MAPFRE MIDDLESEA

2019 Annual Report

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

I am pleased to report that 2019 has been another record year for the MAPFRE group in Malta ("the Group"). Profit before tax amounted to €20.08 million (2018: 18.56million) whilst profits after tax attributable to shareholders increased to €9.63 million (2018: €8.59 million). On the other hand the Group has seen a downturn in the volumes of premium written falling from the €389.70 million written in 2018 to €357.32 million in 2019, returning to 2017 levels, mainly due to a fall in life single premium business.

DIVIDENDS

As the Group solvency and liquidity ratios remain very strong we have ensured, as in previous years, that the profits have largely all been passed to shareholders by way of a Dividend. In the AGM held in May 2019 a special dividend of €8.00 million was paid arising from a special dividend received from MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life"or "MMSV"). As a result of the excellent results and a further special dividend of €4.00 million received from MMSV in December 2019, MAPFRE Middlesea p.l.c. ("MAPFRE Middlesea","MMS" or "Company") will be paying a final net dividend of €13.00 million compared to last year's €9.00 million. This will translate into a net dividend per share of €0.14130 compared to €0.09783 in the previous year.

It should be noted that although the net dividend as stated here relates to the dividend after the Company has paid the tax due, some shareholders, as individual resident shareholders, and due to the untaxed part of the profits being distributed, will receive a slightly lower net amount, due to withholding tax that the Company is obliged to withhold, and pay to the tax authorities.

CURRENT ECONOMIC ENVIRONMENT

Volatility from investment markets remains the only consistent expectation. The last quarter in 2018 saw the markets fall drastically only to recover in 2019. However, markets remain jittery and the outlook remains difficult to predict. The effects of the Coronavirus and indeed the impact and extent of the virus on world trade and travel is yet to be assessed. As I write the markets have reacted badly and investment prices have fallen drastically. That it has its origins in China may mean that the impact is more profound and will have a longer term effect. US foreign policy has now become more difficult to predict with much rhetoric, and trade actions, Brexit uncertainty, European slowdown especially in Germany, Russian assertiveness on the world stage and even the real evidence of climate change, could indicate a gathering storm, if not rougher waters ahead. This all means a lack of safe investment opportunities, giving an adequate return, which remains a perennial headache for insurance companies.

In 2019, Malta was not immune from upsets, and the sudden resignation of the Prime Minister, and growing unease in International circles about Malta's committment to improve governance, and its reputation abroad, especially with regard to combating money laundering, remain a concern. This is an immediate issue which needs to be addressed comprehensively if Malta is to continue to grow its international business in financial services and related industries. We have a closing window of opportunity which we must take advantage of.

It must also be said that the rating agencies continue to give Malta a stable outlook with positive assessments. Our economy remains diversified which remains a strength and tourism (at least up to 2019) remains strong. A steady hand, resolute steps to correct our international image, and investment in new stable industries is what the business community is looking for at this time.

The Mapfre group in Malta is the largest player in the insurance industry with about 33% of General Insurance and over 70% of the Life insurance sector in its hands. We remain prudent and conservative in the way we do business, but are not unaffected by events in the local or international economies. That said we remain cautiously optimistic for 2020.

MAPFRE MIDDLESEA P.L.C.

Our business remains underwriting risks for individuals and businesses. In recent years we have seen a lower frequency of claims which together with pricing adjustments has helped lower our loss ratio. However we have also seen a rise in signicant large claims which has had an adverse impact. To an extent these are unpredictable, yet can be expected to rise in the future. In 2019 we had the February storm and also some significant accidents involving foreign nationals which resulted in some heavy provisions. Because we are prudent in underwriting risks and reinsure heavily we have been able to mitigate the loss claims in the year under review. However this pattern will impact our reinsurance costs of future years and may result in a price correction going forward to cover for this.

Notwithstanding this we have been able to register a technical profit on our non-life business of €6.87 million to the previous year's result of €4.99 million. A credible result, due to the Company's policy of de-risking portfolios and encourage growth in areas where safer returns are anticipated. Pricing remains competitive to the market but must reflect the risks being undertaken.

Our penetration in general insurance sector remains very high and therefore opportunities for growth remains somewhat limited. Nevertheless our sales of premiums have continued to increase in volume both from a policy number perspective and total value. This is due to our competitiveness in price, but perhaps more importantly in trust and service. Indeed the Company is committed to improve its services to both the ultimate customer, as well as to our distribution network and I shall have more to say about this later in this report.

As noted the Board remains cautiously optimistic in its outlook for 2020 and for this reason has recommended almost all of its profits are to be distributed to the shareholders. This reflects the Company's strong financial position, and its high

CHAIRMAN 'S STATEMENT

solvency, liquidity and capital ratios. Shareholders can also take comfort that the Company's reserving policy remains prudent as we move to a more scientific method of reserving under the ultimate cost method – which we now do for motor business, and will move to other sectors in the near future.

IT

In 2019 the Company spent €2.8 million on IT investment. The investment in IT will transform the way the Company does its business. It will allow us to become more flexible in manipulating data to allow us more intelligent pricing, which in turn will more closely mirror the risks we undertake. It will allow us to have a deeper understanding of our data, and in the long-run provide better information for actuarial pricing and reserving calculations. It will allow for an improved customer experience, and ultimately, in time, a lower cost base. Today we remain at the most complicated stage of this transformation, running old systems, whilst introducing new ones, training staff on new procedures, and testing and implementing new programmes.

Progress is being made, and we should be in a position to roll out the motor business within the Company later this year, and will be expanding this to our distributors next year.

There are other exciting initiatives we are looking at, including the internet of things, and artificial intelligence, initiatives which could revolutionise the business in the coming years. I must pay tribute to our staff who have borne the brunt of this IT transformation, the IT team as well as the line staff who have worked together to see this project move forward. I auger that the benefits of this new system will soon start being felt by staff, as well as by customers due to the improved service which we should be able to give.

MAPFRE MSV LIFE P.L.C.

MMSV continues to provide the bulk of the profit to the Group, recording a profit after tax of €11.7 million compared to a profit of €10.9 million the previous year. The group owns 50% of MMSV and therefore half of these profits will be attributable to MMS shareholders.

Last year I noted that we had record sales of single premiums (the main source of premium sales), but this year we managed to achieve slightly in excess of 2017 sales. This was due to a down turn of sales from our largest producer Bank of Valletta. However the Funds under management have continued to increase, in part due to the excellent investment returns, and the stability we enjoy largely as a result of the introduction of the annual management charge, means that our returns from the fund have marginally increased.

The With-profits Fund now stands at over €2.1 billion and investors in single premium have the peace of mind that their capital is guaranteed, a unique option in the local market and one which has proved to be popular with investors. 2019 saw the fund's investments giving a net return of 11.02% which is a creditable performance which outperformed its benchmark.

Obviously past performance is no guarantee for future returns. The fund is prudently managed and investments are divided among investment managers, currencies and markets to spread the risks and obtain the best returns whilst managing risk.

The Directors of MMSV have declared a regular bonus rate of 2.85% on its core products. Details can be found in the Directors' report.

2020 will see increased competition from a new Company being set up by competitors for the term business, but we remain confident that this will not adversly affect this line of business at its current level, to any great extent in the short to medium term.

The developments in the Voluntary Occupation Pensions market during 2019 saw MMSV launch the first insurance based voluntary occupational pension scheme in the market. At the time of writing there has been significant amount of interest shown in the MAPFRE MSV Life WorkSave Pension Scheme which augurs well in the potential of this product to provide an important revenue stream for MMSV in the future.

As more people come to realise that they cannot maintain their lifestyle on retirement without supplementing the state pension, take up of the MMSV's pension products is expected to accelerate. Government support in the form of tax benefits both to the insured and the employer, make investing in a pension scheme very attractive, with additional benefits accruing to the employer for benefits enhancement and staff retention.

MMSV is also investing heavily in a new IT system. As with MMS this is a very large investment and stresses resources within the Company. However significant progress has been made and 2020 will see the implementation of most of the new system.

REGULATION

Both MAPFRE Middlesea p.l.c. and MAPFRE MSV Life p.l.c. take governance, and compliance with local and international regulations very seriously. Over the years we have invested heavily in the risk and compliance departments and indeed embraced the changes. Through the MAPFRE group we have been able to tap training and advisory resources to ensure we remain complaint and in some areas ahead of the curve. In the last few years I have seen a huge change as complex risk requirements have been put in place to ensure compliance with Solvency II. Other regulations such as GDPR and the Insurance Distribution Directive have been implemented within the group, and where necessary by our distributors. This is ongoing, and whilst I accept that more work needs to be done, we remain committed to maintaining the highest standard of governance and compliance.

On a particular note, IFRS 17 is due to be effective as from 1 January 2022. This is a complex and challenging accounting

CHAIRMAN 'S STATEMENT

standard to implement and one which has far reaching implications. The Group has a working task force to implement this standard by the required date and has obtained significant support from the MAPFRE Group to achieve this. No doubt there will be more to report on this next year.

DISTRIBUTION

MAPFRE Middlesea distributes business through a multi-channel approach which means that the many of the policies sold are generated through a network of Agents, Brokers and Tied Insurance Intermediaries. Over 35% of our premium income comes from 6 agents, whilst around 25% comes from our own Tied Insurance Intermediaries of which we have around 60. Clearly therefore the success of the Company is due to a large part on the efforts of these intermediaries and I would like to take the opportunity to thank them for all their hard work in making this year yet another successful year.

The Group is conscious that we are a team, and that the success of both the group companies and the distributers are intertwined. I would like to think we are receptive to their requirements and understand their needs. The business transformation being brought about by the new IT system will start being rolled out to our distributors by 2021, but before this much prepatory work will need to be done. I expect as with all IT transformations this will present its own challenges but I am confident these will be overcome and we will be in a position to enjoy the benefits this will bring about.

CORPORATE SOCIAL RESPONSIBILITY

2019 has been yet another eventful year for MAPFRE Malta. During this year, the Group continued to help within the community through its Corporate Social Responsibility Programme, which forms part of MAPFRE's global volunteering programme.

The Group seeks to put into practice good Corporate Social Responsibility principles on a daily basis with its own employees, and as in previous years, a number of employees from both companies, MAPFRE Middlesea and MAPFRE MSV Life participated in a number of events held with different entities. These included Nature Trust, Centru Tbexbiex, Agenzjia Appogg, St Patrick's Home, MCCF, Caritas, and Malta Blood Transfusion Service.

MAPFRE Middlesea also renewed its support to Dar tal-Providenza, Hospice Movement, Malta Red Cross, St Johns Rescue Corps and Dr Klown amongst other philanthropic entities.

Through Fundacion MAPFRE, the campaign Caqlaq, a healthy living awareness campaign in schools, was held for the seventh consecutive year, placing more emphasis on physical activities. Whilst Street Smart which concentrates on bringing awareness to small children about road safety was commissioned for its sixth year and it was also held in collaboration with Malta Public Transport via school outings by bus to reach out to more children.

All main CSR activities are carried out with the support of Fundacion MAPFRE in line with the MAPFRE Group policy.

SHAREHOLDERS

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

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

The two Chief Executive Officers running the major Group companies are Felipe Navarro Lopez de Chicheri at MAPFRE Middlesea p.l.c. and David G. Curmi at MAPFRE MSV Life p.l.c.. They ably lead their dedicated teams of managers and staff who have all contributed to the successes achieved during 2019. The board is grateful for their hard work and professional approach and for the continued success they have contributed to.

MARTIN GALEA
CHAIRMAN
MAPFRE MIDDLESEA P.L.C.

12 MARCH 2020

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MAPFRE MIDDLESEA GROUP HIGHLIGHTS

In 2018, we announced an excellent year to our shareholders; our results for 2019 are even better. For this, I need to commend the efforts made by MAPFRE Middlesea p.l.c. ("MAPFRE Middlesea", "MMS" or "Company") in general with special mention to the employees, distributors and providers that are enabling the Company to grow, attaining the excellent results that we are presenting.

MAPFRE Middlesea is on the right track and evolving positively according to the first of our three-year strategic plan 2019-2021. We are honoured with the strong position that this Company has in the local market. I must remind our shareholders that our activity is solely based in the local market and writing domestic risks. MAPFRE Middlesea is for another year the market leader, and in terms of revenue way ahead of its competitors.

Nevertheless, 2019 was a challenging year. The windstorm in the month of February, the high number of losses in the marine line of business, together with the high cost of a number of motor claims linked to foreign casualties on our roads, were the negative aspect of the positive reality that we are presenting today.

The excellent strategy of this Group (MMS and its subsidiaries) and the reinsurance recoveries from those large claims and storms, compensated for the difficulties that we experienced in 2019. The relationship with reinsurers will need to be re assessed, and as a result, the experience of 2018 and 2019 will affect the trading conditions for 2020 and future years. We must address the change in the nature of the risks that this country is experiencing. These changes include the climate, the demographics together with an increase in the general wealth levels. All of these factors reshape Malta's reality. MAPFRE Middlesea will work hard to adapt in facing this changing environment.

After years of expansion, our main non-life core IT system will be delivered during 2020. The deployment of the life core system in MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life" or "MMSV") will probably be concluded by 2022. The new technology will allow us to have a better control of the data and increase the connectivity of our systems. All of this will help us to better know and understand our client and to serve him in a more sophisticated manner. 2019 has put into production some of the main features that will be incorporated in our systems and then rolled out in the health and home business. This year will be the year of motor business and we are already working on other lines of business.

MAPFRE Middlesea is quite active in being innovative, at times alone and at other times collaborating with other companies to provide new services to the client. Many of the pilot projects will not come to fruition due to their lack of feasibility. However, we hope to deliver new services during this year that are relevant to our client and that change the perception of the insurance business.

An internal survey is showing us that the multi-brand approach is creating a lot of confusion to the average person. The products and covers provided by MAPFRE Middlesea and MAPFRE MSV Life are the same thing in the client's mind. The confusion created between the different companies when addressing our client's needs is going to drive us to change this approach; we are going to develop the MAPFRE name as a commercial entrance, providing the final cover with MAPFRE Middlesea or MAPFRE MSV Life depending on the risk. We will conduct this with a very soft approach as all the branding is and will be legally present in the future.

I am proud of the performance of the Group investment portfolios as it exceeded our expectations for a quite diversified asset mix. The financial markets performed well despite all the political turmoil of the Chinese-American economic war and the outcome of the British elections pointing to the confirmation of Brexit on January 31st 2020. For another year, we are able to guarantee a stable bonus declaration in our saving products at MAPFRE MSV Life for 2019.

Motor insurance is still growing. Despite the increase in the number of registered vehicles, the growth in the number of claims together with the costs of the claims associated to personal injuries, 2019 was still a good year. Our motor net combined ratio improved thanks to the reinsurance treaties that helped for the second year in a row to stabilise the profitability in this line of business.

In 2019, due to an unforeseen problem with a provider, we were not able to calculate the NPS (Net Promoter Score) that would have allowed us to compare ourselves with our competitors in the motor line of business. During the latter half of 2019 and early 2020, we worked in analysing our customer journey, as we are committed in improving our client's journey with the Company. For this reason in 2020, we want to perform the NPS analysis, which together with the customer journey and mystery shopping exercises will allow us to service the client in a better manner.

In 2019, we started to work on the adaptation of the Group to the new accounting standard of IFRS 17, which will change dramatically the representation of the financial information related to the insurance business. It is going to take a lot of work and effort in order to understand and apply this new standard in the proper manner. The support that MAPFRE Middlesea as a Group is receiving from the parent MAPFRE S.A. ("MAPFRE Group") is key to the good implementation of the standard for 2022. This is not the only area where the MAPFRE Group is helping the local activity as we are also collaborating in Reinsurance, Actuarial, Internal Audit, Compliance, Risk and Security, and Legal, amongst others. This gives us peace of mind, as there is a consistent approach to the main regulatory issues of the Company assisted by a leading international group.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

GENERAL BUSINESS

The premium increase in 2019 was 7.3% whilst net earned premiums increased by 5.8%. This is reflecting the healthy evolution of the Maltese economy and the good performance of the Company. The significant line of business with the highest increase in 2019 was general liability followed by engineering mainly as a result of the increase in number of construction projects across the islands. The other lines of business with special increases in 2019 were fire and motor, increasing by 10.2% and 7.1% respectively. We need to mention that MMS lost a major health scheme at the beginning of the year, amounting to around 10% of the total portfolio, eventually replaced both from new group schemes and individual policies allowing us to grow as well in this line of business by 3.3%.

MMS has decreased its exposure to the motor business, which now represents 52.0% of the total non-life portfolio. Although the result of this line of business is still improving, it showed a net combined ratio of 95.9%, 4 percentage points of improvement compared to the previous year. In 2017, the Company started an in-depth restructuring of this line of business with the aim of returning the business to its due profitability. During 2018, inclusive of a major claim, we achieved a combined ratio marginally below 100%, thus bringing this line of business back to the profitable growth path. 2020 will be challenging since this line of business needs to be profitable without major reinsurance support. The rest of the lines of business had an overall good performance even if affected by some large claims during the year including the big windstorm in February. The net combined ratio for the general business was an excellent 90.3% well below the MAPFRE Group long-term target of 96.0%.

In 2019, the total number of policies issued by the Company reached 222,021 an increase of 3.3% in absolute terms. The retention rate is acceptable even if we continue experiencing a major trend in the transfer of policies between insurers. To increase our retention MMS understands that it should improve the customer service and in this regard, we count on our technological modernization plan already mentioned.

MAPFRE in Malta is proud to propose one of the best suite of insurance products to their clients and intermediaries. We are going to continue working in the value proposition for our products to continue to add value to the Maltese market in general.

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 propositions. We are especially proud of the Agents and their networks that deliver an excellent service to the client, frequently exceeding the latter's own expectations. One of our best assets is the TII network that, with ongoing training and service orientated philosophy is always at the front line, supporting the clients and helping them to find the right insurance solution to their needs. The training effort that our network did in 2019 in line with the IDD requirements did not affect its excellent performance. We would like to thank all of them for their commitment and constant support.

In 2019, the business distributed by brokers saw an increase of 11.6%. The business distributed by our agents increased by 6.9%. Business intermediated by TIIs increased by 6.4%, reaching 24.6% of the total general business premiums of the Company. Bank of Valletta p.l.c. ("BOV") is one of our strategic partners in the distribution business mainly for Home.

Gross operating expenses increased by 9.4% over the previous year, reflecting the increase in the intermediated business versus the direct business written by the Company together with an increase in earned premium. Total expenditure of the Company increased by 6.0% against the previous year. MMS directly employed 184 workers by the end of 2019.

MMS has a strong solvency ratio well above the minimum regulatory requirement under Solvency II. The 2019 solvency ratio data is due to be available in April 2020 with the publication of the Solvency and Financial Condition Report (SFCR). In the past, this strong capital allowed the Company to increase the level of retention of the portfolio and therefore reduce the reinsurance requirements in the lines of business where it was possible, without incurring a bigger risk to the Company in the case of a catastrophe. Our simulations allow us to confront, with enough financial solvency, a catastrophic situation that could affect the country. MAPFRE Re, the MAPFRE Group reinsurance Company continues to deliver an excellent service in finding the best covers at an adequate price, taking advantage of the MAPFRE Groups' purchasing power. In 2019, MAPFRE Middlesea experienced a big number of claims associated with the February windstorm and a number of personal injuries in the motor business. The latter had a substantial impact on reinsurers for two consecutive years. In the future MMS will need to compensate this long-term relationship by adjusting the level of cover and cost of reinsurance to secure a balanced relationship.

As we said last year, rental income is helping to increase the Company's steady income. The revaluation of Development House in 2019 has been important and positively affected the profits of the Company.

LONG TERM BUSINESS

2019 was a good year for the long-term business. With more than €282.9 million in written premiums and a decrease of 11.6% over the previous year MMSV is succeeding in the distribution of life savings insurance. BOV the strategic partner in this business is responsible for the majority of the sales in the Single Premium business. Nonetheless, in 2019 it had a slowdown of 14.8% in the sales of this type of product. Other bancassurance agreements and the TII network contributed to the great success of MMSV.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

The With-Profits business distributed on the islands is quite a unique product that allows the client to receive a smooth return on the long-term savings. The success of MMSV together with the low interest rate environment, and the excellent performance of the invested portfolios are contributing to an overall excellent performance of this line of business.

The investment return at a very positive €234.9 million was due to the behaviour of the financial markets. In a positive environment, MMSV has had a positive net return to assets of 11.02%. As we said last year, the long-term performance of the product will contribute to the bonus declaration announced. The total invested assets reached a new record of €2.34 billion, a significant increase of 13.3% over the previous year.

MMSV is significantly contributing with a stable profit to the Group's consolidated result. The increase in 2019 of the value of in-force business came mostly from the good performance of the financial markets together with the profitability of the new business sold by this Company. Overall MMSV has €2.50 billion in total assets 12.8% higher than the previous year.

MMSV's total profit after taxes reached €11.7 million, 7.9% higher than the previous year.

Net operating expenses show a reduction of 1.0% reflecting commissions on the lower premium written.

MMS life portfolio also showed a decrease in business of a 9.4% reduction in written premiums. Results in 2019 were however good because of a low level of death claims frequency and severity giving the portfolio an excellent result of €0.88 million but lower compared to the extraordinary €1.36 million in the previous year.

We can consider 2019 as an excellent year for the Group despite the lower level of premium income.

CONSOLIDATED RESULTS

During 2019, the Group registered a profit before tax of €20.1 million, 8.2% higher when compared to the previous year. After tax the Group generated a profit of €15.5 million or 10.5% higher than the previous year.

The tax expense of 2019 is less than the 35% corporate rates closing at 22.8% compared to 24.4% in the previous year.

Earnings per share attributable to shareholders have increased to 10c5. The profit attributable to shareholders increased as a result of the excellent performance of the Group in general.

MMS is committed to return value to its shareholders and will continue to dedicate an important part of its profit to remunerate the shareholder. In this spirit of continuously and significantly remunerating the shareholder, MMS will propose to the Board of Directors the payment of a net dividend of €0.14130 per share. It should be noted that the pay out of the Company will be 96.85% for this year. We need to take into account that included in 2019 result there are extraordinary dividends distributed by our subsidiary MMSV. The Company intends to propose to pay to its shareholders a level of dividend that reflects the good results achieved whilst having regard on its impact on solvency as well as the liquidity of the Company in current and stressed scenarios.

STATEMENTS OF FINANCIAL POSITION

The total assets of the Group increased by 12.8% and totalled €2.62 billion. More than 93.2% of them are return-seeking assets (investments and cash and cash equivalents) derived from the increase in MMSV's funds under management. These funds are invested in a number of diversified securities (local and foreign), managed in-house or by external high reputable entities. The Group has a portfolio of rented property investments and property related shares.

On the liabilities side 97.4% of the balance belongs to technical provisions. All technical provisions, both life and non-life increased as a result of the increased volume of business written.

Total equity decreased by €8.6 million or 5.0% including the minority interest mainly driven by the profit for the year and the increase in the value of in-force business. These were offset by the dividends paid by both MMS and MMSV, including the extraordinary dividend paid due to the extraordinary distribution that MMSV did last year. We should not consider this extraordinary situation as something that could be sustained in the long term.

REVIEW OF OPERATIONS

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

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

MAPFRE Middlesea has three regional offices that provide a closer approach to both final clients and TIIs. In addition, Luqa Regional Office provides a fast motor survey service that guarantees an outstanding service to the customer.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

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

MMS has an outstanding website that allows the client to interact with the Company through different channels. Our different tools and teams seamlessly manage direct, telephone or digital contact. In 2018, on top of being able to renew policies through the website, receive a quote and buy directly some of our business lines, MMS introduced EMMA an Artificial Intelligence avatar. This provides the client with a 24/7 service. EMMA will be further developed to ensure an excellent service to the client. Taking into account that EMMA is a machine based tool, our users evaluated it with a level of satisfaction amounting to over 70%, concluding more than 90% of the interactions without a human intervention, way over our initial expectations.

Technology continues to be one of the major investments of the Company. The different projects leading to the digitalization of the Maltese group are affecting all areas of the Company. The core systems of the two main companies are in the process of being changed and a number of new tools are being implemented to provide the internal and external client with state-of-the-art technology. 2020 should be the year of delivery on the core system for our main line of non-life business, a change that should be almost seamless to the client but that will provide the Company with a modern technology, further reliability on the Data Management and more sophisticated processing of the claims.

SUBSIDIARIES

BEE INSURANCE MANAGEMENT

The Group management services Company, a fully owned subsidiary of MAPFRE Middlesea p.l.c., attained a pre-tax loss of €0.02 million. It also played a very active role at international events, establishing new business leads and contributing to extend the knowledge of Malta as an excellent jurisdiction whereby foreign companies can operate. BEE is experiencing the first impact of re-domiciling certain companies due to Brexit. We should see 2019-2020 as a transition period pointing to a more successful future.

MIDDLESEA ASSIST LIMITED

Middlesea Assist Limited ("Middlesea Assist"), the joint-venture between MAPFRE Middlesea p.l.c. and MAPFRE Asistencia, had a profit after tax of €0.18 million. The main activity of Middlesea Assist is to provide services to MAPFRE Middlesea clients.

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

LOOKING FORWARD

2019 was for MAPFRE Middlesea, for the second year running, the confirmation of the profitable growth strategy implemented during these last years. Even if we are not at the final stage, we proved to be very well equipped to face very large claims. We had in place an excellent reinsurance cover and we proved the resilience of this Company to adverse situations. We have a committed team together with internal expertise represented by the people working in this Company that allowed us to excel in difficult times. The challenges that emerged from the big claims happening in the last two years together with the increase in the number of personal injuries involving foreign citizens from Western Europe are putting a strain on our reinsurers that is going to affect the structure for the renewal of the future years.

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

2019 is the first of a new three-year strategic plan. We have challenging goals that we need to achieve in the medium term without forgetting to look closely to the activity of the Company in the immediate present. The first year of this plan is going very well as we are achieving most part of the objectives on time and providing the Company with an excellent financial performance. Being market leaders in most lines of business, a highly profitable Company and an example at Group level should not distract our attention on excelling in our continuous progression.

The 2019-2021 strategic plan slogan is WE ARE TRANSFORMING TO GROW AND IMPROVE PROFITABILITY. The Client Orientation, the Excellence in Technical and Operational Management and the promotion of our Excellence in Culture and Talent are going to be our main driving forces. Last year we said that we wanted more, transformation in all our actions down to our roots. I am looking forward to be able to present in the near future all the enhancements we have been working on in the last 12 months.
At present, we understand the insurance business as a service to our clients. For this, we are going to continue working in order to deserve the trust of the different stakeholders: clients, providers, employees, shareholders and society in general. This is our daily goal. This cannot change.

The regulation environment is constantly challenging the insurance business. The way that the Company establishes the relationships with clients, distributors, providers and the regulator are becoming more complex in order to protect the client's rights. IFRS 17 the new IASB accounting standard that will be implemented by 2022 is going to be a major

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

challenge for MAPFRE in Malta. This is going to affect deeply the representation of the accounts of insurance companies, together with IFRS 9, relating to investments, which will affect mainly the life savings business.

Nevertheless, this should not be a barrier for competition in any area. Providers, distributors and companies have to assume the new framework and invest to be compliant. The challenge will be to overcome the difficulties keeping a competitive offer to the client.

I would like to finish with a similar statement as the last years: MAPFRE Middlesea's optimistic look for the future is still on our minds. We are a committed team that is ready to satisfy the needs of the different stakeholders providing the shareholders with a good business performance. Malta has a great opportunity to evolve and bloom as an economy. We need to overcome some difficulties related to the lack of skilled workers in an economy that has already reached a technical full employment. It is of utmost importance that this country exits the December political crisis reinforced and that we take advantage of the changes to show Europe Malta's commitment against corruption, fraud, money laundering and opacity. We need to continue boosting and supporting all the initiatives that the local institutions are promoting to become a reference in Europe for the enforcement of anti-money laundering activities with stronger supervision of regulated activities. It is this fight that MAPFRE Middlesea is eager to support together with the local institutions namely the MFSA.

We look forward to see a stronger enforcement of measures in order to prevent fatalities linked to the consumption of alcohol and drugs whilst driving. We need to stress the need to be always alert while driving and putting all the distractions away. We know that the misuse of mobile phones while driving increases dramatically the number and severity of the car accidents. We continue encouraging the Maltese society to accept the challenge of zero fatalities on the Maltese roads and act to achieve it. We encourage local authorities to spearhead this movement though a strict law enforcement.

I would like to assert the closing of my last year's report because now, more than ever, MAPFRE Middlesea 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.

12 MARCH 2020

BOARD OF DIRECTORS & COMPANY SECRETARY

MARTIN GALEA

ACA – Chairman

NED I

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

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

ALFRED ATTARD

NED I

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

MR NIKOS ANTIMISSARIS

NED

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

AT PRESENT CEO for EURASIA (Europe, Middle East, Africa and Asia) Region of the MAPFRE Group, Vice Chairman of the Supervisory Board of VERTI Versicherung AG (Germany), Member of the Boards of Directors of MAPFRE MSV Life plc (Malta), MAPFRE SIGORTA A.S. (Turkey), MAPFRE YASAM SIGORTA A.S. (Turkey), Verti Assicurazioni SpA (Italy) and MAPFRE Insurance (The Philippines).

ANTOINETTE CARUANA

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

NED I

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

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

TADDEO SCERRI

NED I

FORMERLY Managing Partner of RSM Malta, Chairman of the local UEFA Clubs Licencing Board and a member of the Malta Football Association's Finance Committee.

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

DAVID G. CURMI

ACII., Chartered Insurer,

NED

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

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

JOSÉ LUIS JIMÉNEZ

NED

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

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

JAIME TAMAYO IBAÑEZ

NED

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

BOARD OF DIRECTORS & COMPANY SECRETARY

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

PAUL S. TESTAFERRATA MORONI VIANI

NED I

AT PRESENT Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of GO plc., Malta Properties Company plc, Innovate Software Limited, Cablenet Communication Systems Ltd (a Company incorporated in Cyprus) and a Director within the Testaferrata Group of Companies.

JOSEPH F. X. ZAHRA

B.A. (Hons) Econ., M.A. (Econ.)

NED I

FORMERLY Head of Research, Malta Development Corporation; Director, Central Bank of Malta; Director, Malta Development Corporation; Director, Corinthia Hotels International Ltd; Chairman, Bank of Valletta plc; Chairman, Middlesea Valletta Life Assurance Co. Ltd; Chairman, Maltacom plc.; Chairman, National Euro Changeover Committee; Chairman, National Commission for Higher Education; Chairman, Middlesea Insurance plc; Chairman, Malta Council for Culture and the Arts; Managing Director, Market Intelligence Services Co. Ltd.

AT PRESENT Director, Medserv plc; Chairman, Multi Risk Limited; Director, Multi Risk Insurance Ltd.; Director, Surge Consulting Ltd; Director, SurgeAdvisory Ltd.; Director, United Group Ltd.; Director, United Finance plc.; Director, Pendergardens Developments plc; Director, Curmi & Partners Ltd; Director, FIRE Group Spa (Italy); Director, Birks Group Inc. (Canada).

FELIPE NAVARRO

President & CEO

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

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

DR DAPHNE SIMS DODEBIER

Company Secretary

FORMERLY Senior Legal Advisor at HSBC Bank Malta p.l.c, Committee Member of the Malta Chamber of Advocates, Director of Trustmoore Corporate Services Ltd.

AT PRESENT Joined MAPFRE Middlesea plc in April 2018 as Head of Legal and was appointed Company Secretary on 26 April 2019. Serves as Committee Secretary to the Board Committees of MAPFRE Middlesea plc as well as being Company Secretary of the majority of its subsidiary companies. She was also appointed Whistle Blowing Reporting Officer in October 2018 and Complaints Officer in November 2018. She is a member of the Malta Chamber of Advocates and a recognised translator with the Ministry for Justice and Foreign Affairs in Malta.

NED – Non Executive Director

I - Independent

HEAD OFFICE & AGENCIES

HEAD OFFICE

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e-mail: bro@middlesea.com

LUQA REGIONAL OFFICE
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Triq il-Kunsill tal-Ewropa
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WMB 5, Old Bakery Street,
Valletta, VLT 1450
Tel: (+356) 25598000
Email: insurance@untours.com.mt

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

PROFESSIONAL SERVICES

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

LEGAL ADVISORS
Mamo TCV Advocates
Schriha, Attard Montalto, Galea and Associates
Camilleri Preziozi

ACTUARIES
MAPFRE S.A.
Willis Tower Watson

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

DIRECTORS' REPORT

The Directors present their annual report for the year ended 31 December 2019.

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 €23.82 million during the financial year ended 31 December 2019 ("FY 2019") compared to €11.42 million registered in the previous financial year ("FY 2018") with post-tax profits of €21.68 million, compared to €9.43 million in FY 2018. The result was the fruit of another year of strong technical results in both the non-life and the group life business enhanced by the receipt of a special dividend of €12.17 million from the subsidiary MAPFRE MSV Life p.l.c..

Premiums written by the Company reached €74.38 million (2018: €69.69 million), a 6.7% increase with satisfactory growth being registered in all non-life classes of business. MAPFRE Middlesea p.l.c. remained the leader of the non-life market with the Company's market share decreasing marginally from the previous year following the receipt of provisional market data.

Technical results for general business improved to €6.87 million from the €4.99 million of FY2018, a 38% increase in a year of significant loss events. The February windstorm was one of the worst experienced in the local market which had its negative affect particularly on the Property account. Fatality and serious bodily injury claims remain of concern particularly those involving foreigners which, although adequately covered by our reinsurance treaties, had a significant impact on results through a high reinsurance premium adjustment. Notwithstanding this, the Company managed to improve further the net combined ratio of the Motor class of business which closed at 95.97% from the 99.99% registered in FY 2018 meeting the targets that had been set. The whole non-life portfolio closed with a net combined ratio of 90.34% down from the 92.90% registered the previous year. Group Life business recorded another good year contributing €0.88 million, albeit lower than the €1.36 million in FY2018 which was an exceptional result with low frequency and severity of claims.

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

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

The Company's net investment income amounted to €19.52 million in FY 2019. The main source remains the dividends received from Group companies which this year included two special dividends received from MAPFRE MSV Life p.l.c., one of which was reported in last year's report. Fair value movements also saw a retraction compared to previous year particularly from local equities whilst the revaluation of its property investments rendered higher gains from those achieved in FY 2018 due to higher rental cash flows.

The Shareholder's Funds of the Company at €72.80 million saw an increase of 6.58% during FY 2019 resulting from the strong profit achieved which was partially offset by the dividend distributed. Net Asset Value per share as at 31 December 2019 amounted to €0.79.

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" and "MAPFRE MSV Group") registered a profit before tax of €14.5 million for FY 2019, up 5.8% on the previous year where a €13.7 million profit before tax was generated. Profit after tax is recorded at €11.7 million, up 7.3% on the €10.9 million in the previous year.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

MAPFRE MSV LIFE P.L.C.

Operating results were supported by a significant appreciation in asset values on the back of favourable market conditions as well as strong inflows of premium revenue across the Company's range of insurance and investment products.

Gross premiums written for FY 2019 totalled €282.9 million, 11.6% down on a prior year €320.0 million, impacted by a lower demand for single premium business partially offset by a growing demand for longer term regular premium savings and retirement products.

Net claims incurred increased to €210.1 million through the year compared to a prior year €145.7 million largely as a result of a continuing trend which sees an increase in maturing medium-term single premium contracts. A large proportion of maturing contracts were subsequently re-invested in new medium-term contracts.

In aggregate, the balance on the long term business technical account increased to €14.2 million from a prior year €13.4 million due to a stronger technical result supported by significant higher investment returns for the With Profit Fund and protection business margins driven by underwriting performance.

The MAPFRE MSV Group's total assets increased by 12.8% from €2,213.4 million at the end of 2018 to €2,497.1 million at the end of 2019, whilst net technical provisions (including investment contracts without DPF) increased by 14.3% from €2,013.9 million in 2018 to €2,301.8 million in 2019.

The value of in-force business, which projects future transfers to shareholders arising from policies in force at the end of the year, increased significantly by 17.4%, up from €62.6 million in 2018 to €73.5 million in 2019. This is attributable to the impact of new business inflows, strong investment returns, improved technical margins, low surrenders and improved mortality performance when comparing actual mortality to assumed mortality.

Total shareholders' funds at the close of 2019 amounted to €147.4 million (2018: €160.0 million), a decrease of 7.9% over the previous year due to the distribution of prior year dividends , yet well ahead of minimum solvency guidelines.

The shareholders of MAPFRE MSV Life are wholly committed to ensuring that the Company remains adequately capitalised at all times and well positioned for both business growth and effective regulatory capital thresholds in place under the Solvency II framework.

The Directors of MAPFRE MSV Life recommend the payment of a final net dividend of €11.77 million (2018: €10.94 million). MAPFRE MSV Life remains focused on the generation of capital and its disciplined allocation and appropriation.

The MAPFRE MSV With Profits Fund increased by 13.8% from €1.89 billion in 2018 to €2.15 billion in 2019. The total investment return of the Fund amounted to a €222.9 million recovering strongly from the negative €43.1 million downturn in 2018.

2019 turned out to be a very good year for investors. MAPFRE's MSV With-Profits Fund returned a net return of 11.02% reflecting strong gains in most assets in its portfolio. Developed market equity holdings delivered double digit returns as markets recovered from their 2018 slump.

Emerging market equity also performed well but lagged given its equity returns were further boosted on an unhedged basis because the Euro fell against greater sensitivity to trade and manufacturing and a rising US dollar. Developed market bonds holdings posted good total returns as bond yields fell on low inflation and slowing growth, central banks cut rates and quantitative easing returned. Emerging market bonds delivered very strong returns both in local and hard currencies supported by the ongoing search for yield.

Commercial property continued to do well underpinned by strong rental cash flows. Commodity prices rose with oil and iron up but metals down. Cash and bank term deposit returns were low reflecting low to negative interest rates environment but still remained positive. Considering the Fund's conservative nature and balanced allocation, the 2019 return was highly satisfactory.

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

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

MAPFRE MSV LIFE P.L.C. - CONTINUED

In March 2020, the Board of Directors of MAPFRE MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of With Profits policies held with MAPFRE MSV Life for the year ended 31 December 2019. A Regular Bonus Rate of 2.85% was declared on the Company's core products namely the Comprehensive Flexi Plan (regular and single premium policies), the Single Premium Plan and on the With Profits options of the Investment Bond, Retirement Plan and the Personal Pension Plan. A Regular Bonus Rate of 2.75% was declared on the Comprehensive Life Plan (regular and single premium policies) whilst on the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2% of the basic sum assured plus bonuses was declared.

The 2019 Regular Bonus Rates represent an increase of 0.50% from the 2018 declaration.

In addition, the Board also announced the declaration of a Final Bonus in respect of Comprehensive Life Plans (single and regular premium), Comprehensive Flexi Plans (single and regular premium) and Single Premium Plans that have been in force for more than 10 years. For Regular Premium policies, the Final Bonus is expressed as a percentage for every year in force after the 10th year of the policy whilst, for the first time, the Final Bonus on Single Premium policies is being expressed as a combination of a flat percentage plus an additional percentage for every year in force after the 10th year of the policy. Final Bonuses will be paid on the value of the Policy Account as at the date of death or maturity between 1 April 2020 and 31 March 2021 in accordance with the following table:

Product	Final Bonus Flat Rate %	Rate per Year in Force >10 years %
Comprehensive Life Plan (Regular Premium)	Nil	1.10%
Comprehensive Flexi Plan (Regular Premium)	Nil	1.00%
Single Premium Plan	12.50%	1.00%
Comprehensive Life Plan (Single Premium)	12.50%	2.00%
Comprehensive Flexi Plan (Single Premium)	12.50%	1.00%

The Board also approved a Regular Bonus of 2.75% 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 1.35% on the ALICO 78 policies and a Regular Bonus of 1.60% on the ALICO 66 polices which formed part of the portfolio of business transferred to MAPFRE MSV Life in 2011 from American Life Insurance Company ("ALICO").

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

In 2019, the life insurance market in Malta displayed some weakening of the strong demand patterns for with profits single premium contracts that have characterised the last few years. This was mainly due to the lower regular bonus rates on these contracts and the increased competition for liquidity form the corporate bond market. On the other hand, there is an evolving demand for new regular premium retirement savings products driven mainly by fiscal benefits.

During the year, there were important developments within the Voluntary Occupational Pension market following Government's introduction of a number of fiscal incentives to encourage employers to set up VOPS for their employees. The regulatory framework and fiscal incentives were formalised towards the end of the year and MAPFRE MSV Life immediately launched the first insurance based voluntary occupational pension scheme in the market – the MAPFRE MSV Life WorkSave Pension Scheme, resulting in a significant amount of interest and take up at this early stage of the product's life.

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.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

OTHER SUBSIDIARIES - CONTINUED

BEE Insurance Management Limited ('BEE') and its subsidiary Euro Med Risk Solutions Limited which offer Insurance and Non-Insurance management services saw a drop in revenue as a result of a re-domiciliation of a client and the relinquishing of a license by another client, and incurred a loss due to a write-back of fees from the re-domiciled client. The Management of Bee Insurance Management is currently working to conclude at least two new applications which would see an uplift in both revenues and profits.

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

It is the intention of the Directors of Euro Globe Holdings to put the Company into voluntary liquidation in the coming year which had to be postponed from this year.

THE GROUP

The Group registered a profit before tax of €20.08 million in FY 2019 compared to €18.56 million achieved in FY 2018. Profit after tax for FY 2019 closed at €15.51 million a 10.47% increase from the €14.04 million achieved in FY 2018. Group premiums written saw a downturn reaching €357.32 million, 8.31% below that registered in FY 2018 with both insurance companies remaining leaders in their respective markets.

MAPFRE Middlesea's Group capital and reserves attributable to shareholders at 31 December 2019 amounted to €89.51 million (2018: €91.7 million) on a consolidated basis with a net asset value per share of €0.97 as at 31 December 2019.

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 2019. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas. In order to ensure the well-being and ongoing development of our people we are continuously reviewing and updating our HR policies and implementing new policies and employment practices.

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

Going forward we will maintain strong focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end we will continue to invest and innovate in information technology. During 2019 we progressed on our major IT programmes in both insurance companies in lines with project roadmaps with further product rollouts from old legacy systems to new technologies expected in the coming year. MAPFRE MSV Life during 2019 initiated the replacement of their core life administration system where they selected Sapiens CoreSuite for Life & Pension and digital solutions over the cloud for their core and digital transformation project. Sapiens International Corporation is a leading global provider of cutting-edge software solutions for the insurance industry. This project will involve the implementation and integration of Sapiens CoreSuite for Life & Pensions, Sapiens AgentConnect for Life & Pensions and Sapiens Intelligence for Life & Pensions.

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 the same price from the 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.

DIRECTORS' REPORT

OUTLOOK

The outlook of the Board of Directors for 2020 remains one of cautious optimism. The growth registered in the local economy and the low levels of unemployment are expected to continue throughout the year. Within this context, demand for general business is expected to continue growing at the rate experienced in the last years and in the context of Malta's high savings ratio, the demand for the protection, savings and investments products in life is expected to remain strong.

Difficult investment markets feature heavily in the outlook for the life insurance industry. After 2019's solid financial market returns, we see signs of economic stabilization in the year ahead, although investors are likely to have to contend with many unforeseen events and market swings in 2020 as policy uncertainty remains high and geopolitical risk is an ongoing concern.

Despite an outlook of gradually improving economic growth, monetary policy is likely to remain accommodative and interest rates low to negative. We think that, in 2020, returns from riskier assets – such as equities, corporate bonds and property related assets will generally beat those from safer ones – such as cash and government bonds. However, we expect that both will be weaker than in 2019. Only modest single-digit returns in the key equity markets are expected. Going forward the earnings growth will need to drive returns rather than policy actions by central banks. The current valuations are challenging also limiting the upside potential in 2020.

We anticipate slow but steady growth, low inflation, accommodative policy and single digit profit growth. In 2020 fiscal policy will likely matter more than monetary. U.S. election risk will overshadow the next eleven months in a highly polarized U.S. presidential campaign. Amid slow global economic growth, rising political uncertainty and low yield environment investing throughout 2020 will require portfolio diversification beyond the comfort of conventional asset classes, tilted towards areas of extra return with a cautious approach aiming for better risk-adjusted returns.

Going forward one can also expect to see greater supervisory scrutiny as more regulations are expected to directly affect the life insurance industry. The heavy agenda of regulatory change is likely to result in higher costs and distraction that could lead to damaging effects in areas such as product availability and consumer choice. The Insurance Distribution Directive, now in its second year, impacts the conduct of business between insurers and consumers and requires insurers to strengthen their product governance. Similarly, the General Data Protection Regulation (GDPR) has also had a significant impact on the insurance industry.

Going forward, a particular challenge is IFRS 17, the new worldwide reporting standard which requires insurance companies to use a current discount rate to value liabilities. Initial indications are that compliance with this new reporting standard will require a major investment by the insurance industry.

The scale of the challenges facing the insurance industry through technological and structural change will require insurance companies to adapt to these challenges to be in a position to exploit the many opportunities that will certainly arise.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are further disclosed in Note 5 dealing with management of risk as supplemented by Note 3 relating to the use of accounting estimates and judgements in applying accounting policies, Note 17 on intangible assets covering details on the Group's value of in-force business and Note 25 discussing the assumptions underlying the technical provisions.

EVENTS AFTER THE FINANCIAL REPORTING DATE

On February 6 2020, the subsidiary of MAPFRE MSV Life, Growth Investments Limited, entered into a Transfer of Business Agreement with BOV Asset Management Ltd. and Bank of Valletta p.l.c., a related party, to transfer part of the portfolio for a consideration of €0.30 million. The remainder of the portfolio will be transferred to MAPFRE MSV Life.

Once the transfers are completed Growth Investments Limited will voluntarily surrender its investment services licence and, subject to regulatory approval, will be closed down. MAPFRE MSV Life believes that this disposal and the closure of its only wholly-owned subsidiary, will further improve its capabilities in focusing on core insurance services incorporating insurance related savings, investments, unit-linked products and retirement solutions. The transfer is expected to be completed by June 2020.

There were no further 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

RESULTS AND DIVIDENDS

The consolidated profit or loss account is set out on page 46. A gross dividend in respect of year ended 31 December 2019 of €0.16745 per share amounting to a total dividend of €15,405,828 (2018: €10,608,738) is to be proposed by the Directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.14130 per share amounting to a total net dividend of €13,000,000 (2018: €9,000,000).

DIRECTORS

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

Martin Galea
Nikos Antimissaris
Alfred Attard
Antoinette Caruana
David G. Curmi
Jose-Luis Jimenez
Jaime Tamayo Ibañez
Taddeo Scerri
Paul Testaferrata Moroni Viani
Joseph F.X. Zahra

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

The financial statements of MAPFRE Middlesea p.l.c. for the year ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and also made available on the parent Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS - CONTINUED

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

- the financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in Note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with additional information of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO LISTING RULE 5.64

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

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

The directors confirm that as at 31 December 2019, only MAPFRE Internacional (54.56%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

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

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

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

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

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

It is hereby declared that as at 31 December 2019, information required under Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

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

AUDITORS

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

DIRECTORS' REPORT

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 Dr Daphne Sims Dodebier 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

12 March 2020

CORPORATE GOVERNANCE STATEMENT

1. INTRODUCTION

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

The Company notes that the Code does not prescribe mandatory rules but recommends principles designed to guide the Board of Directors (the 'Board') and the Company's management in their pursuit of objectives in the interests of the Company and its shareholders. The Board of MMS maintains that it is in the interest of the Company and its shareholders to adopt the Code and strives to adhere fully to the recommendations therein contained insofar as it is practical to do so.

As evidenced 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, in accordance with the same Code.

2. COMPLIANCE WITH THE CODE

Principle 1 – The Board

The Board's role and responsibility is to lead the Company, to set strategy and to exercise good oversight and stewardship. As at the 31 December 2019 the Board was composed of a non-executive Chairman and nine non-executive Directors. The maximum number of Directors pursuant to the Memorandum and Articles of Association is ten. Martin Galea was re-appointed as a non-executive Chairman during the Board meeting held on the 26 April 2019, 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 Alfred Attard, David Curmi, Martin Galea, Jose-Luis Jimenez, Taddeo Scerri, Jaime Tamayo and Joseph F. X. Zahra while the other shareholders re-appointed the retiring Directors Antoinette Caruana and Paul Testaferrata Moroni Viani during the election for directors. Nikos Antimissaris was re-appointed by the Board of Directors in accordance with Article 100 of the Memorandum and Articles of Association.

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

The Board liaises closely with the President & Chief Executive Officer ('CEO') of the Company in order to ensure that the Board receives timely and appropriate information in relation to the business of the Company and management performance. This enables the Board to contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls. Felipe Navarro Lopez de Chicheri, who was appointed as CEO on the 1 October 2015, continued to hold the position of CEO throughout 2019.

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

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

Principle 2 – Chairman and CEO

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

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 2 – Chairman and CEO - continued

The Company's current organisational structure incorporates the position of a CEO as aforementioned, who leads the Senior Management team and whose main role and responsibilities are the execution of agreed strategy and the managing the Company's business. The Company has an Operational Committee composed of Management members of the Technical Areas, 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 in practice as well as in the Terms of Reference of the Board of Directors with specific roles rendering these positions completely separate from one another to avoid concentration of authority and to differentiate leadership from the running of the business.

Principle 3 – Composition of the Board

The Board considers the number of Members as stipulated in the Memorandum and Articles of the Company to be appropriate relative to the size of the Company and its operations.

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

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

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

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 page 24 of the Annual Report) as defined by the Code.

In determining the independence or otherwise of its Directors, the Board considers, amongst others, the principles relating to independence of directors contained in the Code, the Company's own practice as well as general principles of good practice. Each non-executive director has moreover submitted his / her declaration to the Board declaring independence in accordance with Code provision 3.4.

Principle 4 – The Responsibilities of the Board

The Board acknowledges its statutory mandate to set policy and to provide direction as well as to monitor the implementation thereof. The Board fulfils this mandate and discharges its responsibilities through the execution of the four basic principles of corporate governance namely, accountability, monitoring, strategy formulation and policy development.

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

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings

The activities of the Board of Directors are exercised in a manner designed to ensure that the Board effectively supervises the operations of the Company and sets policies. Management updates and provides the Directors with a report at each Board Meeting, including a detailed review of the Company's Management Accounts and Key Performance Indicators which latter are promulgated by the MAPFRE Group in line with industry norms. The report also contains Management's comments on the results and on relevant events and decisions and sets out background information on various subjects including any matter requiring the approval of the Board.

Apart from setting the strategy and direction of the Company, the Board is actively involved in monitoring progress against Budget and strategy and in approving material or significant transactions.

The Chairman ensures that all relevant issues are on the agenda and are supported by all available information. The agenda for each meeting seeks to strike a balance between long-term strategic objectives and shorter-term performance matters. Notice of the dates of forthcoming Board meetings together with all relevant documentation is circulated in advance to all Directors in order to give them opportunity to consider the information and prepare well in advance of the relative Board meeting.

During Board meetings members of Management are often invited to present on the subject matter being discussed while the Chairman facilitates discussion and ensures that all Directors are given ample opportunity to discuss issues set on the board agenda and convey their opinions thereon.

Decisions of the Board are taken by majority of those present subject to the Chairman's casting vote in the case of parity.

During the 2019 financial year, the Board of Directors of the Company held five Board Meetings with attendance as follows:

Martin Galea (Chairman) (NED I)	5
Nikos Antimissaris (NED)	5
Alfred Attard (NED I)	5
Antoinette Caruana (NED I)	5
David G. Curmi (NED)	4
Jose-Luis Jimenez (NED)	5
Taddeo Scerri (NED I)	2
Jaime Tamayo Ibañez (NED)	5
Paul Testaferrata Moroni Viani (NED I)	4
Joseph F.X. Zahra (NED I)	5

NED – Non-executive Director
I – Independent

The MMS CEO attends the Board meetings by invitation.

During 2019 two Board Briefings were also held in order to provide the Directors with more detailed information on the subject matter identified as well as to allow opportunity for deeper discussions of pertinent issues. The focal point of the Directors' Briefing held in January was the Strategic Plan for 2019 – 2021 during which meeting an analysis was conducted of the Company's perceived Strengths, Weaknesses, Opportunities and Threats and the Strategy plan was agreed to. During the Directors' Briefing held in September an in-depth overview of Claims Reserving including Claims Handling Provisions, Run Off and Ultimate Cost in Motor was conducted. In addition, a presentation is delivered on pertinent topics at every Board Meeting including Human Resources matters, Operational Risk and Market Information and 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 Meeting dates was circulated well in advance and a Board pack containing all relevant information, including the minutes of the previous Board Meeting faithfully recording attendance and decisions, were circulated to the Directors ahead of each meeting by the Company Secretary, allowing ample opportunity for the Directors to review the information and prepare for the next scheduled Board meeting.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 6 – Information and Professional Development

Although no new Directors were appointed during 2019 the Company would provide any new Director appointed to the Board with an information pack tailored to provide a good overview and background knowledge of the Company's structure and operations. New directors would also be invited to attend an Induction Meeting specifically organised to provide more in-depth information as to the Company's organisation and business processes together with a review of the responsibilities of individuals appointed to act as Directors.

Directors are also at liberty to take independent professional advice on any matter at the Company's expense where they deem it necessary in order to better discharge their duties as Directors.

Directors have access to the advice and services of the Office of the Company Secretary. The Company Secretary is mindful of the responsibility for ensuring adherence to Board procedures as well as the continual and consistent information flow within the Board and its Committees.

The CEO is appointed by and enjoys the full confidence of the Board and ensures that systems are in place to cater for, amongst others, the on-going monitoring of Management, the development and training of both Senior Management and Directors, as well as succession planning, as required by the provisions of clause 6.4 of Appendix 5.1 of the Listing Rules. The CEO, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and with the Board on the appointment of, and on the succession plan, for Senior Management. Training (both internal and external) of management and employees is prioritised and is implemented through the Human Resources Department. Several training sessions were held on various topics during the course of 2019 including an off-site on Leadership Development for Management in October 2019, Mentoring and Corporate Technical Training in Madrid.

Principle 7 – Evaluation of the Board's Performance

During the year under review, the Board once again undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The evaluation was not conducted externally rather the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Compliance Area in cooperation with the Company Secretary and the Chairman. The outcome of the exercise was summarised into a Report based on the replies of each individual Director that was then submitted to the Chairman before being circulated amongst all Board members. During 2019 the Chairman also oversaw the implementation of the action points and recommendations made by the Directors further to a meeting held with the Directors individually to obtain more in-depth feedback including a more formalised form of reporting between the Board and its Committees as well as more regular detailed technical training in pertinent matters.

Principle 8 – Committees

The activities of the Board and of the Company's Senior Management team are additionally supported by the Company's Board Committees structured in such a way so as to assist in the guiding and monitoring of particular business processes and specific 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.

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees– continued

AUDIT COMMITTEE

The Audit Committee's terms of reference are modelled on the recommendations of statutory directives, the Listing Rules and the principles of Corporate Governance, whilst also reflecting the provisions of the relevant MAPFRE Group principles. The responsibilities of the Audit Committee include the:

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

The terms and conditions of new contracts negotiated with related parties (regarding banking, reinsurance and agent related matters) are also reviewed by the Audit Committee as and when required. In view of the recent amendments to the Listing Rules shareholder approval will also be sought at the forthcoming Annual General Meeting for the proposed amendments to the Company's Memorandum and Articles of Association in order to achieve complete formal alignment in addition to the alignment which already exists in practice.

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

The Audit Committee held six meetings during 2019. In accordance with Listing Rule 5.117.2, three out of four members are considered 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 at meetings is listed below.

Alfred Attard (Chairman)	6
Nikos Antimissaris	4
Antoinette Caruana	6
Martin Galea	6

In accordance with Listing Rule 5.118, the Board considers the four Audit Committee members as having the required competence individually and 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, the Chief Financial Officer, the General Manager of the subsidiary companies BEE Insurance Management Ltd. and EuroMed Risk Solutions Ltd. and the Internal Auditor, amongst others as may be required, attend the Audit Committee meetings by invitation. The external auditors are invited to attend meetings of the Audit Committee and are 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 reports to the Audit Committee as and when required.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees – continued

AUDIT COMMITTEE - CONTINUED

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 Internal Auditor is charged by the Audit Committee with the conducting of business process risk-based audits aimed at assessing the adequacy of controls and business process efficiency. The Internal Audit Area also liaises closely with the MAPFRE Group Internal Audit Area to this end.

RISK AND COMPLIANCE COMMITTEE

This Committee assists the Board in overseeing the Company's compliance with the obligations imposed by legislation, codes, rules and regulations that are relevant to the Company and its business. This Committee is responsible for the proper implementation and review of the Risk policies, both of the Company and of the Group, and assessing the different types of Risk to which the Company and its subsidiaries may be exposed. It reports to the Board on the adequacy, or otherwise, of such policies. The Money Laundering Reporting Officer, the Complaints Officer and the Anti-Fraud Officer report directly to this Committee. The Compliance Officer of the subsidiary companies Bee Insurance Management Ltd. and EuroMed Risk Solutions Ltd. also reports to this Committee as and when required.

The Risk and Compliance Committee held six meetings during 2019. The Committee members and relative attendance to meetings is listed below.

Antoinette Caruana (Chairperson)	6
Albert Frendo	6
Martin Galea	6
Jose Maria del Pozo	3

The Chairperson of the Risk and Compliance Committee is also a Member of the Audit Committee thus ensuring good communication and continuity between the related work of the said Board Committees. The CEO, the Chief Financial Officer, the Compliance Officer and the Risk Officer, amongst others as may be required, attend the Committee meetings by invitation. The Company Secretary also acts as Secretary to the Committee.

INVESTMENTS COMMITTEE

The Investment Committee is a joint Committee composed of Directors of the Company and Directors of its subsidiary MAPFRE MSV Life p.l.c.. The Investments Committee oversees the investment activities of the Company and its Subsidiaries, executes its policies and guidelines, scrutinises and approves material transactions and monitors results.

The Investments Committee held four meetings during 2019. The Committee members and relative attendance to meetings is listed below.

John Cassar White (Chairman)	4
Romeo Cutajar	4
Jose-Luis Jimenez	3
Felipe Navarro Lopez de Chicheri	4
Patrick Spiteri Swain	4
Paul Testaferrata Moroni Viani	3

The CEO of the subsidiary MAPFRE MSV Life p.l.c., the Chief Financial Officer both of the Company and of its subsidiary MAPFRE MSV Life p.l.c., the MAPFRE Regional Chief Financial Officer, amongst others as may be required, attend the Committee meetings by invitation. The Company Secretary of the subsidiary MAPFRE MSV Life p.l.c. acts as Secretary to the Committee.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees – continued

REMUNERATION COMMITTEE

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 Remuneration Committee held two meetings during 2019. The Committee members and relative attendance to meetings is listed below.

Jaime Tamayo (Chairman)	2
Martin Galea	2
Taddeo Scerri	0

The CEO for MAPFRE Middlesea p.l.c., the CEO for MAPFRE MSV Life p.l.c., the Chief Officer, Human Resources for MAPFRE Middlesea p.l.c., amongst others as may be required, attend the Remuneration Committee meetings by invitation. The Company Secretary also acts as Secretary to the Committee.

A separate report by the Remuneration Committee is included in the 2019 Annual Report, which also includes the Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4.

Principle 9 – Relations with Shareholders and with the Market

The Company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies, as well as 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') concerning which further detail is provided under the section entitled General Meetings. The Chairman ensures that all relevant individuals including the Chairpersons of the Board Committees are present at the AGM to answer any question as may arise.

Apart from the AGM, the Company communicates with its shareholders through the Annual Report, which is circulated to the shareholders on a yearly basis. The Company's website (www.middlesea.com) 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.

Furthermore, the Chairman ensures that constant and consistent communication is maintained with the major shareholders particularly to discuss matters of significant importance or to address particular issues or concerns. In addition, the Chairman, CEO and Company Secretary hold an annual meeting with representatives of the Malta Association of Small Shareholders to discuss various matters in the interests of the minority shareholders.

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

Principle 10 – Institutional Shareholders

The Company's institutional shareholders keep the market updated on issues related to their respective companies through Company announcements and press releases. During the year under review, the Company issued various press releases related to the controlling shareholder, namely MAPFRE S.A. 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 maintained through Company announcements and press releases. In addition, the six monthly and yearly results include a section on the insurance interests of institutional shareholders.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 10 – Institutional Shareholders – continued

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

Principle 11 – Conflicts of Interest

The Company also has an Internal Code of Conduct Relating to Listed Securities 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 Prevention of Market Abuse Regulatory Framework as well as the recommendations and principles contained in the Listing Rules. The Company keeps a record of all advance notices received in connection with permitted dealings by directors and selected officers and acknowledgements of such advance notices. The Company reminds all Directors and senior officers of their obligation to conform to the Code on a regular basis.

As required by clause 11.3 of Appendix 5.1 of the Listing Rules a Directors' beneficial interest in the share capital of the Company as at 31 December 2019 has been declared by Joseph F. X. Zahra who has a very minor shareholding whereas Paul Testaferrata Moroni Viani has declared an indirect shareholding in the Company's shares through his shareholding in other companies.

Principle 12 – Corporate Social Responsibility

2019 has been yet another eventful year for MAPFRE Malta. During this year, both MAPFRE Middlesea and its subsidiaries continued to help within the community through its Corporate Social Responsibility Programme, which forms part of MAPFRE's global volunteering programme.
The Companies seek to put into practice good Corporate Social Responsibility principles on a daily basis with its own employees, and as in previous years, a number of employees from MAPFRE Middlesea and MAPFRE MSV Life participated in a number of events held with different entities. These included Nature Trust, Centru Tbexbiex, Agenzjia Appogg, St Patrick's Home, MCCF, Caritas, and Malta Blood Transfusion Service.

MAPFRE Middlesea also renewed its support to Dar tal-Providenza, Hospice Movement, Malta Red Cross, St Johns Rescue Corps and Dr Klown amongst other philanthropic entities.

Through Fundacion MAPFRE, the campaign Caqlaq, a healthy living awareness campaign in schools, was held for the seventh consecutive year, placing more emphasis on physical activities. Whilst Street Smart which concentrates on bringing awareness to small children about road safety was commissioned for its sixth year and it was also held in collaboration with Malta Public Transport via school outings by bus to reach out to more children.

All main CSR activities are carried out with the support of Fundacion MAPFRE in line with Group policy.

3. NON-COMPLIANCE WITH THE CODE

Principle 3 – Composition of the Board

The Code recommends that the Board of Directors be composed of executive and non-executive Directors, including independent non-executives. The Company's Board, as explained in Section 2 – Principle 3 of this Statement, is composed exclusively of non-executive Directors. The appointment of Directors to the Board is a matter reserved exclusively to the Company shareholders (except in the case of the filling of 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. Moreover the CEO of the Company attends and reports during all meetings of the Board and various Senior Mangers attend by invitation to report on salient matters thereby ensuring a constant and effective flow of information between the Company's Management and Board of Directors.

CORPORATE GOVERNANCE STATEMENT

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

Principle 4 – The Responsibilities of the Board

Code Provision 4.2.7 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".

Regard being had to the non-executive role of the Company's Directors and in view of the facts explained above, particularly that the appointment of Directors is a matter reserved exclusively to the Company's shareholders and that every director retires from office at the Annual General Meeting, the Company has opted not to formalise a succession policy for the Board of Directors. That said, the Company and its Board remain mindful of the recommendation as contained within the Listing Rules and frequently reviews the current position.

Principle 7 – Evaluation of the Board's Performance

Code Provision 7.1 recommends: "the Board should appoint a committee chaired by a non-executive Director in order to carry out a performance evaluation of its role".

As explained above the Board has not appointed a specific committee to carry out a performance evaluation but has rather opted to have an annual performance evaluation exercise carried out under the auspices of the internal Compliance Area through the compilation of a Board Effectiveness Questionnaire by each individual Director. The responsibility for the ensuing Report and follow-up actions has been delegated to the Chairman.

Principle 8A – Remuneration Committee

Code Provision 8.A.1 recommends that the Board of Directors "should establish a Remuneration Committee composed of non-executive Directors with no personal financial interest other than as shareholders in the Company, one of whom shall be independent and shall chair the Committee".

The Remuneration Committee is made up of Jamie Tamayo Ibañez (Chairman), Taddeo Scerri and Martin Galea. The composition has remained the same as per the previous financial year and decisions continue to be passed through the consensus of all members present.

The fact that decisions are taken by the unanimous agreement of all members also implies that the final outcome of discussions and decisions taken by the Remuneration Committee are not affected by the director holding the Chair even though the Committee is not chaired by an independent non-executive Director. Committee document packs are also circulated to all Members well in advance of the meeting allowing all Members ample opportunity to informally discuss any matters in anticipation of the Meeting and / or to represent their views.

Principle 8B – Nomination Committee

Pursuant to the Company's Articles of Association and as aforementioned the appointment of Directors to the Board is reserved exclusively to the Company's shareholders, in line with the general commercial practice in Malta. Shareholders holding 11% or more of the issued shares 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. Thus the Company considers that the procedure is already sufficiently defined and the requirements of transparency are also well-met without the need for the establishment of a formal Nomination Committee at this stage.

Principle 9 – Relations with Shareholders and with the Market

Code Provision 9.3 requires the Company to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders which provision became relevant 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. The balance between the interests of all shareholders is a matter that is kept under continuous review by the Board and is consistently evaluated in the interest of all shareholders. The Company also has a good relationship with the Malta Association for Small Shareholders and the Board maintains an open door policy with them, as well as with any individual shareholders who may be interested in making direct submissions to the Company, at all times through the Office of the Company Secretary. In light of this, and as the Company is mindful of the protection granted to minority shareholders in terms of the Companies Act (Cap. 386 of the Laws of Malta) by which it would necessarily be bound to abide, the Company is of the opinion that no formal procedures to resolve conflict between minority and controlling shareholders are necessary at this stage.

CORPORATE GOVERNANCE STATEMENT

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 risks associated with achieving business objectives, and can only provide reasonable (as opposed to absolute) assurance against material misstatement or loss. Through the Audit Committee and the Risk and Compliance Committee, the Board reviews the process and procedures to ensure the effectiveness of the Group's systems of internal control, which are monitored by the Internal Audit Department. The key features of the Group's systems of internal control are as follows:

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

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

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

Information in terms of Listing Rule 5.97.5

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

General Meetings

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

General Meetings – CONTINUED

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

Alfred Attard
Director

Antoinette Caruana
Director

12 March 2020

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 Code of Principles of Good Corporate Governance (Appendix 5.1 of the Listing Rules).

The Committee's main task is to oversee the implementation of the Remuneration Policy including to recommend appropriate remuneration packages for the non-Executive Directors and Senior Management and to monitor the remuneration structure based on the information provided by Management.

The Committee members were Jaime Tamayo Ibañez (Chairman), John Cassar White and Martin Galea. All the Committee members are non-executive directors with no personal financial interest as recommended by Code provision 8.A.1. The MAPFRE Middlesea (MMS) President & CEO, Felipe Navarro Lopez de Chicheri, MAPFRE MSV Life p.l.c. (MMSV) CEO, David G. Curmi and other members of senior management are invited to attend Committee meetings as and when required. The Company Secretary, Dr Daphne Sims Dodebier, acts as the Secretary to the Committee.

Code provision 8.A.1 recommends that an independent non-Executive Director chair the Committee. The Committee takes decisions by unanimous agreement of its Members. Therefore, even though an independent non-Executive Director does not chair the Committee, the Director holding the Chair does not affect the outcome of discussions and decisions taken by the Committee.

2. MEETINGS

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

Member	Attended
Jaime Tamayo Ibañez (Chairman)	2
Martin Galea	2
Taddeo Scerri	0

The Committee determined and/or discussed the following matters:

- New Collective Agreement
- New Senior Appointments
- HR Reports
- Remuneration for Directors, CEO and Senior Management
- Remuneration Statement for the Annual Report

3. REMUNERATION STATEMENT

3.1. COMPENSATION/REMUNERATION POLICY – SENIOR MANAGEMENT

The Board of Directors determines the framework of the overall remuneration policy for Senior Management based on the recommendations of the Remuneration Committee and both acting in accordance with the guidelines and principles contained within the MAPFRE Group Compensation Policy. The Committee also establishes the individual remuneration arrangements for 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 on appropriate local market equivalents and are fair and reasonable commensurate to the responsibilities involved. The Committee also believes that the remuneration packages are such as to enable the Company to attract, retain and motivate employees having the appropriate skills and qualities to ensure the proper management of the organisation.

There have been no significant changes to the Company's Remuneration Policy for Senior Management during the financial year under review and the Company does not intend to affect any changes to its policy during the next financial year. The performance appraisal system implemented in 2013 and the performance bonus scheme implemented in 2014 remain in place as enhanced in 2015. The said performance bonus scheme is based on the achievement of Group, Company and Departmental objectives and was further enhanced in 2019 to give some weight to the adherence to Corporate Values.

REMUNERATION COMMITTEE'S STATEMENT TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

3.1. COMPENSATION/REMUNERATION POLICY – SENIOR MANAGEMENT - CONTINUED

The terms and conditions of employment for Senior Management are set out in their respective contracts of employment. In principle, these contracts do not contain provisions for termination payments or other amounts linked to early termination nor have there been any cases of early termination in practice. Share options, pension benefits and profit sharing are not part of the MMS Remuneration Policy for Senior Management which are not entitled to any other compensation of a variable nature.

The MMS President & CEO and the MMSV CEO are eligible for an annual bonus entitlement calculated with 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 are eligible for a performance bonus calculated in accordance with the percentage achievement of the Group and Departmental objectives as per the performance bonus scheme aforementioned which is inter alia approved by the Remuneration Committee and determined in accordance with the performance appraisal process. No supplementary pension or other pension benefits are payable to Senior Management.

In the case of the MMS President & CEO and the MMSV CEO, the Remuneration Committee is of the view that the proportion of fixed remuneration to 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 Financial Year 2019 are deemed to be of a commercially sensitive nature in line with Code Provision 8.A.6 and are not being disclosed at this point in time in this Report.

3.1. REMUNERATION POLICY – DIRECTORS

As at the 31 December 2019, the Board of Directors of MAPFRE Middlesea p.l.c. was composed of ten non-executive directors. Three Directors, namely Jaime Tamayo, Jose-Luis Jimenez and Nikos Antimissaris, did not receive a fee in accordance with the established policy of the parent shareholder Company, MAPFRE Internacional, with which they are employed and which appointed them. David G. Curmi also did not receive a fee since he is the CEO of MAPFRE MSV Life p.l.c. (a subsidiary of MMS). The maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was confirmed in the aggregate sum of €350,000 per annum at the Thirty Eighth Annual General Meeting held on the 26 April 2019, consistent with the increased aggregate sum approved in the previous year in order to align said remuneration with MAPFRE Group policies.

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

Directors' Fees	
Chairman	€60,000 per annum (2018: €60,000)
Other Directors (Per Director)	€40,000 per annum (2018: €40,000)
Board Committee Fees (as applicable)	
Chairman	€5,000 per annum (2018: €5,000)
Member (Per member)	€3,000 per annum (2018: €3,000)

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 established to reflect the responsibility and time committed by Directors to the affairs of the Company, including the different Board Committees of which a Director may be a member. None of the Directors, in their capacity as 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. REMUNERATION STATEMENT - CONTINUED

3.2. CODE PROVISION 8.A.5

Emoluments of Directors

Fixed Remuneration	Variable Remuneration	Share Options	Others
€271,000	None	None	None

Fees payable to directors in respect of 2019 amounted in total to €271,000 (2018: €270,250).

The emoluments of Senior Management are not being disclosed at this point in time in line with Code Provision 8.A.6 since these are deemed to be of a commercially sensitive nature

Martin Galea
Committee Member
Remuneration Committee

12 March 2020

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 2019, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the acCompanying financial statements:

(a) give a true and fair view of the financial position of the Company and of the Group as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) (the "Insurance Business Act") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Estimates for insurance claim provisions in relation to general business

Accounting policy note 2.14 to the financial statements and notes 5.1 and 25 for further disclosures

'Outstanding claims – general business' ("OSC") (€52,619 thousand) included in 'Technical provisions'

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

KEY AUDIT MATTERS *- CONTINUED*

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

Our response

As part of our procedures, we evaluated the appropriateness of the Company's reserving methodologies used in estimating the OSC and their quantum, by performing substantive procedures, which included:

— involving our actuarial specialist to develop our estimate of the motor OSC (excluding the motor business addressed in the other procedure outlined in the key audit matter) and, based on our evaluation of the data elements, assessing the reasonableness of the amount recorded; and,

— in relation to the remaining motor OSC and OSC arising from the other lines of general business, primarily, evaluating a sample of such claims to assess the basis of the estimates, and the appropriateness of the Company's assumptions underlying the IBNR assessment.

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

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

Accounting policy note 2.4 and 2.14 to the financial statements and notes 17, and 25 for further disclosures

LTBP relating to the term business within 'Technical provisions' (€2,302,218 thousand for all business, inclusive of the term business); and VIF (€73,493 thousand) included in 'Intangible assets'.

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

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

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

Our response

As part of our procedures, we involved our actuarial specialist to assess the appropriateness of the following key assumptions underlying the calculations of the actuarial elements:

Economic assumptions

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

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

KEY AUDIT MATTERS - CONTINUED

— We evaluated the application of the tax legislative enactments in force at the reporting date, as these relate to the LTBP and VIF.
— Specifically in relation to the LTBP calculations, we assessed the appropriateness of the inflation assumption, as to whether the expense inflation was set in accordance with the applicable valuation rules, by considering the movements in Malta's Consumer Price Index, published by the National Office of Statistics, and the economic forecasts prepared by the Central Bank of Malta.
— Specifically in relation to the VIF calculation, we assessed whether: (i) the assumptions underlying the risk discount rate, the investment return and inflation are set in line with the Company's long-term expectations; and (ii) the Company's approach in determining the assumptions in line with the Company's long-term expectations, for the purpose of the VIF calculation, reflects industry practice.

Non-economic assumptions

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

Key observation

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

OTHER INFORMATION

The directors are responsible for the other information which comprises:

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

but does not include the financial statements and our auditors' report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

We also:

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

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

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

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

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

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

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

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

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

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

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

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

2 OPINION ON THE DIRECTORS' REPORT

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

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

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

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

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

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

2 OPINION ON THE DIRECTORS' REPORT - CONTINUED

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

In such regards:

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

3 REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE ACT, SPECIFIC TO PUBLIC-INTEREST ENTITIES

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

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

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

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

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

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

Hgalealauri

KPMG
Registered Auditors

12 March 2020

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

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

We were engaged by the Directors to report on specific disclosures in the Corporate Governance Statement (the "Disclosures") of Mapfre Middlesea p.l.c. (the "Company") as at 31st December 2019 as to whether these are in compliance with corporate governance regulations set out in the Listing Rules issued by the Listing Authority, the Malta Financial Services Authority (the "Listing Rules"). We are required to report in the form of an independent reasonable assurance conclusion as to whether:

(a) in light of our knowledge and understanding of the Company and its environment obtained during the course of the statutory audit, we have identified material misstatements with respect to the information requirements referred to in Listing Rule 5.97.4 and, and, for issuers of securities that carry voting rights that are subject to the requirements of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, Listing Rule 5.97.5. Where material misstatements are identified in relation to the requirements of Listing Rules 5.97.4 and 5.97.5, as applicable, we shall, in addition to our opinion, provide an indication of the nature of such misstatements; and,

(b) the Disclosures include the other information required by Listing Rule 5.97, in so far as it is applicable to the Company.

RESPONSIBILITIES OF THE DIRECTORS

The directors are responsible for preparing and presenting the Disclosures that are free from material misstatement and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Disclosures that is free from material misstatement whether due to fraud or error. It also includes ensuring that the Company complies with the Listing Rules, selecting and applying policies and procedures in relation to both financial and non-financial information, making estimates and judgement that are reasonable in the circumstances and for maintaining adequate records in relation to the Disclosures.

The Directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

The Directors are also responsible for ensuring that staff involved with the preparation and presentation of the Disclosures are properly trained, information systems are properly updated and that any changes in reporting encompass all significant reporting units.

AUDITORS' RESPONSIBILITIES

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

That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Listing Rules.

The firm applies International Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

AUDITORS' RESPONSIBILITIES - CONTINUED

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with the ethical requirements that are relevant to our assurance engagement 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).

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Disclosures whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Company's internal control over the preparation and presentation of the Disclosures. Our engagement also included assessing the appropriateness of the Disclosures, the suitability of the criteria, being the relevant Listing Rules, in preparing and presenting the Disclosures in the circumstances of the engagement and evaluating the appropriateness of the method used in the preparation and the overall presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

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

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

CONCLUSION

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

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

In our opinion:

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

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

HGalea Lauri

KPMG
Registered Auditors

12 March 2020

STATEMENT OF PROFIT OR LOSS
TECHNICAL ACCOUNT - GENERAL BUSINESS

	Notes	2019 €'000	2018 €'000
		Year ended 31 December	
		Group and Company	
Earned premiums, net of reinsurance			
Gross premiums written	7	**72,218**	67,299
Outward reinsurance premiums		**(13,769)**	(12,130)
Net premiums written		**58,449**	55,169
Change in the gross provision for unearned premiums		**(2,891)**	(2,504)
Change in the provision for unearned premiums, reinsurers' share		**513**	313
		(2,378)	(2,191)
Earned premiums, net of reinsurance		**56,071**	52,978
Allocated investment return transferred from the non-technical account	**9**	**1,454**	1,228
Total technical income		**57,525**	54,206
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**38,104**	37,141
- reinsurers' share		**(4,352)**	(4,486)
		33,752	32,655
Change in the provision for claims			
- gross amount		**4,385**	5,162
- reinsurers' share		**(6,396)**	(5,148)
		(2,011)	14
Claims incurred, net of reinsurance		**31,741**	32,669
Net operating expenses	8	**18,916**	16,549
Total technical charges		**50,657**	49,218
Balance on the technical accounts for general business (page 46)		**6,868**	4,988

STATEMENT OF PROFIT OR LOSS
TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December			
		Group		Company	
	Notes	**2019 €'000**	2018 €'000	**2019 €'000**	2018 €'000
Earned premiums, net of reinsurance					
Gross premiums written	7	**285,100**	322,400	**2,165**	2,388
Outward reinsurance premiums		**(4,092)**	(3,850)	**(191)**	(193)
Earned premiums, net of reinsurance		**281,008**	318,550	**1,974**	2,195
Investment return					
Return from investments	9	**234,585**	(45,708)	**39**	9
Other technical income, net of reinsurance	10	**579**	521	**-**	-
Total technical income		**516,172**	273,363	**2,013**	2,204
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**203,591**	142,324	**722**	715
- reinsurers' share		**(1,250)**	(1,209)	**(104)**	(22)
		202,341	141,115	**618**	693
Change in the provision for claims					
- gross amount		**8,582**	4,821	**262**	(297)
- reinsurers' share		**(23)**	213	**(50)**	74
		8,559	5,034	**212**	(223)
Claims incurred, net of reinsurance		**210,900**	146,149	**830**	470
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		**44,558**	(27,985)	**(30)**	84
		44,558	(27,985)	**(30)**	84
Investments contracts with DPF – gross		**227,285**	121,984	**-**	-
		271,843	93,999	**(30)**	84
Net operating expenses	8	**18,316**	18,467	**329**	295
Total technical charges		**501,059**	258,615	**1,129**	849
Balance on the technical accounts for long term business (page 46)		**15,113**	14,748	**884**	1,355

STATEMENT OF PROFIT OR LOSS NON-TECHNICAL ACCOUNT

		Year ended 31 December			
		Group		Company	
	Notes	**2019 €'000**	2018 €'000	**2019 €'000**	2018 €'000
Balances on technical accounts					
General business (page 44)		**6,868**	4,988	**6,868**	4,988
Long term business (page 45)		**15,113**	14,748	**884**	1,355
Total income from insurance activities		**21,981**	19,736	**7,752**	6,343
Other investment income	9	**2,079**	1,950	**19,903**	8,374
Investment expenses and charges	9	**(433)**	(307)	**(424)**	(303)
Allocated investment return transferred to the general business technical account	9	**(1,454)**	(1,228)	**(1,454)**	(1,228)
Other income	10	**1,211**	1,420	**-**	-
Administrative expenses	8	**(3,308)**	(3,015)	**(1,958)**	(1,767)
Profit for the financial year before tax		**20,076**	18,556	**23,819**	11,419
Tax expense	13	**(4,571)**	(4,521)	**(2,137)**	(1,991)
Profit for the financial year		**15,505**	14,035	**21,682**	9,428
Attributable to:					
-owners of the Company		**9,632**	8,594	**21,682**	9,428
-non-controlling interests		**5,873**	5,441	**-**	-
		15,505	14,035	**21,682**	9,428
Earnings per share attributable to owners of the Company	15	**10.5c**	9.3c		

The Notes on pages 54 to 140 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December			
		Group		Company	
	Notes	**2019 €'000**	2018 €'000	**2019 €'000**	2018 €'000
Profit for the financial year		**15,505**	14,035	**21,682**	9,428
Other comprehensive income:					
Items that are or may be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale investments	30	**51**	(180)	**101**	(215)
Available-for-sale investments reclassified to profit or loss	30	**(53)**	(42)	**(53)**	(42)
Items that will not be reclassified to profit or loss					
Re-measurement actuarial loss on provision for other liabilities and charges		**(48)**	(13)	**(48)**	(13)
Increase in value of in-force business	17	**10,870**	252	**-**	-
Total other comprehensive income, net of tax		**10,820**	17	**-**	(270)
Total comprehensive income for the year		**26,325**	14,052	**21,682**	9,158
Attributable to:					
- owners of the Company		**15,017**	8,485		
- non-controlling interests		**11,308**	5,567		
Total comprehensive income for the year		**26,325**	14,052		

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

The Notes on pages 54 to 140 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		At 31 December			
		Group		Company	
		2019	2018	**2019**	2018
	Notes	**€'000**	€'000	**€'000**	€'000
ASSETS					
Intangible assets	17	**87,733**	72,320	**6,934**	6,170
Property, plant and equipment	19	**17,711**	15,841	**2,303**	1,972
Right-of-use assets	18	**694**	-	**570**	-
Investment property	20	**109,583**	102,832	**16,170**	15,364
Investment in subsidiary undertakings	21	**-**	-	**57,214**	57,214
Investment in associated undertakings	22	**26,416**	27,799	**380**	330
Other investments	23	**2,230,250**	1,965,850	**9,855**	16,068
Deferred income tax	24	**2,193**	2,190	**1,218**	1,221
Reinsurers' share of technical provisions	25	**30,396**	23,464	**29,953**	22,994
Deferred acquisition costs	26	**7,775**	7,142	**7,775**	7,142
Insurance and other receivables	27	**30,314**	28,616	**17,353**	15,795
Income tax receivable		**2,073**	2,338	**-**	-
Cash and cash equivalents	28	**70,987**	70,387	**27,045**	18,438
Total assets		**2,616,125**	2,318,779	**176,770**	162,708
EQUITY					
Capital and reserves attributable to owners of the Company					
Share capital	29	**19,320**	19,320	**19,320**	19,320
Share premium account		**688**	688	**688**	688
Other reserves	30	**36,863**	31,430	**34,864**	34,816
Retained earnings		**32,634**	40,235	**17,932**	13,483
		89,505	91,673	**72,804**	68,307
Non-controlling interests		**73,684**	80,021	**-**	-
Total equity		**163,189**	171,694	**72,804**	68,307
LIABILITIES					
Deferred income tax	24	**33,220**	30,968	**2,075**	2,016
Provision for other liabilities and charges	31	**1,101**	1,074	**1,101**	1,074
Technical provisions:					
- Insurance contracts and investment contracts with DPF	25	**2,337,692**	2,049,991	**88,166**	80,658
- Investment contracts without DPF	25	**52,692**	45,032	**-**	-
Derivative financial instruments	23	**117**	64	**-**	-
Lease liabilities		**845**	-	**717**	-
Insurance and other payables	32	**26,440**	19,222	**11,774**	10,519
Income tax payable		**829**	734	**133**	134
Total liabilities		**2,452,936**	2,147,085	**103,966**	94,401
Total equity and liabilities		**2,616,125**	2,318,779	**176,770**	162,708

The Notes on pages 54 to 140 are an integral part of these financial statements.

The financial statements on pages 44 to 140 were authorised for issue by the Board on 12 March 2020 and were signed on its behalf by:

Martin Galea
Chairman

Alfred Attard
Director

Felipe Navarro Lopez de Chicheri
President & Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

Group

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total equity €'000
		Attributable to owners of the Company						
Balance at 1 January 2018		19,320	688	31,525	41,343	92,876	80,604	173,480
Comprehensive income								
Profit for the financial year		-	-	-	8,594	8,594	5,441	14,035
Other comprehensive income:								
Change in available-for-sale investments' fair value	30	-	-	(179)	-	(179)	-	(179)
Available-for-sale investments reclassified to profit or loss	30	-	-	(42)	-	(42)	-	(42)
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(13)	(13)	-	(13)
Increase in value of in-force business	17	-	-	126	-	126	126	252
Total other comprehensive income, net of tax		-	-	(95)	(13)	(108)	126	18
Total comprehensive Income		-	-	(95)	8,581	8,486	5,567	14,053
Transactions with owners								
Dividends for 2017		-	-	-	(9,700)	(9,700)	(6,150)	(15,850)
Write-back of prior year dividends		-	-	-	11	11	-	11
Total transactions with owners		-	-	-	(9,689)	(9,689)	(6,150)	(15,839)
Balance at 31 December 2018		**19,320**	**688**	**31,430**	**40,235**	**91,673**	**80,021**	**171,694**

STATEMENT 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 equity €'000
		Attributable to owners of the Company						
Balance at 1 January 2019		19,320	688	31,430	40,235	91,673	80,021	171,694
Effect of adopting IFRS16		-	-	-	(197)	(197)	-	(197)
Balance at 1 January 2019 as restated		19,320	688	31,430	40,038	91,476	80,021	171,497
Comprehensive income								
Profit for the financial year		-	-	-	9,632	9,632	5,873	15,505
Other comprehensive income:								
Change in available-for-sale investment's fair value	30	-	-	51	-	51	-	51
Available-for-sale investments - reclassified to profit or loss	30	-	-	(53)	-	(53)	-	(53)
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(48)	(48)	-	(48)
Increase in value of in-force business	17	-	-	5,435	-	5,435	5,435	10,870
Total other comprehensive income, net of tax		-	-	5,433	(48)	5,385	5,435	10,820
Total comprehensive income		-	-	5,433	9,584	15,017	11,308	26,325
Transactions with owners								
Dividends for 2018		-	-	-	(17,000)	(17,000)	(17,645)	(34,645)
Write-back of prior year dividends		-	-	-	12	12	-	12
Total transactions with owners		-	-	-	(16,988)	(16,988)	(17,645)	(34,633)
Balance at 31 December 2019		**19,320**	**688**	**36,863**	**32,634**	**89,505**	**73,684**	**163,189**

The Notes on pages 54 to 140 are an integral part of these financial statements.

STATEMENT 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 2018		19,320	688	35,073	13,757	68,838
Comprehensive income						
Profit for the financial year		-	-	-	9,428	9,428
Other comprehensive income:						
Change in available-for-sale investments' fair values	30	-	-	(215)	-	(215)
Available-for-sale investments - reclassified to profit or loss	30	-	-	(42)	-	(42)
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(13)	(13)
Total other comprehensive income, net of tax		-	-	(257)	(13)	(270)
Total comprehensive income		-	-	(257)	9,415	9,158
Transactions with owners						
Dividend for 2017		-	-	-	(9,700)	(9,700)
Write-back of prior years' dividends		-	-	-	11	11
Total transactions with owners of the Company		-	-	-	(9,689)	(9,689)
Balance at 31 December 2018		**19,320**	**688**	**34,816**	**13,483**	**68,307**

STATEMENT OF CHANGES IN EQUITY

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2019		19,320	688	34,816	13,483	68,307
Effect of adopting IFRS16		-	-	-	(197)	(197)
Balance as at 1 January 2019 as restated		19,320	688	34,816	13,286	68,110
Comprehensive income						
Profit for the financial year		-	-	-	21,682	21,682
Other comprehensive income:						
Change in available-for-sale investments' fair values	30	-	-	101	-	101
Available-for-sale investments - reclassified to profit or loss	30	-	-	(53)	-	(53)
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(48)	(48)
Total other comprehensive income, net of tax		-	-	48	(48)	-
Total comprehensive income		-	-	48	21,634	21,682
Transactions with owners						
Dividend for 2018		-	-	-	(17,000)	(17,000)
Write-back of prior years' dividends		-	-	-	12	12
Total transactions with owners of the Company		-	-	-	(16,988)	(16,988)
Balance at 31 December 2019		**19,320**	**688**	**34,864**	**17,932**	**72,804**

The Notes on pages 54 to 140 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		Year ended 31 December			
		Group		Company	
	Notes	2019 €'000	2018 €'000	2019 €'000	2018 €'000
Cash flows from operating activities					
Cash generated from operations	33	**71,413**	165,602	**6,425**	6,098
Dividends received		**13,592**	11,219	**18,086**	7,014
Interest received		**25,567**	25,363	**437**	459
Interest paid		**(90)**	(52)	**(90)**	(52)
Income tax paid		**(1,952)**	(1,659)	**(2,019)**	(1,776)
Net cash generated from operating activities		**108,530**	200,473	**22,839**	11,743
Cash flows from investing activities					
Purchase of investment property	20	**(1,307)**	(898)	**(46)**	(91)
Disposal of investment property		**11**	607	**11**	5
Purchase of financial investments		**(1,230,659)**	(1,212,837)	**-**	-
Disposal of financial investments		**1,168,582**	1,037,916	**5,788**	3,450
Purchase of property, plant and equipment and intangible assets		**(10,424)**	(3,629)	**(3,497)**	(2,058)
Disposal of property, plant and equipment and intangible assets		**500**	14	**500**	14
Net cash (used in)/generated from investing activities		**(73,297)**	(178,827)	**2,756**	1,320
Cash flows from financing activities					
Dividends paid to owners of the Company		**(16,988)**	(9,689)	**(16,988)**	(9,689)
Dividends paid to non-controlling interests		**(17,645)**	(6,150)	**-**	-
Cash used in financing activities		**(34,633)**	(15,839)	**(16,988)**	(9,689)
Net movement in cash and cash equivalents		**600**	5,807	**8,607**	3,374
Cash and cash equivalents at beginning of year		**70,387**	64,580	**18,438**	15,064
Cash and cash equivalents at end of year	28	**70,987**	70,387	**27,045**	18,438

The Notes on pages 54 to 140 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

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

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

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

Standards, interpretations and amendments to published standards effective in 2019

In 2019, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies. The effect of applying IFRS 16 is discussed in Note 4.

Standards, interpretations and amendments to published standards effective before 2019 for which the Group elected for the temporary exemption

IFRS 9 - 'Financial instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

The new expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards effective before 2019 for which the Group elected for the temporary exemption - continued

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

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

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

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2019. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the standards discussed below, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

IFRS 17 - 'Insurance Contracts'

IFRS 17, 'Insurance Contracts', establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The standard is effective for annual periods beginning on or after January 1, 2021. In November 2018 the International Accounting Standards Board proposed to delay the effective date by one year to 1 January 2022. This Standard has not yet been endorsed by the EU at the date of authorisation of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

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

Amendments to IAS 1 "Presentation of Financial Statements Classification of Liabilities as Current or Non-Current"

The final amendments, issued by the IASB on January 23, 2020, in Classification of Liabilities as Current or Non-Current affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability, income or expense, or the information that entities disclose about those items. This will be effective for annual periods beginning on or after 1 January 2022.

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

2. ACCOUNTING POLICIES

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

2.1 CONSOLIDATION

(a) Subsidiary undertakings

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

2. ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(a) Subsidiary undertakings - continued

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A list of the Group's subsidiaries is set out in Note 21.

(b) Associated undertakings

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

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

Intra-group gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intra-group losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for associated undertakings are changed where necessary to ensure consistency with the policies adopted by the Group. A list of the Group's associated undertakings is set out in Note 22.

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

2.2 SEGMENT REPORTING

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

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

2. ACCOUNTING POLICIES - CONTINUED

2.3 FOREIGN CURRENCY TRANSLATION - CONTINUED

Transactions and balances

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

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

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

2.4 INTANGIBLE ASSETS

Value of in-force business

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

Gross investment returns and asset allocations assumed vary depending upon the mix of investments held by the Group and expected market conditions. Annual movements in the value of the in-force business are credited or debited to other comprehensive income. Note 17 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 licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of seven years. All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Deferred policy acquisition costs – long term contracts

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

2.6 INVESTMENT PROPERTY

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.7 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

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

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

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

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

2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

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

2.9 FINANCIAL ASSETS

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

Classification

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

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated at fair value through profit or loss. They include, inter alia, reinsurers' share of technical provisions, insurance and other receivables, cash and cash equivalents in the statements of financial positions as well as other financial investments (comprising deposits with credit institutions, and loans) classified as loans and receivables within Note 23.

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement

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

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

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

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

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

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

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

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

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

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

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

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

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

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

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

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

(c) Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

2.12 CASH AND CASH EQUIVALENTS

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

2.13 SHARE CAPITAL

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

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

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.

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

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

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

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

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

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

(ii) Group Life insurance contracts

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

(iii) Long term insurance contracts – individual life

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(iii) Long term insurance contracts – individual life - 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.

(iv) Long term insurance contracts with DPF – individual life

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

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

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

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

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

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

(iv) Long term insurance contracts with DPF – individual life

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.

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(c) Reinsurance contracts held

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

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

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

(d) Receivables and payables related to insurance contracts

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

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

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

(e) Liability adequacy test

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

(f) Investment contracts without DPF

The Group issues investment contracts without DPF.

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(f) Investment contracts without DPF – continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

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

2.19 INVESTMENT RETURN

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

(a) Dividend income

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

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

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

(c) Interest income

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

(d) Rental income

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

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

2.20 LEASES

Applicable till 31 December 2018

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

Applicable from 1 January 2019

The Group adopted IFRS 16 Leases from 1 January 2019. The details of the accounting policies under IFRS 16 are disclosed in Note 4 and Note 18 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.21 DIVIDEND DISTRIBUTION

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

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

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes, which also include information about assumptions and uncertainties at 31 December 2019 that have a significant risk of resulting in a material adjustment in the carrying amounts of assets and liabilities in the next financial year.

- Value of in-force business

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

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 17. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2019 is disclosed in Note 17 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 derived 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 25 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

IFRS 16 – Leases

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Accounting policy

At inception of a contract, the Group assess whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

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

(i) As a lessor

Lessor accounting remains similar to treatment under IAS 17 meaning that lessors continue to classify leases as finance or operating leases.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income' – Note 10.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(a) Accounting policy – continued

(ii) As a lessee

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. As described in accounting policy 4(d) there are recognition exemptions for short-term leases and leases of low-value items.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset of the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by using interest rate curves by country and termination dates, coordinated in a centralized manner, in which the interest rate calculation is obtained by adding the differential related to the asset's nature. Interest rate curves are reviewed twice a year.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including payments which are essentially fixed), minus any incentive to lease to be paid;
- the price for exercising a purchase option which the lessee is reasonably certain to exercise; and
- payments for early cancellation.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use asset that do not meet the definition of investment property in 'Right-of-use assets'.

(b) Leases in which the Group is a lessee

(i) Leases classified as operating leases under IAS 17

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

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(b) Leases in which the Group is a lessee – continued

(i) Leases classified as operating leases under IAS 17 – continued

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

For leases previously classified as operating leases, a lessee is permitted to choose, on a lease-by-lease basis, how to measure the right-of-use asset using one of two methods:

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

In measuring the right-of-use asset the Group assess leases on a lease-by-lease basis and is consequently applying option 1 of the modified retrospective approach for significant lease agreements and option 2 for the remainder in line with the basis of preparation described in Note 1 to the audited financial statements. Significant lease agreements are those agreements surpassing €10,000 monthly payments.

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

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group applied the practical expedient to grandfather the definition of a lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2019 which were previously identified as leases in accordance with IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(ii) Leases classified as finance leases under IAS 17

The Group does not have any leases classified as finance leases in terms of IAS 17.

(c) Leases in which the Group is a lessor

The Group leases out part of its investment property. The Group has classified these leases as operating leases.

The Group is not required to make any adjustment on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group does not sub-lease any of its properties.

(d) Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(e) Impact on financial statements

(i) Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarized below.

	Group 1 January 2019		
	Property	Motor vehicles	Total
	€'000	€'000	€'000
Right-of-use Asset	609	357	966
Lease Liabilities	806	357	1,163
Retained Earnings	(197)	-	(197)

	Company 1 January 2019		
	Total	Motor vehicles	Total
	€'000	€'000	€'000
Right-of-use Asset	609	155	764
Lease Liabilities	806	155	961
Retained Earnings	(197)	-	(197)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 2.96% for property and 9.08% for motor vehicles.

(ii) Lease liabilities reconciliation

	Group	
	Motor Vehicles	Property
	€'000	€'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's financial statements	408	866
Discounted using the incremental borrowing rates (recognised at 1 January 2019)	357	806

	Company	
	Motor Vehicles	Property
	€'000	€'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	182	866
Discounted using the incremental borrowing rates (recognised at 1 January 2019)	155	806

NOTES TO THE FINANCIAL STATEMENTS

5. 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.

5.1 INSURANCE RISK

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

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

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

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

(a) Short term business insurance contracts – general insurance

Frequency and severity of claims

The terms and conditions of the contracts set out the bases for the determination of the Group's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property, liability and group life. Details of gross premiums written as well as the insurance liabilities analysed by class are provided in the "Segmental Analysis" (Note 7).

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.

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.1 INSURANCE RISK - CONTINUED

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

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 programme 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 2019, 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 2019, 100% of the Group's business was written in Malta (2018: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 27% (2018: 27%) and accident and health comprising 20% (2018: 21%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 24% (2018: 23%) and fire and other damage to property at 16% (2018: 16%). The remaining 13% (2018: 13%) 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 7 to these financial statements.

Sources of uncertainty in the estimation of future claim payments

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

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

In calculating the estimated cost of unpaid claims, the Group considers the results of estimation techniques that are based partly on known information at year-end and partly on statistical analysis of historical experience. In the case of the main classes of business, motor and health, the Company makes use of Development Factor Models (DFM) to project the number of claims incurred but not yet reported (IBNR). Ultimate cost averages applied are based on claim averages acquired from historical data. In other classes of business validation techniques are used to ensure the sufficiency of case reserves which could lead to an IBNR provision being made. 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 25 presents the development of the estimate of ultimate claim cost for claims notified in a given year.

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.1 INSURANCE RISK - CONTINUED

(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 programme is approved by the Board annually. The reinsurance arrangements in place include a mix of quota share, facultative, excess of loss and catastrophe protection, which limits the liability of the Group to any one individual life or event. The Group's reinsurance is placed with listed multinational reinsurance companies whose rating is not less than A.

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

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

Further detail on the process of estimation is provided in Note 25 to these financial statements.

5.2 FINANCIAL RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK - CONTINUED

(a) Market risk

(i) Cash flow and fair value interest rate risk

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

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

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

The Group does not guarantee a positive fixed rate of return to its long-term contract policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus philosophy of the Board of Directors. Once a reversionary bonus is declared, it is guaranteed to be paid in full at maturity or on the prior death of the life assured. Also policyholders have the option to withdraw their current year's bonus without any charges following the date the bonus is declared. The bonus philosophy considers historic and current rates of return generated by the Group's investment portfolio as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. These guaranteed benefits increase as discretionary benefits are declared and allocated to contract holders.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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

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

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

		2019				
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	23	33,260	106,563	235,664	565,855	941,342
Collective investment schemes		46,428	-	-	-	46,428
Loans and receivables:						
- Deposits with banks and credit institutions	23	146,312	50,722	52,034	-	249,068
- Loans secured on policies	23	8,358	-	-	-	8,358
- Cash and cash equivalents	28	70,987	-	-	-	70,987
Total interest bearing assets		305,345	157,285	287,698	565,855	1,316,183
Liabilities						
Long-term insurance contracts	25	-	-	-	2,169,282	2,169,282
Total interest bearing liabilities		-	-	-	2,169,282	2,169,282

		2018				
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	23	40,263	64,900	297,449	464,903	867,515
Collective investment schemes		28,175	-	-	-	28,175
Loans and receivables:						
- Deposits with banks and credit institutions	23	141,596	62,717	26,537	-	230,850
- Loans secured on policies	23	8,859	-	-	-	8,859
- Cash and cash equivalents	28	70,387	-	-	-	70,387
Total interest bearing assets		289,280	127,617	323,986	464,903	1,205,786
Liabilities						
Long-term insurance contracts	25	-	-	-	1,903,651	1,903,651
Total interest bearing liabilities		-	-	-	1,903,651	1,903,651

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(a) Market risk - continued

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

The Company had no interest bearing liabilities as at 31 December 2019 and 2018.

		2019				
Company	Notes	**Within 1 year** €'000	**Between 1 - 2 years** €'000	**Between 2 - 5 years** €'000	**Over 5 years** €'000	**Total** €'000
Assets						
Debt securities	23	3,859	993	-	2,100	6,952
Loans and receivables:						
- Cash and cash equivalents	28	27,045	-	-	-	27,045
Total interest bearing assets		30,904	993	-	2,100	33,997

		2018				
Company	Notes	**Within 1 year** €'000	**Between 1 - 2 years** €'000	**Between 2 - 5 years** €'000	**Over 5 years** €'000	**Total** €'000
Assets						
Debt securities	23	5,871	3,989	1,034	1,995	12,889
Loans and receivables:						
- Cash and cash equivalents	28	18,438	-	-	-	18,438
Total interest bearing assets		24,309	3,989	1,034	1,995	31,327

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 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	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Assets held at variable rates				
Collective investment schemes	**46,428**	28,175	**-**	-
Debt securities	**48,316**	40,811	**400**	1,651
Cash and cash equivalents	**70,987**	70,387	**27,045**	18,438
	165,731	139,373	**27,445**	20,089
Liabilities issued at variable rates				
Net long term insurance contracts	**2,169,282**	1,903,651	**-**	-
	2,169,282	1,903,651	**-**	-

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €48.74 million (2018: €42.50 million) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
Loans secured on polices	**8,358**	8,858	**-**	-
Deposits with banks or credit institutions	**249,068**	230,850	**-**	-
Debt securities	**893,026**	826,704	**6,552**	11,238
	1,150,452	1,066,412	**6,552**	11,238

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 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 2019, 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 is shown below:

	Group	
	2019	2018
	€'000	€'000
Long positions		
- Federal Republic of Germany	**48,203**	50,986
- United Kingdom Government	**-**	274
	48,203	51,260
Short positions		
- Federal Republic of Germany	**48,986**	31,786
- United States Government	**5,304**	5,837
- United Kingdom Government	**310**	-
	54,600	37,623

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

Sensitivity Analysis – interest rate risk

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

At 31 December 2019, had interest rates been 100 basis points (2018: 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 €2.37 million (2018: lower by €1.17 million) and higher by €0.03 million (2018: higher by €0.07 million) respectively. An increase of 100 basis points (2018: 100 basis points), with all other variables held constant, would have resulted in the Group's and Company's pre-tax results for the year being higher by €0.76 million (2018: €0.34 million) and €0.13 million (2018: €0.04 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(a) Market risk - continued

(ii) Equity price risks

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

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

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

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**910,571**	771,330	**2,903**	3,179
The above includes:				
Component of investments in associated undertakings (Note 22)*	**26,089**	27,469	**-**	-
Component of equity securities and units in unit trusts (Note 23)	**884,482**	743,861	**2,903**	3,179
	910,571	771,330	**2,903**	3,179

*Investments in associates (Note 22) amounting to €0.38 million (2018: €0.33 million) for the Group and €0.38 million (2018: €0.33 million) for the Company have been excluded from equity price risk since they are accounted for under the equity method.

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 5.2 (a) (i).

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(a) Market risk - continued

(ii) Equity price risks - continued

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

Given the investment strategy of the Group and Company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €0.42 million (2018: €0.44 million) and a negative impact of €0.42 million (2018: €0.44 million) on the Group's pre-tax profit and a positive or negative impact of €0.17 million on the Company's pre-tax results (2018: €0.20 million).

(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 2019 foreign currency exposure amounted to €292.95 million (2018: €213.15 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 2019

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	188,099	10,620	177,479
CHF	27,786	-	27,786
GBP	34,038	10,547	23,491
SEK	2,666	-	2,666
DKK	13,014	-	13,014
Others	48,848	334	48,514
	314,451	21,501	292,950

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(a) Market risk - continued

(iii) Currency risk - continued

Group

31 December 2018

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

Within the table above, €256.31 million of the unhedged exposure relates to equity investments (2018: €196.93 million). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 5.2(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 2019

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(107)	-	(107)
GBP	107	-	107
Other	2	-	2
	2	-	2

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(a) Market risk - continued

(iii) Currency risk - continued

Company

31 December 2018

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(b) Credit risk - continued

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. The Company performs risk-based reviews to assess the degree of compliance with the Group's procedures on credit and take action accordingly.

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.

The total assets bearing credit risk are the following:

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Debt securities	**941,342**	867,515	**6,952**	12,889
Other financial assets (including deposits with banks and credit institutions)	**249,068**	230,850	**-**	-
Forward foreign exchange contracts	**352**	140	**-**	-
Reinsurers share of technical provisions	**24,733**	18,313	**24,290**	17,843
Insurance and other receivables	**28,157**	26,985	**16,215**	14,818
Cash and cash equivalents	**70,987**	70,387	**27,045**	18,438
Total	**1,314,639**	1,214,190	**74,502**	63,988

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

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(b) Credit risk - continued

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

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
AAA	**95,264**	129,451	**-**	-
AA	**152,538**	139,588	**3,018**	3,258
A	**491,842**	489,159	**28,439**	26,719
BBB	**388,519**	282,101	**21,509**	17,010
Below BBB or not rated	**186,476**	173,891	**21,536**	17,001
	1,314,639	1,214,190	**74,502**	63,988

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

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

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	
	2019	2018
	€'000	€'000
Within credit terms	**6,598**	5,976
Not more than three months	**3,160**	3,011
Within three to twelve months	**1,621**	1,235
Over twelve months	**771**	591
	12,150	10,813

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 and Company in terms of IFRS 7 is €12.15 million (2018: €10.81 million), of which €6.60 million (2018: €5.98 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 2019 did not comprise any amounts (2018: nil) whose terms had been renegotiated from the original terms and which were classified as fully performing.

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 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 against which a provision for impairment has been provided as per Note 27:
A decision to impair an asset is based on the following information that comes to the attention of the Group:

	Group and Company	
	2019	2018
	€'000	€'000
Over twelve months	**191**	235

- 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 and benefits 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. With respect to life insurance contracts this is principally managed through limits set by the Board of MMSV on the minimum proportion of maturing funds available to meet such calls. Furthermore, the Group invests a majority of its assets in listed investments that can be readily disposed of.

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

	Group expected cash flows (€ millions) 2019						
	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	290.0	269.0	235.0	222.0	171.0	1,063.0	2,250.0
Technical provisions – claims outstanding	13.3	6.5	4.3	3.4	3.2	21.9	52.6
Lease liabilities	0.3	0.2	0.1	0.1	0.1	-	0.8
Insurance and other payables (contractual)	26.4	-	-	-	-	-	26.4

	Group expected cash flows (€ millions) 2018						
	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	219.0	229.0	245.0	213.0	193.0	870.0	1,969.0
Technical provisions – claims outstanding	13.3	5.9	3.5	2.5	2.3	20.7	48.2
Insurance and other payables (contractual)	19.2		-	-	-	-	19.2

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK – CONTINUED

(c) Liquidity risk - continued

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

	Company expected cash flows (€ millions) 2019						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	13.3	6.5	4.3	3.4	3.2	21.9	52.6
Lease liabilities	0.2	0.2	0.1	0.1	0.1	-	0.7
Insurance and other payables (contractual)	11.8	-	-	-	-	-	11.8

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

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

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

	2019 €'000	2018 €'000
At 31 December		
Foreign exchange contracts		
- outflow	**(46,671)**	(37,135)
- inflow	**46,354**	37,275

At 31 December 2019 and 2018, the above derivatives were due to be settled within three months after year end.

5.3 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 2019:

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

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2019.

Group

	Level 1 €'000	Level 2 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	1,029,875	47	1,029,922
- Debt securities	751,059	185,502	936,561
Other available-for-sale investments	5,236	753	5,989
Derivative financial instruments	-	352	352
Investment in associated undertakings	26,089	-	26,089
Total assets	**1,812,259**	**186,654**	**1,998,913**
Liabilities			
Unit linked financial liabilities	-	100,220	100,220
Derivative financial instruments	-	117	117
Total liabilities	**-**	**100,337**	**100,337**

Company

	Level 1 €'000	Level 2 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	1,695	-	1,695
- Debt securities	2,113	58	2,171
Other available-for-sale investments	5,236	753	5,989
Total assets	**9,044**	**811**	**9,855**

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.3 FAIR VALUES - CONTINUED

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

Group

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

Company

	Level 1	**Level 2**	**Total**
	Level 1 €'000	Level 2 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	1,988	-	1,988
- Debt securities	2,122	147	2,269
Other available-for-sale investments	9,351	2,460	11,811
Total assets	**13,461**	**2,607**	**16,068**

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.

No Level 3 financial assets were held during 2019 (2018: nil).

The analysis of investment property is included within Note 20.

NOTES TO THE FINANCIAL STATEMENTS

5. MANAGEMENT OF RISK - CONTINUED

5.3 FAIR VALUES - CONTINUED

At 31 December 2019 and 2018, 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.

6. 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 Group companies monitor the level of their own funds on a regular basis. Any transactions that may potentially affect the individual Company's own funds and solvency position are immediately reported to their respective directors and shareholders for resolution.

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

Based on management calculations to date, the Company is sufficiently capitalised and was compliant at all times with the regulatory capital requirements as stipulated by the MFSA which are in line with the Solvency II requirements. All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period as per management calculations to date.

NOTES TO THE FINANCIAL STATEMENTS

7. 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 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 2019 and 2018 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	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**16,650**	16,098	**16,995**	15,592
Motor (other classes)	**20,904**	18,965	**19,386**	18,369
Fire and other damage to property	**12,126**	10,956	**11,450**	10,401
Accident and health	**15,106**	14,559	**14,319**	13,795
Other classes	**7,432**	6,721	**7,177**	6,638
	72,218	67,299	**69,327**	64,795

100% (2018: 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 36.

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

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2019	2018	**2019**	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**18,519**	21,236	**5,198**	4,735	**(2,616)**	(5,209)
Motor (other classes)	**7,886**	7,438	**5,929**	5,579	**54**	182
Fire and other damage to property	**5,345**	3,525	**3,615**	3,316	**2,771**	2,581
Accident and health	**6,413**	7,901	**4,635**	4,444	**533**	262
Other classes	**4,326**	2,203	**2,695**	2,095	**(1,390)**	747
	42,489	42,303	**22,072**	20,169	**(648)**	(1,437)

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

7. SEGMENT INFORMATION - CONTINUED

Long term business

(i) Gross premium written

	Group 2019 €'000	Group 2018 €'000	Company 2019 €'000	Company 2018 €'000
Gross premiums written				
Direct insurance	**285,100**	322,400	**2,165**	2,386
Reinsurance inwards	**-**	-	**-**	2
	285,100	322,400	**2,165**	2,388

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 2019 €'000	Periodic premiums 2018 €'000	Single premiums 2019 €'000	Single premiums 2018 €'000
Non-participating	**15,140**	15,438	**-**	-
Participating	**37,384**	33,971	**229,887**	269,839
Linked	**2,136**	2,237	**553**	915
	54,660	51,646	**230,440**	270,754

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

	Periodic premiums 2019 €'000	Periodic premiums 2018 €'000	Single premiums 2019 €'000	Single premiums 2018 €'000
Investment contracts	**1,622**	1,469	**1,176**	1,238

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 2019 €'000	Group 2018 €'000	Company 2019 €'000	Company 2018 €'000
Charge for reinsurance outwards	**2,579**	2,633	**35**	245

NOTES TO THE FINANCIAL STATEMENTS

7. SEGMENT INFORMATION – CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Insurance contracts	**34,080**	35,581	**2,165**	2,388
Investment contracts with DPF	**251,020**	286,819	**-**	-
	285,100	322,400	**2,165**	2,388
Claims incurred, net of reinsurance				
Insurance contracts	**42,477**	33,583	**830**	471
Investment contracts with DPF	**168,423**	112,566	**-**	-
	210,900	146,149	**830**	471

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

	Group	
	2019	2018
	€'000	€'000
Profit on general business	**6,868**	4,988
Profit on long term business	**15,113**	14,748
Net investment income not allocated to the technical accounts	**192**	415
Other income	**1,211**	1,420
Administrative expenses	**(3,308)**	(3,015)
Profit for the financial year before tax	**20,076**	18,556

	Company	
	2019	2018
	€'000	€'000
Profit on general business	**6,868**	4,988
Profit on long term business	**884**	1,355
Net investment income not allocated to the technical accounts	**18,025**	6,843
Administrative expenses	**(1,958)**	(1,767)
Profit for the financial year before tax	**23,819**	11,419

NOTES TO THE FINANCIAL STATEMENTS

7. SEGMENT INFORMATION - CONTINUED

Geographical information

The segment results for the years ended 31 December 2019 and 2018 by geographical area are indicated below:

	Group Gross premiums written		Company Gross premiums written	
	2019 €'000	2018 €'000	**2019 €'000**	2018 €'000
Malta	**357,318**	389,699	**74,385**	69,685

Group segment assets and liabilities

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

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long-term business €'000	Unallocated €'000	Total €'000
At 31 December 2019								
Assets allocated to business segments	39,547	15,068	15,617	8,973	15,555	2,303,255	15,843	2,413,858
Assets allocated to shareholders	-	-	-	-	-	-	202,267	202,267
Total assets	39,547	15,068	15,617	8,973	15,555	2,303,255	218,110	2,616,125
At 31 December 2018								
Assets allocated to business segments	38,987	10,688	13,880	8,757	14,538	2,015,171	14,304	2,116,325
Assets allocated to shareholders	-	-	-	-	-	-	202,454	202,454
Total assets	38,987	10,688	13,880	8,757	14,538	2,015,171	216,758	2,318,779

The total of non-current assets, other than financial instruments, deferred tax assets and risks arising under insurance contracts of €215.72 million (2018: €190.99 million) are all located in Malta.

8. NET OPERATING EXPENSES

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Acquisition costs	**31,588**	30,571	**19,576**	18,132
Change in deferred acquisition costs, net of reinsurance	**(730)**	(821)	**(730)**	(821)
Administrative expenses	**12,982**	12,269	**5,416**	5,067
Reinsurance commissions and profit participation	**(3,300)**	(3,988)	**(3,059)**	(3,767)
	40,540	38,031	**21,203**	18,611
Allocated to:				
General business technical account	**18,916**	16,549	**18,916**	16,549
Long term business technical account	**18,316**	18,467	**329**	295
Non-technical account (administrative expenses)	**3,308**	3,015	**1,958**	1,767
	40,540	38,031	**21,203**	18,611

Total commissions for direct business accounted for in the financial year amounted to €21.10 million (2018: €20.28 million) in the Group's technical result and €13.17 million (2018: €11.95 million) in the Company's technical result. €6.91 million (2018: €7.27 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 12. Further detail relating to administrative expenses is included in Note 11.

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.

9. INVESTMENT RETURN

	Group		Company	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Investment income				
Dividend income from group undertakings	-	-	18,025	6,843
Share of profit of other associated undertaking, net of tax	81	75	-	-
Rent receivable from investment property	5,985	5,309	809	748
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	2,321	1,039	6	6
Income from financial assets at fair value through profit or loss				
- dividend income	13,460	11,659	94	117
- net fair value gains and interest on bonds	214,616	-	-	-
Income from available-for-sale assets				
- dividend income	53	60	53	60
- net fair value gains and interest on bonds	109	137	109	137
Net fair value gains on investment property	5,454	4,466	771	456
Other investment income	539	474	30	16
Exchange differences	6	-	6	-
	242,624	23,219	19,903	8,383
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	232	189	-	-
Interest expenses on loans and receivables	90	53	90	53
Interest expense for financial liabilities that are not at fair value through profit or loss	13	14	13	14
Expense on financial assets at fair value through profit or loss				
- net fair value losses and interest on bonds	245	61,516	245	227
Other investment expenses	5,782	5,503	6	-
Interest on lease liabilities	31	-	31	-
Exchange differences	-	9	-	9
	6,393	67,284	385	303
Net investment return	236,231	(44,065)	19,518	8,080
Analysed between:				
Allocated investment return transferred to the general business technical account	1,454	1,228	1,454	1,228
Investment return included in the long term business technical account	234,585	(45,708)	39	9
Other investment income included in the non-technical account	192	415	18,025	6,843
	236,231	(44,065)	19,518	8,080

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER INCOME

	Group		Company	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Other technical income, net of reinsurance				
Investment management fees	494	433	-	-
Other	85	88	-	-
	579	521	-	-
Other income – non technical				
Management fees	646	862	-	-
Other income	565	558	-	-
	1,211	1,420	-	-

11. PROFIT BEFORE TAX

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

	Group		Company	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Employee compensation (Note 12)	11,349	10,195	6,887	5,804
Depreciation/amortisation:				
- intangible assets (Note 17)	2,792	2,354	1,572	1,343
- property, plant and equipment (Note 19)	767	783	378	345
Release of provision for impairment on receivables (Note 27)	(78)	(291)	(78)	(291)
Impairment of receivables	16	342	16	342
Increase in provision for impairment on receivables (Note 27)	34	44	34	44
Directors' and officers' insurance	1	30	-	-

The financial statements include fees, exclusive of VAT, charged by the parent Company auditor for services rendered during the financial years ended 31 December 2019 and 2018, relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Annual statutory audit	247	244	115	113
Solvency II audit	101	100	44	43
Paid during the year:				
For financial year 2019	57	-	-	-
For financial year 2018	230	111	98	55
For financial year 2017	-	354	-	168
For financial year 2016	-	20	-	20

NOTES TO THE FINANCIAL STATEMENTS

12. EMPLOYEE COMPENSATION

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Salaries	**10,773**	9,647	**6,517**	5,460
Social security costs	**576**	548	**370**	344
	11,349	10,195	**6,887**	5,804

The average number of persons employed during the year was:

	Group		Company	
	2019	2018	**2019**	2018
Key management personnel	**25**	25	**13**	13
Managerial	**32**	31	**16**	15
Technical	**198**	191	**135**	130
Administrative	**10**	10	**6**	6
	265	257	**170**	164

13. TAX EXPENSE

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Current tax expense	**2,293**	1,931	**2,046**	1,676
Deferred tax expense (Note 24)	**2,278**	2,590	**91**	315
Income tax expense	**4,571**	4,521	**2,137**	1,991

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	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Profit before tax	**20,076**	18,556	**23,819**	11,419
Tax at 35%	**7,027**	6,495	**8,337**	3,996
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	**(190)**	(38)	**(5,424)**	(1,309)
Property withholding tax at 8% or 10%	**(2,166)**	(1,792)	**(189)**	(105)
Other	**(100)**	(144)	**(587)**	(591)
Income tax expense	**4,571**	4,521	**2,137**	1,991

NOTES TO THE FINANCIAL STATEMENTS

14. DIRECTORS' EMOLUMENTS

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Directors' fees	**276**	284	**271**	270

Group Directors' fees include fees payable to the Company's directors both from the Company and from other Group Companies where applicable.

15. 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	
	2019	2018
	€'000	€'000
Profit attributable to owners of the Company	**9,632**	8,594
Number of ordinary shares in issue (Note 29)	**92,000,000**	92,000,000
Basic and diluted earnings per share attributable to owners of the Company (€)	**10.5c**	9.3c

16. DIVIDENDS

A final gross dividend in respect of year ended 31 December 2019 of €0.16745 (2018: €0.11531) per share amounting to a total dividend of €15,405,828 (2018: €10,608,738) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.14130 (2018: €0.09783) per share amounting to a total net dividend of €13,000,000 (2018: €9,000,000).

NOTES TO THE FINANCIAL STATEMENTS

17. INTANGIBLE ASSETS

Group At 1 January 2018	Value of in-force business (ii) €'000	Value of business acquired €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
Cost or valuation	62,372	1,651	20,542	3,438	88,003
Accumulated amortisation and impairment	-	(825)	(11,840)	(2,986)	(15,651)
Net book amount	62,372	826	8,702	452	72,352
Year ended 31 December 2018					
Opening net book amount	62,372	826	8,702	452	72,352
Increase in value of in-force business debited to reserves	252	-	-	-	252
Additions	-	-	2,005	65	2,070
Disposals	-	-	(28)	-	(28)
Amortisation charge	-	(331)	(1,881)	(142)	(2,354)
Amortisation released on disposal	-	-	28	-	28
Closing net book amount	62,624	495	8,826	375	72,320
At 31 December 2018					
Cost or valuation	62,624	1,651	22,519	3,503	90,297
Accumulated amortisation and impairment	-	(1,156)	(13,693)	(3,128)	(17,977)
Net book amount	**62,624**	**495**	**8,826**	**375**	**72,320**
Year ended 31 December 2019					
Opening net book amount	62,624	495	8,826	375	72,320
Increase in value of in-force business debited to reserves	10,870	-	-	-	10,870
Additions	-	-	7,677	80	7,757
Disposals	-	-	(462)	-	(462)
Amortisation charge	-	(330)	(2,337)	(125)	(2,792)
Amortisation released on disposal	-	-	40	-	40
Closing net book amount	73,494	165	13,744	330	87,733
At 31 December 2019					
Cost or valuation	73,494	1,651	29,734	3,583	108,462
Accumulated amortisation and impairment	-	(1,486)	(15,990)	(3,253)	(20,729)
Net book amount	**73,494**	**165**	**13,744**	**330**	**87,733**

Amortisation of €0.78 million (2018: €0.73 million) is included in acquisition costs and €2.01 million (2018: €1.62 million) is included in administrative expenses.

Fully amortised assets that were still in use for the Group as at the financial year amounted to €8.77 million (2018: €8.29 million).

NOTES TO THE FINANCIAL STATEMENTS

17. INTANGIBLE ASSETS - CONTINUED

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

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

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

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

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

The value of with-profits business is most sensitive to the size of the with-profits fund. A 1% increase in the size of the fund value will increase the embedded value reported by €0.58 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.57 million.

Similarly, the value of unit-linked business is most sensitive to the size of the unit-linked fund. A 1% increase in the size of the fund value will increase the embedded value by €0.07 million. A 1% fall in the size of the fund value will reduce the embedded value by €0.07 million.

Term assurance business is particularly sensitive to the rates assumed for future mortality. A 1 percentage point increase in the rates will reduce the embedded value by €0.22 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.22 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 2% pa (2018: 2% pa) for with-profits business with a risk discount rate of 6.5% pa (2018: 6.5% pa). For term assurance and unit-linked business these assumptions are unchanged. Expenses are assumed to inflate at 3.5% pa (2018: 3.5% pa).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

17. INTANGIBLE ASSETS - CONTINUED

Company	Computer software €'000	Value of business acquired €'000	Total €'000
At 1 January 2018			
Cost	8,908	1,651	10,559
Accumulated amortisation	(3,863)	(825)	(4,688)
Net book amount	5,045	826	5,871
Year ended 31 December 2018			
Opening net book amount	5,045	826	5,871
Additions	1,642	-	1,642
Amortisation charge	(1,013)	(330)	(1,343)
Closing net book amount	5,674	496	6,170
At 31 December 2018			
Cost	10,550	1,651	12,201
Accumulated amortisation	(4,876)	(1,155)	(6,031)
Net book amount	**5,674**	**496**	**6,170**
Year ended 31 December 2019			
Opening net book amount	5,674	496	6,170
Additions	2,758	-	2,758
Disposals	(462)	-	(462)
Amortisation charge	(1,242)	(330)	(1,572)
Amortisation released on disposal	40	-	40
Closing net book amount	6,768	166	6,934
At 31 December 2019			
Cost	12,846	1,651	14,497
Accumulated amortisation	(6,078)	(1,485)	(7,563)
Net book amount	**6,768**	**166**	**6,934**

Amortisation of €0.33 million (2018: €0.33 million) is included in acquisition costs and €1.24 million (2018: €1.01 million) is included in administrative expenses.

Fully amortised assets that were still in use for the Company as at the financial year end amounted to €2.94 million (2018: €2.89 million).

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

NOTES TO THE FINANCIAL STATEMENTS

18. LEASES

(a) Leases as the lessee (IFRS 16)

The Group leases property and motor vehicles. Property leases generally run for a period of five to seven years without the option to renew, whilst motor vehicle leases typically run for a period of seven years. Lease payments are subsequently renegotiated to reflect market rates.

(i) Right-of-use assets

Right-of-use assets related to leased motor vehicles and properties that do not meet the definition of investment property are presented as a separate line item on the face of the Statement of Financial Position.

2019	Group		
	Property €'000	Motor vehicles €'000	Total €'000
Balance on 1 January	609	357	966
Depreciation charge for the year	(134)	(138)	(272)
Balance on 31 December	475	219	694

2019	Company		
	Property €'000	Motor vehicles €'000	Total €'000
Balance on 1 January	609	155	764
Depreciation charge for the year	(134)	(59)	(193)
Balance on 31 December	475	96	571

(ii) Amounts recognised in profit or loss

2019	Group		
	Property €'000	Motor vehicles €'000	Total €'000
Depreciation of right-of-use assets	134	138	272
Interest expense on lease liabilities	19	24	43

NOTES TO THE FINANCIAL STATEMENTS

18. LEASES – CONTINUED

(ii) Amounts recognised in profit or loss - continued

2019	Company		
	Property €'000	Motor vehicles €'000	Total €'000
Depreciation of right-of-use assets	134	59	193
Interest expense on lease liabilities	19	12	31

In 2019, the Company recognised €66,456, relating to short term leases, as lease expense in the statement of profit or loss and other comprehensive income.

Operating lease agreements terminating within the 12 months subsequent to the application of IFRS 16 (January 1, 2019) were considered short-term. Falling in this category where some motor vehicle lease payments which where consequently recognised systematically over the remaining term of the lease in the profit or loss account.

	Company €'000
2018 – Operating leases under IAS 17	
Lease expense	**291**

(iii) Amounts recognised in statement of cash flows

	Group €'000
Year ended 31 December 2019	**474**
Total cash outflows for leases	

	Company €'000
Year ended 31 December 2019	
Total cash outflows for leases	**340**

NOTES TO THE FINANCIAL STATEMENTS

18. LEASES – CONTINUED

(b) Leases as the lessor (IFRS 16)

The Group and the Company lease out certain property. Note 20 sets out information about investment property. The Group has classified these leases as operating leases because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments receivable, showing the undiscounted lease payments to be received after the reporting date.

2019 – Operating leases under IFRS 16

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Less than one year	**4,706**	4,787	**664**	693
One to two years	**2,988**	3,255	**369**	589
Two to three years	**2,301**	2,003	**64**	351
Three to four years	**1,777**	1,468	**-**	31
Four to five years	**1,530**	1,103	**-**	-
More than five years	**3,174**	2,197	**-**	-
Total	**16,476**	14,813	**1,097**	1,664

2018 – Operating leases under IAS 17

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**4,706**	4,787	**664**	693
Between one and five years	**8,596**	7,829	**433**	971
Later than 5 years	**3,174**	2,197	**-**	-
Total	**16,476**	14,813	**1,097**	1,664

NOTES TO THE FINANCIAL STATEMENTS

19. 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 2018					
Cost	10,279	2,546	13	6,526	19,364
Accumulated depreciation	(115)	(1,233)	(13)	(4,702)	(6,063)
Net book amount	**10,164**	**1,313**	**-**	**1,824**	**13,301**
Year ended 31 December 2018					
Opening net book amount	10,164	1,313	-	1,824	13,301
Amount transferred from investment property (Note 20)	1,796	-	-	-	1,796
Additions	1,030	177	-	352	1,559
Disposal	-	-	-	(716)	(716)
Depreciation charge	(26)	(210)	-	(547)	(783)
Depreciation released on disposal	-	-	-	684	684
Closing net book amount	12,964	1,280	-	1,597	15,841
At 31 December 2018					
Cost	13,105	2,723	13	6,162	22,003
Accumulated depreciation	(141)	(1,443)	(13)	(4,565)	(6,162)
Net book amount	**12,964**	**1,280**	**-**	**1,597**	**15,841**
Year ended 31 December 2019					
Opening net book amount	12,964	1,280	-	1,597	15,841
Additions	1,152	441	-	1,074	2,667
Disposals	-	-	(13)	(30)	(43)
Depreciation charge	(26)	(232)	-	(509)	(767)
Depreciation released on disposal	-	-	13	-	13
Closing net book amount	14,090	1,489	-	2,132	17,711
At 31 December 2019					
Cost	14,257	3,164	-	7,206	24,627
Accumulated depreciation	(167)	(1,675)	-	(5,074)	(6,916)
Net book amount	**14,090**	**1,489**	**-**	**2,132**	**17,711**

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

Depreciation charge has been included in administrative expenses.

Fully depreciated assets that were still in use by the Group as at the financial year end amounted to €2.37 million (2018: €1.97 million).

NOTES TO THE FINANCIAL STATEMENTS

19. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company At 1 January 2018	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
Cost	92	1,960	13	2,822	4,887
Accumulated depreciation	(11)	(876)	(13)	(2,054)	(2,954)
Net book amount	**81**	**1,084**	**-**	**768**	**1,933**
Year ended 31 December 2018					
Opening net book amount	81	1,084	-	768	1,933
Additions	6	177	-	233	416
Disposals	-	-	-	(527)	(527)
Depreciation charge	(2)	(154)	-	(189)	(345)
Depreciation released on disposal	-	-	-	495	495
Closing net book amount	85	1,107	-	780	1,972
At 31 December 2018					
Cost	98	2,137	13	2,528	4,776
Accumulated depreciation	(13)	(1,030)	(13)	(1,748)	(2,804)
Net book amount	**85**	**1,107**	**-**	**780**	**1,972**
Year ended 31 December 2019					
Opening net book amount	85	1,107	-	780	1,972
Additions	-	441	-	298	739
Disposals	-	-	(13)	(30)	(43)
Depreciation charge	(2)	(178)	-	(198)	(378)
Depreciation released on disposal	-	-	13	-	13
Closing net book amount	83	1,370	-	850	2,303
At 31 December 2019					
Cost	98	2,578	-	2,796	5,472
Accumulated depreciation	(15)	(1,208)	-	(1,946)	(3,169)
Net book amount	**83**	**1,370**	**-**	**850**	**2,303**

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

Depreciation charge has been included in administrative expenses.

Fully depreciated assets that were still in use by the Company as at the financial year end amounted to €1.20 million (2018: €1.18 million).

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2018		
Cost	60,770	7,950
Accumulated fair value gains	39,102	6,872
Net book amount	**99,872**	**14,822**
Year ended 31 December 2018		
Opening net book amount	99,872	14,822
Transfer to property, plant & equipment (Note 19)	(1,796)	-
Additions	898	91
Disposals	(645)	(5)
Net fair value gains	4,503	456
Net book amount	102,832	15,364
At 31 December 2018		
Cost	59,480	8,036
Accumulated fair value gains	43,352	7,328
Net book amount	**102,832**	**15,364**
Year ended 31 December 2019		
Opening net book amount	102,832	15,364
Additions	1,307	46
Disposals	(10)	(10)
Net fair value gains	5,454	770
Net book amount	109,583	16,170
At 31 December 2019		
Cost	60,783	8,078
Accumulated fair value gains	48,800	8,092
Net book amount	**109,583**	**16,170**

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 2019 and 2018. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 9).

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 5.3.

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

20. INVESTMENT PROPERTY - CONTINUED

Valuation processes

On an annual basis, the Group and Company engage external, independent and qualified valuers to determine the fair value of the land and buildings. As at 31 December 2019 and 2018, the fair values of the land and buildings have been determined by DHI Periti.

At each financial year end the investments department:

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

Valuation techniques

For level 3 fair value of all office buildings with a total carrying amount of €109.58 million (2018: €102.83 million) for the Group and €16.17 million (2018: €15.36 million) for the Company, the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

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

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

Group

Description	Fair value at 31 December 2019 €	Valuation technique	Significant unobservable Inputs: Rental value €	Significant unobservable Inputs: Capitalisation rate %
Office buildings	109.58m	Capitalisation of future net income streams	5.70m	3.50 – 8.00

Group

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

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT PROPERTY – CONTINUED

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

Company

Description	Fair value at 31 December 2019 €	Valuation technique	Significant unobservable Inputs: Rental value €	Significant unobservable Inputs: Capitalisation Rate %
Office buildings	16.17m	Capitalisation of future net income streams	0.82m	4.40 – 6.00

Company

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

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.

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2019	
Opening and closing net book amount and deemed cost	57,214
Year ended 31 December 2018	
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 2019	Percentage of shares held 2018
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MAPFRE MSV Life p.l.c.	Level 7 The Mall Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

NOTES TO THE FINANCIAL STATEMENTS

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS – CONTINUED

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

2019	% Held by non-controlling interests	Assets	Liabilities	Revenues	Profit before tax	Net cash flows
		€'000	€'000	€'000	€'000	€'000
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,497,135	2,349,765	285,733	14,532	(8,066)
Church Wharf Properties Limited	25%	3,002	302	-	119	(6)

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.

2018	% Held by non-controlling interests	Assets	Liabilities	Revenues	Profit before tax	Net cash flows
		€'000	€'000	€'000	€'000	€'000
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,213,450	2,053,407	322,721	13,698	2,497
Church Wharf Properties Limited	25%	2,883	290	-	66	(9)

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 2019	2018
Growth Investment Limited (held indirectly by MAPFE MSV Life p.l.c.)	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

Note 37 explains the Transfer of Business Agreement entered into after year end with respect to Growth Investments Limited.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2018		
Cost	14,480	294
Accumulated share of associated undertaking's equity	72	72
Accumulated fair value movements	16,324	-
Net book amount	30,876	366
Year ended 31 December 2018		
Opening net book amount	30,876	366
Share of associated undertaking's movement in equity	(36)	(36)
Fair value movements	(3,041)	-
Closing net book amount	27,799	330
At 31 December 2018		
Cost	14,480	294
Accumulated share of associated undertaking's equity	36	36
Accumulated fair value movements	13,283	-
Net book amount	**27,799**	**330**
Year ended 31 December 2019		
Opening net book amount	27,799	330
Share of associated undertaking's movement in equity	50	50
Fair value movements	(1,433)	-
Closing net book amount	26,416	380
At 31 December 2019		
Cost	14,480	294
Accumulated share of associated undertaking's equity	86	86
Accumulated fair value movements	11,850	-
Net book amount	**26,416**	**380**

NOTES TO THE FINANCIAL STATEMENTS

22. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

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

2019	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	1,459	679	2,573	180	49%

2018	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	1,039	378	2,193	154	49%

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

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

Associated undertakings	Registered office	Class of shares held	Percentage of shares held MSV 2019	MSV 2018	Group 2019	Group 2018
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	28.36%	28.36%	28.36%	28.36%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	35.46%	35.46%	35.46%	35.46%

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2019 was €1.01 and €0.90 respectively (31 December 2018: €1.02 and €0.965 respectively).

NOTES TO THE FINANCIAL STATEMENTS

23. OTHER INVESTMENTS

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

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**1,966,835**	1,714,330	**3,866**	4,257
Other available-for-sale	**5,989**	11,811	**5,989**	11,811
Loans and receivables	**257,426**	239,709	**-**	-
	2,230,250	1,965,850	**9,855**	16,068

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**929,702**	770,843	**1,695**	1,988
Debt securities	**936,561**	856,895	**2,171**	2,269
Assets held to cover linked liabilities – collective investment schemes	**100,220**	86,452	**-**	-
Forward foreign exchange contracts	**352**	140	**-**	-
Total investments at fair value through profit or loss	**1,966,835**	1,714,330	**3,866**	4,257

Technical provisions for linked liabilities amounted to €100.5 million as at 31 December 2019 (2018: €86.8 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2019 and 2018, the Group and Company had no financial commitments in respect to uncalled capital.

Equity securities and collective investment schemes other than those at Company level are substantially non-current assets in nature.

NOTES TO THE FINANCIAL STATEMENTS

23. OTHER INVESTMENTS - CONTINUED

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

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2018		
Opening net book amount	1,662,715	4,568
Additions	1,167,470	-
Disposals	(1,040,958)	-
Net fair value losses	(74,960)	(311)
Closing net book amount	**1,714,267**	**4,257**
Year ended 31 December 2019		
Opening net book amount	1,714,267	4,257
Additions	1,210,696	51
Disposals	(1,116,516)	(88)
Net fair value gains/(losses)	158,271	(354)
Closing net book amount	**1,966,718**	**3,866**

Derivative financial liabilities amounting to €0.12 million (2018: €0.06 million), included in the table above, are classified within liabilities in the statement of financial position.

(b) Other available-for-sale financial assets

	Group		Company	
	2019 €'000	2018 €'000	**2019 €'000**	2018 €'000
Listed debt securities	**4,781**	10,620	**4,781**	10,620
Listed shares	**1,208**	1,191	**1,208**	1,191
	5,989	11,811	**5,989**	11,811

Listed debt securities have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Their credit rating, using Standard & Poors rating is as below:

	Group		Company	
	2019 €'000	2018 €'000	**2019 €'000**	2018 €'000
AA	-	451	-	451
A	**4,781**	9,318	**4,781**	9,318
BBB	-	851	-	851
	4,781	10,620	**4,781**	10,620

23. OTHER INVESTMENTS – CONTINUED

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

The movements for the year are summarised as follows:

Listed debt securities

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**10,620**	14,352	**10,620**	14,352
Disposals	**(5,700)**	(3,472)	**(5,700)**	(3,472)
Net fair value losses	**(139)**	(260)	**(139)**	(260)
Closing net book amount	**4,781**	10,620	**4,781**	10,620

Listed shares

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**1,191**	1,309	**1,191**	1,309
Additions	**7**	7	**7**	7
Net fair value gains/(losses)	**10**	(125)	**10**	(125)
Closing net book amount	**1,208**	1,191	**1,208**	1,191

(c) Loans and receivables

Analysed by type of investment as follows:

	Group	
	2019	2018
	€'000	€'000
Deposits with banks or credit institutions	**249,068**	230,850
Loans secured on policies	**8,358**	8,859
	257,426	239,709

Maturity of deposits with bank or credit institutions:

	Group	
	2019	2018
	€'000	€'000
Within 3 months	**52,452**	32,366
Within 1 year but exceeding 3 months	**93,861**	109,230
Between 1 and 5 years	**102,755**	89,254
	249,068	230,850

NOTES TO THE FINANCIAL STATEMENTS

23. OTHER INVESTMENTS – CONTINUED

(c) Loans and receivables -continued

The above deposits earn interest as follows:

	Group	
	2019	2018
	€'000	€'000
At fixed rates	**249,068**	230,850
	249,068	230,850

As at 31 December 2019 an amount of €1.12 million (2018: €0.80 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 2018	
Opening net book amount	9,511
Additions	2,085
Disposals (sales and redemptions)	(2,738)
Closing net book amount	**8,858**

Group

	Loans secured on Policies €'000
Year ended 31 December 2019	
Opening net book amount	8,858
Additions	1,401
Disposals (sales and redemptions)	(1,901)
Closing net book amount	**8,358**

The above loans earn interest at fixed rates.

NOTES TO THE FINANCIAL STATEMENTS

24. DEFERRED INCOME TAX

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**28,778**	26,211	**795**	503
Movements during the year:				
Profit or loss account (Note 13)	**2,278**	2,590	**91**	315
Other comprehensive income	**(29)**	(23)	**(29)**	(23)
Balance at 31 December – net	**31,027**	28,778	**857**	795

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 35% (2018: 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 (2018: 8% or 10%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**1,281**	1,473	**633**	634
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	**83,674**	32,405	**1,078**	1,010
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(53,786)**	(4,963)	**(712)**	(712)
Temporary differences attributable to other provisions	**(142)**	(137)	**(142)**	(137)
Balance at 31 December – net	**31,027**	28,778	**857**	795

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	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(2,193)**	(2,190)	**(1,218)**	(1,221)
Deferred tax liability	**33,220**	30,968	**2,075**	2,016
	31,027	28,778	**857**	795

The tax effect of temporary differences attributable to the value of in-force business amounts to €5.85 million (2018: €0.14 million).

NOTES TO THE FINANCIAL STATEMENTS

24. 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 €11.77 million (2018: €5.48 million), which give rise to a deferred tax asset of €4.12 million (2018: €1.92 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €2.40 million (2018: €2.40 million) giving rise to a further deferred tax asset of €0.84 million (2018: €0.84 million) which has not been recognised in these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS

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

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Gross				
Short term insurance contracts – general business				
- claims outstanding	**52,619**	48,234	**52,619**	48,234
- provision for unearned premiums	**34,510**	31,619	**34,510**	31,619
Group life insurance contracts				
- claims outstanding	**386**	124	**386**	124
- long term business provision	**651**	681	**651**	681
Long term contracts				
- individual life insurance contracts	**553,769**	507,454	**-**	-
- investment contracts with DPF	**1,695,757**	1,461,879	**-**	-
Total technical provisions, gross	**2,337,692**	2,049,991	**88,166**	80,658
Recoverable from reinsurers				
Short term insurance contracts				
- claims outstanding	**24,236**	17,840	**24,236**	17,840
- provision for unearned premiums	**5,664**	5,151	**5,664**	5,151
Group life insurance contracts				
- claims outstanding	**53**	3	**53**	3
Long term contracts				
- individual life insurance contracts	**443**	470	**-**	-
Total reinsurers' share of technical provisions	**30,396**	23,464	**29,953**	22,994
Net				
Short-term insurance contracts				
- claims outstanding	**28,383**	30,394	**28,383**	30,394
- provision for unearned premiums	**28,846**	26,468	**28,846**	26,468
Group life insurance contracts				
- claims outstanding	**333**	121	**333**	121
- long term business provision	**651**	681	**651**	681
Long term contracts				
- individual life insurance contracts	**552,326**	506,984	**-**	-
- investment contracts with DPF	**1,696,757**	1,461,879	**-**	-
Total technical provisions, net	**2,307,296**	2,026,527	**58,213**	57,664

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Technical provisions in relation to short term insurance contracts are classified as current liabilities, in that, claims outstanding represent events that happened and which would normally be settled within the normal operating cycle. The timing of payment can be dependent on factors, like court cases, that could defer such payment to beyond a year from the reporting date. Technical provisions in relation to long term business are substantially non-current.

(a) Short-term insurance contracts – claims outstanding

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2019 and 2018 are not material.

The technical provisions are largely based on case-by-case estimates adjusted for in those instances where the ultimate cost determined by estimation techniques differs. This is further supplemented with additional provisions for IBNR.

Motor claims occurring between 2016 and 2019 have been determined on an ultimate cost basis having regards to estimation techniques establishing the average ultimate cost per claim, which average was applied to the number of reported claims and the estimated number of IBNR claims. Losses involving fatalities or serious bodily injury are still reserved at the case-by-case reserve estimate rather than the established ultimate cost average.

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

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

Company

Accident year	2009 €'000	2010 €'000	2011 €'000	2012 €'000	2013 €'000	2014 €'000	2015 €'000	2016 €'000	2017 €'000	2018 €'000	2019 €'000	Total €'000
Estimate of the ultimate claims costs:												
- at end of accident year	15,248	17,111	15,972	15,756	16,104	17,775	23,216	30,078	33,106	33,539	33,848	
- one year later	15,319	15,871	15,402	14,183	14,205	16,060	23,350	30,320	33,952	33,645		
- two years later	13,367	13,114	13,702	12,932	13,465	15,565	22,442	29,171	33,638			
- three years later	12,486	12,263	12,694	12,543	13,288	15,608	22,786	28,863				
- four years later	12,147	11,805	12,467	12,586	13,178	15,611	22,551					
- five years later	12,321	11,837	12,476	12,144	13,044	15,420						
- six years later	12,392	11,882	12,504	12,311	13,016							
- seven years later	12,411	11,669	12,398	12,094								
- eight years later	12,378	11,549	12,581									
- nine years later	12,360	11,128										
- ten years later	12,273											
Current estimates of cumulative claims	12,273	11,128	12,581	12,094	13,016	15,420	22,551	28,863	33,638	33,645	33,848	229,057
Cumulative payments to date	(12,040)	(11,136)	(12,229)	(11,621)	(12,793)	(14,854)	(21,265)	(27,029)	(30,106)	(28,867)	(20,618)	(202,558)
Liability recognised in the statement of financial position	233	(8)	352	473	223	566	1,286	1,834	3,532	4,778	13,230	26,499
Liability in respect of prior years												1,884
Total reserve included in the statement of financial position												28,383

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

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

Movements in claims and loss adjustment expenses:

	Group and Company Year ended 2018		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	42,877	(12,692)	30,185
Claims settled during the year	(37,141)	4,486	(32,655)
Increase/(decrease) in liabilities			
- arising from current year claims	43,006	(9,458)	33,548
- arising from prior year claims	(508)	(176)	(684)
At end of year	**48,234**	**(17,840)**	**30,394**

	Group and Company Year ended 2019		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	48,234	(17,840)	30,394
Claims settled during the year	(38,104)	4,352	(33,752)
Increase/(decrease) in liabilities			
- arising from current year claims	43,700	(9,839)	33,861
- arising from prior year claims	(1,211)	(909)	(2,120)
At end of year	**52,619**	**(24,236)**	**28,383**

NOTES TO THE FINANCIAL STATEMENTS

25. 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 €1.21 million (2018: €0.51 million). After the effect of reinsurance, this amounts to €2.12 million (2018: €0.68 million). This net run-off arose principally from a favourable development on claims in the motor class of direct general business of insurance.

(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 2018		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	29,115	(4,838)	24,277
Net charge/(credit) to profit or loss	2,504	(313)	2,191
At end of year	**31,619**	**(5,151)**	**26,468**

	Group and Company Year ended 2019		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	31,619	(5,151)	26,468
Net charge/(credit) to profit or loss	2,891	(513)	2,378
At end of year	**34,510**	**(5,664)**	**28,846**

A provision for unexpired risks €0.11 million was recognised as at 31 December 2019 (2018: nil).

25. 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 2018		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	421	(77)	344
Claims settled during the year	(715)	22	(693)
Increase in net liabilities	418	52	470
At end of year	**124**	**(3)**	**121**

	Group and Company Year ended 2019		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	124	(3)	121
Claims settled during the year	(722)	104	(618)
Increase in net liabilities	984	(154)	830
At end of year	**386**	**(53)**	**333**

Long term business provision

The balance on the long term business provision has been assessed by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2019. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall statement of financial position, are as follows:

	2019 €'000	2018 €'000
Other investments	**2,222**	2,759
Insurance and other receivables	**654**	459
Cash and cash equivalents	**1,748**	1,990
Net claims outstanding	**(333)**	(121)
Insurance and other payables	**(3,640)**	(4,406)
Long term business provision, net of reinsurance	**651**	681

NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

Individual life insurance contracts	Group	
	2019	2018
	€'000	€'000
Gross technical provisions		
- claims outstanding	**5,340**	3,613
- long term business provision	**548,429**	503,841
	553,769	507,454
Reinsurers' share of technical provisions		
- claims outstanding	**443**	470
	443	470
Net technical provisions		
- claims outstanding	**4,897**	3,143
- long term business provision	**548,429**	503,841
	553,326	506,984

The movements for the year are summarised as follows:

	Group Year ended 2018		
	Gross	**Reinsurance**	**Net**
	€'000	€'000	€'000
At beginning of year	535,915	(609)	535,306
(Credit)/charge to the profit or loss account	(28,461)	139	(28,322)
At end of year	**507,454**	**(470)**	**506,984**

	Group Year ended 2019		
	Gross	**Reinsurance**	**Net**
	€'000	€'000	€'000
At beginning of year	507,454	(470)	506,984
Charge to the profit or loss account	46,315	27	46,342
At end of year	**553,769**	**(443)**	**553,326**

The above liabilities are substantially non-current in nature.

25. 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	
	2019	2018
	€'000	€'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**26,166**	19,573
- long term business provision	**1,669,591**	1,442,306
	1,695,757	1,461,879

The movements for the year are summarised as follows:

	2019	2018
	€'000	€'000
Year ended 31 December		
At beginning of year	**1,461,879**	1,334,385
Charge to the profit or loss account	**233,878**	127,494
At end of year	**1,695,757**	1,461,879

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

(i) Assumptions

Rate of future investment return

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

Bonus rates

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

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

25. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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

(i) Assumptions - continued

Policy maintenance expenses

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

Minimum reserve

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

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

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

Mortality

The Group makes reference to AMC00 (2018: AMC00) mortality tables.

(ii) Changes in assumptions

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

(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 5. 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

	2019 **€'000**	2018 €'000
Long term business provision	**51,810**	44,305
Claims outstanding	**882**	727
	52,692	45,032

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

NOTES TO THE FINANCIAL STATEMENTS

26. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**7,142**	6,174	**7,142**	6,174
Net amount charged to profit or loss	**633**	968	**633**	968
Closing net book amount	**7,775**	7,142	**7,775**	7,142

Deferred acquisition costs are all classified as current assets.

27. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Receivables arising from direct insurance operations:				
- due from policyholders	**848**	532	**558**	532
- due from agents, brokers and intermediaries	**14,860**	13,688	**14,860**	13,688
- due from reinsurers	**300**	293	**300**	293
Receivables arising from reinsurance operations:				
- due from reinsurers	**16**	15	**16**	15
Other loans and receivables:				
- prepayments	**3,507**	3,479	**1,138**	977
- accrued interest and rent	**10,729**	10,567	**226**	313
- receivables from group undertakings	**-**	-	**230**	86
- receivables from associated undertaking	**216**	126	**216**	126
- other receivables	**29**	151	**-**	-
Provision for impairment of receivablesv	**(191)**	(235)	**(191)**	(235)
	30,314	28,616	**17,353**	15,795
Current portion	**30,314**	28,616	**17,353**	15,795

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

NOTES TO THE FINANCIAL STATEMENTS

27. INSURANCE AND OTHER RECEIVABLES - CONTINUED

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

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Balance as at 1 January	**235**	482	**235**	482
Increase in provision for impairment	**34**	44	**34**	44
Release of provision for impairment during the year	**(78)**	(291)	**(78)**	(291)
Balance as at 31 December	**191**	235	**191**	235

28. 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	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**70,987**	70,387	**27,045**	18,438

29. SHARE CAPITAL

	Group and Company	
	2019	2018
	€'000	€'000
Authorised		
150 million ordinary shares of €0.21 each	**31,500**	31,500
Issued and fully paid		
92 million ordinary shares of €0.21 each	**19,320**	19,320

NOTES TO THE FINANCIAL STATEMENTS

30. OTHER RESERVES

Group	Value of in-force business €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2018	31,187	338	31,525
Fair value movements – gross	-	(231)	(231)
Fair value movements – tax	-	52	52
Available-for-sale investments – reclassified to profit or loss			
- gross	-	(5)	(5)
- related tax	-	(37)	(37)
Share of increase in value of in-force business of subsidiary undertaking	126	-	126
Balance at 31 December 2018	**31,313**	**117**	**31,430**
Balance at 1 January 2019	31,313	117	31,430
Fair value movements – gross	-	46	46
Fair value movements – tax	-	5	5
Available-for-sale investments – reclassified to profit or loss			
- gross	-	(52)	(52)
- related tax	-	(1)	(1)
Share of increase in value of in-force business of subsidiary undertaking	5,435	-	5,435
Balance at 31 December 2019	**36,748**	**115**	**36,863**

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

30. OTHER RESERVES - CONTINUED

Company

	Investment in subsidiary undertaking €'000	Investment in associated undertaking €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2018	34,663	72	338	35,073
Fair value movements – gross	-	-	(231)	(231)
Fair value movements – tax	-	-	52	52
Available-for-sale investments – reclassified to profit or loss				
- gross	-	-	(5)	(5)
- related tax	-	-	(37)	(37)
Other	-	(36)	-	(36)
Balance at 31 December 2018	**34,663**	**36**	**117**	**34,816**
Balance at 1 January 2019	34,663	36	117	34,816
Fair value movements – gross	-	-	46	46
Fair value movements – tax	-	-	5	5
Available-for-sale investments – reclassified to profit or loss				
- gross	-	-	(52)	(52)
- related tax	-	-	(1)	(1)
Other	-	50	-	50
Balance at 31 December 2019	**34,663**	**86**	**115**	**34,864**

The above reserves are not distributable reserves.

31. 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	
	2019	2018
	€'000	€'000
1 January	**1,074**	1,100
Interest expense – profit or loss (Note 9)	**13**	14
Settlements	**(60)**	(59)
Re-measurements actuarial loss - other comprehensive income	**74**	19
At 31 December	**1,101**	1,074

The following payments as expected in the future years:

	Group and Company	
	2019	2018
	€'000	€'000
Within one year	**60**	60
After more than one year	**1,041**	1,014
	1,101	1,074

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

	Group and Company	
	2019	2018
Mortality	**AMC00**	AMC00
Discount rate	**0.5%**	1.4%
Inflation rate	**1.0%**	1.3%

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

	Group and Company	
	2019	2018
	€'000	€'000
Discount rate – 1% pt increase	**(104)**	(102)
Discount rate – 1% pt decrease	**122**	119
Inflation rate – 1% pt increase	**113**	111
Inflation rate – 1% pt decrease	**(99)**	(98)

NOTES TO THE FINANCIAL STATEMENTS

32. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Creditors arising out of direct insurance operations	12,103	7,088	3,984	2,259
Creditors arising out of reinsurance operations	172	172	172	172
Amounts owed to associated undertaking	254	-	254	-
Amounts owed to group undertakings	9	-	1,010	1,013
Social security and other tax payables	4,574	2,135	1,462	1,323
Accruals and other payables	7,077	7,274	3,183	3,913
Deferred income	2,251	2,553	1,709	1,839
	26,440	19,222	11,774	10,519
Current	26,301	19,080	11,774	10,519
Non-current	139	142	-	-
	26,440	19,222	11,774	10,519

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.

33. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Profit before tax	20,076	18,556	23,819	11,419
Adjusted for:				
Depreciation (Note 19)	767	783	378	345
Decrease in provision for impairment of receivables (Note 27)	(44)	(247)	(44)	(247)
Settlement of provision for liabilities and charges (Note 31)	(60)	(59)	(60)	(59)
Amortisation (Note 17)	2,792	2,354	1,572	1,343
Depreciation of right-of-use assets (Note 18)	275	-	193	-
Lease payments against lease liabilities	(299)	-	(274)	-
Adjustments relating to investment return	(244,888)	47,035	(18,705)	(7,326)
(Gain)/loss on sale of property, plant and equipment	(48)	18	(48)	18
Movements in:				
Insurance and other receivables	(2,230)	(110)	(1,577)	(1,026)
Deferred acquisition costs (Note 26)	(633)	(968)	(633)	(968)
Reinsurers' share of technical provisions	(6,932)	(5,248)	(6,959)	(5,387)
Technical provisions	295,361	102,646	7,508	7,648
Insurance and other payables	7,276	842	1,255	338
Cash generated from operations	71,413	165,602	6,425	6,098

NOTES TO THE FINANCIAL STATEMENTS

34. COMMITMENTS

Capital commitments

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Authorised and not contracted for				
- property, plant and equipment	**1,483**	528	**1,483**	274
- intangible assets	**1,338**	502	**1,338**	502
Authorised and contracted for				
- property, plant and equipment	**834**	1,635	**100**	310
- intangible assets	**8,732**	2,818	**1,828**	2,450
- investment property	**273**	953	**-**	-

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	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**4,706**	4,787	**664**	693
Later than 1 year and not later than 5 years	**8,596**	7,829	**433**	971
Later than 5 years	**3,174**	2,197	**-**	-
	16,476	14,813	**1,097**	1,664

Rental income from operating leases recognised in profit or loss during the year is disclosed in Note 9.

35. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.17 million (2018: €0.27 million) not arising under contracts of insurance.

NOTES TO THE FINANCIAL STATEMENTS

36. 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:

	Group	
	2019	2018
	€'000	€'000
(a) Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commissions received	**2,927**	3,846
- Claims recovered	**5,055**	3,403
Transactions with related undertaking		
- Trailer fees received	**20**	21
- Sale of insurance contracts	**617**	1,616
- Dividends received and interest income	**3,109**	1,290
- Rental income on investment property	**243**	234
Transactions with associated undertaking		
- Sale of insurance contracts	**10**	26
- Dividends received	**47**	171
- Rental income on investment property	**38**	18
- Reimbursement of expenses for back office support services	**16**	14
(b) Purchases of products and services		
Transactions with parent undertaking		
- Reinsurance premium ceded	**15,297**	13,504
- Staff development training	**100**	46
- Computer maintenance and Group IT shared services	**1,394**	307
- Capitalisation of software development	**318**	1,136
Transactions with related undertaking		
- Acquisition cost payable	**4,159**	5,468
- IT hosting services	**6**	17
- Bank Charges	**208**	152
- Bank Interest	**173**	-
Transactions with associated undertaking		
- Roadside assistance membership and other call centre services	**2,237**	2,200

NOTES TO THE FINANCIAL STATEMENTS

36. RELATED PARTY TRANSACTIONS - CONTINUED

	Company	
	2019	2018
	€'000	€'000
(a) Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commissions received	**2,710**	3,633
- Claims recovered	**5,055**	3,403
Transactions with related undertaking		
- Sale of insurance contracts	**617**	1,616
- Dividends received and interest income	**84**	48
Transactions with subsidiary undertaking		
- Sale of insurance contracts	**179**	172
- Dividends received	**17,978**	6,673
- Rental income on investment property	**194**	156
- Rental income from sub-letting of shared premises	**34**	26
- Reimbursement of expenses for back office support services	**346**	217
Transactions with associated undertaking		
- Sale of insurance contracts	**10**	26
- Dividends received	**47**	171
- Rental income on investment property	**38**	18
- Reimbursement of expenses for back office support services	**16**	14
(b) Purchases of products and services		
Transactions with parent undertaking		
- Reinsurance premium ceded	**13,270**	11,801
- Staff development training	**79**	18
- Computer maintenance and Group IT shared services	**805**	68
- Capitalisation of software development	**318**	1,080
Transactions with related undertaking		
- Bank Charges	**161**	108
- Bank Interest	**90**	-
Transactions with subsidiaries		
- Reimbursement of expenses for back office support services	**221**	123
Transactions with associated undertaking		
- Roadside assistance membership and other call centre services	**2,237**	2,200

NOTES TO THE FINANCIAL STATEMENTS

36. RELATED PARTY TRANSACTIONS - CONTINUED

Key management personnel during 2019 and 2018 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 €2.97 million (Company: €1.43 million). Corresponding figures for 2018 were €2.74 million paid by the Group and €1.34 million paid by the Company.

Year-end balances arising from the above transactions:

	Group		Company	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Debtors arising out of direct insurance operations	**172**	37	**172**	37
Creditors arising out of direct insurance operations	**2,533**	1,656	**1,552**	1,046
Amounts owed by associated undertaking	**216**	126	**216**	126
Amounts owed to associated undertaking	**254**	265	**254**	265
Amounts owed by subsidiary undertaking	**-**	-	**228**	-
Amounts owed to subsidiary undertaking	**-**	-	**1,008**	927
Other receivables	**798**	506	**102**	100
Accruals	**636**	1,483	**530**	1,437
Reinsurers share of technical provisions	**26,378**	19,873	**26,378**	19,873
Investments with related parties	**195,967**	183,930	**655**	1,079
Cash and cash equivalents	**34,829**	22,439	**21,448**	14,736

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

37. SUBSEQUENT EVENTS AFTER REPORTING DATE

On February 6 2020, the subsidiary of MAPFRE MSV Life p.l.c., Growth Investments Limited, entered into a Transfer of Business Agreement with BOV Asset Management Ltd. and Bank of Valletta p.l.c., a related party, to transfer part of the portfolio for a consideration of €0.30 million. The remainder of the portfolio will be transferred to the MAPFRE MSV Life p.l.c..

Once the transfers are completed Growth Investments Limited will voluntarily surrender its investment services licence and, subject to regulatory approval, will be closed down. The MAPFRE MSV Life p.l.c. believes that this disposal and the closure of its only wholly-owned subsidiary, will further improve its capabilities in focusing on core insurance services incorporating insurance related savings, investments, unit-linked products and retirement solutions. The transfer is expected to be completed by June 2020.

38. STATUTORY INFORMATION

MAPFRE Middlesea p.l.c. is a public limited Company and is incorporated in Malta.

The Group is 54.56% owned by MAPFRE Internacional (the "immediate parent"), a Company registered in Spain, the registered office of which is situated at Carretera de Pozuelo 52, Majadahonda 28222, Madrid, Spain.

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

The Group's results are consolidated at MAPFRE S.A. level of which Fundación MAPFRE is the parent. MAPFRE S.A. is a Company the registered office of which is situated at Carretera de Pozuelo 52, Majadahonda 28222, Madrid, Spain.