,051
Below BBB or not rated	**53,550**	32,043	**53,582**	32,179
	1,036,122	1,056,758	**1,035,620**	1,055,937

The Group has no receivables that are past due or impaired. Debt securities and loans and receivables that are not rated are primarily held with highly reputable financial institutions holding an investment grade. The carrying amount of these assets represents the maximum credit exposure.

3. **Management of risk** - continued

3.2 Financial risk - continued

(c) Liquidity risk

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

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

At 31 December 2017	Expected cash flows (discounted)						
	0 – 1 Year	1 – 2 years	2 – 3 years	3 – 4 years	4 - 5 years	>5 years	Total
				€ million			
Technical provisions - Insurance contracts and investment contracts with DPF	150	190	225	239	203	863	1,870
Creditors	9	-	-	-	-	-	9
	159	**190**	**225**	**239**	**203**	**863**	**1,879**

At 31 December 2016	Expected cash flows (discounted)						
	0 – 1 Year	1 – 2 years	2 – 3 years	3 – 4 years	4 - 5 years	>5 years	Total
				€ million			
Technical provisions - Insurance contracts and investment contracts with DPF	98	95	159	199	220	910	1,681
Creditors	9	-	-	-	-	-	9
	107	**95**	**159**	**199**	**220**	**910**	**1,690**

3. Management of risk - continued

3.2 Financial risk - continued

(c) Liquidity risk - continued

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

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

	Group and Company	
	2017	2016
	€'000	€'000
At 31 December		
Foreign exchange contracts		
- outflow	**(18,989)**	(32,293)
- inflow	**19,101**	32,146

At 31 December 2017 and 2016, the above derivatives were due to be settled within three months after year end.

3.3 Capital management

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

The Company's objectives when managing capital are to:

- comply with the obligations to hold Eligible Own Funds to cover the Solvency Capital Requirement and Minimum Capital Requirement in terms of the Insurance Business Act, 1998, (Chapter 403, Laws of Malta) and the applicable Insurance Rules issued under the Insurance Business Act ('Insurance Rules') by the Malta Financial Services Authority ('MFSA');
- safeguard the Company's ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk.

3. **Management of risk** - continued

3.3 **Capital management** - continued

The Company is required to hold regulatory capital for its life assurance business in compliance with the Insurance Rules issued by the MFSA. The minimum capital requirements must be maintained at all times throughout the period. The Company monitors the level of their own funds on a regular basis. Any transactions that may potentially affect the Company's own funds and solvency position are immediately reported to the directors and shareholders for resolution.

The Company's Minimum Capital Requirement Absolute Floor stands at €3,700,000 as per paragraph 5.6.4 of Chapter 5 ('Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and investment rules') of Part B of the Insurance Rules.

Based on management calculations to date, the Company is sufficiently capitalised and was compliant at all times with the regulatory capital requirements as stipulated by the MFSA which are in line with the Solvency II requirements.

3.4 Fair value hierarchy – financial instruments

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

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

3. Management of risk - continued

3.4 Fair value hierarchy – financial instruments - continued

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

Group – 31 December 2017

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	**872,008**	**36**	**33**	**872,077**
- Debt securities	**609,153**	**176,206**		**785,359**
Derivative financial instruments	**-**	**710**	**-**	**710**
Investments in associated undertakings	**30,510**	**-**	**1,267**	**31,777**
Total assets	**1,511,671**	**176,952**	**1,300**	**1,689,923**
Liabilities				
Unit linked financial liabilities	**-**	**93,999**	**-**	**93,999**
Total liabilities	**-**	**93,999**	**-**	**93,999**

Group – 31 December 2016

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	665,333	87	33	665,453
- Debt securities	594,484	192,583	-	787,067
Investments in associated undertakings	32,530	-	1,374	33,904
Total assets	1,292,347	192,670	1,407	1,486,424
Liabilities				
Unit linked financial liabilities	-	97,109	-	97,109
Derivative financial instruments	-	320	-	320
Total liabilities	-	97,429	-	97,429

3. Management of risk – continued

3.4 Fair value hierarchy – financial instruments - continued

Company – 31 December 2017

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	**871,997**	**36**	**33**	**872,066**
- Debt securities	**609,153**	**176,206**	**-**	**785,359**
Derivative financial instruments	**-**	**710**	**-**	**710**
Investments in associated undertakings	**30,510**	**-**	**1,267**	**31,777**
Total assets	**1,511,660**	**176,952**	**1,300**	**1,689,912**
Liabilities				
Unit linked financial liabilities	**-**	**93,999**	**-**	**93,999**
Total liabilities	**-**	**93,999**	**-**	**93,999**

Company – 31 December 2016

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	665,326	87	33	665,446
- Debt securities	594,484	192,583	-	787,067
Investments in associated undertakings	32,530	-	1,374	33,904
Total assets	1,292,340	192,670	1,407	1,486,417
Liabilities				
Unit linked financial liabilities	-	97,109	-	97,109
Derivative financial instruments	-	320	-	320
Total liabilities	-	97,429	-	97,429

3. Management of risk - continued

3.4 Fair value hierarchy - continued

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

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

At 31 December 2017, corporate debt securities with a carrying amount of €176 million were transferred from Level 1 to Level 2 in view of their trading characteristics for a level 2 classification. Comparative information was reclassified to conform to current's year classification.

At 31 December 2017, 0.1% (2016: 0.1%) of the financial assets measured at fair value on a recurring basis were classified as Level 3. They constitute investment in unlisted equities and their fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement. The Company has €1.3 million assets classified as Level 3, the valuation of which has been determined by reference to the net assets of the underlying investment.

The analysis of investment property is included within Note 15.

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

Group and Company 2017

	Financial assets at fair value through profit or loss		
	Equity securities €'000	Investments in associated undertakings €'000	Total Assets €'000
Opening balance	33	1,374	1,407
Total gains recognised in profit or loss	-	42	42
Disposals	-	(149)	(149)
Closing balance	33	1,267	1,300
Total gains for the period included in profit or loss for assets held at the end of year	-	42	42

3. **Management of risk** - continued

3.4 **Fair value hierarchy** - continued

Group and Company 2016

	Financial assets at fair value through profit or loss		
	Equity securities €'000	**Investments in associated undertakings €'000**	**Total Assets €'000**
Opening balance	**33**	**1,331**	**1,364**
Total gains recognised in profit or loss	**-**	**43**	**43**
Closing balance	**33**	**1,374**	**1,407**
Total gains for the period included in profit or loss for assets held at the end of year	-	**43**	**43**

At 31 December 2017 and 2016, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of financial liabilities emanating from investment contracts with DPF. It is impracticable to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

4. **Other information - technical account**

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

(i) Gross premiums written

Gross premium income is made up of:

	Group and Company	
	2017 €'000	2016 €'000
Direct insurance	**289,167**	272,632
Gross premiums written	**289,167**	272,632

4. Other information - technical account – continued

(i) Gross premiums written - continued

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Non-participating	**12,398**	10,993	**-**	-
Participating	**32,169**	31,069	**241,015**	226,897
Linked	**2,352**	2,438	**1,233**	1,235
	46,919	44,500	**242,248**	228,132

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

	Periodic premiums		Single premiums	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Investment contracts	**1,438**	1,298	**856**	568

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

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards mainly attributable to insurance contracts, amounted to a charge of €2.8m to the long term business technical account for the year ended 31 December 2017 (2016: €3.0m).

4. **Other information - technical account** - continued

(iii) Analysis between insurance and investment contracts

	Group and Company	
	2017	2016
	€'000	€'000
Gross premiums written		
Insurance contracts	**33,439**	32,769
Investment contracts with DPF	**255,728**	239,863
	289,167	272,632
Claims incurred, net of reinsurance		
Insurance contracts	**31,327**	30,894
Investment contracts with DPF	**106,101**	113,470
	137,428	144,364

(iv) Net operating expenses

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Acquisition costs	**11,510**	10,701	**11,510**	10,701
Administrative expenses	**5,460**	5,064	**5,026**	4,608
Reinsurance commissions	**(224)**	(144)	**(224)**	(144)
	16,746	15,621	**16,312**	15,165

Allocated to:

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Technical	**16,269**	15,116	**16,269**	15,116
Non-technical	**477**	505	**43**	49
	16,746	15,621	**16,312**	15,165

Total commission payable for direct business accounted for in the financial year amounted to €8.13m (2016: €7.77m). €7.06m of this charge arose on investment contracts (2016: €6.65m).

5. Investment return

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Dividend income from shares in a group undertaking	**-**	-	**423**	-
Rent receivable from investment property	**5,058**	4,757	**5,058**	4,757
Interest receivable from loans and receivables	**1,217**	1,654	**1,216**	1,654
Income from financial assets at fair value through profit or loss:				
- dividend income - associates	**1,097**	1,122	**1,097**	1,122
- dividend income - other	**7,716**	7,567	**7,716**	7,567
- net fair value gains and interest on bonds	**52,739**	62,546	**52,739**	62,546
Net fair value gains on investment property	**2,429**	3,348	**2,429**	3,348
Direct operating expenses arising from investment property that generated rental income	**(456)**	(377)	**(456)**	(377)
Other investment income	**1,008**	1,018	**1,008**	1,017
Other investment expenses	**(4,412)**	(3,535)	**(4,412)**	(3,535)
Net investment return	**66,396**	78,100	**66,818**	78,099
Apportioned as follows:				
Technical				
Investment income	**50,154**	36,234	**50,154**	36,234
Unrealised gains on investments	**20,711**	45,026	**20,711**	45,026
Investment expenses and charges	**(4,864)**	(3,905)	**(4,864)**	(3,905)
	66,001	77,355	**66,001**	77,355
Non-Technical				
Investment income	**399**	752	**821**	751
Investment expenses and charges	**(4)**	(7)	**(4)**	(7)
	395	745	**817**	744
	66,396	78,100	**66,818**	78,099

6. Other technical income, net of reinsurance

	Group and Company	
	2017	2016
	€'000	€'000
Investment management fees	**380**	404
Other	**93**	115
	473	519

7. Profit before tax

Profit before tax is stated after charging:

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Employee benefit expense (Note 8)	**3,516**	3,227	**3,478**	3,154
Actuarial valuation fees	**272**	228	**272**	228
Depreciation/amortisation:				
- intangible assets (Note 13)	**628**	463	**625**	461
- property, plant and equipment (Note 14)	**395**	362	**395**	362
Directors' and officers' insurance	**30**	30	**30**	30

The financial statements include fees, exclusive of VAT, charged by the Company's auditors for services rendered for the financial years ended 31 December 2017 and 2016 relating to the following:

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Annual statutory audit – Accrued for	**100**	84	**94**	79
Paid during the year:				
for financial year 2016	84		79	
for financial year 2015		84		84

8. Employee benefit expense

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Salaries	**3,342**	3,067	**3,307**	2,998
Social security costs	**174**	160	**171**	156
	3,516	3,227	**3,478**	3,154

The average number of persons employed during the year was:

	Group		Company	
	2017	2016	**2017**	2016
Key management	**10**	10	**10**	10
Managerial	**11**	8	**11**	8
Technical	**60**	61	**59**	59
Administrative	**3**	3	**3**	3
Average number of employees	**84**	82	**83**	80

9. Tax expense

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Current tax charge	**1,188**	53	**1,289**	12
Deferred taxation charge (Note 19)	**1,099**	2,908	**1,099**	2,908
Tax expense	**2,287**	2,961	**2,388**	2,920

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Profit before tax	**12,310**	11,552	**12,599**	11,435
Tax on profit at 35%	**4,309**	4,043	**4,410**	4,002
Tax effect of:				
Property withholding tax at 8% or 10%	**(1,443)**	(778)	**(1,443)**	(778)
Net impact of maintenance allowance attributable to rental income	**(16)**	(285)	**(16)**	(285)
Other non-temporary differences	**(26)**	(19)	**(26)**	(19)
Prior year effect on property withholding tax	**(537)**	-	**(537)**	-
Income tax expense	**2,287**	2,961	**2,388**	2,920

10. Directors' emoluments

	Group and Company	
	2017	2016
	€'000	€'000
Directors' fees	**47**	47

The Company has paid insurance premiums of €30,000 during the year (2016: €30,000) in respect of insurance cover in favour of its directors.

11. Earnings per share

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

	Group	
	2017	2016
Net profit attributable to shareholders (€'000)	**10,023**	8,591
Weighted average number of ordinary shares in issue	**21,900,000**	21,900,000
Earnings per share (€)	**45c8**	39c2

12. Dividends

A net dividend in respect of 2017 of 56c2 per share, amounting to a total net dividend of €12.30 million is proposed. The final dividend declared during 2017 in respect of 2016 was €11.55m representing 52c7 per share. The final dividend declared during 2016 in respect of 2015 was €5.00m representing 22c8 per share.

13. Intangible assets

Group	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 31 December 2015				
Cost or valuation	53,428	10,440	3,342	67,210
Accumulated amortisation and impairment	-	(7,171)	(2,670)	(9,841)
Net book amount	**53,428**	**3,269**	**672**	**57,369**
Year ended 31 December 2016				
Opening net book amount	53,428	3,269	672	57,369
Increase in value of in-force business debited to reserves (Note 23)	6,527	-	-	6,527
Additions	-	738	38	776
Amortisation charge (Note 7)	-	(312)	(151)	(463)
Closing net book amount	**59,955**	**3,695**	**559**	**64,209**
At 31 December 2016				
Cost or valuation	59,955	11,178	3,380	74,513
Accumulated amortisation and impairment	-	(7,483)	(2,821)	(10,304)
Net book amount	**59,955**	**3,695**	**559**	**64,209**
Year ended 31 December 2017				
Opening net book amount	59,955	3,695	559	64,209
Increase in value of in-force business debited to reserves (Note 23)	2,417	-	-	2,417
Additions	-	419	58	477
Amortisation charge (Note 7)	-	(463)	(165)	(628)
Closing net book amount	**62,372**	**3,651**	**452**	**66,475**
At 31 December 2017				
Cost or valuation	62,372	11,597	3,438	77,407
Accumulated amortisation and impairment	-	(7,946)	(2,986)	(10,932)
Net book amount	**62,372**	**3,651**	**452**	**66,475**

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

13. **Intangible assets** – continued

Amortisation of €0.35m (2016: €0.28m) is included in acquisition costs and €0.28m (2016: €0.19m) is included in administration expenses.

Company	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 31 December 2015				
Cost or valuation	53,428	10,160	3,342	66,930
Accumulated amortisation and impairment	-	(6,900)	(2,670)	(9,570)
Net book amount	**53,428**	**3,260**	**672**	**57,360**
Year ended 31 December 2016				
Opening net book amount	53,428	3,260	672	57,360
Increase in value of in-force business debited to reserves (Note 23)	6,527	-	-	6,527
Additions	-	738	38	776
Amortisation charge (Note 7)	-	(310)	(151)	(461)
Closing net book amount	**59,955**	**3,688**	**559**	**64,202**
At 31 December 2016				
Cost or valuation	59,955	10,898	3,380	74,233
Accumulated amortisation and impairment	-	(7,210)	(2,821)	(10,031)
Net book amount	**59,955**	**3,688**	**559**	**64,202**
Year ended 31 December 2017				
Opening net book amount	59,955	3,688	559	64,202
Increase in value of in-force business debited to reserves (Note 23)	2,417	-	-	2,417
Additions	-	419	58	477
Amortisation charge (Note 7)	-	(460)	(165)	(625)
Closing net book amount	**62,372**	**3,647**	**452**	**66,471**
At 31 December 2017				
Cost or valuation	62,372	11,317	3,438	77,127
Accumulated amortisation and impairment	-	(7,670)	(2,986)	(10,656)
Net book amount	**62,372**	**3,647**	**452**	**66,471**

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

Amortisation of €0.35m (2016: €0.28m) is included in acquisition costs and €0.28m (2016: €0.19m) is included in administration expenses.

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

The after tax value of in-force business is determined by the directors on an annual basis. The embedded value and expected future profits of each line of business is assessed. The value of in-force business is calculated using a large number of assumptions about future experience.

13. Intangible assets - continued

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

These assumptions concern both future economic and demographic experience. Forecasting future experience is inherently difficult.

The company seeks to set assumptions that are at least consistent with the actual experience of the business. As a result, the assumptions used in the assessment are revised at least annually, to be up to date. The process by which assumptions are changed is described in more detail below.

The value of with profits business is most sensitive to the size of the with profits fund. A 1% increase in the size of the fund value will increase the embedded value reported by €0.49 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.49 million.

Similarly, the value of unit linked business is most sensitive to the size of the unit linked fund. A 1% increase in the size of the fund value will increase the embedded value by €0.03 million. A 1% fall in the size of the fund value will reduce the embedded value by €0.03 million.

Term assurance business is particularly sensitive to the rates assumed for future mortality. A 1 percentage point increase in the rates will reduce the embedded value by €0.14 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.14 million.

The economic assumptions used in the calculation have been set to be internally consistent as well as reflecting the directors' view of economic conditions in the longer term. The valuation assumed a real return of 1% pa (2016: 1% pa) for with profits business with a risk discount rate of 6.5% pa (2016: 6.5% pa). For term assurance and unit linked business these assumptions are unchanged. Expense are assumed to inflate at 3.5% pa (2016: 3.5% pa).

As noted, economic assumptions are set to be internally consistent and reflect the real long-term returns anticipated and the risk appetite of the Directors. To maintain this internal consistency, any changes to the economic assumptions are considered as a whole. We consider that any changes to the assumptions that do not change the internal consistency will not significantly change the value of the in force business.

Demographic assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process. This year both the rates of expected future mortality and future surrenders / lapses have been revised across all product lines for this reason. Future mortality assumptions continue to be set with reference to standard mortality tables and vary with the age of the policyholder.

Future lapse / surrender assumptions continue to be set as a function of the product type, the premium frequency, and the duration a policy has been in force. Assumptions about the servicing costs of in force policies are also made in line with the current, aggregate renewal costs as reflected in the profit and loss.

14. Property, plant and equipment

Group	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Total €'000
At 31 December 2015				
Cost	4,303	550	2,913	7,766
Accumulated depreciation	-	(239)	(1,751)	(1,990)
Net book amount	**4,303**	**311**	**1,162**	**5,776**
Year ended 31 December 2016				
Opening net book amount	4,303	311	1,162	5,776
Additions	82	-	239	321
Depreciation charge (Note 7)	-	(55)	(307)	(362)
Closing net book amount	**4,385**	**256**	**1,094**	**5,735**
At 31 December 2016				
Cost	4,385	550	3,152	8,087
Accumulated depreciation	-	(294)	(2,058)	(2,352)
Net book amount	**4,385**	**256**	**1,094**	**5,735**
Year ended 31 December 2017				
Opening net book amount	4,385	256	1,094	5,735
Additions	242	-	291	533
Transfer from land and buildings – investment property (Note 15)	3,161	-	-	3,161
Depreciation charge (Note 7)	-	(55)	(340)	(395)
Closing net book amount	**7,788**	**201**	**1,045**	**9,034**
At 31 December 2017				
Cost	7,788	550	3,443	11,781
Accumulated depreciation	-	(349)	(2,398)	(2,747)
Net book amount	**7,788**	**201**	**1,045**	**9,034**

Land and buildings are shown at fair value (level 3). As at 31 December 2017 and 2016, the fair value of the freehold land and buildings is not significantly different as compared to its historical cost less depreciation.

No revaluation of land and buildings was carried out during the current and comparative year.

14. Property, plant and equipment - continued

Company	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Total €'000
At 31 December 2015				
Cost	4,303	550	2,844	7,697
Accumulated depreciation	-	(239)	(1,682)	(1,921)
Net book amount	**4,303**	**311**	**1,162**	**5,776**
Year ended 31 December 2016				
Opening net book amount	4,303	311	1,162	5,776
Additions	82	-	239	321
Depreciation charge (Note 7)	-	(55)	(307)	(362)
Closing net book amount	**4,385**	**256**	**1,094**	**5,735**
At 31 December 2016				
Cost	4,385	550	3,083	8,018
Accumulated depreciation	-	(294)	(1,989)	(2,283)
Net book amount	**4,385**	**256**	**1,094**	**5,735**
Year ended 31 December 2017				
Opening net book amount	4,385	256	1,094	5,735
Additions	242	-	291	533
Transfer from land and buildings – investment property (Note 15)	3,161	-	-	3,161
Depreciation charge (Note 7)	-	(55)	(340)	(395)
Closing net book amount	**7,788**	**201**	**1,045**	**9,034**
At 31 December 2017				
Cost	7,788	550	3,374	11,712
Accumulated depreciation	-	(349)	(2,329)	(2,678)
Net book amount	**7,788**	**201**	**1,045**	**9,034**

Land and buildings are shown at fair value (level 3). As at 31 December 2017 and 2016, the fair value of the freehold land and buildings is not significantly different as compared to its historical cost less depreciation.

No revaluation of land and buildings was carried out during the current and comparative year.

15. Investment property

	Group and Company Level 3 €'000
At 31 December 2015	
Cost	58,045
Accumulated fair value gains	26,056
Net book amount	**84,101**
Year ended 31 December 2016	
Opening net book amount	84,101
Additions	659
Disposals	(98)
Net fair value gains	3,331
Closing net book amount	**87,993**
At 31 December 2016	
Cost	58,652
Accumulated fair value gains	29,341
Net book amount	**87,993**
Year ended 31 December 2017	
Opening net book amount	87,993
Additions	594
Transfer to tangible assets – property, plant and equipment (Note 14)	(3,161)
Net fair value gains	2,429
Closing net book amount	**87,855**
At 31 December 2017	
Cost	56,085
Accumulated fair value gains	31,770
Net book amount	**87,855**

Fair value of land and buildings

An independent valuation of the Group's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2017 and 2016. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 5).

The Group's and the Company's investment property, comprising mainly office buildings, have been determined to fall within level 3 of the fair valuation hierarchy. The different levels in the fair value hierarchy have been defined in Note 3.4.

15. **Investment property** - continued

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

Valuation processes

On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings. As at 31 December 2017 and 2016, the fair values of the land and buildings have been determined by DHI Periti.

At each financial year end the investments department:

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

Valuation techniques

For level 3 fair value of all office buildings with a total carrying amount of €87.9 million (2016: €88.0 million), the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

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

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

At 31 December 2017			**Significant unobservable inputs**	
Description	**Fair value at 31 December €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Office buildings	87.9m	Capitalisation of future net income streams	4.67m	Varying between 3.5 & 6.5

15. Investment property - continued

At 31 December 2016

			Significant unobservable inputs	
Description	**Fair value at 31 December €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Office buildings	88.0m	Capitalisation of future net income streams	5.07m	Varying between 4.25 & 7.5

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

16. Investment in group undertaking

	Company €'000
Year ended 31 December 2017 and 2016	
Opening and closing net book amount	**466**

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Nature of Business	Class of shares held	Percentage of shares held 2017 & 2016
Growth Investments Limited	Development House Pjazza Papa Giovanni XXIII Floriana, FRN 1420	Investment services	Ordinary shares	100%

17. Investments in associated undertakings

	Group and Company €'000
At 31 December 2015	
Cost	15,130
Accumulated net fair value gains	13,010
Net book amount	**28,140**
Year ended 31 December 2016	
Opening net book amount	28,140
Net fair value gains	5,763
Closing net book amount	**33,903**
At 31 December 2016	
Cost	15,130
Accumulated net fair value gains	18,773
Net book amount	**33,903**
Year ended 31 December 2017	
Opening net book amount	33,903
Disposals	(149)
Net fair value losses	(1,977)
Closing net book amount	**31,777**
At 31 December 2017	
Cost	14,960
Accumulated net fair value gains	16,817
Net book amount	**31,777**

The associates at 31 December are shown below:

Associated undertakings	**Registered office**	**Class of shares held**	**Percentage of shares held 2017**	**2016**
Premium Realty Limited (liquidated)	Middle Sea House Floriana, FRN 1442	Ordinary shares	-	25%
Church Wharf Properties Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	50%	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	35.46%	35.46%

18. Other investments

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**1,658,146**	1,452,520	**1,658,135**	1,452,513
Loans and receivables	**197,080**	205,970	**197,080**	205,970
	1,855,226	1,658,490	**1,855,215**	1,658,483

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**778,078**	568,344	**778,067**	568,337
Debt securities	**785,359**	787,067	**785,359**	787,067
Assets held to cover linked liabilities				
- collective investment schemes	**93,999**	97,109	**93,999**	97,109
Forward foreign exchange contracts and futures	**710**	-	**710**	-
Total investments at fair value through profit or loss	**1,658,146**	1,452,520	**1,658,135**	1,452,513

Technical provisions for linked liabilities amounted to €94.2m as at 31 December 2017 (2016: €97.3m). Linked liabilities are included in technical provisions for insurance contracts, investment contracts with DPF and investment contracts without DPF.

At 31 December 2017 and 2016, the Group and Company had no financial commitments in respect of uncalled capital.

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Within one year	**42,722**	24,749	**42,722**	24,749
Between 1 and 2 years	**41,095**	66,465	**41,095**	66,465
Between 2 and 5 years	**256,100**	248,975	**256,100**	248,975
Over 5 years	**445,442**	446,878	**445,442**	446,878
	785,359	787,067	**785,359**	787,067

18. **Other investments** - continued

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

The movements for the year are summarised as follows:

	Group €'000	Company €'000
At 31 December 2015		
Cost	1,142,430	1,142,424
Accumulated net fair value gains	190,793	190,793
Net book amount	**1,333,223**	**1,333,217**
Year ended 31 December 2016		
Opening net book amount	1,333,223	1,333,217
Additions	1,076,262	1,076,261
Disposals	(994,174)	(994,174)
Net fair value gains	36,890	36,890
Closing net book amount	**1,452,201**	**1,452,194**
At 31 December 2016		
Cost	1,237,507	1,237,500
Accumulated net fair value gains	214,694	214,694
Net book amount	**1,452,201**	**1,452,194**
Year ended 31 December 2017		
Opening net book amount	1,452,201	1,452,194
Additions	1,298,938	1,298,933
Disposals	(1,116,104)	(1,116,103)
Net fair value gains	23,111	23,111
Closing net book amount	**1,658,146**	**1,658,135**
At 31 December 2017		
Cost	1,468,527	1,468,516
Accumulated net fair value gains	189,619	189,619
Net book amount	**1,658,146**	**1,658,135**

Derivative financial assets amounting to €0.7m (2016: €0.3m liabilities), included in the table above, are classified within assets and liabilities respectively in the statement of financial position.

18. **Other investments** - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	Group and Company	
	2017	2016
	€'000	€'000
Deposits with banks or credit institutions	**187,569**	196,727
Loans secured on policies	**9,511**	9,243
	197,080	205,970

Maturity of deposits with bank or credit institutions:

	Group and Company	
	2017	2016
	€'000	€'000
Within 3 months	**46,425**	44,648
Within 1 year but exceeding 3 months	**141,144**	146,079
Between 1 and 5 years	**-**	6,000
	187,569	196,727

The above deposits earn interest as follows:

	Group and Company	
	2017	2016
	€'000	€'000
At fixed rates	**187,569**	196,727
	187,569	196,727

As at 31 December 2017, an amount of €0.67m (2016: €1.10m) included within deposits with banks or credit institutions was held in a margin account as collateral against exchange traded futures.

18. **Other investments** - continued

(b) Loans and receivables - continued

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

Group and Company

	Loans secured on policies €'000
Year ended 31 December 2016	
Opening net book amount	9,496
Additions	5,839
Disposals (sales and redemptions)	(6,092)
Closing net book amount	**9,243**

Group and Company

	Loans secured on policies €'000
Year ended 31 December 2017	
Opening net book amount	9,243
Additions	2,973
Disposals (sales and redemptions)	(2,705)
Closing net book amount	**9,511**

The above loans earn interest at fixed rates.

19. **Deferred tax liability**

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**(25,386)**	(22,478)	**(25,384)**	(22,476)
Movement during the year:				
Profit or loss (Note 9)	**(1,099)**	(2,908)	**(1,099)**	(2,908)
Balance at 31 December (net)	**(26,485)**	(25,386)	**(26,483)**	(25,384)

Deferred tax liabilities are calculated on all temporary differences using a principal tax rate of 35% (2016: 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 8% or 10% of the carrying amount (2016: 8% or 10%).

19. **Deferred tax liability**- continued

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Tax effect of temporary differences attributable to:				
Investment property	**(8,213)**	(7,916)	**(8,213)**	(7,916)
Fair value adjustments on financial investments	**(51,399)**	(61,970)	**(51,399)**	(61,970)
Property, plant and equipment	**(890)**	(685)	**(888)**	(683)
Unabsorbed tax losses and capital allowances	**34,017**	45,185	**34,017**	45,185
Balance at 31 December (net)	**(26,485)**	(25,386)	**(26,483)**	(25,384)

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

The tax effect of temporary differences attributable to the value of in-force business amounts to €1.30m (2016: €3.51m).

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

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

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

20. Debtors and prepayments and accrued income

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Debtors				
Amount due from group undertaking (Note 29)	**-**	-	**32**	161
Amount due from immediate parent (Note 29)	**-**	10	**-**	10
	-	10	**32**	171
Prepayments and accrued income				
Accrued interest and rent	**11,677**	11,825	**11,677**	11,825
Other prepayments and accrued income	**2,303**	1,359	**2,169**	1,216
	13,980	13,184	**13,846**	13,041

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

21. Cash and cash equivalents

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**49,046**	62,368	**48,512**	61,527

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
At floating rates	**44,015**	60,869	**43,484**	60,028

22. Share capital

	Group and Company	
	2017	2016
	€'000	€'000
Authorised		
24,000,000 Ordinary shares of €2.50 each	**60,000**	60,000
Issued and fully paid		
21,900,000 Ordinary shares of €2.50 each	**54,750**	54,750

23. Other reserves

	Group and Company	
	2017	2016
	€'000	€'000
Value of in-force business		
Balance at 1 January	**53,782**	47,255
Increase in value of in-force business (Note 13)	**2,417**	6,527
Balance at 31 December	**56,199**	53,782

The above reserve is non-distributable.

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

(i) Insurance contracts

	Group and Company	
	2017	2016
	€'000	€'000
Gross technical provisions		
- claims outstanding	**4,004**	2,989
- long term business provision	**531,911**	536,539
	535,915	539,528
Reinsurers' share of technical provisions		
- claims outstanding	**609**	502
- long term business provision	**-**	1,087
	609	1,589
Net technical provisions		
- claims outstanding	**3,395**	2,487
- long term business provision	**531,911**	535,452
	535,306	537,939

Movements are as follows:

	Group and Company	
	2017	**2017**
	€'000	**€'000**
	Gross	**Reinsurance**
Year ended 31 December		
At beginning of year	**539,528**	**1,589**
Charge to profit or loss	**(3,613)**	**(980)**
At end of year	**535,915**	**609**

	Group and Company	
	2016	2016
	€'000	€'000
	Gross	Reinsurance
Year ended 31 December		
At beginning of year	529,906	2,347
Charge to profit or loss	9,622	(758)
At end of year	539,528	1,589

The above liabilities are substantially non-current in nature.

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

(ii) Investment contracts with DPF

	Group and Company	
	2017	2016
	€'000	€'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**14,063**	11,370
- long term business provision	**1,320,322**	1,129,964
	1,334,385	1,141,334

Movements are as follows:

	Group and Company	
	2017	2016
	€'000	€'000
Year ended 31 December		
At beginning of year	**1,141,334**	970,764
Charge to profit or loss	**193,051**	170,570
At end of year	**1,334,385**	1,141,334

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

(a) Assumptions

Rate of future investment return

The rate of future investment return (valuation interest rate) is calculated in accordance with the Regulations. In accordance with these rules the calculation of the rate of future investment return is based on a prudent assessment of the yields generated by the long term business assets. This assessment does not include any allowance for capital growth on assets other than bonds. On bonds the allowance must be consistent with the yield to maturity of the instrument in the market. This could be interpreted as setting the rate of future investment return in line with the weighted average portfolio yield taking into account certain risk adjustments.

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

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

(a) Assumptions - continued

Bonus rates

The current rates of reversionary and terminal bonuses are determined by the Board in consultation with the Approved Actuary. Different bonus rates are declared on different generations of contracts depending on the type of product, cost structure, past investment performance and premium rates. Different bonuses are declared to maintain equity between different generations of contract holders and products with different characteristics. Future bonus rates are not guaranteed and the assumptions are set to allow for a fair and orderly run-off of the fund.

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

Policy maintenance expenses

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

Minimum reserve

With profits policy reserves are equal to the underlying asset share as aggregated at the homogeneous product cohort level.

The minimum reserve for unit linked contracts is determined on a policy by policy basis where appropriate and is set to equal to the current surrender value or zero whichever is greater.

The minimum reserve for protection contracts is also determined on a policy by policy basis and is set equal to the policy reserve or zero, whichever is higher.

Mortality

The Company makes reference to AMC00 (2016: AMC00) mortality tables.

(b) Changes in assumptions

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

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

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

(c) Sensitivity analysis

The directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The most sensitive assumption is the rate of future investment return that will be driven by market forces. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 3. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Company's bonus policy is also influenced by market conditions. The Company's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses. This acts to mitigate the impact of market movements and profit or loss is not affected by changes in the rate of regular bonus.

25. Technical provisions – investment contracts without DPF

	Group and Company	
	2017	2016
	€'000	€'000
Long term business provision	**47,892**	53,234
Claims outstanding	**1,175**	907
	49,067	54,141

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

26. Creditors and accruals and deferred income

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Creditors				
Creditors arising out of direct insurance operations	**5,447**	5,626	**5,447**	5,626
Amount owed to immediate parent company (Note 29)	**55**	-	**55**	-
Indirect taxation	**1,085**	812	**1,085**	812
Other creditors	**6**	1	-	-
	6,593	6,439	**6,587**	6,438
Accruals and deferred income				
Accruals	**1,801**	2,305	**1,734**	2,231
Deferred income	**669**	620	**669**	620
	2,470	2,925	**2,403**	2,851
Total liabilities	**9,063**	9,364	**8,990**	9,289
Current	**8,917**	9,218	**8,844**	9,143
Non-current	**146**	146	**146**	146
	9,063	9,364	**8,990**	9,289

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

27. Note to the cash flow statements

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Profit before tax	**12,310**	11,552	**12,599**	11,435
Adjusted for:				
Amortisation (Note 13)	**628**	463	**625**	461
Depreciation (Note 14)	**395**	362	**395**	362
Investment return	**(69,463)**	(77,046)	**(69,461)**	(77,044)
Movement in:				
Technical provisions	**185,344**	172,306	**185,344**	172,306
Debtors, prepayments and accrued income	**(211)**	(43)	**(91)**	163
Creditors, accruals and deferred income	**(301)**	1,622	**(299)**	1,582
Cash generated from operations	**128,702**	109,216	**129,112**	109,265

28. Commitments

Capital commitments

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Authorised and contracted:				
- property, plant and equipment	**337**	365	**337**	365
- intangible assets	**74**	626	**74**	626
	411	991	**411**	991

28. Commitments - continued

Operating lease commitments - where the Company is the lessor

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

	Group and Company	
	2017	2016
	€'000	€'000
Not later than 1 year	**3,835**	3,153
Later than 1 year and not later than 5 years	**7,370**	4,700
Later than 5 years	**3,309**	4,259
	14,514	12,112

29. Related party transactions

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

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

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

29. Related party transactions - continued

Relevant particulars of related party transactions are as follows:

(a) Sale of insurance contracts and other services

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Transactions with a parent undertaking:				
Commission income	**180**	135	**180**	135
Transactions with the Company's subsidiary:				
Trailer fee income	**-**	-	**193**	181
Management fee income	**-**	-	**73**	73
Transactions with other related parties:				
Trailer fee income	**14**	12	**14**	12
Rental income on investment property	**228**	220	**228**	220
Transactions with the immediate parent undertaking:				
Reimbursement of expenses for back office support services	**8**	21	**8**	21

(b) Purchase of products and services

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Transactions with the immediate parent undertaking:				
Rent expense	**108**	104	**108**	104
Purchase of insurance cover and other services	**160**	153	**160**	153
Transactions with a parent undertaking:				
Reinsurance premium ceded	**1,218**	741	**1,218**	741
Staff development training	**30**	37	**30**	37
Computer maintenance	**523**	406	**523**	406
Capitalisation of software development	**109**	323	**109**	323
Transactions with the Company's subsidiary:				
Investment transaction costs	**-**	-	**-**	28
Transactions with other related parties:				
Acquisition costs	**5,840**	5,685	**5,840**	5,685
Bank charges	**33**	28	**27**	22
Costs in relation to hosting of IT server	**17**	17	**17**	17

29. **Related party transactions** - continued

(c) Investments

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Investments in securities issued by other related parties	**19,466**	19,700	**19,466**	19,700
Deposits held with other related parties	**200,631**	224,781	**200,096**	223,940
	220,097	**244,481**	**219,562**	**243,640**
Investment return, net of expenses and other charges:				
- other related parties	**1,652**	2,821	**1,651**	2,821

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

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

	Group		Company	
	2017	2016	**2017**	2016
	€'000	€'000	**€'000**	€'000
Amount due from subsidiary (Note 20)	**-**	-	**32**	161
Accrued income from other related parties	**247**	403	**247**	403
Accruals and deferred income	**(35)**	(136)	**(35)**	(136)
Creditors arising out of direct insurance operations – other related parties	**(354)**	(460)	**(354)**	(460)
Amounts due (to)/from immediate parent company (Notes 20 & 26)	**(55)**	10	**(55)**	10
Creditors arising out of insurance operations – parent undertaking	**(599)**	(573)	**(599)**	(573)

All the amounts receivable or payable are unsecured and interest free.

Total salary remuneration paid by the Group to key management personnel during the year amount to €1.11m (Company: €1.11m). Corresponding figures for 2016 were €1.14m and €1.12m respectively.

30. Statutory information

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

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

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