2016 Annual Report & Financial Statements

MAPFRE
MIDDLESEA

MAPFRE MIDDLESEA

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

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

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

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

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

CHAIRMAN'S STATEMENT

2016 saw some mixed results for the Group. Whilst MAPFRE Middlesea p.l.c. ('MAPFRE Middlesea') saw its profitability fall by 51%, at €2.48 million down from €5.07 million, mainly due to poor technical results on motor line of business, MAPFRE MSV Life p.l.c. ('MAPFRE MSV Life'), posted a profit of €11.6 million, lower than the €15.6 million registered in the previous year which had included a one-off gain of €5.05 million as a result of a restructuring of the reinsurance programme in that year.

In spite of the reduced results, and after due consideration to the company's solvency and liquidity, the Board feels confident in its strategy and is recommending a dividend of €0.03826 per share after tax, which is the same level as in the previous three years.This dividend will be distributed partially from prior years retained profit.

After the dividend payment, the solvency position will remain very strong as will be seen later in the first half year of 2017 when the Company publishes its Solvency and Financial Condition Report (SFCR). The Company's liquidity, having taken into account projected expenses as well as the significant projected investment programme remains more than adequate. The Board feels that the prospects for 2017 look brighter both for MAPFRE Middlesea as well as for its principal subsidiary MAPFRE MSV Life. At the same time the circumstances giving rise to the reduced profitability in MAPFRE Middlesea, which principally resulted from poor performance in the motor sector are being addressed and expected to improve over time.

THE INSURANCE INDUSTRY

The insurance industry worldwide continues to grapple with new regulation, climate induced claims and investment returns which have entered new lows. As Solvency II came into effect on the 1 January, insurance companies the world over had to come to terms with new regulatory regime which often indicated a tighter picture than that projected under Solvency I. Companies reliant on investment income, particularly in Germany had to cope with low returns, especially in traditionally safer investments such as bonds and deposits, the latter of which are now in negative territory - a new phenomenon, which has impacted on the profitability of long term insurance companies worldwide.

In Malta, the motor market has not performed well. This is a trend we have seen developing over some years with excessive competition in this sector, pricing the premium lower than the risks taken on. This is clearly unsustainable in the longer term. I will inform you that MAPFRE Middesea is conducting a two-fold operation to return the motor segment to profitability – by increasing prices in line with the risk, and by weeding out those risks that are not performing. Since motor is *generally* proving unprofitable in the industry as a whole, we are expecting the market to follow. However our overriding aim is to ensure that those insured with us pay the correct premium for the risks we underwrite and that we have a sustainable risk policy which leaves our customers with peace of mind.

INVESTMENT MARKETS

As investment targets are recalibrated to achievable returns, and with additional stresses on solvency, and with minimum capital requirements generally increased under Solvency II, Long term insurance companies in particular have found it difficult to achieve adequate returns. Political upheaval brought about by Brexit and the American election which have resulted in tectonic policy shifts have added to market volatility. This is aggravated by the rise of right wing parties in most of the European countries which can threaten the vialibility of the European Union, the resurgance of Russia, economically weaker but politically more aggressive, and China starting to use its relatively new status as second military superpower. This has all made for a less certain roadmap and added uncertainty.

With almost €2b in funds under management, MAPFRE MSV Life have again performed well in what must be termed a challenging scenario. The net return on its portolio has allowed a bonus on its Single Premium Plan of 3.25% (2015 3.25%). MAPFRE MSV Life has a good track record on the Single Premium Plan and its consistently good returns, coupled with its life policy and capital guarantee have meant that sales of this product have been particularly strong. In fact in 2016 sales have been a record €228.13 million (2015 €176.97 million). Although returns have been good, I would say that MAPFRE MSV Life remains very prudent in its investment policy, ensuring a proper spread of investments over type, currency and continent.

IT

Investment in IT is the largest single project the Company has undertaken. This is a multi year project and is one which is critical to the company. The Board recognizes this and is ensuring that we secure an IT platform which is robust enough to serve todays requirements, whilst flexible to be adapted to tomorrows. I reported last year

CHAIRMAN'S STATEMENT

that the start has not been easy and we have missed the timelines we have set. However we are concious of the criticality of the project and have spent much of the year setting up the governance mechanisms which will ensure that we limit risk, and the dangers of cost overruns and non performance. I am pleased to report that these are now in place.

The main service provider for the software is MAPFRE SOFT and MAPFRE TECH and we are in final negotiations in closing a fixed price contract for a state of the art platform which will drive our underwriting and reinsurance systems. This is a significant investment which is all the more crucial as our current platform will no longer be supported beyond 2019.

The Board is aware of its obligations with respect to related party transactions and of the necessity of carrying these out at arms' length which has meant that the Governance structures over the design, scoping, production and implementation of the new IT system have been exhaustively reviewed, challenged and scrutinised. We have now moved towards a closed contract for the provision of the IT platforms for the main underwriting segments and also committed to a third party review by an independent firm of accountants. The aim of these procedures is to ensure that MAPFRE Middlesea gets a state of the art IT system which will enable it to deliver service to its customers in a timely, accurate and efficient manner.

MAPFRE MSV Life p.l.c have largely completed their computerisation and a series of product rollouts from the legacy systems to the new technology has been completed.

INTERNAL CUSTOMERS

The MAPFRE Group, both MAPFRE Middlesea and MAPFRE MSV Life, depend on intermediaries and agents to sell the greater part of their products. 65% of MAPFRE Middlesea's turnover is derived from sales through agents and Tied Insurance Intermediaries. This is even higher at MAPFRE MSV Life, where Bank of Valletta p.l.c. is the main producer through its bancassurance operations.

As principals we are required to underwrite risks prudently, and with reinsurance ensure we are able to meet forseeable risks whilst running a profit for our shareholders. With MAPFRE Middlesea this has necessitated repricing our Motor premiums which will mean a greater effort from our agents and intermediaries. With this challenge and the added regulatory burdens and the soon to be introduced IT platform, we are concious of these added burdens placed on our internal customers.

I should like to place on record my gratitude, as well as that of the Board, for the continued support that we recieve from our TII's and agents.

PENSIONS

Growth in pensions was steady but is not yet significant as more incentives are required from Government in order to kick start this relatively new industry. The importance of having our younger generations saving for their later years is critically important for the health of the nation, and we look for greater encouragement by Government in this area. Pensions looks to be a significant growth area in the future if the right incentives are put in place and Mapfre MSV life is well positioned to lead on the creation and provision of eligible schemes in this area.

CORPORATE SOCIAL RESPONSIBILITY

2016 was an eventful year for MAPFRE Middlesea. During the year, the company continued to help the community through its Corporate Social Responsibility Programme, which forms part of MAPFRE's global volunteering programme.

A number of employees from all departments participated in events held with different entities. These included Nature Trust, Voclare, St Patrick's Residential Home, MCCF, Caritas, MSPCA and Malta Blood Transfusion Service. MAPFRE Middlesea p.l.c also extended its support to Dar tal-Providenza, Hospice Movement, Malta Red Cross, St Johns Rescue Corps and Dr Klown amongst other philanthropic entities.

Through Fundacion MAPFRE, the campaign Caqlaq, a healthy living awareness campaign in schools, was held for the fourth consecutive year, whilst Street Smart which concentrates on bringing an awareness to children about road safety was commissioned for its third year and this time it was launched on TV stations to reach out to more children.

The President's Fun Run was supported by MAPFRE Middlesea p.l.c. with all proceeds going to The Malta Community Chest Fund and l-Istrina, which helps Maltese patients needing medical treatment abroad.

Throughout 2016, the Company also stressed on raising awareness about road safety for the public at large, focussing on the safety of those on two-wheeled vehicles. In line with MAPFRE's values, the Company organised several learning opportunities to its employees, allowing them to develop their skills further. A number of team-building activities were also held.

CHAIRMAN'S STATEMENT

SHAREHOLDERS

MAPFRE Middlesea p.l.c. is a listed company with 54.56% of the shareholding owned by MAPFRE Internacional, a subsidiary of MAPFRE S.A.. 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 were very fortunate to have had on the Board Javier Fernández Cid Planiol who retired from all executive positions at the MAPFRE Group on the 31 December 2016, and consequently also as a director of MAPFRE Middlesea p.l.c.. On behalf of the Board I would like to thank him for his sterling contribution and wish him a well deserved peaceful and enjoyable retirement.

I would like to welcome Jaime Tamayo Ibañez who was appointed on the 1 January 2017. Mr Tamayo has developed his career in the MAPFRE Group since 1993 with different executive positions in Spain and notably in the US. He is currently CEO International of MAPFRE S.A., member of the Executive Committee of MAPFRE S.A., Chairman of the Board of Directors of Direct Line Insurance S.p.A. (Italy) and Chairman of the Supervisory Board of Direct Line Versicherung AG (Germany). He is also a Board member of MAPFRE Internacional and MAPFRE RE. Jaime 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.

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 MAPFRE MSV Life p.l.c. jointly with MAPFRE Middlesea p.l.c., where it generates the majority of the premium sales in this entity. Mr Alfred Attard was appointed on the 22 April 2016. Mr Attard has been employed with the Bank of Valletta for the past forty years holding several senior management positions. I should like to take this opportunity to thank Mr Charles Borg for his very valid contribution and advice and wish him every success. I should like to thank all my fellow Board members for their support and good counsel. I am fortunate to have a technical and skilled board and our Board meetings have been very open with the common clear objective of moving the company forward.

The Company's new President and Chief Executive Officer Felipe Navarro Lopez de Chicheri has made great inroads into the reorganization of the Company, changing systems and procedures to ensure that we become more efficient, accurate, whilst at the same time upgrading the Company's controls. Consolidation is paramount after the significant growth achieved in recent years. These changes, including the computerisation noted above will make the Company better able to meet the challenges of the future. I should like to thank him, his management team and indeed all the staff of MAPFRE Middlesea for their considerable efforts during the past year

I would also like to thank MAPFRE MSV Life p.l.c.'s CEO David Curmi as well as all the management and staff of all the Group companies for their hard work during 2016.

The insurance industry relies on professional, competent and skilled management and staff and we are fortunate to have a great team within the Mapfre group of companies in Malta.

MARTIN GALEA
CHAIRMAN
MAPFRE MIDDLESEA P.L.C.

8 MARCH 2017

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MAPFRE MIDDLESEA GROUP HIGHLIGHTS

After the significant growth in 2015, last year continued to experience an increase in revenue way above what was expected. The Group consolidated gross premium written reached €332.64 million mainly due to the growth in the single premium business from MAPFRE MSV Life. In non-life MAPFRE Middlesea grew in all lines of business in general but especially in motor. MAPFRE MSV Life's ('MMSV') gross written premiums reached €272.63 million with an increase of 23.5% over the previous year. MAPFRE Middlesea p.l.c. ('MMS') on its side had a turnover of €60.01 million with an increase of 23.0% compared with the previous year. It is important to note that during 2016 MMS did not buy any new portfolio, but had the first full year since the appointment of Untours and Montaldo as agents. Without these two new agency agreements the increase in premiums of MMS would have been 14.95%. The Group confirms its leadership in the Maltese market both in life and in non-life where the market share, based on provisional market data show a 77.4% and 34.1% respectively in 2016.

2016 cannot be defined as a year where the financial markets have had a steady behaviour. The economical unrest due to the growth of the developing countries and the solvency of certain economies in the Eurozone were overshadowed by the political turmoil after important pools in 2016: Brexit, the Italian Referendum, the No vote in the Colombian referendum on the peace talks and, over all, the victory of Donald Trump in the US presidential election brought a lot of volatility to the international markets. The Euro lost value against the US Dollar, the British Sterling lost significant value against the Euro and, finally, the possible change in the tendency of the long term interest rates are defining a new paradigm in the financial markets for the medium and the long term. To the previous events we should add the excess of liquidity that Europe is experiencing and namely Malta and the first signs of interest rates increase in the USA. In such a situation, the stability that the insurance pooling and smoothing long term products are offering to the client contributed to a peak in the sales of MMSV single premium business that is providing the company with the biggest increase in sales of the group with a total of €224.71 million in premium and a growth of 31.2%.

The motor market keeps growing in this country. The total number of vehicles increases on a daily basis and on top of this Malta has one of the oldest fleets in Europe. In this environment, MMS experienced another year with a new record on the number of insured vehicles. Unfortunately we also saw how the profitability in this line of business continued deteriorating during this period due to both frequency and average cost of claims. The dramatic increase in the number of traffic casualties in 2016, especially in the number of fatalities, together with the aging of the motor vehicles and the increase in motorcycles are determining factors for the loss ratio increase. The gross loss ratio reached 77.8% with an increase of 10.3 percentage points over last year. The overall net combined ratio for motor business resulted in a 113.8%.

Consolidated Group profit before tax reached €11.64 million that means a decrease of 35% compared with last year. The individual result of MMS inclusive of Group dividends has been €2.48 million and the one of MMSV its main subsidiary €11.6 million. Utilizing retained profits from previous years MMS will propose to the AGM a net dividend of €0.03826 similar to the one that was declared in the previous years.

One of the main MMS´s targets is to stabilize its profit at individual and at consolidated level. To achieve it, MMSV established an annual management charge (AMC) on the with profits business that will reduce the market exposure of MMSV profit and loss account without changing the long term profitability for the policyholder. Likewise MMS is concentrating in giving technical profitability to the portfolio, avoiding that profitable lines of business continue to subsidize other non-performing ones applying an adequate tariff on all products. The shareholder, in the long term, would be entitled to take advantage of a technical profitability that would provide him with the adequate performance for the invested equity.

MMS has also the mission to improve the relations with the different shareholders of the company putting the client at the centre of the activity. To this effect we are doing an in depth revision of the procedures of this company to deliver a better quality service to the client. The moment of truth for the insurance business is at the claim stage. It is here where the insurance company has to play its stabilizing role in society sometimes through a cash indemnity to compensate the loss suffered and sometimes through a quality service where MMS has been systematically investing in the last years. At MMS we are conscious that there is still a long way to go. In many cases we will be setting new trends that will change the perception of the insurance for the Maltese market. The quality level already offered by MMS in products like the road side assistance or the repair service associated with the home policies are some of the features that make us proud. MMS is working continuously to improve all the processes with the objective to provide our client with a service within the MAPFRE Group world standards. For this MMS is investing in technology that will allow the company, not only to update the systems that are already old, but to improve and revisit all the processes that are more in contact with the client. We know that by only increasing the number of people working in the company it will not be enough to increase the perception of the quality in the service.

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MMS is following, along with the MAPFRE Group, the perception of the service that the client receives in all the different contact stages. MMS is using the Net Promoter Score ('NPS') tool that allows it to be compared with the competition and with itself in previous surveys. The NPS indicates as well the areas that the client perceives as crucial.

The MMS group is working with Great Place to Work ('GPTW') to establish a measure of the labour environment to allow the company to improve its relations with the employees. For MMS the period 2015-2017 has been especially complex due to the dramatic increase in the number of employees and as a result of the internal circumstances in adapting and modernising its structures. MMSV is following as well the GPTW methodology and is receiving good grades. In the future both companies' target is to increase the GPW level and become a better place to work. MMS Group employed 252 workers at the end of 2016 an increase of 2% over the previous year.

MMS group is incorporating new IT tools that are going to bring a radical modernization in the way both companies operate. MMSV is already transacting one product with this new IT tool and during the coming months we will be implementing it in all distribution channels. MMS has since 2012 been involved in developing a new System together with the MAPFRE Group. The new tool has already been implemented in the health business. During 2016 MMS was working intensively to adopt this tool to the home business and the plans are for it to be deployed in 2017. During this year we will be working as well in developing motor and travel insurance with this system. The change in the IT tool based on a MAPFRE Group proprietary tool is a great investment for the Company that is being reflected in its intangible assets. The deep digital transformation that we are experiencing will allow us to take a considerable leapfrog and implement the most modern tools of the Group to the rest of the lines of business. All these investments should bring the company to a new level of management and client service.

GENERAL BUSINESS

The premium increase in 2016 has been that of 22.4%, due amongst other to the first full year of incorporation of the Montaldo and Untours Agencies following their appointment in the last quarter of 2015. The organic growth of the company was 14.1% split on all lines of business. The business with the highest increase in 2016 has been Motor which saw an increase of 32.7% in premium written. The other lines of business with special increase in 2016 were Yachts and Engineering with a 34.3% and 29.2% increase respectively.

After reviewing all the lines of business that this company markets, MMS has increased its exposure to the motor business which already represents a 52.5% of the total non-life portfolio. However, this line of business didn't provide the expected profitability and shows a combined ratio of 113.8%. In 2017 this company started an in depth restructuring of the line of business with the aim of returning the business to its due profitability. The rest of the lines of business had an overall good performance even if they were affected by some large claims during the year. By order of significance fire had a combined ratio of 90.4% and Health had a combined ratio of 86.1%.

In 2016 the total number of policies issued increased by 33.5% reaching 216,632 which is already a big part of the Maltese market. The retention rate is still acceptable even if we continue experiencing a major trend in the transfer of policies between insurers. To increase our retention MMS understands that it should improve the customer care and service and in this regard we count on our technological modernization plan already mentioned. In addition MMS has an excellent distribution network where our partners - Agents, Brokers and TIIs- do an extremely good job in customer contact and support. Once again we obtained the confidence of the brokers that continue to propose to their clients our value proposition. We are especially proud of the agents and their networks that deliver an excellent service to the client that is frequently exceeding the client's expectations. One of our best assets is the TII network that, with ongoing training and service orientated philosophy, are always at the front line supporting the clients and helping them to find the right insurance solution to their needs.

In 2016 the business distributed by brokers saw an increase of 6.54%. The business distributed by our agents increased by 41.07%, mainly as a result of the appointment of Montaldo and Untours, without which the increase would have been an important 16.69%. The TII business increased by 28.03% reaching the 22.86% of the total general business premiums of the company. BOV is one of our strategic partners in the distribution business mainly for Home.

MMS has as well direct business coming from the central activities or from our three regional offices in Birkirkara, Floriana and Luqa. In these offices on top of taking care of the different TTI´s, the client receives a complete service where, in the case of Birkirkara and Luqa, he has the possibility of a fast car survey before sending the car to his chosen repair garage.

We are proud of the level of quality that the client receives in the car repair by the approved garages where the level of service is certified by a third party company. We are proud as well of the home repair service that our client receives with the home policy that is having the highest levels of costumer´s satisfaction.

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Gross operating expenses increased by 28.2% over the previous year. The expenses increase is associated with the increase in the intermediated business and business in general, new personnel joining the company and the first full year of expenses related to the Allcare portfolio transfer, together with the increase in the IT expenses. The expense ratio of the company is still in a moderate level at 31.9% of the earned premium compared with the group targets. MMS employed directly 159 workers during 2016.

MMS has an exceptional solvency ratio well above the minimum regulatory under solvency II which solvency cover will be reported in May 2017 in the Solvency and Financial Condition Report (SFCR). This strong capital position allowed us in the past to increase the level of retention of the portfolio and therefore reduce the reinsurance cession in the lines of business where it was possible without incurring a bigger risk for the Company in the case of a catastrophe. Our simulations allow us to confront, with enough financial solvency, a catastrophic situation that could affect the country. MAPFRE Re, the MAPFRE Group reinsurance company continues to deliver an excellent service in finding the best covers with the adequate price, taking advantage of the groups' purchasing power. The retained premiums increased to an 82.28% and the ceded claims increased by 222%. The reinsurance once again acted as the perfect stabilizer for the technical profitability.

The financial results followed the volatile situation of the markets. In 2017 we are expecting to have a much higher level of occupancy in Development House .This should help to increase the company's steady income. Again, the revaluation of this building has been important and affected positively the profits of the company.

LONG TERM BUSINESS

We can say that 2016 was another record year for the long term business. With more than €272.6 million in written premiums and an increase of 23.5% over the previous year MMSV is succeeding in the distribution of life savings insurance. BOV is the strategic partner in this business and is responsible for the majority of the sales in the Single Premium business. Other bancassurance agreements and the TII network also contributed to the great success of the company.

The With-Profits business distributed in the island is quite a unique product that allows the client to receive a stable return in the long term savings. The success of the company together with the low interest rate environment are contributing to a record year for this product.

The investment income at €78.1 million suffered the turmoil of the financial markets. Despite the volatility produced by the surprising news during the year [Brexit, Italian referendum and Donald Trump election amongst others] the With-Profits fund had a total return of 4.7% allowing the company to cover the bonus declaration that will be announced in the near future. The total invested assets reached a new record of €1.78 billion, an increase of 9.3%.

MMSV reduced the volatility in their monthly results and contributed a stable profit of the consolidated group thanks to its annual management charge scheme in the With-Profits business. This allows the client to take further profit on the return of their investments and allows the company to stabilize the profitability regardless of the markets performance. The increase in 2016 of the value of the in force business came mostly from the increase in the managed fund and the adaptation of the calculation variables to the market reality. Overall MMSV has already in total assets of €1.93 billion, 10.7% higher than the previous year.

The total profit of MMSV reached €11.6 million 25% lower level than the previous year, but an excellent result taking into account the one-off adjustment of 5.05 million in 2015. We should expect a stable return in the coming years that should be more independent of the behaviour of the financial markets.

Net operating expenses show an increase of 25% reflecting commissions on the increase in the new business.

MMS life portfolio although small in terms of the Group also saw a substantial increase in business with premiums written increasing by 42.3%. Results were however much lower than in 2015 as a result of a higher death claims frequency and severity giving the portfolio a result of €0.09 million compared to €0.47 million in the previous year.

We should consider 2016 as a good year for the Group for this line of business.

CONSOLIDATED RESULTS.

During 2016 the group registered a profit before tax of €11.64 million, 35% lower compared to the previous year. MMSV's result offset the poor result of MMS due mainly to the bad behaviour in motor business.

The tax expense of 2016 is less than corporate rates at 23.4% compared to 33.5% in the previous year as a result of the component of fair value movements from real estate investments that are taxed at lower rates.

Earnings per share attributable to shareholders decreased from 7c4 to 5c0. The profit attributable to shareholders reduced as a result of the drop in MMS results.

MMS is committed to return value to shareholders and will continue to dedicate an important part of its profit to remunerate the shareholder. In this spirit of continuously

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and significantly remunerating the shareholder, MMS will propose to the Board the payment of a dividend of €0.03826 gross and €0.03826 net per share equal to last year and representing 141.85% of the gross profit for the year before taxes. This year MMS will profit from previous years' retained earnings in order to stabilize the shareholder dividend. It should be noted that the payoff of the company is 135.3% this year. The company should look to propose in the future a stable dividend, whilst ensuring a good solvency level which guarantees a distribution of a good part of the profits after taxes.

STATEMENTS OF FINANCIAL POSITION

The total assets of the group increased by 10.89% and totaled €2.02 billion. More than 93.24% of them are return seeking assets (investments and cash and cash equivalents) derived from the increase in MMSV's funds under management. These funds are invested in a number of diversified securities (local and foreign), managed in-house or by external high reputable entities. The group has a portfolio of rented property investments and property related shares.

On the liabilities side more than 97.38% 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 liability which increased mainly due to the unrealized movement in the investment portfolios that also increased.

Total equity increased by €9.659 million or 6.09% including the minority interest mainly driven by the profit for the year and the increase in the Value of in-force business partly offset by the dividends paid.

REVIEW OF OPERATIONS

The MAPFRE Middlesea Group continues to base its financial performance in the 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.

The most relevant action on the marketing side during 2016 has been the change of the name of the Life subsidiary. The new MAPFRE MSV Life p.l.c. levers on the MAPFRE brand and unifies the image of the company with the same that the MAPFRE Group has in more than 45 countries. This is another statement of the commitment of the MAPFRE Group in the country that will, for sure, bring a new level of experience to the client.

MMS finalised the footprint of the direct offices on the Island. After the opening of Birkirkara and Luqa regional offices that joined the one in Floriana, expansion of MMS now relies on the local support that we receive from agents and TIIs. The regional offices should in the future be the first place to deliver new services to the client.

2016 was a year of consolidation in the portfolio of products. We now need to live with an already modern portfolio. Motor Max, Max Protect, the excellent road side assistance service, the repair service for the home business differentiate this Company and deliver an excellent offer to the client. In 2016 we changed significantly one of our products introducing the Storm Cover for the motor third party fire and theft with a limit of €500, being the only company in the island to provide this extra service to the policyholder.

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.

Last year MMS introduced a new modern view of the company, MMS introduced the new website which provided the client with an easier and clearer look of 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 enhancing the services and give more features to the website in order to provide everyone with a state-of-the-art technology. In this line we introduced early this year a brand new client portal that allows the client to experience online interactivity with the company. The client is now allowed to view the policies, start a claim and even renew the policy online.

During 2016 we approved and updated up to 62 different governance policies that ensures the governance of the company with the most modern standards. MMS Group is now fully compliant with the Solvency II requirements. Technology is always a major investment area for the company. We are close to implementing the new IT system for MMSV and with sounded progress in the IT transformation of MMS. These investments are going to help us to develop our activities in a more efficient and dynamic way. We are benefiting from the MAPFRE Group expertise that is providing the companies with state of the art software.

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 28% 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. Bee is benefitting from a special situation post BREXIT that could open a new horizon of opportunities for this very specialized company. We have a lot of good expectations for the future of this very specialized subsidiary.

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MIDDLESEA ASSIST LTD

Middlesea Assist, the joint-venture between MAPFRE Middlesea p.l.c. and MAPFRE Asistencia, had an excellent year with revenues up by 58%. Volume of services provided to the MAPFRE 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.

At this moment Middlesea Assist is a key partner for MMS activities providing the most sensitive service to the client, namely the Roadside Assistance and the Home Assistance. These products score highly when evaluated in an after service survey. Middlesea Assist is providing as well other services for the group and manages all the call centres of MMS.

LOOKING FORWARD

2017 will be a turning point in the history of MMS group. We are already totally aligned with the MAPFRE Strategy. We are fostering the development of the four strategic lines of the group: client orientation, excellence in technical management, digital transformation and spreading our culture and developing the human talent.

Being the trustworthy company that we strive to become is not something that we should take for granted. This is our goal during our day-to-day. We have to put the client at the centre of the operation and at the same time to achieve a profitable growth. We now need to give the right price to all clients, avoiding some non-performing lines of business to be supported by others and clients paying more in certain products to subsidize others. Our final goal is to take advantage of the extreme solvent position that we have in Malta and deliver the excellent management that we owe to our shareholders.

MMS Group is prepared to invest all the needed resources to succeed in the new challenges that the future regulation is going to bring. The new Insurance Distribution Directive is going to change the way the distributor addresses the insurance needs of the client. Our teams and networks will be prepared for this new challenge.

MAPFRE Middlesea is looking forward with optimism and hope. We see the Maltese insurance market evolving and maturing in a very fast way. Malta is overcoming the limitations due to the island physical isolation. Energy, transport or communications should not be a determining factor anymore and the full understanding of that situation can be key in the success of the country in all the services industry.

Technology is determining the future of the motor industry and insurance will be affected as well. Despite this new challenge we have to bear in mind that insurance business has always provided cover to unknown events, from the trade across the Atlantic Ocean in the 17th century to the satellite industry in the 20th, so it will provide insurance for self-driven cars or pay-as-you-go car rental.

Newcomers can change the way the insurance is distributed in the future. We are ready to compete but as a regulated industry we all should play under the same conditions and regulatory limitations.

MAPFRE Middlesea plc has a profound commitment with the shareholders, clients, distributors, providers, workers and Maltese society in general and will continue to work to become Your Trustworthy Insurance Company.

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

8 MARCH 2017

BOARD OF DIRECTORS & COMPANY SECRETARY

MARTIN GALEA

ACA – Chairman
NED I

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

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

ALFRED ATTARD

NED I (appointed on the 22 April 2016)

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

MR NIKOS ANTIMISSARIS

NED

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

AT PRESENT: CEO for EMEA (Europe, Middle East and Africa) Region of the MAPFRE Group, Vice chairman of the Board of Directors of DIRECT LINE VERSICHETUNG AG (Germany), Member of the Boards of Directors of MAPFRE MSV Life p.l.c. (Malta), MAPFRE SIGORTA A.S. (Turkey), MAPFRE YASAM SIGORTA A.S. (Turkey) and DIRECT LINE INSURANCE S.P.A. (Italy).

ANTOINETTE CARUANA

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

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

AT PRESENT: Company secretary and Group HR Manager of the Farsons Group and member of the Farsons Group Executive Board and Member of the Institute for Public Services Board. She serves as employer's representative on the Industrial Tribunal.

JOHN CASSAR WHITE

NED I

FORMERLY: Chairman of Bank of Valletta p.l.c. up to 16 December 2016. Worked with the Bank of Valletta for thirty seven years until 2008 with his final post being that of Chief Risk Officer. 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 MAPFRE MSV Life p.l.c., BOV Asset Management Limited and BOV Fund Services Limited.

DAVID G. CURMI

ACII, Chartered Insurer
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 MAPFRE MSV Life p.l.c., Director of Middlesea Assist (a MAPFRE company), Director of Midi p.l.c., Director of Plaza Centres p.l.c..

JAVIER FERNÁNDEZ-CID

NED (resigned on the 31 December 2016)

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).
In line with the MAPFRE Group policy Mr Fernández-Cid has retired from all executive positions at the MAPFRE Group, as from the 1 January 2017, and consequently also as a director of MAPFRE Middlesea p.l.c..

PEDRO LÓPEZ SOLANES

NED

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

BOARD OF DIRECTORS & COMPANY SECRETARY

JAIME TAMAYO IBAÑEZ
NED (appointed on the 1 January 2017)
FORMERLY: Holding a law degree from the Complutense University of Madrid. He has developed his career in the MAPFRE Group since 1993 with different executive positions in Spain and notably in the US. Until the 31 December 2016, he has been the President & CEO of MAPFRE USA as well as the CEO for MAPFRE NORTH AMERICA which includes all the Group´s businesses in the United States, Canada and Puerto Rico.

AT PRESENT: CEO International of MAPFRE S.A., member of the Executive Committee of MAPFRE S.A., Chairman of the Board of Directors of Direct Line Insurance SpA (Italy) and Chairman of the Supervisory Board of Direct Line Versicherung AG (Germany). Board member of MAPFRE INTERNACIONAL, and MAPFRE RE.

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 plc."

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, Malta Council for Culture and the Arts; Managing Director, Market Intelligence Services Co. Ltd., Chairman C. Fino & Sons Ltd.; Director Promise Professional Services Group Ltd. (Cyprus); Director, PowerImage Services Ltd.(Cyprus); Director, 3a Malta Ltd; Director Nemea Bank plc.

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

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

AT PRESENT: President and CEO of MAPFRE Middlesea p.l.c.., Director of MAPFRE 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.

CARLO FARRUGIA
Dip. Gen. Mgmt (Maastricht), PGDTI, M.A. (Transl. & Interp.).
Company Secretary
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 its subsidiaries. He is also a visiting lecturer at the University of Malta for Translation and Interpreting, published the Dictionary for Financial Services and is involved in the Olympic Movement and a member of the Maltese Olympic Academy.

CHARLES BORG was not re-appointed as a Director during the AGM held on the 22 April 2016 and was therefore a Director between the 1 January and 22 April 2016.

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
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Tel: (+356) 2133 9110
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E-Mail: info@bonniciinsurance.com

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

LAFERLA INSURANCE AGENCY LIMITED
204, A Vincenti Buildings,
Old Bakery Street,
Valletta, VLT 1453
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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

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 Martin Galea (Chairman)
Mr Jesus Amadori (appointed on 22 April 2016)
Mr David G. Curmi
Mr Pedro López Solanes

THE AUDIT COMMITTEE
Mr Alfred Attard (Chairman appointed 22 April 2016)
Mr Nikos Antimissaris
Mr Charles Borg (not re-appointed on 22 April 2016)
Ms Antoniette Caruana
Mr Martin Galea

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

THE RISK AND COMPLIANCE
Ms Antoniette Caruana (Chairperson)
Mr Alfred Attard (appointed 22 April 2016)
Mr Charles Borg (not re-appointed on 22 April 2016)
Mr Martin Galea
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 2016.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

THE COMPANY

MAPFRE Middlesea p.l.c. (the 'Company') registered a profit before tax of €2.48 million during FY 2016 compared to €5.07 million registered in FY 2015 with post-tax profits of €2.60 million, compared to €4.64 million in FY 2015. The drop in the financial results was as a result of significant downturns in the technical resuls for both the non-life and the group life business.

Premiums written by the Company reached €60.0 million (2015: €48.8 million), an increase of 23.0% and the highest ever recorded by the Company, with growth registered in all classes of business. Provisional market data shows that the market leadership in the non-life business has been further strengthened at 34.1%. The increase emanated mainly from organic growth but also through the new agencies appointed towards the end of FY2015 havingfulfilled their first full year of operations.

Technical result for general business was subdued compared to previous year at €1.41 million, a drop of 58% from the €3.37 million generated in FY 2015. The net combined ratio of 101.57%, up from the 95.35% registered in FY 2015, mainly resulted from the deterioration in the loss ratio of the motor line of business, with lower favourable run-offs attained compared to previous year. Classes other than motor had an overall good performance exceeding that achieved in FY 2015 notwithstanding being affected by a number of large claims. Group Life business also registered a low profit notwithstanding the high increase in premiums written as a result of a higher frequency and severity of death claims.

Technical profitability volatility is the main risk faced by the Company and in line with MAPFRE Group strategy, profitable growth is key to achieving adequate returns to its shareholders. In this regard the Company has embarked on an in-depth restructuring of the motor line of business with the aim of returning this business to its due profitability. The Company continues to monitor development in each line of business, introducing changes in the products offered but also taking on risk that is within its risk appetite to maximise profit.

Business retention also has significant importance in a market vying for growth. The Company understands that it can only maximise on such retention rates through offering its clients a better service directly or through its numerous intermediaries. Apart from tailoring products that provide to the needs of clients the Company is looking at technological modernisation and digitalisation through the further implementation of it's new insurance IT system and platforms that bring the Company nearer to its clients. The Company is aware of the inherent risks that an overhaul of the core IT system brings about both to resources and operations and Management plans to ensure transition is done in a way to mitigate such risks.

The Company's net investment income saw a drop of 3.8%, to €4.81 million in FY 2016. The main source remains the dividends received from Group companies which were lower than in FY 2015. Fair value movements as in previous year were driven by the revaluation of its property investments as its recently refurbished flagship property started yielding the returns anticipated.

The Shareholder's Funds of the Company at €62.10 million saw a drop of 1.21% during FY 2016 resulting from the dividend distributed which outweighed the profit for the year. Net Asset Value per share as at 31 December 2016 amounted to €0.67.

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

MAPFRE MSV LIFE P.L.C.

MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life" and "MSV Group") registered a profit before tax of €11.6 million for the year ended 31 December 2016, down 25.6% on the previous year where a €15.6 million profit before tax was generated. Profit after tax recorded at €8.6 million, was down 14.9% on the previous year. Prior year profitability was influenced by a one-off gain of pre-tax €5.05m arising as a result of a major restructuring of the company's reinsurance programme replacement as from financial year 2015.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

MAPFRE MSV LIFE P.L.C. - CONTINUED

Operating results were supported by strong inflows of premium revenue across the company's range of insurance and investment products resulting from stronger customer demand. Gross premiums written for financial year 2016 increased by 23.5% from €220.8 million to €272.6 million. This was mainly due to an increased demand across all products in particular single premium savings contracts and life protection business.

Claims increased to €144.4 million through the year compared to a prior year €109.2 million. During the year the company had a higher mix of maturing medium-term single premium contracts, the large proportion of which has subsequently been re-invested in new medium-term contracts.

Investment conditions were characterised by continuing low interest rates, low inflation and a relatively weak Euro currency resulting in lower realised yields and stable unrealised gains recorded on asset classes when compared to the prior year.

In aggregate, the balance on the long term business technical account decreased to €10.7 million from a prior year €14.1 million as a result of the non-recurring gain from the restructuring of the reinsurance programme in 2015 but the technical result was still supported by strong business growth and technical performance.

The MSV Group's total assets increased by 10.7% from €1,743.9 million at the end of 2015 to €1,930.4 million at the end of 2016, whilst net technical provisions (including investment contracts without DPF) increased by 11.0% from €1,561.1 million in 2015 to €1,733.4 million in 2016.

The value of in-force business, which projects future transfers to shareholders arising from policies in force at the end of the year, increased by 12.4% from €53.4 million in 2015 to €60.0 million in 2016. This is partially attributable to the future value of business written during the year and the impact of the year's updated mortality assumptions.

Equity and bond markets produced robust yet somewhat weaker returns than those generated in prior year with net investment income decreasing from €91.2 million in 2015 to €78.1 million in 2016. Investment performance was underpinned by the company's conservative and diversified portfolio of assets, as well as by the rigorous and prudent investment management process that is so important in the management of life insurance companies.

Total shareholders' funds at the close of 2016 amounted to €160.3 million (2015: €150.2 million), an increase of 6.7% over the previous year.

The shareholders of MAPFRE MSV Life are wholly committed to ensuring that the company remains adequately capitalised at all times and well positioned for both business growth and the regulatory capital requirements of the now applicable Solvency II framework. The smooth and seamless transition from the outgoing Solvency 1 regime to the incoming Solvency 2 regime has allowed MAPFRE MSV Life to recognise a higher element of excess regulatory capital on transition and this has been taken into consideration by the Directors of MAPFRE MSV Life when recommending an uplift to this year's dividend level. The company's expected Solvency II Ratio as at 31 December 2016 reported to the MFSA is 307% and 288% before and after the payment of dividend respectively.

The Directors of MAPFRE MSV Life recommend the payment of a final net dividend of €11.55million (2015: €5.00million). MAPFRE MSV Life remains focused on the generation of capital and its disciplined allocation and appropriation.

In March 2017, the Board of Directors of MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of with-profits plans held with MAPFRE MSV Life for the year ended 31 December 2016. These amounted to 3.15% for the MSV Comprehensive Life Plan (regular and single premium policies), 3.25% in respect of the MSV Comprehensive Flexi Plan (regular and single premium policies), 3.25% under the MSV Single Premium Plan and 3.25% under the with-profits options of the MSV Investment Bond and of the MSV Retirement Plan. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2.40% of the basic sum assured plus bonuses was declared. In addition, the Board also approved the declaration of a Final Bonus in respect of the Comprehensive Life Plan (single and regular premium) and the Comprehensive Flexi Plan (single and regular premium), policies that have been in force for more than 10 years. The Final Bonus will be paid on claims payable as a result of death or maturity between 1 March 2017 and the next bonus declaration, at a rate of 2.50.% for every year after the 10th year of the policy capped at the rate of 10.00%. This final bonus will be paid on the value of the Policy Account as at the date of death or maturity.

The Board also approved a Regular Bonus of 3.15% on those Secure Growth policies which formed part of the portfolio of business transferred to MAPFRE MSV Life from Assicurazioni Generali S.p.A. during 2000. Finally the Board also approved a Regular Bonus of 1.75% on the Alico 78 policies and a Regular Bonus of 2.00% on the Alico 66 polices which formed part of the portfolio of business transferred to MAPFRE MSV Life in 2011 from American Life Insurance Company ("ALICO").

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

MAPFRE MSV LIFE P.L.C. - CONTINUED

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

In 2016, the life insurance market in Malta retained strong demand patterns. MAPFRE MSV Life continues to see good momentum in all its product groupings as customers continue to choose MAPFRE MSV Life, reflecting trust in its brand and in the quality of its service proposition.

During 2016 the company was rebranded as MAPFRE MSV Life p.l.c. reflecting better the new corporate roots and aligning with the brand promises of the ultimate owner MAPFRE. MAPFRE MSV Life believes that this investment in its branding will improve its market presence further and increase the number and reach of its retail offerings.

OTHER SUBSIDIARIES

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

BEE Insurance Management Limited ('BEE') and its subsidiary Euro Med Risk Solutions Limited which offer Insurance and Non-Insurance management services saw an increase in revenue and profits. BEE also played a very active role at international events, establishing new business leads and contributing to extend the knowledge of Malta as an excellent jurisdiction to operate from. BEE is benefitting from a special situation post BREXIT that could open a new horizon of opportunities for this very specialized company. We have a lot of good expectations for the future of this very specialized subsidiary.

Church Wharf Properties Limited holding a property within the Regeneration of the Grand Harbour Area continues monitoring the evolving of this project which gives a potential increase in marketability and value of this investment held.

It is the intention of the Directors of Euro Globe Holdings to put the same company in liquidation as soon as the company in which the remaining asset held is itself fully liquidated.

THE GROUP

The Group registered a profit before tax of €11.64 million for the year to 31 December 2016 (FY 2016) compared to €17.84 million achieved in FY 2015 which had included a one-off €5.05 million adjustment arising as a result of a major restructuring of MAPFRE MSV Life p.l.c.'s reinsurance programme replacement as from financial year 2015. Profit after tax for FY 2016 closed at €8.93 million a drop of 24.8% from the €11.87 million achieved in FY 2015. Group premiums written reached an all time high of €332.64 million, a 23.46% increase above that registered in FY 2015 which firmly puts both insurance companies leaders in their respective markets.

MAPFRE Middlesea's Group capital and reserves attributable to shareholders at 31 December 2016 amounted to €86.8 million (2015: €82.3 million) on a consolidated basis with a net asset value per share of €0.94 as at 31 December 2016.

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

Training and development of our people continued to feature high on our agenda during 2016. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas.

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

DIRECTORS' REPORT

BUSINESS REVIEW - CONTINUED

THE GROUP – CONTINUED

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

Going forward we will maintain strong focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end we will continue to invest and innovate in information technology. During 2016 we progressed on our major IT programmes in both insurance companies and commenced on a series of product rollouts from old legacy systems to new technologies. This will enable us to offer superior levels of service to our customer base. In tandem we have a number of initiatives lined up to strengthen further our digital platform and widen our digital marketing strategy.

We also look forward to developments within the voluntary occupational pension scheme (VOPS) area following Government's announcement in last year's Budget that it will introduce a number of fiscal incentives to encourage employers to set up VOPS for their employees. We believe we are well positioned through MAPFRE MSV Life to lead on the creation and provision of eligible schemes in this area.

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

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

OUTLOOK

The outlook of the Board of Directors for 2017 is one of cautious optimism. The growth registered in the local economy and the low levels of unemployment are expected to continue throughout the year. Within this context, demand for general business is expected to continue growing at the rate experienced in the last two years and the demand for the protection, savings and investments products in life is expected to remain strong.

At the global level, business and consumer confidence is showing signs of improvement. Many believe, that this could be the beginning of a period of normalization in interest rates. Though a gradual process of interest rate increases, would, generally speaking, be a positive economic development, a sharp increase in interest rates could have serious negative repercussions on the economy and the financial markets.

Interest rate increases will mean higher yields but will also lead to a reduction in the value of the fixed income financial assets held in our portfolio, a lower demand for bank borrowing and an increase in the demand for other competing savings and investment products and instruments.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are further disclosed in Note 4 dealing with management of risk as supplemented by Note 3 relating to critical accounting estimates and judgements in applying accounting policies, Note 16 on intangible assets covering details on the Company's value of in-force business and Note 23 discussing the assumptions underlying the technical provisions.

EVENTS AFTER THE FINANCIAL REPORTING DATE

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

DIRECTORS' REPORT

BUSINESS REVIEW - CONTINUED

RESULTS AND DIVIDENDS

The consolidated profit or loss account is set out on page 41. A gross dividend in respect of year ended 31 December 2016 of €0.03826 per share amounting to a total dividend of €3,520,000 (2015: €5,156,715) 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 (2015: €3,520,000).

DIRECTORS

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

Martin Galea
Nikos Antimissaris
Alfred Attard (appointed on the 22 April 2016)
Charles Borg (not re-appointed on the 22 April 2016)
Antoinette Caruana
John Cassar White
David G. Curmi
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. Javier Fernández-Cid Plañiol will retire from office on 1st January 2017 and Jaime Tamayo shall be appointed as a Non-Executive Director in his stead.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

The financial statements of MAPFRE Middlesea p.l.c. for the year ended 31 December 2016 are included in the Annual Report 2016, 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 2016, 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

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS - CONTINUED

- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with additional information of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO LISTING RULE 5.64

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

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

The directors confirm that as at 31 December 2016, only MAPFRE Internacional (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

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

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

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

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 2016, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

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

AUDITORS

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

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

Alfred Attard
Director

Middle Sea House
Floriana, Malta

8 March 2017

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 of MMS 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 2016 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 22 April 2016 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 Alfred Attard 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 ('CEO') of the Company in order to ensure that the Board receives timely and appropriate information in relation to the business of the Company and management performance. This enables the Board to contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls. Felipe Navarro Lopez de Chicheri who was appointed as CEO on the 1 October 2015 continued to hold the position of CEO throughout 2016.

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

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. The Company has an Executive Operational Committee which meets regularly and the Management Committee that brings together the Chief Officers within MMS under the Chairmanship of the CEO.

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

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 of MMS, 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, the fit and proper regime is applied for key functionaries.

As at the date of this review, the Board consists of six independent Directors (including the Chairman) and four non-independent Directors (as indicated on pages 19 and 24 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 are monitored and supported by the Company's Committees that are structured to assist in specialist activities and governance issues. The said Board Committees are the Audit Committee, the Risk and Compliance Committee, the Investments Committee and the Remuneration Committee. The Terms of Reference of all the Board Committees have been approved by the Board of Directors and by the MFSA.

AUDIT COMMITTEE

The Audit Committee's terms of reference are modelled mainly on the recommendations of the Cadbury Report and its principles, whilst also reflecting the provisions of the 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.

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

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

The composition of the Company's Audit Committee is also regulated by the Listing Rules. In terms of Listing Rule 5.117.3, Martin Galea is the member of the Audit Committee who is competent in accounting/auditing due to his qualifications, experience and knowledge. Mr Galea is also considered to be an independent director in accordance with the criteria set out in Listing Rule 5.119.

The Audit Committee held six meetings during 2016. In accordance with Listing Rule 5.117.2 three members out of four are considered to be independent in line with the criteria set out in Listing Rule 5.119. These are Alfred Attard, Antoinette Caruana and Martin Galea. The Audit Committee members and relative attendance to meetings is listed below.

Alfred Attard (Chairman)	3 (appointed on the 22 April 2016)
Nikos Antimissaris	4
Charles Borg	3 (not re-appointed on the 22 April 2016)
Antoinette Caruana	5
Martin Galea	6

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

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

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

RISK AND COMPLIANCE COMMITTEE

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

The Risk and Compliance Committee held four meetings during 2016. The Committee members and relative attendance to meetings is listed below.

Antoinette Caruana (Chairperson)	4
Alfred Attard	2
Charles Borg	1 (not re-appointed on the 22 April 2016)
Martin Galea	3
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.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board - continued

The Investments Committee held four meetings during 2016. The Committee members and relative attendance to meetings is listed below.

Martin Galea (Chairman)	3
Jesus Amadori	2 (appointed on the 22 April 2016)
David G. Curmi	4
Pedro López Solanes	4

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

REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2016 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 for MAPFRE Middlesea p.l.c., CEO of MAPFRE MSV Life p.l.c., Chief Officer for Human Resources for MAPFRE Middlesea p.l.c., Chief Officer for Human Resources for MAPFRE MSV Life p.l.c., and MAPFRE Regional Head of Human Resources attend the Remuneration Committee meetings by invitation as and when requested. The Company Secretary also acts as Secretary to the Committee.

Principle 5 – Board Meetings

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

During the 2016 financial year, the Board of Directors of the Company held six meetings. The attendance of Directors to the Board meetings is listed below.

Martin Galea (Chairman)	6
Nikos Antimissaris	5
Alfred Attard	4 (appointed on the 22 April 2016)
Charles Borg	1 (not re-appointed on the 22 April 2016)
Antoinette Caruana	6
John Cassar White	5
David G. Curmi	6
Javier Fernández-Cid Plañiol	3
Pedro López Solanes	6
Paul Testaferrata Moroni Viani	4
Joseph F.X. Zahra	6

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

During 2016 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 five Directors' Briefings were held during the year which were mostly attended by Board Directors and dealt with reinsurance, strategy, risk, Solvency II, budget, management accounts, policy approvals, legal matters, 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.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

The Company was informed by the main institutional shareholder that Javier Fernández-Cid retired on the 31 December 2016 and that Jaime Tamayo Ibañez was appointed in his stead on the 1 January 2017.

Principle 6 – Information and Professional Development

The new Director appointed during 2016 was 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 director was invited to attend a purposely held meeting, which specifically dealt with the Company's organisation and activities, together with 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.

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 2017 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 separate 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.

During the year under review the Company held 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 2016 to discuss various aspects related to the benefit of the smaller shareholders.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 9 – Relations with Shareholders and with the Market - continued

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 (Chap.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.

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 and when required. As an exception to this rule, in order that the directors may discharge their responsibilities efficiently and effectively, it was agreed that directors appointed by shareholders need not disclose a conflict of interest or potential conflict of interest where this arises due to a conflict or potential conflict between the Company and the shareholder who appointed such director. In such a case, directors are allowed to participate in the discussions provided that they are required to act honestly and in good faith and always in the best interest of the Company.

The Company has 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 2016 were as follows:

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

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

Principle 12 – Corporate Social Responsibility

2016 has been an eventful year for MAPFRE Middlesea. During this year, the Company continued to help within the community through its Corporate Social Responsibility Programme, which forms part of MAPFRE's global volunteering programme.

A number of employees from all departments participated in in a number of events held with different entities. These included Nature Trust, Volar, St Patrick's Residential Home, MCCF, Caritas, MSPCA, Malta Blood Transfusion Service and Dwal Godda. MAPFRE Middlesea also extended its support to Dar tal-Providenza, Hospice Movement, Malta Red Cross, St Johns Rescue Corps and Dr Klown amongst other philanthropic entities. Through Fundacion MAPFRE, the campaign Caqlaq, a healthy living awareness campaign in schools, was held for the fourth consecutive year, whilst Street Smart which concentrates on bringing awareness to small children about road safety was commissioned for its third year and it was launched on TV stations to reach out to more children.

Throughout 2016, the Company also worked on raising awareness about road safety for the public at large, paying focus on the safety of those on two-wheeled vehicles.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 12 – Corporate Social Responsibility - continued

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

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, the Risk and Compliance Committee, the Board reviews the process and procedures to ensure the effectiveness of the Group's systems of internal control, which are monitored by the Internal Audit Department. The key features of the Group's systems of internal control are as follows:

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

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 the Company.

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution (as defined in the Articles) of the Company during general meetings.

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

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

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

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

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

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

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

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

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

The Remuneration Committee is made up of Javier Fernández-Cid (Chairman), John Cassar White and Martin Galea. It has remained the same for these last four years and decisions are always reached through the consensus of all three members.

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

Principle 8B – Nomination Committee

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

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 continuous review and will be evaluated in the interest of all shareholders.

Alfred Attard
Director

Antoinette Caruana
Director

8 March 2017

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 2016 until the 31 December 2016 were Javier Fernández-Cid (Chairman), John Cassar White and Martin Galea. All the Committee members are non-executive directors with no personal financial interest. 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.

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

The Company was informed by the main institutional shareholder that Javier Fernández-Cid would be retiring on the 31 December 2016 and that Jaime Tamayo Ibañez would be appointed in his stead as from the 1 January 2017.

During 2015 it was also resolved by the MMS Board of Directors and MAPFRE 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 three meetings during the period under review and the attendance to the meetings was the following:-

Member	**Attended**
Javier Fernández-Cid Plañiol (Chairman)	3
Martin Galea	3
John Cassar White	2

Remuneration Committee's Statement to the Shareholders - continued

The Committee determined and/or discussed the following matters:

- Remuneration Statement for the Annual Report
- Negotiations with the Union re the Collective Agreement
- Training and development programme for employees
- Recommendation for the maximum emoluments to Board Directors
- Remuneration for Intermediaries
- Remuneration Policy and MAPFRE Group Compensation Policy
- Nominations Committee proposal

3. REMUNERATION STATEMENT

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT

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

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

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

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

3.1 REMUNERATION POLICY – SENIOR MANAGEMENT - CONTINUED

There have been no significant changes in the Company's remuneration policy for Senior Management during the financial year under review and the Company does not intend to effect any changes to its policy for the following financial year. A performance appraisal system which was implemented during 2013, in relation to competences was further developed during 2014 and 2015 to lead to the performance bonus scheme which was implemented in 2014, 2015 and 2016. The said performance bonus scheme is based on achieving the company's departmental and personal objectives.

The terms and conditions of employment of Senior Management are set out in their contracts of employment, 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 MMS President & CEO and the MSV 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 2016 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed in this Report.

3.1 REMUNERATION POLICY – DIRECTORS

As at the 31 December 2016, 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. David G. Curmi also did not receive a fee since he is the CEO of MAPFRE MSV Life p.l.c. (a subsidiary of MMS). The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was fixed at an aggregate sum of €250,000 per annum at the Thirty Fifth Annual General Meeting held on the 22 April 2016. The Company does not intend to make any changes to this maximum amount at the next Annual General Meeting to be held in 2017.

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 (Per Director)	18,000 per annum

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.

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3.2 CODE PROVISION 8.A.5

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

Emoluments of Directors

Fixed Remuneration	Variable Remuneration	Share Options	Others
€133,000	None	None	None

Fees payable to directors in respect of 2016 amounted in total to €133,000 (2015: €115,000).

Martin Galea
Committee Member
Remuneration Committee

8 March 2017

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

1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of MAPFRE Middlesea p.l.c. (the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2016, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) (and, as regards the financial statements of the Group, article 4 of the Regulation on the application of IFRS as adopted by the EU).

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Intangible Assets

[See accounting policy notes 2.4 and 2.10(c) to the financial statements and note 16 for further disclosures]

The Key Audit Matter

We focused on this area because the determination of whether or not certain elements of intangible assets are impaired involves complex and subjective judgements by management.

The Company's Intangible Assets include an amount of EUR 2.98 million development costs incurred up to 31 December 2016, relating to computer software not yet available for use. IAS 36 - *Impairment of Assets* requires that an intangible asset not yet available for use to be tested for impairment annually.

Management calculated and compared the value-in-use of the Company's Cash Generating Unit ('CGU'), representing its insurance business, against its carrying value (which includes such development costs) to determine whether there is an impairment which is required to be taken against the carrying amount of Intangible Assets. The determination of the calculated amount of headroom arising out of that calculation is dependent on the value-in-use of the CGU, which in turn, is dependent on estimates of short-term to long-term profit growth and resultant cash flows.

Management determined that there was reasonable headroom for the Company's CGU and thus Intangible Assets should not be impaired.

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

KEY AUDIT MATTERS *- CONTINUED*

Valuation of Intangible Assets - continued

How The Matter Was Addressed In Our Audit

- We understood the basis for the Company's policy to capitalise the development costs.
- We involved the use of valuation specialists in applying the requirements of IAS 36.
- We evaluated management's determination of what constitutes the CGU for the purpose of the impairment assessment.
- We considered the value-in-use calculation as a basis for determining the extent of the calculated headroom between the recoverable amount of the CGU and its carrying amount.
- We compared our findings to management's estimated recoverable amount in concluding on the audit evidence we obtained in support of our work on the carrying amount of development costs as part of our overall audit opinion on the financial statements.

Outstanding Claims ("OSC")

[See accounting policy note 2.14 to the financial statements and notes 4.1 and 23 for further disclosures]

The Key Audit Matter

Our focus on this area surrounded the estimation of OSC which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in reporting losses by those insured to the Company, together with the potential for unforeseen adverse developments, could lead to the ultimate amount paid varying materially from the amount estimated at the reporting date.

How The Matter Was Addressed In Our Audit

- We understood the processes in this area and tested the design, implementation and operational effectiveness of the key controls in the Company's reserving process, including the review of long-dated OSC and review of large losses.
- We used our own actuarial specialists to assist us in performing our audit procedures in this area, which included, among others:
  - evaluation and challenging management's methodology and assumptions in determining the OSC;
  - review of calculations backing up the OSC and the releases from the claims outstanding provisions;
  - high-level checks to ensure that the underlying data used to perform the different calculations were consistent; and
  - high-level checks of the calculations performed by the client to assess if an IBNR reserve was required.
- Other key audit procedures included:
  - sighting supporting documentation in relation to a sample of OSC;
  - reviewing managements' assessment in relation to time-barred claims;
  - inspecting the customer complaints register to ensure that there were no material claims which should have been included in the OSC; and.
  - developing an expectation in relation to claims incurred based on actual prior year loss ratios in relation to non-motor claims, and, in the case of motor claims, by validating management's assertion of the development of such claims.
- We assessed the Company's IFRS disclosures in relation to OSC in the light of our work outlined above.

Key Observation

During the course of our audit, and specifically in relation to our work on the reserving methodology in relation to claims, we have considered the reference to 'prudence' in IFRS 4 - *Insurance Contracts* which states that an insurer (on the adoption of IFRS 4 and subsequently) need not change its accounting policies for insurance contracts to eliminate excessive prudence (so long as it does not introduce additional prudence). In the run-up to the full implementation of Solvency II and IFRS 17 (replacing IFRS 4), the Company started a process of aligning its current IFRS reserving methodology with a more balanced approach to be adopted by those forthcoming changes.

KPMG

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

KEY AUDIT MATTERS - *CONTINUED*

Net Long-term Business Provision and Present Value of In-Force Business ("PVIF")

[See accounting policy notes 2.4 and 2.14 to the financial statements and notes 4.1, 16 and note 23 for further disclosures]

The Key Audit Matter

Our focus on the long-term business provision, net of insurers' share, is a result of the significant judgement involved over uncertain future outcomes, mainly the ultimate total settlement value of insurance liabilities.

Economic assumptions, such as investment return and associated discount rates, and operating assumptions such as mortality and lapse rates, are the key inputs used to estimate these long-term liabilities. The valuation of such insurance liabilities therefore requires the exercise of significant judgement in the setting of these assumptions.

How The Matter Was Addressed In Our Audit

We involved our own actuarial specialists to assist us in performing our audit procedures in this area, which included, among others:

- Assessment of the appropriateness of the assumptions and methodologies used to determine long-term business provision and PVIF.
- Consideration of whether the movements are in line with assumptions adopted, our understanding of developments in the business and our expectation derived from market experience.
- Consideration of the adequacy of the disclosures in respect of actuarial assumptions and estimates.

Key Observation

Our observation in relation to the Company's Outstanding Claims is also relevant to the Group's long-term business provision and PVIF.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises (i) the Mission Statement, (ii) the Chairman's Statement, (iii) the President and Chief Executive Officer's Statement, (iv) informational matters relating to the Board of Directors and Company Secretary, Head Offices, Branches and Agencies and Professional Services, (v) the Directors' Report, (vi) the Corporate Governance – Statement of Compliance, and (vii) the Remuneration Committee's Statement to the Shareholders, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' Report and the Directors' Statement of Compliance with the Principles of Good Corporate Governance, we do not express any form of assurance conclusion thereon.

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

RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) (and, as regards the financial statements of the Group, article 4 of the Regulation on the application of IFRS as adopted by the EU), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS - CONTINUED

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

The directors are responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

We also:

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

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

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS - CONTINUED

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

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

AUDITORS' OPINION ON THE DIRECTORS' REPORT

The directors of the Company are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Group is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority of Malta.

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

In accordance with article 179(3) of the Act, we are also required to:

(a) express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements;

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

(c) review the directors' statement in relation to going concern.

In such regards:

(a) in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;

(b) we have not identified material misstatements in the directors' report; and

(c) we have nothing to report in relation to the statement on going concern.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION BY THE ACT

We have nothing to report in respect of the following matters where articles 179(10) and (11) of the Act requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- 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.

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

REPORT REQUIRED BY LISTING RULE 5.98 ISSUED BY THE LISTING AUTHORITY IN MALTA 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 is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles included in the Group's Annual Report.

We review 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 Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance provides the disclosures required by Listing Rules 5.94 and 5.97 issued by the Listing Authority of Malta.

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

H Galea Lauri

KPMG
Registered Auditors

8 March 2017

Portico Building
Marina Street
Pietà PTA 9044
Malta

STATEMENTS OF PROFIT OR LOSS
TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December	
		Group and Company	
	Notes	**2016 €'000**	2015 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	**57,899**	47,292
Outward reinsurance premiums		**(10,255)**	(8,844)
Net premiums written		**47,644**	38,448
Change in the gross provision for unearned premiums		**(4,850)**	(6,788)
Change in the provision for unearned premiums, reinsurers' share		**501**	471
		(4,349)	(6,317)
Earned premiums, net of reinsurance		**43,295**	32,131
Allocated investment return transferred from the non-technical account	8	**2,087**	1,873
Total technical income		**45,382**	34,004
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**27,973**	23,877
- reinsurers' share		**(3,098)**	(3,719)
		24,875	20,158
Change in the provision for claims			
- gross amount		**5,796**	(2,831)
- reinsurers' share		**(923)**	2,472
		4,873	(359)
Claims incurred, net of reinsurance		**29,748**	19,799
Net operating expenses	7	**14,226**	10,838
Total technical charges		**43,974**	30,637
Balance on the technical accounts for general business (page 41)		**1,408**	3,367

STATEMENTS OF PROFIT OR LOSS
TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December			
		Group		Company	
	Notes	**2016 €'000**	2015 €'000	**2016 €'000**	2015 €'000
Earned premiums, net of reinsurance					
Gross premiums written	6	**274,742**	222,233	**2,112**	1,484
Outward reinsurance premiums		**(3,111)**	(3,177)	**(182)**	(557)
Earned premiums, net of reinsurance		**271,631**	219,056	**1,930**	927
Investment income					
Income from investments	8	**77,435**	89,952	**80**	203
Other technical income, net of reinsurance	9	**519**	594	**-**	-
Total technical income		**349,585**	309,602	**2,010**	1,130
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**142,723**	107,686	**1,380**	1,232
- reinsurers' share		**(1,230)**	(1,502)	**(656)**	(765)
		141,493	106,184	**724**	467
Change in the provision for claims					
- gross amount		**4,250**	2,997	**287**	(194)
- reinsurers' share		**(371)**	362	**(3)**	101
		3,879	3,359	**284**	(93)
Claims incurred, net of reinsurance		**145,372**	109,543	**1,008**	374
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		**9,117**	20,621	**337**	67
- reinsurers' share		**1,367**	(2,244)	**241**	(31)
		10,484	18,377	**578**	36
Investments contracts with DPF – gross		**167,449**	153,967	**-**	-
		177,933	172,344	**578**	36
Net operating expenses	7	**15,450**	13,155	**334**	254
Total technical charges		**338,755**	295,042	**1,920**	664
Balance on the technical accounts for long term business (page 41)		**10,830**	14,560	**90**	466

STATEMENTS OF PROFIT OR LOSS NON-TECHNICAL ACCOUNT

		Year ended 31 December			
		Group		Company	
	Notes	**2016 €'000**	2015 €'000	**2016 €'000**	2015 €'000
Balances on technical accounts					
General business (page 39)		**1,408**	3,367	**1,408**	3,367
Long term business (page 40)		**10,830**	14,560	**90**	466
Total income from insurance activities		**12,238**	17,927	**1,498**	3,833
Other investment income	8	**2,988**	3,331	**4,911**	4,925
Investment expenses and charges	8	**(192)**	(139)	**(186)**	(134)
Allocated investment return transferred to the general business technical account	8	**(2,087)**	(1,873)	**(2,087)**	(1,873)
Other income	9	**1,443**	1,342	**-**	-
Administrative expenses	7	**(2,742)**	(2,749)	**(1,655)**	(1,682)
Profit for the financial year before tax		**11,648**	17,839	**2,481**	5,069
Tax expense	12	**(2,723)**	(5,973)	**120**	(434)
Profit for the financial year		**8,925**	11,866	**2,601**	4,635
Attributable to:					
- shareholders		**4,630**	6,821	**2,601**	4,635
- non-controlling interests		**4,295**	5,045	**-**	-
		8,925	11,866	**2,601**	4,635
Earnings per share attributable to Shareholders	14	**5.0c**	7.4c		

The Notes on pages 49 to 124 are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			
		Group		Company	
	Notes	**2016 €'000**	2015 €'000	**2016 €'000**	2015 €'000
Profit for the financial year		**8,925**	11,866	**2,601**	4,635
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	**141**	(11)	**142**	(11)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods					
Re-measurement actuarial gain on provision for other liabilities and charges		**3**	48	**3**	48
Increase/(decrease) in value of in-force business	16	**6,528**	(2,340)	**-**	-
Total other comprehensive income, net of tax		**6,672**	(2,303)	**145**	37
Total comprehensive income for the year		**15,597**	9,563	**2,746**	4,672
Attributable to:					
- shareholders		**8,038**	5,688		
- non-controlling interests		**7,559**	3,875		
Total comprehensive income for the year		**15,597**	9,563		

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 49 to 124 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

		At 31 December			
		Group		Company	
		2016	2015	**2016**	2015
	Notes	**€'000**	€'000	**€'000**	€'000
ASSETS					
Intangible assets	16	**68,535**	59,908	**4,319**	2,532
Property, plant and equipment	17	**9,941**	10,203	**1,843**	2,035
Investment property	18	**98,904**	93,619	**13,717**	12,252
Investment in subsidiary undertakings	19	**-**	-	**57,214**	57,214
Investment in associated undertakings	20	**33,074**	27,273	**294**	294
Other investments	21	**1,681,499**	1,540,320	**22,130**	23,330
Deferred income tax	22	**2,425**	2,253	**1,224**	1,192
Reinsurers' share of technical provisions	23	**16,444**	16,016	**14,855**	13,669
Deferred acquisition costs	24	**6,049**	5,113	**6,049**	5,113
Insurance and other receivables	25	**29,380**	26,548	**16,066**	13,616
Income tax receivable		**3,750**	3,690	**811**	337
Cash and cash equivalents	26	**70,015**	36,675	**7,191**	2,596
Total assets		**2,020,016**	1,821,618	**145,713**	134,180
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	**30,499**	27,094	**35,186**	35,044
Retained earnings		**36,319**	35,195	**6,904**	7,809
		86,826	82,297	**62,098**	62,861
Non-controlling interests		**80,160**	75,101	**-**	-
Total equity		**166,986**	157,398	**62,098**	62,861
LIABILITIES					
Deferred income tax	22	**26,686**	23,856	**1,030**	1,119
Provision for other liabilities and charges	29	**1,186**	1,231	**1,186**	1,231
Technical provisions:					
- Insurance contracts and investment contracts with DPF	23	**1,750,364**	1,559,250	**69,502**	58,580
- Investment contracts without DPF	23	**54,141**	62,785	**-**	-
Derivative financial instruments	21	**320**	-	**-**	-
Insurance and other payables	31	**20,316**	17,091	**11,897**	10,389
Income tax payable		**17**	7	**-**	-
Total liabilities		**1,853,030**	1,664,220	**83,615**	71,319
Total equity and liabilities		**2,020,016**	1,821,618	**145,713**	134,180

The Notes on pages 49 to 124 are an integral part of these financial statements.

The financial statements on pages 39 to 124 were authorised for issue by the Board on8 March 2017 and were signed on its behalf by:

Martin Galea
Chairman

Alfred Attard
Director

Felipe Navarro Lopez de Chicheri
President & Chief Executive Officer

STATEMENTS OF CHANGES IN EQUITY

Group

	Notes	Attributable to shareholders						
		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 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 investments' 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**

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 2016		19,320	688	27,094	35,195	82,297	75,101	157,398
Comprehensive income								
Profit for the financial year		-	-	-	4,630	4,630	4,295	8,925
Other comprehensive income:								
Change in available-for-sale investment's fair value	28	-	-	141	-	141	-	141
Re-measurement actuarial gain on provision for other liabilities and charges	29	-	-	-	3	3	-	3
Increase in value of in-force business	16	-	-	3,264	-	3,264	3,264	6,528
Total other comprehensive income, net of tax		-	-	3,405	3	3,408	3,264	6,672
Total comprehensive income		-	-	3,405	4,633	8,038	7,559	15,597
Transactions with owners								
Dividends for 2015	15	-	-	-	(3,520)	(3,520)	(2,500)	(6,020)
Write-back of prior year dividends		-	-	-	11	11	-	11
Total transactions with owners		-	-	-	(3,509)	(3,509)	(2,500)	(6,009)
Balance at 31 December 2016		**19,320**	**688**	**30,499**	**36,319**	**86,826**	**80,160**	**166,986**

The Notes on pages 49 to 124 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 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**

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 2016		19,320	688	35,044	7,809	62,861
Comprehensive income						
Profit for the financial year		-	-	-	2,601	2,601
Other comprehensive income:						
Change in available-for-sale investments' fair values	28	-	-	142	-	142
Re-measurement actuarial gain on provision for other liabilities and charges	29	-	-	-	3	3
Total other comprehensive income, net of tax		-	-	142	3	145
Total comprehensive income		-	-	142	2,604	2,746
Transactions with owners						
Dividend for 2015	15	-	-	-	(3,520)	(3,520)
Write-back of prior years' dividends		-	-	-	11	11
Total transactions with owners of the Company		-	-	-	(3,509)	(3,509)
Balance at 31 December 2016		**19,320**	**688**	**35,186**	**6,904**	**62,098**

The Notes on pages 49 to 124 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Notes	Group 2016 €'000	Group 2015 €'000	Company 2016 €'000	Company 2015 €'000
		Year ended 31 December			
Cash flows from operating activities					
Cash generated from operations	32	**116,295**	100,458	**6,866**	6,933
Dividends received		**7,990**	9,325	**2,837**	2,994
Interest received		**26,671**	30,248	**602**	610
Interest paid		**(1)**	-	**(1)**	-
Income tax refunded/(paid)		**209**	4,140	**(444)**	(641)
Net cash generated from operating activities		**151,164**	144,171	**9,860**	9,896
Cash flows from investing activities					
Purchase of investment property	18	**(823)**	(5,291)	**(164)**	(1,550)
Disposal of investment property	18	**98**	3	**-**	3
Increase in investment in associated undertaking	20	**-**	1	**-**	-
Purchase of financial investments		**(1,104,757)**	(993,812)	**-**	(9,622)
Disposal of financial investments		**997,450**	856,961	**1,091**	6,986
Purchase of property, plant and equipment and intangible assets	16,17	**(3,855)**	(4,184)	**(2,755)**	(2,098)
Disposal of property, plant and equipment and intangible assets	16,17	**72**	7	**72**	5
Net cash used in investing activities		**(111,815)**	(146,315)	**(1,756)**	(6,276)
Cash flows from financing activities					
Dividends paid to shareholders		**(3,509)**	(3,520)	**(3,509)**	(3,520)
Dividends paid to non-controlling interests		**(2,500)**	(2,340)	**-**	-
Cash used in financing activities		**(6,009)**	(5,860)	**(3,509)**	(3,520)
Net movement in cash and cash equivalents		**33,340**	(8,004)	**4,595**	100
Cash and cash equivalents at beginning of year		**36,675**	44,679	**2,596**	2,496
Cash and cash equivalents at end of year	26	**70,015**	36,675	**7,191**	2,596

The Notes on pages 41 to 137 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements of MAPFRE Middlesea p.l.c. are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union and the Maltese Companies Act, 1995, whereas those of the Group to which the Company is parent are prepared in accordance with article 4 of the Regulations or the application of IFRS as adopted by the EU. Both sets of financial statements as referred to in the Annual Report relate to both those of the Company and the Group and have also been prepared in accordance with the Insurance Business Act, 1998.

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

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

The preparation of financial statements in conformity with the above reporting framework requires the use of certain 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 2016

In 2016, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2017. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the 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, measurement and recognition of financial assets and financial liabilities. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group, having its activities 'predominantly connected with insurance', is considering the temporary exemption from IFRS 9 for annual reporting periods beginning before 1 January 2021, and deferring its application to be concurrent with the effective date of IFRS 17 'Insurance Contracts', being 1 January 2021.

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

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

2.1 CONSOLIDATION

(a) *Subsidiary undertakings*

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(b) *Associated undertakings* - continued

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.

Transactions and balances

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

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

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

2.4 INTANGIBLE ASSETS

Value of in-force business

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.4 INTANGIBLE ASSETS - CONTINUED

Value of in-force business - continued

Gross investment returns and asset allocations assumed vary depending upon the mix of investments held by the Company and expected market conditions. Annual movements in the value of the in-force business are credited or debited to other comprehensive income. Note 16 contains further information in relation to this asset.

Value of business acquired

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

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

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

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 using the equity method. They are initially recognised at cost which includes transaction costs. Subsequent to initial recognition the Company's financial statements include the Company's share of the equity movement of the associated undertaking 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 directors determine the appropriate classification of financial assets at the time of purchase and re-evaluate such designation at every reporting date.

Classification

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Classification - continued

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

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

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

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

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

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

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

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

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

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

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

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

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

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

(c) Impairment of other assets

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

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.12 CASH AND CASH EQUIVALENTS

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

2.13 SHARE CAPITAL

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

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

2.14 INSURANCE AND INVESTMENT CONTRACTS

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

(a) Classification

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

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

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

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

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

(b) Recognition and measurement

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

(i) Short-term insurance contracts - General business

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

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

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

- 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.

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

- 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.

(iii) Long term insurance contracts – individual life

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(iv) Long term insurance contracts with DPF - continued

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

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(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 in accounting policy 2.14 (b) (i)). 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.

2.15 FINANCIAL LIABILITIES

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.16 CURRENT AND DEFERRED INCOME TAX - CONTINUED

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

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

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

2.17 PROVISIONS FOR PENSION OBLIGATIONS

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

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

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

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

2.18 REVENUE RECOGNITION

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

(a) Rendering of services

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.18 REVENUE RECOGNITION - CONTINUED

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

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

2.20 LEASES

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

2.21 DIVIDEND DISTRIBUTION

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

3. 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, 'Presentation of financial statements', 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.

NOTES TO THE FINANCIAL STATEMENTS

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

- *Value of in-force business* - continued

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2016 is disclosed in Note 16 to the accounts.

- *Insurance and investment contracts liabilities*

(a) General business insurance contract liabilities

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

(b) Insurance and participating investment contract liabilities

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

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

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

The Group considers that it controls MAPFRE MSV Life p.l.c. ('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 MAPFRE Middlesea 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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

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

Frequency and severity of claims

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

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

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

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

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

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

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than A. No rating limitation shall apply to treaty placements with MAPFRE Re or any MAPFRE Group company designated to write any or all of the MAPFRE Group Reinsurance treaties. At 31 December 2016, 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 individually reviewed regularly, and are adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions and other factors. The Group actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments. Authority limits are set for the settlement of claims through the individual agents. Any claims incurred above these limits are referred to head office for handling. In addition, all claims involving bodily injury are referred to head office irrespective of their amount.

Concentration of insurance risk

Up until 31 December 2016, 100% of the Group's business was written in Malta (2015: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 28% (2015: 27%) and accident and health comprising 19% (2015: 22%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 23% (2015: 20%) and fire and other damage to property at 16% (2015: 17%). The remaining 13% (2015: 14%) 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+.

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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK

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

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

(a) Market risk

i) Cash flow and fair value interest rate risk

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

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

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

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.

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

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:

		2016				
Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	25,618	70,094	260,189	449,214	805,115
Collective investment schemes		19,514	-	-	-	19,514
Loans and receivables:						
- Deposits with banks and credit institutions	21	190,988	6,000	-	-	196,988
- Loans secured on policies	21	9,243	-	-	-	9,243
- Cash and cash equivalents	26	70,015	-	-	-	70,015
Total interest bearing assets		315,378	76,094	260,189	449,214	1,100,875
Liabilities						
Long-term insurance contracts	23	-	-	-	1,621,331	1,621,331
Total interest bearing liabilities		-	-	-	1,621,331	1,621,331

		2015				
Group	Notes	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		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

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	2016 Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets						
Debt securities	21	869	3,629	10,958	2,048	17,504
Loans and receivables:						
- Cash and cash equivalents	26	7,191	-	-	-	7,191
Total interest bearing assets		8,060	3,629	10,958	2,048	24,695

Company	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	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	-	-	-	596
Total interest bearing assets		3,651	899	14,013	2,811	21,374

The Company had no interest bearing liabilities as at 31 December 2016 and 2015.

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Assets held at variable rates				
Collective investment schemes	**19,514**	18,956	**-**	-
Debt securities	**40,230**	42,414	**1,651**	1,648
Cash and cash equivalents	**70,015**	36,675	**7,191**	2,596
	129,759	98,045	**8,842**	4,244
Liabilities issued at variable rates				
Net long term insurance contracts	**1,621,331**	1,445,131	**-**	-
	1,621,331	1,445,131	**-**	-

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €44.08m (2015: €42.93m) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
Loans secured on polices	**9,243**	9,496	**-**	-
Deposits with banks or credit institutions	**196,988**	173,783	**-**	137
Debt securities	**764,885**	715,977	**15,850**	16,993
	971,116	899,256	**15,850**	17,130

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 2016, 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 2016 is shown below:

	Group	
	2016	2015
	€'000	€'000
Long positions		
- Federal Republic of Germany	**41,425**	23,694
Short positions		
- Federal Republic of Germany	**36,077**	24,708
- United Kingdom Government	**1,327**	3,169
- United States Government	**5,259**	11,428
	42,663	39,305

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

Sensitivity Analysis – interest rate risk

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

At 31 December 2016, had interest rates been 100 basis points (2015: 100 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have been lower by €0.35 million (2015: higher by €0.62 million) and higher by €0.11 million (2015: higher by €0.21 million) respectively. An increase of 100 basis points (2015: 100 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 €0.34 million (2015: higher by €0.27 million) and €0.19 million (2015: €0.32 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, 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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**585,988**	500,635	**4,626**	4,553
The above includes:				
Component of investments in associated undertakings (Note 20)*	**32,531**	26,809	**-**	-
Component of equity securities and units in unit trusts (Note 21)	**553,457**	473,826	**4,626**	4,553
	585,988	500,635	**4,626**	4,553

*Investments in associates (Note 20) amounting to €0.54m (2015: €0.47m) for the Group and €0.29m (2015:€0.29m) for the Company have been excluded from equity price risk since they are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

ii) Equity price risks - continued

In managing its portfolio during the year ended 31 December 2016, 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 2016 is shown below:

	Group	
	2016	2015
	€'000	€'000
Long positions		
- European equity indices	**2,818**	1,969

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 €0.39 million (2015: €4.40 million) and a negative impact of €0.39 million (2015: €4.41 million) on the Group's pre-tax profit and a positive or negative impact of €0.23 million on the Company's pre-tax results (2015: €0.22 million).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk

The Group and Company have assets and liabilities denominated in major foreign currencies other than Euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major foreign currencies. At 31 December 2016 foreign currency exposure amounted to €57.90 million (2015: €64.47 million).

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

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

Group

31 December 2016

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	24,116	9,177	14,939
CHF	27,814	-	27,814
GBP	10,203	7,311	2,892
SEK	7,075	-	7,075
DKK	5,303	-	5,303
Others	10,831	10,951	(120)
	85,342	27,439	57,903

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

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

Within the table above, €50.23m of the unhedged exposure relates to equity investments (2015: €56.82m). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

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

Company

31 December 2016

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(340)	-	(340)
GBP	9	-	9
Others	(15)	-	(15)
	(346)	-	(346)

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

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)

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

(b) Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Debt securities	**805,115**	758,391	**17,504**	18,641
Other financial assets (including deposits with banks and credit institutions)	**196,988**	173,783	**-**	137
Forward foreign exchange contracts	**-**	596	**-**	-
Reinsurers share of technical provisions	**11,594**	11,426	**10,005**	9,079
Insurance and other receivables	**24,224**	20,947	**15,091**	12,589
Cash and cash equivalents	**70,015**	36,675	**7,191**	2,596
Total	**1,107,936**	1,001,818	**49,791**	43,042

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
AAA	**69,943**	75,605	**-**	-
AA	**97,848**	53,529	**3,741**	3,879
A	**460,969**	48,059	**16,306**	6,872
BBB	**430,798**	781,669	**13,897**	18,529
Not rated	**48,378**	42,956	**15,847**	13,762
	1,107,936	1,001,818	**49,791**	43,042

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	
	2016	2015
	€'000	€'000
Within credit terms	**7,216**	5,778
Not more than three months	**2,378**	1,914
Within three to twelve months	**1,732**	1,662
Over twelve months	**453**	337
	11,779	9,691

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 €11.78 million (2015: €9.69 million), of which €7.22 million (2015: €5.78 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 2016 did not comprise any amounts (2015: 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	
	2016	2015
	€'000	€'000
Over twelve months	**371**	403
	371	403

These balances are covered by the following:

	Group and Company	
	2016	2015
	€'000	€'000
Provision for impairment of receivables (Note 25)	**371**	403
	371	403

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 (€ millions) 2016						
	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	98.0	95.0	159.0	199.0	220.0	910.0	1,681.0
Technical provisions – claims outstanding	13.2	6.2	3.5	2.7	1.8	12.2	39.6
Insurance and other payables (contractual)	20.3	-	-	-	-	-	20.3

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 (€ 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	117.0	83.0	90.0	153.0	182.0	876.0	1,501.0
Technical provisions – claims outstanding	12.9	6.8	3.9	2.5	2.1	5.6	33.8
Insurance and other payables (contractual)	17.1	-	-	-	-	-	17.1

	Company expected cash flows (€ millions) 2016						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	13.2	6.2	3.5	2.7	1.8	12.2	39.6
Insurance and other payables (contractual)	11.9	-	-	-	-	-	11.9

	Company expected cash flows (€ millions) 2015						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	12.9	6.8	3.9	2.5	2.1	5.6	33.8
Insurance and other payables (contractual)	10.4	-	-	-	-	-	10.4

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

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.

	2016	2015
	€'000	€'000
At 31 December		
Foreign exchange contracts		
- outflow	**(32,293)**	(34,324)
- inflow	**32,146**	34,664

At 31 December 2016 and 2015, 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 2016:

- 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).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2016.

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	667,632	87	33	667,752
- Debt securities	790,399	-	-	790,399
Other available-for-sale investments	17,043	-	74	17,117
Investment property	-	-	98,904	98,904
Investment in associated undertakings	32,530	-	-	32,530
Total assets	**1,507,604**	**87**	**99,011**	**1,606,702**
Liabilities				
Unit linked financial liabilities	-	97,109	-	97,109
Derivative financial instruments	-	320	-	320
Total liabilities	**-**	**97,429**	**-**	**97,429**

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	2,299	-	2,299
- Debt securities	2,788	-	2,788
Other available-for-sale investments	17,043	-	17,043
Investment property	-	13,717	13,717
Total assets	**22,130**	**13,717**	**35,847**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

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

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	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	-	-	26,809
Total assets	**1,383,280**	**458**	**93,726**	**1,477,464**
Liabilities				
Unit linked financial liabilities	-	105,198	-	105,198
Total liabilities	-	**105,198**	-	**105,198**

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
Total assets	**23,194**	**12,252**	**35,446**

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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

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 2016.

Group	**Other available-for-sale investments** €'000
Year ended 31 December 2016	
Opening and closing balance	107

The following table presents the changes in Level 3 instruments for the year ended 31 December 2015.

Group	**Other available-for-sale investments** €'000
Year ended 31 December 2015	
Opening and closing balance	107

At 31 December 2016 and 2015, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

5. CAPITAL MANAGEMENT

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

The Group's objectives when managing capital are to:

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

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

The Company's Minimum Capital Requirement Absolute Floor stands at €7,400,000 as per paragraph 5.6.4 of Chapter 5 ('Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and investment rules') of Part B of the Insurance Rules.

The Company is sufficiently capitalised and was compliant at all times with the regulatory capital requirements as stipulated by the MFSA which are in line with the Solvency II requirements.

All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period.

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 2016 and 2015 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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**13,643**	9,856	**12,182**	8,190
Motor (other classes)	**16,735**	13,044	**14,942**	10,839
Fire and other damage to property	**9,544**	8,177	**8,873**	7,204
Accident and health	**11,741**	10,756	**11,256**	9,721
Other classes	**6,236**	5,459	**5,796**	4,550
	57,899	47,292	**53,049**	40,504

100% (2015: 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	
	2016	2015	**2016**	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**12,596**	5,640	**3,871**	2,728	**877**	564
Motor (other classes)	**8,510**	7,210	**4,749**	3,611	**178**	-
Fire and other damage to property	**4,225**	1,062	**2,866**	2,357	**1,735**	3,079
Accident and health	**6,301**	5,706	**3,528**	2,923	**61**	270
Other classes	**2,137**	1,428	**1,908**	1,575	**186**	857
	33,769	21,046	**16,922**	13,194	**3,037**	4,770

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

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business

(i) Gross premium written

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Direct insurance	**274,742**	222,233	**2,110**	1,482
Reinsurance inwards	**-**	-	**2**	2
	274,742	222,233	**2,112**	1,484

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

Group direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Non-participating	**13,103**	11,756	**-**	-
Participating	**31,069**	30,854	**226,897**	175,479
Linked	**2,438**	2,649	**1,235**	1,495
	46,610	45,259	**228,132**	176,974

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Investment contracts	**1,298**	1,342	**568**	2,366

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Charge/(credit) for reinsurance outwards	**2,733**	(311)	**(236)**	(149)

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Insurance contracts	**34,879**	34,699	**2,112**	1,484
Investment contracts with DPF	**239,863**	187,534	**-**	-
	274,742	222,233	**2,112**	1,484
Claims incurred, net of reinsurance				
Insurance contracts	**31,902**	27,328	**1,008**	374
Investment contracts with DPF	**113,470**	82,215	**-**	-
	145,372	109,543	**1,008**	374

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

	Group	
	2016	2015
	€'000	€'000
Profit on general business	**1,408**	3,367
Profit on long term business	**10,830**	14,560
Net investment income not allocated to the technical accounts	**709**	1,319
Other income	**1,443**	1,342
Administrative expenses	**(2,742)**	(2,749)
Profit for the financial year before tax	**11,648**	17,839

	Company	
	2016	2015
	€'000	€'000
Profit on general business	**1,408**	3,367
Profit on long term business	**90**	466
Net investment income not allocated to the technical accounts	**2,638**	2,918
Administrative expenses	**(1,655)**	(1,682)
Profit for the financial year before tax	**2,481**	5,069

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Geographical information

The segment results for the years ended 31 December 2016 and 2015 by geographical area are indicated below:

	Group Gross premiums written		Company Gross premiums written	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Malta	**332,641**	269,525	**60,011**	48,776
Other locations in run-off	**-**	-	**-**	-
	332,641	269,525	**60,011**	48,776

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 2016								
Assets allocated to business segments	27,453	14,108	12,040	7,788	12,584	1,736,664	14,681	1,825,318
Assets allocated to Shareholders	-	-	-	-	-	-	194,698	194,698
Total assets	27,453	14,108	12,040	7,788	12,584	1,736,664	209,379	2,020,016
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	182,343
Total assets	21,926	13,037	9,450	6,867	11,380	1,564,491	194,467	1,821,618

The total of non-current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts of €177.38 million (2015: €163.73 million) are all located in Malta.

NOTES TO THE FINANCIAL STATEMENTS

7. NET OPERATING EXPENSES

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Acquisition costs	**25,442**	21,322	**14,741**	12,344
Change in deferred acquisition costs, net of reinsurance	**(876)**	(1,808)	**(876)**	(1,808)
Administrative expenses	**10,752**	9,773	**5,106**	4,688
Reinsurance commissions and profit participation	**(2,900)**	(2,545)	**(2,756)**	(2,450)
	32,418	26,742	**16,215**	12,774
Allocated to:				
General business technical account	**14,226**	10,838	**14,226**	10,838
Long term business technical account	**15,450**	13,155	**334**	254
Non-technical account (administrative expenses)	**2,742**	2,749	**1,655**	1,682
	32,418	26,742	**16,215**	12,774

Total commissions for direct business accounted for in the financial year amounted to €17.54 million (2015: €14.12 million) in the Group's technical result and €9.77 million (2015: €7.73 million) in the Company's technical result. €6.65 million (2015: €5.08 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	
	2016 €'000	2015 €'000	**2016 €'000**	2015 €'000
Investment income				
Dividend income from group undertakings	**-**	-	**2,672**	2,840
Share of profit of other associated undertaking, net of tax	**101**	23	**-**	-
Rent receivable from investment property	**5,156**	5,106	**399**	351
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	**1,656**	2,885	**1**	7
Income from financial assets at fair value through profit or loss				
- dividend income	**8,830**	8,432	**141**	157
- net fair value gains and interest on bonds	**62,725**	76,506	**211**	436
Income from available-for-sale assets				
- dividend income	**78**	72	**78**	72
- net fair value gains and interest on bonds	**188**	182	**188**	182
Net fair value gains on investment property	**4,577**	2,573	**1,301**	1,005
Other investment income	**1,018**	1,121	**-**	-
Exchange differences	**-**	78	**-**	78
	84,329	96,978	**4,991**	5,128
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**411**	514	**34**	53
Interest expense for financial liabilities that are not at fair value through profit or loss	**18**	22	**18**	22
Impairment charges	**84**	49	**84**	49
Other investment expenses	**3,544**	3,249	**9**	10
Exchange differences	**41**	-	**41**	-
	4,098	3,834	**186**	134
Net investment income	**80,231**	93,144	**4,805**	4,994
Analysed between:				
Allocated investment return transferred to the general business technical account	**2,087**	1,873	**2,087**	1,873
Investment return included in the long term business technical account	**77,435**	89,952	**80**	203
Other investment income included in the non-technical account	**709**	1,319	**2,638**	2,918
	80,231	93,144	**4,805**	4,994

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Other technical income, net of reinsurance				
Investment management fees	**404**	431	**-**	-
Other	**115**	163	**-**	-
	519	594	**-**	-
Other income – non technical				
Management fees	**871**	709	**-**	-
Other income	**572**	633	**-**	-
	1,443	1,342	**-**	-

10. PROFIT BEFORE TAX

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

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Employee compensation (Note 11)	**9,091**	7,992	**5,562**	4,500
Depreciation/amortisation:				
- intangible assets (Note 16)	**1,268**	907	**804**	475
- property, plant and equipment (Note 17)	**686**	602	**292**	265
Release of provision for impairment on receivables (Note 25)	**(32)**	-	**(32)**	-
Impairment of receivables	**24**	-	**24**	-
Increase in provision for impairment on receivables (Note 25)	**-**	10	**-**	10
Directors' and officers' insurance	**30**	105	**-**	75

The financial statements include fees, exclusive of VAT, charged by the parent company auditor for services rendered during the financial years ended 31 December 2016 and 2015 relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Annual statutory audit				
Parent company auditor	**172**	167	**78**	74
Other services				
Parent company auditor	**-**	103	**-**	7

NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEE COMPENSATION

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Salaries	**8,624**	7,588	**5,272**	4,264
Social security costs	**467**	404	**290**	236
	9,091	7,992	**5,562**	4,500

The average number of persons employed during the year was:

	Group		Company	
	2016	2015	**2016**	2015
Key management personnel	**25**	21	**13**	11
Managerial	**25**	24	**16**	14
Technical	**182**	154	**117**	91
Administrative	**12**	10	**8**	6
	244	209	**154**	122

12. TAX EXPENSE

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Current tax expense/(income)	**50**	501	**(13)**	412
Deferred tax expense (Note 22)	**2,673**	5,472	**(107)**	22
Income tax expense/(income)	**2,723**	5,973	**(120)**	434

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Profit before tax	**11,648**	17,839	**2,481**	5,069
Tax at 35%	**4,077**	6,244	**869**	1,774
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	**(253)**	(204)	**(677)**	(932)
Property withholding tax at 8% or 10%	**(1,113)**	26	**(310)**	(291)
Other	**12**	(93)	**(2)**	(117)
Income tax expense/(income)	**2,723**	5,973	**(120)**	434

NOTES TO THE FINANCIAL STATEMENTS

13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Directors' fees	**153**	135	**133**	115

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	
	2016	2015
	€'000	€'000
Profit attributable to shareholders	**4,630**	6,821
Number of ordinary shares in issue (Note 27)	**92,000,000**	92,000,000
Earnings per share attributable to shareholders (€)	**5.0c**	7.4c

15. DIVIDENDS

A gross dividend in respect of year ended 31 December 2016 of €0.03826 (2015: €0.05605) per share amounting to a total dividend of €3,520,000 (2015: €5,156,715) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.03826 (2015: €0.03826) per share amounting to a total net dividend of €3,520,000 (2015: €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 2015					
Cost or valuation	55,768	-	12,893	3,233	71,556
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 credited 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**
Year ended 31 December 2016					
Opening net book amount	53,428	1,486	4,322	672	59,908
Increase in value of in-force business debited to reserves	6,528		-	-	6,528
Additions	-	-	3,329	38	3,367
Amortisation charge	-	(330)	(787)	(151)	(1,268)
Closing net book amount	59,956	1,156	6,864	559	68,535
At 31 December 2016					
Cost or valuation	59,956	1,651	17,464	3,380	82,451
Accumulated amortisation and impairment	-	(495)	(10,600)	(2,821)	(13,916)
Net book amount	**59,956**	**1,156**	**6,864**	**559**	**68,535**

Amortisation of €0.61 million (2015: €0.44 million) is included in acquisition costs and €0.66 million (2015: €0.47 million) is included in administration expenses.

Fully amortised assets that were still in use for the Group as at the financial year amounted to €7.0m (2015: €7.1m).

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

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

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

The after tax value of in-force business is determined by the directors on an annual basis. The embedded value and expected future profits of each line of business is assessed.

The value of in-force business is calculated using a large number of assumptions about future experience. These assumptions concern both future economic and demographic experience. Forecasting future experience is inherently difficult.

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

With profits business is particularly sensitive to the size of the with profits fund. A 1% increase in the size of the fund value will increase the embedded value reported by €0.21 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.21 million.

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

Term assurance business is particularly sensitive to the rate assumed for future mortality. A 1 percentage point increase in the rate will reduce the embedded value by €0.12 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.12 million.

The economic assumptions used in the calculation have been set to be internally consistent as well as reflecting the directors' view of economic conditions in the longer term. The valuation assumed a real return of 1% pa (2015: 2% pa) for with profits business with a risk discount rate of 6.5% pa (2015: 7.5% pa). For term assurance and unit linked business these assumptions are unchanged. Expense are assumed to inflate at 3.5% pa (2015: 3.5% pa).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

Company	Computer software €'000	Value of business acquired €'000	Total €'000
At 1 January 2015			
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**
Year ended 31 December 2016			
Opening net book amount	1,046	1,486	2,532
Additions	2,591	-	2,591
Amortisation charge	(474)	(330)	(804)
Closing net book amount	3,163	1,156	4,319
At 31 December 2016			
Cost	6,250	1,651	7,901
Accumulated amortisation	(3,087)	(495)	(3,582)
Net book amount	**3,163**	**1,156**	**4,319**

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 €1.8m (2015: €1.7m).

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 2015					
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**
Year ended 31 December 2016					
Opening net book amount	6,769	1,543	6	1,885	10,203
Additions	82	89	-	317	488
Disposals	(67)	-	(6)	(78)	(151)
Depreciation charge	(26)	(195)	(3)	(462)	(686)
Depreciation released on disposal	4	-	6	77	87
Closing net book amount	6,762	1,437	3	1,739	9,941
At 31 December 2016					
Cost	6,852	2,466	13	5,949	15,280
Accumulated depreciation	(90)	(1,029)	(10)	(4,210)	(5,339)
Net book amount	**6,762**	**1,437**	**3**	**1,739**	**9,941**

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

Depreciation expense has been charged in administrative expenses.

Fully depreciated assets that were still in use by the Group as at the financial year amounted to €2.2m (2015: €2.1m).

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 2015					
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**
Year ended 31 December 2016					
Opening net book amount	123	1,203	7	702	2,035
Additions	-	88	-	76	164
Disposals	(67)	-	-	(78)	(145)
Depreciation charge	(2)	(139)	(3)	(148)	(292)
Depreciation released on disposal	4	-	-	77	81
Closing net book amount	58	1,152	4	629	1,843
At 31 December 2016					
Cost	68	1,880	13	2,537	4,498
Accumulated depreciation	(10)	(728)	(9)	(1,908)	(2,655)
Net book amount	**58**	**1,152**	**4**	**629**	**1,843**

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

Depreciation expense has been charged to administrative expenses.

Fully depreciated assets that were still in use by the Company as at the financial year amounted to €1.3m (2015: €1.3m).

NOTES TO THE FINANCIAL STATEMENTS

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2015		
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**
Year ended 31 December 2016		
Opening net book amount	93,619	12,252
Additions	823	164
Disposal	(98)	-
Net fair value gains	4,560	1,301
Net book amount	98,904	13,717
At 31 December 2016		
Cost	63,105	7,718
Accumulated fair value gains	35,799	5,999
Net book amount	**98,904**	**13,717**

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 2016 and 2015. 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 2016, the fair values of the land and buildings have been determined by DHI Periti.

At each financial year end the investments department:

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

Valuation techniques

For level 3 fair value of all office buildings with a total carrying amount of €98.90 million (2015: €93.62 million) for the Group and €13.72 million (2015: €12.25 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)

			Significant unobservable inputs	
Description	**Fair value at 31 December 2016 €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Office buildings	98.90m	Capitalisation of future net income streams	5.72m	4.25 – 7.50

			Significant unobservable inputs	
Description	**Fair value at 31 December 2015 €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Office buildings	93.62m	Capitalisation of future net income streams	5.50m	4.25 – 6.50

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

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2015	
Opening and closing net book amount and deemed cost	**57,214**
Year ended 31 December 2016	
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 2016	2015
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MAPFRE MSV Life p.l.c. (formerly 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:

2016	Registered Office	Assets €'000	Liabilities €'000	Revenues €'000	Profit before tax €'000	% Held by non-controlling interests
MAPFRE MSV Life p.l.c. (formerly MSV Life p.l.c.) (consolidated results)	Level 7 The Mall, Floriana	1,930,393	1,770,073	274,498	11,552	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	2,722	272	-	95	25%
		1,933,115	1,770,345	274,498	11,647	

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

2015	Registered Office	Assets	Liabilities	Revenues	Profit/ (Loss) before tax	% Held by non-controlling interests
		€'000	€'000	€'000	€'000	
MAPFRE MSV Life p.l.c. (formerly MSV Life p.l.c.) (consolidated results)	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	

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

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

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2016	2015
Growth Investment Limited (held indirectly by MAPFE MSV Life p.l.c.)	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2015		
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**
Year ended 31 December 2016		
Opening net book amount	27,273	294
Share of associated undertaking's results and movement in reserves	80	-
Fair value movements	5,721	-
Closing net book amount	33,074	294
At 31 December 2016		
Cost	14,629	294
Accumulated fair value movements	18,445	-
Net book amount	**33,074**	**294**

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

2016	**Registered office**	**Assets €'000**	**Liabilities €'000**	**Revenues €'000**	**Profit €'000**	**Percentage of shares held**
Middlesea Assist Limited	Europa Centre Floriana	1,541	731	2,100	210	49%

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%

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		Group	
			2016	2015	2016	2015
Premium Realty Limited (in liquidation)	Middlesea House Floriana	Ordinary shares	25.00%	25.00%	37.50%	37.50%
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	35.46%	35.46%	35.46%	35.46%

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2016 was €1.09 and €1.19 respectively (31 December 2015: €1.00 and €0.94 respectively).

21. OTHER INVESTMENTS

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

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**1,458,151**	1,339,717	**5,087**	5,943
Other available-for-sale	**17,117**	17,324	**17,043**	17,250
Loans and receivables	**206,231**	183,279	**-**	137
	1,681,499	1,540,320	**22,130**	23,330

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

Analysed by type of investment as follows:

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**570,643**	490,464	**2,299**	2,234
Debt securities	**790,399**	743,459	**2,788**	3,709
Assets held to cover linked liabilities – collective investment schemes	**97,109**	105,198	**-**	-
Forward foreign exchange contracts	**-**	596	**-**	-
Total investments at fair value through profit or loss	**1,458,151**	1,339,717	**5,087**	5,943

Technical provisions for linked liabilities amounted to €97 million as at 31 December 2016 (2015: €105 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2016 and 2015, the Group and Company had no financial commitments in respect to uncalled capital.

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

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

Equity securities and collective investment schemes 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 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**
Year ended 31 December 2016		
Opening net book amount	1,339,717	5,943
Additions	1,076,291	29
Disposals	(995,153)	(978)
Net fair value gains	36,976	93
Closing net book amount	**1,457,831**	**5,087**

Derivative financial liabilitie amounting to €0.3m (2015: €0.6m assets), 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	
	2016 €'000	2015 €'000	**2016 €'000**	2015 €'000
Listed debt securities	**14,716**	14,932	**14,716**	14,932
Listed shares	**2,327**	2,318	**2,327**	2,318
Unlisted shares	**74**	74	**-**	-
	17,117	17,324	**17,043**	17,250

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

	Group		Company	
	2016 €'000	2015 €'000	**2016 €'000**	2015 €'000
Year ended 31 December				
Opening net book amount	**17,324**	11,968	**17,250**	11,894
Additions	**9**	6,743	**9**	6,743
Disposals	**-**	(1,026)	**-**	(1,026)
Net fair value gains	**(216)**	(361)	**(216)**	(361)
Closing net book amount	**17,117**	17,324	**17,043**	17,250

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Deposits with banks or credit institutions	**196,988**	173,783	**-**	137
Loans secured on policies	**9,243**	9,496	**-**	-
	206,231	183,279	**-**	137

As at 31 December 2016 an amount of €1.10 million (2015: €0.62 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 2015	
Opening net book amount	9,390
Additions	1,665
Disposals (sales and redemptions)	(1,559)
Closing net book amount	**9,496**

Group

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

The above loans earn interest at fixed rates.

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**21,603**	16,166	**(73)**	(60)
Movements during the year:				
Profit or loss account (Note 12)	**2,673**	5,472	**(107)**	22
Other comprehensive income	**(15)**	(35)	**(14)**	(35)
Balance at 31 December – net	**24,261**	21,603	**(194)**	(73)

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 35% (2015: 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 (2015: 8% or 10%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**616**	711	**(73)**	171
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	**71,136**	61,035	**982**	860
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(47,258)**	(39,835)	**(870)**	(796)
Temporary differences attributable to other provisions	**(233)**	(308)	**(233)**	(308)
Balance at 31 December – net	**24,261**	21,603	**(194)**	(73)

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

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(2,425)**	(2,253)	**(1,224)**	(1,192)
Deferred tax liability	**26,686**	23,856	**1,030**	1,119
	24,261	21,603	**(194)**	(73)

The tax effect of temporary differences attributable to the value of in-force business amounts to €3.51m (2015: €1.26m).

NOTES TO THE FINANCIAL STATEMENTS

22. DEFERRED INCOME TAX - CONTINUED

The deferred income tax assets and liabilities are, principally, recoverable after more than 12 months.

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

The Group and Company have unutilised capital losses of €4.24 million (2015: €10.94 million), which give rise to a deferred tax asset of €1.49 million (2015: €3.83 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €2.40 million (2015: €3.11 million) giving rise to a further deferred tax asset of €0.84 million (2015: €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.

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF

	Group		Company	
	2016 €'000	2015 €'000	**2016 €'000**	2015 €'000
Gross				
Short term insurance contracts – general business				
- claims outstanding	**38,970**	33,522	**38,970**	33,522
- provision for unearned premiums and unexpired risks	**28,872**	24,022	**28,872**	24,022
Group life insurance contracts				
- claims outstanding	**606**	319	**606**	319
- long term business provision	**1,054**	717	**1,054**	717
Long term contracts				
- individual life insurance contracts	**539,528**	529,906	**-**	-
- investment contracts with DPF	**1,141,334**	970,764	**-**	-
Total technical provisions, gross	**1,750,364**	1,559,250	**69,502**	58,580
Recoverable from reinsurers				
Short term insurance contracts				
- claims outstanding	**9,801**	8,878	**9,801**	8,878
- provision for unearned premiums and unexpired risks	**4,850**	4,349	**4,850**	4,349
Group life insurance contracts				
- claims outstanding	**204**	201	**204**	201
- long term business provision	**-**	241	**-**	241
Long term contracts				
- individual life insurance contracts	**1,589**	2,347	**-**	-
Total reinsurers' share of technical provisions	**16,444**	16,016	**14,855**	13,669
Net				
Short-term insurance contracts				
- claims outstanding	**29,169**	24,644	**29,169**	24,644
- provision for unearned premiums and unexpired risks	**24,022**	19,673	**24,022**	19,673
Group life insurance contracts				
- claims outstanding	**402**	118	**402**	118
- long term business provision	**1,054**	476	**1,054**	476
Long term contracts				
- individual life insurance contracts	**537,939**	527,559	**-**	-
- investment contracts with DPF	**1,141,334**	970,764	**-**	-
Total technical provisions, net	**1,733,920**	1,543,234	**54,647**	44,911

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 2016 and 2015 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. Motor claims occurring in 2016 have been determined on an ultimate cost basis having regards to estimation techniques establishing the average ultimate cost per claim, which average was applied to the estimated number of IBNR claims. Certain losses involving fatalities or serious bodily injury are reserved at the case-by-case reserve estimate.

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

The top half of the table below illustrates how the Company's estimate of total claims incurred for each accident year has changed at successive year-ends on a net basis. The bottom half of the table reconciles the cumulative claims to the amount appearing in the 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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of the ultimate claims costs:												
- at end of accident year	13,470	14,423	15,458	15,248	17,111	15,972	15,756	16,104	17,775	23,216	30,078	
- one year later	12,783	13,517	15,661	15,319	15,871	15,402	14,183	14,205	16,060	23,350		
- two years later	11,569	12,674	13,415	13,367	13,114	13,702	12,932	13,465	15,565			
- three years later	10,887	11,582	12,781	12,486	12,263	12,694	12,543	13,288				
- four years later	10,030	11,411	12,464	12,147	11,805	12,467	12,586					
- five years later	9,935	10,978	12,199	12,321	11,837	12,476						
- six years later	9,686	10,750	11,964	12,392	11,882							
- seven years later	9,679	10,634	12,022	12,411								
- eight years later	9,512	10,463	11,978									
- nine years later	9,433	10,466										
- ten years later	9,313											
Current estimates of cumulative claims	9,313	10,466	11,978	12,411	11,882	12,476	12,586	13,288	15,565	23,350	30,078	163,393
Cumulative payments to date	(9,141)	(10,488)	(11,575)	(11,812)	(10,980)	(12,048)	(11,504)	(12,172)	(14,035)	(19,045)	(15,529)	(138,329)
Liability recognised in the statements of financial position	172	(22)	403	599	902	428	1,082	1,116	1,530	4,305	14,549	25,064
Liability in respect of prior years												4,105
Total reserve included in the statements of financial position												29,169

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 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

	Group and Company Year ended 2016		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	33,522	(8,878)	24,644
Claims settled during the year	(27,973)	3,098	(24,875)
Increase/(decrease) in liabilities			
- arising from current year claims	34,704	(4,626)	30,078
- arising from prior year claims	(1,283)	605	(678)
At end of year	38,970	(9,801)	29,169

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Movements in claims and loss adjustments expenses - continued

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 €1.28 million (2015: €5.45 million). After the effect of reinsurance, this amounts to €0.68 million (2015: €3.34 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.

(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 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

	Group and Company Year ended 2016		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	24,022	(4,349)	19,673
Net charge/(credit) to profit or loss	4,850	(501)	4,349
At end of year	28,872	(4,850)	24,022

The balance at 31 December 2016 includes a provision for unexpired risks of €0.52 million (2015: €0.84 million).

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(c) Group Life insurance contracts

Claims outstanding

Movement in claims outstanding is summarised as follows:

	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

	Group and Company Year ended 2016		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	319	(201)	118
Claims settled during the year	(1,380)	656	(724)
Increase/(decrease) in liabilities	1,667	(659)	1,008
At year-end	606	(204)	402

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 2016. 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:

	2016 €'000	2015 €'000
Investments	**4,134**	4,520
Insurance and other receivables	**1,635**	858
Cash at bank and in hand	**459**	(50)
Claims outstanding	**(402)**	(118)
Insurance and other payables	**(4,772)**	(4,734)
Long term business provision, net of reinsurance	**1,054**	476

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

Individual life insurance contracts

	2016 **€'000**	2015 €'000
Gross technical provisions		
- claims outstanding	**2,989**	2,147
- long term business provision	**536,539**	527,759
	539,528	529,906
Reinsurers' share of technical provisions		
- claims outstanding	**502**	134
- long term business provision	**1,087**	2,213
	1,589	2,347
Net technical provisions		
- claims outstanding	**2,487**	2,013
- long term business provision	**535,452**	525,546
	537,939	527,559

The movements for the year are summarised as follows:

	Group Year ended 2015		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	509,235	(395)	508,840
Charge/(credit) to the profit or loss account	20,671	(1,952)	18,719
At end of year	529,906	(2,347)	527,559

	Group Year ended 2016		
	Gross €'000	Reinsurance €'000	Net €'000
Year ended 31 December			
At beginning of year	529,906	(2,347)	527,559
Charge to the profit or loss account	9,622	758	10,380
At end of year	539,528	(1,589)	537,939

The above liabilities are substantially non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts - continued

	Group 2016 €'000	Group 2015 €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**11,370**	8,249
- long term business provision	**1,129,964**	962,515
	1,141,334	970,764

The movements for the year are summarised as follows:

	2016 €'000	2015 €'000
Year ended 31 December		
At beginning of year	**970,764**	813,722
Charge to the profit or loss account	**170,570**	157,042
At end of year	**1,141,334**	970,764

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

(i) Assumptions

Rate of future investment return

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

Bonus rates

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

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

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

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 equal the current surrender value or zero whichever is the greater.

Mortality

The Group makes reference to AMC00 (2015: 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. The Group's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses. This acts to mitigate the impact of market movements and profit or loss is not affected by changes in the rate of regular bonus.

Technical Provisions - Investment contracts without DPF

	2016 €'000	2015 €'000
Long term business provision	**53,234**	62,466
Claims outstanding	**907**	319
	54,141	62,785

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**5,113**	3,220	**5,113**	3,220
Net amount charged to profit or loss	**936**	1,893	**936**	1,893
Closing net book amount	**6,049**	5,113	**6,049**	5,113

Deferred acquisition costs are all classified as current assets.

25. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Receivables arising from direct insurance operations:				
- due from policyholders	**451**	476	**451**	476
- due from agents, brokers and intermediaries	**13,521**	11,190	**13,521**	11,190
- due from reinsurers	**736**	667	**736**	508
Receivables arising from reinsurance operations:				
- due from reinsurers	**183**	192	**183**	192
Deposits with ceding undertakings	**147**	147	**147**	147
Other loans and receivables:				
- prepayments	**2,328**	2,383	**975**	1,027
- accrued interest and rent	**12,146**	11,809	**326**	283
- receivables from group undertakings	**-**	-	**-**	196
- receivables from associated undertaking	**98**	-	**98**	-
- other receivables	**141**	87	**-**	-
Provision for impairment of receivables	**(371)**	(403)	**(371)**	(403)
	29,380	26,548	**16,066**	13,616
Current portion	**29,380**	26,548	**16,066**	13,616

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

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

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Balance as at 1 January	**403**	333	**403**	333
Amount acquired upon portfolio transfer	**-**	60	**-**	60
Provision for impairment	**-**	10	**-**	10
Release of provision for impairment during the year	**(32)**	-	**(32)**	-
Balance as at 31 December	**371**	403	**371**	403

NOTES TO THE FINANCIAL STATEMENTS

26. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**70,015**	36,675	**7,191**	2,596

27. SHARE CAPITAL

	Group and Company	
	2016	2015
	€'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

28. OTHER RESERVES

Group

	Value of in-force business €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2015	27,885	390	28,275
Fair value movements – gross	-	(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**
Balance at 1 January 2016	26,715	379	27,094
Fair value movements – gross	-	124	124
Fair value movements – tax	-	17	17
Share of increase in value of in-force business of subsidiary undertaking	3,264	-	3,264
Balance at 31 December 2016	**29,979**	**520**	**30,499**

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER RESERVES - CONTINUED

Company

	Investment in subsidiary undertaking €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2015	34,663	392	35,055
Fair value movements – gross	-	(94)	(94)
Fair value movements – tax	-	83	83
Balance at 31 December 2015	**34,663**	**381**	**35,044**
Balance at 1 January 2016	34,663	381	35,044
Fair value movements – gross	-	126	126
Fair value movements – tax	-	16	16
Balance at 31 December 2016	**34,663**	**523**	**35,186**

The above reserves are not distributable reserves.

29. PROVISION FOR OTHER LIABILITIES AND CHARGES

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

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

	Group and Company	
	2016 €'000	2015 €'000
1 January	**1,231**	1,860
Interest expense – profit or loss (Note 8)	**18**	22
Settlements	**(58)**	(555)
Re-measurements actuarial gain – other comprehensive income	**(5)**	(96)
At 31 December	**1,186**	1,231

The following payments as expected in the future years:

	Group and Company	
	2016 €'000	2015 €'000
Within one year	**58**	58
After more than one year	**1,128**	1,173
	1,186	1,231

NOTES TO THE FINANCIAL STATEMENTS

29. PROVISION FOR OTHER LIABILITIES AND CHARGES - CONTINUED

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

	Group and Company	
	2016	2015
Mortality	**AMC00**	AMC00
Discount rate	**1.2%**	1.6%
Inflation rate	**1.5%**	2.0%

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

	Group and Company	
	2016	2015
	€000's	€000's
Discount rate – 1% pt increase	**(123)**	(132)
Discount rate – 1% pt decrease	**146**	156
Inflation rate – 1% pt increase	**136**	147
Inflation rate – 1% pt decrease	**(118)**	(127)

30. BORROWINGS

As at 31 December 2015, the Group's had an undrawn borrowing facility amounting to €4.00 million which was cancelled in 2016.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Creditors arising out of direct insurance operations	**8,655**	6,946	**3,028**	2,951
Creditors arising out of reinsurance operations	**222**	220	**222**	220
Amounts owed to associated undertaking	**178**	141	**178**	141
Amounts owed to group undertakings	**-**	-	**1,055**	1,001
Social security and other tax payables	**2,078**	1,352	**1,265**	888
Accruals	**7,149**	6,639	**4,735**	3,904
Deferred income	**2,034**	1,793	**1,414**	1,284
	20,316	17,091	**11,897**	10,389
Current	**20,170**	16,943	**11,897**	10,389
Non-current	**146**	148	**-**	-
	20,316	17,091	**11,897**	10,389

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 OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Profit before tax	**11,648**	17,839	**2,481**	5,069
Adjusted for:				
Depreciation (Note 17)	**686**	602	**292**	265
Impairment charges	**-**	-	**-**	-
Increase in provision for impairment of receivables (Note 25)	**-**	10	**-**	10
Other provision for liabilities and charges (Note 29)	**(58)**	(555)	**(58)**	(555)
Amortisation (Note 16)	**1,268**	907	**804**	475
Adjustments relating to investment return	**(78,874)**	(99,480)	**(4,489)**	(4,636)
(Profit)/loss on sale of property, plant and equipment	**(8)**	4	**(8)**	4
Movements in:				
Insurance and other receivables	**(2,698)**	(3,794)	**(2,464)**	(4,023)
Deferred acquisition costs (Note 24)	**(936)**	(1,893)	**(936)**	(1,893)
Reinsurers' share of technical provisions	**(428)**	(452)	**(1,186)**	1,500
Technical provisions	**182,470**	185,244	**10,922**	7,619
Insurance and other payables	**3,225**	2,026	**1,508**	3,098
Cash generated from operations	**116,295**	100,458	**6,866**	6,933

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Authorised and not contracted for				
- property, plant and equipment	**802**	1,095	**437**	320
- intangible assets	**4,412**	2,889	**3,786**	2,036

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	
	2016	2015	**2016**	2015
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**3,445**	2,374	**437**	309
Later than 1 year and not later than 5 years	**5,064**	3,433	**562**	319
Later than 5 years	**-**	-	**-**	-
	8,509	5,807	**999**	628

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 €0.30 million (2015: €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:

	2016 €'000	2015 €'000
(a) Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commissions received	**2,755**	2,303
- Claims recovered	**3,251**	3,063
Transactions with related undertaking		
- Trailer fees received	**12**	15
- Sale of insurance contracts	**1,784**	1,546
- Dividends received and interest income	**2,921**	3,600
- Rental income on investmet property	**57**	56
Transactions with subsidiary undertaking		
- Sale of insurance contracts	**160**	150
- Dividends received	**2,650**	2,840
- Rental income on investmet property	**138**	130
- Reimbursement for expenses for back office support services	**53**	106
Transactions with associated undertaking		
- Sale of insurance contracts	**9**	6
- Dividends received	**22**	-
- Rental income on investmet property	**16**	16

NOTES TO THE FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS - CONTINUED

(b) Purchases of products and services

	2016 €'000	2015 €'000
Transactions with parent undertaking		
- Reinsurance premium ceded	**7,695**	6,582
- Staff development training	**94**	114
- Computer maintenance and Group IT shared services	**752**	342
- Capitalisation of software development	**2,121**	498
Transactions with related undertaking		
- Acquisition cost payable	**5,685**	4,945
- IT hosting services	**17**	17
- Bank Charges	**117**	101
- Loan interest paid	**1**	-
Transactions with subsidiary undertaking		
- Reimbursement for expenses for back office support services	**21**	67
Transactions with associated undertaking		
- Roadside assistance membership and other call centre services	**1,957**	1,247

Key management personnel during 2016 and 2015 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 €2.42 million (Company: €1.14 million). Corresponding figures for 2015 were €2.40 million paid by the Group and €1.13 million paid by the Company.

Year-end balances arising from the above transactions:

	Group		Company	
	2016 €'000	2015 €'000	**2016 €'000**	2015 €'000
Debtors arising out of direct insurance operations	**1,067**	186	**1,067**	186
Creditors arising out of direct insurance operations	**2,771**	2,011	**1,746**	1,335
Amounts owed by subsidiary undertakings	**-**	-	**-**	196
Amounts owed by associated undertaking	**98**	-	**98**	-
Amounts owed to subsidiary undertaking	**-**	-	**1,055**	-
Amounts owed to associated undertaking	**178**	146	**178**	146
Other receivables	**406**	810	**3**	23
Accruals	**2,152**	215	**2,016**	215
Reinsurers share of technical provisions	**11,107**	9,989	**11,107**	9,989
Investments with related parties	**187,132**	188,398	**1,008**	1,118
Cash and cash equivalents	**65,139**	33,193	**5,959**	1,786

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

NOTES TO THE FINANCIAL STATEMENTS

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.

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