2015 Annual Report & Financial Statements

MAPFRE MIDDLESEA

MAPFRE

MIDDLESEA

CONTENTS

GROUP MISSION STATEMENT

We are committed to achieve sustainable growth to the benefit of our stakeholders by providing a comprehensive range of high quality insurance services to the communities where we operate and by fostering mutually beneficial relationships with all our customers.

BUSINESS PHILOSOPHY

We put our Customers first and strive to secure their loyalty through top quality service.

We value our Employees and seek to help them achieve their full potential.

We embrace Professionalism and seek Excellence in everything we do.

We do our best to help our Communities be better places in which to live, work and grow.

CHAIRMAN'S STATEMENT

RESULTS AND DIVIDENDS

I am pleased to be able to report another satisfactory year for the Group with profits after tax at €11.87 million (2014: €12.37 million). This result belies an extremely volatile year on the international markets, some significant insurance losses, a historically low valuation interest rate affecting the valuation of investments and life technical provisions, as well as the prevailing low interest rates, all of which makes the Group's profit all the more remarkable. Premium growth in both Mapfre Middlesea p.l.c. ("MMS") as well as at MSV Life p.l.c. ("MSV") have been extraordinarily strong at 38.3% and 44.8% respectively. In MMS much of the growth has been through the aquisition of the Allcare Insurance Limited portfolio, and the appointment of a new agent, but I must also report strong organic growth of 16.9% over last year. With MSV, the growth was due in the main to Single Premium sales which have continued to prove a very attractive investment to the market.

Having considered the investment and solvency requirements of the group, your Board of Directors is recommending a dividend of €0.03826 per share after tax (2014 €0.03826). We believe that this dividend reflects the Board's confidence in the Company to continue on its path of growth whilst maintaining a prudent attitude towards risk. Solvency cover for the Company under the outgoing Solvency I regime is calculated at 284% and remains in excess of the minimum requirement.

THE INSURANCE INDUSTRY

Solvency II has now come into effect as of 1st January 2016. Perhaps the item which has preoccupied insurance companies all over the world is the extent of regulation which is increasingly determining how business in this sector is carried out. Solvency II is indeed a game changer in the way insurance companies are regulated.

Malta is no exception and the Group has had to gear up considerably to comply with the technical requirements of Solvency II. It is no exaggeration to say that this has required a change in the mind set of the Board as well as management as new governance and reporting procedures as well as risk, solvency and capital calculations were installed.

Increasingly weather is becoming a factor in claims worldwide with the increasing frequency and strength of major storms. The industry is feeling the brunt of the impact of climate change worldwide which is having an adverse effect on its loss ratios.

In Europe the sustainability of pensions remained a preoccupation with low interest rates making an adequate return more difficult to achieve. There was some debate about Pan European Insurance schemes which at present do not seem to be an imminent development, however welcome.

MARKETS

2015 continued to be a difficult year for insurance companies as far as the investment markets were concerned. The historically low investment returns, and negative interest rates charged by many banks on cash deposits meant that investment managers around the globe were moving into hitherto unchartered territories. Political risk has exacerbated the volatility already felt in the markets with the resultant impact on currencies. The refugee crises, slowdown in China, crises in Brics and, closer to home, the threat of Brexit and the inability of the European Union to act decisively on political and economic issues have fuelled instability in the markets. Commodity prices have also proved difficult to predict with the price of petroleum falling to new lows after the all time highs of recent years. Matching investment returns to long term liabilities especially in the life business and maintaining a low risk portolio has therefore proved especially challenging.

In this scenario the investment returns posted by MSV on its portfolio have proved very satisfactory and a bonus of 3.25% on the Single Premium Plan has been declared (2014 3.35%). The relatively consistent Single Premium returns in recent years, have been seen as very attractive by the market and have contributed to the 60.9% growth in Single Premium sales in 2015 amounting to €177.0 million. I should like to state that MSV's investment profile remains prudent and is committed to giving investors a long term return. It is the largest savings fund in Malta with some 60,000 policies in force and a fund totalling some €1.4 billion.

IT

Last year I wrote that we were investing in new IT systems and that I would be in a position to report further on the matter this year. Unfortunately with MMS we have not progressed as far as I would have liked and our target implementation has slipped. Your Board remains fully aware of the importance of IT as a tool for delivering efficiency and enhanced control over operations. We are redoubling our efforts to improve our IT platform and have the new group architecture installed largely by 2017. With MSV we remain on target and the new system should be fully operational by end 2016.

The global industry listed software failure and cyber threats as some

CHAIRMAN'S STATEMENT

of the main issues in 2015. Software failure and cyber threats are common to companies the world over. Forming part of the MAPFRE Group we are able to tap into Group resources which has enabled us to build up the Group's IT defences and test the Company's resiliance against such threats as well as store data at the MAPFRE data centre which is a purpose built facility incorporating the latest technology and cyber defences.

SERVING OUR CUSTOMERS

Apart from direct sales and sales through brokers, Mapfre Middlesea p.l.c. has a network of Agents and Tied Insurance Intermediaries though which it reaches the ultimate customer. This is a model which has been developed over the years and which the MAPFRE Group also has considerable experience in. We are conscious of the importance of maintaining a good dialogue with our agents and intermediaries through whom we gain some 84.6% of our business. As principles we have a responsibility to ensure we underwrite risks prudently and at market rates. We also have a responsibility to provide our intermediaries with efficient service, and innovative and competitive products. I believe the new commercial department has helped us achieve this aim. We have also increased our reach by opening a new office at Luqa to complement our offices in Floriana and Birkirkara.

We have recently set up a Tied Intermediaries unit and hope to be able to strengthen our support to our intermediaries. Insurance is becoming ever more technical and regulated and we are striving for closer co-operation with all our distribution network. 2015 has seen a remarkable increase in premium across the board and for this I must record the Board's thanks to all our brokers, agents and intermedaries for contributing to the success of the Company.

Clearly our obligations are also due to the ultimate customer whose risks we underwrite in an increasingly competitive market. We will use 2016 to consolidate the considerable gains we have made in premium sales by ensuring that we offer an improved service to all our customers.

PENSIONS

MSV was the first company in Malta to launch a pension scheme under the new regulations. One should not underestimate the significance of this new line of business. As with the rest of Europe, Malta needs to develop a robust private sector pension industry – the so called third pillar, if the next generation is to have a sustainable standard of living on retirement. I am pleased to report that the new pension products were well recieved and that sales were on track and encouraging. As I said, this is a significant development which will have an increasingly important impact on MSV over the years. We look to the Government to increase its support through enhanced fiscal incentives for the individuals taking out pension plans.

CORPORATE SOCIAL RESPONSIBILITY

The Company seeks to be an active member of the community, particularly in the fields of education and philanthropy. The Company was the pioneer in establishing professional Insurance studies in Malta, ensuring the establishment of a sound educational platform to ensure a continuous supply of trained professionals for the entire insurance market.

During 2015, Mapfre Middlesea p.l.c., with the support of Fundación MAPFRE, renewed its commitment to the Healthy Living campaign, holding workshops in over 40 Maltese schools. Workshops were also held for parents, with the aim of helping them bring up their children in a healthy environment, as well as promoting a healthy lifestyle.

For a second year running, Fundación MAPFRE also sponsored a campaign to promote road safety awareness among children in secondary schools. It also supported an initiative with the Equal Partners Foundation on Trans-disciplinary Early Intervention – in a project called Head Start. We are fortunate that Fundación MAPFRE, the foundation which looks after the Groups Corporate Social Responsibility have funded these projects so generously and we look forward to their continued involvement in Malta next year.

Paqpaqli Għall-Istrina was sponsored by Mapfre Middlesea p.l.c. for the sixth consecutive year, with all proceeds going to The Malta Community Chest Fund and l-Istrina, which helps Maltese patients needing medical treatment abroad.

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

SHAREHOLDERS

Mapfre Middlesea p.l.c. is a listed company with 54.56% of the shareholding owned by MAPFRE Internacional, a subsidiary of MAPFRE SA, through which we have become their subsidiary. MAPFRE SA is one of the largest insurance companies in the world with group

CHAIRMAN'S STATEMENT

assets worth €63.5 billion and a total consolidated revenues of €26.7 billion and representation in 47 countries. As part of the MAPFRE group we are able to tap into a wealth of expertise and knowledge which has proved invaluable in the increasingly regulated and sophisticated developments within the market. We are fortunate to have on the board Javier Fernández Cid Planiol who sits on the Executive Committee of MAPFRE SA. We also have as directors appointed by MAPFRE, Pedro López Solanes, General Manager and Chief Financial Officer of MAPFRE SA, Nikos Antimissaris who is head of MAPFRE Europe, Middle East and Africa under whose jurisdiction Malta falls, and Joseph F.X. Zahra the former chairman of Mapfre Middlesea p.l.c.

31.08% of the shares in Mapfre Middlesea p.l.c. are owned by Bank of Valletta p.l.c. ("BOV"). BOV also owns 50% of MSV Life jointly with Mapfre Middlesea p.l.c., where it generates the majority of the premium sales in this entity. Appointed by BOV are its Chairman John Cassar White and until recently its Chief Executive Officer Charles Borg. 14% of the shareholding is owned by individual and corporate shareholders and are represented on the board by Paul Testaferrata Moroni Viani and Antoinette Caruana. I have been privliged to work with this Board who bring a wide range of expertise to the Company and who have provided direction and steady advice in an eventful year.

Towards the end of 2015 the President and Chief Executive Officer of Mapfre Middlesea p.l.c., Alfredo Munoz Perez left the Company to take up another group assignment. On behalf of myself and the Board I would like to thank him for his most successful tenure in leading this company and wish him every success. I welcome Felipe Navarro Lopez de Chicheri who has taken up the position of President and Chief Executive Officer in his stead. Felipe brings a wealth of knowledge and experience from within the MAPFRE group and I am confident he will continue to build on the Company's success.

I should also like to thank MSV Life p.l.c.'s CEO David Curmi and indeed all the management and staff of all the Group companies. It is through their efforts that the successes achieved in 2015 can be largely attributed.

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

2 MARCH 2016

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MAPFRE MIDDLESEA GROUP HIGHLIGHTS

2015 has been a year of great growth and transformation. Indeed Mapfre Middlesea Group's increase in gross premium written in consolidated terms has reached 43.60% thanks to a strong growth in MSV Life p.l.c.'s ("MSV") premiums, the organic growth of Mapfre Middlesea p.l.c. ("MMS") and the acquisition of Allcare Insurance Limited's portfolio in July. MSV's gross premium written has reached €220.75 million, an increase of 44.8% over the previous year while the total MMS gross premium written has been €48.77 million with a 38.3% growth. If we isolate the effect of the acquisition of Allcare's portfolio the premium growth would have been a significant 18.1%. The fastest growing areas have been life long term business and motor. The market shares based on preliminary data consolidate our leadership in the Maltese market in both life and non-life business.

Despite the poor and volatile behaviour of financial markets, MSV remains the largest contributor to Group earnings before tax thanks amongst others, to a change in the reinsurance policy. This has allowed MSV to compensate for the poor performance of the financial markets obtaining a total result of €15.58 million, a 9.2% increase over the previous year. MSV Life's profit margin on premiums is 7.06% a 2.30 percentage points lower than last year.

MMS has had a more discreet behaviour due to the high loss ratio in motor insurance, where effects of nature such as the hail storm this year has had a significant impact. The loss ratio of motor business has reached 67.38% a 2.87 percentage points over the previous year while the net combined ratio of all the non-life activities reaches 95.35%. Nevertheless, it still recorded an individual result of €5.07 million and a profit after tax in line with previous year that allows it to propose a net dividend to the Board of Directors of €0.03826 per share, same as last year.

MMS will focus on the medium-term profitable growth enabling the Company to offer shareholders a less volatile and more profitable outcome. The Company also wants to be able to put the customer seeking insurance at the centre of its activity, and transfer the concept from simple compensation towards providing service as added value. In the coming years, the digital transformation must be a reality. Newly implemented systems in both MMS and MSV, including the documentation management of corporate projects, new accounting and business intelligence systems for the back office and smart management tools for the front office will bring us closer to our customer. The ultimate aim is to offer our client a simpler and more efficient way of doing business. Our team of people is more committed than ever. Every one of our employees will focus on cost effectiveness and in providing excellence from underwriting, pricing and the servicing so that we bring the state of the art technologies of the MAPFRE Group. In the near future our main task will consist of uniting this culture with better talent management in the Company; the large increase in staff that has occurred in 2015 will make us work even harder on culture and training as a basis for professional development.

To the challenges outlined above, one needs to add that there are other changes being experienced in our environment; those which have already reached our shores such as the challenges related to Solvency II, and those that will be with us in the not too distant future such as that of vehicles without a driver that require a brand new vision for the future of insurance. This new vision of insurance as a result of a changing environment will make us focus on a new set of needs for our business.

The non-life market last year grew by 7.56% mainly in the fields of Health and Property which puts MMS in a position of leaders with 30.15%. Insurance prices remain very competitive in the Maltese market despite being in a European context where input costs are at the same level as the rest of Europe, which requires us to move away from our competitive position adjusting premiums to actual costs in classes of business that are technically necessary.

The Mapfre Middlesea Group, thanks to its position in the Maltese market, can offer its customers different solutions suited to their needs. The private individual finds solutions for his life savings through MSV. MSV provides a very competitive offer on pensions, once again being the first to offer a suitable solution to the market. MMS offers a wide range of solutions to its individual customers including home, motor, health, travel, and also life cover for groups, with the guarantee of maximum solvency granted by the Group's position in Malta and worldwide, personified in the various insurance and reinsurance solutions through MAPFRE and MAPFRE Re Global. In addition Middlesea Assist remains the pioneer in providing the insurance services.

GENERAL BUSINESS

The increase in gross written premium in General Business was 39.9%, and the organic growth excluding the acquisition of Allcare Insurance Limited - reached 18.1%, well above the growth estimates for the whole Maltese market. All business lines contributed positively but a special mention goes to the motor business which now accounts for 48.4% of total non-life business. Other significant growths may be found in fire and health with more than 33%, liability with more than 45%, engineering with more than 60%, however the last two with less income contribution.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

The growth was experienced in all channels, with particularly significant growth in direct business (84%) and TII (66%) followed by Brokers (29%) and Agency business (18%).

In 2015 the number of policies increased by 60% in 2015 mainly coming from the retail business which logically leads these growths. The retention level is still good although an increasing trend in the transfer of policies is being felt. We understand it is important to provide differential services with higher added value that can differentiate our customers and for this we must seek the participation of all our business partners from the point of sale to the provision of the service, all seeking differentiation and excellence.

The capital base of MMS enabled us to increase retention of business beyond what we did in 2014, which has led us, without a significantly higher exposure to large catastrophic risks, to increase earned premiums after reinsurance. We continue to work with MAPFRE Re the company within the MAPFRE Group which specialises in reinsurance, optimizing our coverage in such a way that we can earn more, taking into consideration our exposure to both an increase in claims frequency and in cases of a catastrophe. Retained earned premiums increased by 44.47% while retained claims increased by 68.90% having an impact on the Company's results.

The Company expenses in 2015 were primarily affected by the acquisition of Allcare, the integration project, the need for more staff and the lack of capturing synergies in 2015, notwithstanding which a decrease in the expense ratio was achieved. We hope this data once the portfolio is refined and the full year result is clear, will allow us to improve our performance even further. It is noteworthy to highlight that the ratio of operating costs remains relatively low compared to the MAPFRE Group. Acquisition expenses are diminishing with the acquisition of the AIL portfolio while those of administration have increased. The Company's staff increased from 108 in 2014 to a total of 152 in 2015.

Large claims have led us to increase our combined ratio in 2015. The improvement in the portfolio, the adjustment of certain rates and better claims management will help us control them in 2016. The financial results have helped rebalance the income statement of the end of year thanks to the work of refurbishment and improvement in occupancy at Development House that gave us an extraordinary fair value movement to this property.

LONG TERM BUSINESS

Another year in the growth of Long Term Business (mainly MSV with Group Life MMS) has experienced a growth of over 44 % at a time when the market has experienced a growth of 29%. These very spectacular figures have been achieved only thanks to the contribution of Bank of Valletta p.l.c., which remains the major channel of distribution of these products. This portfolio is mainly composed of products that the customer considers attractive thanks to the returns on the long-term investment portfolio management.

The investment income at €91.17 million has suffered slightly from the behaviour of financial markets and fell below the mark of previous year's figures, being 23.64% lower than last year. Notwithstanding the deterioration in the financial markets towards the end of the year, the average return of the with - profit portfolio investments reached 6.87% compared with 9.50% in the previous year.

Total Benefits were above last year's mainly due to maturities reaching a level of €109.54 million, but below budget, that gives the certainty of the clients fidelity with the company. Total invested assets grew by 13.87% to €1.63 billion reaching a historic high, while net technical provisions reached €1.56 billion a 12.65% increase on 2014. The hectic behaviour of the financial markets last year was offset by a prudent approach looking for the long term profitability.

Net operating expenses show an increase of 27.20% mainly due to commissions on increased business. The final balance of this type of business reached €14.56 million an increase of 35.47% from the figures of the previous year thanks to an adjustment in the reinsurance treaty. The overall behaviour of this line of business could be considered as very good in all terms.

CONSOLIDATED RESULTS

During 2015 the Group registered a profit before tax of €17.8 million, 3.04% higher compared to the previous year. MSV's result thanks to the new reinsurance policy offset the lower result of MMS due mainly to large claims in motor business.

The tax expense of 2015 is returning to normal corporate rates at 33.48% a 4.93 percentage points higher than last year as a result of lower effect on the results from real estate investments.

Earnings per share attributable to shareholders decreased from 7c8 to 7c4. The profit attributable to shareholders reduced as a result of the drop in MMS results compensated by MSV's results that are only 50% attributable to shareholders.

MMS is committed to return value to shareholders and will continue to dedicate an important part of its profit to remunerate the shareholder. The Company's solvency reached at the end of the year represents 284%, down from the 484% registered in 2014, as a result of increased business and increased retention leading to better utilisation of capital. In this spirit of continuously and significantly remunerating the shareholder, MMS will propose to the Board the payment of a dividend

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

of €0.05605 gross and €0.03826 net per share equal to last year and representing 101.70% of the Company's gross profit for the year before taxes. It should be noted that the payoff of the Company is 75.94% this year.

STATEMENTS OF FINANCIAL POSITION

The total assets of the Group increased by 12.04% and totalled €1.82 billion. More than 93.21% of them are return seeking assets (investments and cash and cash equivalents) derived from the increase in MSV's funds under management. These funds are invested in a number of diversified securities (local and foreign), managed in-house or by external high reputable entities. The Group has a portfolio of rented property investments and property related shares.

On the liabilities side more than 97.47% of the balance belongs to technical provisions. All technical provisions, both life and non-life increased as a result of the increased volume of business written. The other relevant figure belongs to the deferred income tax mainly due to the unrealised movement in the investment portfolios that also increased.

Total equity increased by €3.70 million or 2.41% including the minority interest mainly driven by the profit for the year partly offset by dividends paid and a reduction in the Value of in-force business.

REVIEW OF OPERATIONS

The Mapfre Middlesea Group continues to base its financial performance in the final customer and the insurance intermediaries that are seen as strategic partners to the group. Both of them will receive a differentiated approach and ad hoc programs in order to allow them to perceive the group as the trustworthy preferred partner for insurance.

MMS continued its strategy of getting closer to the client with the opening of Luqa regional office with the commitment to give full support to the clients and TII's of the southern part of the island and backing Gozo's activities as well. With that footprint we are sure to reach all the clients and TII's and provide them with a full service premises.

We have introduced new products, completing the deployment of the Motor Max and introducing the new Max Protect with a new concept of servicing funeral covers with an approach that is already successful in other countries.

We are going to persist on the multichannel approach, we want the client to receive same price from this Company whatever channel he chooses to approach the Company: Direct, Agents, Tied Insurance Intermediaries or Brokers.

To give a new modern view of the Company, MMS introduced a new website which provides the client with an easier and clearer look to the services provided by MMS. We are now supported by a new technology that is shared by the MAPFRE Group all over the world and that will guarantee the best usability to the client. We are looking forward to enhance the services and give more features to the website in order to provide everyone with the state of the art technology.

We are improving the governance of the Group providing the control areas with a common approach for the Group and giving the same team full responsibility for the different companies. In addition to the internal audit team, we now have a common Risk team, Compliance team and Security team that will control and support the Board on the different areas that Solvency II is requiring from the companies.

Technology is another investment area for the Company. We are near to the conclusion of the new IT system for MSV and with sounded progress in the IT transformation of MMS. Those investments are going to help us to develop our activities in a more efficient and dynamic way.

SUBSIDIARIES BEE INSURANCE MANAGEMENT

The Group management services company, a fully owned subsidiary of Mapfre Middlesea p.l.c., had a very positive year with a 127.15% increase in its pre-tax profit. It also played a very active role at international events, establishing new business leads and contributing to extend the knowledge of Malta as an excellent jurisdiction to operate from. New prospects are in the pipeline and some of them might materialize during this year.

MIDDLESEA ASSIST LTD

Middlesea Assist, a joint-venture between Mapfre Middlesea p.l.c. and MAPFRE Asistencia, had an excellent year with revenues up by 18.30%. Volume of services provided to the Middlesea Group increased substantially, in number and variety while keeping the quality of service provided and satisfaction levels at the highest rates. The optimal use of its own network has been instrumental to improve financial results.

It is still exploring new possibilities in the Assistance and Specialty Risk markets, making new contacts and reinforcing existing relationships. The development and service handling of specialized innovative classes of insurance that Middlesea Assist can provide increases the public's awareness of the Group innovation capacity.

LOOKING FORWARD

The coming years are going to be a great challenge for the Company. The strategic review of the MAPFRE Group for the past year will help us to concentrate on the profitable and sustainable growth that this Company needs. We need to take advantage of the increase of our portfolio that took place last year and to increase its value: the value perceived by the policyholder and the value of our intermediaries through new processes and better service.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

The four pillars of the new strategy are client orientation, excellence in technical management, digital transformation and our culture and human talent. We want to place the client, both internal and external, at the centre of our activity, and we are ready to re-examine all our procedures to increase our exposure to the client needs. The excellence in client management is essential if we want to deliver value to the shareholder and to increase the technical profitability of the Company. The digital transformation is one of our main targets; the implementation of a new IT system and its consequences on both the management and the processes are going to impact dramatically the way the Company will act in the foreseeable future. Taking care of the group culture and fostering human talent will, in the short term, increase the value perceived both by the clients and the staff and in the long term I deeply believe that this is the only way to prevail as a company and to have the opportunity to hand on the baton to the next generation.

Regulation is still going to be a challenge and is going to impact deeply the way the insurance products are perceived and distributed. Once Solvency II is in place, the new PRIIPS´s KID (Packaged Retail Insurance-based Investment Product´s Key Information Document) regulation is going to increase the quality and comparability of the information that the client is going to handle. The Insurance Distribution Directive that is coming into force is going to modify the way products reach the client, setting a new level playing field. As supervisor it is going to assure that the network is going to be more trained, always looking after its clients' interest and making clear how they are remunerated.

New technologies could change the scope of the traditional products in the near future. Insurance for cars without a driver, using the information shared on a daily basis by the client to have a more customized quotations for health business and third part liability on the use of drones can be some of the new classes of business that our client could ask us to cover. We have to be ready to give our customer a fair price for those risks. Climate change will definitely alter the near future and the way the insurance industry will for sure have an important role on how the population is going to face those risks. But most of all we need to increase the awareness of the client on more simple things like pure life protection, household contents or private pension's schemes where the Maltese market has a blooming future. We need to deliver value to the client by helping him to face the future with peace of mind knowing that through new products, new services or new covers, he will always find Mapfre Middlesea p.l.c. as a trustworthy company.

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

2 MARCH 2016

BOARD OF DIRECTORS & COMPANY SECRETARY

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

AT PRESENT: Director of MSV Life p.l.c., Managing Director of Joinwell Limited, Director of Printex Limited, involved in other family and licensed companies.

MR NIKOS ANTIMISSARIS
NED
FORMERLY: Member of the Board of Directors of many of the subsidiaries of MAPFRE Asistencia

AT PRESENT: CEO EMEA (Europe, Middle East and Africa Region) of the MAPFRE Group, Member of the Board of Directors of Mapfre Middlesea p.l.c. (Malta), M.S.V. Life p.l.c., MAPFRE Genel Sigorta A.S. (Turkey), MAPFRE Genel Yasam Sigorta A.S. (Turkey), Direct Line Italy and Direct Line Germany.

MR CHARLES BORG
NED
FORMERLY: Chairman of the Housing Authority, President of the Institute of Financial Services, Director of La Valette Funds SICAV, Director of Vilhena Funds SICAV, Director of Wignacourt Funds SICAV. Chairman of the Malta Banks' Association, Member on the Board of the World Savings Bank Institute, Chief Executive Officer Bank of Valletta Group p.l.c.

AT PRESENT: Chief Executive Officer PG Holdings Ltd, Director of Valletta Fund Management, Director of Valletta Fund Services, Director of Vallcara Ltd, Member on the Audit Board of the European Investment Fund.

MS ANTOINETTE CARUANA
MSc (Trg & Dev), BA (Hons) Bus Mgt., FCIPD (appointed on the 24 April 2015)
NED I
FORMERLY: Held a number of positions in the private sector including the post of Chief HR Officer at Lufthansa Technik; General Manager HR of the Brandstaetter Group and previously worked at Bank of Valletta for over 11 years. She was also Chief Executive of the newly incorporated government agency Heritage Malta between 2003 and 2006. She has lectured at the University of Malta in Management, Industrial Relations and HRM. She served as director of the Central Bank of Malta, the Employment and Training Corporation and Chairperson of the Malta Professional and Vocational Qualifications Award Council. She was also a trustee of the Richmond Foundation, director of the Foundation for Human Resources Development, employers' representative on the Industrial Tribunal and was a core member of the Malta-EU Steering & Action Committee.

AT PRESENT: Company secretary and Group HR Manager of the Farsons Group and member of the Group Executive Board.

MR JOHN CASSAR WHITE
NED
FORMERLY: Worked with the Bank of Valletta for thirty seven years until 2008 becoming one of the Bank's Chief Officers. He also served on the board of various state-owned enterprises and was a director of various investment companies. Until recently he was a lecturer at the Institute of Business and Commerce of MCAST.

AT PRESENT: Chairman Bank of Valletta p.l.c., MSV Life p.l.c., Valletta Fund Management Limited and Valletta Fund Services Limited.

MR DAVID G. CURMI
ACII, Chartered Insurer (appointed on the 24 April 2015)
NED
FORMERLY: President of the Malta Chamber of Commerce, Enterprise and Industry, Member of the Council of Presidents of Business Europe and President of the Malta Insurance Association.

AT PRESENT: Chief Executive Officer of MSV Life p.l.c., Director of Mapfre Middlesea p.l.c., Director of Middlesea Assist (a MAPFRE company), Director of Midi p.l.c., Director of Plaza Centres p.l.c.

MR. JAVIER FERNÁNDEZ-CID
NED
FORMERLY: Holding a law degree from the Complutense University of Madrid. He has developed his career in the MAPFRE Group with different management positions in Spain and abroad and notably in Belgium and the US.

AT PRESENT: Member of the Executive Committee of MAPFRE SA, CEO International of MAPFRE SA, Chairman of MAPFRE INTERNACIONAL, Chairman of MAPFRE USA, Commerce Insurance and Citation Insurance, (Massachusetts, USA), Chairman of Direct Line Insurance SpA (Italy) and Chairman of the Supervisory Board of Direct Line Versicherung AG (Germany). Board member of the following MAPFRE Group companies: MAPFRE RE, MAPFRE ASISTENCIA, MAPFRE AMERICA, and MAPFRE INSULAR (The Philippines). He is also Board member of Vaudoise Assurances (Switzerland).

MR PEDRO LÓPEZ SOLANES
NED

AT PRESENT: Controller - Deputy General Manager in MAPFRE S. A., Director of MAPFRE Inversion Sociedad de Valores (Spain), Director of MSV Life p.l.c., (Malta), Director of MAPFRE Re (Spain), Director of RMI Inc. (USA).

BOARD OF DIRECTORS & COMPANY SECRETARY

MR PAUL S. TESTAFERRATA MORONI VIANI
NED I

AT PRESENT: Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of GO p.l.c., Innovate Software Limited, Mobisle Communications Limited, Worldwide Communications Limited, Go Data Centre Services Limited, St. George's Park Co. Ltd, SGP Projects Ltd, Euro Appliances Co. Ltd, Spinola Hotels Ltd, Reliant Ltd, Cambridge Place Ltd, Sales & Letting Ltd, Aragon Co. Limited, BPG Properties Ltd and Testaferrata Moroni Viani Holdings Ltd , Vltava Fund SICAV p.l.c."

MR JOSEPH F. X. ZAHRA
B.A. (Hons) Econ., M.A. (Econ.), FCIM, MMRS
NED I

FORMERLY: Head of Research, Malta Development Corporation, Director, Central Bank of Malta, Director, Malta Development Corporation, Director, Corinthia Hotels International Ltd, Chairman, Bank of Valletta p.l.c., Chairman, Middlesea Valletta Life Assurance Co. Ltd, Chairman, Maltacom p.l.c., Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education, Chairman, Middlesea Insurance p.l.c.; Chairman, Euro Globe Holdings Ltd, Chairman, Church Wharf Properties Ltd; Director, MSV Life p.l.c.; Chairman, Bee Insurance Management Ltd; Chairman, EuroMed Risk Solutions Ltd and Chairman, Malta Council for Culture and the Arts

AT PRESENT: Director Medserv p.l.c., Director, Nemea Bank p.l.c., Managing Director, Market Intelligence Services Co. Ltd, Managing Director, MISCO International Ltd, Chairman, C. Fino & Sons Ltd, Chairman, Document Archive Management Ltd, Chairman, Impetus Europe Consulting Group Ltd, Chairman, Multi Risk Limited, Chairman, Multi Risk Indemnity Ltd, Chairman, Forestals Investments Ltd, Director, Multi Risk Benefits Ltd, Director, PowerImage Services Ltd, (Cyprus), Director, Promise Professional Services Ltd, (Cyprus), Director, 3a Malta Ltd, Director, Surge Consulting Ltd, Director, United Group Ltd, Director United Finance p.l.c., Pendergardens Developments p.l.c.; Director, Chasophie Group Ltd; Director, Curmi & Partners Ltd; Director, Swan Laundry & Dry Cleaning Co Ltd and FIRE Spa (Italy).

MR. FELIPE NAVARRO
President & CEO

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

AT PRESENT: President and CEO of Mapfre Middlesea p.l.c., Director of MSV Life p.l.c., Chairman of Bee Insurance Management Ltd, Chairman of Middlesea Assist Ltd, Chairman of EuroMed Risk Solutions Ltd, Chairman of Euro Globe Holdings Ltd, Chairman of Church Wharf Properties Ltd, Director of Growth Investments Ltd, Chairman of the Maltese Spanish Chamber of Commerce.

MR CARLO FARRUGIA
Dip. Gen. Mgmt (Maastricht), PGDTI, M.A. (Transl. & Interp.).

FORMERLY: Previously employed at the Central Bank of Malta and Malta Financial Services Authority and appointed as a bank inspector for a number of years.

AT PRESENT: Director BEE Insurance Management Ltd; Director EuroMed Risk Solutions Ltd; Joined the Mapfre Middlesea Group in 2007 and was appointed Company Secretary and Compliance Officer of the group companies (As from the 1 January 2016 the duties of Compliance Officer were relinquished). Serves as committee secretary to the Board Committees of Mapfre Middlesea p.l.c. and to the majority of Mapfre Middlesea's subsidiaries. He is also a visiting lecturer at the University of Malta for Translation and Interpreting, published the Dictionary for Financial Services and is involved in the Olympic Movement and a member of the Maltese Olympic Academy.

Mr Gaston Debono Grech was not re-appointed as a Director during the AGM held on the 24 April 2015 and was therefore a Director between the 1 January and 24 April 2015.

NED – Non Executive Director

I - Independent

HEAD OFFICES & AGENCIES

HEAD OFFICES

MAPFRE MIDDLESEA P.L.C.
Middle Sea House
Floriana, FRN 1442
Tel: (+356) 2124 6262
Fax: (+356) 2124 8195
E-mail: middlesea@middlesea.com
Website: www.middlesea.com

REGIONAL OFFICES

FLORIANA REGIONAL OFFICE
Middle Sea House,
Floriana, FRN 1422
Tel: (+356) 2569 4300
Email: fro@middlesea.com

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

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

LOCAL AGENCIES

BONNICI INSURANCE AGENCY LIMITED
222, The Strand
Gzira, GZR 1022
Tel: (+356) 2133 9110
Fax: (+356) 2131 0390
E-Mail: info@bonniciinsurance.com

ENGLAND INSURANCE AGENCY LIMITED
190, 1st Floor, Marina Street
Pieta, PTA 9041
Tel: (+356) 2125 1015
Fax: (+356) 2124 4507
E-Mail: info@england.com.mt

LAFERLA INSURANCE AGENCY LIMITED
204, A Vincenti Buildings,
Old Bakery Street,
Valletta, VLT 1453
Tel: (+356) 2122 4405
Fax: (+356) 2124 9014
E-mail: info@laferla.com.mt

MELITAUNIPOL INSURANCE AGENCY LIMITED
17, Market Street,
Floriana, FRN 1081
Tel: (+356) 2206 7000
Fax: (+356) 2124 1954
E-mail: agency@melitaunipol.com

UNTOURS INSURANCE AGENCY LIMITED
WMB 5, Old Bakery Street,
Valletta, VLT 1450
Tel: (+356) 2559 8000
Fax: (+356) 2559 8137
Email: insurance@untours.com.mt

MONTALDO INSURANCE AGENCY LIMITED
(Agents for Motor and Travel)
98/2, Melita Street,
Valletta, VLT 1120
Tel: (+356) 2123 8500
Fax: (+356) 2123 1296

SMS INSURANCE AGENCY LIMITED (AGENTS FOR MOTOR ONLY)
65, Birkirkara Hill
St. Julians, STJ 1143
Tel: (+356) 2577 0000
E-mail: insurance@sms.com.mt

PROFESSIONAL SERVICES

The Company and its subsidiaries, in addition to its regular staff complement, as at 31 December 2015 utilised the professional services of the following individuals and institutions:

LEGAL ADVISORS
Mamo TCV Advocates
Schriha, Attard Montalto, Galea & Associates
Camilleri Preziosi

AUDITORS
KPMG

ACTUARIES
MAPFRE S.A.
Towers Watson

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

SPONSORING STOCKBROKERS
Bank of Valletta p.l.c. - Financial Markets & Investments Division
Charts Investment Management Service Limited

GROUP COMMITTEES

THE INVESTMENT COMMITTEE
Mr John Cassar White (Chairman)
Mr David G. Curmi (appointed on 24 April 2015)
Mr Martin Galea
Mr Pedro López Solanes

THE AUDIT COMMITTEE
Mr Charles Borg (Chairman)
Mr Nikos Antimissaris
Mr Martin Galea (appointed on the 11 March 2015)
Ms Antoniette Caruana (appointed on 29 July 2015)
Mr Paul Testaferrata Moroni Viani (resigned on 24 July 2015)

THE REMUNERATION COMMITTEE
Mr Javier Fernández-Cid Plañiol (Chairman)
Mr Martin Galea
Mr John Cassar White

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE
Ms Antoniette Caruana (Chairperson) (appointed on the 24 April 2015)
Mr Gaston Debono Grech (not re-appointed on the 24 April 2015)
Mr Charles Borg (appointed on 24 April 2015)
Mr Martin Galea (appointed on the 11 March 2015)
Mr Pedro López Solanes

The Company Secretary, Mr Carlo Farrugia, acts as the committee secretary to the above mentioned committees.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Mapfre Middlesea p.l.c. for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

Mapfre Middlesea p.l.c. registered a profit before tax of €5.07 million during the year ended 31 December 2015 (FY 2015) compared to €6.38 million registered in FY 2014 with post-tax profits of €4.64 million, an increase of 8.3% over the €4.28 million in FY 2014 as the dividend received from MSV Life p.l.c.('MSV') was paid from untaxed profits whilst in FY 2014 it was mainly paid from taxed profits. Premiums written by the stand-alone parent Company increased by 38.3% to €48.8 million (2014: €35.3 million), continuing to achieve record sales partly emanating from acquiring the portfolio of Allcare Insurance Limited.

The Group registered a profit before tax of €17.8 million for the year to 31 December 2015 (FY 2015) an increase of 3.0% over that achieved in FY 2014 with sustained profitability achieved by the life subsidiary MSV Life p.l.c. where revenues were supported by the continuing resilience and upturn in the equity and bond markets.

Mapfre Middlesea p.l.c.'s solvency position as at 31 December 2015 on its general business stood at 284% of the minimum solvency requirement under Solvency I (2014: 484%) and remains adequately above the capital requirements under Solvency II.

Mapfre Middlesea's Group capital and reserves attributable to shareholders at 31 December 2015 amounted to €82.3 million (2014: €80.1 million) on a consolidated basis with a net asset value per share of €0.90 as at 31 December 2015.

The Directors are confident that the present level of operational activity will be sustained in the foreseeable future within the Company and its subsidiaries. The Group has defined strategies for growth in the core business of each of the Group companies within the local market that are expected to continue strengthening the level of financial stability of the Group.

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 34. A gross dividend in respect of year ended 31 December 2015 of €0.05605 per share amounting to a total dividend of €5,156,715 (2014: €4,716,890) is to be proposed by the Directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.03826 per share amounting to a total net dividend of €3,520,000 (2014: €3,520,000).

DIRECTORS

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

Martin Galea
Charles Borg
Antoinette Caruana (appointed on the 24 April 2015)
John Cassar White
David G. Curmi (appointed on the 24 April 2015)
Gaston Debono Grech (not re-appointed on the 24 April 2015)
Javier Fernández-Cid Plañiol
Pedro López Solanes
Paul Testaferrata Moroni Viani
Joseph F.X. Zahra

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

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

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

The financial statements of Mapfre Middlesea p.l.c. for the year ended 31 December 2015 are included in the Annual Report 2015, which is published in hard-copy printed form and may be made available on the parent company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

- the financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO LISTING RULE 5.64

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

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

The Directors confirm that as at 31 December 2015, only MAPFRE Internacional (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

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

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

DIRECTORS' REPORT

INFORMATION PURSUANT TO LISTING RULE 5.64 - CONTINUED

The Directors can only issue shares following an extraordinary resolution passed in the General Meeting.

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

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

It is hereby declared that as at 31 December 2015, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

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

AUDITORS

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

INFORMATION PURSUANT TO LISTING RULE 5.70

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

INFORMATION PURSUANT TO LISTING RULE 5.70.2

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

By order of the Board

Martin Galea
Chairman

Charles Borg
Director

Middle Sea House
Floriana, Malta

2 March 2016

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

1. INTRODUCTION

Issuers whose securities are listed on the Malta Stock Exchange are required to include a Corporate Governance Statement of Compliance (the 'Statement'), in their Annual Financial Report providing, amongst others, an explanation of the extent to which they adopted the Code of Principles of Good Corporate Governance (the 'Code') contained in Appendix 5.1 of Chapter 5 of the current applicable Listing Rules of the Malta Financial Services Authority ('MFSA'). In terms of Listing Rule 5.94, Mapfre Middlesea p.l.c (the 'Company' or 'MMS') is obliged to prepare a report explaining its compliance with the provisions of the Code. The Issuer's Auditors are to include a report on the Corporate Governance Statement of Compliance in the Annual Financial Report.

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

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

2. COMPLIANCE WITH THE CODE

Principle 1 – The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. As at the 31 December 2015 the Board was composed of a non-executive Chairman and nine non-executive Directors. The maximum number of Directors is ten. Martin Galea was re-appointed as a non-executive Chairman during the Board meeting held on the 24 April 2015 which followed the Annual General Meeting ('AGM') held on the same day.

During the said AGM the two institutional shareholders re-appointed the retiring Directors as well as David G Curmi while the other shareholders appointed Antoinette Caruana and Paul Testaferrata Moroni Viani during the election for Directors. Nikos Antimissaris was re-appointed by the Board of Directors in accordance with Article 100 of the Memorandum and Articles of Association.

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

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

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

Principle 2 – Chairman and CEO

The Chairman is responsible to lead the Board and to set its agenda. The Chairman ensures that the Board's discussions on any issue put before it is addressed with adequate depth, that the opinions of all the Directors are taken into account, and that all the Board's decisions are supported by adequate and timely information. The Chairman ensures that the CEO develops a strategy which is agreed to by the Board.

The Company's current organisational structure incorporates the position of a CEO, who leads the Senior Management team, whose main role and responsibilities are the execution of agreed strategy, and managing the Company's business. During 2013 the Company set up an Executive Operational Committee which meets regularly and in 2014 the Company also established the Management Committee that brings together the Chief Officers within MMS under the Chairmanship of the CEO.

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 3 – Composition of the Board

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

The combined and varied knowledge, experience and skills of the Board members provide a balance of competences that are required, and add value to the functioning of the Board and its direction to the Company.

As stated above, the Board is composed exclusively of non-executive Directors. Although not a Director, the CEO is invited to attend Board meetings with a view to ensuring a full understanding and appreciation of the Board's policy and strategy and so as to provide direct input to the Board's deliberations. In addition, certain members of Senior Management are invited to report to the Board as and when required.

The composition of the Board is determined by the Company's Articles of Association. The appointment of Directors to the Board is reserved exclusively for the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy. All Directors are required to fulfil the fit and proper procedures carried out by the MFSA in line with standard regulatory due diligence procedures. In addition, during 2014 a new internal fit and proper regime was implemented within the Company in accordance with Solvency II requirements. The said internal fit and proper regime for key functionaries is carried out on an annual basis.

As at the date of this review, the Board consists of four independent Directors (including the Chairman) and six non-independent Directors (as indicated on pages 14 and 21 of the Annual Report) as defined by the Code.

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

Principle 4 – The Responsibilities of the Board

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

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

BOARD COMMITTEES

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE – CONTINUED

AUDIT COMMITTEE

Principle 4 – The Responsibilities of the Board - continued

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

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

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

The composition of the Company's Audit Committee is also regulated by the Listing Rules. In terms of Listing Rule 5.118, Martin Galea is the Director whom the Board considers as independent and competent in accounting/auditing due to his qualifications, experience and knowledge.

The Audit Committee held seven meetings during 2015. The Audit Committee members and relative attendance to meetings is listed below.

Charles Borg (Chairman)	7
Nikos Antimissaris	2
Antoinette Caruana	2 (appointed on the 29 July 2015)
Martin Galea	6 (appointed on the 11 March 2015)
Paul Testaferrata Moroni Viani	3 (resigned on the 29 July 2015)

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

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

COMPLIANCE, PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

The Compliance, Prevention of Money Laundering and Risk Management Committee held five meetings during 2015. The Committee members and relative attendance to meetings is listed below.

Antoinette Caruana (Chairperson)	4 (appointed on the 24 April 2015)
Charles Borg	4 (appointed on the 24 April 2015)
Gaston Debono Grech	1 (not re-appointed on the 24 April 2015)
Martin Galea	5 (appointed on the 11 March 2015)
Pedro López Solanes	4

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

INVESTMENTS COMMITTEE

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

The Investments Committee held four meetings during 2015. The Committee members and relative attendance to meetings is listed below.

John Cassar White (Chairman)	1
David G. Curmi	2 (appointed on the 24 April 2015)
Martin Galea	4
Pedro López Solanes	3

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

REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2015 Annual Report. The Board of Directors approves the remuneration of Directors and Chief Officers on the recommendation of the Remuneration Committee. The maximum aggregate Directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

The CEO, Chief Officer HR and MAPFRE Regional Head of HR attend the Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

Principle 5 – Board Meetings

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

During the 2015 financial year, the Board of Directors of the Company held five meetings. The attendance of Directors to the Board meetings is listed below.

Martin Galea (Chairman)	5
Nikos Antimissaris	4
Charles Borg	4
Antoinette Caruana	4 (appointed on the 24 April 2015)
John Cassar White	3
David G. Curmi	4 (appointed on the 24 April 2015)
Gaston Debono Grech	1 (not re-appointed on the 24 April 2015)
Javier Fernández-Cid Plañiol	4
Pedro López Solanes	5
Paul Testaferrata Moroni Viani	4
Joseph F.X. Zahra	5

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

During 2015 the Directors continued to hold Directors' Briefings to enable the Directors to be updated on current corporate governance requirements together with other statutory requirements emanating from law together with the Solvency II regime. In fact four Directors' Briefings were held during the year which were mostly attended by Board Directors and dealt with portfolio takeover, new agencies, Solvency II, policy approvals, legal matters, FLAOR Report and ORSA Report amongst others. In addition, the Company Secretary directs members of the Board to seminars or conferences that are organized by different entities in Malta, which serve as professional development for Directors in the discharge of their functions on the Board and Committees.

Notice of the dates of forthcoming meetings together with all board papers were circulated well in advance to the Directors so that they had ample opportunity to consider the information and prepare for the next scheduled board meeting.

Principle 6 – Information and Professional Development

The two new Directors appointed during 2015 were provided with an information pack that is tailored to obtain a good knowledge of the Company together with its structure and operations for new Directors. In addition the new Directors were invited to attend a purposely held meeting which specifically dealt with the Company's organisation and activities, and the responsibilities of individuals who are appointed as Directors.

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

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

The CEO enjoys the full confidence of the Board. The CEO, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and with the Board on the appointment of, and on the succession plan for senior management. Training (both internal and external) of management and employees is a priority and is implemented through the Human Resources Department.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 7 – Evaluation of the Board's Performance

During the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not *per se* appoint a committee to carry out this performance evaluation, but the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Company Secretary in liaison with the Chairman. The Chairman prepared a report following the replies submitted by the Directors and the said report was submitted to the Board. During 2016 the Chairman will be meeting the Board members individually to obtain more in depth feedback and the Board will then be taking up the recommendations made by the Chairman and evaluate any required action that might be required to be implemented.

Principle 8 – Committees

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

The Company has opted not to set up a Nomination Committee. Further explanation is provided under the section entitled Non-Compliance with the Code of this Statement.

Principle 9 – Relations with Shareholders and with the Market

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

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

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

The Company holds a meeting for stockbrokers and financial intermediaries before the publication of its annual financial statements.

The Chairman ensures that sufficient contact is maintained with major shareholders to understand issues and concerns. In addition the Chairman, CEO and Company Secretary have met with the Malta Association of Small Shareholders during 2015 to discuss various aspects related to the benefit of the smaller shareholders.

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

Principle 10 – Institutional Shareholders

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 11 – Conflicts of Interest

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

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

Directors' interests in the share capital of the Company as at 31 December 2015 were as follows:

	Beneficial Interest	**Non-Beneficial Interest**
Joseph F.X. Zahra	shares 1,214	-

Paul Testaferrata Moroni Viani has indirect shareholding in the Company's shares through his shareholding in other companies.

Principle 12 – Corporate Social Responsibility

The Company seeks to be an active player within the Community in which it operates and has a long history of addressing society's needs through business success, particularly in the fields of education and philanthropy. The Company was the pioneer in establishing professional Insurance studies in Malta, ensuring a platform and a continuous supply of trained professionals for the entire insurance market.

During 2015 Mapfre Middlesea, with the support of Fundación MAPFRE has renewed its commitment towards a healthy living campaign by holding workshops in over 40 Maltese schools. Workshops were also held for parents with the aim of helping them bring up their children in a healthy environment. For the second year round, Fundación MAPFRE also sponsored a campaign to promote street/traffic safety awareness among children of secondary schools and supported an initiative of Equal Partners Foundation on Transdisciplinary Early Intervention - a Head start. Further cooperation is being planned in Malta, for next year, by Fundación MAPFRE.

Paqpaqli Għall-Istrina was sponsored by Mapfre Middlesea, for the sixth consecutive year, with all proceeds going to The Malta Community Chest Fund and l-Istrina, which helps Maltese patients needing treatment.

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Internal Control and Risk Management System

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

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

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

Risk Identification - The management of each of the Group members is responsible for the identification and evaluation of key risks applicable to their areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed. The Solvency II regime has also involved the company in the submission of both FLAOR and ORSA Reports to the Competent Authority, which identifies risk scenarios and their effect on the company through risk scenarios.

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

General Meetings

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

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and Financial Statements, the declaration of a dividend, the election of Directors, the appointment of the auditors, the authorisation of the Directors to set their remuneration, and other special business, are proposed and approved at the Company's AGM. The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders. The AGM is conducted in accordance with the Memorandum and Articles of the Company and has the powers therein defined. The Shareholders' rights can be exercised in accordance with the articles of association of the Company.

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

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Company to include items on the agenda of a general meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Company at least forty six (46) days before the date set for the relative general meeting.

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

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE

Principle 3 – Composition of the Board: Code Provision 3.2

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

Principle 4 – The Responsibilities of the Board: Code Provision 4.2.7

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

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

Principle 7 – Evaluation of the Board's Performance: Code Provision 7.1

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

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

Principle 8A – Remuneration Committee: Code Provision 8.A.1

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

The Remuneration Committee is made up of Javier Fernández-Cid (Chairman), John Cassar White and Martin Galea. It has remained the same for these last three years and decisions are always reached through the consensus of all three members. Two of the Committee members, namely John Cassar White and Javier Fernández-Cid are non-executive Directors appointed by the main institutional shareholders of the Company and working with the said institutional shareholders and consequently are not considered independent non-executive Directors under Principle 3. The Board has taken the view that the position held by the Committee members does not undermine the said Directors' ability to consider appropriately the issues which are brought before the Remuneration Committee. Apart from possessing valuable experience and wide knowledge of the Company and its operations, the Board feels that the Committee members are able to exercise independent judgment.

Principle 8B – Nomination Committee

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

Within this context, the Board believes that the setting up of a Nomination Committee is currently not required by the Company. The Company also considers that some of the functions of the Nomination Committee (particularly those relating to succession planning and the appointment of senior management) are already dealt with by the Remuneration Committee. Notwithstanding this, the Board will retain under review the issue relating to the setting up of a Nomination Committee.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

3. NON-COMPLIANCE WITH THE CODE – CONTINUED

Principle 9 – Relations with Shareholders and with the Market: Code Provision 9.3

Code Provision 9.3 requires the Company to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. This Code Provision has become applicable to the Company following the purchase by MAPFRE Internacional of Munich Re's shareholding during the last six months of 2011 whereby MAPFRE Internacional became a controlling shareholder. This position of the Company will be kept under continous review and will be evaluated in the interest of all shareholders.

Charles Borg
Director

Antoinette Caruana
Director

2 March 2016

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

1. TERMS OF REFERENCE AND MEMBERSHIP

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

The Committee concentrates on recommending the remuneration policy for the non-executive Directors and senior management, outlining the appropriate packages of their remuneration and monitoring the level and structure of the remuneration on the basis of adequate information provided by Management.

The Committee members from 1 January 2015 to date are Javier Fernández-Cid (Chairman), John Cassar White and Martin Galea. All the Committee members are non-executive Directors and Martin Galea is the independent non-executive director as required under Section 8.A.1. The President & CEO, Felipe Navarro Lopez de Chicheri, and other members of senior management are invited to attend Committee meetings as and when required. The Company Secretary, Carlo Farrugia, acts as the Secretary to the Committee.

During the year under review it was also resolved by the MMS Board of Directors and MSV Life p.l.c. ("MSV") Board of Directors that the Committee would also include in its remit the matters related to MSV and consequently the MSV CEO, namely David G. Curmi, and other members of Senior Management are invited to attend committee meetings as and when required.

2. MEETINGS

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

Member	Attended
Javier Fernández-Cid Plañiol (Chairman)	4
Martin Galea	4
John Cassar White	2

The Committee determined and/or discussed the following matters:
- Remuneration Statement for the Annual Report
- Strategic initiatives
- Negotiations with the Union re the Collective Agreement
- Remuneration for Senior Executives
- Performance appraisal system for employees
- Integration of employees
- Training and development programme for employees
- Recommendation for the maximum emoluments to Board Directors

3. REMUNERATION STATEMENT

3.1. REMUNERATION POLICY – SENIOR MANAGEMENT

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

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

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

There have been no significant changes in the Company's remuneration policy for Senior Management during the financial year under review. A performance appraisal system which was implemented during 2013, in relation to competences was further developed during 2014 to lead to the performance bonus scheme which was implemented in 2014 and continued in 2015. The said performance bonus scheme is based on achieving the company's departmental and personal objectives.

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

3.1. REMUNERATION POLICY – SENIOR MANAGEMENT - CONTINUED

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

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

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

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

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

Total emoluments received by Senior Management during FY 2015 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed in this Report.

3.2. REMUNERATION POLICY – DIRECTORS

As at the 31 December 2015, the Board of Directors of Mapfre Middlesea p.l.c. was composed of ten non-executive Directors. Three Directors, namely Javier Fernández-Cid, Pedro López Solanes and Nikos Antimissaris, did not receive a fee in accordance with the established policy of the parent shareholder company, MAPFRE Internacional, with which they are employed and which appointed them. In addition Charles Borg did not receive a fee for 2015 since he was a Bank of Valletta employee and was appointed on the Board of Directors as the CEO of Bank of Valletta. David G Curmi also did not receive a fee since he is the CEO of MSV Life p.l.c. (a subsidiary of MMS). The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was fixed at an aggregate sum of €250,000 per annum at the Thirty Fourth Annual General Meeting held on the 24 April 2015. The Company does not intend to make any changes to this maximum amount at the next Annual General Meeting to be held in 2016.

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

	In Euro
Directors' Fees	
Chairman	43,000 per annum
Other Directors	18,000 per annum

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT – CONTINUED

3.2 REMUNERATION POLICY – DIRECTORS - CONTINUED

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

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

3.3 CODE PROVISION 8.A.5

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

Emoluments of Directors

Fixed Remuneration	Variable Remuneration	Share Options	Others
€115,000	None	None	None

Fees payable to Directors in respect of 2015 amounted in total to €115,000 (2014: €133,451).

Martin Galea
Committee Member
Remuneration Committee

2 March 2016

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE MEMBERS OF MAPFRE MIDDLESEA P.L.C.

Report on the Financial Statements
We have audited the financial statements of Mapfre Middlesea p.l.c. (the "Company") and of the Group of which the Company is the parent, as set out on pages 32 to 116, which comprise the statements of financial position as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
As explained more fully in the Directors' Responsibilities Statement set out on page 15, the Directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. They are also responsible 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act and Article 21 of the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2015 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

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

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

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

Opinion on Financial Statements
In our opinion, the financial statements:

- give a true and fair view of the Group's and the Company's financial position as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

INDEPENDENT AUDITOR'S REPORT

KPMG

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act")

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- proper accounting records have not been kept by the Company;
- the Company's 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; or
- certain disclosures of Directors' remuneration specified by the Act are not made.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Company endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Company, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 6 to 20.

We read the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures.

In our opinion, the Directors' Statement of Compliance set out on pages 6 to 20 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors

2 March 2016

STATEMENTS OF PROFIT OR LOSS TECHNICAL ACCOUNT - GENERAL BUSINESS

	Notes	Year ended 31 December Group and Company **2015** **€'000**	 2014 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	**47,292**	33,807
Outward reinsurance premiums		**(8,844)**	(8,437)
Net premiums written		**38,448**	25,370
Change in the gross provision for unearned premiums		**(6,788)**	(2,229)
Change in the provision for unearned premiums, reinsurers' share		**471**	(900)
		(6,317)	(3,129)
Earned premiums, net of reinsurance		**32,131**	22,241
Allocated investment return transferred from the non-technical account	8	**1,873**	872
Total technical income		**34,004**	23,113
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**23,877**	19,690
- reinsurers' share		**(3,719)**	(5,431)
		20,158	14,259
Change in the provision for claims			
- gross amount		**(2,831)**	(4,666)
- reinsurers' share		**2,472**	2,129
		(359)	(2,537)
Claims incurred, net of reinsurance		**19,799**	11,722
Net operating expenses	7	**10,838**	7,223
Total technical charges		**30,637**	18,945
Balance on the technical accounts for general business (page 34)		**3,367**	4,168

STATEMENTS OF PROFIT OR LOSS
TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December			
		Group		Company	
	Notes	**2015 €'000**	2014 €'000	**2015 €'000**	2014 €'000
Earned premiums, net of reinsurance					
Gross premiums written	6	**222,233**	153,885	**1,484**	1,464
Outward reinsurance premiums		**(3,177)**	(3,746)	**(557)**	(524)
Earned premiums, net of reinsurance		**219,056**	150,139	**927**	940
Investment income					
Income from investments	8	**89,952**	115,801	**203**	206
Other technical income, net of reinsurance	9	**594**	575	**-**	-
Total technical income		**309,602**	266,515	**1,130**	1,146
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**107,686**	78,948	**1,232**	533
- reinsurers' share		**(1,502)**	(1,062)	**(765)**	(162)
		106,184	77,886	**467**	371
Change in the provision for claims					
- gross amount		**2,997**	3,084	**(194)**	328
- reinsurers' share		**362**	(302)	**101**	(209)
		3,359	2,782	**(93)**	119
Claims incurred, net of reinsurance		**109,543**	80,668	**374**	490
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		**20,621**	46,718	**67**	28
- reinsurers' share		**(2,244)**	20	**(31)**	20
		18,377	46,738	**36**	48
Investments contracts with DPF – gross		**153,967**	118,019	**-**	-
		172,344	164,757	**36**	48
Net operating expenses	7	**13,155**	10,342	**254**	292
Total technical charges		**295,042**	255,767	**664**	830
Balance on the technical accounts for long term business (page 34)		**14,560**	10,748	**466**	316

STATEMENTS OF PROFIT OR LOSS NON-TECHNICAL ACCOUNT

		Year ended 31 December			
		Group		Company	
	Notes	2015 €'000	2014 €'000	2015 €'000	2014 €'000
Balances on technical accounts					
General business (page 32)		**3,367**	4,168	**3,367**	4,168
Long term business (page 34)		**14,560**	10,748	**466**	316
Total income from insurance activities		**17,927**	14,916	**3,833**	4,484
Other investment income	8	**3,331**	5,087	**4,925**	4,638
Investment expenses and charges	8	**(139)**	(122)	**(134)**	(100)
Allocated investment return transferred to the general business technical account	8	**(1,873)**	(872)	**(1,873)**	(872)
Other income	9	**1,342**	1,086	**-**	-
Administrative expenses	7	**(2,749)**	(2,782)	**(1,682)**	(1,770)
Profit for the financial year before tax		**17,839**	17,313	**5,069**	6,380
Tax expense	12	**(5,973)**	(4,943)	**(434)**	(2,102)
Profit for the financial year		**11,866**	12,370	**4,635**	4,278
Attributable to:					
- shareholders		**6,821**	7,165	**4,635**	4,278
- non-controlling interests		**5,045**	5,205	**-**	-
		11,866	12,370	**4,635**	4,278
Earnings per share attributable to Shareholders	14	**7.4c**	7.8c		

The Notes on pages 42 to 116 are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			
		Group		Company	
	Notes	**2015 €'000**	2014 €'000	**2015 €'000**	2014 €'000
Profit for the financial year		**11,866**	12,370	**4,635**	4,278
Other comprehensive income:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Change in fair value of available-for-sale investments	28	**(11)**	316	**(11)**	320
Other comprehensive income not to be reclassified to profit or loss in subsequent periods					
Re-measurement actuarial gain/(loss) on provision for other liabilities and charges		**48**	(246)	**48**	(246)
(Decrease)/increase in value of in-force business	16	**(2,340)**	6,558	**-**	-
Total other comprehensive income, net of tax		**(2,303)**	6,628	**37**	74
Total comprehensive income for the year		**9,563**	18,998	**4,672**	4,352
Attributable to:					
- shareholders		**5,688**	10,514		
- non-controlling interests		**3,875**	8,484		
Total comprehensive income for the year		**9,563**	18,998		

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component is disclosed in Notes 22 and 28.

The Notes on pages 42 to 116 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

		At 31 December			
		Group		Company	
	Notes	**2015 €'000**	2014 €'000	**2015 €'000**	2014 €'000
ASSETS					
Intangible assets	16	**59,908**	59,437	**2,532**	1,084
Property, plant and equipment	17	**10,203**	9,333	**2,035**	1,634
Investment property	18	**93,619**	86,275	**12,252**	9,700
Investment in subsidiary undertakings	19	**-**	-	**57,214**	57,214
Investment in associated undertakings	20	**27,273**	17,648	**294**	294
Other investments	21	**1,540,320**	1,355,425	**23,330**	20,761
Deferred income tax	22	**2,253**	2,261	**1,192**	1,116
Reinsurers' share of technical provisions	23	**16,016**	15,564	**13,669**	15,169
Deferred acquisition costs	24	**5,113**	3,220	**5,113**	3,220
Insurance and other receivables	25	**26,548**	24,277	**13,616**	9,605
Income tax receivable		**3,690**	7,749	**337**	82
Cash and cash equivalents	26	**36,675**	44,679	**2,596**	2,496
Total assets		**1,821,618**	1,625,868	**134,180**	122,375
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	27	**19,320**	19,320	**19,320**	19,320
Share premium account		**688**	688	**688**	688
Other reserves	28	**27,094**	28,275	**35,044**	35,055
Retained earnings		**35,195**	31,846	**7,809**	6,646
		82,297	80,129	**62,861**	61,709
Non-controlling interests		**75,101**	73,566	**-**	-
Total equity		**157,398**	153,695	**62,861**	61,709
LIABILITIES					
Deferred income tax	22	**23,856**	18,427	**1,119**	1,056
Provision for other liabilities and charges	29	**1,231**	1,860	**1,231**	1,860
Technical provisions:					
- Insurance contracts and investment contracts with DPF	23	**1,559,250**	1,373,918	**58,580**	50,961
- Investment contracts without DPF	23	**62,785**	62,873	**-**	-
Derivative financial instruments	21	**-**	515	**-**	-
Insurance and other payables	31	**17,091**	14,580	**10,389**	6,789
Income tax payable		**7**	-	**-**	-
Total liabilities		**1,664,220**	1,472,173	**71,319**	60,666
Total equity and liabilities		**1,821,618**	1,625,868	**134,180**	122,375

The Notes on pages 42 to 116 are an integral part of these financial statements.

The financial statements on pages 32 to 116 were authorised for issue by the Board on 2 March 2016 and were signed on its behalf by:

Martin Galea
Chairman

Charles Borg
Director

Felipe Navarro Lopez de Chicheri
President & Chief Executive Officer

STATEMENTS OF CHANGES IN EQUITY

Group

		Attributable to shareholders						
	Notes	**Share capital** €'000	**Share premium account** €'000	**Other reserves** €'000	**Retained earnings** €'000	**Total** €'000	**Non-controlling interests** €'000	**Total** €'000
Balance at 1 January 2014		19,320	688	24,680	28,414	73,102	67,563	140,665
Comprehensive income								
Profit for the financial year		-	-	-	7,165	7,165	5,205	12,370
Other comprehensive income:								
Change in available for-sale investments' fair value	28	-	-	316	-	316	-	316
Re-measurement actuarial loss on provision for other liabilities and charges	29	-	-	-	(246)	(246)	-	(246)
Increase in value of in-force business	16	-	-	3,279	-	3,279	3,279	6,558
Total other comprehensive income, net of tax		-	-	3,595	(246)	3,349	3,279	6,628
Total comprehensive income		-	-	3,595	6,919	10,514	8,484	18,998
Transactions with owners								
Dividends for 2013	15	-	-	-	(3,520)	(3,520)	(2,481)	(6,001)
Write-back of prior year dividends		-	-	-	33	33	-	33
Total transactions with owners		-	-	-	(3,487)	(3,487)	(2,481)	(5,968)
Balance at 31 December 2014		**19,320**	**688**	**28,275**	**31,846**	**80,129**	**73,566**	**153,695**

STATEMENTS OF CHANGES IN EQUITY

Group - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total €'000
		Attributable to shareholders						
Balance at 1 January 2015		19,320	688	28,275	31,846	80,129	73,566	153,695
Comprehensive income								
Profit for the financial year		-	-	-	6,821	6,821	5,045	11,866
Other comprehensive income:								
Change in available-for-sale investment's fair value	28	-	-	(11)	-	(11)	-	(11)
Re-measurement actuarial gain on provision for other liabilities and charges	29	-	-	-	48	48	-	48
Decrease in value of in-force business	16	-	-	(1,170)	-	(1,170)	(1,170)	(2,340)
Total other comprehensive income, net of tax		-	-	(1,181)	48	(1,133)	(1,170)	(2,303)
Total comprehensive income		-	-	(1,181)	6,869	5,688	3,875	9,563
Transactions with owners								
Dividends for 2014	15	-	-	-	(3,520)	(3,520)	(2,340)	(5,860)
Total transactions with owners		-	-	-	(3,520)	(3,520)	(2,340)	(5,860)
Balance at 31 December 2015		**19,320**	**688**	**27,094**	**35,195**	**82,297**	**75,101**	**157,398**

The Notes on pages 32 to 116 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

Company

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2014		19,320	688	34,735	6,101	60,844
Comprehensive income						
Profit for the financial year		-	-	-	4,278	4,278
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	320	-	320
Re-measurement actuarial loss on provision for other liabilities and charges	29	-	-	-	(246)	(246)
Total other comprehensive income, net of tax		-	-	320	(246)	74
Total comprehensive income		-	-	320	4,032	4,352
Transactions with owners						
Dividend for 2013	15	-	-	-	(3,520)	(3,520)
Write-back of prior years' dividends		-	-	-	33	33
Total transactions with owners of the company		-	-	-	(3,487)	(3,487)
Balance at 31 December 2014		**19,320**	**688**	**35,055**	**6,646**	**61,709**

STATEMENTS OF CHANGES IN EQUITY

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2015		19,320	688	35,055	6,646	61,709
Comprehensive income						
Profit for the financial year		-	-	-	4,635	4,635
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	(11)	-	(11)
Re-measurement actuarial gain on provision for other liabilities and charges	29	-	-	-	48	48
Total other comprehensive income, net of tax		-	-	(11)	48	37
Total comprehensive income		-	-	(11)	4,683	4,672
Transactions with owners						
Dividend for 2014	15	-	-	-	(3,520)	(3,520)
Total transactions with owners of the Company		-	-	-	(3,520)	(3,520)
Balance at 31 December 2015		**19,320**	**688**	**35,044**	**7,809**	**62,861**

The Notes on pages 42 to 116 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Notes	Group 2015 €'000	Group 2014 €'000	Company 2015 €'000	Company 2014 €'000
		Year ended 31 December			
Cash flows from operating activities					
Cash generated from operations	32	**100,458**	58,787	**6,933**	1,331
Dividends received		**9,325**	10,277	**2,994**	3,680
Interest received		**30,248**	27,906	**610**	474
Income tax refunded/(paid)		**4,140**	(1,846)	**(641)**	(1,508)
Net cash generated from operating activities		**144,171**	95,124	**9,896**	3,977
Cash flows from investing activities					
Purchase of investment property	18	**(5,291)**	(865)	**(1,550)**	(460)
Disposal of investment property	18	**3**	3	**3**	3
Increase in investment in associated undertaking	20	**1**	-	**-**	-
Purchase of financial investments		**(993,812)**	(518,125)	**(9,622)**	(24,979)
Disposal of financial investments		**856,961**	466,156	**6,986**	25,030
Purchase of property, plant and equipment and intangible assets	16,17	**(4,184)**	(2,493)	**(2,098)**	(294)
Disposal of property, plant and equipment and intangible assets	16,17	**7**	1	**5**	1
Net cash used in investing activities		**(146,315)**	(55,323)	**(6,276)**	(699)
Cash flows from financing activities					
Dividends paid to shareholders		**(3,520)**	(3,487)	**(3,520)**	(3,487)
Dividends paid to non-controlling interests		**(2,340)**	(2,481)	**-**	-
Net cash used in financing activities		**(5,860)**	(5,968)	**(3,520)**	(3,487)
Net movement in cash and cash equivalents		**(8,004)**	(33,833)	**100**	(209)
Cash and cash equivalents at beginning of year		**44,679**	10,846	**2,496**	2,705
Cash and cash equivalents at end of year	26	**36,675**	44,679	**2,596**	2,496

The Notes on pages 42 to 116 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements of Mapfre Middlesea p.l.c. (formerly Middlesea Insurance p.l.c.) and the Group financial statements to which the Company is parent (together referred to the "financial statements") are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

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

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

The preparation of financial statements in conformity with the above reporting framework requires the use of certain 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 financial statements, are disclosed in Note 3.

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

Standards, interpretations and amendments to published standards effective in 2015

In 2015, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2015. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2016. 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 below pronouncements, there are no requirements that will have a significant impact on the Group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9, 'Financial Instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is tentatively effective for financial periods beginning on, or after, 1 January 2018. The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

IFRS 15, 'Revenue from contracts with customers' was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

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

2.1 CONSOLIDATION

(a) Subsidiary undertakings

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(a) Subsidiary undertakings - continued

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

(b) Associated undertakings

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

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

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

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

2.2 SEGMENT REPORTING

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

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.3 FOREIGN CURRENCY TRANSLATION - CONTINUED

Transactions and balances

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

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

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

2.4 INTANGIBLE ASSETS

Value of in-force business

The value of in-force business is determined by the Directors after considering the advice of the Group's Approved Actuary and has been recognised before the adoption of IFRS 4. 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.

Computer software

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

Deferred policy acquisition costs – long term contracts

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

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

2.5 PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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. All other repairs and maintenance costs are charged to the profit or loss account during the financial period in which they are incurred.

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

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

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

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

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

2.6 INVESTMENT PROPERTY

Property held for long-term rental yields that is not occupied by the companies in the Group is classified as investment property.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.7 INVESTMENTS IN GROUP UNDERTAKINGS

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

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

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

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

2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

In the Company's financial statements, investments in associated undertakings are accounted at fair value. Changes in the fair value of associated undertakings are recognised in other comprehensive income. Fair value is determined by using valuation techniques that are commonly accepted.

When investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss account. Dividends are recognised in the profit or loss account when the Company's right to receive payments is established. Both are included within investment income.

2.9 FINANCIAL ASSETS

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, other available-for-sale investments and loans and receivables. The classification is dependent on the purpose for which the investments were acquired. The Directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation at every reporting date.

Classification

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance and investment contracts liabilities are also designated at inception as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them on different bases. Derivatives are also classified at fair value through profit or loss.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated as fair value through profit or loss. They include, *inter alia*, insurance and other receivables, cash and cash equivalents in the statements of financial position as well as other financial investments (comprising deposits with credit institutions, and loans) classified as loans and receivables within Note 21.

- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include *inter alia* unlisted equities.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement

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

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

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

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

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes. 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 and other valuation techniques, as appropriate. Subsequent changes in the fair value of any derivative instruments are recognised immediately in the profit or loss account. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

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

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

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

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

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

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

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

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

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

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

(c) Impairment of other non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

2.12 CASH AND CASH EQUIVALENTS

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

2.13 SHARE CAPITAL

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

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

2.14 INSURANCE AND INVESTMENT CONTRACTS

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

(a) Classification

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

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

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

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

Local statutory regulations and the terms and conditions of these contracts set out the 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 five main categories depending on the duration of risk and whether or not the terms and conditions are fixed.

(i) Short-term insurance contracts - General business

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

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

- Premiums written comprise all amounts due during the financial year in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.

- Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statements of financial position date, calculated on a time apportionment basis.

- Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ('DAC') in the statements of financial position. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

- Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

- Provision is made at the year-end for the estimated cost of claims incurred but not settled at the statements of financial position date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the reporting date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

(ii) Group Life insurance contracts

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(iii) Long term insurance contracts – individual life

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

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

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.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. 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.

(iv) Long term insurance contracts with DPF

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

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

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

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

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

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

(v) Investment contracts with DPF

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

c) Reinsurance contracts held

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

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

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

(d) Receivables and payables related to insurance contracts

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

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

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

(e) Liability adequacy test

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

(f) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.15 FINANCIAL LIABILITIES

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

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

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

2.16 CURRENT AND DEFERRED INCOME TAX

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

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

2.17 PROVISIONS FOR PENSION OBLIGATIONS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.18 REVENUE RECOGNITION

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

(a) Rendering of services

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

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

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

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

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

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

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

(b) Dividend income

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

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

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

(d) Interest income

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

(e) Rental income

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

2.19 INVESTMENT RETURN

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.19 INVESTMENT RETURN - CONTINUED

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

2.20 LEASES

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

2.21 DIVIDEND DISTRIBUTION

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, other than the following:

Value of in-force business

The Group's value of in-force business is a projection of future shareholders' cash flows expected from contracts in force at the year end, appropriately adjusted for taxation and discounted by a risk adjusted discount rate. In assessing the projected cash flows, the Directors assume a long term view of a maintainable level of investment return. This valuation requires the use of a number of assumptions relating to future mortality, persistence, levels of expenses, investment returns and asset allocations over the longer term. This valuation is inherently uncertain and assumptions are reviewed on an annual basis as experience and the reliability of the estimation process develop.

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2015 is disclosed in Note 16 to the accounts.

Insurance and investment contracts liabilities

(a) General business insurance contract liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES - CONTINUED

(b) Insurance and participating investment contract liabilities

The technical provisions in respect of long term contracts and linked long term contracts are subject to an annual statutory valuation overseen by the Approved Actuary based on data and information provided by the Group. The technical provisions are calculated in accordance with the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2007 ('the Regulations').

Different principles and valuation methodologies are adopted depending on the type and generation of products. The key assumptions used in determining the technical provisions in respect of insurance contracts and investment contracts with DPF are described in Note 23 to the financial statements.

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

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

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

4. MANAGEMENT OF RISK

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

4.1 INSURANCE RISK

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

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

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

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

(a) Short term business insurance contracts – general insurance

Frequency and severity of claims

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

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

Frequency and severity of claims - continued

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

- The increasing levels of court awards in cases where damages are suffered as a result of injuries, the divergence of awards that is dependent on the territory of the claim and the jurisdiction of the court, the effect of inflation due to the prolonged period typically required to settle such cases; and

- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

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

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

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than A. No rating limitation shall apply to treaty placements with MAPFRE Re or any MAPFRE Group company designated to write any or all of the MAPFRE Group Reinsurance treaties. At 31 December 2015, MAPFRE's rating stood at A. The Board will monitor the security rating of MAPFRE on a periodic basis.

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

Concentration of insurance risk

Up until 31 December 2015, 100% of the Group's business was written in Malta (2014: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 27% (2014: 21%) and accident and health comprising 22% (2014: 23%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 20% (2014: 23%) and fire and other damage to property at 17% (2014: 17%). The remaining 14% (2014: 16%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred by insurance business class is provided in Note 6 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

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

Sources of uncertainty in the estimation of future claim payments

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

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

In calculating the estimated cost of unpaid claims, the Group considers the results of estimation techniques that are based partly on known information at year-end and partly on statistical analysis of historical experience. The Company has constructed 'chain ladders' that triangulate the settlement of claims by accident year or underwriting year, depending on the class of business. The 'chain ladders' include the known claims incurred (i.e. the claims paid and claims outstanding in any given year) by underwriting/accident year, and they demonstrate how each year has progressed in the subsequent years of development. The 'chain ladders' is then projected forward giving greater weighting to recent years. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

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

(b) Long term business insurance contracts

Frequency and severity of claims

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(b) Long term business insurance contracts - continued

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

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

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

4.2 FINANCIAL RISK

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

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

(a) Market risk

i) Cash flow and fair value interest rate risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

With the exception of the unit linked capital guaranteed products, the Group does not guarantee a positive fixed rate of return to its long-term contract policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus policy that is approved by 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. The bonus policy 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.

In the case of the unit linked capital guaranteed products, the Group has guaranteed a fixed return for certain periods of each contract. Subsequent to the expiry of the guarantee, the policyholders will receive a return analogous to that being generated by the underlying units. In addition, the Group has also guaranteed any shortfall in the carrying value of the underlying assets on maturity as compared to the initial capital investment. In order to mitigate this risk, the Group has contracted a back to back guarantee with international financial service providers, which ensures that any shortfall on the guaranteed capital investment return, will be compensated by these providers. On entering this agreement the Group considered the reputation and credit worthiness of these partners taking into account, amongst other factors, the credit rating as graded by international rating agencies. The Group monitors this rating regularly.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market* risk - continued

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

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

Group	Notes	**2015** Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	32,841	118,079	223,022	384,449	758,391
Collective investment schemes	21	18,956	-	-	-	18,956
Loans and receivables:						
- Deposits with banks and credit institutions	21	70,038	92,945	10,800	-	173,783
- Loans secured on policies	21	9,496	-	-	-	9,496
- Cash and cash equivalents	26	36,675	-	-	-	36,675
Total interest bearing assets		168,006	211,024	233,822	384,449	997,301
Liabilities						
Long-term insurance contracts	23	-	-	-	1,445,131	1,445,131
Total interest bearing liabilities		-	-	-	1,445,131	1,445,131

Group	Notes	**2014** Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	9,837	50,742	158,501	481,638	700,718
Collective investment schemes	21	8,289	-	-	-	8,289
Loans and receivables:						
- Deposits with banks and credit institutions	21	164,741	10,747	10,800	-	186,288
- Loans secured on policies	21	9,390	-	-	-	9,390
- Cash and cash equivalents	26	44,679	-	-	-	44,679
Total interest bearing assets		236,936	61,489	169,301	481,638	949,364
Liabilities						
Long-term insurance contracts	23	-	-	-	1,275,918	1,275,918
Total interest bearing liabilities		-	-	-	1,275,918	1,275,918

NOTES TO THE FINANCIAL STATEMENTS

4. **MANAGEMENT OF RISK** - CONTINUED

4.2 **FINANCIAL RISK** - CONTINUED

(a) *Market risk* - continued

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

Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
		2015				
Assets						
Debt securities	21	918	899	14,013	2,811	18,641
Loans and receivables:						
- Deposits with banks and credit institutions	21	137	-	-	-	137
- Cash and cash equivalents	26	2,596	-	-	-	2,596
Total interest bearing assets		3,651	899	14,013	2,811	21,374

Company	Notes	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
		2014				
Assets						
Debt securities	21	1,392	928	10,547	2,682	15,549
Loans and receivables:						
- Deposits with banks and credit institutions	21	1,822	-	-	-	1,822
- Cash and cash equivalents	26	2,496	-	-	-	2,496
Total interest bearing assets		5,710	928	10,547	2,682	19,867

The Company had no interest bearing liabilities as at 31 December 2015 and 2014.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Assets held at variable rates				
Collective investment schemes	**18,956**	8,289	**-**	-
Deposits with banks or credit institutions	**-**	2,835	**-**	-
Debt securities	**42,414**	28,828	**1,648**	-
Cash and cash equivalents	**36,675**	44,879	**2,596**	2,496
	98,045	84,631	**4,244**	2,496
Liabilities issued at variable rates				
Net Long term insurance contracts	**1,445,131**	1,275,918	**-**	-
	1,445,131	1,275,918	**-**	-

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €42.93m (2014: €39.83m) has been excluded as the Directors consider the exposure to be insignificant.

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
Loans secured on polices	**9,496**	9,390	**-**	-
Deposits with banks or credit institutions	**173,783**	183,453	**137**	1,822
Debt securities	**715,977**	671,890	**16,993**	15,549
	899,256	864,733	**17,130**	17,371

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

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

In managing its portfolio, during the year ended 31 December 2015, the Group entered into fixed income security futures contracts. Accordingly, it is exposed to movements in interest rates in the respective markets of the underlying, which comprise short, medium and long-term sovereign debt. The notional amount of futures contracts outstanding at 31 December 2015 is shown below:

	Group	
	2015	2014
	€'000	€'000
Long positions		
- Federal Republic of Germany	**23,694**	37,512
Short positions		
- Federal Republic of Germany	**24,708**	7,950
- United Kingdom Government	**3,169**	4,313
- United States Government	**11,428**	12,993
- Italian Government	**-**	3,390
	39,305	28,646

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

Sensitivity Analysis – interest rate risk

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

At 31 December 2015, if interest rates at that date would have been 90 basis points (2014: 90 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have improved by €0.93 million (2014: €2.64 million) and €0.44 million (2014: €0.36 million) respectively. An increase of 90 basis points (2014: 90 basis points), with all other variables held constant, would have resulted in a decrease in the Group's and Company's pre-tax results for the year of €0.05 million (2014: €1.72 million) and €0.63 million (2014: €0.34 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

ii) *Equity price risks*

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities because of investments held and classified on the statements of financial position at fair value through profit or loss or as available-for-sale.

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

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

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

	Group		Company	
	2015 €'000	2014 €'000	**2015 €'000**	2014 €'000
Assets subject to equity price risk	**500,950**	366,957	**4,847**	3,684
The above includes:				
Component of investments in associated undertakings (Note 20)*	**27,124**	17,529	**294**	294
Component of equity securities and units in unit trusts (Note 21)	**473,826**	349,428	**4,553**	3,390
	500,950	366,957	**4,847**	3,684

*Investments in associates (Note 20) amounting to €0.15m (2014: €0.12m) have been excluded from equity price risk since they are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

ii) *Equity price risks* - continued

In managing its portfolio during the year ended 31 December 2015, the Group also entered into equity index futures contracts and accordingly it is exposed to movements in the price of the underlying equity index. The notional amount of futures contracts outstanding at 31 December 2015 is shown below:

	Group	
	2015	2014
	€'000	€'000
Long positions		
- European equity indices	**1,969**	6,078

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

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

The sensitivity for equity price risk (excluding investments in associated undertakings) is derived based on global equity returns, assuming that currency exposures are hedged. The sensitivities chosen aim to reflect a 1 in 10 year event. Given the investment strategy of the Group and Company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes.

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €4.64 million (2014: €3.30 million) and a negative impact of €4.65 million (2014: €3.32 million) on the Group's pre-tax profit and a positive or negative impact of €0.46 million on the Company's pre-tax results (2014: €0.34 million).

iii) *Currency risk*

The Group and Company have assets and liabilities denominated in major international currencies other than Euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major international currencies. At 31 December 2015 foreign currency exposure amounted to €33.32 million (2014: €53.17 million).

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

iii) *Currency risk* - continued

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

Group

31 December 2015

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	32,383	18,523	13,860
CHF	31,250	-	31,250
GBP	7,302	3,770	3,532
SEK	8,098	-	8,098
DKK	13,181	7,522	5,659
Others	3,398	1,329	2,069
	95,612	31,144	64,468

31 December 2014

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	23,118	12,481	10,637
CHF	25,487	-	25,487
GBP	12,638	8,590	4,048
SEK	5,936	-	5,936
DKK	5,257	-	5,257
Others	2,289	482	1,807
	74,725	21,553	53,172

Within the table above, €56.8m of the unhedged exposure relates to equity investments (2014: €49.0m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The Directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

iii) *Currency risk* - continued

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

Company

31 December 2015

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(361)	-	(361)
GBP	(72)	-	(72)
Others	(15)	-	(15)
	(448)	-	(448)

31 December 2014

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(448)	-	(448)
GBP	436	-	436
Others	(35)	-	(35)
	(47)	-	(47)

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

(b) *Credit risk*

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) *Credit risk* - continued

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

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

The Group's cash is placed with a number of quality financial institutions, thereby reducing the concentration of counterparty credit risk to an acceptable level.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) *Credit risk* - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Debt securities	**758,391**	700,718	**18,641**	15,549
Other financial assets (including deposits with banks and credit institutions)	**173,783**	186,288	**137**	1,822
Forward foreign exchange contracts	**596**	88	**-**	-
Reinsurers share of technical provisions	**11,426**	11,476	**9,079**	11,081
Insurance and other receivables	**20,947**	19,499	**12,589**	8,650
Cash and cash equivalents	**36,675**	44,679	**2,596**	2,496
Total	**1,001,818**	962,748	**43,042**	39,598

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

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
AAA	**75,605**	69,648	**-**	-
AA	**53,529**	59,345	**3,879**	4,219
A	**48,059**	55,059	**6,872**	7,651
BBB	**781,669**	722,126	**18,529**	18,976
Not rated	**42,956**	56,570	**13,762**	8,752
	1,001,818	962,748	**43,042**	39,598

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

Financial assets that are past due but not impaired

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

	Group and Company	
	2015	2014
	€'000	€'000
Within credit terms	**5,778**	4,583
Not more than three months	**1,914**	1,201
Within three to twelve months	**1,662**	714
Over twelve months	**337**	44
	9,691	6,542

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

The overall exposure of the Group in terms of IFRS 7 is €9.69 million (2014: €6.54 million), of which €5.78 million (2014: €4.58 million) is not contractually due. It is the view of the Directors that no impairment charge is necessary, due to the following reasons:

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

Trade receivables at 31 December 2015 did not comprise any amounts (2014: nil) whose terms had been renegotiated from the original terms and which were classified as fully performing.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) *Credit risk* - continued

Financial assets that are impaired

Within insurance and other receivables are the following receivables that are classified as impaired:

	Group and Company	
	2015	2014
	€'000	€'000
Over twelve months	**403**	333
	403	333

These balances are covered by the following:

	Group and Company	
	2015	2014
	€'000	€'000
Provision for impairment of receivables (Note 25)	**403**	333
	403	333

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

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

(c) *Liquidity risk*

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) *Liquidity risk* - continued

The following table indicates the expected timing of cash flows arising from the Group's liabilities:

	Group expected cash flows (undiscounted) (€ millions) 2015						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance contracts and investment contracts with DPF	101.6	79.6	88.6	156.0	188.8	1,063.4	1,678.0
Technical provisions – claims outstanding	12.6	6.8	3.9	2.5	2.1	5.6	33.5
Insurance and other payables (contractual)	17.1	-	-	-	-	-	17.1

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.

	Group expected cash flows (undiscounted) (€ millions) 2014						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance contracts and investment contracts with DPF	68.0	96.2	78.3	87.5	141.6	1,071.4	1,543.0
Technical provisions – claims outstanding	14.8	7.1	4.0	2.6	2.1	2.2	32.8
Insurance and other payables (contractual)	14.6	-	-	-	-	-	14.6

	Company expected cash flows (undiscounted) (€ millions) 2015						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	12.6	6.8	3.9	2.5	2.1	5.6	33.5
Insurance and other payables (contractual)	10.4	-	-	-	-	-	10.4

	Company expected cash flows (undiscounted) (€ millions) 2014						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	14.8	7.1	4.0	2.6	2.1	2.1	32.7
Insurance and other payables (contractual)	6.8	-	-	-	-	-	6.8

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) *Liquidity risk* - continued

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

	2015	2014
	€'000	€'000
At 31 December		
Forward foreign exchange contracts		
- outflow	**(34,324)**	(30,193)
- inflow	**34,664**	29,678

At 31 December 2015 and 2014, the above derivatives were due to be settled within three months after year end.

4.3 FAIR VALUES

The following table presents the assets measured in the statements of financial position at fair value by level of the following fair value measurement hierarchy at 31 December 2015:

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

The following tables present the assets measured at fair value at 31 December 2015.

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	€'000	€'000	€'000	€'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	595,506	118	33	595,657
- Debt securities	743,459	-	-	743,459
Other available-for-sale investments	17,250	-	74	17,324
Derivative financial instruments	256	340	-	596
Investment property	-	-	93,619	93,619
Investment in associated undertakings	26,809	-	464	27,273
Total assets	**1,383,280**	**458**	**94,190**	**1,477,928**
Liabilities				
Unit linked financial liabilities	-	105,198	-	105,198
Total liabilities	**-**	**105,198**	**-**	**105,198**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES – CONTINUED

Company

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	2,235	-	2,235
- Debt securities	3,709	-	3,709
Other available-for-sale investments	17,250	-	17,250
Investment property	-	12,252	12,252
Investment in associated undertakings	-	294	294
Total assets	**23,194**	**12,546**	**35,740**

The following tables present the assets measured at fair value at 31 December 2014.

Group

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	457,209	212	33	457,454
- Debt securities	690,237	-	-	690,237
Other available-for-sale investments	11,894	-	74	11,968
Derivative financial instruments	88	-	-	88
Investment property	-	-	86,275	86,275
Investment in associated undertakings	17,205	-	443	17,648
Total assets	**1,176,633**	**212**	**86,125**	**1,263,670**
Liabilities				
Unit linked financial liabilities	-	101,150	-	101,150
Derivative financial instruments	-	515	-	515
Total liabilities	-	**101,665**	-	**101,665**

Company

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	1,977	-	1,977
- Debt securities	5,068	-	5,068
Other available-for-sale investments	11,894	-	11,894
Investment property	-	9,700	9,700
Investment in associated undertakings	-	294	294
Total assets	**18,939**	**9,994**	**28,933**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

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

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

Investment property has been classified as Level 3. Note 18 details the valuation process and techniques in respect of investment property. Level 3 securities constitute investment in unlisted equities. 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 following table presents the changes in Level 3 securities for the year ended 31 December 2015.

Group	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening balance	443	107	550
Share of associated undertakings results	22	-	22
Closing balance	**465**	**107**	**572**

Company	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening and closing balance	**294**	**-**	**294**

The following table presents the changes in Level 3 instruments for the year ended 31 December 2014.

Group	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening balance	417	114	531
Share of associated undertakings results	38	-	38
Net fair value losses	(12)	(7)	(19)
Closing balance	**443**	**107**	**550**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

Company	**Investments in associates** €'000	**Other available -for-sale investments** €'000	**Total** €'000
Opening and closing balance	**294**	**-**	**294**

At 31 December 2015 and 2014, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

5. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- To comply with the insurance capital requirements established by the regulators of the insurance markets in which the Group operates;
- To provide for the capital requirements of the companies within the Group;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The defined regulatory capital for Mapfre Middlesea p.l.c. ("MMS" or "the Company") comprises shareholders' equity and subordinated loans. The minimum own funds required by Insurance Rule 1 at 31 December 2015 amounted to €7.4 million (2014: €7.4 million). In addition, the Insurance Business Regulations stipulate 'the required margin of solvency' that the Company is required to hold. Regulatory capital requirements may be set at a multiple of this requirement. The minimum required capital must be maintained at all times throughout the year. Given the composite nature of the Company, Middlesea Insurance p.l.c. is obliged to abide with capital requirements for both its long term and its general insurance business.

With respect to its general business, the Company held net admissible assets of €20.17 million (2014: €19.96 million) which exceeded the 'required margin of solvency' of €7.10 million (2014: €4.10 million) by €13.07 million (2014: €15.85 million) and also exceeded the multiple set by the regulator. With respect to its long term business, the Company held net admissible assets of €4.57 million (2014: €4.61 million) which exceeded the 'required margin of solvency' of €3.70 million (2014: €3.70 million) by €0.87 million (2014: €0.91 million), and also exceeded the multiple set by the regulator. The Company was compliant at all times with its capital requirements to both its general and long-term business. The Company is also sufficiently capitalised in terms of the forthcoming Solvency II regime.

All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period and MSV Life p.l.c. is also sufficiently capitalized in terms of the forthcoming Solvency II regime.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION

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

The Company mainly writes its business from Malta. In previous years, the Company had also operated a branch in Gibraltar carrying on general business of insurance, which as from 1 January 2011 was put in run-off.

The Group operates in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. The segment results for the years ended 31 December 2015 and 2014 are indicated below.

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Gross premiums written		Gross premiums earned	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**9,856**	8,243	**8,190**	7,550
Motor (other classes)	**13,044**	7,275	**10,839**	6,663
Fire and other damage to property	**8,177**	5,952	**7,204**	5,709
Accident and health	**10,756**	8,228	**9,721**	8,121
Other classes	**5,459**	4,109	**4,550**	3,535
	47,292	33,807	**40,504**	31,578

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

General business - continued

100% (2014: 100%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in Note 35.

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

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2015	2014	**2015**	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**5,640**	5,602	**2,728**	2,559	**564**	(380)
Motor (other classes)	**7,210**	4,097	**3,611**	2,313	**-**	-
Fire and other damage to property	**1,062**	1,864	**2,357**	1,877	**3,079**	1,345
Accident and health	**5,706**	4,844	**2,923**	2,248	**270**	358
Other classes	**1,428**	(1,383)	**1,575**	1,084	**857**	1,854
	21,046	15,024	**13,194**	10,081	**4,770**	3,177

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

Long term business

(i) Gross premium written

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Direct insurance	**222,233**	153,885	**1,482**	1,462
Reinsurance inwards	**-**	-	**2**	2
	222,233	153,885	**1,484**	1,464

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

Group direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Non-participating	**11,756**	10,949	**-**	-
Participating	**30,854**	30,227	**175,479**	108,518
Linked	**2,649**	2,748	**1,495**	1,443
	45,259	43,924	**176,974**	109,961

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

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

	Periodic premiums		Single premiums	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Investment contracts	**1,342**	1,386	**2,366**	2,236

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

(ii) Reinsurance balance

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
(Credit)/charge for reinsurance outwards	**(311)**	1,004	**(149)**	166

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Insurance contracts	**34,699**	34,611	**1,484**	1,464
Investment contracts with DPF	**187,534**	119,274	**-**	-
	222,233	153,885	**1,484**	1,464
Claims incurred, net of reinsurance				
Insurance contracts	**27,328**	23,855	**374**	490
Investment contracts with DPF	**82,215**	56,813	**-**	-
	109,543	80,668	**374**	490

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

	Group	
	2015	2014
	€'000	€'000
Profit on general business	**3,367**	4,168
Profit on long term business	**14,560**	10,748
Net investment income not allocated to the technical accounts	**1,319**	4,093
Other income	**1,342**	1,086
Administrative expenses	**(2,749)**	(2,782)
Profit for the financial year before tax	**17,839**	17,313

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

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

	Company	
	2015	2014
	€'000	€'000
Profit on general business	**3,367**	4,168
Profit on long term business	**466**	316
Net investment income not allocated to the technical accounts	**2,918**	3,666
Administrative expenses	**(1,682)**	(1,770)
Profit for the financial year before tax	**5,069**	6,380

Geographical information

The segment results for the years ended 31 December 2015 and 2014 by geographical area are indicated below:

	Group		Company	
	Gross premiums written		Gross premiums written	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Malta	**269,525**	187,691	**48,776**	35,270
Other locations in run-off	**-**	1	**-**	1
	269,525	187,692	**48,776**	35,271

Group segment assets and liabilities

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

	Motor third party	Motor other	Fire and other damage to property	Accident and health	Other classes	Long-term business	Unallocated	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2015								
Assets allocated to business segments	21,926	13,037	9,450	6,867	11,380	1,564,491	12,124	1,639,275
Assets allocated to Shareholders	-	-	-	-	-	-	182,343	183,343
Total assets	21,926	13,037	9,450	6,867	11,380	1,564,491	194,467	1,821,618
At 31 December 2014								
Assets allocated to business segments	16,590	12,777	8,637	5,431	9,585	1,386,994	8,261	1,448,275
Assets allocated to shareholders	-	-	-	-	-	-	177,593	177,593
Total assets	16,590	12,777	8,637	5,431	9,585	1,386,994	185,854	1,625,868

The total of non-current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts of €163.73 million (2014: €155.05 million) are all located in Malta.

NOTES TO THE FINANCIAL STATEMENTS

7. NET OPERATING EXPENSES

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Acquisition costs	**21,322**	14,060	**12,344**	7,255
Change in deferred acquisition costs, net of reinsurance	**(1,808)**	(900)	**(1,808)**	(900)
Administrative expenses	**9,773**	10,566	**4,688**	5,279
Reinsurance commissions and profit participation	**(2,545)**	(3,379)	**(2,450)**	(2,349)
	26,742	20,347	**12,774**	9,285
Allocated to:				
General business technical account	**10,838**	7,223	**10,838**	7,223
Long term business technical account	**13,155**	10,342	**254**	292
Non-technical account (administrative expenses)	**2,749**	2,782	**1,682**	1,770
	26,742	20,347	**12,774**	9,285

Total commissions for direct business accounted for in the financial year amounted to €12.23 million (2014: €10.17 million) in the Group's technical result and €5.84 million (2014: €5.36 million) in the Company's technical result. €5.08 million (2014: €3.45 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 11. Further detail relating to administrative expenses is included in Note 10.

Non-technical account

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

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT RETURN

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Investment income				
Dividend income from group undertakings	**-**	-	**2,840**	3,596
Share of profit of other associated undertaking, net of tax	**23**	38	**-**	-
Rent receivable from investment property	**5,106**	4,818	**351**	305
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	**2,885**	4,546	**7**	86
Income from financial assets at fair value through profit or loss				
- dividend income	**8,432**	6,678	**157**	148
- net fair value gains and interests on bonds	**76,506**	103,083	**436**	164
Income from available-for-sale assets				
- dividend income	**72**	1	**72**	1
- net fair value gains and interests on bonds	**182**	113	**182**	113
Net fair value gains on investment property	**2,573**	3,182	**1,005**	287
Other investment income	**1,121**	1,041	**-**	-
Exchange differences	**78**	144	**78**	144
	96,978	123,644	**5,128**	4,844
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**514**	427	**53**	47
Interest expense for financial liabilities that are not at fair value through profit or loss	**22**	52	**22**	52
Impairment charges	**49**	-	**49**	-
Other investment expenses	**3,249**	2,398	**10**	1
Exchange differences	**-**	1	**-**	-
	3,834	2,878	**134**	100
Net investment income	**93,144**	120,766	**4,994**	4,744
Analysed between:				
Allocated investment return transferred to the general business technical account	**1,873**	872	**1,873**	872
Investment return included in the long term business technical account	**89,952**	115,801	**203**	206
Other investment income included in the non-technical account	**1,319**	4,093	**2,918**	3,666
	93,144	120,766	**4,994**	4,744

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Other technical income, net of reinsurance				
Investment management fees	**431**	422	**-**	-
Other	**163**	153	**-**	-
	594	575	**-**	-
Other income – non technical				
Management fees	**709**	526	**-**	-
Other income	**633**	560	**-**	-
	1,342	1,086	**-**	-

10. PROFIT BEFORE TAX

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Employee compensation (Note 11)	**7,992**	6,897	**4,500**	3,667
Depreciation/amortisation:				
- intangible assets (Note 16)	**907**	822	**475**	285
- property, plant and equipment (Note 17)	**602**	527	**265**	227
Release of provision for impairment on receivables (Note 25)	**-**	(171)	**-**	(171)
Impairment of receivables	**-**	36	**-**	36
Write-backs of payables	**(53)**	(1)	**(53)**	(1)
Increase in provision for impairment on receivables (Note 25)	**10**	10	**10**	10
Directors' and officers' insurance	**105**	77	**75**	46

The financial statements include fees, exclusive of VAT, charged by the parent company auditor for services rendered during the financial years ended 31 December 2015 (KPMG) and 2014 (Ernst & Young) relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Annual statutory audit				
Parent company auditor	**167**	74	**74**	64
Other component auditor	**-**	107	**-**	-
	167	181	**74**	64
Other services				
Parent company auditor	**103**	16	**7**	16
Other component auditor	**-**	30	**-**	9
	103	46	**7**	25

NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEE COMPENSATION

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Salaries	**7,588**	6,553	**4,264**	3,477
Social security costs	**404**	344	**236**	190
	7,992	6,897	**4,500**	3,667

The average number of persons employed during the year was:

	Group		Company	
	2015	2014	**2015**	2014
Key management personnel	**21**	23	**11**	12
Managerial	**24**	24	**14**	14
Technical	**154**	121	**91**	65
Administrative	**10**	11	**6**	7
	209	179	**122**	98

12. TAX EXPENSE

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Current tax expense	**501**	870	**412**	1,871
Deferred tax expense (Note 22)	**5,472**	4,073	**22**	231
Income tax expense	**5,973**	4,943	**434**	2,102

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Profit before tax	**17,839**	17,313	**5,069**	6,380
Tax at 35%	**6,244**	6,060	**1,774**	2,233
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	**(204)**	(116)	**(932)**	(66)
Under provision for tax in prior year	**-**	4	**-**	4
Property withholding tax at 8% or 10%	**26**	(984)	**(291)**	(10)
Other	**(93)**	(21)	**(117)**	(59)
Income tax expense	**5,973**	4,943	**434**	2,102

NOTES TO THE FINANCIAL STATEMENTS

13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Directors' fees	**135**	153	**115**	133

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

14. EARNINGS PER SHARE

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

	Group	
	2015	2014
	€'000	€'000
Profit attributable to shareholders	**6,821**	7,165
Number of ordinary shares in issue (Note 27)	**92,000,000**	92,000,000
Earnings per share attributable to shareholders (€)	**7.4c**	7.8c

15. DIVIDENDS

A gross dividend in respect of year ended 31 December 2015 of €0.05605 (2014: €0.05127) per share amounting to a total dividend of €5,156,715 (2014: €4,716,890) is to be proposed by the Directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.03826 (2014: €0.03826) per share amounting to a total net dividend of €3,520,000 (2014: €3,520,000). These financial statements do not reflect this dividend.

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

Group	Value of in-force business (ii) €'000	Value of business acquired €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 1 January 2014					
Cost or valuation	49,210	-	11,416	3,140	63,766
Accumulated amortisation and impairment	-	-	(9,343)	(2,305)	(11,648)
Net book amount	**49,210**	**-**	**2,073**	**835**	**52,118**
Year ended 31 December 2014					
Opening net book amount	49,210	-	2,073	835	52,118
Increase in value of in-force business credited to reserves (Note 28)	6,558	-	-	-	6,558
Additions	-	-	1,490	93	1,583
Disposals	-	-	(13)	-	(13)
Amortisation charge	-	-	(641)	(181)	(822)
Amortisation released on disposal	-	-	13	-	13
Closing net book amount	55,768	-	2,922	747	59,437
At 31 December 2014					
Cost or valuation	55,768	-	12,893	3,233	71,894
Accumulated amortisation and impairment	-	-	(9,971)	(2,486)	(12,457)
Net book amount	**55,768**	**-**	**2,922**	**747**	**59,437**
Year ended 31 December 2015					
Opening net book amount	55,768	-	2,922	747	59,437
Decrease in value of in-force business debited to reserves (Note 28)	(2,340)		-	-	(2,340)
Additions	-	1,651	1,958	109	3,718
Disposals	-	-	(716)	-	(716)
Amortisation charge	-	(165)	(558)	(184)	(907)
Amortisation released on disposal	-	-	716	-	716
Closing net book amount	53,428	1,486	4,322	672	59,908
At 31 December 2015					
Cost or valuation	53,428	1,651	14,135	3,342	72,556
Accumulated amortisation and impairment	-	(165)	(9,813)	(2,670)	(12,648)
Net book amount	**53,428**	**1,486**	**4,322**	**672**	**59,908**

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

Amortisation of €0.44 million (2014: €0.32 million) is included in acquisition costs and €0.47 million (2014: €0.50 million) is included in administration expenses.

Fully amortised assets that were still in use for the Group as at the financial year amounted to €7.1m (2014: €6.2m).

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

(ii) Value of in-force business - assumptions, changes in assumptions and sensitivity

Assumptions

The after tax value of in-force business is determined by the Directors on an annual basis, after considering the advice of the Approved Actuary. The value of in-force business depends upon assumptions made regarding future economic and demographic experience. The economic assumptions are internally consistent and reflect the Directors' view of economic conditions in the longer term, which are inherently uncertain.

The valuation assumes a real return of 2% (2014: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 7.5% (2014: 7.5%). The calculation also assumes lapse rates varying by product from 0.5% to 8% pa (2014 0.5% to 8% pa), and an expense inflation rate of 3.5% pa (2014: 3.5% pa).

Changes in assumptions

Demographic assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process. Economic assumptions are set to be internally consistent and reflect the real long-term returns required and the risk appetite of the Directors. To maintain the internal consistency, any changes to the economic assumptions are considered as a whole. Any changes to the assumptions that do not change the internal consistency will not significantly change the value of the in-force business.

Sensitivity analysis

The value of in-force business is calculated using a large number of assumptions. The following table describes the impact on the value of in-force business arising from a change in the following variables, with all other variables held constant:

Assumption	**Change in variable**	**Impact on value of in-force business 2015 € million**	Impact on value of in-force business 2014 € million
Investment returns	+1.00%	6.4	6.4
Investment returns	-1.00%	(6.4)	(6.4)
Risk adjusted discount rate RDR	+1.00%	(2.8)	(3.1)
Risk adjusted discount rate	-1.00%	3.1	3.5
Renewal expense	+10.00%	(0.7)	(0.7)
Renewal expense	-10.00%	0.7	0.7
Lapse rate	+2.00%	1.2	1.4
Lapse rate	-2.00%	(0.6)	(1.0)
Mortality	+15.00%	(0.8)	(0.9)
Mortality	-15.00%	0.8	0.9

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

Company	Computer software €'000	Value of business acquired €'000	Total €'000
At 1 January 2014			
Cost	4,037	-	4,037
Accumulated amortisation	(2,734)	-	(2,734)
Net book amount	1,303	-	1,303
Year ended 31 December 2014			
Opening net book amount	1,303	-	1,303
Additions	66	-	66
Amortisation charge	(285)	-	(285)
Closing net book amount	1,084	-	1,084
At 31 December 2014			
Cost	4,103	-	4,103
Accumulated amortisation	(3,019)	-	(3,019)
Net book amount	**1,084**	**-**	**1,084**
Year ended 31 December 2015			
Opening net book amount	1,084	-	1,084
Additions	272	1,651	1,923
Disposals	(716)	-	(716)
Amortisation charge	(310)	(165)	(475)
Amortisation released on disposals	716	-	716
Closing net book amount	1,046	1,486	2,532
At 31 December 2015			
Cost	3,659	1,651	5,310
Accumulated amortisation	(2,613)	(165)	(2,778)
Net book amount	**1,046**	**1,486**	**2,532**

Amortisation expense has been charged in administrative expenses.

Fully amortised assets that were still in use for the Company as at the financial year amounted to €1.7m (2014: €1.4m).

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2014					
Cost	6,144	2,031	19	4,650	12,844
Accumulated depreciation	(65)	(528)	(7)	(3,294)	(3,894)
Net book amount	6,079	1,503	12	1,356	8,950
Year ended 31 December 2014					
Opening net book amount	6,079	1,503	12	1,356	8,950
Additions	210	151	-	549	910
Disposals	-	-	-	(16)	(16)
Depreciation charge	(20)	(148)	(3)	(356)	(527)
Depreciation released on disposal	-	-	-	16	16
Closing net book amount	6,269	1,506	9	1,549	9,333
At 31 December 2014					
Cost	6,354	2,182	19	5,183	13,738
Accumulated depreciation	(85)	(676)	(10)	(3,634)	(4,405)
Net book amount	**6,269**	**1,506**	**9**	**1,549**	**9,333**
Year ended 31 December 2015					
Opening net book amount	6,269	1,506	9	1,549	9,333
Amount transferred from investment property	1,181	-	-	-	1,181
Amount transferred to investment property	(705)	-	-	-	(705)
Additions	7	199	-	760	966
Disposals	-	(4)	-	(233)	(237)
Depreciation charge	(24)	(159)	(3)	(416)	(602)
Depreciation release on transfer to investment properties	41	-	-	-	41
Depreciation released on disposal	-	1	-	225	226
Closing net book amount	6,769	1,543	6	1,885	10,203
At 31 December 2015					
Cost	6,837	2,377	19	5,710	14,943
Accumulated depreciation	(68)	(834)	(13)	(3,825)	(4,740)
Net book amount	**6,769**	**1,543**	**6**	**1,885**	**10,203**

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

Depreciation expense has been charged in administrative expenses.

Fully depreciated assets that were still in use for the Group as at the financial year amounted to €2.1m (2014: €1.9m).

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2014					
Cost	135	1,454	13	2,208	3,810
Accumulated depreciation	(10)	(394)	(1)	(1,772)	(2,177)
Net book amount	125	1,060	12	436	1,633
Year ended 31 December 2014					
Opening net book amount	125	1,060	12	436	1,633
Additions	-	151	-	77	228
Depreciation charge	(1)	(92)	(2)	(132)	(227)
Closing net book amount	124	1,119	10	381	1,634
At 31 December 2014					
Cost	135	1,605	13	2,285	4,038
Accumulated depreciation	(11)	(486)	(3)	(1,904)	(2,404)
Net book amount	**124**	**1,119**	**10**	**381**	**1,634**
Year ended 31 December 2015					
Opening net book amount	124	1,119	10	381	1,634
Additions	-	187	-	488	675
Disposals	-	-	-	(234)	(234)
Depreciation charge	(1)	(103)	(3)	(158)	(265)
Depreciation released on disposal	-	-	-	225	225
Closing net book amount	123	1,203	7	702	2,035
At 31 December 2015					
Cost	135	1,792	13	2,539	4,479
Accumulated depreciation	(12)	(589)	(6)	(1,837)	(2,444)
Net book amount	**123**	**1,203**	**7**	**702**	**2,035**

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

Depreciation expense has been charged to administrative expenses.

Fully depreciated assets that were still in use for the Company as at the financial year amounted to €1.3m (2014: €1.2m).

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2014		
Cost	56,658	5,548
Accumulated fair value gains	25,573	3,408
Net book amount	82,231	8,956
Year ended 31 December 2014		
Opening net book amount	82,231	8,956
Additions	865	460
Disposal	(2)	(2)
Net fair value gains	3,181	286
Net book amount	86,275	9,700
At 31 December 2014		
Cost	57,521	6,006
Accumulated fair value gains	28,754	3,694
Net book amount	**86,275**	**9,700**
Year ended 31 December 2015		
Opening net book amount	86,275	9,700
Transfer to property, plant & equipment	(1,181)	-
Transfer from property, plant & equipment at depreciated value	664	-
Additions	5,291	1,550
Disposal	(2)	(2)
Net fair value gains	2,572	1,004
Net book amount	93,619	12,252
At 31 December 2015		
Cost	62,334	7,554
Accumulated fair value gains	31,285	4,698
Net book amount	**93,619**	**12,252**

Fair value of land and buildings

An independent valuation of the Group's and Company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2015 and 2014. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 8).

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

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

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY - CONTINUED

For all properties, their current use equates to the highest and best use.

Valuation processes

On an annual basis, the Group and Company engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings. As at 31 December 2015, the fair values of the land and buildings have been determined by DHI Periti.

At each financial year end the investments department:

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

Valuation techniques

For level 3 fair value of all office buildings with a total carrying amount of €93.62 million (2014: €86.27 million) for the Group and €12.25 million (2014: €9.70 million) for the Company, the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

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

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

Description	Fair value at 31 December 2015 €	Valuation technique	Range of significant unobservable inputs	
			Rental value €	Capitalisation rate %
Office buildings	93.62m	Capitalisation of future net income streams	5.5m	4.25 – 6.5

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

Description	Fair value at 31 December 2014 €	Valuation technique	Range of significant unobservable inputs	
			Rental value €	Capitalisation rate %
Office buildings	86.27m	Capitalisation of future net income streams	4.9m	4.25 – 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.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2014	
Opening and closing net book amount and deemed cost	**57,214**
Year ended 31 December 2015	
Opening and closing net book amount and deemed cost	**57,214**

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2015	Percentage of shares held 2014
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MSV Life p.l.c.	Level 7 The Mall Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

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

2015	Registered Office	Assets €'000	Liabilities €'000	Revenues €'000	Profit before tax €'000	% Held by non-controlling interests
MSV Life p.l.c.	Level 7 The Mall, Floriana	1,743,877	1,593,675	224,459	15,577	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	2,627	262	-	95	25%
		1,746,504	1,593,937	224,459	15,672	

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS – CONTINUED

2014	Registered Office	Assets	Liabilities	Revenues	Profit/ (Loss) before tax	% Held by non-controlling interests
		€'000	€'000	€'000	€'000	
MSV Life p.l.c.	Level 7 The Mall, Floriana	1,559,451	1,412,319	156,045	14,261	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	2,532	303	-	245	25%
		1,561,983	1,412,622	156,045	14,506	

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

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

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2015	2014
Growth Investment Limited (held indirectly by MSV Life p.l.c.)	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

During 2011, the Company acquired control of MSV Life p.l.c. following a shareholders' agreement. MSV Life p.l.c. had previously been accounted for as an associated undertaking (Note 20). The amount of dividends that can be distributed in cash by the insurance subsidiary is restricted by the solvency requirement imposed by the MFSA regulations

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	**Company €'000**
At 1 January 2014		
Cost	14,628	294
Accumulated fair value movements	690	-
Net book amount	15,318	294
Year ended 31 December 2014		
Opening net book amount	15,318	294
Additions	-	-
Share of associated undertaking's profits and movement in reserves	38	-
Fair value movements	2,292	-
Closing net book amount	17,648	294
At 31 December 2014		
Cost	14,628	294
Accumulated fair value movements	3,020	-
Net book amount	**17,648**	**294**
Year ended 31 December 2015		
Opening net book amount	17,648	294
Additions	1	-
Share of associated undertaking's results and movement in reserves	22	-
Fair value movements	9,602	-
Closing net book amount	27,273	294
At 31 December 2015		
Cost	14,629	294
Accumulated fair value movements	12,644	-
Net book amount	**27,273**	**294**

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

2015	**Registered office**	**Assets €'000**	**Liabilities €'000**	**Revenues €'000**	**Profit €'000**	**Percentage of shares held**
Middlesea Assist Limited	Europa Centre Floriana	959	315	1,308	46	49%

2014	**Registered office**	**Assets €'000**	**Liabilities €'000**	**Revenues €'000**	**Profit €'000**	**Percentage of shares held**
Middlesea Assist Limited	Europa Centre Floriana	842	244	1,106	85	49%

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

In addition to the associated undertakings above MSV also held the following investments in associated undertakings:

Associated undertakings	Registered office	Class of shares held	Percentage of shares held MSV 2015	MSV 2014	Group 2015	Group 2014
Premium Realty Limited	Middlesea House Floriana	Ordinar shares	25%	25%	37.5%	37.5%
Plaza Centres p.l.c.	The Plaza Commercial Cenre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%	28.36%	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	34.56%	34.56%	34.56%	34.56%

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2015 was €1.00 and €0.94 respectively (31 December 2014: €0.65 and €0.60 respectively).

21. OTHER INVESTMENTS

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

	Group 2015 €'000	Group 2014 €'000	Company 2015 €'000	Company 2014 €'000
Fair value through profit or loss	**1,339,717**	1,147,779	**5,943**	7,045
Other available-for-sale	**17,324**	11,968	**17,250**	11,894
Loans and receivables	**183,279**	195,678	**137**	1,822
	1,540,320	1,355,425	**23,330**	20,761

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group 2015 €'000	Group 2014 €'000	Company 2015 €'000	Company 2014 €'000
Equity securities and units in unit trusts	**490,464**	356,304	**2,234**	1,977
Debt securities	**743,459**	690,237	**3,709**	5,068
Assets held to cover linked liabilities – collective investment schemes	**105,198**	101,150	**-**	-
Forward foreign exchange contracts	**596**	88	**-**	-
Total investments at fair value through profit or loss	**1,339,717**	1,147,779	**5,943**	7,045

Technical provisions for linked liabilities amounted to €105 million as at 31 December 2015 (2014: €101 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

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

At 31 December 2015 and 2014, the Group and Company had no financial commitments in respect to uncalled capital.

Equity securities and units in unit trusts other than those at Company level are substantially non-current assets in nature.

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2014		
Opening net book amount	991,867	8,110
Additions	491,265	42
Disposals	(413,367)	(1,040)
Net fair value gains	77,499	(67)
Closing net book amount	**1,147,264**	**7,045**
Year ended 31 December 2015		
Opening net book amount	1,147,264	7,045
Additions	983,693	43
Disposals	(829,678)	(1,392)
Net fair value gains	38,438	247
Closing net book amount	**1,339,717**	**5,943**

Derivative financial assets amounting to €0.6m (2014: €0.5m liabilities), included in the table above, are classified within assets and liabilities respectively in the statements of financial position.

(b) *Other available-for-sale financial assets*

	Group		Company	
	2015 €'000	2014 €'000	**2015 €'000**	2014 €'000
Listed debt securities	**14,932**	10,481	**14,932**	10,481
Listed shares	**2,318**	1,413	**2,318**	1,413
Unlisted shares	**74**	74	**-**	-
	17,324	11,968	**17,250**	11,894

Unlisted shares are classified as non-current. The movements for the year are summarised as follows:

	Group		Company	
	2015 €'000	2014 €'000	**2015 €'000**	2014 €'000
Year ended 31 December				
Opening net book amount	**11,968**	962	**11,894**	881
Additions	**6,743**	10,787	**6,743**	10,787
Disposals	**(1,026)**	-	**(1,026)**	-
Net fair value gains (Note 28)	**(361)**	219	**(361)**	226
Closing net book amount	**17,324**	11,968	**17,250**	11,894

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Deposits with banks or credit institutions	**173,783**	186,288	**137**	1,822
Loans secured on policies	**9,496**	9,390	**-**	-
	183,279	195,678	**137**	1,822

As at 31 December 2015 an amount of €0.62million (2014: €0.94 million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

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

Group

	Loans secured on policies €'000
Year ended 31 December 2014	
Opening net book amount	9,903
Additions	1,723
Disposals (sales and redemptions)	(2,236)
Closing net book amount	**9,390**

Group

	Loans secured on policies €'000
Year ended 31 December 2015	
Opening net book amount	9,903
Additions	1,665
Disposals (sales and redemptions)	(1,559)
Closing net book amount	**9,496**

The above loans earn interest at fixed rates.

22. DEFERRED INCOME TAX

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**16,166**	12,233	**(60)**	(153)
Movements during the year:				
Profit or loss account (Note 12)	**5,472**	4,073	**22**	231
Other comprehensive income	**(35)**	(140)	**(35)**	(138)
Balance at 31 December – net	**21,603**	16,166	**(73)**	(60)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2014: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 8% or 10% of the carrying amount (2014: 12%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**711**	495	**171**	176
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	**61,035**	55,839	**860**	944
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(39,835)**	(39,882)	**(796)**	(796)
Temporary differences attributable to other provisions	**(308)**	(286)	**(308)**	(384)
Balance at 31 December – net	**21,603**	16,166	**(73)**	(60)

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(2,253)**	(2,261)	**(1,192)**	(1,116)
Deferred tax liability	**23,856**	18,427	**1,119**	1,056
	21,603	16,166	**(73)**	(60)

The tax effect of temporary differences attributable to the value of in-force business amounts to €1.26m (2014: €3.53m).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group and Company have unutilised capital losses of €10.94 million (2014: €15.91 million), which give rise to a deferred tax asset of €3.83 million (2014: €5.57 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €3.11 million (2014: €3.11 million) giving rise to a further deferred tax asset of €1.09 million (2014: €1.09 million) which has not been recognised in these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX - CONTINUED

Revisions to the taxation rules on capital gains upon a transfer of immovable property were announced by the Minister of Finance during the budget speech for the financial year 2015, and in respect of which a Bill was published in December 2014 entitled *'An Act to implement Budget measures for the financial year 2015 and other administrative measures'*. Although the Budget Bill was published in December 2014, the announcement of the revised tax regime by the Minister of Finance and the subsequent publication of the Bill did, as at 31 December 2014, have the substantive effect of actual enactment. Tax rates used for the calculation of deferred tax for financial year 2014 were the ones in effect prior to the measures announced in the Budget Speech for the financial year 2015 – the tax rate on capital gains relating to property was calculated at the rate of 35% on profit or 12% of the gross selling price, as applicable. As the Bill referred to above was subsequently enacted, the net impact on the deferred tax liability for financial year 2014 would have been an increase amounting to €0.06 million for the Group and a decrease of €0.20 million for the Company. These amounts have been reflected in the financial year 2015 charge.

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF

	Group		Company	
	2015 €'000	2014 €'000	**2015 €'000**	2014 €'000
Gross				
Short-term insurance contracts – general business				
- claims outstanding	**33,522**	32,764	**33,522**	32,764
- provision for unearned premiums and unexpired risks	**24,022**	17,034	**24,022**	17,034
Group life insurance contracts				
- claims outstanding	**319**	513	**319**	513
- long term business provision	**717**	650	**717**	650
Long term contracts				
- individual life insurance contracts	**529,906**	509,235	**-**	-
- investment contracts with DPF	**970,764**	813,722	**-**	-
Total technical provisions, gross	**1,559,250**	1,373,918	**58,580**	50,961
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	**8,878**	10,779	**8,878**	10,779
- provision for unearned premiums and unexpired risks	**4,349**	3,878	**4,349**	3,878
Group life insurance contracts				
- claims outstanding	**201**	302	**201**	302
- long term business provision	**241**	210	**241**	210
Long term contracts				
- individual life insurance contracts	**2,347**	395	**-**	-
Total reinsurers' share of technical provisions	**16,016**	15,564	**13,669**	15,169
Net				
Short-term insurance contracts				
- claims outstanding	**24,644**	21,985	**24,644**	21,985
- provision for unearned premiums and unexpired risks	**19,673**	13,156	**19,673**	13,156
Group life insurance contracts				
- claims outstanding	**118**	211	**118**	211
- long term business provision	**476**	440	**476**	440
Long term contracts				
- individual life insurance contracts	**527,559**	508,840	**-**	-
- investment contracts with DPF	**970,764**	813,722	**-**	-
Total technical provisions, net	**1,543,234**	1,358,354	**44,911**	35,792

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Technical provisions in relation to short term insurance contracts are classified as current liabilities. Technical provisions in relation to long term business are substantially non-current.

(a) Short-term insurance contracts – claims outstanding

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2015 and 2014 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher.

The development tables below give an indication of the time it takes to settle certain claims. This is attributable to certain classes of business taking several years to develop and is also due to the length of time it takes certain classes to be resolved in court.

The top half of the table below illustrates how the Company's estimate of total claims incurred for each accident year has changed at successive year-ends on a net basis. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statements of financial position on a net basis. The accident-year basis is considered to be the most appropriate for the general business written by the Company.

Company

Accident year	2005 €'000	2006 €'000	2007 €'000	2008 €'000	2009 €'000	2010 €'000	2011 €'000	2012 €'000	2013 €'000	2014 €'000	2015 €'000	Total €'000
Estimate of the ultimate claims costs:												
- at end of accident year	13,196	13,470	14,423	15,458	15,248	17,111	15,972	15,756	16,104	17,775	23,216	
- one year later	13,257	12,783	13,517	15,661	15,319	15,871	15,402	14,183	14,205	16,060		
- two years later	11,729	11,569	12,674	13,415	13,367	13,114	13,702	12,932	13,465			
- three years later	11,212	10,887	11,582	12,781	12,486	12,263	12,694	12,543				
- four years later	10,871	10,030	11,411	12,464	12,147	11,805	12,467					
- five years later	10,447	9,935	10,978	12,199	12,321	11,837						
- six years later	10,251	9,686	10,750	11,964	12,392							
- seven years later	10,098	9,679	10,634	12,022								
- eight years later	10,078	9,512	10,463									
- nine years later	10,037	9,433										
- ten years later	10,055											
Current estimates of cumulative claims	10,055	9,433	10,463	12,022	12,392	11,837	12,467	12,543	13,465	16,060	23,216	143,953
Cumulative payments to date	(9,719)	(9,048)	(10,489)	(11,575)	(11,714)	(10,938)	(11,995)	(11,372)	(11,900)	(13,115)	(11,357)	(123,222)
Liability recognised in the statements of financial position	336	385	(26)	447	678	899	472	1,171	1,565	2,945	11,859	20,731
Liability in respect of prior years												3,913
Total reserve included in the statements of financial position												24,644

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Short-term insurance contracts – claims outstanding - continued

The Company continues to benefit from reinsurance programmes that were purchased in prior years and includes proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

Movements in claims and loss adjustment expenses:

	Group and Company Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	37,430	(12,908)	24,522
Claims settled during the year	(19,690)	5,431	(14,259)
Increase/(decrease) in liabilities			
- arising from current year claims	22,779	(5,004)	17,775
- arising from prior year claims	(7,755)	1,702	(6,053)
At end of year	32,764	(10,779)	21,985

	Group and Company Year ended 2015		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	32,764	(10,779)	21,985
Amount from Allcare portfolio transfer	3,255	(571)	2,684
Claims settled during the year	(23,877)	3,719	(20,158)
Increase/(decrease) in liabilities			
- arising from current year claims	26,831	(3,358)	23,473
- arising from prior year claims	(5,451)	2,111	(3,340)
At end of year	33,522	(8,878)	24,644

The Group continuously monitors closely the development in insurance liabilities in order to ascertain the adequacy of its claims reserves. Movements in reserves in respect of claims occurring in previous years arise when these claims are actually settled and/or when reserves are revised to reflect new information that emerges.

The Company registered a gross favourable run-off of €5.45 million (2014: €7.76 million). After the effect of reinsurance, this amounts to €3.34 million (2014: €6.05 million). This run-off arose principally from a favourable development on claims in the motor and liability classes of direct general business of insurance. This is attributable, *inter alia*, to savings made during the claims handling process.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(b) Short-term insurance contracts - provision for unearned premiums and unexpired risks

The movements for the year are summarised as follows:

	Group and Company Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	14,805	(4,778)	10,027
Net charge to profit or loss	2,229	900	3,129
At end of year	17,034	(3,878)	13,156

	Group and Company Year ended 2015		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	17,034	(3,878)	13,156
Amount from portfolio transfer	200	-	200
Net charge/(credit) to profit or loss	6,788	(471)	6,317
At end of year	24,022	(4,349)	19,673

The balance at 31 December 2015 includes a provision for unexpired risks of €0.84 million (2014: €0.66 million).

(c) Group Life insurance contracts

Claims outstanding

Movement in claims outstanding is summarised as follows:

	Group and Company Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	185	(93)	92
Claims settled during the year	(533)	162	(371)
Increase/(decrease) in liabilities	861	(371)	490
At year-end	513	(302)	211

	Group and Company Year ended 2015		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	513	(302)	211
Claims settled during the year	(1,232)	765	(467)
Increase/(decrease) in liabilities	1,038	(664)	374
At year-end	319	(201)	118

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Long term business provision

The balance on the long term business provision has been certified by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2015. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall statements of financial position, are as follows:

	2015 €'000	2014 €'000
Investments	**4,520**	4,451
Insurance and other receivables	**858**	664
Cash at bank and in hand	**(50)**	471
Claims outstanding	**(118)**	(211)
Insurance and other payables	**(4,734)**	(4,935)
Long term business provision, net of reinsurance	**476**	440

(d) *Long term business – Individual Insurance life contracts and investment contracts with DPF*

Individual life insurance contracts

	2015 €'000	2014 €'000
Gross technical provisions		
- claims outstanding	**2,147**	2,030
- long term business provision	**527,759**	507,205
	529,906	509,235
Reinsurers' share of technical provisions		
- claims outstanding	**134**	395
- long term business provision	**2,213**	-
	2,347	395
Net technical provisions		
- claims outstanding	**2,013**	1,635
- long term business provision	**525,546**	507,205
	527,559	508,840

The movements for the year are summarised as follows:

	Group Year ended 2014		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	461,823	(302)	461,521
Charge to the profit or loss account	47,412	(93)	47,319
At end of year	509,235	(395)	508,840

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

	Group Year ended 2015		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	509,235	(395)	508,840
Charge to the profit or loss account	20,671	(1,952)	18,719
At end of year	529,906	(2,347)	527,560

The above liabilities are substantially non-current in nature.

Individual life insurance contracts - continued

	Group 2015 €'000	Group 2014 €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**8,249**	5,175
- long term business provision	**962,515**	808,547
	970,764	813,722

The movements for the year are summarised as follows:

	2015 €'000	2014 €'000
Year ended 31 December		
At beginning of year	**813,722**	693,669
Charge to the profit or loss account	**157,042**	120,053
At end of year	**970,764**	813,722

The above liabilities are substantially non-current in nature.

Long term contracts - assumptions, changes in assumptions ans sensitivity

(i) Assumptions

Rate of future investment return

During 2014, the Group undertook an asset segregation exercise in order to adopt separate investment strategies for the non-participating and participating business. The rate of future investment return (valuation interest rate) is calculated in accordance with the Regulations. 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, which does not include any allowance for capital growth. The weighted average yield is further reduced by certain risk adjustments.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

Long term contracts – assumptions, changes in assumptions and sensitivity - 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 Group's cost base.

Minimum reserve

The minimum reserve is determined on a policy by policy basis and is set to the current surrender value or zero whichever is the greater.

Mortality

The Group makes reference to AMC00 (2014: AMC00) mortality tables.

(ii) Changes in assumptions

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

(iii) Sensitivity analysis

The Directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The most sensitive assumption is the rate of future investment return that will be driven by market forces. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 4. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Group's bonus policy is also influenced by market conditions, which mitigates the impact of movements in the valuation interest rate on the long term liability and the profit or loss account.

The Group's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses.

TECHNICAL PROVISIONS - INVESTMENT CONTRACTS WITHOUT DPF

	2015 €'000	2014 €'000
Long term business provision	**62,466**	61,500
Claims outstanding	**319**	1,373
	62,785	62,873

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

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**3,220**	2,836	**3,220**	2,836
Net amount charged to the profit or loss	**1,893**	384	**1,893**	384
Closing net book amount	**5,113**	3,220	**5,113**	3,220

Deferred acquisition costs are all classified as current assets.

25. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Receivables arising from direct insurance operations:				
- due from policyholders	**476**	343	**476**	343
- due from agents, brokers and intermediaries	**11,190**	7,421	**11,190**	7,421
- due from reinsurers	**667**	620	**508**	509
Receivables arising from reinsurance operations:				
- due from reinsurers	**192**	210	**192**	210
Deposits with ceding undertakings	**147**	147	**147**	147
Other loans and receivables:				
- prepayments	**2,383**	2,027	**1,027**	955
- accrued interest and rent	**11,809**	13,809	**283**	241
- receivables from group undertakings	**-**	-	**196**	112
- other receivables	**87**	33	**-**	-
Provision for impairment of receivables	**(403)**	(333)	**(403)**	(333)
	26,548	24,277	**13,616**	9,605
Current portion	**26,548**	24,277	**13,616**	9,605

Balances due from group undertakings and other receivables are unsecured, non-interest bearing and have no fixed date of repayment.

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE AND OTHER RECEIVABLES - CONTINUED

Movements in the provision for impairment of receivables are as follows:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Balance as at 1 January	**333**	494	**333**	494
Amount acquired upon portfolio transfer	**60**		**60**	-
Provision for impairment	**10**	10	**10**	10
Release of provision for impairment during the year	**-**	(171)	**-**	(171)
Balance as at 31 December	**403**	333	**403**	333

26. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**36,675**	44,679	**2,596**	2,496

27. SHARE CAPITAL

	Group and Company	
	2015	2014
	€'000	€'000
Authorised		
150 million ordinary shares of €0.21 each	**31,500**	31,500
Issued and fully paid		
92 million ordinary shares of €0.21 each	**19,320**	19,320

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER RESERVES

Group

	Value of in-force business €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2014	24,606	74	24,680
Fair value movements – gross (Note 21)	-	308	308
Fair value movements – tax	-	8	8
Share of increase in value of in-force business of subsidiary undertaking	3,279	-	3,279
Balance at 31 December 2014	27,885	390	28,275
Balance at 1 January 2015	27,885	390	28,275
Fair value movements – gross (Note 21)	-	(94)	(94)
Fair value movements – tax	-	83	83
Share of decrease in value of in-force business of subsidiary undertaking	(1,170)	-	(1,170)
Balance at 31 December 2015	26,715	379	27,094

The above reserves are not distributable reserves.

Company

	Investment in subsidiary undertaking €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2014	34,663	72	34,735
Fair value movements – gross (Note 20 and 21)	-	314	314
Fair value movements – tax	-	6	6
		-	
Balance at 31 December 2014	34,663	392	35,055
Balance at 1 January 2015	34,663	392	35,055
Fair value movements – gross (Note 20 and 21)	-	(94)	(94)
Fair value movements – tax	-	83	83
Balance at 31 December 2015	34,663	381	35,044

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

29. PROVISION FOR OTHER LIABILITIES AND CHARGES

The Group and Company operate a defined benefit plan in favour of a former Executive Chairman. The pension plan defines an amount of pension benefit that he receives on retirement. The liability recognised in the statement of financial position is the present value of the obligation determined by discounting estimated future cash outflows.

The following table shows the changes in the present value of the pension obligation and amounts shown in the profit or loss and other comprehensive income:

	Group and Company	
	2015	2014
	€'000	€'000
1 January	**1,860**	1,511
Interest expense – profit or loss (Note 8)	**22**	52
Settlements	**(555)**	(81)
Re-measurements actuarial (gain)/loss – other comprehensive income	**(96)**	378
At 31 December	**1,231**	1,860

The following payments as expected in the future years:

	Group and Company	
	2015	2014
	€'000	€'000
Within one year	**58**	81
After more than one year	**1,173**	1,779
	1,231	1,860

The significant assumptions used in determining the pension obligation are shown below:

	Group and Company	
	2015	2014
Mortality	**AMC00**	AMC00
Discount rate	**1.6%**	1.4%
Inflation rate	**2.0%**	2.0%

A quantitative analysis of the impact on the pension obligation for the significant assumptions is shown below:

	Group and Company	
	2015	2014
	€000's	€000's
Discount rate – 1% pt increase	**(132)**	(204)
Discount rate – 1% pt decrease	**156**	247
Inflation rate – 1% pt increase	**147**	233
Inflation rate – 1% pt decrease	**(127)**	(197)

NOTES TO THE FINANCIAL STATEMENTS

30. BORROWINGS

As at 31 December 2015, the Group's undrawn borrowing facility amounted to €4m.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2015 €'000	2014 €'000	**2015 €'000**	2014 €'000
Creditors arising out of direct insurance operations	**6,946**	7,362	**2,951**	1,728
Creditors arising out of reinsurance operations	**220**	222	**220**	222
Amounts owed to associated undertaking	**141**	206	**141**	206
Amounts owed to group undertakings	**-**	-	**1,001**	1,012
Social security and other tax payables	**1,352**	1,015	**888**	230
Accruals	**6,639**	4,074	**3,904**	2,208
Deferred income	**1,793**	1,701	**1,284**	1,183
	17,091	14,580	**10,389**	6,789
Current	**16,943**	14,419	**10,389**	6,789
Non-current	**148**	161	**-**	-
	17,091	14,580	**10,389**	6,789

Balances due to group undertakings are unsecured, non-interest bearing and have no fixed date of repayment. Other payables are unsecured, non-interest bearing and fall due within the next twelve months.

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

NOTES TO THE FINANCIAL STATEMENTS

32. CASH GENERATED FROM/(USED IN) OPERATIONS

Reconciliation of profit before tax to cash (used in)/generated from operations:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Profit before tax	**17,839**	17,313	**5,069**	6,380
Adjusted for:				
Depreciation (Note 17)	**602**	527	**265**	227
Impairment charges	**-**	36	**-**	36
Increase in provision for impairment of receivables (Note 25)	**10**	(161)	**10**	(161)
Other provision for liabilities and charges (Note 29)	**(555)**	(81)	**(555)**	(81)
Amortisation (Note 16)	**907**	822	**475**	285
Adjustments relating to investment return	**(99,480)**	(129,336)	**(4,636)**	(4,405)
(Profit)/loss on sale of property, plant and equipment	**4**	(1)	**4**	-
Movements in:				
Insurance and other receivables	**(3,794)**	(759)	**(4,023)**	(593)
Deferred acquisition costs (Note 24)	**(1,893)**	(384)	**(1,893)**	(384)
Reinsurers' share of technical provisions	**(452)**	2,747	**1,500**	2,840
Technical provisions	**185,244**	164,465	**7,619**	(2,080)
Insurance and other payables	**2,026**	3,599	**3,098**	(733)
Cash generated from operations	**100,458**	58,787	**6,933**	1,331

Non-cash transactions

The principal non-cash transactions comprised dividends receivable from group and associated undertakings as consideration for the additional investment in these companies in addition to the de-recognition of subsidiary undertakings.

33. COMMITMENTS

Capital commitments

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Authorised and not contracted for				
- property, plant and equipment	**1,095**	285	**320**	285
- intangible assets	**2,889**	2,914	**2,036**	1,653

Operating lease commitments – where a Group Company is a lessor

The Group and the Company lease out certain premises under operating leases. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**2,374**	3,594	**309**	209
Later than 1 year and not later than 5 years	**3,433**	4,059	**319**	95
Later than 5 years		-	**-**	-
	5,807	7,653	**628**	304

Rental income from operating leases recognised in profit or loss during the year is disclosed in Note 8.

NOTES TO THE FINANCIAL STATEMENTS

34. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.20million (2014: €0.20 million) not arising under contracts of insurance.

35. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include Directors and shareholders who hold a substantial amount of the votes able to cast at general meetings.

Relevant particulars of related party transactions are as follows:

	2015 €'000	2014 €'000
(a) Sales of insurance contracts and other services		
Sale of insurance contracts		
- subsidiaries	**150**	135
- associates	**6**	8
- shareholders represented on the Board	**1,546**	1,488
Claim recoveries from shareholders represented on the board	**3,063**	3,568
Reimbursement of expenses for back-office services provided		
- subsidiaries (after business combination)	**106**	116
Investment income		
- subsidiaries (dividends/interest receivable)	**2,840**	3,596
- shareholders represented on the Board (dividends/interest receivable)	**3,600**	5,068
Rent receivable from subsidiary/associate	**130**	112

	2015 €'000	2014 €'000
(b) Purchases of products and services		
Reinsurance premium ceded to shareholders (represented on the Board) net of commissions	**6,582**	6,877
Acquisition costs payable to intermediaries where Directors of the Company are Directors or shareholders in companies that act as insurance agents or intermediaries	**4,945**	3,634

NOTES TO THE FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS - CONTINUED

Key management personnel during 2015 and 2014 comprised the President & Chief Executive Officer, Chief Executive Officers, Assistant General Managers, General Manager, Chief Financial Officer, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel amounted to €2.25 million (Company: €1.13 million). Corresponding figures for 2014 were €2.18 million paid by the Group and €1.12 million paid by the Company.

Year-end balances arising from the above transactions:

	Group		Company	
	2015	2014	**2015**	2014
	€'000	€'000	**€'000**	€'000
Debtors arising out of direct insurance operations	**186**	33	**186**	33
Creditors arising out of direct insurance operations	**1,335**	222	**1,335**	222
Amounts owed by subsidiary undertakings	**-**	-	**196**	112
Amounts owed to subsidiary undertaking	**-**	-	**1,001**	1,011
Amounts owed to associated undertaking	**146**	206	**146**	206
Reinsurers share of technical provisions	**9,989**	10,393	**9,989**	10,393
Investments with related parties	**218,748**	219,246	**1,118**	2,698
Cash and cash equivalents	**32,276**	43,126	**1,786**	1,899

All balances above have arisen in the course of the Group's normal operations.

36. STATUTORY INFORMATION

Mapfre Middlesea p.l.c. is a public limited company and is incorporated in Malta.

The Group is 54.56% owned by MAPFRE Internacional (the "immediate parent"), a company registered in Spain, the registered office of which is situated at Paseo de Recoletos 25, E-28004, Madrid.

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

Mapfre Middlesea p.l.c.
Middle Sea House, Floriana FRN 1442, Malta
T: (+356) 2124 6262
mapfre@middlesea.com

middlesea.com