MAPFRE MSV Life p.l.c.

Annual Report
31 December 2020

Company Registration Number: C15722

Directors' report

For the year ended 31 December 2020

The directors present their annual report for the year ended 31 December 2020.

Board of Directors

The directors of MAPFRE MSV Life p.l.c. (the "Company" or "MAPFRE MSV Life") who held office during the period under review were:

John Cassar White (Chairman)
Felipe Navarro López de Chicheri
Martin Galea
Nikolaos Antimisaris (resigned on 30 June 2020)
Nicholas Dexter
Simon Azzopardi
Jose Luis Jimenez Guajardo-Fajardo
Taddeo Scerri (resigned on 29 April 2020)
Ricky David Hunkin (appointed on 30 April 2020)
Jose Maria del Pozo Jodra (appointed on 3 July 2020)

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

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

Principal Activities

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

Business review 2020

MAPFRE MSV Group registered a profit before tax of €15.0 million for the year ended 31 December 2020, up 3.5% on the previous year where a €14.5 million profit before tax was generated. Profit after tax is recorded at €10.3 million, down 12.1% on the €11.7 million in the previous year.

Directors' report – continued

Business review 2020 - continued

Operating results were exposed to volatility throughout the year as savings and investment markets reacted to pandemic uncertainties and a slower rhythm to economic activity.

Nonetheless as the year progressed towards its end there was a recovery in asset values allowing the full twelve months of the year to record a positive return on balance sheet assets in support of policyholder obligations.

Gross premiums written for financial year 2020 totalled €269.6 million, 4.7% down on a prior year €282.9 million, impacted by the generally lower interest rate climate that characterised the year and a softening of demand for single premium business partially offset by a growing demand for smaller sized longer term regular premium savings and retirement products.

Net claims incurred increased to €261.2 million through the year compared to a prior year €210.1 million largely as a result of a continuing trend which sees 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 €14.8 million from a prior year €14.2 million as a result of slow but steady growth in the volume of With Profits fund throughout the year as well as life assurance protection business driven by good underwriting performance.

The MAPFRE MSV Group's total assets increased by 2.7% from €2,497.1 million at the end of 2019 to €2,563.7 million at the end of 2020, whilst net technical provisions (including investment contracts without DPF) increased by 2.1% from €2,301.8 million in 2019 to €2,349.3 million in 2020.

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 5.0%, up from a €73.5 million value in 2019 to €77.2 million in 2020. This is attributable to the impact of new business inflows, improved technical margins and improved mortality performance when comparing actual mortality to assumed mortality updated run rates.

Total shareholders' funds at the close of 2020 amounted to €161.4 million (2019: €147.4 million), an increase of 9.5% over the previous year and 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 MAPFRE MSV With Profits fund stood at €2.18 billion at 31 December 2020 (2019: €2.15 billion) with growth in the fund driven both by operational cashflows arising from new business as well as market returns on the differing asset classes held within the portfolios.

Directors' report – continued

Business review 2020 - continued

The total investment return of the With Profits fund amounted to €59.4 million generating a return of 2.75%. Markets in 2020 were far more volatile than in prior year when an investment return of 11.02% was generated.

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 2021, 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 ended 31 December 2020. These amounted to 1.40% for the Comprehensive Life Plan (regular and single premium policies), 1.50% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 1.50% under the Single Premium Plan and 1.50% 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 1.00% of the basic sum assured plus bonuses was declared.

In addition, the Board also announced the declaration of a Final Bonus in respect of Comprehensive Life Plans (single and regular premium), Comprehensive Flexi Plans (single and regular premium) and Single Premium Plans that have been in force for more than 10 years. For Regular Premium policies, the Final Bonus is expressed as a percentage for every year in force after the 10th year of the policy whilst, for the Final Bonus on Single Premium policies is being expressed as a combination of a flat percentage plus an additional percentage for every year in force after the 10th year of the policy. Final Bonuses will be paid on the value of the Policy Account as at the date of death or maturity between 24 March 2021 and the next bonus declaration in accordance with the following table:

Product	Final Bonus Flat Rate %	Rate per Year in Force >10 years %
Comprehensive Life Plan (Regular Premium)	Nil	1.25%
Comprehensive Flexi Plan (Regular Premium)	Nil	1.25%
Single Premium Plan	5.0%	2.50%
Comprehensive Life Plan (Single Premium)	5.0%	2.50%
Comprehensive Flexi Plan (Single Premium)	5.0%	2.50%

The Board also approved a Regular Bonus of 1.40% on those Secure Growth policies which formed part of the portfolio of business transferred to MAPFRE MSV Life from Assicurazioni Generali S.p.A. during 2000. Finally the Board also approved a Regular Bonus of 1.00% on the ALICO 78 policies and a Regular Bonus of 1.00% on the ALICO 66 polices which formed part of the portfolio of business transferred to MAPFRE MSV Life in 2011 from American Life Insurance Company ("ALICO").

Directors' report - continued

Business review 2020 – continued

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 2020, the life insurance market in Malta went through a challenging year brought about by the continuing climate of low interest rates and the outbreak of the pandemic earlier in the year.

With Profits single premium contracts have seen annual bonus declarations lowered in the face of a drop in investment returns and this has softened demand. Furthermore, corporate bond issues and shorter-term investment products continue to compete for available liquidity.

The COVID-19 pandemic disrupted the Company's operations in view of lockdown protocols and social distancing. Business continuity was retained throughout the year as initiatives were taken to reconfigure workflows and introduce efficient teleworking capabilities.

There were no significant insurance financial risks impacting the portfolios of business, and mortality assumptions underlying the valuation of policyholder obligations were not impacted.

There was some weakening of demand in single premium contracts in the first half of the year though as the year progressed demand regained momentum leaving overall turnover of contracts at 96% of prior year.

The demand for new retirement savings products was strong and the Group saw improved turnover in regular savings contracts and protection policy issuance. We continued to be very active in the voluntary personal pensions market and continued to successfully promote our Voluntary Occupational Pension Scheme in the market.

As a result, we continue to see good take up for all our product groupings as customers continue to choose MAPFRE MSV Life, reflecting trust in our brand and in the quality of our service proposition.

Going forward we will maintain strong focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end we will continue to invest and innovate in information technology.

During 2020 we rolled out our new distribution portal for Protection Business as part of the project that is seeing us implement a new Life Administration System. This new digital portal enables us to operate in a straight through process with our distribution network and is enabling us to achieve a high percentage of straight through policy issuing at the point of sale.

Directors' report - continued

Business review 2020 – continued

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

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

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

Training and development of our people continued to feature high on our agenda during 2020. 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 for their commitment and contribution to another satisfactory year, to intermediaries for their continued support and to the many loyal customers for placing their trust in MAPFRE MSV Life p.l.c.

The Board also expresses its gratitude and appreciation to David G. Curmi, outgoing Chief Executive Officer of MAPFRE MSV Life p.l.c. for his many years of service and leadership. David G. Curmi left the Company end January 2021 at the expiry of his contract. Whilst a successor CEO is being recruited, Felipe Navarro López de Chicheri has taken on the role of Interim CEO.

Market developments & Outlook

The Maltese life insurance market has, for a number of years, registered growth that is significantly above the average in Europe but remains an underinsured market. Although life insurance companies are playing an increasingly important role in Maltese household savings, comparative studies with other European life insurance markets show that whilst the Maltese life insurance market has grown significantly between 1996 and 2020, the life insurance density and life insurance penetration still fall below the European average. We therefore see attractive potential for an uplift in life protection, long term and retirement savings in the local life insurance market.

Directors' report – continued

Market developments & Outlook - continued

The outlook is one of cautious optimism despite the deterioration in economic conditions due to the COVID-19 pandemic. The deployment of multiple vaccines means we are more optimistic about the future though there is clearly still some way to go before life can return to something like normality. Recovery will therefore take a bit longer with growth more likely later in 2021. Within this context and Malta's high savings ratio, the demand for protection, savings and investments products is expected to remain strong.

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, now in its third year, impacts the conduct of business between insurers and consumers and requires insurers to strengthen their product governance. Similarly, the General Data Protection Regulation (GDPR) has also had 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.

Challenging investment markets feature heavily in the outlook for the life insurance industry. 2020 proved to be one of the most tumultuous in modern history, marked by a number of developments that were historically unprecedented. However, the year also demonstrated the resilience of people, institutions and financial markets.

For investors, the year was characterized by sharp swings for stocks. March 2020 saw a significant drop as the pandemic worsened. This was followed by a rally in April, and stocks reached their previous highs by August. Ultimately, despite a sequence of epic events and continued concerns over the pandemic, global stock market returns in 2020 were above their historical norm. Global yield curves finished the year generally lower than at the start.

On the back of this past year we expect monetary policy to remain accommodative and interest rates low to negative. We think that, in 2021 returns from riskier assets will generally outperform returns from safer ones. Modest single digit returns in the key equity markets are expected. Earnings growth will need to drive return supported by policy actions. We anticipate slow but steady growth, low inflation, accommodative monetary policy and single digit profit growth. Amidst slow economic growth and the low yield environment, investing through 2021 will require portfolio diversification towards areas of extra return with a cautious approach aiming for better risk-adjusted returns.

Principal Risks and Uncertainties

The Company's principal risks and uncertainties are further disclosed in Note 3 dealing with management of risk as supplemented by Note 2.20 relating to critical accounting estimates and judgements in applying accounting policies, Note 13 on intangible assets covering details on the Company's value of in-force business and Note 24 discussing the assumptions underlying the technical provisions.

Directors' report – continued

Principal Risks and Uncertainties – continued

The future course of COVID-19 qualifies as an additional uncertainty to consider, though pandemic mitigation efforts now gather pace and vaccination programs gain further traction. The Company believes it is well placed to maintain operational business continuity in various stresses of lockdown and social distancing whilst financial risk scenarios are modelled and evaluated on an ongoing basis under Solvency II reporting rules.

Dividends and Capital Management

EIOPA, in a statement issued on 18 December 2020, outlined key financial stability risks and vulnerabilities for the insurance and pension sectors and recommended that any dividend distributions should not exceed thresholds of prudency. With this in mind, the Directors do not recommend the payment of a final net dividend. For financial year 2019 the Directors recommended the payment of a final net dividend of €11.77 million that was to be paid in April 2020. This payment was subsequently rescinded as part of the immediate reaction to the COVID-19 outbreak and the sum of €11.77 million remained unappropriated and retained within Company reserves.

Future business developments and events subsequent to balance sheet date

Furthermore, the Directors are reviewing the Company's capital needs over the forthcoming medium term within the framework of Solvency II. At a Board Meeting dated 4 December 2020 a resolution increasing the authorised share capital of the Company from €60 million to €120 million and a resolution increasing the issued share capital of the Company from €54.75 million to €94.75 million were recommended. On 23 March 2021, the Board of Directors authorised the increases in authorised and issued share capital.

The transfers contemplated by the subsidiary under the Transfer of Business Agreement (TOBA) with BOV Asset Management Ltd and Bank of Valletta p.l.c. signed on 6 February 2020 remained in the course of completion subsequent to balance sheet date. The directors now expect the transfers to be completed by March 2021.

Actuaries

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

Statement of directors' responsibilities

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

Directors' report – continued

Statement of directors' responsibilities – continued

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

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

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

The financial statements of MAPFRE MSV Life p.l.c. for the year ended 31 December 2020 are included in the Annual Report 2020, which is published in hard-copy printed form and will be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

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

Approved by the Board of Directors on 23 March 2021 and signed on its behalf by:

J. Cassar White
Chairman

M. Galea
Director

F. Navarro López de Chicheri
Chief Executive Officer

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Independent Auditors' Report

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

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MAPFRE MSV Life p.l.c. (the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2020, the statements of profit or loss – technical account – long term business, profit or loss – non-technical accounts, 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 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (Including International Independence Standards) (IESBA Code), 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing 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 those matters in our audit, and key observations arising with respect to such risks of material misstatement.

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")

Accounting policy note 2.4 and 2.8(a) to the financial statements and notes 13, 24 and 25 for further disclosures

LTBP relating to the term business within 'Technical provisions' (€2,349,809 thousand for all business, inclusive of the term business); and VIF (€77,191 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. Within the amounts reported under 'Technical provisions', 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 (therefore subject to significant actuarial assumptions). Due to inherent estimation uncertainty, the ultimate outflows related to such business may be different from the amounts provided by the Company, and those differences may be material.

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Independent Auditors' Report (continued)

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

Key audit matters (continued)

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") (continued)

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

As part of our procedures, 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.
- 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.

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Independent Auditors' Report (continued)

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

Key audit matters (continued)

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") (continued)

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.

Valuation of Investment Property

Accounting policy note 2.10 to the financial statements and note 15 for further disclosures

'Investment property' (€97,838 thousand)

As part of its investment strategy, the Company holds freehold and leasehold properties as investment property. The valuation of such investment property at its fair value is subject to significant judgement. Such judgement revolves around assumptions underlying the determination of fair value as at the reporting date. We have considered the valuation of investment property as a key audit matter in view of the subjectivity surrounding the judgement applied and our audit focus on this area.

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Independent Auditors' Report (continued)

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

Key audit matters (continued)

Valuation of Investment Property (continued)

Our response

We gained an understanding of the Company's valuation methodology and assumptions used in estimating the fair value of the investment property as at the reporting date. As part of our procedures, we involved our valuation specialist to develop a possible range of values appropriate to such property, having regard to their earnings potential and values of properties in the same area and location.

Key Observations

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

Other information

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

Our opinion on the financial statements does not cover the directors' report, on which we report separately below in our 'Report on Other Legal and Regulatory Requirements'.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Insurance Business Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the financial reporting process.

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Independent Auditors' Report (continued)

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

Auditors' responsibilities for the audit of the financial statements

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

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Independent Auditors' Report (continued)

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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Independent Auditors' Report (continued)

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

2 Report on Other Legal and Regulatory Requirements

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.

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

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

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

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

In such regards:

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

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

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Independent Auditors' Report (continued)

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

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

Pursuant to articles 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 six 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 ser 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

23 March 2021

Statements of profit or loss
Technical account – long term business

	Notes	Year ended 31 December	
		Group and Company	
		2020	2019
		€'000	€'000
Earned premiums, net of reinsurance			
Gross premiums written	4	**269,582**	282,935
Outward reinsurance premiums		**(3,655)**	(3,901)
Net premiums written		**265,927**	279,034
Investment income	5	**23,536**	85,832
Net unrealised gains on investments	5	**45,553**	154,714
Other technical income, net of reinsurance	6	**707**	579
Total technical income		**335,723**	520,159
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**250,255**	202,869
- reinsurers' share		**(1,087)**	(1,146)
		249,168	201,723
Change in the provision for claims			
- gross amount		**12,086**	8,320
- reinsurers' share		**(58)**	27
		12,028	8,347
Claims incurred, net of reinsurance	4	**261,196**	210,070
Change in other technical provisions, net of reinsurance			
Insurance contracts		**(26,593)**	44,588
Investment contracts with DPF		**61,259**	227,285
Change in other technical provisions, net of reinsurance		**34,666**	271,873
Net operating expenses	4	**18,438**	17,987
Investment expenses and charges	5	**6,564**	6,000
Total technical charges		**320,864**	505,930
Balance on the long term business technical account		**14,859**	14,229

The notes on pages 24 to 94 are an integral part of these financial statements.

Statements of profit or loss
Non-technical accounts

		Year ended 31 December			
		Group		Company	
	Notes	**2020**	2019	**2020**	2019
		€'000	€'000	**€'000**	€'000
Balance on the technical account - long term business		**14,859**	14,229	**14,859**	14,229
Investment income	5	**201**	384	**245**	470
Investment expenses and charges	5	**(14)**	(9)	**(14)**	(9)
Other income – commission receivable		**766**	565	**-**	-
Other charges – administrative expenses	4	**(768)**	(637)	**(111)**	(116)
Profit before tax		**15,044**	14,532	**14,979**	14,574
Tax expense	9	**(4,718)**	(2,785)	**(4,695)**	(2,800)
Profit for the year		**10,326**	11,747	**10,284**	11,774
Earnings per share (cents)	11	**47c2**	53c6		

Statements of comprehensive income

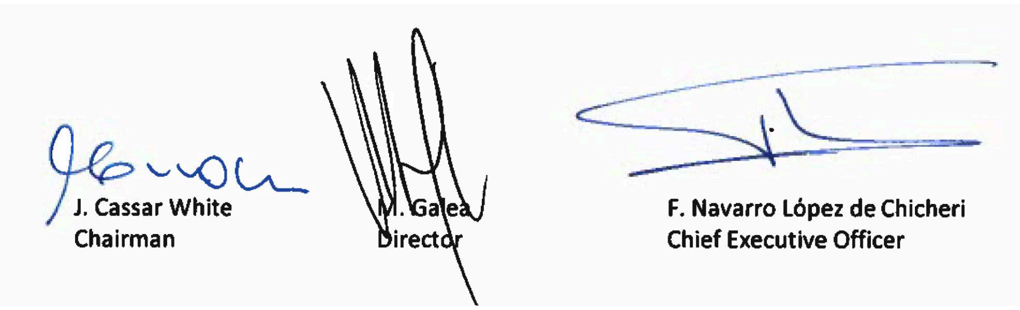
		Year ended 31 December			
		Group		Company	
	Note	**2020**	2019	**2020**	2019
		€'000	€'000	**€'000**	€'000
Profit for the year		**10,326**	11,747	**10,284**	11,774
Other comprehensive income:					
Movement in value of in-force business, net of deferred tax	13	**3,698**	10,870	**3,698**	10,870
Total comprehensive income		**14,024**	22,617	**13,982**	22,644

The notes on pages 24 to 94 are an integral part of these financial statements.

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	**2020**	2019	**2020**	2019
		€'000	€'000	**€'000**	€'000
ASSETS					
Intangible assets	13	**87,061**	80,785	**87,061**	80,785
Property, plant and equipment	14	**14,026**	13,219	**14,026**	13,219
Investments:					
Investment property	15	**97,838**	96,383	**97,838**	96,383
Investment in subsidiary undertaking	16	**-**	-	**466**	466
Investments in associated undertakings	17	**26,146**	27,386	**26,146**	27,386
Other investments	18	**2,257,403**	2,220,395	**2,257,392**	2,220,382
Reinsurers' share of technical provisions	24	**501**	443	**501**	443
Income tax receivable		**1,148**	2,043	**1,123**	2,005
Insurance and other receivables	20	**14,311**	13,004	**14,227**	13,087
Cash at bank and in hand	21	**65,271**	43,477	**64,811**	42,922
Total assets		**2,563,705**	2,497,135	**2,563,591**	2,497,078
EQUITY AND LIABILITIES					
Capital and reserves attributable to shareholders of the Company					
Share capital	22	**54,750**	54,750	**54,750**	54,750
Other reserves	23	**71,018**	67,320	**71,018**	67,320
Retained earnings		**35,626**	25,300	**35,549**	25,265
Total equity		**161,394**	147,370	**161,317**	147,335
Technical provisions:					
Insurance contracts	24	**529,554**	553,769	**529,554**	553,769
Investment contracts with DPF	24	**1,766,724**	1,695,757	**1,766,724**	1,695,757
Investment contracts without DPF	25	**53,531**	52,692	**53,531**	52,692
Deferred tax liability	19	**34,936**	30,847	**34,936**	30,847
Income tax payable		**607**	695	**607**	695
Derivative financial instruments	18	**168**	117	**168**	117
Insurance and other payables	26	**16,791**	15,888	**16,754**	15,866
Total liabilities		**2,402,311**	2,349,765	**2,402,274**	2,349,743
Total equity and liabilities		**2,563,705**	2,497,135	**2,563,591**	2,497,078

The notes on pages 24 to 94 are an integral part of these financial statements. The financial statements on pages 18 to 94 were authorised for issue by the Board on 23 March 2021 and were signed on its behalf by:



Statements of changes in equity

Group	Notes	Share capital €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2019		54,750	56,450	48,843	160,043
Comprehensive income					
Profit for the financial year		-	-	11,747	11,747
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	10,870	-	10,870
Total comprehensive income for the year		-	10,870	11,747	22,617
Transactions with owners					
Dividends	12	-	-	(35,290)	(35,290)
Balance at 31 December 2019		54,750	67,320	25,300	147,370
Balance at 1 January 2020		**54,750**	**67,320**	**25,300**	**147,370**
Comprehensive income					
Profit for the financial year		**-**	**-**	**10,326**	**10,326**
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	**-**	**3,698**	**-**	**3,698**
Total comprehensive income for the year		**-**	**3,698**	**10,326**	**14,024**
Transactions with owners					
Dividends	12	**-**	**-**	**-**	**-**
Balance at 31 December 2020		**54,750**	**71,018**	**35,626**	**161,394**

The notes on pages 24 to 94 are an integral part of these financial statements.

Statements of changes in equity - continued

Company	Notes	**Share capital €'000**	**Other reserves €'000**	**Retained earnings €'000**	**Total €'000**
Balance at 1 January 2019		54,750	56,450	48,781	159,981
Comprehensive income					
Profit for the financial year		-	-	11,774	11,774
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	-	10,870	-	10,870
Total comprehensive income for the year		-	10,870	11,774	22,644
Transactions with owners					
Dividends	12	-	-	(35,290)	(35,290)
Balance at 31 December 2019		54,750	67,320	25,265	147,335
Balance at 1 January 2020		**54,750**	**67,320**	**25,265**	**147,335**
Comprehensive income					
Profit for the financial year		**-**	**-**	**10,284**	**10,284**
Other comprehensive income - item that will not be reclassified to profit or loss:					
Increase in value of in-force business	23	**-**	**3,698**	**-**	**3,698**
Total comprehensive income for the year		**-**	**3,698**	**10,284**	**13,982**
Transactions with owners					
Dividends	12	**-**	**-**	**-**	**-**
Balance at 31 December 2020		**54,750**	**71,018**	**35,549**	**161,317**

The notes on pages 24 to 94 are an integral part of these financial statements.

Cash flow statements

		Year ended 31 December			
		Group		Company	
	Notes	**2020**	2019	**2020**	2019
		€'000	€'000	**€'000**	€'000
Operating activities					
Cash generated from operations	27	**3,748**	64,929	**3,839**	64,949
Dividends received		**6,514**	13,484	**6,514**	13,484
Interest received		**19,413**	25,130	**19,413**	25,130
Taxation received/ (paid)		**178**	(266)	**187**	(256)
Net cash generated from operating activities		**29,853**	103,277	**29,953**	103,307
Investing activities					
Purchase of intangible assets	13	**(4,533)**	(4,999)	**(4,533)**	(4,999)
Purchase of property, plant and equipment	14	**(1,190)**	(1,928)	**(1,190)**	(1,928)
Purchase of investment property	15	**(2,054)**	(1,261)	**(2,054)**	(1,261)
Purchase of other financial investments		**(1,870,200)**	(1,230,263)	**(1,870,191)**	(1,230,259)
Disposal of other financial investments		**1,869,918**	1,162,398	**1,869,904**	1,162,382
Net cash used in investing activities		**(8,059)**	(76,053)	**(8,064)**	(76,065)
Financing activities					
Dividends paid	12	**-**	(35,290)	**-**	(35,290)
Cash used in financing activities		**-**	(35,290)	**-**	(35,290)
Net movement in cash and cash equivalents		**21,794**	(8,066)	**21,889**	(8,048)
Cash and cash equivalents at beginning of year		**43,477**	51,543	**42,922**	50,970
Cash and cash equivalents at end of year	21	**65,271**	43,477	**64,811**	42,922

The notes on pages 24 to 94 are an integral part of these financial statements.

Notes to the financial statements

1. Basis of preparation

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

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

The following is the current product portfolio of the Group:

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

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

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

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

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

1. **Basis of preparation** - continued

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

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

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

The preparation of financial statements in conformity with the above reporting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.20.

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

Standards, interpretations and amendments to published standards effective in 2018

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.

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 International Accounting Standards Board (IASB) issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9.

1. **Basis of preparation** - continued

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

IFRS 9 - 'Financial instruments' - continued

The option permits 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. On 14 November 2018 and subsequently on 17 March 2020, 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 to 1 January 2022 and subsequently by another year, to annual reporting periods beginning on or after 1 January 2023. Therefore, entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2023, which aligns with the new effective date of IFRS 17.

The Company 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 were predominantly connected with insurance. More than 90% of the Company's liabilities at 31 December 2015 are liabilities arising from contracts within the scope of IFRS 4.

Further to the above, the Company has not previously applied any version of IFRS 9. Therefore, the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9. As at 1 January 2018, the Company 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 Company will continue to apply IAS 39 until 1 January 2023.

However, the subsidiary of the Company, not having its activities predominantly in insurance, has initially applied IFRS 9 from 1 January 2018. The subsidiary discloses 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 subsidiary.

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2020. 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.

1. Basis of preparation - continued

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 2020. 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 are expected to have a significant impact on the Group's financial statements in the period of initial application.

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 1 January 2023, following the decision taken by the IASB to defer the effective date by another year. 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. Summary of significant accounting policies

2.1 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.

2.2 Consolidation

(a) Subsidiary undertakings

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

2. Summary of significant accounting policies - continued

2.2 Consolidation - continued

(a) Subsidiary undertakings - continued

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

On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All intercompany transactions between group companies are eliminated.

Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group. The investment in the Group's undertaking is disclosed in Note 16.

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

(b) Associated undertakings

Interests in associated undertakings that are allocated to the insurance and investment contract liabilities are designated as financial assets at fair value through profit or loss. They are accounted for in accordance with the recognition and measurement principles described in Note 2.12. Associates are all entities over which the Group has significant influence but not control, over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. A list of the Group's associated undertakings is set out in Note 17.

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

Transactions and balances

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

2. Summary of significant accounting policies - continued

2.3 Foreign currency translation - continued

Transactions and balances – continued

Translation differences on non-monetary items, mainly arising on equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.4 Insurance and investment contracts

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

(a) Classification

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

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

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

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

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

(b) Recognition and measurement

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

2. Summary of significant accounting policies - continued

2.4 Insurance and investment contracts - continued

(b) Recognition and measurement - continued

(i) Long term insurance contracts

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

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

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

(ii) Long term insurance contracts with DPF

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

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

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

Maturity claims are charged to the statement of profit or loss 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.

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

2.4 Insurance and investment contracts - continued

(b) Recognition and measurement - continued

(ii) Long term insurance contracts with DPF - continued

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.

(iii) Investment contracts with DPF

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

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

(c) Reinsurance contracts held

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

The benefits to which the Group is entitled under its reinsurance contracts held, are recognised as reinsurers' share of technical provisions or receivables from reinsurers (unless netted off against amounts payable to reinsurers).

2. Summary of significant accounting policies - continued

2.4 Insurance and investment contracts - continued

(c) Reinsurance contracts held - continued

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

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

The Group gathers objective evidence that a reinsurance asset is impaired using the process described for financial assets held at amortised cost. The impairment loss is also calculated following the same method described for these financial assets. These processes are described in Note 2.13.

(d) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

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

2.5 Revenue

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

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

2.5 **Revenue** - continued

Rendering of services

Premium recognition is described in Note 2.4 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.

2.6 Investment return

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

(a) Dividend income

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

2. Summary of significant accounting policies - continued

2.6 Investment return – continued

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

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

(c) Interest income

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

(d) Rent receivable

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

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

2.7 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessor

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

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

2. Summary of significant accounting policies - continued

2.7 Leases - continued

As a lessee - continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of fixed payments. The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2.8 Intangible assets

(a) Value of in-force business

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

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

(b) Computer software

Acquired computer software licences are measured at cost less any accumulated amortisation and any accumulated impairment losses. 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 ten years. All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2. Summary of significant accounting policies - continued

2.8 Intangible assets - continued

(c) Deferred policy acquisition costs

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

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

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

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

2.9 Property, plant and equipment

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

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

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

2. Summary of significant accounting policies - continued

2.9 Property, plant and equipment - continued

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

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

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

2.10 Investment property

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

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

2.11 Investment in subsidiary undertaking

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

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

2.12 Financial assets

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

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

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

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

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

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

2.12 **Financial assets** - continued

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 profit or loss. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

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

2.13 Impairment of assets

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

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

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

2.13 Impairment of assets - continued

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

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

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

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

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

(b) Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to amortisation, 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. Summary of significant accounting policies - continued

2.14 Offsetting financial instruments

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

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

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

2.16 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised, in respect of, temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. Deferred tax is expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

2. Summary of significant accounting policies - continued

2.16 Current and deferred tax – continued

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences.

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profit improves.

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

2.17 Cash and cash equivalents

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

2.18 Share capital

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

2.19 Dividends

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

2.20 Critical accounting estimates and judgments in applying accounting policies

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2020 is included as follows:

2. Summary of significant accounting policies - continued

2.20 Critical accounting estimates and judgments in applying accounting policies – continued

- *Value of in-force business*

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

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

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

- *Insurance and participating investment contract liabilities*

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

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

- *Investment Property*

The fair value of investment properties which involves judgement and estimation uncertainty, is determined by qualified valuers. The assumptions used are reviewed on an annual basis. Details of the key assumptions and valuation techniques used are disclosed in Note 15.

3. Management of risk

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

3. Management of risk - continued

3.1 Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated.

Insurance events are fortuitous and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

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

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

Frequency and severity of claims

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

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

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

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

3. **Management of risk** - continued

3.1 **Insurance risk** - continued

Frequency and severity of claims - continued

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

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

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

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

3.2 **Financial risk**

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

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

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk

(i) Cash flow and fair value interest rate risk

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

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

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

All insurance and investment contracts with a DPF feature can be surrendered before maturity for a cash surrender value that is always less than the actual contract liability. Cash surrender values are determined at the discretion of the Group and can be varied from time to time.

The primary factor affecting the level of cash surrender value is the investment return earned on the assets of the Group. In addition, the cash surrender value is affected by the expenses, tax and the cost of risk benefits (such as life cover) borne by the Group, deductions to provide a return to shareholders, as well as profits and losses arising on other contracts. The expenses include payment of commission, medical report expenses, office administration costs and other expenses incurred in the setting up and maintenance of the contract. At most, the cash surrender value will be the amount of the actual liability reduced by the surrender charge (where applicable).

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

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

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

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

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

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

Assets	**Group**		**Company**	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Assets at floating interest rates	**162,383**	110,437	**161,933**	109,888
Assets at fixed interest rates	**1,228,330**	1,143,900	**1,228,330**	1,143,900
	1,390,713	1,254,337	**1,390,263**	1,253,788

Reconciled to the notes to the financial statements as follows:

Loans and receivables (Note 18)	**228,580**	257,426	**228,580**	257,426
Debt securities (Note 18)	**1,060,585**	934,390	**1,060,585**	934,390
A component of equity securities and units in unit trusts (Note 18)	**48,501**	46,428	**48,501**	46,428
Interest bearing cash and cash equivalents (Note 21)	**53,047**	16,093	**52,597**	15,544
	1,390,713	1,254,337	**1,390,263**	1,253,788
Liabilities				
Net long term business provision excluding linked long term contracts	**2,203,606**	2,169,282	**2,203,606**	2,169,282
	2,203,606	2,169,282	**2,203,606**	2,169,282

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature, amounting to €49.08m (2019: €48.74m) has been excluded as the directors consider the exposure to be insignificant.

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk - continued

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

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

	Group and Company	
	2020	2019
	€'000	€'000
Long positions		
- Federal Republic of Germany	**102,900**	48,203
- United States Government	**746**	-
	103,646	48,203
Short positions		
- Federal Republic of Germany	**104,653**	48,986
- United States Government	**3,109**	5,304
- United Kingdom Government	**-**	310
	107,762	54,600

Up to the reporting date, the Group did not have any hedging policy with respect to interest rate risk other than as described in note 2.12 above.

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

At 31 December 2020, had interest rates been 100 basis points (2019: 100 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €0. 61m lower (2019: €2.40m lower). An increase of 100 basis points (2019: 100 basis points), with all other variables held constant, would have resulted in pre-tax profits being €1.38m higher (2019: €0.63m higher). The above sensitivity considers the impact of changes in interest rates on liabilities and fixed income and floating interest rate asset values; although in the case that the reduced interest rate would be negative a floor of 0% is applied and the change in the asset value calculated accordingly.

3. Management of risk - continued

3.2 Financial risk - continued

(a) Market risk – continued

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

Managing interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Group anticipates that IBOR reform will not impact its risk management significantly.

(ii) Equity price risk

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

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

3. **Management of risk** - continued

3.2 Financial risk - continued

(a) Market risk - continued

(ii) Equity price risk - continued

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**843,752**	908,965	**843,741**	908,952
Reconciled to the notes to the financial statements as follows:				
Investments in associated undertakings (Note 17)	**26,146**	27,386	**26,146**	27,386
A component of equity securities and units in unit trusts (Note 18)	**817,606**	881,579	**817,595**	881,566
	843,752	908,965	**843,741**	908,952

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

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

Given the investment strategy and asset mix of the Group and Company a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €0.24m (2019: €0.25m) and a negative impact of €0.24m (2019: €0.25m) respectively, on the pre-tax profit for the year. The above sensitivity includes the impact of changes in equity returns on liabilities and assets.

(iii) Currency risk

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

3. **Management of risk** - continued

3.2 **Financial risk** - continued

(a) Market risk - continued

(iii) Currency risk - continued

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

Group and Company

31 December 2020

	Net exposure before hedging €'000	**Notional amount of currency derivatives €'000**	**Net exposure after hedging €'000**
Currency of exposure:			
USD	**274,954**	**65,108**	**209,846**
CHF	**26,891**	**-**	**26,891**
GBP	**19,418**	**9,435**	**9,983**
SEK	**5,505**	**-**	**5,505**
DKK	**14,202**	**49**	**14,153**
Others	**47,052**	**10,325**	**36,727**
	388,022	**84,917**	**303,105**

31 December 2019

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	188,206	10,620	177,586
CHF	27,786	-	27,786
GBP	33,931	10,547	23,384
SEK	2,666	-	2,666
DKK	13,014	-	13,014
Others	48,846	334	48,512
	314,449	21,501	292,948

Within the table above, €291.21m of the unhedged exposure relates to equity investments (2019: €256.31m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 3.2 (a) (ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

3. **Management of risk** - continued

3.2 **Financial risk** - continued

(b) Credit risk

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

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

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

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

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

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

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

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

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

3. **Management of risk** - continued

3.2 **Financial risk** - continued

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss				
- Debt securities (Note 18)	**1,060,585**	934,390	**1,060,585**	934,390
- Forward foreign exchange contracts and swaps (Note 18)	**1,313**	352	**1,313**	352
	1,061,898	934,742	**1,061,898**	934,742
Loans and receivables				
- Deposits with banks or credit institutions (Note 18)	**220,366**	249,068	**220,366**	249,068
Reinsurers' share of technical provisions (Note 24)	**501**	443	**501**	443
Insurance and other receivables	**13,571**	12,031	**13,670**	12,252
Cash at bank and in hand (Note 21)	**65,271**	43,477	**64,811**	42,922
Total exposure	**1,361,607**	1,239,761	**1,361,246**	1,239,427

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
AAA	**128,753**	95,264	**128,753**	95,264
AA	**195,995**	149,520	**195,995**	149,520
A	**391,427**	463,403	**391,427**	463,403
BBB	**548,510**	366,630	**548,049**	366,075
Below BBB or not rated	**96,922**	164,944	**97,022**	165,165
	1,361,607	1,239,761	**1,361,246**	1,239,427

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

3. **Management of risk** - continued

3.2 **Financial risk** - continued

(c) Liquidity risk

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

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

At 31 December 2020	**Expected cash flows (discounted)**						
	0 – 1 Year	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**4 - 5 years**	**>5 years**	**Total**
				€ million			
Technical provisions - Insurance contracts and investment contracts with DPF	**351**	**253**	**252**	**203**	**172**	**1,065**	**2,296**
Insurance and other payables	**17**	**-**	**-**	**-**	**-**	**-**	**17**
	368	**253**	**252**	**203**	**172**	**1,065**	**2,313**

At 31 December 2019	Expected cash flows (discounted)						
	0 – 1 Year	1 – 2 years	2 – 3 years	3 – 4 years	4 - 5 years	>5 years	Total
				€ million			
Technical provisions - Insurance contracts and investment contracts with DPF	290	269	235	222	171	1,063	2,250
Insurance and other payables	16	-	-	-	-	-	16
	306	269	235	222	171	1,063	2,266

3. Management of risk - continued

3.2 Financial risk - continued

(c) Liquidity risk - continued

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

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

	Group and Company	
	2020	2019
	€'000	€'000
At 31 December		
Foreign exchange contracts		
- outflow	**(108,214)**	(46,671)
- inflow	**109,814**	46,354

At 31 December 2020 and 2019, the above derivatives were due to be settled within three months after year end.

In response to the COVID-19 coronavirus pandemic, the Group has concluded that there are no material uncertainties that may cast significant doubt on its ability to continue as a going concern.

3.3 Capital management

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

The volatility experienced in financial markets during 2020 as a result of the coronavirus pandemic also had an impact on MMSV's capital position and capital considerations. In terms of capital position, the impact was more pronounced in the first part of the year which coincided with the outbreak of the pandemic, whereby financial assets value fell sharply until the monetary and fiscal stimulus initiatives introduced by Central Banks and governments led to a gradual market recovery which was subsequently reinforced on increasing vaccine optimism. On the other hand, these developments also led to important capital considerations in relation to dividend distributions and share capital. Note 31 provides further details in this regard.

3. Management of risk - continued

3.3 Capital management - continued

The Company's objectives when managing capital are to:

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

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

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

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

3.4 Fair value hierarchy – financial instruments

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. Management of risk - continued

3.4 Fair value hierarchy – financial instruments - continued

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

Group – 31 December 2020	**Level 1 €'000**	**Level 2 €'000**	**Level 3 €'000**	**Total Balance €'000**
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	**918,292**	**48,633**	**-**	**966,925**
- Debt securities	**754,355**	**306,230**	**-**	**1,060,585**
Derivative financial instruments	**-**	**1,313**		**1,313**
Investments in associated undertakings	**-**	**24,849**	**1,297**	**26,146**
Total assets	**1,672,647**	**381,025**	**1,297**	**2,054,969**
Liabilities				
Unit linked financial liabilities	**-**	**100,818**	**-**	**100,818**
Derivative financial instruments	**-**	**168**	**-**	**168**
Total liabilities	**-**	**100,986**	**-**	**100,986**

Group – 31 December 2019	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	1,028,180	47	-	1,028,217
- Debt securities	748,946	185,444	-	934,390
Derivative financial instruments	-	352	-	352
Investments in associated undertakings	26,089	-	1,297	27,386
Total assets	1,803,215	185,843	1,297	1,990,355
Liabilities				
Unit linked financial liabilities	-	100,220	-	100,220
Derivative financial instruments	-	117	-	117
Total liabilities	-	100,337	-	100,337

3. Management of risk – continued

3.4 Fair value hierarchy – financial instruments - continued

Company – 31 December 2020

	Level 1 €'000	**Level 2 €'000**	**Level 3 €'000**	**Total Balance €'000**
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	**918,281**	**48,633**	**-**	**966,914**
- Debt securities	**754,355**	**306,230**	**-**	**1,060,585**
Derivative financial instruments	**-**	**1,313**	**-**	**1,313**
Investments in associated undertakings	**-**	**24,849**	**1,297**	**26,146**
Total assets	**1,672,636**	**381,025**	**1,297**	**2,054,958**
Liabilities				
Unit linked financial liabilities	**-**	**100,818**	**-**	**100,818**
Derivative financial instruments	**-**	**168**	**-**	**168**
Total liabilities	**-**	**100,986**	**-**	**100,986**

Company – 31 December 2019

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total Balance €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	1,028,167	47	-	1,028,214
- Debt securities	748,946	185,444	-	934,390
Derivative financial instruments	-	352	-	352
Investments in associated undertakings	26,089	-	1,297	27,386
Total assets	1,803,202	185,843	1,297	1,990,342
Liabilities				
Unit linked financial liabilities	-	100,220	-	100,220
Derivative financial instruments	-	117	-	117
Total liabilities	-	100,337	-	100,337

3. Management of risk - continued

3.4 Fair value hierarchy – financial instruments - continued

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

Corporate debt securities are classified as Level 2 in view of their trading characteristics. The financial liabilities for unit linked contracts were also 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. As at reporting date, domestic equities were transferred from Level 1 to Level 2 in view of their trading characteristics.

At 31 December 2020, 0.1% (2019: 0.1%) of the financial assets measured at fair value on a recurring basis were classified as Level 3. They constitute investment in unlisted equities and their fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement. The Company has €1.3m (2019: €1.3m) assets classified as Level 3, the valuation of which has been determined by reference to the net assets of the underlying investment.

The analysis of investment property is included within Note 15.

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

Group and Company 2020

	Financial assets at fair value through profit or loss		
	Equity securities €'000	**Investments in associated undertakings €'000**	**Total Assets €'000**
Opening balance	**-**	**1,297**	**1,297**
Total (losses)/gains recognised in profit or loss	**-**	**-**	**-**
Closing balance	**-**	**1,297**	**1,297**
Total (losses)/gains for the period included in profit or loss for assets held at the end of year	**-**	**-**	**-**

3. **Management of risk** - continued

3.4 **Fair value hierarchy – financial instruments** - continued

Group and Company 2019

	Financial assets at fair value through profit or loss		
	Equity securities €'000	Investments in associated undertakings €'000	Total Assets €'000
Opening balance	-	1,297	1,297
Total (losses)/gains recognised in profit or loss	-	-	-
Closing balance	-	1,297	1,297
Total (losses)/gains for the period included in profit or loss for assets held at the end of year	-	-	-

At 31 December 2020 and 2019, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of financial liabilities emanating from investment contracts with DPF. It is impracticable to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

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

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

(i) Gross premiums written

Gross premium income is made up of:

	Group and Company	
	2020 €'000	2019 €'000
Direct insurance	**269,582**	282,935
Gross premiums written	**269,582**	282,935

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

(i) Gross premiums written - continued

Direct insurance is further analysed between:

	Periodic premiums		**Single premiums**	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Non-participating	**13,169**	12,975	**-**	-
Participating	**39,771**	37,384	**213,343**	229,887
Linked	**2,021**	2,136	**1,278**	553
	54,961	52,495	**214,621**	230,440

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

	Periodic premiums		**Single premiums**	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Investment contracts	**2,030**	1,622	**1,547**	1,176

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

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards mainly attributable to insurance contracts, amounted to a charge of €2.3m to the long-term business technical account for the year ended 31 December 2020 (2019: €2.5m).

4. Other information - technical account - continued

(iii) Analysis between insurance and investment contracts

	Group and Company	
	2020	2019
	€'000	€'000
Gross premiums written		
Insurance contracts	**30,845**	31,915
Investment contracts with DPF	**238,737**	251,020
	269,582	282,935
Claims incurred, net of reinsurance		
Insurance contracts	**54,215**	41,647
Investment contracts with DPF	**206,981**	168,423
	261,196	210,070

(iv) Net operating expenses

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Acquisition costs	**12,816**	12,012	**12,816**	12,012
Administrative expenses	**6,561**	6,853	**5,904**	6,332
Reinsurance commissions	**(171)**	(241)	**(171)**	(241)
	19,206	18,624	**18,549**	18,103

Allocated to:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Technical	**18,438**	17,987	**18,438**	17,987
Non-technical	**768**	637	**111**	116
	19,206	18,624	**18,549**	18,103

Total commission payable for direct business accounted for in the financial year amounted to €7.76m (2019: €7.93m). €6.96m of this charge arose on investment contracts (2019: €6.91m).

5. Investment return

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Dividend income from shares in a group undertaking	**-**	-	**47**	91
Rent & maintenance fees receivable from investment property	**4,647**	5,175	**4,647**	5,175
Interest receivable from loans and receivables	**2,203**	2,315	**2,203**	2,315
Income from financial assets at fair value through profit or loss:				
- dividend income - associates	**376**	763	**376**	763
- dividend income - other	**6,165**	12,603	**6,165**	12,603
- net fair value gains and interest on bonds	**56,068**	214,677	**56,065**	214,672
Net fair value (losses)/ gains on investment property	**(599)**	4,887	**(599)**	4,887
Direct operating expenses arising from investment property that generated rental income	**(436)**	(232)	**(436)**	(232)
Other investment income	**430**	509	**430**	509
Other investment expenses	**(6,142)**	(5,776)	**(6,142)**	(5,776)
Net investment return	**62,712**	234,921	**62,756**	235,007
Apportioned as follows:				
Technical				
Investment income	**23,536**	85,832	**23,536**	85,832
Net unrealised gains on investments	**45,553**	154,714	**45,553**	154,714
Investment expenses and charges	**(6,564)**	(6,000)	**(6,564)**	(6,000)
	62,525	234,546	**62,525**	234,546
Non-Technical				
Investment income	**201**	384	**245**	470
Investment expenses and charges	**(14)**	(9)	**(14)**	(9)
	187	375	**231**	461
	62,712	234,921	**62,756**	235,007

6. Other technical income, net of reinsurance

	Group and Company	
	2020	2019
	€'000	€'000
Investment management fees	**640**	494
Other	**67**	85
	707	579

7. Profit before tax

Profit before tax is stated after charging:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Employee benefit expense (Note 8)	**4,160**	4,167	**4,122**	4,126
Actuarial valuation fees	**370**	351	**370**	351
Depreciation/amortisation:				
- intangible assets (Note 13)	**1,955**	1,216	**1,955**	1,214
- property, plant and equipment (Note 14)	**504**	426	**504**	426
Directors' and officers' insurance	**-**	1	**-**	1
Reimbursement of expenses for back office Support services (Note 30)	**332**	121	**332**	121

The financial statements include fees, exclusive of VAT, charged by the Company's auditors for services rendered for the financial years ended 31 December 2020 and 2019 relating to the following:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Annual statutory audit	**124**	119	**119**	114
Solvency II audit	**58**	58	**58**	58
Paid during the year:				
for financial year 2020	58	-	58	-
for financial year 2019	76	57	71	57
for financial year 2018	-	122	-	117

8. Employee benefit expense

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Salaries	**3,967**	3,976	**3,931**	3,938
Social security costs	**193**	191	**191**	188
	4,160	4,167	**4,122**	4,126

The average number of persons employed during the year was:

	Group		Company	
	2020	2019	**2020**	2019
Key management	**11**	11	**11**	11
Managerial	**13**	15	**13**	15
Technical	**60**	59	**59**	58
Administrative	**3**	3	**3**	3
Average number of employees	**87**	88	**86**	87

9. Tax expense

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Current tax charge	**629**	603	**606**	619
Deferred taxation charge (Note 19)	**4,089**	2,182	**4,089**	2,181
Tax expense	**4,718**	2,785	**4,695**	2,800

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Profit before tax	**15,044**	14,532	**14,979**	14,574
Tax on profit at 35%	**5,265**	5,086	**5,243**	5,101
Tax effect of:				
Final withholding tax on property returns	**(403)**	(1,947)	**(403)**	(1,947)
Net impact of maintenance allowance attributable to rental income	**(19)**	(17)	**(19)**	(17)
Other non-temporary differences	**(125)**	(337)	**(126)**	(337)
Income tax expense	**4,718**	2,785	**4,695**	2,800

10. Directors' emoluments

	Group and Company	
	2020	2019
	€'000	€'000
Directors' fees	**113**	118

11. Earnings per share

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

	Group	
	2020	2019
Net profit attributable to shareholders (€'000)	**10,326**	11,747
Weighted average number of ordinary shares in issue	21,900,000	21,900,000
Earnings per share (€)	**47c2**	53c6

12. Dividends

No dividend is being proposed in respect of 2020. Furthermore, the dividend in respect of 2019 of 53c7 per share, amounting to a total net dividend of €11.77 million was cancelled as part of the immediate reaction to the COVID-19 outbreak. During 2019, the Company declared and paid a special net dividend of €24.35 million, representing €1.11 per share, in addition to the dividend declared during 2019 in respect of 2018 amounting to €10.94m, representing 49c9 per share.

13. Intangible assets

Group	**Value of in-force business €'000**	**Computer software €'000**	**Deferred policy acquisition costs (i) €'000**	**Total €'000**
At 31 December 2018				
Cost or valuation	62,623	11,945	3,503	78,071
Accumulated amortisation and impairment	-	(8,811)	(3,128)	(11,939)
Net book amount	62,623	3,134	375	66,132
Year ended 31 December 2019				
Opening net book amount	62,623	3,134	375	66,132
Increase in value of in-force business debited to reserves (Note 23)	10,870	-	-	10,870
Additions	-	4,919	80	4,999
Amortisation charge (Note 7)	-	(1,091)	(125)	(1,216)
Closing net book amount	73,493	6,962	330	80,785
At 31 December 2019				
Cost or valuation	73,493	16,864	3,583	93,940
Accumulated amortisation and impairment	-	(9,902)	(3,253)	(13,155)
Net book amount	73,493	6,962	330	80,785
Year ended 31 December 2020				
Opening net book amount	**73,493**	**6,962**	**330**	**80,785**
Increase in value of in-force business debited to reserves (Note 23)	**3,698**	**-**	**-**	**3,698**
Additions	**-**	**4,474**	**59**	**4,533**
Amortisation charge (Note 7)	**-**	**(1,827)**	**(128)**	**(1,955)**
Closing net book amount	**77,191**	**9,609**	**261**	**87,061**
At 31 December 2020				
Cost or valuation	**77,191**	**21,338**	**3,642**	**102,171**
Accumulated amortisation and impairment	**-**	**(11,729)**	**(3,381)**	**(15,110)**
Net book amount	**77,191**	**9,609**	**261**	**87,061**

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

13. **Intangible assets** – continued

Amortisation of €0.84m (2019: €0.45m) is included in acquisition costs and €1.11m (2019: €0.76m) is included in administration expenses.

Company	**Value of in-force business €'000**	**Computer software €'000**	**Deferred policy acquisition costs (i) €'000**	**Total €'000**
At 31 December 2018				
Cost or valuation	62,623	11,665	3,503	77,791
Accumulated amortisation and impairment	-	(8,533)	(3,128)	(11,661)
Net book amount	62,623	3,132	375	66,130
Year ended 31 December 2019				
Opening net book amount	62,623	3,132	375	66,130
Increase in value of in-force business debited to reserves (Note 23)	10,870	-	-	10,870
Additions	-	4,919	80	4,999
Amortisation charge (Note 7)	-	(1,089)	(125)	(1,214)
Closing net book amount	73,493	6,962	330	80,785
At 31 December 2019				
Cost or valuation	73,493	16,584	3,583	93,660
Accumulated amortisation and impairment	-	(9,622)	(3,253)	(12,875)
Net book amount	73,493	6,962	330	80,785
Year ended 31 December 2020				
Opening net book amount	**73,493**	**6,962**	**330**	**80,785**
Increase in value of in-force business debited to reserves (Note 23)	**3,698**	**-**	**-**	**3,698**
Additions	**-**	**4,474**	**59**	**4,533**
Amortisation charge (Note 7)	**-**	**(1,827)**	**(128)**	**(1,955)**
Closing net book amount	**77,191**	**9,609**	**261**	**87,061**
At 31 December 2020				
Cost or valuation	**77,191**	**21,058**	**3,642**	**101,891**
Accumulated amortisation and impairment	**-**	**(11,449)**	**(3,381)**	**(14,830)**
Net book amount	**77,191**	**9,609**	**261**	**87,061**

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

Amortisation of €0.84m (2019: €0.45m) is included in acquisition costs and €1.11m (2019: €0.76m) is included in administration expenses.

13. **Intangible assets** - continued

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 Company seeks to set assumptions that are 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 €0.59 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.59 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 €0.05 million. A 1% fall in the size of the fund value will reduce the embedded value by €0.05 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 €0.31 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.31 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 (2019: 2% pa) for With Profits business with a risk discount rate of 4% pa (2019: 6.5% pa). For term assurance business the valuation assumed a real return of -0.5% (2019: 2% pa) with a risk discount rate of 4.5% pa (2019: 7.5% pa). For unit-linked business the valuation assumed a real return of -1% (2019: 2% pa) with a risk discount rate of 4.5% pa (2019: 7.5% pa). Expenses are assumed to inflate at 2% pa (2019: 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, the best estimate and prudent rates of expected future mortality have been revised across all product lines. Future mortality assumptions continue to be set with reference to standard mortality tables and vary with the age of the policyholder.

13. **Intangible assets** - continued

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

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

14. Property, plant and equipment

Group	**Freehold land and buildings €'000**	**Leasehold improvements €'000**	**Furniture, fittings & equipment €'000**	**Motor Vehicles €'000**	**Total €'000**
At 31 December 2018					
Cost	10,608	550	3,536	-	14,694
Accumulated depreciation	-	(404)	(2,752)	-	(3,156)
Net book amount	10,608	146	784	-	11,538
Year ended 31 December 2019					
Opening net book amount	10,608	146	784	-	11,538
Additions	1,152	-	776	-	1,928
Recognition of right-of-use assets on initial application of IFRS 16 (Note 28)	-	-	-	179	179
Depreciation charge (Note 7)	-	(55)	(302)	(69)	(426)
Closing net book amount	11,760	91	1,258	110	13,219
At 31 December 2019					
Cost	11,760	550	4,312	179	16,801
Accumulated depreciation	-	(459)	(3,054)	(69)	(3,582)
Net book amount	11,760	91	1,258	110	13,219

14. **Property, plant and equipment** - continued

Group	**Freehold land and buildings €'000**	**Leasehold improvements €'000**	**Furniture, fittings & equipment €'000**	**Motor Vehicles €'000**	**Total €'000**
Year ended 31 December 2020					
Opening net book amount	**11,760**	**91**	**1,258**	**110**	**13,219**
Additions	**764**	**-**	**426**	**-**	**1,190**
Additions to right-of-use assets (Note 28)	**-**	**-**	**-**	**121**	**121**
Derecognition of right-of-use assets (Note 28)	**-**	**-**	**-**	**(42)**	**(42)**
Depreciation charge (Note 7)	**-**	**(56)**	**(380)**	**(68)**	**(504)**
Depreciation released on derecognition of right-of-use assets (Note 28)	**-**	**-**	**-**	**42**	**42**
Closing net book amount	**12,524**	**35**	**1,304**	**163**	**14,026**
At 31 December 2020					
Cost	**12,524**	**550**	**4,738**	**258**	**18,070**
Accumulated depreciation	**-**	**(515)**	**(3,434)**	**(95)**	**(4,044)**
Net book amount	**12,524**	**35**	**1,304**	**163**	**14,026**

Land and buildings are shown at fair value (level 3).

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

Company	**Freehold land and buildings €'000**	**Leasehold improvements €'000**	**Furniture, fittings & equipment €'000**	**Motor Vehicles €'000**	**Total €'000**
At 31 December 2018					
Cost	10,608	550	3,467	-	14,625
Accumulated depreciation	-	(404)	(2,683)	-	(3,087)
Net book amount	10,608	146	784	-	11,538
Year ended 31 December 2019					
Opening net book amount	10,608	146	784	-	11,538
Additions	1,152	-	776	-	1,928
Recognition of right-of-use of asset on initial application of IFRS 16 (Note 28)	-	-	-	179	179
Depreciation charge (Note 7)	-	(55)	(302)	(69)	(426)
Closing net book amount	11,760	91	1,258	110	13,219

14. **Property, plant and equipment** - continued

Company	**Freehold land and buildings**	**Leasehold improvements**	**Furniture, fittings & equipment**	**Motor Vehicles**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
At 31 December 2019					
Cost	11,760	550	4,243	179	16,732
Accumulated depreciation	-	(459)	(2,985)	(69)	(3,513)
Net book amount	11,760	91	1,258	110	13,219
Year ended 31 December 2020					
Opening net book amount	**11,760**	**91**	**1,258**	**110**	**13,219**
Additions	**764**	**-**	**426**	**-**	**1,190**
Additions to right-of-use assets (Note 28)	**-**	**-**	**-**	**121**	**121**
Derecognition of right-of-use assets (Note 28)	**-**	**-**	**-**	**(42)**	**(42)**
Depreciation charge (Note 7)	**-**	**(56)**	**(380)**	**(68)**	**(504)**
Depreciation released on derecognition of right-of-use assets (Note 28)	**-**	**-**	**-**	**42**	**42**
Closing net book amount	**12,524**	**35**	**1,304**	**163**	**14,026**
At 31 December 2020					
Cost	**12,524**	**550**	**4,669**	**258**	**18,001**
Accumulated depreciation	**-**	**(515)**	**(3,365)**	**(95)**	**(3,975)**
Net book amount	**12,524**	**35**	**1,304**	**163**	**14,026**

Land and buildings are shown at fair value (level 3).

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

15. Investment property

	Group and Company Level 3 €'000
At 31 December 2018	
Cost	54,707
Accumulated fair value gains	35,528
Net book amount	90,235
Year ended 31 December 2019	
Opening net book amount	90,235
Additions	1,261
Net fair value gains	4,887
Closing net book amount	96,383
At 31 December 2019	
Cost	55,968
Accumulated fair value gains	40,415
Net book amount	96,383
Year ended 31 December 2020	
Opening net book amount	**96,383**
Additions	**2,054**
Net fair value losses	**(599)**
Closing net book amount	**97,838**
At 31 December 2020	
Cost	**58,022**
Accumulated fair value gains	**39,816**
Net book amount	**97,838**

Fair value of investment property

Valuation of the Group's investment property was performed by valuers to determine the fair value of the land and buildings as at 31 December 2020 and 2019. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 5).

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

15. **Investment property** - continued

Fair value of investment property - continued

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

Valuation processes

On an annual basis, the Group engages qualified valuers to determine the fair value of the Group's investment property. As at 31 December 2020 and 2019, 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 valuation report prepared by the qualified valuer;
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the qualified valuer.

Valuation techniques

The fair value of the Group's and the Company's investment property, with a total carrying amount of €97.8 million (2019: €96.4 million), was determined by capitalizing future net income streams based on significant unobservable inputs. These inputs include:

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

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

At 31 December 2020			**Significant unobservable inputs**	
Description	**Fair value at 31 December €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Office buildings	**97.8m**	Capitalisation of future net income streams	**4.3m**	Varying between **3.5 & 6.75**

15. Investment property - continued

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

At 31 December 2019			Significant unobservable inputs	
Description	Fair value at 31 December €	Valuation technique	Rental value €	Capitalisation rate %
Office buildings	96.4m	Capitalisation of future net income streams	4.88m	Varying between 3.5 & 6.5

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

In the absence of future rental cash inflows, fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset.

Sensitivity analysis

The impact of a 0.5 percentage point increase in the weighted average capitalisation rates would result in a decrease of €8.5m in the fair value of the investment property, whilst a 0.5 percentage point decrease would result in an increase of €10.3m. The impact on profit or loss would be negligible.

16. Investment in group undertaking

	Company €'000
Year ended 31 December 2020 and 2019	
Opening and closing net book amount	**466**

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Nature of Business	Class of shares held	Percentage of shares held 2020 & 2019
Growth Investments Limited	Development House Pjazza Papa Giovanni XXIII Floriana, FRN 1420	Investment services	Ordinary shares	100%

17. Investments in associated undertakings

	Group and Company €'000
At 31 December 2018	
Cost	14,960
Accumulated net fair value gains	13,806
Net book amount	28,766
Year ended 31 December 2019	
Opening net book amount	28,766
Net fair value losses	(1,380)
Closing net book amount	27,386
At 31 December 2019	
Cost	14,960
Accumulated net fair value gains	12,426
Net book amount	27,386
Year ended 31 December 2020	
Opening net book amount	**27,386**
Net fair value losses	**(1,240)**
Closing net book amount	**26,146**
At 31 December 2020	
Cost	**14,960**
Accumulated net fair value gains	**11,186**
Net book amount	**26,146**

The associates at 31 December are shown below:

Associated undertakings	Registered office	Class of shares held	Percentage of shares held 2020	2019
Church Wharf Properties Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	**50%**	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	**28.36%**	28.36%
Tigne Mall p.l.c.	Management Suite The Point Shopping Mall Pjazza Tigne Point Sliema	Ordinary shares	**35.46%**	35.46%

18. Other investments

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**2,028,823**	1,962,969	**2,028,812**	1,962,956
Loans and receivables	**228,580**	257,426	**228,580**	257,426
	2,257,403	2,220,395	**2,257,392**	2,220,382

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**866,107**	928,007	**866,096**	927,994
Debt securities	**1,060,585**	934,390	**1,060,585**	934,390
Assets held to cover linked liabilities				
- collective investment schemes	**100,818**	100,220	**100,818**	100,220
Forward foreign exchange contracts and swaps	**1,313**	352	**1,313**	352
Total investments at fair value through profit or loss	**2,028,823**	1,962,969	**2,028,812**	1,962,956

Technical provisions for linked liabilities amounted to €101.3m as at 31 December 2020 (2019: €100.5m). Linked liabilities are included in technical provisions for insurance contracts, investment contracts with DPF and investment contracts without DPF.

At 31 December 2020 and 2019, the Group and Company had no financial commitments in respect of uncalled capital.

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Within one year	**88,886**	29,402	**88,886**	29,402
Between 1 and 2 years	**51,653**	105,570	**51,653**	105,570
Between 2 and 5 years	**275,567**	235,664	**275,567**	235,664
Over 5 years	**644,479**	563,754	**644,479**	563,754
	1,060,585	934,390	**1,060,585**	934,390

18. **Other investments** - continued

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

The movements for the year are summarised as follows:

	Group €'000	**Company €'000**
At 31 December 2018		
Cost	1,611,743	1,611,722
Accumulated net fair value gains	98,266	98,266
Net book amount	1,710,009	1,709,988
Year ended 31 December 2019		
Opening net book amount	1,710,009	1,709,988
Additions	1,210,645	1,210,640
Disposals	(1,116,428)	(1,116,415)
Net fair value gains	158,626	158,626
Closing net book amount	1,962,852	1,962,839
At 31 December 2019		
Cost	1,719,735	1,719,722
Accumulated net fair value gains	243,117	243,117
Net book amount	1,962,852	1,962,839
Year ended 31 December 2020		
Opening net book amount	**1,962,852**	**1,962,839**
Additions	**1,869,192**	**1,869,183**
Disposals	**(1,851,190)**	**(1,851,179)**
Net fair value gains	**47,801**	**47,801**
Closing net book amount	**2,028,655**	**2,028,644**
At 31 December 2020		
Cost	**1,814,794**	**1,814,783**
Accumulated net fair value gains	**213,861**	**213,861**
Net book amount	**2,028,655**	**2,028,644**

Derivative financial liabilities amounting to €0.17m (2019: €0.12m), included in the table above, are classified within liabilities in the statement of financial position.

18. **Other investments** - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	Group and Company	
	2020	2019
	€'000	€'000
Deposits with banks or credit institutions	**220,366**	249,068
Loans secured on policies	**8,214**	8,358
	228,580	257,426

Maturity of deposits with bank or credit institutions:

	Group and Company	
	2020	2019
	€'000	€'000
Within 3 months	**23,064**	52,452
Within 1 year but exceeding 3 months	**92,440**	93,861
Between 1 and 5 years	**104,862**	102,755
	220,366	249,068

The above deposits earn interest as follows:

	Group and Company	
	2020	2019
	€'000	€'000
At fixed rates	**220,366**	249,068
	220,366	249,068

18. **Other investments** - continued

(b) Loans and receivables - continued

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

Group and Company

	Loans secured on policies €'000
Year ended 31 December 2019	
Opening net book amount	8,859
Additions	1,401
Disposals (sales and redemptions)	(1,902)
Closing net book amount	8,358
Year ended 31 December 2020	
Opening net book amount	**8,358**
Additions	**1,008**
Disposals (sales and redemptions)	**(1,152)**
Closing net book amount	**8,214**

The above loans earn interest at fixed rates.

19. Deferred tax

	Group		**Company**	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**(30,847)**	(28,665)	**(30,847)**	(28,666)
Movement during the year:				
Profit or loss (Note 9)	**(4,089)**	(2,182)	**(4,089)**	(2,181)
Balance at 31 December (net)	**(34,936)**	(30,847)	**(34,936)**	(30,847)

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 35% (2019: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes are calculated using a principal tax rate of 8% or 10% of the carrying amount (2019: 8% or 10%).

19. **Deferred tax** - continued

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

	Group		**Company**	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Tax effect of temporary differences attributable to:				
Investment property	**(9,562)**	(9,366)	**(9,562)**	(9,366)
Fair value adjustments on financial investments	**(62,003)**	(72,931)	**(62,003)**	(72,931)
Property, plant and equipment	**(974)**	(639)	**(974)**	(639)
Unabsorbed tax losses and capital allowances	**37,603**	52,089	**37,603**	52,089
Balance at 31 December (net)	**(34,936)**	(30,847)	**(34,936)**	(30,847)

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

The tax effect of temporary differences attributable to the value of in-force business amounts to €1.99m (2019: €5.85m).

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

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

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

20. Insurance and other receivables

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Insurance receivables	**186**	290	**186**	290
Amount due from subsidiary undertaking (Note 30)	**-**	-	**99**	221
Accrued interest and rent	**11,635**	10,392	**11,635**	10,392
Other prepayments and accrued income	**2,490**	2,322	**2,307**	2,184
	14,311	13,004	**14,227**	13,087

All of the above receivables are current on payment terms.

21. Cash and cash equivalents

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**65,271**	43,477	**64,811**	42,922

Interest earning deposits held with banks, included in cash at bank and in hand, amount to:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
At floating rates (Note 3)	**53,047**	16,093	**52,597**	15,544

As at 31 December 2020, an amount of €1.92m (2019: €1.12m) included within deposits with banks or credit institutions was held in a margin account as collateral against exchange traded futures.

22. Share capital

	Group and Company	
	2020	2019
	€'000	€'000
Authorised		
24,000,000 Ordinary shares of €2.50 each	**60,000**	60,000
Issued and fully paid		
21,900,000 Ordinary shares of €2.50 each	**54,750**	54,750

23. Other reserves

	Group and Company	
	2020	2019
	€'000	€'000
Value of in-force business		
Balance at 1 January	**67,320**	56,450
Increase in value of in-force business (Note 13)	**3,698**	10,870
Balance at 31 December	**71,018**	67,320

The above reserve is non-distributable.

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

(i) Insurance contracts

	Group and Company	
	2020	2019
	€'000	€'000
Gross technical provisions		
- claims outstanding	**7,718**	5,340
- long term business provision	**521,836**	548,429
	529,554	553,769
Reinsurers' share of technical provisions		
- claims outstanding	**501**	443
- long term business provision	**-**	-
	501	443
Net technical provisions		
- claims outstanding	**7,217**	4,897
- long term business provision	**521,836**	548,429
	529,053	553,326

Movements are as follows:

	Group and Company	
	2020	**2020**
	€'000	**€'000**
	Gross	**Reinsurance**
Year ended 31 December		
At beginning of year	**553,769**	**443**
Charge to profit or loss	**(24,215)**	**58**
At end of year	**529,554**	**501**

	Group and Company	
	2019	2019
	€'000	€'000
	Gross	Reinsurance
Year ended 31 December		
At beginning of year	507,454	470
Charge to profit or loss	46,315	(27)
At end of year	553,769	443

The above liabilities are substantially non-current in nature.

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

(ii) Investment contracts with DPF

	Group and Company	
	2020	2019
	€’000	€’000
Investment contracts with DPF (gross and net)		
- claims outstanding	**35,874**	26,166
- long term business provision	**1,730,850**	1,669,591
	1,766,724	1,695,757

Movements are as follows:

	Group and Company	
	2020	2019
	€’000	€’000
Year ended 31 December		
At beginning of year	**1,695,757**	1,461,879
Charge to profit or loss	**70,967**	233,878
At end of year	**1,766,724**	1,695,757

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

(a) Assumptions

Rate of future investment return

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

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

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

(a) Assumptions - continued

Bonus rates

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

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

Policy maintenance expenses

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

Minimum reserve

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

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

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

Mortality

The Company makes reference to the AMC00 (2019: AMC00) standard mortality table. Mortality experience is reviewed annually and assumptions are set separately for protection and savings and investment contracts having regard to past experience and trends. A margin for adverse deviation is applied to best estimate mortality rates when determining the prudent valuation assumption.

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

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

(b) Changes in assumptions

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

(c) Sensitivity analysis

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

25. Technical provisions - investment contracts without DPF

	Group and Company	
	2020	2019
	€'000	€'000
Long term business provision	**52,202**	51,810
Claims outstanding	**1,329**	882
	53,531	52,692

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

26. Insurance and other payables

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Creditors arising out of direct insurance operations	**8,938**	8,119	**8,938**	8,119
Amount owed to immediate parent company (Note 30)	**168**	145	**168**	145
Indirect taxation	**2,430**	3,079	**2,430**	3,079
Other creditors	**190**	118	**170**	115
Accruals	**4,424**	3,885	**4,407**	3,866
Deferred income	**641**	542	**641**	542
	16,791	15,888	**16,754**	15,866
Current	**16,619**	15,749	**16,582**	15,727
Non-current	**172**	139	**172**	139
	16,791	15,888	**16,754**	15,866

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

27. Note to the cash flow statements

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Profit before tax	**15,044**	14,532	**14,979**	14,574
Adjusted for:				
Amortisation (Note 13)	**1,955**	1,216	**1,955**	1,214
Depreciation (Note 14)	**504**	426	**504**	426
Investment return	**(62,092)**	(244,386)	**(62,089)**	(244,382)
Movement in:				
Technical provisions	**47,533**	287,880	**47,533**	287,880
Insurance and other receivables	**21**	(735)	**189**	(764)
Insurance and other payables	**783**	5,996	**768**	6,001
Cash generated from operations	**3,748**	64,929	**3,839**	64,949

28. Leases

The Company leases motor vehicles which run for different periods. Lease payments are subsequently renegotiated to reflect market rates.

Information about leases for which the Company is a lessee is presented below:

(i) Right-of-use assets

Right-of-use assets related to leased motor vehicles are presented as Property, plant and equipment.

	Group and Company	
	2020	2019
	€'000	€'000
Balance on 01 January	**110**	179
Additions for the year (Note 14)	**121**	-
Derecognitions for the year (Note 14)	**(42)**	-
Depreciation charge for the year (Note 14)	**(68)**	(69)
Depreciation released upon derecognition (Note 14)	**42**	-
Balance on 31 December	**163**	110

(ii) Amounts recognised in profit or loss

	Group and Company	
	2020	2019
	€'000	€'000
Leases under IFRS 16		
Depreciation of right-of-use assets (Note14)	**68**	69
Interest expense on lease liabilities	**11**	11
	79	80

(iii) Amounts recognised in statement of cash flows

	Group and Company	
	2020	2019
	€'000	€'000
Total cash outflows for leases	**77**	76

29. Commitments

Capital commitments

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Authorised and contracted:				
- property, plant and equipment	**372**	734	**372**	734
- investment property	**754**	273	**754**	273
- intangible assets	**5,698**	6,904	**5,698**	6,904
	6,824	7,911	**6,824**	7,911
Authorised but not yet contracted:				
- investment property	**303**	-	**303**	-

Operating lease commitments - where the Company is the lessor

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

	Group and Company	
	2020	2019
	€'000	€'000
Not later than 1 year	**4,590**	4,042
Later than 1 year and not later than 5 years	**9,993**	8,163
Later than 5 years	**2,478**	3,174
	17,061	15,379

30. Related party transactions

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

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

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

Relevant particulars of related party transactions are as follows:

(a) Sale of insurance contracts and other services

	Group		**Company**	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Transactions with a parent undertaking:				
Commission income	**160**	217	**160**	217
Transactions with the Company's subsidiary:				
Trailer fee income	-	-	**411**	282
Management fee income	-	-	**73**	73
Transactions with other related parties:				
Trailer fee income	**21**	20	**21**	20
Rental income on investment property	**274**	243	**274**	243

30. **Related party transactions** - continued

(b) Purchase of products and services

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Transactions with the immediate parent undertaking:				
Rent expense	**76**	111	**76**	111
Purchase of insurance cover and other services	**171**	172	**171**	172
Reimbursement of expenses for back office support services (Note 7)	**182**	121	**182**	121
Transactions with a parent undertaking:				
Reinsurance premium ceded	**2,068**	2,027	**2,068**	2,027
Staff development training	**-**	22	**-**	22
Computer maintenance	**373**	590	**373**	590
Reimbursement of expenses for back office support services (Note 7)	**150**	-	**150**	-
Transactions with other related parties:				
Acquisition costs	**4,457**	4,159	**4,457**	4,159
Bank charges	**106**	47	**101**	41
Costs in relation to hosting of IT server	**-**	6	**-**	6
Net investment return	**1,691**	3,025	**1,691**	3,025

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

Year-end balances arising from the above and other transactions are presented below:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Amount due from subsidiary (Note 20)	**-**	-	**99**	221
Accrued income from other related parties	**667**	696	**667**	696
Accruals and deferred income	**(147)**	(106)	**(147)**	(106)
Creditors arising out of direct insurance operations – other related parties	**(488)**	(374)	**(488)**	(374)
Amounts due to immediate parent company (Note 26)	**(168)**	(145)	**(168)**	(145)
Creditors arising out of insurance operations – parent undertaking	**(173)**	(607)	**(173)**	(607)
Investments in securities issued by other related parties	**9,919**	12,660	**9,919**	12,660
Deposits held with other related parties	**215,005**	195,661	**214,544**	195,105

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

30. Related party transactions - continued

Total salary remuneration paid by the Group to key management personnel during the year amount to €1.43m (Company: €1.43m). Corresponding figures for 2019 were €1.37m and €1.37m respectively.

31. Significant events during the period and Subsequent to the Reporting Date

Growth Investments Limited

Once the transfers referred to in the Directors' Report are completed, the subsidiary will voluntarily surrender its investment services license and, subject to regulatory approval, will be liquidated. The transfers are expected to be completed by March 2021. Growth Investments Limited shareholders believe that this restructuring will further improve the capabilities of MAPFRE MSV Life p.l.c. in focusing on core insurance services incorporating insurance related savings, investments, unit-linked products and retirement solutions.

COVID-19 Implications

(i) Impact on capital

In Q1 2020, the unprecedented financial market crash stemming from COVID-19 resulted in a sharp deterioration in the Company's solvency ratio, as measured in line with the Solvency II capital requirements regulations. These regulations require an insurance company to maintain enough capital, at any point in time, to be able to withstand a 1 in 200-year event, in other words that MMSV is still 99.5% confident that it will be able to meet its commitments to insurance beneficiaries and policyholders during the following year.

As at 31 March 2020, the COVID-19 financial ramifications moved the Company's solvency position marginally above the regulatory Solvency Capital Requirement (SCR) albeit with an important buffer over the Minimum Capital Requirement (MCR). The sharp fall in equity values, the lower interest rates and increased market volatility, contributed to a reduction in the Solvency II Own funds while increasing significantly the solvency capital requirement. The SCR moved sharply higher as the loss absorbency capacity of technical provisions reduced and as the value of guarantees underpinning the With Profits business increased as a result of a lower discount curve being applied to value the said guarantees.

In order to protect policyholders' assets from further market falls and to help restore the solvency position, a number of management actions were considered and implemented or are being implemented. These actions, inter alia, included the rescinding of the financial year 2019 dividends, a lower interim bonus on profit participating policies and a gradual de-risking within the investment portfolio as market conditions improved from the year lows. These measures and the continued market recovery experienced after March 2020 driven by worldwide efforts of Central Banks in the form of accommodating monetary policy and governments' fiscal stimuli enabled the Company to restore its solvency position in line with the risk appetite established by the Board.

31. Significant events during the period and Subsequent to the Reporting Date - continued

COVID-19 Implications - continued

(i) Impact on capital - continued

Furthermore, the Board of Directors approved a €40 million TIER 1 capital increase to further strengthen the balance sheet and increase resiliency in adverse market scenarios given the prevailing still uncertain and challenging times.

(ii) Impact on operations

The most pressing priority was in helping policyholders receive the best customer service in spite of the challenges faced in confronting the COVID-19 pandemic. This was feasible by equipping all employees to work from home at the height of the pandemic and keeping direct branches and contact centres open as far as possible. The investment in digital capabilities both in 2020 and previous years helped develop a more resilient operational working model.

The development of multiple vaccines is encouraging and gives hope to return to some form of normality before long. Nonetheless, the Company remains reactive to the ebb and flow of the COVID-19 virus and is prepared to take further steps to manage the impact where necessary. MMSV will continue to adjust and reinforce the business direction to fit this new environment in a manner that works for all.

32. Statutory information

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

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

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