



**MAPFRE**  
**MIDDLESEA**

**2018** | **Annual Report**



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Our **vision** is to be **Your trusted global insurance company**, for you, for everyone, in every country in the world.

We want to be the benchmark that all clients think of when they need an insurance solution to protect themselves and their families, their belongings and also when they are seeking a financial institution to trust with their future.

We are **people who look after people**, and it is our **MISSION** to be **a multinational team** that works to constantly improve services and develop the best possible relationships with our clients, distributors, providers, shareholders and society in general.

This is a commitment to continuous improvement that we fulfill through our **Values** and which helps us to execute our Mission and achieve our **Vision**.

These values are: solvency, understood as financial strength with sustainable results, with international diversification and a consolidated position in different markets; **integrity**, which comes about through ethical action on the part of everyone and a socially responsible focus in all our activities; **vocation for service**, understood as the permanent quest for excellence and the continuous initiative aimed at caring for our client relationships; **innovation for leadership**, the eagerness to continuously succeed and improve, a different way of thinking to see what others have not seen and incorporate these advances in the business, because ongoing innovation is vital in such a global and competitive environment; and conducting our activities with a **committed team** that is fully involved in the MAPFRE project and the constant training of our people and the development of their skills and capacities.

# CHAIRMAN'S STATEMENT

I am pleased to report that 2018 has been another successful year for the MAPFRE group in Malta. Profit before tax amounted to €18.56 million (2017: €17.71 million) whilst profits after tax attributed to shareholders increased to €8.59 million (2017: €8.51 million). The Group has seen another record year in the volumes of premium written rising from the €351.10 million written in 2017 to €389.70 million in 2018.

## DIVIDENDS

As with last year we have also ensured that the profits have largely all been passed to you by way of a Dividend. This year therefore MAPFRE Middlesea p.l.c. ("MMS" or "Company") we will be paying a net dividend of €9.00 million compared to last year's €9.70 million. This will translate into a net dividend per share of €0.09782 compared to €0.10543 in the previous year.

For the avoidance of doubt the net dividend per share reflects what the Company will distribute from its taxed profits. Some shareholders, due to their nature as individual resident shareholders, and due to the untaxed nature of part of the profits being distributed, will receive a slightly lower net amount due to withholding tax that the Company is obliged to withhold and pay to the tax authorities.

MAPFRE MSV Life p.l.c. ("MMSV") has in the past year been reviewing its operational, solvency and capital requirements which indicated excess capital when compared to accepted norms and discussed the matter in detail with the regulator. Following approval by its Board of Directors and by the regulator a special dividend of €16.35 million, of which half is attributable to MMS was approved for payment during MMSV's AGM held on 5 March 2019. Your Directors have decided that this should also be passed to the shareholders and consequently a further special dividend will be paid amounting to €8.00 million. This will translate into a net dividend per share of €0.08696 which will also have the above mentioned withholding tax implications.

## PERFORMANCE

Group Profit after tax attributable to shareholders is €8.59 million when compared to last year's result at €8.51 million. The Group has seen increased returns from all sectors including General Insurance, as well as Life Insurance business mainly carried out through MMSV where the Single Premium Plan sales continue to generate the bulk of the profit as sales continue to be strong, increasing from €238.78 million in 2017 to €268.31 million in 2018.

## CURRENT ECONOMIC ENVIRONMENT

International Markets have remained volatile, no doubt reflecting the uncertainties brought about by political upheavals around the world. America's new foreign policy initiatives, signalling a departure from the expected, poor political relations with Russia coupled with slower growth in China have dampened the economic outlook and heightened uncertainty. Closer to home, upheavals in Europe ranging from the UK's future relationship with Europe post Brexit, to the rise of the popular parties in many European countries, who threaten to shake up the accepted order of things have masked underlying fundamentals such as a marked improvement in employment and wage growth. GDP growth is, however, low, and the last quarter growth was the lowest since 2013.

By contrast in Malta, GDP growth is expected to be around 5% and rating agencies have consistently awarded the country a positive outlook. Whilst this has allowed the group to take advantage of the prevailing economic situation, we remain cautious in our outlook, investing in the core drivers of the business to ensure we are able to meet the challenges of the future. This means keeping the customer as our focus, investing prudently, training staff and maintaining high capital and solvency ratios. We also need to be agile in producing new relevant insurance and pension products which we believe the market requires.

## MAPFRE MIDDLESEA P.L.C.

The Company is in the risk business. We assess risk and assume that part of the risk which our customers are unwilling to take and wish to transfer to us. We carefully assess those risks which we underwrite, whilst reinsuring risks to remain within our own risk appetite.

This balance has meant that in spite of record claims which we have reserved or paid out to our customers for losses they have incurred, we have recorded a profit which was marginally under last years result, and this principally to lower investment returns.

You will recall that last year I had reported that we had corrected our pricing, principally in motor, and noted that most of our customers remained loyal to the company. We do ensure that price increases reflect the risks we underwrite, and maintain sufficient funds for reserving against those risks, whilst providing an adequate return for our shareholders. We are also prudent in accepting risks from our customers to ensure that we protect ourselves from unacceptably high potential consequences to contain claims to within our margins.

This policy has allowed us to maintain our profitability, and as in recent years we pass on this success to shareholders through our dividend distribution policy which has due regard to our funding requirements for our operations, capital expenditure and solvency. Although we have been able to pass on all profits earned in the year to shareholders, and this remains our intention, I would caution taking this as a given as the Board's overriding principle is one of sustainable growth tempered but prudence.

## CLAIMS

Malta has one of the lowest rates of insurance penetration. Apart from motor insurance where this is mandatory, many either assume risk consciously or are unaware of the risks they accept.

As I mentioned the Company suffered record claims in 2018. Put another way, we have been able to help a record number of policy holders by assuming part of their financial losses. Clearly motor is the highest claiming

# CHAIRMAN'S STATEMENT

segment but we have recorded increases in Home, Health and in claims from businesses, with claims for damage to assets or possible legal liability. The recent storm brings to mind the importance of our industry, and the recovery we can facilitate for small and large businesses, for home owners and indeed yacht owners. As insurance providers we are there to step in and avoid what could otherwise be an unaffordable loss. Clearly much needs to be done by way of education, and also on our part by tailoring policies, or packages which are most relevant to our customers. It is my opinion, and I am not alone in this, that the impact of climate change will accentuate the vagaries of weather and our customers need to be aware of this, whilst the insurance industry needs to prepare for it and indeed fight to combat it.

In 2018 we incurred €42.30 million in claims before reinsurance recoveries compared to €37.24 million in 2017. We review the risks we undertake and refuse to underwrite risks we deem unacceptable. Whilst this has yielded good results and the average value of claims has reduced, we have suffered a number of very large one-off claims which have pushed the total value of losses up. Part of these claims are protected by reinsurance which has lessened the impact on our financial statements and is attributable to our prudent policy towards risk.

The Company receives around 55,000 claims every year. Each claim needs to be registered, surveyed, valued and assessed and finally settled. The President and Chief Executive Officer will report how we have improved our efficiency in the claims area through digitalisation, the call centre and staff enhancements, but we feel we still have more progress to make to ensure that our customers, be they agents, TII's, brokers or individuals, get the level of service we would wish. Our endeavors in this area will be simplified when our new IT system, of which I have more to say later, will start being rolled out later this year.

## IT

As with last year our most significant capital expenditure remains IT. I have had cause to share with you the issues we have had with regard to the computerisation of our processes. We are currently moving from our current IT arrangement to a new system which forms part of the MAPFRE group infrastructure. This has proved problematic in the past, but with the appointment of Deloitte as IT consultants we have managed to register significant progress last year which is being maintained in 2019. This year we intend to start migrating Home and Motor business to the new system and to roll it out to our intermediaries next year. This will be a game changer for the Company as it will allow us to become more efficient in our operations as well as to better analyse data for pricing, risk assessment and actuarial purposes.

## MAPFRE MSV LIFE P.L.C.

MMSV had another successful year returning a profit after tax of €10.88 million, compared to a profit of €10.02 million in 2017. We had record sales of single premiums (the backbone of the with profits business), a savings plan

which protects investors by guaranteeing the capital sum invested, giving a return based on the performance of the fund as well as a bonus system providing additional returns over the years. You will recall that in 2016 we had initiated an annual management charge of 0.56% of the fund which has now reached just under €2 billion. This makes for a more stable outlook for the company which now charges for administering the fund for the investors.

The company seeks to balance investments in the fund for its customers through spreading investments globally and mixing return seeking opportunities with safer instruments which would yield a lower return. Last year was a difficult year, with markets continuing their journey in uncharted territory. Cash deposits are still charged negative interest, and yields on bonds have been at record low returns. Around the year end markets plummeted, resulting in a year end return of the fund of -2.15% compared to a return of 3.85% last year. Since the year end markets have rallied somewhat, but the volatility remains. Political and economic uncertainty undoubtedly contribute to this and volatility in the markets going forward seems to be with us for some time.

MAPFRE MSV Life continues to invest in IT, in diversifying its distribution system for Term and With-Profits Life policies as well as investing in new pensions opportunities for its customers which new legislation is making more attractive. This latter area is seen as an exciting growth prospect.

Clearly encouraging customers to invest savings in a pension scheme, to supplement the overburdened National Insurance scheme, to supplement their income and maintain their standard of living, is a game changer. It is not easy to do this without Government incentives and I am pleased to note that the latest incentives by Government to do this are encouraging.

## REGULATION

Both MAPFRE Middlesea p.l.c. and MAPFRE MSV Life p.l.c. are regulated entities. Both companies have invested heavily in structures to ensure that we remain compliant with legislation and best practice. This has meant investing in skilled staff and training, and we are fortunate to have the resources of the MAPFRE group to assist us in this.

The accounting standards are also set to change and we will be impacted when IFRS 17 is due to be implemented in 2022, suffice to say this is a complex exercise but one which we are prepared for.

## DISTRIBUTION

MAPFRE Middlesea distributes business with a multi-channel approach which means that the many of the policies sold are generated through a network of Agents, Brokers and Tied Insurance Intermediaries. Over 35% of our income comes from 6 agents, whilst 25% comes from our own Tied Insurance Intermediaries of which we have around 60. Clearly therefore the success of the Company is due to a large part on the efforts of these intermediaries

# CHAIRMAN'S STATEMENT

and I would like to take the opportunity to thank them for all their hard work in making this year yet another successful year.

We understand the need to be innovative in both the insurance cover we provide to our ultimate customer as well as in the service we deliver. I can assure you that we are mindful of this. The Company has gone through a period of exceptional growth in recent years and this has made change harder to achieve. Today our outlook is one of consolidation as we concentrate on reviewing our processes, delivering the new IT system, and looking to provide relevant insurance protection to our customers.

## CORPORATE SOCIAL RESPONSIBILITY

During 2018, the Company continued to help within the community through its Corporate Social Responsibility Programme, which forms part of MAPFRE's global volunteering programme.

We truly believe that the company cannot operate in a vacuum, ignoring the environment and the community wherein it operates. The Company seeks to put into practice CSR principles on a daily basis with its own employees helping on the initiatives supported by the company.

In 2018 these activities included amongst others, underwater clean-up of sea bed, blood donation, planting of trees, selling ice-creams to raise funds to Dr Klown, visits to elderly homes and taking out children who live in residential homes.

The Company also renewed its support to The Malta Community Chest Fund, Caritas, Dar tal-Providenza, Hospice Movement, Malta Red Cross and St Johns Rescue Corps amongst other philanthropic entities.

I am pleased to report that in 2018 Fundación MAPFRE brought to Malta a major exhibition of Picasso&Miró on the occasion of Valletta being the European Capital of Culture. The exhibition was a great success and it was visited by over 70,000 people.

Through the help of Fundación MAPFRE, the health living awareness campaign Caqlaq, was held for the sixth consecutive year, giving emphasis on physical activities, whilst Street Smart which concentrates on bringing awareness to small children about road safety was commissioned for its fifth year in collaboration with Malta Public Transport.

The Company also supported Doctors for Road Safety (D4RS) in training more doctors to be in a position to assist people when road accidents occur. Throughout 2018, Fundación MAPFRE also supported Inspire and Equal Partners Foundation in their pursuit to help children with disabilities.

Opportunities for further collaboration will continue being sought in 2019.

## SHAREHOLDERS

MAPFRE Middlesea p.l.c. is a listed entity regulated by the Malta Financial Services Authority. It is a subsidiary of MAPFRE Internacional who own 54.56%. Being part of one of the largest insurance companies in the world allows us to access technical knowhow which is at the cutting edge of the industry. MAPFRE is represented on the board by Jaime Tamayo Ibañez who is the CEO International of MAPFRE S.A., Nikos Antimissaris, CEO for EURASIA, Jose Luis Jimenez Guajardo-Fajardo Chief Investment Officer at MAPFRE S.A., and David G. Curmi who is the CEO of MAPFRE MSV Life p.l.c.. Bank of Valletta p.l.c. is the other major corporate shareholder with 31.08% of the shareholding and is a 50% co-shareholder in MAPFRE MSV Life p.l.c.. The bank has proved to be a steady partner throughout the years, providing not only input and insight at board level but is the main generator of turnover in MMSV. Bank of Valletta p.l.c. is represented on the board by Taddeo Scerri, Chairman of the Bank, and Alfred Attard, Chief Officer Corporate Finance.

During the year John Cassar White and Pedro Lopez Solanes both retired from the board. Both were long serving directors who rendered sterling service to the Company through their sound business and technical contributions at board level as well as their support and loyalty. On behalf of the board I should like to thank them warmly for this.

Paul Testaferrata Moroni Viani and Antoinette Caruana are elected by the 3800 smaller shareholders who own 14.36% of the company. Having said that, board meetings are characterised by open and frank discussions and decisions are taken in the best interests of the Company. I can say that it has been a privilege for me to serve with this board.

The two Chief Executive Officers running the major group companies are Felipe Navarro Lopez de Chicheri at MAPFRE Middlesea p.l.c. and David G. Curmi at MAPFRE MSV Life p.l.c.. They ably lead their dedicated teams of managers and staff who have all contributed to the successes achieved during 2018. The board is grateful for their hard work and professional approach and for the continued success they have contributed to.



**MARTIN GALEA  
CHAIRMAN  
MAPFRE MIDDLESEA P.L.C.**

**13 MARCH 2019**

# PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

## MAPFRE MIDDLESEA GROUP HIGHLIGHTS

2018 has been another excellent year for MAPFRE Middlesea p.l.c. ("MMS" or "Company"). The efforts made by the Company, its employees, distributors, providers and clients since 2016 are showing positive results. Today we can say that we have a stable company with sound technical management that allows us to look confidently at the next three-year strategic plan. We can say that the Company's present position is much better than it's past. This does not mean that there is nothing more to do. There are a lot of areas that we need to reinforce. We are in the process of changing our core systems both in Life and non-Life business. We are improving and moving fast on the digitalization of the documentation of the Company that will allow us to do away with paper and diminish our carbon footprint. The level of service that we deliver to the Maltese client needs to improve from all sectors of the Group. Our client's access to the Company needs to be more user friendly, a good example of this is the SavviSave life product distributed by our subsidiary MAPFRE MSV Life p.l.c. ("MMSV"). This company is aspiring to these high standards.

We are already tracking the purchase and delivery of spare parts and informing the clients in real time on the status of his or her motor claim. We now have an electronic platform for purchasing spare parts. This guarantees that the part purchased is at the best conditions and from a cost controlling perspective this shows that there are objective reasons in choosing a provider. We are as well starting to track the delivery speed in order to accelerate the repairs choosing the right provider.

Today we can say that motor business is contributing to the profits of the Company. Even in a year where large claims affected us, almost all lines of business were profitable backed by good technical underwriting and sound claims management. Despite one of the worst years in the financial markets, the life business is still contributing steadily to the profit of the Group as if it were a good financial year.

The Groups' consolidated gross premium written reached €389.7 million mainly due to the growth in the single premium business at MMMSV and the good increase in the Company's non-life business. In non-life MMS grew in all lines of business but the biggest absolute increase was in motor. MMSV's gross written premiums reached €320 million with an increase of 10.7% over the previous year. MMS on its part achieved a turnover of €69.7 million with an increase of 12.5% compared with the previous year. 2018 was another good year on the organic increase of income for both life and non-life businesses. Bank of Valletta is still one of the main sources of premium for the Group and we cannot forget the excellent behaviour of other distributors: agents, brokers, tied insurance intermediaries ("TII") and other bancassurance channels. The Group confirms its leadership in the Maltese market both in life and in non-life where the market share, based on provisional market data shows a 78.42% and 33.48% market share respectively in 2018.

2018 was an annus horribilis for international investments with stocks, bonds and raw materials having all a poor performance. The US commercial war with China and Brexit were on the mind of investors in the last days of the year. In addition, Trump's economic war is also affecting non-developed countries together with the risk of a global recession. International stability is still compromised. Moreover, the Brexit outcome at the time of writing is still a big question mark and politicians are driving the European economy to a dead end. In general emerging countries performed badly with raw material prices not performing

together with political instability in the South American continent. As a result, the bonus declaration could be affected by the poor market performance. Nonetheless, MMSV's Single Premium is still providing stability and a guarantee in capital in the long term for the policyholder. The Single Premium business provided the company with a record of €268.3 million in premiums.

Akin to last year, the motor insurance market is still growing. Pricing is now reflecting the reality of the market and the technical performance of this line of business is finally reflecting the potential of the market. In 2018 the combined ratio of motor business - costs and claims divided by the earned premium net of reinsurance - was for the first time shy of the 100%, which means that the Company is no longer losing money in this line of business. This is a reality even if MMS was affected by the worst impact of a single claim in its history.

MMS is still striving to deliver a good client experience. On top of the Net Promoter Score analysis, we engage mystery shoppers that are giving us an evaluation on the performance of our service and identifying areas where this company should improve in the future. MAPFRE in Malta is also looking to implement new tools that could give us an objective evaluation in all the key interactions of the company during the client's journey.

We are in the process of renewing our commitment with clients in view of the GDPR. Clients will be informed of their rights in relation to the processing of data while the company commits to its transparent and fair processing, as well as in ensuring the secure treatment throughout the data lifecycle. In the insurance business the quality of information is crucial and it is being addressed with an ongoing project of client relationship management and data quality.

The 2018 results for the Great Place to Work (GPTW) survey were outstanding. Eighty-seven percent of our employees replied to the survey and increased the trust index with more than 11%, reaching the best level among the Eurasia countries within the MAPFRE Group. 85% of the employees agreed that MAPFRE Middlesea is a great place to work, highlighting the positive atmosphere, the flexibility and trust culture affirming that the management team is very competent, approachable and easy to talk to. Even if the company's level of staff turnover has seen a reduction in 2018 (from 13.9% in 2017 to 6.7% in 2018), MAPFRE Middlesea p.l.c. as the largest insurance company on the



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island is suffering from the lack of labour supply of the Maltese market. The level of turnover of certain industries in Malta is not sustainable and the effects of salary inflation and loss of internal expertise is creating a distortion in the market as a result of which the economy will take years to compensate. Malta still needs a stable and skilled workforce to confront the challenges brought by the country's excellent economic growth. The technical zero unemployment rate can only be offset with the incorporation from other EU Member States and from third country nationals workers that could bring to this country the right skills in a timely manner.

We continue to work on the renewal of our IT systems. MAPFRE Middlesea is continuing with the implementation of the corporate IT tool in other lines of business. Where needed, those IT solutions are being adapted to the Maltese reality, but when possible we are trying to minimise this impact. Since 2018 we have been working together with Deloitte for a smooth implementation of the new systems namely in the areas of Programme Management, Change Management and Migration. We are confident that this external expertise will help us to accelerate and increase the consistency and quality of the adoption of the new system. In 2019 MMSV will start changing its core system. This project is estimated to last at least three years. We are confident that with the experience of the MAPFRE corporate areas together with the internal knowledge we will succeed in the implementation of the third party provider tool. The change in the systems is not only a need for the business to service better the clients but a need for the IT to fight against the obsolescence of old systems that are becoming outdated.

## GENERAL BUSINESS

The premium increase in 2018 was 12.5%. This figure is being affected by a group of policies that were renewed in the late months of 2016 for a period longer than a year and so, no renewal was recognised in 2017. Excluding the said effect the increase would have been a good 9.9%. The business with the highest increase in 2018 was Accident affected by the said group of policies, followed by Engineering. The other lines of business with special increases in 2018 were Health and Liability increasing by 14.6% and 9.9% respectively. Net earned premiums increased by 7%.

MMS has decreased its exposure to the motor business which represents 52.1% of the total non-life portfolio. In 2017 the Company started an in depth restructuring of this line of business with the aim of returning the business to its due profitability. During 2018, inclusive of a major claim, a combined ratio of 99.99% was achieved, an improvement of more than 3 percentage points, thus bringing this line of business back to the profitable growth path.. We are confident that 2019 will continue its improvement in performance of the combined ratio to meet the standards established by the MAPFRE group targets. The rest of the lines of business had an overall good performance even if they were affected by some large claims during the year. The net combined ratio for the general business was an excellent 92.91% well below the MAPFRE Group long term target of 96%.

In 2018 the total number of policies issued by the company reached 214,925 an increase of 5.60% in absolute terms in a year with no portfolio acquisition or pruning. The retention rate is acceptable even if we continue experiencing a major trend in the transfer of policies between insurers. To increase our retention MMS understands that it should improve the customer service and in this regard we count on our technological modernization plan already mentioned. In addition MMS has an excellent distribution network where our partners - Agents, Brokers and TIs - do an extremely good job in customer contact and support. Once again we obtained the confidence of the brokers that continue to propose to their clients our value proposition. We are especially proud of the agents and their networks that deliver an excellent service to the client, frequently exceeding the latter's own expectations. One of our best assets is the TI network that, with ongoing training and service orientated philosophy is always at the front line supporting the clients and helping them to find the right insurance solution to their needs. The training effort that our networks did in 2018 in order to adapt to Insurance Distribution Directive ("IDD") requirements did not affect its excellent performance. We would like to thank all of them for their commitment and constant support.

In 2018 the business distributed by brokers saw an increase of 35.1% due to the major account renewed in 2018 mentioned earlier on. The business distributed by our agents increased by 7.65%. Business intermediated by TIs increased by 9.1%, reaching 24.83% of the total general business premiums of the Company. BOV is one of our strategic partners in the distribution business mainly for Home.

Gross operating expenses increased by 9.44% over the previous year reflecting the increase in the intermediated business versus the direct business written by the company and an increase in earned premium. MMS directly employed 179 workers by the end of 2018.

MMS has an exceptional solvency ratio well above the minimum regulatory requirement under Solvency II. This solvency cover will be reported in May 2019 in the Solvency and Financial Condition Report (SFCR). This strong capital position allowed us in the past to increase the level of retention of the portfolio and therefore reduce the reinsurance requirements in the lines of business where it was possible, without incurring a bigger risk to the Company in the case of a catastrophe. Our simulations allow us to confront, with enough financial solvency, a catastrophic situation that could affect the country. MAPFRE Re, the MAPFRE Group reinsurance company continues to deliver an excellent service in finding the best covers at an adequate price, taking advantage of the groups' purchasing power. In 2018 MMS experienced the biggest loss in the history of the Company in motor business with a substantial impact on reinsurers.

The lacklustre performance of the markets in 2018 was partially mitigated by the good performance of the property business with Development House close to full occupancy. As we said last year the rental income is helping to increase



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the Company's steady income. The revaluation of this building in 2018 has been important and positively affected the profits of the Company.

## LONG TERM BUSINESS

2018 has been another record year for the long term business. With more than €320.0 million in written premiums and an increase of 10.7% over the previous year MMSV is succeeding in the distribution of life savings insurance. BOV is the strategic partner in this business and is responsible for the majority of the sales in the Single Premium business. Other bancassurance agreements and the TII network also contributed to the great success of the company.

The With-Profits business distributed on the islands is quite a unique product that allows the client to receive a stable return in the long term savings. The success of the company together with the low interest rate environment, are contributing to a record year for this product. It is especially important to highlight the relevance of a business that even in the event of negative returns for the financial markets is able to declare a positive bonus even if it is lower than in other highly profitable years.

The investment return at a negative €45.3 million suffered because of the behaviour of the financial markets. In a very difficult environment the company has had a negative return to assets of 2.24 %. Even in this dire situation the long term performance of the product will allow cover to the bonus declaration that will be announced in the near future. The total investments reached a new record of €2.07 billion, a slight increase of 4.8% over the previous year.

MMSV is still contributing with a stable profit to the consolidated group thanks to its annual management charge applied to its With-Profits business. The increase in 2018 of the value of in force business came mostly from the increase in the new business contribution on the different lines. Overall MMSV has €2,213.4 billion in total assets, 4.6% higher than the previous year.

MMSV's total profit after taxes reached €10.9 million, 8.6% higher than the previous year.

Net operating expenses for MMSV show an increase of 11.7% reflecting commissions on the increase in the new business.

MMS life portfolio also showed an increase in business of 54.6% in premiums written, resulting from the previously explained decision of a client to renew a big scheme for a period over a year in 2016. The renewal of these schemes was secured in 2018. The total increase of life business in MAPFRE Middlesea excluding the aforementioned effect would have been a 17.6%. Results were however excellent in 2018 as a result of a low level of death claims frequency and severity giving the portfolio an excellent result of €1.36 million compared to €1.00 million in the previous year.

We should have considered 2018 as an excellent year for the Group for this line of business if it was not because the

extremely bad performance of the financial markets.

## CONSOLIDATED RESULTS

During 2018 the group registered a profit before tax of €18.6 million, 4.8% higher compared to the previous year. After tax the Group generated a profit of €14.04 million or 3.8% higher than the previous year.

The tax expense of 2018 is less than the 35% corporate rates closing at 24.4% compared to 23.6% in the previous year due to lower tax rates applied to property gains and as a result of the reduction in the charge on the property rentals introduced in 2017.

Earnings per share attributable to shareholders are stable at 9c3. The profit attributable to shareholders has slightly increased as a result of the excellent performance of the Group in general.

MMS is committed to return value to its shareholders and will continue to dedicate an important part of its profit to remunerate the shareholder. In this spirit of continuously and significantly remunerating the shareholder, MMS will propose to the Board the payment of a net dividend of €0.09783 per share. It should be noted that the pay-out of the Company will be 95.5% this year. The Company intends to pay its shareholders a level of dividend that reflects the good results achieved whilst having regard on its impact on solvency as well as the liquidity of the Company in current and stressed scenarios.

## STATEMENTS OF FINANCIAL POSITION

The total assets of the group increased by 4.7% and totalled €2.32 billion. More than 93.4% of them are return-seeking assets (investments and cash and cash equivalents) derived from the increase in MMSV's funds under management. These funds are invested in a number of diversified securities (local and foreign), managed in-house or by external high reputable entities. The Group has a portfolio of rented property investments and property related shares.

On the liabilities side 97.6% of the balance belongs to technical provisions. All technical provisions, both life and non-life increased as a result of the increased volume of business written.

Total equity decreased by €1.8 million or 1% including the minority interest mainly driven by the profit for the year and the increase in the value of in-force business partly offset by the dividends paid.

## REVIEW OF OPERATIONS

MAPFRE Middlesea p.l.c. could not have achieved these results without the full commitment of the employees, the insurance intermediaries and finally the customer who is finding in the Group a balanced price-return proposal. We continue to provide both customers and intermediaries with an offer that is aiming to satisfy their special needs. Every day we fight to be the trustworthy partner that they deserve.

We continue to count on our very special loyalty program,

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Insure and Save, which is providing the customer with extra services and touch points with the Company. Most of our customers do not claim and they have contact with the Company only at renewal. With our loyalty scheme, we provide the client with a direct access to different benefits that differentiates our value proposition from that of any of our competitors.

MMS has three regional offices that provide a closer approach to both final clients and TIs. In addition, Luqa and Birkirkara provide a fast motor survey service that guarantees an outstanding service to the customer.

In 2018 our life subsidiary MMSV launched the first life savings digital product on the island and one of the most advanced in the world. SavviSave allows the client to have an easy and fast tool to manage his/her savings in an efficient and digital manner.

We are convinced of our multichannel approach. Distribution through bank branches, brokers, TIs, agents and direct business gives MAPFRE in Malta a very special diversification factor that is contributing to the stability of the profits of the Company. The Group enjoys as well, a highly diversified income distribution with a balanced mix between life and non-life insurance that allows us to stabilize the profit distribution through dividend payments.

MMS has an outstanding website that allows the client to interact with the Company through different channels. Direct, telephone or digital contact is seamlessly managed by our different tools and teams. On top of being able to renew policies through the website, receive a quote and buy directly most of our business lines MMS has introduced EMMA an Artificial Intelligence avatar, to provide the client with a 24/7 service. EMMA will handle conversations with our client whenever needed. This is our first experience with AI interaction and we are gaining knowledge to provide the client with a faster and better service even when our personnel is unavailable or away from the office.

During 2018 besides the GDPR adequacy, this company had to comply with IDD (the insurance distribution directive that came into force in October 2018). After more than 40 hours of training delivered to our network and employees we were able to provide the necessary the necessary level of training to be compliant with the IDD.

Technology continues to be one of the major investments of the company. The different projects leading to the digitalization of the Maltese group are impacting all areas of the Company. The core systems of the two main companies are in the process of being changed and a number of new tools are being implemented to provide the internal and external client with state-of-the-art technology. 2018 was also the year during which MMS made major strides towards digitalization. Today MMS has digitalized all new claim files and is currently working to extend this to the underwriting and issuing process. In the future years we want to reduce the use of paper to a minimum in order to comply with legal requirements. This is not only a commitment with the future

technologies but an action to reduce the amount of paper used and the carbon impact of the company.

## SUBSIDIARIES

### BEE INSURANCE MANAGEMENT

The Group management services company, a fully owned subsidiary of MAPFRE Middlesea p.l.c., attained a pre-tax profit of €0.23 million. It also played a very active role at international events, establishing new business leads and contributing to extend the knowledge of Malta as an excellent jurisdiction to operate from. In 2018 BEE increased its internal cost in order to be prepared to provide the clients with the right level of expertise.

### MIDDLESEA ASSIST LTD

Middlesea Assist, the joint-venture between MAPFRE Middlesea p.l.c. and MAPFRE Asistencia, had a profit of €0.15 million. The main activity of Middlesea Assist is to provide services to MAPFRE Middlesea clients.

At present Middlesea Assist is a key partner of MMS activities providing the most sensitive service to the client, namely the Road Side Assistance and Home Assistance. These products score highly when evaluated during our after-service survey. Middlesea Assist is providing as well other services for the group and manages all the call centres of MMS.

## LOOKING FORWARD

2018 was for MAPFRE Middlesea the confirmation of the profitable growth strategy implemented during these last years. Even if we are not at the final stage we proved to be very well equipped to face very large claims. We had in place an excellent reinsurance cover and we proved the resilience of this company to adverse situations. We have a committed team and an internal expertise represented in the people working in this Company that allowed us to excel in difficult times.

We are still working to deliver better service to clients. After the total restructure of our motor claims department we are now changing the shape of the non-motor area too. Digitalization, new teams and reinforcing the knowledge will help us to continuously deliver a better service.

We are proud of the distributors that chose to work only with us. TIs and agents are providing an excellent service to the client, going far beyond the client's expectations as proved in our mystery shopping surveys.

The period 2016-2018 was the first three year strategic plan for this company. We are proud to say that we achieved most of our goals. Nevertheless, we must continue to move forward to excel in everything we do observing and reacting accordingly to market changes. We are now market leaders in most lines of business, we are a highly profitable company and an example at group level in certain lines of business but we need to continue excelling in our progression.

With this purpose in mind, we are proud to present the 2019-2021 new strategic plan where we are going to focus on the slogan WE ARE TRANSFORMING TO GROW AND IMPROVE

# PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

PROFITABILITY. The Client Orientation, the Excellence in Technical and Operational Management and the promotion of our Excellence in Culture and Talent are going to be our main driving forces. Nonetheless we want more, we want to transform the Company into a benchmark so the transformation will be embedded in all our actions.

At present we understand the insurance business as a service to our clients. For this we are going to continue working in order to deserve the trust of the different stakeholders: clients, providers, employees, shareholders and society in general. This is our daily goal. This cannot change. In 2018 we delivered and, as we announced last year, we finished with the systematic cross subsidy of motor with other business that were profitable. In our strategic plan, we will transform motor into a good source of revenue with a combined ratio lower than present levels and better than the public commitments of the MAPFRE Group.

The regulation environment is constantly challenging the insurance business. The way that the Company establishes the relationships with clients, distributors, providers and the regulator are becoming more complex in order to protect the client's rights. Nevertheless, this should not be a barrier for competition in any area. Providers, distributors and companies have to assume the new framework and invest to be compliant. The challenge will be to overcome the difficulties keeping a competitive offer to the client.

As I said last year, MAPFRE Middlesea p.l.c.'s optimistic look for the future is still on our minds. We are a committed team that is ready to satisfy the needs of the different stakeholders providing the shareholders with a good business performance. Malta has a great opportunity to evolve and bloom as an economy. We need to overcome some difficulties related to the lack of skilled workers in an economy that has already reached a technical full employment. We need to boost and support all the initiatives that the local institutions are promoting to become a reference in Europe for the enforcement of anti-money laundering activities and a stronger supervision of regulated activities. We look forward to see a stronger enforcement of measures in order to prevent fatalities linked to the consumption of alcohol and drugs whilst driving. We encourage the Maltese society to accept the challenge of zero fatalities on the Maltese roads and act to achieve it. Now is the moment, we cannot afford to lose a single life on our roads. We are all responsible. Valletta's declaration on road safety in March 2017 whereby all EU Member States committed themselves to halve the number of road deaths in 2020 from 2010 baseline and halve again in 2030 from 2020 numbers. To achieve this, member states should "effectively enforce road safety rules and provide support to road enforcement bodies". This can be done through cooperation and exchange of best practices, in particular with regard to speeding, and driving under the influence of alcohol or drugs. Also failing to comply with traffic light and traffic sign rules, being distracted while driving, e.g. by using mobile devices, and failing to use protective equipment." These are all of the essence. We encourage Malta to spearhead this movement and not just be a follower.

I would like to assert the closing of my last year's report because now, more than ever, MAPFRE Middlesea p.l.c. has a profound commitment with the shareholders, clients, distributors, providers, workers and Maltese society in general and will continue to work to become Your Trustworthy Insurance Company.



**FELIPE NAVARRO LOPEZ DE CHICHERI  
PRESIDENT & CHIEF EXECUTIVE OFFICER  
MAPFRE MIDDLESEA P.L.C.**

**13 MARCH 2019**

# BOARD OF DIRECTORS & COMPANY SECRETARY

## MARTIN GALEA

ACA – Chairman

NED I

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

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

## ALFRED ATTARD

NED I

**AT PRESENT:** Employed with the Bank of Valletta for the past forty years holding several senior management positions, mostly in credit. Between January 2015 and May 2016, served as Chief Officer SME Finance until June 2016 when he was appointed Chief Officer Corporate Finance. In 1995 spent six months at the Bank's representative offices in Australia.

## MR NIKOS ANTIMISSARIS

NED

**FORMERLY:** Member of the Board of Directors of many of the subsidiaries of MAPFRE Asistencia

At Present: CEO for EURASIA (Europe, Middle East, Africa and Asia) Region of the MAPFRE Group, Vice chairman of the Board of Directors of VERTI Versicherung AG (Germany), Member of the Boards of Directors of MAPFRE MSV LIFE plc (Malta), MAPFRE SIGORTA A.S. (Turkey), MAPFRE YASAM SIGORTA A.S. (Turkey), Verti Assicurazioni SpA (Italy) and MAPFRE Insular (The Philippines).

## ANTOINETTE CARUANA

MSc (Trg & Dev), BA (Hons) Bus Mgt., FCIPD

NED I

**FORMERLY:** Held a number of positions in the private sector including the post of Chief HR Officer at Lufthansa Technik; General Manager HR of the Brandstaetter Group and previously worked at Bank of Valletta for over 11 years. She was also Chief Executive of the newly incorporated government agency Heritage Malta between 2003 and 2006. She has lectured at the University of Malta in Management, Industrial Relations and HRM. She served as director of the Central Bank of Malta, the Employment and Training Corporation and Chairperson of the Malta Professional and Vocational Qualifications Award Council. She was also a trustee of the Richmond Foundation, director of the Foundation for Human Resources Development and was a core member of the Malta-EU Steering & Action Committee.

**AT PRESENT:** Company secretary and Group HR manager of the Farsons Group and member of the Farsons Group Senior Management Board and Member of the Institute for Public Services Board. She serves as employers' representative on the Industrial Tribunal.

## TADDEO SCERRI

NED I

**FORMERLY:** Managing Partner of RSM Malta, Chairman of the local UEFA Clubs Licencing Board and a member of the Malta Football Association's finance committee.

**AT PRESENT:** A qualified accountant and Director of Bank of Valletta p.l.c since December 2013. He was appointed Chairman in December 2016. Currently also chairing the Bank of Valletta Board's Nominations and Governance Committee, the Remuneration Committee and the Credit Committee.

## DAVID G. CURMI

ACII Chartered Insurer

NED

**FORMERLY:** President of the Malta Chamber of Commerce, Enterprise and Industry, and President of the Malta Insurance Association.

**AT PRESENT:** Chief Executive Officer of MAPFRE MSV Life plc, Chairman of Growth Investments Ltd., Director of Middlesea Assist (a MAPFRE company), Director of Midi plc, Deputy Chairman of Plaza Centres plc. and Chairman of the National Development and Social Fund.

## JOSÉ LUIS JIMÉNEZ

NED

**FORMERLY:** An economist in the Research Department of Caja Madrid, Chief Economist at Skandia Vida, Chief Investment Officer at SkandiaLink in the European and Latin America Division, Head of Asset Allocation at Skandia Investment Group, CEO at March A.M. and Founder and former Chairman of the Group of Boutique Asset Managers (GBAM): an international network of specialized asset managers.

**AT PRESENT:** Chief Investment Officer at MAPFRE, Madrid since 2015 heading the Global Investment Function and Lecturer in Macroeconomics at the IE Business School.

## JAIME TAMAYO IBAÑEZ

NED

**FORMERLY:** Holding a law degree from the Complutense University of Madrid. He has developed his career in the MAPFRE Group since 1993 with different executive positions in Spain and notably in the US. Until the 31 December 2016, he has been the President & CEO of MAPFRE USA as well as the CEO for MAPFRE NORTH AMERICA which includes all the Group's businesses in the United States, Canada and Puerto Rico.

**AT PRESENT:** CEO International of MAPFRE S.A., member of the Executive Committee of MAPFRE S.A., Chairman of the Board of Directors of Direct Line Insurance SpA (Italy) and Chairman of the Supervisory Board of VERTI Versicherung AG (Germany). Board member of MAPFRE INTERNACIONAL, and MAPFRE RE (Spain) and MAPFRE RE. Member of the Board of Trustees of the Fundación Consejo España-Estados Unidos and Chairman of the Commission of the Spain Chamber of Commerce for the internationalization of Spanish companies.

# BOARD OF DIRECTORS & COMPANY SECRETARY

## PAUL S. TESTAFERRATA MORONI VIANI

NED I

**AT PRESENT:** Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of GO plc., Malta Properties Company plc, Innovate Software Limited, St. George's Park Co. Ltd, SGP Projects Ltd, Euro Appliances Co. Ltd, Spinola Hotels Ltd, Reliant Ltd, Cambridge Place Ltd, Sales & Letting Ltd, Aragon Co. Limited, BPG Properties Ltd and Testaferrata Moroni Viani Holdings Ltd, Vltava Fund SICAV plc, Aquasun Services Ltd, Edrichton Group Ltd, TSL Ltd, Cablenet Communication Systems Ltd (a company incorporated in Cyprus).

## JOSEPH F. X. ZAHRA B.A

(Hons) Econ., M.A. (Econ.), FCIM, MMRS

NED I

**FORMERLY:** Head of Research, Malta Development Corporation; Director, Central Bank of Malta; Director, Malta Development Corporation; Director, Corinthia Hotels International Ltd; Chairman, Bank of Valletta plc; Chairman, Middlesea Valletta Life Assurance Co. Ltd; Chairman, Maltacom plc.; Chairman, National Euro Changeover Committee; Chairman, National Commission for Higher Education, Chairman, Middlesea Insurance plc; Chairman, Malta Council for Culture and the Arts ; Managing Director, Market Intelligence Services Co. Ltd., Chairman C. Fino & Sons Ltd.; Director Promise Professional Services Group Ltd. (Cyprus); Director, PowerImage Services Ltd.(Cyprus); Director, 3a Malta Ltd; Director Nemea Bank plc.

**AT PRESENT:** Director Medserv plc; Chairman, Multi Risk Limited; Director, Multi Risk Insurance Ltd, Chairman, Forestals Investments Ltd; Director, Surge Consulting Ltd; Director, Surge Advisory Ltd; Director, United Group Ltd; Director, United Finance plc.; Director, Pendergardens Developments plc; Director, Chasophie Group Ltd; Director, Curmi & Partners Ltd; Director, Swan Laundry & Dry Cleaning Co Ltd, FIRE Group Spa (Italy); Director, Birks Group Inc. (Canada).

## FELIPE NAVARRO

President & CEO

**FORMERLY:** Assistant General Manager of MAPFRE VIDA, Board member of different Life Insurance and Pensions companies: Director in various companies namely Bankinter Seguros de Vida SA, CCM Vida y Pensiones S.A., Unión del Duero Compañía de Seguros de Vida S.A., Duero Pensiones EGFP S.A., Catalunya Caixa Vida S.A., Bankia Mapfre Vida S.A., ASEVAL S.A., Laietana Vida S.A.,

**AT PRESENT:** President and CEO of MAPFRE Middlesea plc., Director of MAPFRE MSV Life plc, Chairman of Bee Insurance Management Ltd, Chairman of Middlesea Assist Ltd, Chairman of EuroMed Risk Solutions Ltd, Chairman of Euro Globe Holdings Ltd, Chairman of Church Wharf Properties Ltd, Director of Growth Investments Ltd.

## CARLO FARRUGIA

Dip. Gen. Mgmt (Maastricht), PGDTI, M.A. (Transl. & Interp.), CPITA, IAPTI.

Company Secretary

**FORMERLY:** Director BEE Insurance Management Ltd; Director EuroMed Risk Solutions Ltd, Previously employed at the Central Bank of Malta and Malta Financial Services Authority and appointed as a bank inspector for a number of years.

**AT PRESENT:** Joined the MAPFRE Middlesea Group in 2007 and was appointed Company Secretary and Compliance Officer of the group companies (As from the 1 January 2016 the duties of Compliance Officer were relinquished). Serves as committee secretary to the Board Committees of MAPFRE Middlesea plc and to the majority of its subsidiaries. He is also a visiting lecturer at the University of Malta for Translation and Interpreting, published the Dictionary for Financial Services and is involved in the Olympic Movement and a member of the Maltese Olympic Academy.

## NED – NON EXECUTIVE DIRECTOR

I – INDEPENDENT

# HEAD OFFICE & AGENCIES

## HEAD OFFICE

### MAPFRE MIDDLESEA P.L.C.

Middle Sea House  
Floriana, FRN1442  
Tel: (+356)21246262  
E- mail: mapfre@middlesea.com  
Website: www.middlesea.com

## REGIONAL OFFICES

### FLORIANA REGIONAL OFFICE

Middle Sea House, Floriana, FRN1422  
Tel: (+356) 25694300  
Email: fro@middlesea.com

### BIRKIRKARA REGIONAL OFFICE

83-89, Wignacourt Str  
Birkirkara, BKR 4711  
Tel: (+356) 2569 4800  
e-mail: bro@middlesea.com

### LUQA REGIONAL OFFICE

Magri Autocare Building  
Triq il-Kunsill tal-Ewropa  
Luqa LQA 9010  
Tel: (+356) 2569 4700  
Email: lro@middlesea.com

## LOCAL AGENCIES

### BONNICI INSURANCE AGENCY LIMITED

222, The Strand, Gzira GZR 1022  
Tel: (+356) 21339110  
E-Mail: info@bonniciinsurance.com

### ENGLAND INSURANCE AGENCY LIMITED

190, 1st Floor, Marina Street,  
Pietà PTA 9041  
Tel: (+356) 21251015  
E-Mail: info@england.com.mt

### LAFERLA INSURANCE AGENCY LIMITED

204 A Vincenti Buildings,  
Old Bakery Street, Valletta VLT 1453  
Tel: (+356)21224405  
E-mail info@laferla.com.mt

### MELITAUNIPOL INSURANCE AGENCY LIMITED

17, Market Street, Floriana FRN 1081  
Tel: (+356) 22067000  
E-mail: agency@melitaunipol.com

### UNTOURS INSURANCE AGENCY LTD

WMB 5, Old Bakery Street,  
Valletta, VLT 1450  
Tel: (+356) 25598000  
Email: insurance@untours.com.mt

### MONTALDO INSURANCE AGENCY LTD

(Agents for Motor and Travel)  
98/2, Melita Street, Valletta, VLT 1120  
Tel: (+356) 21238500

# PROFESSIONAL SERVICES

The Company and its subsidiaries, in addition to its regular staff complement at 31 December 2018 utilised the professional services of the following individuals and institutions:

## LEGAL ADVISORS

Mamo TCV Advocates  
Schriha, Attard Montalto, Galea and Associates  
Camilleri Preziosi

## ACTUARIES

MAPFRE S.A.  
Willis Tower Watson

## BANKERS

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

# DIRECTORS' REPORT

The Directors present their annual report for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

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

## REVIEW OF BUSINESS

### THE COMPANY

MAPFRE Middlesea p.l.c. (the 'Company') registered a profit before tax of €11.42 million during the financial year ended 31 December 2018 ("FY 2018") compared to €12.17 million registered in the previous financial year ("FY 2017") with post-tax profits of €9.43 million, compared to €10.34 million in FY 2017. The result was the fruit of another year of strong technical results in both the non-life and the group life business.

Premiums written by the Company reached €69.69 million (2017: €61.94 million), an increase of 12.5%, with growth registered in all classes of business but particularly in Health and Motor with the latter class completing the full year cycle of the revision in tariff started in FY 2017. MAPFRE Middlesea p.l.c. remained the leader of the non-life market and with the Company's market share increasing marginally from the previous year following the receipt of provisional market data. The increase remains a satisfactory one even when eliminating a one-off delayed renewal of a major account with no comparison in the previous year.

Technical results for general business retracted to €4.99 million from the €5.79 million of FY 2017, a 14% drop resulting mainly from a lower investment income allocation due to lower fair value movements. The pure technical result was negatively impacted by the Sightseeing Bus tragedy, the largest single Motor claim ever to hit the local market which, although adequately covered by out reinsurance treaties, had a significant impact on results through a high reinsurance premium adjustment. Notwithstanding this, it is with pleasure to report that the net combined ratio of the Motor class of business closed at 99.99% from the 103.52% registered in FY 2017 meeting the targets that had been set. The whole non-life portfolio closed with a net combined ratio of 92.90% marginally up from the 92.30% registered the previous year. Group Life business recorded another extraordinary year with a low claims experience both in terms of frequency and severity contributing €1.36 million to the financial results compared to €1.00 million in FY 2017.

Profitable growth remains at the core of the MAPFRE Group strategy to achieve adequate returns to its shareholders. The Company continues to monitor development in each line of business, introducing changes in the products offered, adjusting pricing where necessary but also taking on risk that is within its risk appetite to maximise profit.

With the market vying for growth, business and client retention remains a major challenge. The Company is cognisant that it can only maximise on such retention rates through offering its clients a better service directly or through its numerous intermediaries. The Company is also looking at technological upgrades and digitalisation through the further implementation of its new insurance IT system and platforms that bring the Company closer to its clients. As progress is made in rolling further products onto the new system, the Company is aware of the inherent risks that an overhaul of the core IT system brings about both to resources and operations and Management plans to ensure transition is done in a way to mitigate such risks.

The Company's net investment income saw a decrease of 10.40% to €8.08 million in FY 2018. The main source remains the dividends received from Group companies which were 3.39% lower compared to FY 2017. Fair value movements also saw a retraction compared to previous year particularly from local equities whilst the revaluation of its property investments rendered lower gains from those achieved in FY 2017 due to stabilised occupancy and lease conditions.

The Shareholder's Funds of the Company at €68.31 million saw a marginal drop of 0.77% during FY 2018 resulting from the strong profit achieved which was outweighed by the dividend distributed. Net Asset Value per share as at 31 December 2018 amounted to €0.74.

MAPFRE Middlesea p.l.c.'s solvency position remained strong with net assets remaining adequately above the capital requirements under Solvency II with the cover being reported in the Solvency and Financial Condition Report (SFCR) to be published by the Company later in the year.



# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### MAPFRE MSV LIFE P.L.C.

MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life" and "MAPFRE MSV Group") registered a profit before tax of €13.7 million for the year ended 31 December 2018, up 11.4% on the previous year where a €12.3 million profit before tax was generated. Profit after tax is recorded at €10.9 million, up 9.0% on the previous year.

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 2018 increased by 10.7% from €289.2 million to €320.0 million. This was mainly due to ongoing demand across all core products, particularly single premium savings contracts and life protection business.

Claims increased to €145.7 million through the year compared to a prior year €137.4 million largely as a result of an increase in maturing medium-term single premium contracts. A large proportion of maturing contracts were subsequently re-invested in new medium-term contracts.

In aggregate, the balance on the long term business technical account increased to €13.4 million from a prior year €11.8 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 4.6% from €2,116.8 million at the end of 2017 to €2,213.4 million at the end of 2018, whilst net technical provisions (including investment contracts without DPF) increased by 5.0% from €1,918.8 million in 2017 to €2,013.9 million in 2018.

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 0.3% from €62.4 million in 2017 to €62.6 million in 2018. This is attributable to the impact of new business inflows and updated mortality assumptions offset by weaker investment conditions brought about by lower yields.

Total shareholders' funds at the close of 2018 amounted to €160.0 million (2017: €161.2 million), a decrease of 0.7% over the previous year, yet well ahead of minimum solvency guidelines.

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 effective regulatory capital thresholds in place under the Solvency II framework.

The Directors of MAPFRE MSV Life recommend the payment of a final net dividend of €10.94 million (2017: €12.30 million). MAPFRE MSV Life remains focused on the generation of capital and its disciplined allocation and appropriation.

The MAPFRE MSV With Profits Fund stood at €1.89 billion at 31 December 2018 (2017: €1.79 billion). The total investment return of the Fund amounted to a negative €43.1 million down from €63.1 million in 2017 whilst the net investment return after fees was a negative 2.15% compared with a positive 3.85% in 2017. Although the Fund is invested in a very diverse portfolio of assets and is underpinned by a rigorous and prudent investment management process, 2018 was a very difficult and unusual year for long term investors like MAPFRE MSV Life as all major asset classes registered negative returns. Rarely have real returns been negative across all asset classes in any year and this event happened only twice in the last 25 years. 2018 was also marked by exceptionally volatile equity markets. The S&P 500 plummeted 9.0% in the last month of the year as concerns about recession risk and the future path of interest rate hikes gripped investors – a stark contrast to the growth exuberance that characterised the start of 2018. December's performance dragged the S&P 500 into the red for the year, marking the first negative calendar year for U.S. equities since 2008.

The weak performance of global markets plagued credit markets as well. Lower credit quality corporate debt underperformed higher quality corporates in a departure from most of the year. By contrast, global government bond yields fell and yield curves flattened as global growth expectations dropped. For the first time in more than a decade, the U.S. yield curve partially inverted as the two-year yield rose above the five-year, although the more widely cited spread between the two-year and ten-year yields remained positive.

# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### MAPFRE MSV LIFE P.L.C. - CONTINUED

The investment strategy of the MAPFRE MSV With-Profits Fund is to hold a diversified range of quality assets and currencies that mitigates against market risk. This asset diversification together with the robust investment management process, the quality of the asset managers engaged and the company's strong track record of investment management mean that the Fund is well placed to capture an upturn in investment markets.

In March 2019, 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 2018. These amounted to 2.25% for the Comprehensive Life Plan (regular and single premium policies), 2.35% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 2.35% under the Single Premium Plan and 2.35% under the with-profits options of the Investment Bond, Retirement Plan and of the Personal Pension Plan. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 1.50% 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 5 March 2019 and the next bonus declaration, at a rate of 1.00% for every year in force after the 10th year of the policy. This final bonus will be paid on the value of the Policy Account as at the date of death or maturity.

The Board of MAPFRE MSV Life also approved a Regular Bonus of 2.25% 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 of MAPFRE MSV Life also approved a Regular Bonus of 0.85% on the ALICO 78 policies and a Regular Bonus of 1.10% on the ALICO 66 policies 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 stable and 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.

In 2018, 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.

### OTHER SUBSIDIARIES

The other subsidiaries within the Group, though not significant to the size of the Group contributed satisfactorily to the results of the year.

BEE Insurance Management Limited ('BEE') and its subsidiary Euro Med Risk Solutions Limited which offer Insurance and Non-Insurance management services saw a drop in revenue and profits as a result of a re-domiciliation of a client and the relinquishing of a license by another client. The Management of Bee Insurance Management is currently working to conclude at least two new applications which would see an uplift in both revenues and profits. BEE also played a very active role at international events, establishing new business leads and contributing to extend the knowledge of Malta as an excellent jurisdiction to operate from. BEE is benefitting from a special situation post BREXIT that could open a new horizon of opportunities for this very specialised company. The board is confident that the company will exploit these opportunities which would result in higher returns.

Church Wharf Properties Limited holds a property within the Regeneration of the Grand Harbour Area continues to monitor the evolution of this project which gives a potential increase in value of this investment.

It is the intention of the Directors of Euro Globe Holdings to put the company into voluntary liquidation in the coming year.

# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### THE GROUP

The Group registered a profit before tax of €18.56 million in FY 2018 compared to €17.71 million achieved in FY 2017. Profit after tax for FY 2018 closed at €14.04 million a 3.80% increase from the €13.52 million achieved in FY 2017. Group premiums written reached an all-time high of €389.70 million, an 11.0% increase above that registered in FY 2017 which firmly puts both insurance companies as leaders in their respective markets.

MAPFRE Middlesea's Group capital and reserves attributable to shareholders at 31 December 2018 amounted to €91.7 million (2017: €92.9 million) on a consolidated basis with a net asset value per share of €1.00 as at 31 December 2018.

Whilst as a Group 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 2018. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas.

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

The Board expresses its gratitude and appreciation to the management and staff of all the Group companies 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 Middlesea p.l.c. and MAPFRE MSV Life p.l.c..

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 2018 we progressed on our major IT programmes in both insurance companies in lines with project roadmaps with further product rollouts from old legacy systems to new technologies expected in the coming year. This will enable us to offer superior levels of service to our customer base. In tandem we have a number of initiatives lined up to further strengthen our digital platform and widen our digital marketing strategy.

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 through MAPFRE MSV Life to lead on the creation and provision of eligible schemes in this area.

We consider our distribution footprint in Malta to be one of our key strengths. We are going to persist on the multichannel approach, we want the client to receive same price from this company whatever channel he chooses to approach the company: Direct, Agents, Tied Insurance Intermediaries or Brokers. In MAPFRE MSV Life whilst bancassurance remains the most important distribution channel, to ensure that we provide our customers with greater accessibility and a better service, we are continuously seeking to strengthen all other distribution channels.

The Group 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.

### OUTLOOK

The outlook of the Board of Directors for 2019 remains 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, demand for general business is expected to continue growing at the rate experienced in the last years and in the context of Malta's high savings ratio, the demand for the protection, savings and investments products in life is expected to remain strong.

# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### OUTLOOK - CONTINUED

At the global level, our outlook for the global economy over the long run is positive but the economic outlook in the short term is expected to be challenging and this is likely to have significant implications for financial markets. Business and consumer confidence are showing signs of improvement. Many believe, that this could be the beginning of a period of normalisation 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.

We expect political developments to remain a major theme in markets next year. 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 Group are twofold. Firstly, a slowdown in the local economy would have a direct impact on the demand for the Group'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.

Factors that could potentially help the global economy in 2019 include Chinese stimulus, avoidance of a no-deal Brexit, a potential trade deal between the US and China and lower oil prices boosting growth and slowing the pace of interest rate rises. Lower oil prices, higher US interest rates and slowing growth could also cause trouble in some of the emerging markets.

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 was introduced on 1 October 2018, impacts the conduct of business between insurers and consumers and requires 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 Group's principal risks and uncertainties are further disclosed in Note 4 dealing with management of risk as supplemented by Note 3 relating to the use of accounting estimates and judgements in applying accounting policies, Note 16 on intangible assets covering details on the Company's value of in-force business and Note 23 discussing the assumptions underlying the technical provisions.

### EVENTS AFTER THE FINANCIAL REPORTING DATE

There were no important events or transactions which took place after the financial reporting date which would require disclosure or adjustment to this annual report and financial statements.

### RESULTS AND DIVIDENDS

The consolidated profit or loss account is set out on page 45. A gross dividend in respect of year ended 31 December 2018 of €0.11531 per share amounting to a total dividend of €10,608,738 (2017: €10,400,000) is to be proposed by the Directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.09783 per share amounting to a total net dividend of €9,000,000 (2017: €9,700,000).

MAPFRE MSV Life p.l.c. have declared, in their AGM held on the 5 March 2019, a net dividend payment of €16.35 million from past retained earnings of which half will be income for MAPFRE Middlesea p.l.c. in 2019. Although not forming part of the Company's distributable profits as at 31 December 2018, the Board of Directors has today ratified a resolution to propose for approval at the forthcoming annual general meeting the payment of such distribution by way of a special interim dividend on a gross and net basis of €0.08696 per share to a total net dividend of €8,000,000.

# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### DIRECTORS

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

Martin Galea  
Nikos Antimissaris  
Alfred Attard  
Antoinette Caruana  
John Cassar White (until 20 April 2018)  
David G. Curmi  
Jose-Luis Jimenez (as from 20 April 2018 pending approval from MFSA)  
Pedro López Solanes (until 20 April 2018)  
Jaime Tamayo Ibañez  
Taddeo Scerri (as from 20 April 2018)  
Paul Testaferrata Moroni Viani  
Joseph F.X. Zahra

In addition, Nikos Antimissaris was re-appointed by the Board of Directors in line with Article 100 of the Memorandum and Articles of Association.

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

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

The financial statements of MAPFRE Middlesea p.l.c. for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and also made available on the parent Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS - CONTINUED

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

- the financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in Note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with additional information of the principal risks and uncertainties that the Group and Company face.

### INFORMATION PURSUANT TO LISTING RULE 5.64

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

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

The directors confirm that as at 31 December 2018, only MAPFRE Internacional (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

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

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

The Directors can only issue shares following an extraordinary resolution passed in the General Meeting. This and other powers vested in the Company's Directors are contained in Articles 84 to 90 of the Company's Articles of Association.

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

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

It is hereby declared that as at 31 December 2018, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

### GOING CONCERN

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

### AUDITORS

The 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.

# DIRECTORS' REPORT

## REVIEW OF BUSINESS - CONTINUED

### INFORMATION PURSUANT TO LISTING RULE 5.70

There were no material contracts in relation to which a Director of the Company was directly or indirectly interested.

### INFORMATION PURSUANT TO LISTING RULE 5.70.2

The Company Secretary is Carlo Farrugia and the registered office is Middle Sea House, Floriana, Malta.

By order of the Board



Martin Galea  
Chairman

Middle Sea House  
Floriana, Malta

13 March 2019



Alfred Attard  
Director



# CORPORATE GOVERNANCE STATEMENT

## 1. INTRODUCTION

Issuers whose securities are listed on the Malta Stock Exchange are required to include a Corporate Governance Statement (the 'Statement'), in their Annual Financial Report. This should provide, amongst others, an explanation of the extent of adherence to and non-compliance with the Code of Principles of Good Corporate Governance (the 'Code') contained in Appendix 5.1 of Chapter 5 of the Listing Rules of the Listing Authority ('LA'). In terms of Listing Rule 5.94, MAPFRE Middlesea p.l.c. (the 'Company' or 'MMS') is obliged to prepare a report explaining its compliance with the provisions of the Code. The Issuer's auditors are to include a report on the Corporate Governance Statement in the Annual Financial Report of the Company.

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

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

## 2. COMPLIANCE WITH THE CODE

### *Principle 1 - The Board*

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. As at the 31 December 2018 the Board was composed of a non-executive Chairman and nine non-executive Directors. The maximum number of Directors is ten. Martin Galea was re-appointed as a non-executive Chairman during the Board meeting held on the 20 April 2018 which followed the Annual General Meeting ('AGM') held on the same day.

During the said AGM the two institutional shareholders re-appointed the retiring Directors save for John Cassar White who was replaced by Taddeo Scerri and Pedro Lopez Solanes who was replaced by Jose-Luis Jimenez, while the other shareholders re-appointed the retiring Directors Antoinette Caruana and Paul Testaferrata Moroni Viani during the election for directors. Nikos Antimissaris was re-appointed by the Board of Directors in accordance with Article 100 of the Memorandum and Articles of Association.

All of the aforementioned individuals have been approved by the Regulator as being fit and proper to direct the business of the Company, deemed to conduct themselves with honesty, competence and integrity. Both on an individual level and collectively the Members possess the necessary skills and experience to make effective contribution to the leadership and decision-making processes of the Company as reflected by the Company's strategy and policies.

The Board liaises closely with the President & Chief Executive Officer ('CEO') of the Company in order to ensure that the Board receives timely and appropriate information in relation to the business of the Company and management performance. This enables the Board to contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls. Felipe Navarro Lopez de Chicheri who was appointed as CEO on the 1 October 2015 continued to hold the position of CEO throughout 2018.

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

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

### *Principle 2 - Chairman and CEO*

The Chairman is responsible for leadership of the Board and for setting of its agenda. The Chairman ensures that the Board's discussions on any issue put before it are addressed with adequate depth, that the opinions of all the Directors are taken into account, and that all the Board's decisions are supported by adequate and timely information.

# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

### *Principle 2 - Chairman and CEO - continued*

The Chairman also ensures that the CEO develops a strategy for subsequent approval by the Board.

The Company's current organisational structure incorporates the position of a CEO, who leads the Senior Management team, whose main role and responsibilities are the execution of agreed strategy, and managing the Company's business. The Company has an Executive Operational Committee which meets regularly and the Management Committee that brings together the Chief Officers within MMS under the Chairmanship of the CEO.

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

### *Principle 3 - Composition of the Board*

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

The combined and varied knowledge, experience and skills of the Board members, including a broad knowledge of the business of the Company and awareness of statutory and regulatory requirements, provide a balance of competences, as required, and add value both to the functioning of the Board and to the direction given to the Company.

The Company's Articles of Association determine the composition of the Board. The appointment of Directors to the Board is accordingly reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy. All Directors, as well as some key officials, are required to fulfil the fit and proper regime prescribed by the Malta Financial Services Authority ('MFSA') in line with standard regulatory due diligence procedures. Moreover, all Directors are required to apply the necessary time and attention to their duties and required to limit the number of directorships held in other companies thereby also ensuring the proper performance of their functions.

The Board is composed exclusively of non-executive Directors. Although not a Director of MMS, the CEO is invited to attend Board meetings with a view to ensuring a full understanding and appreciation of the Board's policies and strategy and to provide direct input to the Board's deliberations. In addition, certain members of Senior Management are invited to report to the Board as and when required thereby securing effective information flows, as well as fostering a culture of dialogue between the board and the Company's senior executives.

As at the date of this review, the Board consists of six independent Directors (including the Chairman), and four non-independent Directors (as indicated on pages 26 of the Annual Report) as defined by the Code.

In determining the independence or otherwise of its Directors, the Board considered, amongst others, the principles relating to independence of directors contained in the Code, the Company's own practice as well as general principles of good practice. Each non-executive director has submitted the relevant declaration to the Board declaring their independence as stipulated under code provision 3.4.

### *Principle 4 - The Responsibilities of the Board*

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

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

# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

*Principle 4 - The Responsibilities of the Board - continued*

### BOARD COMMITTEES

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

### AUDIT COMMITTEE

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

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

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

The composition of the Company's Audit Committee is also regulated by the Listing Rules and the Listing Authority is kept informed as to any changes in its composition. In terms of Listing Rule 5.117.3, Martin Galea is the member of the Audit Committee who is competent in accounting / auditing due to his qualifications, experience and knowledge. Mr Galea is also considered an independent director in accordance with the criteria set out in Listing Rule 5.119. Alfred Attard, an independent Director, was appointed Chairman of the Audit Committee by the Board of Directors in accordance with Listing Rule 5.117.4.

The Audit Committee held seven meetings during 2018. In accordance with Listing Rule 5.117.2 three out of four members are considered to be independent in line with the criteria set out in Listing Rule 5.119. These are Alfred Attard, Antoinette Caruana and Martin Galea. The Audit Committee members and relative attendance to meetings is listed below.

Alfred Attard (Chairman)	7
Nikos Antimissaris	5
Antoinette Caruana	6
Martin Galea	7

In accordance with Listing Rule 5.118, the Board considers the four Audit Committee members as having the required competence jointly as a Committee due to their professional background and experience in the financial sector as well as in other sectors, including the insurance sector, at both national and international level.

# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

*Principle 4 - The Responsibilities of the Board - continued*

### AUDIT COMMITTEE - CONTINUED

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

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

### RISK AND COMPLIANCE COMMITTEE

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

The Risk and Compliance Committee held five meetings during 2018. The Committee members and relative attendance to meetings is listed below.

Antoinette Caruana (Chairperson)	5
Alfred Attard (until 20 April 2018)	2
Albert Frendo (as from 20 April 2018)	3
Martin Galea	5
Jose Maria del Pozo (as from 20 April 2018)	5

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

### INVESTMENTS COMMITTEE

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

The Investments Committee held four meetings during 2018. The Committee members and relative attendance to meetings is listed below.

Martin Galea (Chairman)	4
Jose-Luis Jimenez (as from 20 April 2018)	2
David G. Curmi	4
Pedro López Solanes (until 20 April 2018)	1
Jose Maria del Pozo (as from 20 April 2018)	2

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

### REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2018 Annual Report. The Board of Directors approves the remuneration of Directors and Chief Officers on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

*Principle 4 - The Responsibilities of the Board - continued*

### REMUNERATION COMMITTEE - CONTINUED

The CEO for MAPFRE Middlesea p.l.c., CEO of MAPFRE MSV Life p.l.c., Chief Officer for Human Resources for MAPFRE Middlesea p.l.c., Chief Officer for Human Resources for MAPFRE MSV Life p.l.c., and MAPFRE Regional Head of Human Resources attend the Remuneration Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

*Principle 5 - Board Meetings*

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

The Chairman ensures that all relevant issues are on the agenda and are supported by all available information. The agenda for each meeting seeks to strike a balance between long-term strategic objectives and shorter-term performance matters. Notice of the dates of forthcoming meetings together with all board papers are circulated in advance to the directors so that they had ample opportunity to consider the information and prepare well in advance of the relative board meeting.

During board meetings, directors are given ample opportunity to discuss issues set on the board agenda and convey their opinions thereon. The Chairman facilitates the presentation of view pertinent to the subject matter being discussed and ensures that each director is given the opportunity to contribute to the discussion.

During the 2018 financial year, the Board of Directors of the Company held six meetings. The attendance of Directors to the Board meetings is listed below.

Martin Galea (Chairman) (NED I)	6
Nikos Antimissaris (NED)	6
Alfred Attard (NED I)	6
Antoinette Caruana (NED I)	6
John Cassar White (until 20 April 2018) (NED I)	1
Taddeo Scerri (as from 20 April 2018) (NED I)	5
David G. Curmi (NED)	6
Pedro López Solanes (until 20 April 2018) (NED)	1
Jose-Luis Jimenez (as from 20 April 2018) pending approval of MFSA (NED)	2
Jaime Tamayo Ibañez (NED)	6
Paul Testaferrata Moroni Viani (NED I)	5
Joseph F.X. Zahra (NED I)	6

NED - Non-executive Director

I - Independent

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

During 2018, the Directors continued to hold Directors' Briefings to enable the Directors to be updated on current corporate governance requirements together with other statutory requirements emanating from law together with the Solvency II regime. In fact two Directors' Briefings were held during the year which were mostly attended by Board Directors and dealt with the Review of performance of Agents, TII's and Binders, High Level Solvency II Review and the evaluation performance of the Board. In addition, the Company Secretary directs members of the Board to seminars or conferences that are organized by different entities in Malta, which serve as professional development for Directors in the discharge of their functions on the Board and Committees.

# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

### *Principle 5 - Board Meetings - continued*

Notice of the dates of forthcoming meetings together with all board papers, including the minutes of the previous Board Meeting faithfully recording attendance and decisions, were circulated in advance to the directors so that they had ample opportunity to consider the information and prepare for the next scheduled board meeting.

Taddeo Scerri and Jose-Luis Jimenez were appointed by the main institutional shareholders respectively as Non-Executive Director on 20 April 2018 in lieu of John Cassar White and Pedro Lopez Solanes.

### *Principle 6 - Information and Professional Development*

The company provides any new Director appointed on the Board with an information pack that is tailored to provide a good knowledge of the Company together with its structure and operations. New directors are also invited to attend a purposely held meeting, which specifically deals with the Company's organisation and activities, together with the responsibilities of individuals who are appointed as Directors. Two new Directors, Taddeo Scerri and Jose-Luis Jimenez, were appointed during the year under review and the New Directors Induction Briefing was held accordingly on 10 October 2018.

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

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

The CEO enjoys the full confidence of the Board and ensures that systems are in place to cater for, amongst others, the monitoring of management, the development and training of both senior management and Directors as well as succession planning as required by the provisions of clause 6.4.3 of Appendix 5.1 of the Listing Rules. The CEO, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and with the Board on the appointment of, and on the succession plan for senior management. Training (both internal and external) of management and employees is a priority and is implemented through the Human Resources Department.

### *Principle 7 - Evaluation of the Board's Performance*

During the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not per se appoint a committee to carry out this performance evaluation, but the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Group Compliance Office together with the Company Secretary and in liaison with the Chairman. The Chairman prepared a report following the replies submitted by the Directors and the said report was submitted to the Board. During 2018 the Chairman also met with the Board members individually to obtain more in-depth feedback and the recommendations made were then taken up by the Chairman and developed into action points for implementation.

### *Principle 8 - Committees*

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

### *Principle 9 - Relations with Shareholders and with the Market*

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

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

# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

### *Principle 9 - Relations with Shareholders and with the Market - continued*

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

The Chairman ensures that sufficient contact is maintained with major shareholders to understand issues and concerns. In addition the Chairman, CEO and Company Secretary have met with the Malta Association of Small Shareholders during 2018 to discuss various aspects related to the benefit of the smaller shareholders.

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

### *Principle 10 - Institutional Shareholders*

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

### *Principle 11 - Conflicts of Interest*

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

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

As required by clause 11.3 of Appendix 5.1 of the Listing Rules a Directors' beneficial interest in the share capital of the Company as at 31 December 2018 has been declared by Joseph F. X. Zahra whereas Paul Testaferrata Moroni Viani has declared an indirect shareholding in the Company's shares through his shareholding in other companies.

### *Principle 12 - Corporate Social Responsibility*

2018 has been yet another eventful year for MAPFRE Middlesea. During this year, the Company continued to help within the community through its Corporate Social Responsibility Programme, which forms part of MAPFRE's global volunteering programme.



# CORPORATE GOVERNANCE STATEMENT

## 2. COMPLIANCE WITH THE CODE - CONTINUED

### *Principle 12 - Corporate Social Responsibility - continued*

As in previous years, a number of employees from all departments (including also employees from MAPFRE MSV Life) participated in a number of events held with different entities. These included Nature Trust, Centru Tbebiex, Agenzja Appogg, St Savio College, MCCF, Caritas, Horse Sanctuary and, Malta Blood Transfusion Service. MAPFRE Middlesea also renewed its support to Dar tal-Providenza, Hospice Movement, Malta Red Cross, St Johns Rescue Corps and Dr Klown amongst other philanthropic entities. Through Fundacion MAPFRE, the campaign Caqlaq, a healthy living awareness campaign in schools, was held for the sixth consecutive year, placing more emphasis on physical activities, whilst Street Smart which concentrates on bringing awareness to small children about road safety was commissioned for its fifth year and it was also held in collaboration with Malta Public Transport via school outings by bus to reach out to more children.

Throughout 2018, Fundacion MAPFRE also worked on raising awareness about road safety for the public at large, paying focus on the dangers of texting whilst driving. A national campaign called #Putitaway was sponsored in collaboration with the Ministry of Transport and Bay Radio. All main CSR activities are carried out with the support of Fundacion MAPFRE in line with the group policy.

The highlight in 2018 was the exhibition of Picasso & Miro on the occasion of Valletta being the European Cultural City. This exhibition was brought to Malta by Fundacion MAPFRE and supported by MAPFRE Middlesea and MAPFRE MSV Life in collaboration with The Office of the President and Fondazzjoni Patrimonju Malti. This was a unique opportunity for the Maltese people to learn more about two of the greatest artistic geniuses of all times and their creative process.

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

## 3. NON-COMPLIANCE WITH THE CODE

### *Principle 3 - Composition of the Board: Code Provision 3.2*

The Code recommends that the Board be composed of executive and non-executive directors. The Board is composed exclusively of ten non-executive Directors. The composition of the Board of Directors is explained above under Section 2 Principle 3. The appointment of Directors is a matter reserved exclusively to the Company shareholders (except in those cases to fill a casual vacancy) and each Director retires from office at the AGM. Therefore the composition of the Board of Directors is determined by the shareholders during the AGM.

### *Principle 4 - The Responsibilities of the Board: Code Provision 4.2.7*

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

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

### *Principle 7 - Evaluation of the Board’s Performance: Code Provision 7.1*

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

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

# CORPORATE GOVERNANCE STATEMENT

## 3. NON-COMPLIANCE WITH THE CODE - CONTINUED

### *Principle 8A - Remuneration Committee: Code Provision 8.A.1*

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

The Remuneration Committee is made up of Jamie Tamayo Ibañez (Chairman), Taddeo Scerri and Martin Galea. The composition has remained basically the same with the only change being the appointment of Taddeo Scerri to replace John Cassar White as from the AGM held on the 20 April 2018. As per previous years, decisions are reached through the consensus of all three members.

Code provision 8.A.1 requires that the Remuneration Committee should be chaired by an independent non-executive director. The decisions taken by the Remuneration Committee are taken by unanimous agreement between all the three members. Therefore even though the Committee is not chaired by an independent non-executive director the final outcome of discussions and decisions taken by the Remuneration Committee are not affected by the director holding the Chair.

### *Principle 8B - Nomination Committee*

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

The Company considers that some of the functions of the Nomination Committee (particularly those relating to succession planning and the appointment of senior management) are already dealt with by the Remuneration Committee and to this end it was resolved during 2018 to amalgamate the function in order to create a Remuneration and Nomination Committee during 2019. The respective terms of reference have already been drafted and approved by the MFSA to this end.

### *Principle 9 - Relations with Shareholders and with the Market: Code Provision 9.3*

Code Provision 9.3 requires the Company to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. This Code Provision has become applicable to the Company following the purchase by MAPFRE Internacional of Munich Re's shareholding during the last six months of 2011 whereby MAPFRE Internacional became a controlling shareholder. This position of the Company is kept under continuous review and continues to be evaluated in the interest of all shareholders. Furthermore the Company is mindful of the protection granted to minority shareholders in terms of the Companies Act (Cap. 386 of the Laws of Malta) and would necessarily be bound and abide by those provisions.

## **Internal Control and Risk Management System**

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

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

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

# CORPORATE GOVERNANCE STATEMENT

## *Internal Control and Risk Management System* - continued

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

Risk Identification - The respective Management of each of the Group companies is responsible for the identification and evaluation of key risks applicable to their areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed. The risk based nature of the Solvency II regime requires the company to have an effective risk management system in place to identify, measure, manage, monitor and report on the main risks which could impact the entity. This process is embodied in the annual ORSA (Own Risk and Solvency Assessment) process. Expert judgements, stress testing and sensitivity analysis are important elements in the company's risk identification framework embedded in the ORSA process. The ORSA report is submitted to the Competent Authority on an annual basis.

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

## *Information in terms of Listing Rule 5.97.5*

The information required in terms of Listing Rule 5.97.5 is found in Directors' report.

## *General Meetings*

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

The general meeting is the Company's most supreme decision-making organ and its functions are governed by, and conducted in accordance with, the Company's Articles of Association. The general meeting is called by not less than twenty-one days' notice in writing. In addition to any matters which would be deemed to constitute "special business", the annual general meeting deals with matters of a recurring nature namely, the declaration of a dividend, the consideration of the accounts, balance sheets and reports of the directors and auditors, the election of directors, the appointment of the auditors and the authorisation of the directors to set their remuneration. The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution (as defined in the Articles) of the Company during general meetings.

The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders.

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

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



Alfred Attard  
Director

13 March 2019



Antoinette Caruana  
Director

# REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

## 1. TERMS OF REFERENCE AND MEMBERSHIP

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

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

The Committee members from the 1 January 2018 until 20 April 2018 were Jaime Tamayo Ibañez (Chairman), John Cassar White and Martin Galea. Further to the Board Meeting held on 20 April 2018, Taddeo Scerri was appointed in lieu of John Cassar White. All the Committee members are non-executive directors with no personal financial interest as recommended by Code provision 8.A.1. The MAPFRE Middlesea (MMS) President & CEO, Felipe Navarro Lopez de Chicheri, MAPFRE MSV Life (MMSV) CEO, David G. Curmi and other members of senior management are invited to attend Committee meetings as and when required. The Company Secretary, Carlo Farrugia, acts as the Secretary to the Committee.

Code provision 8.A.1 requires that the Committee should be chaired by an independent non-executive director. The decisions taken by the Committee are taken by unanimous agreement between all the three members. Therefore even though the Committee is not chaired by an independent non-executive director, the final outcome of discussions and decisions taken by the Committee are not affected by the director holding the Chair.

## 2. MEETINGS

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

Member	Attended
Jaime Tamayo Ibañez (Chairman)	3
Martin Galea	3
John Cassar White	1 (until the 20 April 2018)
Taddeo Scerri	2 (from the 20 April 2018)

The Committee determined and/or discussed the following matters:

- Remuneration Statement for the Annual Report
- Proposal for the Nominations and Remuneration Committee
- Remuneration for Directors, CEO and Senior Management
- New Senior Appointments

## 3. REMUNERATION STATEMENT

### 3.1. REMUNERATION POLICY - SENIOR MANAGEMENT

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

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

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

# REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

## 3. REMUNERATION STATEMENT - CONTINUED

### 3.1. REMUNERATION POLICY - SENIOR MANAGEMENT - CONTINUED

There have been no significant changes in the Company's remuneration policy for Senior Management during the financial year under review and the Company does not intend to effect any changes to its policy for the following financial year. A performance appraisal system which was implemented during 2013, in relation to competences was further developed during 2014 and 2015 to lead to the performance bonus scheme which was implemented in 2014 and remains in place. The said performance bonus scheme is based on achieving the company's, departmental and personal objectives.

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

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

Senior Management is entitled to a performance bonus in accordance to the achievement of the company's, departmental and personal objectives in accordance to the performance bonus scheme referred to above. No supplementary pension or other pension benefits are payable to Senior Management.

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

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

Total emoluments received by Senior Management during FY 2018 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed in this Report.

### 3.1. REMUNERATION POLICY - DIRECTORS

As at the 31 December 2018, the Board of Directors of MAPFRE Middlesea p.l.c. was composed of ten non-executive directors. Three Directors, namely Jaime Tamayo, Jose-Luis Jimenez and Nikos Antimissaris, did not receive a fee in accordance with the established policy of the parent shareholder company, MAPFRE Internacional, with which they are employed and which appointed them. David G. Curmi also did not receive a fee since he is the CEO of MAPFRE MSV Life p.l.c. (a subsidiary of MMS). The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was fixed at an aggregate sum of €350,000 per annum at the Thirty Seventh Annual General Meeting held on the 20 April 2018 which reflected an increase from the previous aggregate sum of €250,000 in the previous year in order to align the said remuneration with the group policy.

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

<b>Directors' Fees</b>	
Chairman	€60,000 per annum (2017: €43,000)
Other Directors (Per Director)	€40,000 per annum (2017: €18,000)
<b>Board Committee Fees (as applicable)</b>	
Chairman	€5,000 per annum (2017: nil)
Member (Per member)	€3,000 per annum (2017: nil)

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

# REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

## 3. REMUNERATION STATEMENT - CONTINUED

### 3.1. REMUNERATION POLICY - DIRECTORS - CONTINUED

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

### 3.2. CODE PROVISION 8.A.5

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

Emoluments of Directors

Fixed Remuneration	Variable Remuneration	Share Options	Others
€270,250	None	None	None

Fees payable to directors in respect of 2018 amounted in total to €270,250 (2017: €133,000).



Martin Galea  
Committee Member  
Remuneration Committee

13 March 2019



# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

## 1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the financial statements of MAPFRE Middlesea 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 2018, the statements of profit or loss, 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 of the Group as at 31 December 2018, 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") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

### 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.

### 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 matters, 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.

#### Estimates for insurance claim provisions in relation to general business

Accounting policy note 2.14 to the financial statements and notes 4.1 and 23 for further disclosures

'Outstanding claims – general business' ("OSC") (€48,234 thousand) included in 'Technical provisions'

The Company enters into insurance contracts which expose it to risks relating to the possibility of insured events occurring, and the uncertainty of the amount of the resulting claim. We have considered the estimate of OSC as a key audit matter in view of the subjectivity surrounding: (i) the judgement applied by the claims handling personnel in determining possible outcomes of an insured event, based on the information as it becomes available, also having regard to the nature of the claim; (ii) the ultimate settlement value of claims; and (iii) incurred but not reported claims ("IBNR") by the reporting date.





# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

## KEY AUDIT MATTERS - CONTINUED

Due to the degree of such inherent estimation uncertainty underlying the calculation of OSC, the amounts recognised in the statement of financial position may result to be different from those settled. Those differences may be material.

### *Our response*

We evaluated the appropriateness of the reserving methodologies used in estimating the insurance claim provisions as part of our substantive procedures, as under:

- In relation to over 80% of the motor OSC, we involved our actuarial specialist to develop our estimate of OSC and, based on our evaluation of the data elements, assessed the reasonableness of the amount recorded by the Company.
- In relation to the remaining motor OSC and OSC arising from the other lines of general business, primarily, we evaluated a representative sample of such claims to assess the basis of the estimates provided for at the reporting date, and the appropriateness of the Company's assumptions underlying the IBNR assessment.

We have no key observations to report, specific to this matter.

**Actuarial assumptions underlying the calculations of the (a) 'long term business provision' ("LTBP") relating to term business; and (b) 'value of in force business' ("VIF"), in relation to business carried out by the main subsidiary of the group MAPFRE MSV Life p.l.c.**

Accounting policy note 2.4 and 2.14 to the financial statements and notes 16 and 23 for further disclosures

LTBP relating to the term business within 'Insurance contracts' (€503,841 thousand for all business, inclusive of the term business) included in 'Technical provisions'; and VIF (€62,624 thousand) included in 'Intangible assets'.

The Company enters into insurance contracts which comprise term, unit-linked and participating (with-profits) business. For term business, the obligation of the Company is the payment of a death benefit, where such an event occurs during the period the policy is in force. We have considered the LTBP relating to the term business as a key audit matter in view of the judgement involved in estimating the ultimate total settlement value. Due to inherent estimation uncertainty, the ultimate outflows related to such business may be different from the amounts provided by the Company, and those difference may be material.

Also, as part of its intangible assets, the Company recognises the discounted value of projected future transfers to shareholders from those insurance contracts and the investment contracts in force at the end of the reporting period, net of deferred tax. The determination of this VIF also involves judgement.

The judgement involved relates, in the main, to actuarial assumptions which impact the LTBP relating to the term business and the VIF. Those assumptions comprise both economic assumptions (namely, valuation rate of interest ("VIR"), inflation, risk discount rate, the investment return and future tax), and non-economic (operating) assumptions (namely, mortality, lapse rates and expenses).

### *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 VIR against the regulatory valuation rules as used for accounting purposes. We have also assessed whether the VIR derivation: (i) took into account the critical factors impacting the portfolio yield; and (ii) contains prudence consistent with the relevant regulations.



# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

## KEY AUDIT MATTERS - CONTINUED

- We evaluated the application of the tax legislative enactments in force at the reporting date, as these relate to the LTBP and VIF.
- Specifically in relation to the LTBP calculations, we assessed the appropriateness of the inflation assumption, as to whether the expense inflation was set in accordance with the applicable valuation rules, 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 calculation, we assessed whether: (i) the assumptions underlying 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 in determining the assumptions in line with the Company's long-term expectations, for the purpose of the VIF calculation, reflects industry practice.

### Non-economic assumptions

- We assessed the Company's best estimate mortality assumptions against observed data in light of its experience in recent years, and compared such assumptions to those used in the Company's computation of the actuarial results for accounting purposes.
- We assessed the appropriateness of the allocation of the maintenance expenses to the insurance and investment contracts.
- Specifically in relation to the VIF calculation, we assessed the appropriateness of the Company's best estimate lapse assumptions, through the evaluation of observed data over recent years.

### Key observation

In the run-up to the full implementation of the revised financial reporting standard for insurance contracts yet to be effective, and a new solvency regime now in place, operators in the insurance sector are required to align their reserving methodology, based on a certain level of prudence, to a more balanced approach based on best estimates. As part of our procedures, we observed that the Company started a process of aligning its current reserving approach.

## OTHER INFORMATION

The directors are responsible for the other information which comprises:

- the 'Mission Statement';
- the 'Chairman's Statement';
- the 'President & Chief Executive Officer's Statement';
- informational matters relating to the 'Board of Directors & Company Secretary', 'Head Offices & Agencies' and 'Professional Services';
- the 'Directors' Report';
- the 'Corporate Governance Statement and
- the 'Remuneration Committee's Statement to the Shareholders',

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.



# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

## **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, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they 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 also responsible for overseeing the financial reporting process.

## **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.



# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA 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 financial statements of the Group. 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.

## 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, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

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.



## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.**

### **2. OPINION ON THE DIRECTORS' REPORT - CONTINUED**

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

### **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 four 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

13 March 2019



# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

## REPORT REQUIRED BY LISTING RULE 5.98 ISSUED BY THE LISTING AUTHORITY IN MALTA

We are required, pursuant to Listing Rule 5.98, to express an opinion to the shareholders of MAPFRE Middlesea p.l.c (the "Company") on specific disclosures in the Annual Report which relate to the directors' Corporate Governance Statement (the "Disclosures") for the year ended 31 December 2018.

Specifically, with respect to the following matters noted in Listing Rule 5.100, we report whether:

- (a) we have identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4 and Listing Rule 5.97.5. Where any material misstatements are identified, we are required to provide an indication of the nature of such misstatements; and
- (b) the other disclosures required by Listing Rule 5.97 have been provided.

## RESPONSIBILITIES OF THE DIRECTORS

Pursuant to Listing Rule 5.97, the directors are responsible for preparing the Disclosures that are free from material misstatement in accordance with the requirements of the Listing Rules.

## AUDITORS' RESPONSIBILITIES

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on our work. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

We apply International Standard on Quality Control 1 and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Company 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), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures, nor on the ability of the Company to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 and Listing Rule 5.97.5 is based solely on our knowledge and understanding of the Company and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.



## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

### CONCLUSION

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

In our opinion:

- (a) in light of the knowledge and understanding of the Company and its environment obtained during the course of our audit of the financial statements, we have not identified material misstatements with respect to the following disclosures:
- (i) the information referred to in Listing Rule 5.97.4, included in the directors' Corporate Governance Statement, as this relates to the Company's internal control and risk management systems in relation to the financial reporting process; and
  - (ii) the information referred to in Listing Rule 5.97.5, included in the Directors' Report, insofar as it is applicable to the Company;
- (b) the other disclosures required by Listing Rule 5.97 have been included in the directors' Corporate Governance Statement, as these apply to the Company.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Hilary Galea-Lauri.

KPMG  
Registered Auditors

13 March 2019

# STATEMENT OF PROFIT OR LOSS TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December	
		Group and Company	
	Notes	2018 €'000	2017 €'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	6	67,299	60,395
Outward reinsurance premiums		(12,130)	(10,007)
<b>Net premiums written</b>		<b>55,169</b>	50,388
Change in the gross provision for unearned premiums		(2,504)	(243)
Change in the provision for unearned premiums, reinsurers' share		313	(12)
		<b>(2,191)</b>	(255)
<b>Earned premiums, net of reinsurance</b>		<b>52,978</b>	50,133
Allocated investment return transferred from the non-technical account	8	1,228	1,925
<b>Total technical income</b>		<b>54,206</b>	52,058
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- gross amount		37,141	33,151
- reinsurers' share		(4,486)	(3,280)
		<b>32,655</b>	29,871
Change in the provision for claims			
- gross amount		5,162	4,089
- reinsurers' share		(5,148)	(2,891)
		<b>14</b>	1,198
<b>Claims incurred, net of reinsurance</b>		<b>32,669</b>	31,069
Net operating expenses	7	16,549	15,202
<b>Total technical charges</b>		<b>49,218</b>	46,271
<b>Balance on the technical accounts for general business (page 45)</b>		<b>4,988</b>	5,787



# STATEMENT OF PROFIT OR LOSS TECHNICAL ACCOUNT - LONG TERM BUSINESS

Year ended 31 December

	Notes	Group		Company	
		2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	6	322,400	290,709	2,388	1,543
Outward reinsurance premiums		(3,850)	(3,420)	(193)	(120)
<b>Earned premiums, net of reinsurance</b>					
		318,550	287,289	2,195	1,423
<b>Investment return</b>					
Return from investments	8	(45,708)	66,009	9	8
Other technical income, net of reinsurance	9	521	473	-	-
<b>Total technical income</b>					
		273,363	353,771	2,204	1,431
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
- gross amount		142,324	135,804	715	745
- reinsurers' share		(1,209)	(1,345)	(22)	(113)
<b>Claims incurred, net of reinsurance</b>					
		141,115	134,459	693	632
<b>Change in the provision for claims</b>					
- gross amount		4,821	3,523	(297)	(185)
- reinsurers' share		213	20	74	127
<b>Change in the provision for claims</b>					
		5,034	3,543	(223)	(58)
<b>Claims incurred, net of reinsurance</b>					
		146,149	138,002	470	574
<b>Change in other technical provisions, net of reinsurance</b>					
Long term business provision, net of reinsurance					
- gross amount		(27,985)	(5,085)	84	(457)
- reinsurers' share		-	1,087	-	-
<b>Change in other technical provisions, net of reinsurance</b>					
		(27,985)	(3,998)	84	(457)
Investments contracts with DPF - gross		121,984	190,358	-	-
<b>Investments contracts with DPF - gross</b>					
		93,999	186,360	84	(457)
<b>Net operating expenses</b>					
	7	18,467	16,580	295	310
<b>Total technical charges</b>					
		258,615	340,942	849	427
<b>Balance on the technical accounts for long term business (page 45)</b>					
		14,748	12,829	1,355	1,004

# STATEMENT OF PROFIT OR LOSS NON-TECHNICAL ACCOUNT

		Year ended 31 December			
		Group		Company	
	Notes	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Balances on technical accounts</b>					
General business (page 43)		<b>4,988</b>	5,787	<b>4,988</b>	5,787
Long term business (page 44)		<b>14,748</b>	12,829	<b>1,355</b>	1,004
<hr/>					
Total income from insurance activities		<b>19,736</b>	18,616	<b>6,343</b>	6,791
Other investment income	8	<b>1,950</b>	2,374	<b>8,374</b>	9,264
Investment expenses and charges	8	<b>(307)</b>	(42)	<b>(303)</b>	(256)
Allocated investment return transferred to the general business technical account	8	<b>(1,228)</b>	(1,925)	<b>(1,228)</b>	(1,925)
Other income	9	<b>1,420</b>	1,497	-	-
Administrative expenses	7	<b>(3,015)</b>	(2,811)	<b>(1,767)</b>	(1,705)
<hr/>					
<b>Profit for the financial year before tax</b>		<b>18,556</b>	17,709	<b>11,419</b>	12,169
Tax expense	12	<b>(4,521)</b>	(4,188)	<b>(1,991)</b>	(1,830)
<hr/>					
<b>Profit for the financial year</b>		<b>14,035</b>	13,521	<b>9,428</b>	10,339
<hr/>					
<b>Attributable to:</b>					
-owners of the Company		<b>8,594</b>	8,510	<b>9,428</b>	10,339
-non-controlling interests		<b>5,441</b>	5,011	-	-
<hr/>					
		<b>14,035</b>	13,521	<b>9,428</b>	10,339
<hr/>					
<b>Earnings per share attributable to owners of the Company</b>	14	<b>9.3c</b>	9.3c		

The Notes on pages 53 to 132 are an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December

	Notes	Group		Company	
		2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Profit for the financial year</b>		<b>14,035</b>	13,521	<b>9,428</b>	10,339
<b>Other comprehensive income:</b>					
<i>Items that are or may be reclassified subsequently to profit or loss</i>					
Change in fair value of available-for-sale investments	28	(180)	(37)	(215)	35
Available-for-sale investments reclassified to profit or loss	28	(42)	(145)	(42)	(148)
<i>Items that will not be reclassified to profit or loss</i>					
Re-measurement actuarial (loss)/gain on provision for other liabilities and charges		(13)	27	(13)	27
Increase in value of in-force business	16	253	2,416	-	-
<b>Total other comprehensive income, net of tax</b>		<b>17</b>	2,261	<b>(270)</b>	(86)
<b>Total comprehensive income for the year</b>		<b>14,052</b>	15,782	<b>9,158</b>	10,253
<b>Attributable to:</b>					
- shareholders		<b>8,485</b>	9,563		
- non-controlling interests		<b>5,567</b>	6,219		
<b>Total comprehensive income for the year</b>		<b>14,052</b>	15,782		

Items disclosed in the statement above are disclosed net of tax.

The Notes on pages 53 to 132 are an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

At 31 December

	Notes	Group		Company	
		2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>ASSETS</b>					
Intangible assets	16	72,320	72,352	6,170	5,871
Property, plant and equipment	17	15,841	13,301	1,972	1,933
Investment property	18	102,832	99,872	15,364	14,822
Investment in subsidiary undertakings	19	-	-	57,214	57,214
Investment in associated undertakings	20	27,799	30,876	330	366
Other investments	21	1,965,850	1,875,456	16,068	20,229
Deferred income tax	22	2,190	2,233	1,221	1,177
Reinsurers' share of technical provisions	23	23,464	18,216	22,994	17,607
Deferred acquisition costs	24	7,142	6,174	7,142	6,174
Insurance and other receivables	25	28,616	28,858	15,795	14,585
Income tax receivable		2,338	2,834	-	-
Cash and cash equivalents	26	70,387	64,580	18,438	15,064
<b>Total assets</b>		<b>2,318,779</b>	<b>2,214,752</b>	<b>162,708</b>	<b>155,042</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to owners of the Company</b>					
Share capital	27	19,320	19,320	19,320	19,320
Share premium account		688	688	688	688
Other reserves	28	31,430	31,525	34,816	35,073
Retained earnings		40,235	41,343	13,483	13,757
		<b>91,673</b>	<b>92,876</b>	<b>68,307</b>	<b>68,838</b>
<b>Non-controlling interests</b>		<b>80,021</b>	<b>80,604</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>171,694</b>	<b>173,480</b>	<b>68,307</b>	<b>68,838</b>
<b>LIABILITIES</b>					
Deferred income tax	22	30,968	28,444	2,016	1,680
Provision for other liabilities and charges	29	1,074	1,100	1,074	1,100
Technical provisions:					
- Insurance contracts and investment contracts with DPF	23	2,049,991	1,943,310	80,658	73,010
- Investment contracts without DPF	23	45,032	49,067	-	-
Derivative financial instruments	21	64	-	-	-
Insurance and other payables	30	19,222	18,449	10,519	10,180
Income tax payable		734	902	134	234
<b>Total liabilities</b>		<b>2,147,085</b>	<b>2,041,272</b>	<b>94,401</b>	<b>86,204</b>
<b>Total equity and liabilities</b>		<b>2,318,774</b>	<b>2,214,752</b>	<b>162,708</b>	<b>155,042</b>

The Notes on pages 53 to 132 are an integral part of these financial statements.

The financial statements on pages 43 to 132 were authorised for issue by the Board on 13 March 2019 and were signed on its behalf by:



Martin Galea  
Chairman



Alfred Attard  
Director



Felipe Navarro Lopez de Chicheri  
President & Chief Executive Officer

# STATEMENT OF CHANGES IN EQUITY

Group

Attributable to owners of the Company

		Share capital	Share premium account	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Notes	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2017		19,320	688	30,499	36,319	86,826	80,160	166,986
<b>Comprehensive income</b>								
Profit for the financial year		-	-	-	8,510	8,510	5,011	13,521
Other comprehensive income:								
Change in available for-sale investments' fair value	28	-	-	(37)	-	(37)	-	(37)
Available-for-sale investments - reclassified to profit or loss	28	-	-	(145)	-	(145)	-	(145)
Re-measurement actuarial gain on provision for other liabilities and charges		-	-	-	27	27	-	27
Increase in value of in-force business	16	-	-	1,208	-	1,208	1,208	2,416
Total other comprehensive income, net of tax		-	-	1,026	27	1,053	1,208	2,261
<b>Total comprehensive Income</b>		-	-	1,026	8,537	9,563	6,219	15,782
<b>Transactions with owners</b>								
Dividends for 2016		-	-	-	(3,520)	(3,520)	(5,775)	(9,295)
Write-back of prior year dividends		-	-	-	7	7	-	7
<b>Total transactions with owners</b>		-	-	-	(3,513)	(3,513)	(5,775)	(9,288)
<b>Balance at 31 December 2017</b>		<b>19,320</b>	<b>688</b>	<b>31,525</b>	<b>41,343</b>	<b>92,876</b>	<b>80,604</b>	<b>173,480</b>

# STATEMENT OF CHANGES IN EQUITY

Group - continued

		Attributable to owners of the Company						
		Share capital	Share premium account	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Notes		€'000	€'000	€'000	€'000	€'000	€'000	€'000
	Balance at 1 January 2018	19,320	688	31,525	41,343	92,876	80,604	173,480
<b>Comprehensive income</b>								
	Profit for the financial year	-	-	-	8,594	8,594	5,441	14,035
Other comprehensive income:								
	Change in available-for-sale investment's fair value	28	-	(179)	-	(179)	-	(179)
	Available-for-sale investments - reclassified to profit or loss	28	-	(42)	-	(42)	-	(42)
	Re-measurement actuarial loss on provision for other liabilities and charges		-	-	(13)	(13)	-	(13)
	Increase in value of in-force business	16	-	126	-	126	126	252
	<b>Total other comprehensive income, net of tax</b>		-	(95)	(13)	(108)	126	18
	<b>Total comprehensive income</b>		-	(95)	8,581	8,486	5,567	14,053
<b>Transactions with owners</b>								
	Dividends for 2017		-	-	(9,700)	(9,700)	(6,150)	(15,850)
	Write-back of prior year dividends		-	-	11	11	-	11
	<b>Total transactions with owners</b>		-	-	(9,689)	(9,689)	(6,150)	(15,839)
	<b>Balance at 31 December 2018</b>	<b>19,320</b>	<b>688</b>	<b>31,430</b>	<b>40,235</b>	<b>91,673</b>	<b>80,021</b>	<b>171,694</b>

The Notes on pages 53 to 132 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## Company

		Share capital	Share premium account	Other reserves	Retained earnings	Total
	Notes	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2017		19,320	688	35,186	6,904	62,098
<b>Comprehensive income</b>						
Profit for the financial year		-	-	-	10,339	10,339
<b>Other comprehensive income:</b>						
Change in available-for-sale investments' fair values	28	-	-	34	-	34
Available-for-sale investments - reclassified to profit or loss	28	-	-	(147)	-	(147)
Re-measurement actuarial gain on provision for other liabilities and charges		-	-	-	27	27
Total other comprehensive income, net of tax		-	-	(113)	27	(86)
<b>Total comprehensive income</b>		-	-	(113)	10,366	10,253
<b>Transactions with owners</b>						
Dividend for 2016	15	-	-	-	(3,520)	(3,520)
Write-back of prior years' dividends		-	-	-	7	7
<b>Total transactions with owners of the Company</b>		-	-	-	(3,513)	(3,513)
<b>Balance at 31 December 2017</b>		<b>19,320</b>	<b>688</b>	<b>35,073</b>	<b>13,757</b>	<b>68,838</b>

# STATEMENT OF CHANGES IN EQUITY

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2018		19,320	688	35,073	13,757	68,838
<b>Comprehensive income</b>						
Profit for the financial year		-	-	-	9,428	9,428
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	(215)	-	(215)
Available-for-sale investments - reclassified to profit or loss	28	-	-	(42)	-	(42)
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(13)	(13)
Total other comprehensive income, net of tax		-	-	(257)	(13)	(270)
<b>Total comprehensive income</b>		-	-	(257)	9,415	9,158
<b>Transactions with owners</b>						
Dividend for 2017	15	-	-	-	(9,700)	(9,700)
Write-back of prior years' dividends		-	-	-	11	11
<b>Total transactions with owners of the Company</b>		-	-	-	(9,689)	(9,689)
<b>Balance at 31 December 2018</b>		<b>19,320</b>	<b>688</b>	<b>34,816</b>	<b>13,483</b>	<b>68,307</b>

The Notes on pages 53 to 132 are an integral part of these financial statements.



# STATEMENT OF CASH FLOWS

Year ended 31 December

	Notes	Group		Company	
		2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	31	165,602	134,580	6,098	5,517
Dividends received		11,219	7,889	7,014	7,207
Interest received		25,363	25,643	459	606
Interest paid		(52)	-	(52)	-
Income tax paid		(1,659)	(132)	(1,776)	(24)
<b>Net cash generated from operating activities</b>		<b>200,473</b>	167,980	<b>11,743</b>	13,306
<b>Cash flows from investing activities</b>					
Purchase of investment property	18	(898)	(826)	(91)	(232)
Disposal of investment property		607	-	5	-
Purchase of financial investments		(1,212,837)	(1,298,974)	-	(686)
Disposal of financial investments		1,037,916	1,139,768	3,450	2,082
Purchase of property, plant and equipment and intangible assets		(3,629)	(4,095)	(2,058)	(3,084)
Disposal of property, plant and equipment and intangible assets		14	-	14	-
<b>Net cash (used in)/generated from investing activities</b>		<b>(178,827)</b>	(164,127)	<b>1,320</b>	(1,920)
<b>Cash flows from financing activities</b>					
Dividends paid to owners of the Company		(9,689)	(3,513)	(9,689)	(3,513)
Dividends paid to non-controlling interests		(6,150)	(5,775)	-	-
<b>Cash used in financing activities</b>		<b>(15,839)</b>	(9,288)	<b>(9,689)</b>	(3,513)
<b>Net movement in cash and cash equivalents</b>		<b>5,807</b>	(5,435)	<b>3,374</b>	7,873
Cash and cash equivalents at beginning of year		64,580	70,015	15,064	7,191
<b>Cash and cash equivalents at end of year</b>	26	<b>70,387</b>	64,580	<b>18,438</b>	15,064

The Notes on pages 53 to 132 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The financial statements of MAPFRE Middlesea p.l.c. are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union and the Maltese Companies Act, 1995. The financial statements of the Group to which the Company is parent are prepared in accordance with article 4 of Regulation 1606/2002/EC (the "Regulation") which requires that, for each financial period starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. The Regulation prevails over the provisions of the Companies Act, 1995 to the extent that the said provisions of the Companies Act, 1995 are incompatible with the provisions of the Regulation. Both sets of financial statements as referred to in the Annual Report relate to both those of the Company and the Group and have also been prepared in accordance with the Insurance Business Act, 1998.

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

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

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

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies. The effects of applying IFRS 15 and IFRS 9 are discussed below.

IFRS 15 - 'Revenue from Contracts with Customers'

The Group has initially applied IFRS 15, 'Revenue from Contracts with Customers' from 1 January 2018. IFRS 15, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The adoption of IFRS 15 did not have an impact on the Group.

IFRS 9 - 'Financial instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION - CONTINUED

*Standards, interpretations and amendments to published standards effective in 2018 - continued*

IFRS 9 - 'Financial instruments' - continued

The new expected credit losses model replaces the incurred loss impairment model used in IAS 39. 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 generally effective for years beginning on or after 1 January 2018. However in September 2016, the IASB issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9. The options permit entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4, a temporary exemption to defer the implementation of IFRS 9.

Entities that apply the optional temporary relief were initially required to adopt IFRS 9 on annual periods beginning on or after 1 January 2021. However on 14 November 2018, the IASB deferred both the effective date of IFRS 17 Insurance Contracts and the expiry date for the optional relief in respect of IFRS 9 by one year. Therefore, entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2022 which aligns with the new effective date of IFRS 17.

The Group evaluated its liabilities at 31 December 2015, the prescribed date of assessment under the optional temporary relief provisions and concluded that all of the liabilities are predominantly connected with insurance. More than 90% of the Group's liabilities at 31 December 2015 are liabilities arising from contracts within the scope of IFRS 4. As at the same date the Company's predominant activities were also established to be insurance related as evidenced through revenues reported in the Annual Report of that year.

Further to the above, the Group has not previously applied any version of IFRS 9. Therefore the Group is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at 1 January 2018, the Group has elected to apply the optional temporary relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Group will continue to apply IAS 39 until 1 January 2022.

However, the subsidiaries of the Group, not having their activities predominantly in insurance, have initially applied IFRS 9 from 1 January 2018. The subsidiaries disclose references to any IFRS 9 information that is not provided in the consolidated financial statements, but is publicly available for the relevant period in the individual financial statements of the subsidiaries.

*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 2018. 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.

IFRS 16 - 'Leases'

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, continuing to classify leases as finance or operating leases.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION - CONTINUED

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

IFRS 16 - 'Leases' - continued

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

*Leases in which the Group is a lessee*

The Group will recognise new assets and liabilities for its operating leases of office premises and motor vehicles. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

*Transition Method*

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. For leases previously classified as operating leases, a lessee is permitted to choose, on a lease-by-lease basis, how to measure the right-of-use asset using one of two methods;

- Option 1: As if IFRS 16 had always been applied (but using the incremental borrowing rate at the date of initial application)
- Option 2: At an amount equal to the lease liability.

Where applicable, the accumulated effect of the initial application of IFRS 16 as an opening balance sheet adjustment under equity will be accounted for.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. In addition a practical expedient is being utilised in order to apply a single discount rate to a portfolio of leases with reasonably similar characteristics i.e. motor vehicles and office premises.

An impact assessment has been carried out on the financial statements of the first year of implementation, based on the current conditions of the market and of the lease contracts in force. Based on the information currently available, the Group has carried out a preliminary impact assessment and the resulting figures indicate that the impact on the group's statement of financial position and profit and loss is not material. In aligning local accounting policies with the parent company, the directors are further analysing the financial impact of initial application of IFRS 16.

*Leases in which the Group is a lessor*

No significant impact is expected for lessees in which the Group is a lessor.

IFRS 17 - 'Insurance Contracts'

IFRS 17, 'Insurance Contracts', establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The standard is effective for annual periods beginning on or after January 1, 2021. In November 2018 the International Accounting Standards Board proposed to delay the effective date by one year to 1 January 2022.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION - CONTINUED

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

IFRS 17 - 'Insurance Contracts' - continued

This Standard has not yet been endorsed by the EU at the date of authorisation of these financial statements.

The Group is considering the implications of the standard and its impact on the Group's financial results and position.

## 2. ACCOUNTING POLICIES

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

### 2.1 CONSOLIDATION

#### *(a) Subsidiary undertakings*

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary (or group) undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies over which the Group has control, either by way of majority shareholding, through contractual agreements with the other vote holders of the investee or rights arising from other contractual agreements, giving it the power to govern the financial and operating policies of the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

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

Acquisition-related costs are expensed as incurred.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.1 CONSOLIDATION - CONTINUED

#### (a) *Subsidiary undertakings* - continued

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

#### (b) *Associated undertakings*

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

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

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

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

### 2.2 SEGMENT REPORTING

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

### 2.3 FOREIGN CURRENCY TRANSLATION

#### *Functional and presentation currency*

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.3 FOREIGN CURRENCY TRANSLATION - CONTINUED

#### *Transactions and balances*

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

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

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

### 2.4 INTANGIBLE ASSETS

#### *Value of in-force business*

The value of in-force business is determined by the directors after considering the advice of the Group's Approved Actuary. 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 16 contains further information in relation to this asset.

#### *Value of business acquired*

The value of business acquired is amortised using the straight-line method over a period not exceeding five years. The carrying value is assessed yearly for impairment by projecting the profitability of the portfolio acquired over the life of the asset having considered projected combined ratios and retention patterns.

#### *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 seven years. All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

#### *Deferred policy acquisition costs - long term contracts*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.5 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 costs are charged to the profit or loss account during the financial period in which they are incurred.

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

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
Motor vehicles	5 years
Furniture, fittings and equipment	3 - 10 years

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

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

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

### 2.6 INVESTMENT PROPERTY

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.7 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

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

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

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

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

### 2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

In the Company's financial statements, investments in associated undertakings are accounted using the equity method. They are initially recognised at cost which includes transaction costs. Subsequent to initial recognition the carrying amount is increased or decreased to recognise the investor's share of profit or loss. Distributions received from an investee reduce the carrying amount of the investment. The changes in the investee's proportionate interest arising from changes in the investee's other comprehensive income, such as those arising from revaluation of property, plant and equipment and from exchange translation differences are recognised in the other comprehensive income.

### 2.9 FINANCIAL ASSETS

The Group classifies its financial assets (other than its investment in subsidiaries) into the following categories: financial assets at fair value through profit or loss, other available-for-sale investments and 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.

#### *Classification*

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance and investment contracts liabilities are also designated at inception as fair value through profit or loss to eliminate 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. Derivatives are also classified at fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated at fair value through profit or loss. They include, inter alia, reinsurers' share of technical provisions, insurance and other receivables, cash and cash equivalents in the statements of financial positions as well as other financial investments (comprising deposits with credit institutions, and loans) classified as loans and receivables within Note 21.
- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.9 FINANCIAL ASSETS - CONTINUED

#### *Recognition and measurement*

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

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

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

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

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

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

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

### 2.10 IMPAIRMENT OF ASSETS

#### *(a) Impairment of financial assets at amortised cost*

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.10 IMPAIRMENT OF ASSETS - CONTINUED

#### (a) *Impairment of financial assets at amortised cost - continued*

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

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

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

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

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

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

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

#### (c) *Impairment of non-financial assets*

Assets that have an indefinite useful life and are not subject to amortisation and/or assets not yet available for use 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).

### 2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.12 CASH AND CASH EQUIVALENTS

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

### 2.13 SHARE CAPITAL

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

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

### 2.14 INSURANCE AND INVESTMENT CONTRACTS

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

#### *(a) Classification*

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

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

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

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

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

#### *(b) Recognition and measurement*

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

##### *(i) Short-term insurance contracts - General business*

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

- Premiums written comprise all amounts due during the financial year in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.
- Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statements of financial position date, calculated on a time apportionment basis.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) *Recognition and measurement* - continued

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

- Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ('DAC') in the statements of financial position. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.
- Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- Provision is made at the year-end for the estimated cost of claims incurred but not settled at the statements of financial position date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group together with statistical analysis for the claims incurred but not reported and for projecting ultimate costs of claims reported including those that may be affected by external factors (such as court decisions).
- Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the reporting date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

(ii) *Group Life insurance contracts*

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

(iii) *Long term insurance contracts - individual life*

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) *Recognition and measurement - continued*

(iv) *Long term insurance contracts with DPF - individual life*

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.

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.

(v) *Investment contracts with DPF*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

#### *(c) Reinsurance contracts held*

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

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

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

#### *(d) Receivables and payables related to insurance contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers, tied insurance intermediaries, third party insurers by way of recoveries on claims and insurance contract holders.

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

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

#### *(e) Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs, and value of business acquired (VOBA). In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC or VOBA and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision as described in accounting policy 2.14 (b) (i)). Any DAC or VOBA written off as a result of this test cannot subsequently be reinstated.

#### *(f) Investment contracts without DPF*

The Group issues investment contracts without DPF.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.15 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 stated at amortised cost; any difference between the proceeds (net of incremental direct transaction costs) and the redemption value is recognised in the profit or loss account over the period of the borrowings using the effective interest method.

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

### 2.16 CURRENT AND DEFERRED INCOME TAX

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

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

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

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

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

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

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

### 2.17 PROVISIONS FOR PENSION OBLIGATIONS

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.17 PROVISIONS FOR PENSION OBLIGATIONS - CONTINUED

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

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

### 2.18 REVENUE RECOGNITION

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

#### (a) Rendering of services

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

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

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

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

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

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

### 2.19 INVESTMENT RETURN

Investment return includes dividend income, gains on financial assets at fair value through profit or loss (including interest income from financial assets classified as 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, rental income receivable, share of associated undertaking's result, and is net of investment expenses, charges and interest payable.

#### (a) Dividend income

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. ACCOUNTING POLICIES - CONTINUED

### 2.19 INVESTMENT RETURN - CONTINUED

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

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

(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) *Rental income*

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

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

### 2.20 LEASES

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

### 2.21 DIVIDEND DISTRIBUTION

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

## 3. USE OF ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes, which also include information about assumptions and uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment in the carrying amounts of assets and liabilities in the next financial year.

- *Value of in-force business*

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

# NOTES TO THE FINANCIAL STATEMENTS

## 3. USE OF ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES - CONTINUED

*- Value of in-force business -continued*

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2018 is disclosed in Note 16 to the accounts.

*- Insurance and investment contracts liabilities*

*(a) General business insurance contract liabilities*

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

*(b) 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 23 to the financial statements.

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

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

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

## 4. MANAGEMENT OF RISK

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

### 4.1 INSURANCE RISK

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.1 INSURANCE RISK - CONTINUED

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

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

#### (a) Short term business insurance contracts - general insurance

##### *Frequency and severity of claims*

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

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

- The increasing levels of court awards in cases where damages are suffered as a result of injuries, the divergence of awards that is dependent on the territory of the claim and the jurisdiction of the court, the effect of inflation due to the prolonged period typically required to settle such cases; and
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

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

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

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than A. No rating limitation shall apply to treaty placements with MAPFRE Re or any MAPFRE Group company designated to write any or all of the MAPFRE Group Reinsurance treaties. At 31 December 2018, MAPFRE's rating stood at A. The Board will monitor the security rating of MAPFRE on a periodic basis.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.1 INSURANCE RISK - CONTINUED

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

*Frequency and severity of claims - continued*

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

*Concentration of insurance risk*

Up until 31 December 2018, 100% of the Group's business was written in Malta (2017: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 27% (2017: 28%) and accident and health comprising 21% (2017: 19%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 23% (2017: 25%) and fire and other damage to property at 16% (2017: 16%). The remaining 13% (2017: 12%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred by insurance business class is provided in Note 6 to these financial statements.

*Sources of uncertainty in the estimation of future claim payments*

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

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

In calculating the estimated cost of unpaid claims, the Group considers the results of estimation techniques that are based partly on known information at year-end and partly on statistical analysis of historical experience. In the case of the main classes of business, motor and health, the Company makes use of Development Factor Models (DFM) to project the number of claims incurred but not yet reported (IBNR). Ultimate cost averages applied are based on claim averages acquired from historical data. In other classes of business, although IBNR is not recorded validation techniques are used to ensure the sufficiency of case reserves. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

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

(b) *Long term business insurance contracts*

*Frequency and severity of claims*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.1 INSURANCE RISK - CONTINUED

*(b) Long term business insurance contracts - continued*

*Frequency and severity of claims - continued*

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, excess of loss and catastrophe protection, which limits the liability of the Group to any one individual life or event. The Group's reinsurance is placed with listed multinational reinsurance companies whose rating is not less than BBB+.

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

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

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

### 4.2 FINANCIAL RISK

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

#### (a) Market risk

##### i) Cash flow and fair value interest rate risk

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

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

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

The Group does not guarantee a positive fixed rate of return to its long-term contract policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

The 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.

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

		2018				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
<b>Assets</b>						
Debt securities	21	40,263	64,900	297,449	464,903	867,515
Collective investment schemes		28,175	-	-	-	28,175
Loans and receivables:						
- Deposits with banks and credit institutions	21	141,596	62,717	26,537	-	230,850
- Loans secured on policies	21	8,859	-	-	-	8,859
- Cash and cash equivalents	26	70,387	-	-	-	70,387
<b>Total interest bearing assets</b>		<b>289,280</b>	<b>127,617</b>	<b>323,986</b>	<b>464,903</b>	<b>1,205,786</b>
<b>Liabilities</b>						
Long-term insurance contracts	23	-	-	-	1,903,651	1,903,651
<b>Total interest bearing liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1,903,651</b>	<b>1,903,651</b>
		2017				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
<b>Assets</b>						
Debt securities	21	46,194	47,116	261,293	447,453	802,056
Collective investment schemes		26,383	-	-	-	26,383
Loans and receivables:						
- Deposits with banks and credit institutions	21	187,569	-	-	-	187,569
- Loans secured on policies	21	9,511	-	-	-	9,511
- Cash and cash equivalents	26	64,580	-	-	-	64,580
<b>Total interest bearing assets</b>		<b>334,237</b>	<b>47,116</b>	<b>261,293</b>	<b>447,453</b>	<b>1,090,099</b>
<b>Liabilities</b>						
Long-term insurance contracts	23	-	-	-	1,805,923	1,805,923
<b>Total interest bearing liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1,805,923</b>	<b>1,805,923</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

		2018				
Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
<b>Assets</b>						
Debt securities	21	5,871	3,989	1,034	1,995	12,889
Loans and receivables:						
- Cash and cash equivalents	26	18,438	-	-	-	18,438
Total interest bearing assets		24,309	3,989	1,034	1,995	31,327
		2017				
Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
<b>Assets</b>						
Debt securities	21	3,472	6,021	5,193	2,011	16,697
Loans and receivables:						
- Cash and cash equivalents	26	15,064	-	-	-	15,064
Total interest bearing assets		18,536	6,021	5,193	2,011	31,761

The Company had no interest bearing liabilities as at 31 December 2018 and 2017.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Assets held at variable rates</b>				
Collective investment schemes	28,175	26,383	-	-
Debt securities	40,811	46,415	1,651	1,662
Cash and cash equivalents	70,387	64,580	18,438	15,064
	<b>139,373</b>	<b>137,378</b>	<b>20,089</b>	<b>16,726</b>
<b>Liabilities issued at variable rates</b>				
Net long term insurance contracts	1,903,651	1,805,923	-	-
	<b>1,903,651</b>	<b>1,805,923</b>	<b>-</b>	<b>-</b>

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €42.50million (2017: €46.31 million) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Assets held at fixed rates</b>				
Loans secured on policies	8,858	9,511	-	-
Deposits with banks or credit institutions	230,850	187,569	-	-
Debt securities	826,704	755,641	11,238	15,036
	<b>1,066,412</b>	<b>952,721</b>	<b>11,238</b>	<b>15,036</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk - continued*

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

In managing its portfolio, during the year ended 31 December 2018, the Group entered into fixed income security futures contracts. Accordingly, it is exposed to movements in interest rates in the respective markets of the underlying, which comprise short, medium and long-term sovereign debt. The notional amount of futures contracts outstanding at 31 December 2018 is shown below:

	Group	
	2018	2017
	€'000	€'000
<b>Long positions</b>		
- Federal Republic of Germany	50,986	18,818
- United Kingdom Government	274	-
	<hr/>	<hr/>
	51,260	18,818
	<hr/>	<hr/>
<b>Short positions</b>		
- Federal Republic of Germany	31,786	56,390
- United States Government	5,837	3,236
	<hr/>	<hr/>
	37,623	59,626
	<hr/>	<hr/>

Up to the statements of financial position date the Group did not have any hedging policy with respect to interest rate risk other than as described in note 2.9.

#### *Sensitivity Analysis – interest rate risk*

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 2018, had interest rates been 100 basis points (2017: 100 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have been lower by €1.17 million (2017: lower by €1.44 million) and higher by €0.07 million (2017: higher by €0.08 million) respectively. An increase of 100 basis points (2017: 100 basis points), with all other variables held constant, would have resulted in the Group's and Company's pre-tax results for the year being higher by €0.34 million (2017: €0.72 million) and €0.04 million (2017: €0.02 million) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk - continued*

ii) *Equity price risks*

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities.

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

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

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Assets subject to equity price risk	<b>771,330</b>	785,737	<b>3,179</b>	3,533
The above includes:				
Component of investments in associated undertakings (Note 20)*	<b>27,469</b>	30,510	-	-
Component of equity securities and units in unit trusts (Note 21)	<b>743,861</b>	755,227	<b>3,179</b>	3,533
	<b>771,330</b>	785,737	<b>3,179</b>	3,533

\* Investments in associates (Note 20) amounting to €0.33 million (2017: €0.37 million) for the Group and €0.33 million (2017: €0.37 million) for the Company have been excluded from equity price risk since they are accounted for under the equity method.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

ii) *Equity price risks* - continued

In managing its portfolio, 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	
	2018	2017
	€'000	€'000
<b>Long positions</b>		
- European equity indices	-	2,201

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

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

Given the investment strategy of the Group and Company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €0.44 million (2017: €0.44 million) and a negative impact of €0.44 million (2017: €0.44 million) on the Group's pre-tax profit and a positive or negative impact of €0.20 million on the Company's pre-tax results (2017: €0.22 million).

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk

The Group and Company have assets and liabilities denominated in major foreign currencies other than euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major foreign currencies. At 31 December 2018 foreign currency exposure amounted to €213.15 million (2017: €135.49 million).

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

The table below summarises the Group's exposure to foreign currencies' assets/(liabilities) other than euro.

#### Group

31 December 2018

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
<b>Currency of exposure:</b>			
USD	119,233	9,863	109,370
CHF	30,440	52	30,388
GBP	28,872	12,325	16,547
SEK	2,544	-	2,544
DKK	11,775	(57)	11,832
Others	42,436	(36)	42,472
	<b>235,300</b>	<b>22,147</b>	<b>213,153</b>

31 December 2017

<b>Currency of exposure:</b>			
USD	67,867	8,280	59,587
CHF	27,188	-	27,188
GBP	16,232	4,429	11,803
SEK	7,306	4,629	2,677
DKK	8,967	-	8,967
Others	25,716	452	25,264
	<b>153,276</b>	<b>17,790</b>	<b>135,486</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

iii) *Currency risk* - continued

Within the table above, €196.93 million of the unhedged exposure relates to equity investments (2017: €128.05 million). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

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

Company

31 December 2018

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
<b>Currency of exposure:</b>			
USD	(121)	-	(121)
GBP	35	-	35
	<b>(86)</b>	<b>-</b>	<b>(86)</b>

31 December 2017

<b>Currency of exposure:</b>			
USD	(121)	-	(121)
GBP	37	-	37
	<b>(84)</b>	<b>-</b>	<b>(84)</b>

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

(b) *Credit risk*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

#### *(b) Credit risk - continued*

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

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

The Group's cash is placed with a number of 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, thereby ensuring the continuous financial strength of the reinsurer. At the same time as the Board approves the overall reinsurance protection of the Group, it ensures that the reinsurers' credit rating (either Standard & Poor's or equivalent) is within the parameters set by it.

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Debt securities	867,515	802,056	12,889	16,697
Other financial assets (including deposits with banks and credit institutions)	230,850	187,569	-	-
Forward foreign exchange contracts	140	710	-	-
Reinsurers share of technical provisions	18,313	13,378	17,843	12,769
Insurance and other receivables	26,985			
	26,758	14,818	13,691	
Cash and cash equivalents	70,387	64,580	18,438	15,064
Total	1,214,190	1,095,051	63,988	58,221

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

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
AAA	129,451	74,870	-	-
AA	139,588	85,665	3,258	3,885
A	489,159	439,307	26,719	18,641
BBB	282,101	427,382	17,010	21,774
Below BBB or not rated	173,891	67,827	17,001	13,921
Total	1,214,190	1,095,051	63,988	58,221

Debt securities and loans and receivables that are not rated are primarily held with highly reputable financial institutions holding an investment grade.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

#### Financial assets that are past due but not impaired

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

	Group and Company	
	2018	2017
	€'000	€'000
Within credit terms	5,976	6,168
Not more than three months	3,011	2,450
Within three to twelve months	1,235	1,734
Over twelve months	591	637
	<hr/>	<hr/>
	10,813	10,989
	<hr/>	<hr/>

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

The overall exposure of the Group in terms of IFRS 7 is €10.81 million (2017: €10.99 million), of which €5.98 million (2017: €6.17 million) is not contractually due. It is the view of the directors that no impairment charge is necessary, due to the following reasons:

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

Trade receivables at 31 December 2018 did not comprise any amounts (2017: nil) whose terms had been renegotiated from the original terms and which were classified as fully performing.

#### Financial assets that are impaired

Within insurance and other receivables are the following receivables that are classified as impaired against which a provision for impairment has been provided as per Note 25:

	Group and Company	
	2018	2017
	€'000	€'000
Over twelve months	235	482
	<hr/>	<hr/>

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 FINANCIAL RISK - CONTINUED

#### (b) Credit risk - continued

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

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

#### (c) Liquidity risk

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

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

	Group expected cash flows (€ millions) 2018						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – Life insurance contracts and investment contracts with DPF	219.0	229.0	245.0	213.0	193.0	870.0	1,969.0
Technical provisions – claims outstanding	13.3	5.9	3.5	2.5	2.3	20.7	48.2
Insurance and other payables (contractual)	19.2	-	-	-	-	-	19.2

  

	Group expected cash flows (€ millions) 2017						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – Life insurance contracts and investment contracts with DPF	150.0	190.0	225.0	239.0	203.0	863.0	1,870.0
Technical provisions – claims outstanding	12.8	5.6	3.4	2.4	2.4	16.3	42.9
Insurance and other payables (contractual)	18.4	-	-	-	-	-	18.4

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.2 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.

	Company expected cash flows (€ millions) 2018						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – claims outstanding	13.3	5.9	3.5	2.5	2.3	20.7	48.2
Insurance and other payables (contractual)	10.5	-	-	-	-	-	10.2

	Group expected cash flows (€ millions) 2017						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – claims outstanding	12.8	5.6	3.4	2.4	2.4	16.3	42.9
Insurance and other payables (contractual)	10.2	-	-	-	-	-	10.2

The above cash flows are undiscounted other than those for Technical provisions – Life insurance contracts and investment contracts with DPF, which liability is determined as the sum of the expected discounted value of future cash flows.

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

	2018 €'000	2017 €'000
<b>At 31 December</b>		
Foreign exchange contracts		
- outflow	(37,135)	(18,989)
- inflow	37,275	19,101

At 31 December 2018 and 2017, the above derivatives were due to be settled within three months after year end.

### 4.3 FAIR VALUES

The following table presents the assets measured in the statements of financial position at fair value by level of the following fair value measurement hierarchy at 31 December 2018:

- 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); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2018.

Group	Level 1 €'000	Level 2 €'000	Total €'000
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	857,255	40	857,295
- Debt securities	701,600	155,295	856,895
Other available-for-sale investments	9,351	2,460	11,811
Derivative financial instruments	-	140	140
Investment in associated undertakings	27,468	-	27,468
<b>Total assets</b>	<b>1,595,674</b>	<b>157,935</b>	<b>1,753,609</b>
<b>Liabilities</b>			
Unit linked financial liabilities	-	86,452	86,452
Derivative financial instruments	-	64	64
<b>Total liabilities</b>	<b>-</b>	<b>86,516</b>	<b>86,516</b>
<b>Company</b>			
	Level 1 €'000	Level 2 €'000	Total €'000
<b>Assets</b>			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	1,988	-	1,988
- Debt securities	2,122	147	2,269
Other available-for-sale investments	9,351	2,460	11,811
<b>Total assets</b>	<b>13,461</b>	<b>2,607</b>	<b>16,068</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2017.

Group	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	874,232	36	33	874,301
- Debt securities	611,348	176,356	-	787,704
Other available-for-sale investments	12,759	2,902	-	15,661
Derivative financial instruments	-	710	-	710
Investment in associated undertakings	30,510	-	-	30,510
<b>Total assets</b>	<b>1,528,849</b>	<b>180,004</b>	<b>33</b>	<b>1,708,886</b>
<b>Liabilities</b>				
Unit linked financial liabilities	-	93,999	-	93,999
<b>Total liabilities</b>	<b>-</b>	<b>93,999</b>	<b>-</b>	<b>93,999</b>
<b>Company</b>				
	Level 1 €'000	Level 2 €'000	Total €'000	
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities units in unit trusts and collective investment schemes	2,224	-	2,224	
- Debt securities	2,194	150	2,344	
Other available-for-sale investments	12,759	2,902	15,661	
<b>Total assets</b>	<b>17,177</b>	<b>3,052</b>	<b>20,229</b>	

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

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

Level 3 assets 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. In 2017 the Group had €0.03 million assets classified as Level 3, the valuation of which has been determined by reference to the net assets of the underlying investment.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. MANAGEMENT OF RISK - CONTINUED

### 4.3 FAIR VALUES - CONTINUED

The analysis of investment property is included within Note 18.

The following table presents the changes in Level 3 other available-for-sale securities for the year ended 31 December 2018.

Group	Other available- for-sale investments €'000
<b>Year ended 31 December 2018</b>	
Opening balance	33
Total losses recognised in profit or loss	(33)
	<hr/>
Closing balance	-
	<hr/>

The following table presents the changes in Level 3 other available-for-sale securities for the year ended 31 December 2017.

Group	Other available- for-sale investments €'000
<b>Year ended 31 December 2017</b>	
Opening balance	107
Disposal	(74)
	<hr/>
Closing balance	33
	<hr/>

At 31 December 2018 and 2017, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

## 5. CAPITAL MANAGEMENT

The Group's 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 Group defines capital as shareholders' equity.

The Group'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');

# NOTES TO THE FINANCIAL STATEMENTS

## 5. CAPITAL MANAGEMENT - CONTINUED

- provide for the capital requirements of the companies within the Group;
- safeguard the Group's and individual component companies' ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk.

The individual insurance Group companies are required to hold regulatory capital for their non-life and 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 individual Group companies monitor the level of their own funds on a regular basis. Any transactions that may potentially affect the individual company's own funds and solvency position are immediately reported to their respective directors and shareholders for resolution.

The Company's Minimum Capital Requirement Absolute Floor stands at €7,400,000 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.

All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period as per management calculations to date.

## 6. SEGMENT INFORMATION

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

The Company writes its business from Malta.

The Group operates in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. The segment results for the years ended 31 December 2018 and 2017 are indicated below.

### *General business*

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

	Group and Company			
	Gross premiums written		Gross premiums earned	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
<b>Direct insurance</b>				
Motor (third party liability)	16,098	15,193	15,592	14,939
Motor (other classes)	18,965	17,542	18,369	17,248
Fire and other damage to property	10,956	9,848	10,401	9,663
Accident and health	14,559	11,821	13,795	12,236
Other classes	6,721	5,991	6,638	6,066
	<b>67,299</b>	60,395	<b>64,795</b>	60,152



# NOTES TO THE FINANCIAL STATEMENTS

## 6. SEGMENT INFORMATION - CONTINUED

### General business - continued

100% (2017: 100%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in Note 34.

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

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Direct insurance</b>						
Motor (third party liability)	21,236	13,694	4,735	4,222	(5,209)	1,068
Motor (other classes)	7,438	8,810	5,579	5,080	182	233
Fire and other						
damage to property	3,525	4,574	3,316	3,162	2,581	676
Accident and health	7,901	6,829	4,444	3,981	262	(63)
Other classes	2,203	3,333	2,095	1,985	747	(1,293)
	<b>42,303</b>	<b>37,240</b>	<b>20,169</b>	<b>18,430</b>	<b>(1,437)</b>	<b>621</b>

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

### Long term business

#### (i) Gross premium written

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Gross premiums written</b>				
Direct insurance	322,400	290,709	2,386	1,541
Reinsurance inwards	-	-	2	2
	<b>322,400</b>	<b>290,709</b>	<b>2,388</b>	<b>1,543</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 6. SEGMENT INFORMATION - CONTINUED

*Long term business - continued*

(i) *Gross premium written - continued*

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

Group direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Non-participating	15,438	13,939	-	-
Participating	33,971	32,169	269,839	241,016
Linked	2,237	2,352	915	1,233
	<b>51,646</b>	<b>48,460</b>	<b>270,754</b>	<b>242,249</b>

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

	Periodic premiums		Single premiums	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Investment contracts	1,469	1,438	1,238	856

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

(ii) *Reinsurance balance*

	Group		Company	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Charge for reinsurance outwards	2,633	2,959	245	134

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

# NOTES TO THE FINANCIAL STATEMENTS

## 6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Gross premiums written</b>				
Insurance contracts	35,581	34,981	2,388	1,543
Investment contracts with DPF	286,819	255,728	-	-
	<b>322,400</b>	<b>290,709</b>	<b>2,388</b>	<b>1,543</b>
<b>Claims incurred, net of reinsurance</b>				
Insurance contracts	33,583	31,901	471	574
Investment contracts with DPF	112,566	106,101	-	-
	<b>146,149</b>	<b>138,002</b>	<b>471</b>	<b>574</b>

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

	Group	
	2018 €'000	2017 €'000
Profit on general business	4,988	5,787
Profit on long term business	14,748	12,829
Net investment income not allocated to the technical accounts	415	407
Other income	1,420	1,497
Administrative expenses	(3,015)	(2,811)
<b>Profit for the financial year before tax</b>	<b>18,556</b>	<b>17,709</b>
	Company	
	2018 €'000	2017 €'000
Profit on general business	4,988	5,787
Profit on long term business	1,355	1,004
Net investment income not allocated to the technical accounts	6,843	7,083
Administrative expenses	(1,767)	(1,705)
<b>Profit for the financial year before tax</b>	<b>11,419</b>	<b>12,169</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 6. SEGMENT INFORMATION - CONTINUED

### Geographical information

The segment results for the years ended 31 December 2018 and 2017 by geographical area are indicated below:

	Group		Company	
	Gross premiums written		Gross premiums earned	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Malta	389,699	351,104	69,685	61,938

### Group segment assets and liabilities

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

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long-term business €'000	Unallocated €'000	Total €'000
<b>At 31 December 2018</b>								
Assets allocated to business segments	38,987	10,688	13,880	8,757	14,538	2,015,171	14,304	2,116,325
Assets allocated to shareholders	-	-	-	-	-	-	202,454	202,454
<b>Total assets</b>	<b>38,987</b>	<b>10,688</b>	<b>13,880</b>	<b>8,757</b>	<b>14,538</b>	<b>2,015,171</b>	<b>216,758</b>	<b>2,318,779</b>
<b>At 31 December 2017</b>								
Assets allocated to business segments	27,549	15,072	13,448	7,611	14,488	1,920,385	15,038	2,013,591
Assets allocated to shareholders	-	-	-	-	-	-	201,161	201,161
<b>Total assets</b>	<b>27,549</b>	<b>15,072</b>	<b>13,448</b>	<b>7,611</b>	<b>14,488</b>	<b>1,920,385</b>	<b>216,199</b>	<b>2,214,752</b>

The total of non-current assets, other than financial instruments, deferred tax assets and risks arising under insurance contracts of €190.99 million (2017: €185.53 million) are all located in Malta.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. NET OPERATING EXPENSES

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Acquisition costs	30,571	26,677	18,132	15,167
Change in deferred acquisition costs, net of reinsurance	(821)	113	(821)	113
Administrative expenses	12,269	11,492	5,067	5,403
Reinsurance commissions and profit participation	(3,988)	(3,689)	(3,767)	(3,466)
	<b>38,031</b>	34,593	<b>18,611</b>	17,217
<b>Allocated to:</b>				
General business technical account	16,549	15,202	16,549	15,202
Long term business technical account	18,467	16,580	295	310
Non-technical account (administrative expenses)	3,015	2,811	1,767	1,705
	<b>38,031</b>	34,593	<b>18,611</b>	17,217

Total commissions for direct business accounted for in the financial year amounted to €20.28 million (2017: €18.55 million) in the Group's technical result and €11.95 million (2017: €10.42 million) in the Company's technical result. €7.27 million (2017: €7.06 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 11. Further detail relating to administrative expenses is included in Note 10.

### *Non-technical account*

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

# NOTES TO THE FINANCIAL STATEMENTS

## 8. INVESTMENT RETURN

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Investment income</b>				
Dividend income from group undertakings	-	-	6,843	7,083
Share of profit of other associated undertaking, net of tax	75	72	-	-
Rent receivable from investment property	5,309	5,730	748	672
Interest receivable from loans and receivables - other financial assets not at fair value through profit or loss	1,039	1,220	6	3
Income from financial assets at fair value through profit or loss				
- dividend income	11,659	8,919	117	106
- net fair value gains and interest on bonds	-	52,698	-	-
Income from available-for-sale assets				
- dividend income	60	72	60	72
- net fair value gains and interest on bonds	137	414	137	414
Net fair value gains on investment property	4,466	3,303	456	873
Other investment income	474	1,057	16	49
	<b>23,219</b>	<b>73,485</b>	<b>8,383</b>	<b>9,272</b>
<b>Investment expenses and charges</b>				
Direct operating expenses arising from investment property that generated rental income	189	514	-	58
Interest expenses on loans and receivables	53	-	53	-
Interest expense for financial liabilities that are not at fair value through profit or loss	14	14	14	14
Expense on financial assets at fair value through profit or loss				
- net fair value losses and interest on bonds	61,516	155	227	155
Expense on available-for-sale assets				
- net fair value losses	-	5	-	-
Other investment expenses	5,503	4,439	-	8
Exchange differences	9	21	9	21
	<b>67,284</b>	<b>5,148</b>	<b>303</b>	<b>256</b>
<b>Net investment return</b>	<b>(44,065)</b>	<b>68,337</b>	<b>8,080</b>	<b>9,016</b>
<b>Analysed between:</b>				
Allocated investment return transferred to the general business technical account	1,228	1,925	1,228	1,925
Investment return included in the long term business technical account	(45,708)	66,009	9	8
Other investment income included in the non-technical account	415	403	6,843	7,083
	<b>(44,065)</b>	<b>68,337</b>	<b>8,080</b>	<b>9,016</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 9. OTHER INCOME

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Other technical income, net of reinsurance</b>				
Investment management fees	433	380	-	-
Other	88	93	-	-
	<b>521</b>	<b>473</b>	<b>-</b>	<b>-</b>
<b>Other income – non technical</b>				
Management fees	862	930	-	-
Other income	558	567	-	-
	<b>1,420</b>	<b>1,497</b>	<b>-</b>	<b>-</b>

## 10. PROFIT BEFORE TAX

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Employee compensation (Note 11)	10,195	9,240	5,804	5,397
Depreciation/amortisation:				
- intangible assets (Note 16)	2,354	1,757	1,343	1,128
- property, plant and equipment (Note 17)	783	724	345	299
Release of provision for impairment on receivables (Note 25)	(291)	(1)	(291)	(1)
Impairment of receivables	342	37	342	37
Increase in provision for impairment on receivables (Note 25)	44	112	44	112
Directors' and officers' insurance	30	30	-	-

The financial statements include fees, exclusive of VAT, charged by the parent company auditor for services rendered during the financial years ended 31 December 2018 and 2017, relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Annual statutory audit	237	219	110	109
Solvency II audit	100	138	43	59
<b>Paid during the year:</b>				
For financial year 2018	111	-	55	-
For financial year 2017	354	-	168	-
For financial year 2016	20	156	20	58

# NOTES TO THE FINANCIAL STATEMENTS

## 11. EMPLOYEE COMPENSATION

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Salaries	9,647	8,743	5,460	5,091
Social security costs	548	497	344	306
	<b>10,195</b>	<b>9,240</b>	<b>5,804</b>	<b>5,397</b>

The average number of persons employed during the year was:

	Group		Company	
	2018	2017	2018	2017
Key management personnel	25	24	13	12
Managerial	31	27	15	15
Technical	191	190	130	126
Administrative	10	11	6	7
	<b>257</b>	<b>252</b>	<b>164</b>	<b>160</b>

## 12. TAX EXPENSE

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Current tax expense	1,931	2,191	1,676	1,085
Deferred tax expense (Note 22)	2,590	1,997	315	745
	<b>4,521</b>	<b>4,188</b>	<b>1,991</b>	<b>1,830</b>

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Profit before tax	18,556	17,709	11,419	12,169
Tax at 35%	6,495	6,198	3,996	4,259
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	(38)	304	(1,309)	(2,105)
Property withholding tax at 8% or 10%	(1,792)	(1,663)	(105)	(195)
Prior year effect on property withholding tax	-	(573)	-	(36)
Other	(144)	(78)	(591)	(93)
	<b>4,521</b>	<b>4,188</b>	<b>1,991</b>	<b>1,830</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Directors' fees	284	153	270	133

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

## 14. EARNINGS PER SHARE

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

	Group	
	2018 €'000	2017 €'000
Profit attributable to owners of the Company	8,594	8,510
Number of ordinary shares in issue (Note 27)	92,000,000	92,000,000
Basic and diluted earnings per share attributable to owners of the Company (€)	9.3c	9.3c

## 15. DIVIDENDS

A gross dividend in respect of year ended 31 December 2018 of €0.11531 (2017: €0.11304) per share amounting to a total dividend of €10,608,738 (2017: €10,400,000) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.09783 (2017: €0.10543) per share amounting to a total net dividend of €9,000,000 (2017: €9,700,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INTANGIBLE ASSETS

Group	Value of in-force business (ii) €'000	Value of business acquired €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
<b>At 1 January 2017</b>					
Cost or valuation	59,956	1,651	17,464	3,380	82,451
Accumulated amortisation and impairment	-	(495)	(10,600)	(2,821)	(13,916)
<b>Net book amount</b>	<b>59,956</b>	<b>1,156</b>	<b>6,864</b>	<b>559</b>	<b>68,535</b>
<b>Year ended 31 December 2017</b>					
Opening net book amount	59,956	1,156	6,864	559	68,535
Increase in value of in-force business credited to reserves	2,416	-	-	-	2,416
Additions	-	-	3,118	58	3,176
Disposals	-	-	(40)	-	(40)
Amortisation charge	-	(330)	(1,262)	(165)	(1,757)
Amortisation released on disposal	-	-	22	-	22
<b>Closing net book amount</b>	<b>62,372</b>	<b>826</b>	<b>8,702</b>	<b>452</b>	<b>72,352</b>
<b>At 31 December 2017</b>					
Cost or valuation	62,372	1,651	20,542	3,438	88,003
Accumulated amortisation and impairment	-	(825)	(11,840)	(2,986)	(15,651)
<b>Net book amount</b>	<b>62,372</b>	<b>826</b>	<b>8,702</b>	<b>452</b>	<b>72,352</b>
<b>Year ended 31 December 2018</b>					
Opening net book amount	62,372	826	8,702	452	72,352
Increase in value of in-force business credited to reserves	252	-	-	-	252
Additions	-	-	2,005	65	2,070
Disposals	-	-	(28)	-	(28)
Amortisation charge	-	(331)	(1,881)	(142)	(2,354)
Amortisation released on disposal	-	-	28	-	28
<b>Closing net book amount</b>	<b>62,624</b>	<b>495</b>	<b>8,826</b>	<b>375</b>	<b>72,320</b>
<b>At 31 December 2018</b>					
Cost or valuation	62,624	1,651	22,519	3,503	90,297
Accumulated amortisation and impairment	-	(1,156)	(13,693)	(3,128)	(17,977)
<b>Net book amount</b>	<b>62,624</b>	<b>495</b>	<b>8,826</b>	<b>375</b>	<b>72,320</b>

Amortisation of €0.73 million (2017: €0.68 million) is included in acquisition costs and €1.62 million (2017: €1.08 million) is included in administrative expenses.

Fully amortised assets that were still in use for the Group as at the financial year amounted to €8.29 million (2017: €7.55 million).

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INTANGIBLE ASSETS - CONTINUED

- (i) This intangible asset relates to investment contracts without DPF only.
- (ii) 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. These assumptions concern both future economic and demographic experience. Forecasting future experience is inherently difficult.

The Group 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 €0.47 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.47 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 €0.15 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.16 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 (2017: 1% pa) for with profits business with a risk discount rate of 6.5% pa (2017: 6.5% pa). For term assurance and unit linked business these assumptions are unchanged. Expenses are assumed to inflate at 3.5% pa (2017: 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 reflected in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INTANGIBLE ASSETS - CONTINUED

Company	Computer software €'000	Value of business acquired €'000	Total €'000
<b>At 1 January 2017</b>			
Cost	6,250	1,651	7,901
Accumulated amortisation	(3,087)	(495)	(3,582)
Net book amount	3,163	1,156	4,319
<b>Year ended 31 December 2017</b>			
Opening net book amount	3,163	1,156	4,319
Additions	2,698	-	2,698
Disposals	(40)	-	(40)
Amortisation charge	(798)	(330)	(1,128)
Amortisation released on disposal	22	-	22
Closing net book amount	5,045	826	5,871
<b>At 31 December 2017</b>			
Cost	8,908	1,651	10,559
Accumulated amortisation	(3,863)	(825)	(4,688)
Net book amount	<b>5,045</b>	<b>826</b>	<b>5,871</b>
<b>Year ended 31 December 2018</b>			
Opening net book amount	5,045	826	5,871
Additions	1,642	-	1,642
Amortisation charge	(1,013)	(330)	(1,343)
Closing net book amount	5,674	496	6,170
<b>At 31 December 2018</b>			
Cost	10,550	1,651	12,201
Accumulated amortisation	(4,876)	(1,155)	(6,031)
Net book amount	<b>5,674</b>	<b>496</b>	<b>6,170</b>

Amortisation of €0.33 million (2017: €0.33 million) is included in acquisition costs and €1.01 million (2017: €0.80 million) is included in administrative expenses.

Fully amortised assets that were still in use for the Company as at the financial year end amounted to €2.89 million (2017: €2.00 million).

Computer software mainly represents amounts capitalised relating to the development of the Group and Company's IT system by related companies forming part of the MAPFRE S.A. Group.

# NOTES TO THE FINANCIAL STATEMENTS

## 17. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
<b>At 1 January 2017</b>					
Cost	6,852	2,466	13	5,949	15,280
Accumulated depreciation	(90)	(1,029)	(10)	(4,210)	(5,339)
<b>Net book amount</b>	<b>6,762</b>	<b>1,437</b>	<b>3</b>	<b>1,739</b>	<b>9,941</b>
<b>Year ended 31 December 2017</b>					
Opening net book amount	6,762	1,437	3	1,739	9,941
Amount transferred from investment property (Note 18)	3,161	-	-	-	3,161
Additions	266	80	-	577	923
Depreciation charge	(25)	(204)	(3)	(492)	(724)
<b>Closing net book amount</b>	<b>10,164</b>	<b>1,313</b>	<b>-</b>	<b>1,824</b>	<b>13,301</b>
<b>At 31 December 2017</b>					
Cost	10,279	2,546	13	6,526	19,364
Accumulated depreciation	(115)	(1,233)	(13)	(4,702)	(6,063)
<b>Net book amount</b>	<b>10,164</b>	<b>1,313</b>	<b>-</b>	<b>1,824</b>	<b>13,301</b>
<b>Year ended 31 December 2018</b>					
Opening net book amount	10,164	1,313	-	1,824	13,301
Amount transferred from investment property (Note 18)	1,796	-	-	-	1,796
Additions	1,030	177	-	352	1,559
Disposals	-	-	-	(716)	(716)
Depreciation charge	(26)	(210)	-	(547)	(783)
Depreciation released on disposal	-	-	-	684	684
<b>Closing net book amount</b>	<b>12,964</b>	<b>1,280</b>	<b>-</b>	<b>1,597</b>	<b>15,841</b>
<b>At 31 December 2018</b>					
Cost	13,105	2,723	13	6,162	22,003
Accumulated depreciation	(141)	(1,443)	(13)	(4,565)	(6,162)
<b>Net book amount</b>	<b>12,964</b>	<b>1,280</b>	<b>-</b>	<b>1,597</b>	<b>15,841</b>

Freehold land and buildings transferred from investment property are transferred at the fair value at the point of transfer and subsequently depreciated. No revaluations are carried out on such properties following such transfer. The fair value of the freehold land and buildings is not significantly different as compared to its carrying amount.

Depreciation charge has been included in administrative expenses.

Fully depreciated assets that were still in use by the Group as at the financial year end amounted to €2.0 million (2017: €2.3 million).

# NOTES TO THE FINANCIAL STATEMENTS

## 17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
<b>At 1 January 2017</b>					
Cost	68	1,880	13	2,537	4,498
Accumulated depreciation	(10)	(728)	(9)	(1,908)	(2,655)
<b>Net book amount</b>	<b>58</b>	<b>1,152</b>	<b>4</b>	<b>629</b>	<b>1,843</b>
<b>Year ended 31 December 2017</b>					
Opening net book amount	58	1,152	4	629	1,843
Additions	24	80	-	285	389
Depreciation charge	(1)	(148)	(4)	(146)	(299)
<b>Closing net book amount</b>	<b>81</b>	<b>1,084</b>	<b>-</b>	<b>768</b>	<b>1,933</b>
<b>At 31 December 2017</b>					
Cost	92	1,960	13	2,822	4,887
Accumulated depreciation	(11)	(876)	(13)	(2,054)	(2,954)
<b>Net book amount</b>	<b>81</b>	<b>1,084</b>	<b>-</b>	<b>768</b>	<b>1,933</b>
<b>Year ended 31 December 2018</b>					
Opening net book amount	81	1,084	-	768	1,933
Additions	6	177	-	233	416
Disposals	-	-	-	(527)	(527)
Depreciation charge	(2)	(154)	-	(189)	(345)
Depreciation released on disposal	-	-	-	495	495
<b>Closing net book amount</b>	<b>85</b>	<b>1,107</b>	<b>-</b>	<b>780</b>	<b>1,972</b>
<b>At 31 December 2018</b>					
Cost	98	2,137	13	2,528	4,776
Accumulated depreciation	(13)	(1,030)	(13)	(1,748)	(2,804)
<b>Net book amount</b>	<b>85</b>	<b>1,107</b>	<b>-</b>	<b>780</b>	<b>1,972</b>

Freehold land and buildings transferred from investment property are transferred at the fair value at the point of transfer and are subsequently depreciated. No revaluations are carried out on such properties following such transfer. The fair value of the freehold land and buildings is not significantly different as compared to its carrying amount.

Depreciation charge has been included in administrative expenses.

Fully depreciated assets that were still in use by the Company as at the financial year end amounted to €1.2 million (2017: €1.4 million).

# NOTES TO THE FINANCIAL STATEMENTS

## 18. INVESTMENT PROPERTY

	Group €'000	Company €'000
<b>At 1 January 2017</b>		
Cost	63,105	7,718
Accumulated fair value gains	35,799	5,999
	<b>98,904</b>	<b>13,717</b>
<b>Year ended 31 December 2017</b>		
Opening net book amount	98,904	13,717
Transfer to property, plant & equipment (Note 17)	(3,161)	-
Additions	826	232
Net fair value gains	3,303	873
	99,872	14,822
<b>At 31 December 2017</b>		
Cost	60,770	7,950
Accumulated fair value gains	39,102	6,872
	<b>99,872</b>	<b>14,822</b>
<b>Year ended 31 December 2018</b>		
Opening net book amount	99,872	14,822
Transfer to property, plant & equipment (Note 17)	(1,796)	-
Additions	898	91
Disposals	(645)	(5)
Net fair value gains	4,503	456
	102,832	15,364
<b>At 31 December 2018</b>		
Cost	59,480	8,038
Accumulated fair value gains	43,352	7,326
	<b>102,832</b>	<b>15,364</b>

### *Fair value of land and buildings*

An independent valuation of the Group's and Company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2018 and 2017. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 8).

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 18. INVESTMENT PROPERTY - CONTINUED

### Valuation processes

On an annual basis, the Group and Company engage external, independent and qualified valuers to determine the fair value of the land and buildings. As at 31 December 2018, 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; and
- holds discussions with the independent valuer.

### Valuation techniques

For level 3 fair value of all office buildings with a total carrying amount of €102.83 million (2017: €99.87 million) for the Group and €15.36 million (2017: €14.82 million) for the Company, the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

**Future rental cash inflows** based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties;

**Capitalisation rates** based on actual location, size and quality of the properties and taking into account market data at the valuation date.

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

Group	Significant unobservable Inputs			
	Fair value at 31 December 2018 €	Valuation technique	Rental value €	Capitalisation rate %
Description				
Office buildings	102.83m	Capitalisation of future net income streams	5.02m	4.00 – 8.00

  

Group	Significant unobservable Inputs			
	Fair value at 31 December 2017 €	Valuation technique	Rental value €	Capitalisation rate %
Description				
Office buildings	99.87m	Capitalisation of future net income streams	5.41m	3.50 – 8.00



# NOTES TO THE FINANCIAL STATEMENTS

## 18. INVESTMENT PROPERTY - CONTINUED

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

Company	Fair value at 31 December 2018 €	Valuation technique	Significant unobservable Inputs	
			Rental value €	Capitalisation rate %
Office buildings	15.36m	Capitalisation of future net income streams	0.77m	4.75 – 6.00

  

Description	Fair value at 31 December 2018 €	Valuation technique	Significant unobservable Inputs	
			Rental value €	Capitalisation rate %
Office buildings	14.82m	Capitalisation of future net income streams	0.74m	4.75 – 6.50

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.

## 19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
<b>Year ended 31 December 2018</b>	
Opening and closing net book amount and deemed cost	<b>57,214</b>
<b>Year ended 31 December 2017</b>	
Opening and closing net book amount and deemed cost	<b>57,214</b>

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held	
			2018	2017
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MAPFRE MSV Life p.l.c.	Level 7 The Mall Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

# NOTES TO THE FINANCIAL STATEMENTS

## 19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

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

2018	% Held by non-controlling interests	Assets €'000	Liabilities €'000	Revenues €'000	Profit before tax €'000	Net cash flows €'000
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,213,450	2,053,407	322,721	13,698	2,497
Church Wharf Properties Limited	25%	2,883	290	-	66	(9)
2017	% Held by non-controlling interests	Assets €'000	Liabilities €'000	Revenues €'000	Profit before tax €'000	Net cash flows €'000
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,116,791	1,955,581	291,461	12,310	(13,322)
Church Wharf Properties Limited	25%	2,817	282	-	95	(5)

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

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

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2018	Percentage of shares held 2017
Growth Investment Limited (held indirectly by MAPFRE MSV Life p.l.c.)	Piazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

During 2011, the Company acquired control of MAPFRE MSV Life p.l.c. following a shareholders' agreement. MAPFRE MSV Life p.l.c. had previously been accounted for as an associated undertaking.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
<b>At 1 January 2017</b>		
Cost	14,629	294
Accumulated fair value movements	18,445	-
	<hr/>	<hr/>
Net book amount	33,074	294
	<hr/>	<hr/>
<b>Year ended 31 December 2017</b>		
Opening net book amount	33,074	294
Disposals	(149)	-
Share of associated undertaking's movement in equity	(29)	72
Fair value movements	(2,020)	-
	<hr/>	<hr/>
Closing net book amount	30,876	366
	<hr/>	<hr/>
<b>At 31 December 2017</b>		
Cost	14,480	294
Accumulated share of associated undertaking's equity	72	72
Accumulated fair value movements	16,324	-
	<hr/>	<hr/>
Net book amount	<b>30,876</b>	<b>366</b>
	<hr/>	<hr/>
<b>Year ended 31 December 2018</b>		
Opening net book amount	30,876	366
Share of associated undertaking's movement in equity	(36)	(36)
Fair value movements	(3,041)	-
	<hr/>	<hr/>
Closing net book amount	27,799	330
	<hr/>	<hr/>
<b>At 31 December 2018</b>		
Cost	14,480	294
Accumulated share of associated undertaking's equity	36	36
Accumulated fair value movements	13,283	-
	<hr/>	<hr/>
Net book amount	<b>27,799</b>	<b>330</b>
	<hr/>	<hr/>

# NOTES TO THE FINANCIAL STATEMENTS

## 20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

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

2018	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	1,035	361	2,193	154	49%
2017	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	1,468	721	1,914	147	49%

Middlesea Assist has adopted IFRS 9 during 2018. The Company has considered that no adjustment was needed to the above figures while applying the equity method of accounting in view of the temporary exemption availed of by the Company from adopting IFRS 9 as described in Note 1.

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

Associated undertakings	Registered office	Class of shares held	Percentage of shares held			
			MSV		Group	
			2018	2017	2018	2017
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%	28.36%	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	35.46%	35.46%	35.46%	35.46%

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2018 was €1.02 and €0.965 respectively (31 December 2017: €1.09 and €1.089 respectively).

# NOTES TO THE FINANCIAL STATEMENTS

## 21. OTHER INVESTMENTS

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Fair value through profit or loss	1,714,330	1,662,715	4,257	4,568
Other available-for-sale	11,811	15,661	11,811	15,661
Loans and receivables	239,709	197,080	-	-
	<b>1,965,850</b>	1,875,456	<b>16,068</b>	20,229

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Equity securities and units in unit trusts	770,843	780,302	1,988	2,224
Debt securities	856,895	787,704	2,269	2,344
Assets held to cover linked liabilities – collective investment schemes	86,452	93,999	-	-
Forward foreign exchange contracts	140	710	-	-
	<b>1,714,330</b>	1,662,715	<b>4,257</b>	4,568

Technical provisions for linked liabilities amounted to €86.8 million as at 31 December 2018 (2017: €94.2 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2018 and 2017, the Group and Company had no financial commitments in respect to uncalled capital.

Equity securities and collective investment schemes other than those at Company level are substantially non-current assets in nature.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. OTHER INVESTMENTS - CONTINUED

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

The movements for the year are summarised as follows:

	Group €'000	Company €'000
<b>Year ended 31 December 2017</b>		
Opening net book amount	1,457,831	5,087
Additions	1,299,114	175
Disposals	(1,117,083)	(436)
Net fair value gains/(losses)	22,853	(258)
	<b>1,662,715</b>	<b>4,568</b>
<b>Year ended 31 December 2018</b>		
Opening net book amount	1,662,715	4,568
Additions	1,167,470	-
Disposals	(1,040,958)	-
Net fair value losses	(74,960)	(311)
	<b>1,714,267</b>	<b>4,257</b>

Derivative financial liabilities amounting to €0.06 million (2017: nil), included in the table above, are classified within liabilities in the statement of financial position.

(b) Other available-for-sale financial assets

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Listed debt securities	10,620	14,352	10,620	14,352
Listed shares	1,191	1,309	1,191	1,309
	<b>11,811</b>	<b>15,661</b>	<b>11,811</b>	<b>15,661</b>

Listed debt securities have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Their credit rating, using Standard & Poors's rating is as below:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
AA	451	252	451	252
A	9,318	7,000	9,318	7,000
BBB	851	7,100	851	7,100
	<b>10,620</b>	<b>14,352</b>	<b>10,620</b>	<b>14,352</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 21. OTHER INVESTMENTS - CONTINUED

(b) Other available-for-sale financial assets – continued

The movements for the year are summarised as follows:

Listed debt securities

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Year ended 31 December</b>				
Opening net book amount	14,352	14,716	14,352	14,716
Additions	-	540	-	540
Disposals	(3,472)	(1,518)	(3,472)	(1,518)
Net fair value losses	(260)	(386)	(260)	(386)
Closing net book amount	10,620	14,352	10,620	14,352

Listed shares

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Year ended 31 December</b>				
Opening net book amount	1,309	2,401	1,309	2,327
Additions	7	13	7	13
Disposals	-	(1,090)	-	(1,016)
Net fair value losses	(125)	(15)	(125)	(15)
Closing net book amount	1,191	1,309	1,191	1,309

# NOTES TO THE FINANCIAL STATEMENTS

## 21. OTHER INVESTMENTS - CONTINUED

(c) *Loans and receivables*

Analysed by type of investment as follows:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Deposits with banks or credit institutions	230,850	187,569	-	-
Loans secured on policies	8,858	9,511	-	-
	<b>239,708</b>	<b>197,080</b>	<b>-</b>	<b>-</b>

As at 31 December 2018 an amount of €0.80 million (2017: €0.67 million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

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

Group	Loans secured on policies €'000
<b>Year ended 31 December 2017</b>	
Opening net book amount	9,243
Additions	2,973
Disposals (sales and redemptions)	(2,705)
	<b>9,511</b>
<b>Year ended 31 December 2018</b>	
Opening net book amount	9,511
Additions	2,085
Disposals (sales and redemptions)	(2,738)
	<b>8,858</b>

The above loans earn interest at fixed rates.

## 22. DEFERRED INCOME TAX

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Balance at 1 January	26,211	24,261	503	(194)
Movements during the year:				
Profit or loss account (Note 12)	2,590	1,997	315	745
Other comprehensive income	(23)	(47)	(23)	(48)
	<b>28,778</b>	<b>26,211</b>	<b>795</b>	<b>503</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 22. DEFERRED INCOME TAX - CONTINUED

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 35% (2017: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 8% or 10% of the carrying amount (2017: 8% or 10%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Temporary differences on property, plant and equipment	1,473	1,354	634	458
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	32,405	60,885	1,010	994
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(4,963)	(35,791)	(712)	(712)
Temporary differences attributable to other provisions	(137)	(237)	(137)	(237)
<b>Balance at 31 December – net</b>	<b>28,778</b>	<b>26,211</b>	<b>795</b>	<b>503</b>

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Deferred tax asset	(2,190)	(2,233)	(1,221)	(1,177)
Deferred tax liability	30,968	28,444	2,016	1,680
	<b>28,778</b>	<b>26,211</b>	<b>795</b>	<b>503</b>

The tax effect of temporary differences attributable to the value of in-force business amounts to €0.14 million (2017: €1.30 million).

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

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

The Group and Company have unutilised capital losses of €5.48 million (2017: €4.55 million), which give rise to a deferred tax asset of €1.92 million (2017: €1.59 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €2.40 million (2017: €2.40 million) giving rise to a further deferred tax asset of €0.84 million (2017: €0.84 million) which has not been recognised in these financial statements.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Gross</b>				
Short term insurance contracts – general business				
- claims outstanding	48,234	42,877	48,234	42,877
- provision for unearned premiums	31,619	29,115	31,619	29,115
Group life insurance contracts				
- claims outstanding	124	421	124	421
- long term business provision	681	597	681	597
Long term contracts				
- individual life insurance contracts	507,454	535,915	-	-
- investment contracts with DPF	1,461,879	1,334,385	-	-
<b>Total technical provisions, gross</b>	<b>2,049,991</b>	<b>1,943,310</b>	<b>80,658</b>	<b>73,010</b>
<b>Recoverable from reinsurers</b>				
Short term insurance contracts				
- claims outstanding	17,840	12,692	17,840	12,692
- provision for unearned premiums	5,151	4,838	5,151	4,838
Group life insurance contracts				
- claims outstanding	3	77	3	77
Long term contracts				
- individual life insurance contracts	470	609	-	-
<b>Total reinsurers' share of technical provisions</b>	<b>23,464</b>	<b>18,216</b>	<b>22,994</b>	<b>17,607</b>
<b>Net</b>				
Short-term insurance contracts				
- claims outstanding	30,394	30,185	30,394	30,185
- provision for unearned premiums	26,468	24,277	26,468	24,277
Group life insurance contracts				
- claims outstanding	121	344	121	344
- long term business provision	681	597	681	597
Long term contracts				
- individual life insurance contracts	506,984	535,306	-	-
- investment contracts with DPF	1,461,879	1,334,385	-	-
<b>Total technical provisions, net</b>	<b>2,026,527</b>	<b>1,925,094</b>	<b>57,664</b>	<b>55,403</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Technical provisions in relation to short term insurance contracts are classified as current liabilities, in that, claims outstanding represent events that happened and which would normally be settled within the normal operating cycle. The timing of payment can be dependent on factors, like court cases, that could defer such payment to beyond a year from the reporting date. Technical provisions in relation to long term business are substantially non-current.

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

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2018 and 2017 are not material.

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

Motor claims occurring between 2016 and 2018 have been determined on an ultimate cost basis having regards to estimation techniques establishing the average ultimate cost per claim, which average was applied to the number of reported claims and the estimated number of IBNR claims. Losses involving fatalities or serious bodily injury are still reserved at the case-by-case reserve estimate rather than the established ultimate cost average.

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

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

Company	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Accident year	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of the ultimate claims costs:												
- at end of accident year	15,458	15,248	17,111	15,972	15,756	16,104	17,775	23,216	30,078	33,106	33,539	
- one year later	15,661	15,319	15,871	15,402	14,183	14,205	16,060	23,350	30,320	33,952		
- two years later	13,415	13,367	13,114	13,702	12,932	13,465	15,565	22,442	29,171			
- three years later	12,781	12,486	12,263	12,694	12,543	13,288	15,608	22,786				
- four years later	12,464	12,147	11,805	12,467	12,586	13,178	15,611					
- five years later	12,199	12,321	11,837	12,476	12,144	13,044						
- six years later	11,964	12,392	11,882	12,504	12,311							
- seven years later	12,022	12,411	11,669	12,398								
- eight years later	11,978	12,378	11,549									
- nine years later	11,957	12,360										
- ten years later	11,964											
Current estimates of cumulative claims	11,964	12,360	11,549	12,398	12,311	13,044	15,611	22,786	29,171	33,952	33,539	208,685
Cumulative payments to date	(11,693)	(12,130)	(11,143)	(12,186)	(11,573)	(12,722)	(14,794)	(21,077)	(26,343)	(27,788)	(19,301)	(180,750)
Liability recognised in the statement of financial position	271	230	406	212	738	322	817	1,709	2,828	6,164	14,238	27,935
Liability in respect of prior years												2,459
Total reserve included in the statement of financial position												30,394

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

Movements in claims and loss adjustment expenses:

	Group and Company Year ended 2017		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	38,970	(9,801)	29,169
Claims settled during the year	(33,151)	3,280	(29,871)
Increase/(decrease) in liabilities			
- arising from current year claims	38,545	(5,439)	33,106
- arising from prior year claims	(1,487)	(732)	(2,219)
<b>At end of year</b>	<b>42,877</b>	<b>(12,692)</b>	<b>30,185</b>

	Group and Company Year ended 2018		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	42,877	(12,692)	30,185
Claims settled during the year	(37,141)	4,486	(32,655)
Increase/(decrease) in liabilities			
- arising from current year claims	43,006	(9,458)	33,548
- arising from prior year claims	(508)	(176)	(684)
<b>At end of year</b>	<b>48,234</b>	<b>(17,840)</b>	<b>30,394</b>

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

The Company registered a gross favourable run-off of €0.51 million (2017: €1.49 million). After the effect of reinsurance, this amounts to €0.68 million (2017: €2.22 million). This net run-off arose principally from a favourable development on claims in the motor and liability classes of direct general business of insurance.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

The movements for the year are summarised as follows:

	Group and Company Year ended 2017		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	28,872	(4,850)	24,022
Net charge to profit or loss	243	12	255
<b>At end of year</b>	<b>29,115</b>	<b>(4,838)</b>	<b>24,277</b>

  

	Group and Company Year ended 2018		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	29,115	(4,838)	24,277
Net charge/(credit) to profit or loss	2,504	(313)	2,191
<b>At end of year</b>	<b>31,619</b>	<b>(5,151)</b>	<b>26,468</b>

No provision for unexpired risks was recognised as at 31 December 2018 (2017: nil).

(c) *Group Life insurance contracts*

*Claims outstanding*

Movement in claims outstanding is summarised as follows:

	Group and Company Year ended 2017		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	606	(204)	402
Claims settled during the year	(745)	113	(632)
Increase in net liabilities	560	14	574
<b>At end of year</b>	<b>421</b>	<b>(77)</b>	<b>344</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(c) *Group Life insurance contracts - continued*

*Claims outstanding - continued*

	Group and Company Year ended 2018		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	421	(77)	344
Claims settled during the year	(715)	22	(693)
Increase in net liabilities	418	52	470
<b>At end of year</b>	<b>124</b>	<b>(3)</b>	<b>121</b>

*Long term business provision*

The balance on the long term business provision has been certified by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2018. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall statement of financial position, are as follows:

	2018 €'000	2017 €'000
Other investments	2,759	3,698
Insurance and other receivables	459	746
Cash and cash equivalents	1,990	1,429
Net claims outstanding	(121)	(344)
Insurance and other payables	(4,406)	(4,932)
<b>Long term business provision, net of reinsurance</b>	<b>681</b>	<b>597</b>

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

*Individual life insurance contracts*

	Group	
	2018 €'000	2017 €'000
Gross technical provisions		
- claims outstanding	3,613	4,004
- long term business provision	503,841	531,911
	<b>507,454</b>	<b>535,915</b>
Reinsurers' share of technical provisions		
- claims outstanding	470	609
	<b>470</b>	<b>609</b>
Net technical provisions		
- claims outstanding	3,143	3,395
- long term business provision	503,841	531,911
	<b>506,984</b>	<b>535,306</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts - continued

The movements for the year are summarised as follows:

	Group Year ended 2017		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	539,528	(1,589)	537,939
(Credit)/charge to the profit or loss account	(3,613)	980	(2,633)
<b>At end of year</b>	<b>535,915</b>	<b>(609)</b>	<b>535,306</b>

	Group Year ended 2018		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	535,915	(609)	535,306
(Credit)/charge to the profit or loss account	(28,461)	139	(28,322)
<b>At end of year</b>	<b>507,454</b>	<b>(470)</b>	<b>506,984</b>

The above liabilities are substantially non-current in nature.

	Group	
	2018 €'000	2017 €'000
<b>Investment contracts with DPF (gross and net)</b>		
- claims outstanding	19,573	14,063
- long term business provision	1,442,306	1,320,322
	<b>1,461,879</b>	<b>1,334,385</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts - continued

The movements for the year are summarised as follows:

	2018 €'000	2017 €'000
<b>Year ended 31 December</b>		
At beginning of year	1,334,385	1,141,334
Charge to the profit or loss account	127,494	193,051
At end of year	1,461,879	1,334,385

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

(i) Assumptions

Rate of future investment return

The rate of future investment return (valuation interest rate) is calculated in accordance with the Insurance 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.

Bonus rates

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

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

Policy maintenance expenses

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

Minimum reserve

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.



# NOTES TO THE FINANCIAL STATEMENTS

## 23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

(i) Assumptions - continued

Mortality

The Group makes reference to AMC00 (2017: AMC00) mortality tables.

(ii) 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. Lapse and surrender rates were reviewed during the year but remain unchanged from the previous valuation.

(iii) Sensitivity analysis

The directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The most sensitive assumption is the rate of future investment return that will be driven by market forces. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 4. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Group's bonus policy is also influenced by market conditions. The Group's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses. This acts to mitigate the impact of market movements and profit or loss is not affected by changes in the rate of regular bonus.

### Technical Provisions - Investment contracts without DPF

	2018 €'000	2017 €'000
Long term business provision	44,305	47,892
Claims outstanding	727	1,175
	45,032	49,067

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

## 24. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Year ended 31 December</b>				
Opening net book amount	6,174	6,049	6,174	6,049
Net amount charged to profit or loss	968	125	968	125
Closing net book amount	7,142	6,174	7,142	6,174

Deferred acquisition costs are all classified as current assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	532	467	532	467
- due from agents, brokers and intermediaries	13,688	12,150	13,688	12,150
- due from reinsurers	293	466	293	466
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	15	183	15	183
<i>Deposits with ceding undertakings</i>	-	147	-	147
<i>Other loans and receivables:</i>				
- prepayments	3,479	3,253	977	895
- accrued interest and rent	10,567	12,109	313	423
- receivables from group undertaking	-	-	86	-
- receivables from associated undertaking	126	336	126	336
- other receivables	151	229	-	-
<i>Provision for impairment of receivables</i>	(235)	(482)	(235)	(482)
	<b>28,616</b>	28,858	<b>15,795</b>	14,585
Current portion	<b>28,616</b>	28,858	<b>15,795</b>	14,585

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

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Balance as at 1 January	482	371	482	371
Increase in provision for impairment	44	112	44	112
Release of provision for impairment during the year	(291)	(1)	(291)	(1)
Balance as at 31 December	<b>235</b>	482	<b>235</b>	482

# NOTES TO THE FINANCIAL STATEMENTS

## 26. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Cash at bank and in hand	70,387	64,580	18,438	15,064

## 27. SHARE CAPITAL

	Group and Company	
	2018 €'000	2017 €'000
<b>Authorised</b> 150 million ordinary shares of €0.21 each	31,500	31,500
<b>Issued and fully paid</b> 92 million ordinary shares of €0.21 each	19,320	19,320

## 28. OTHER RESERVES

Group	Value of in-force business €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2017	29,979	520	30,499
Fair value movements – gross	-	(18)	(18)
Fair value movements – tax	-	(19)	(19)
Available-for-sale investments – reclassified to profit or loss			
- gross	-	(225)	(225)
- related tax	-	80	80
Share of increase in value of in-force business of subsidiary undertaking	1,208	-	1,208
<b>Balance at 31 December 2017</b>	<b>31,187</b>	<b>338</b>	<b>31,525</b>
Balance at 1 January 2018	31,187	338	31,525
Fair value movements – gross	-	(231)	(231)
Fair value movements – tax	-	52	52
Available-for-sale investments – reclassified to profit or loss			
- gross	-	(5)	(5)
- related tax	-	(37)	(37)
Share of increase in value of in-force business of subsidiary undertaking	126	-	126
<b>Balance at 31 December 2018</b>	<b>31,313</b>	<b>117</b>	<b>31,430</b>

The above reserves are not distributable reserves.

# NOTES TO THE FINANCIAL STATEMENTS

## 28. OTHER RESERVES - CONTINUED

Company	Investment in subsidiary undertaking €'000	Investment in associated undertaking €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2017	34,663	-	523	35,186
Fair value movements – gross	-	-	(18)	(18)
Fair value movements – tax	-	-	(19)	(19)
Available-for-sale investments – reclassified to profit or loss				
- gross	-	-	(229)	(229)
- related tax	-	-	81	81
Other	-	72	-	72
<b>Balance at 31 December 2017</b>	<b>34,663</b>	<b>72</b>	<b>338</b>	<b>35,073</b>
Balance at 1 January 2018	34,663	72	338	35,073
Fair value movements – gross	-	-	(231)	(231)
Fair value movements – tax	-	-	52	52
Available-for-sale investments – reclassified to profit or loss				
- gross	-	-	(5)	(5)
- related tax	-	-	(37)	(37)
Other	-	(36)	-	(36)
<b>Balance at 31 December 2018</b>	<b>34,663</b>	<b>36</b>	<b>117</b>	<b>34,816</b>

The above reserves are not distributable reserves.

## 29. PROVISION FOR OTHER LIABILITIES AND CHARGES

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

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

	Group and Company	
	2018 €'000	2017 €'000
1 January	1,100	1,186
Interest expense – profit or loss (Note 8)	14	14
Settlements	(59)	(58)
Re-measurements actuarial loss/(gain) – other comprehensive income	19	(42)
<b>At 31 December</b>	<b>1,074</b>	<b>1,100</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 29. PROVISION FOR OTHER LIABILITIES AND CHARGES - CONTINUED

The following payments as expected in the future years:

	Group and Company	
	2018	2017
	€'000	€'000
Within one year	60	58
After more than one year	1,014	1,042
	<b>1,074</b>	<b>1,100</b>

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

	Group and Company	
	2018	2017
	€'000	€'000
Mortality	AMC00	AMC00
Discount rate	1.4%	1.3%
Inflation rate	1.3%	1.3%

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

	Group and Company	
	2018	2017
	€'000	€'000
Discount rate – 1% pt increase	(102)	(108)
Discount rate – 1% pt decrease	119	127
Inflation rate – 1% pt increase	111	120
Inflation rate – 1% pt decrease	(98)	(104)

## 30. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Creditors arising out of direct insurance operations	7,088	7,361	2,259	1,914
Creditors arising out of reinsurance operations	172	222	172	222
Amounts owed to associated undertaking	-	235	-	235
Amounts owed to group undertakings	-	55	1,013	1,018
Social security and other tax payables	2,135	2,246	1,323	1,161
Accruals and other payables	7,274	6,004	3,913	3,973
Deferred income	2,553	2,326	1,839	1,657
	<b>19,222</b>	<b>18,449</b>	<b>10,519</b>	<b>10,180</b>
Current	19,080	18,303	10,519	10,180
Non-current	142	146	-	-
	<b>19,222</b>	<b>18,449</b>	<b>10,519</b>	<b>10,180</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 30. INSURANCE AND OTHER PAYABLES - CONTINUED

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

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

## 31. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Profit before tax	18,556	17,709	11,419	12,169
Adjusted for:				
Depreciation (Note 17)	783	724	345	299
(Decrease)/increase in provision for impairment of receivables (Note 25)	(247)	111	(247)	111
Settlement of provision for liabilities and charges (Note 29)	(59)	(58)	(59)	(58)
Amortisation (Note 16)	2,354	1,757	1,343	1,128
Adjustments relating to investment return	47,035	(70,836)	(7,326)	(8,430)
Loss on sale of property, plant and equipment	18	18	18	18
Movements in:				
Insurance and other receivables	(110)	986	(1,026)	1,366
Deferred acquisition costs (Note 24)	(968)	(125)	(968)	(125)
Reinsurers' share of technical provisions	(5,248)	(1,772)	(5,387)	(2,752)
Technical provisions	102,646	187,872	7,648	3,508
Insurance and other payables	842	(1,806)	338	(1,717)
<b>Cash generated from operations</b>	<b>165,602</b>	<b>134,580</b>	<b>6,098</b>	<b>5,517</b>

## 32. COMMITMENTS

Capital commitments	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Authorised and not contracted for				
- property, plant and equipment	528	383	274	383
- intangible assets	502	411	502	411
Authorised and contracted for				
- property, plant and equipment	1,635	337	310	-
- intangible assets	2,818	3,345	2,450	2,707
- investment property	953	74	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## 32. COMMITMENTS - CONTINUED

### Operating lease commitments – where a Group company is a lessor

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

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Not later than 1 year	4,787	4,338	693	645
Later than 1 year and not later than 5 years	7,829	8,046	971	900
Later than 5 years	2,197	3,309	-	-
	<b>14,813</b>	15,693	<b>1,664</b>	1,545

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

### Operating lease commitments – where a Group company is a lessee

The Group and the Company lease from third parties certain office premises and motor vehicles under operating leases. The future minimum lease payments payable under non-cancellable operating leases are as follows:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Not later than 1 year	338	357	272	291
Later than 1 year and not later than 5 years	395	676	304	520
Later than 5 years	6	21	6	20
	<b>739</b>	1,054	<b>582</b>	831

## 33. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.27 million (2017: €0.27 million) not arising under contracts of insurance.

# NOTES TO THE FINANCIAL STATEMENTS

## 34. RELATED PARTY TRANSACTIONS

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

Relevant particulars of related party transactions are as follows:

	2018	2017
	€'000	€'000
<i>(a) Sales of insurance contracts and other services</i>		
Transactions with parent undertaking		
- Commissions received	3,846	3,480
- Claims recovered	3,403	2,747
Transactions with related undertaking		
- Trailer fees received	21	14
- Sale of insurance contracts	1,616	1,132
- Dividends received and interest income	1,290	1,723
- Rental income on investment property	234	228
Transactions with subsidiary undertaking		
- Sale of insurance contracts	172	168
- Dividends received	6,673	6,925
- Rental income on investment property	156	145
- Rental income from sub-letting of shared premises	26	26
- Reimbursement of expenses for back office support services	217	106
Transactions with associated undertaking		
- Sale of insurance contracts	26	6
- Dividends received	171	160
- Rental income on investment property	18	16
<i>(b) Purchases of products and services</i>		
Transactions with parent undertaking		
- Reinsurance premium ceded	13,504	10,838
- Staff development training	46	63
- Computer maintenance and Group IT shared services	307	885
- Capitalisation of software development	1,136	1,262
Transactions with related undertaking		
- Acquisition cost payable	5,468	5,840
- IT hosting services	17	17
- Bank Charges	152	124
Transactions with subsidiary undertaking		
- Reimbursement for expenses for back office support services	123	69
Transactions with associated undertaking		
- Roadside assistance membership and other call centre services	2,322	1,950



# NOTES TO THE FINANCIAL STATEMENTS

## 34. RELATED PARTY TRANSACTIONS - CONTINUED

Key management personnel during 2018 and 2017 comprised the President & Chief Executive Officer, Chief Executive Officers, Assistant General Managers, General Manager, Chief Financial Officer, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel amounted to €2.74 million (Company: €1.34 million). Corresponding figures for 2017 were €2.62 million paid by the Group and €1.34 million paid by the Company.

Year-end balances arising from the above transactions:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Debtors arising out of direct insurance operations	37	247	37	247
Creditors arising out of direct insurance operations	1,656	1,669	1,046	716
Amounts owed by associated undertaking	126	101	126	101
Amounts owed to subsidiary undertaking	-	-	927	1,018
Other receivables	506	250	100	2
Accruals	1,483	1,551	1,437	1,516
Reinsurers share of technical provisions	19,873	13,410	19,873	13,410
Investments with related parties	183,930	176,693	1,079	1,072
Cash and cash equivalents	22,439	58,890	14,736	14,112

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

## 35. STATUTORY INFORMATION

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

The Group is 54.56% owned by MAPFRE Internacional (the "immediate parent"), a company registered in Spain, the registered office of which is situated at Carretera de Pozuelo 52, Majadahonda 28222, Madrid, Spain.

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

The Group's results are consolidated at MAPFRE S.A. level of which Fundación MAPFRE is the parent. MAPFRE S.A. is a company the registered office of which is situated at Carretera de Pozuelo 52, Majadahonda 28222, Madrid, Spain.

## 36. COMPARATIVE INFORMATION

Certain amounts from previously reported financial statements have been reclassified to bring them in line with the current year's presentation.



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MAPFRE Middlesea p.l.c. (C-5553) is authorised by the Malta Financial Services Authority (MFSA) to carry on both Long Term and General Business under the Insurance Business Act, Cap 403 of the Laws of Malta.