# HSBC Life Assurance (Malta) Ltd

**Annual Report 2018**

HSBC
Insurance

## The HSBC Group

HSBC Life Assurance (Malta) Ltd. is a fully owned subsidiary of HSBC Bank Malta p.l.c. which is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network is spread across 66 countries and territories in Europe, Asia, North America, Latin America, and the Middle East and North Africa.

**HSBC Life Assurance (Malta) Ltd.**
*Registered in Malta:* C18814
*Registered Office and Head Office:*
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Malta
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# Contents

## For the Year Ended 31 December 2018

The directors present their report together with the audited financial statements of HSBC Life Assurance (Malta) Ltd ("the Company") for the year ended 31 December 2018.

## Board of directors

The directors of the Company who held office during the year were:

Andrew Beane (Chairman)
Philip Farrugia
Mary Grace Demicoli
Harpal Karlcut
Daniel Robinson
Ingrid Azzopardi
Stuart John Fairbairn
Eric Emoré (appointed on 19 July 2018)
Joyce Grech (appointed on 29 August 2018)
Rashid Daurov (resigned on 28 June 2018)

## Principal activities

The Company is authorised to carry on the business of insurance by the Malta Financial Services Authority (MFSA), regulated by the Insurance Business Act, (Chapter 403, Laws of Malta). The principal activity of the Company is to carry on long term business of insurance in and from Malta. The Company is also passported, under the Freedom of Services Legislation into several European countries and is also licensed to offer business of insurance in Jersey, Channel Islands.

## Business review

The Company reported a profit before tax of €3.7 million for 2018, which is €3.6 million lower than prior year.

Gross written premium for the year, was 19% lower than prior year. This was attributable to the With Profits single premium business, which was higher in 2017, but offered through a limited tranche of €5m in 2018 in order to limit the impact on the capital required to support the underlying guarantees. During the year gross written premium for protection business increased by 1% and that for Unit Linked business increased by 6%. A Unit Linked Employee Pension Plan was also launched to all HSBC Bank Malta employees in December 2018.

The non-linked investments generated a negative return of €2.5m. The loss is attributable to the negative performance of the international equity market especially in the last quarter of 2018 which wiped out the gains of the fixed income portion of the portfolio. During the year under review, the international equity market registered negative returns of 5% while the European Equity Market registered negative returns of 12%.

During the period, the Company has continued the diversification of its fixed interest assets in order to reduce the duration risk within the With Profits Fund. The diversification aims to facilitate a competitive bonus distribution in line with policyholders' expectations, whilst assuring prudent liability matching.

During the year under review, movements in the euro interest rate yield curve and inflation impacted the Company's financial results negatively by €0.2m, compared to a positive impact of €2.0m in the prior year. As a result of the with-profits smoothing reserves accumulated in previous years, the Company was able to maintain its philosophy of paying a terminal bonus to eligible policies which matured during the year.

The Company paid 1.25% reversionary bonus which was declared upfront in the beginning of the year. No top up bonus was declared for 2018. Furthermore, the Board declared a guaranteed bonus of 1.25% for 2019. This is payable to policyholders net of tax. In line with the bonus philosophy, this rate is based on conservative assumptions, with the difference to actual returns made up through the final terminal bonus. A discretionary top up bonus may be declared at the year end.

At 31 December 2018, total assets were recorded at €895.9 million, a reduction of €555.5 million from prior year's level. This reduction is largely the result of the portfolio transfer of a group of policies which formed part of the Wealth Insurance Italy portfolio acquired by the company in 2014, effected on 7 December 2018, totalling to €431.8m, as well as surrenders of policies in the remaining acquired portfolio.

At the end of 2018, the Company is adequately capitalised with an unaudited Solvency Ratio of 315%, being 215% higher than the Solvency Capital Requirement stipulated by the Solvency II regime.

## Future developments

The Company will continue to focus on growth within the core domestic market during 2019, leveraging on the current Maltese economic environment, pensions legislation and HSBC's financial planning and wealth management capabilities. The Company is committed to increase its focus on product innovation, including With Profits and Critical Illness policies to continue to meet customers' need for protection and long-term savings.

## Risks and uncertainties

The Company faces a variety of insurance, financial, operational and strategic risks which can impact the financial statements and capital position in a variety of ways. The impact on the financial statements of these risks emerging is assessed on a regular basis. An added uncertainty relates to the implications arising from the company's implementation of IFRS 17. This will create a fundamental change in the manner in which the financial statements are presented. The impact on measurement of liabilities and profit emergence are still being assessed.

The Company is a part of the wider HSBC Group and places a reliance on the immediate parent bank as the primary distributor of its products. The Company is regularly engaged with Retail Banking & Wealth Management within HSBC Bank Malta p.l.c., with regards to agreeing its Annual Operating Plan and monitoring sales performance. Deviations to plan are identified and a collaborative approach is taken to address shortfalls. Given new business sales are the key contributor to the Company's income this is a key risk to performance and is given high priority.

The current low interest rate environment also poses a challenge to the Company mainly due to the lack of high quality fixed interest instruments with adequate risk versus return ratios. Whilst this creates risk for the Company in not being able to make appropriate returns for both the shareholders and the customers, we actively engage with asset managers to seek alternative assets, whilst remaining within set risk appetite.

Further information with respect to insurance and financial risks is included in notes 5.1 and 5.2 to the financial statements.

## Dividends

In March 2018, the Company paid €6.0m in dividend to shareholders.

No final dividends are being recommended.

## Reserves

The directors propose that the balance of retained earnings amounting to €54.4 million is to be carried forward to the next financial year.

## Statement of directors' responsibilities

The directors are required by the Maltese Insurance Business Act, (Chapter 403, Laws of Malta) and the Maltese Companies Act, (Chapter 386, Laws of Malta) to prepare financial statements which give a true and fair view of the state of affairs of the Company at the end of each financial year and of the profit or loss for that year.

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 Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, (Chapter 386, Laws of Malta). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of HSBC Life Assurance (Malta) Ltd for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and is available on the 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.

Approved by the Board of Directors on 13 February 2019 and signed on its behalf by:

Andrew Beane, *Chairman*

Harpal Karlcut, *Non-executive Director*

**Registered Office**

80 Mill Street
Qormi QRM 3101
Malta

## *Report on the audit of the financial statements*

### *Our opinion*

In our opinion:

- HSBC Life Assurance (Malta) Ltd's financial statements give a true and fair view of the company's financial position as at 31 December 2018, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

**What we have audited**

HSBC Life Assurance (Malta) Ltd's financial statements, set out on pages 12 to 59, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of changes in equity for the year then ended;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

**Independence**

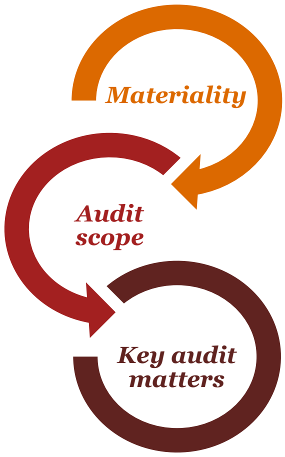
We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the company, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 11 to the financial statements.

## *Our audit approach*

**Overview**




- Overall materiality: €622,200, which represents 1% of gross premiums written.

- Measurement of life insurance contract liabilities and of the present value of in-force business (PVIF)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall materiality*** | €622,200 |
| ***How we determined it*** | 1% of gross premiums written |
| ***Rationale for the materiality benchmark applied*** | We chose gross premiums written as reflected in the statement of profit or loss as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the company, and is not as volatile as other profit and loss measures. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks. |
| We have applied a higher materiality of €2.8m solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities. | |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €62,220 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

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

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| *Measurement of life insurance contract liabilities and of the present value of in-force business (PVIF)*<br><br>Management's valuation of provisions for the settlement of future claims attributable to life insurance contracts, and the PVIF, involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these items. We focused on this area due to the materiality and subjectivity of the judgements made.<br><br>Economic assumptions (investment return and associated discount rates) and non-economic assumptions (mortality, lapse rates and expenses associated with servicing policies), including the respective margins applied, are the key inputs to which the carrying amounts of these long-term liabilities and intangible asset are highly sensitive. | Our audit procedures addressing the valuation of the company's life insurance contract liabilities and the PVIF included the following procedures using our actuarial specialist team members:<br>• we tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source;<br>• we applied our industry knowledge and experience in comparing the methodology, models and assumptions used to recognised actuarial practices; and<br>• we tested management's controls in respect of the valuation and assumption setting processes, and we assessed management's key judgements throughout the processes.<br>In respect of the assumptions underlying the measurement of the life insurance contract liabilities, we performed the following procedures using our actuarial specialist team members:<br>• we assessed the assumptions for investment mix and projected investment returns by reference to company-specific and market observable data (Euro Swap Curve);<br>• we considered the appropriateness of the mortality assumptions by reference to company and industry data on historical mortality experience and expectations of future mortality; and<br>• we tested the future expense assumption by understanding and challenging the basis on which expenses are allocated between new business and renewals and by reference to market observable data (inflation curve). |

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| Relevant references in the financial statements are:<br>• Significant accounting policies: Notes 3.1 and 3.8;<br>• Critical accounting judgements and estimates: Note 4;<br>• Note on intangible assets: Note 16; and<br>• Note on insurance liabilities: Note 19. | The following procedures addressing the assumptions underlying the valuation of the PVIF were performed, also through the involvement of our actuarial specialist team members:<br>• we leveraged the testing performed in relation to those assumptions that are aligned with the insurance contract liability valuation, reviewing the differences in margins applied between the two; and<br>• we considered the appropriateness of the lapse rate assumptions by reference to company data, considering the results of management's analysis of recent lapse experience.<br><br>In respect of all the assumptions referred to above, we have reviewed management's approach to setting the assumptions, assessed the assumptions' appropriateness based on internal and external data, and tested management's governance and controls over the assumption basis review.<br>We also reviewed the modelled results and manual adjustments, and we assessed the reasonableness of management's analysis of the changes in the carrying amounts.<br>Based on the results of our work we concluded that the data and assumptions used by management were reasonable. |

## *Other information*

The directors are responsible for the other information. The other information comprises Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

## *Responsibilities of the directors and those charged with governance for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's 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 or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

## *Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

## *Report on other legal and regulatory requirements*

### *Other matters on which we are required to report by exception*

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

### *Appointment*

We were first appointed as auditors of the Company on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

**PricewaterhouseCoopers**
78, Mill Street
Qormi
Malta

Romina Soler
Partner

13 February 2019

## Statements of Financial Position as at 31 December 2018

| | Note | 2018 €000 | 2017 €000 |
|---|---|---|---|
| **Assets** | | | |
| Property and equipment | *14* | **1** | 1 |
| Investment properties | *15* | **2,199** | 3,100 |
| Intangible assets | *16* | **53,305** | 59,488 |
| Financial investments: | *17* | | |
| – Equities | | **16,175** | 14,887 |
| – Debt securities | | **258,738** | 261,292 |
| – Collective investment schemes | | **49,107** | 42,728 |
| – Net assets held to cover linked liabilities | | **370,175** | 410,538 |
| Assets of disposal group classified as held for sale | *18* | **–** | 473,797 |
| Reinsurance assets | *19* | **85,205** | 85,887 |
| Current tax assets | | **379** | 128 |
| Insurance and other receivables | *20* | **3,851** | 4,803 |
| Cash at bank | *21* | **56,771** | 94,751 |
| **Total assets** | | **895,906** | 1,451,400 |
| **Liabilities** | | | |
| Insurance contract provisions: | *19* | | |
| – Claims outstanding | | **3,199** | 3,824 |
| – Non-linked business | | **407,040** | 432,201 |
| – Linked business | | **210,543** | 222,767 |
| Liabilities of disposal group classified as held for sale | *18* | **–** | 473,797 |
| Financial liabilities: | | | |
| – Investment contracts at fair value through profit or loss | *22* | **166,342** | 203,136 |
| Reinsurance payables | | **95** | 1 |
| Provision for liabilities and charges | *23* | **891** | 689 |
| Insurance payables, other payables and deferred income | *24* | **7,156** | 8,606 |
| Deferred tax liabilities | *25* | **18,308** | 20,766 |
| **Total liabilities** | | **813,574** | 1,365,787 |
| **Net assets** | | **82,332** | 85,613 |
| **Shareholders' equity** | | | |
| Share capital | *27.1* | **27,961** | 27,961 |
| Retained earnings | | **54,371** | 57,642 |
| Fair value reserve | *27.2* | **–** | 10 |
| **Total shareholders' equity** | | **82,332** | 85,613 |

The notes on pages 17 to 59 are an integral part of these financial statements.

The financial statements on pages 12 to 59 were approved and authorised for issue by the Board of Directors on 13 February 2019 and signed on its behalf by:

Andrew Beane, *Chairman*

Harpal Karlcut, *Non-executive Director*

## Statements of Changes in Equity for the year ended 31 December 2018

| | *Share capital* | *Retained earnings* | *Fair value reserve* | *Total equity* |
|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** |
| Balance at 1 January 2017 | 27,961 | 52,820 | 107 | 80,888 |
| **Comprehensive income for the year** | | | | |
| Profit for the year | – | 4,822 | – | 4,822 |
| Other comprehensive income | | | | |
| Net fair value movement on fair value through other comprehensive income financial assets, net of tax | – | – | (97) | (97) |
| **Total comprehensive income for the year** | – | 4,822 | (97) | 4,725 |
| **Balance at 31 December 2017** | 27,961 | 57,642 | 10 | 85,613 |
| Balance at 1 January 2018 | **27,961** | **57,642** | **10** | **85,613** |
| **Comprehensive income for the year** | | | | |
| Profit for the year | **–** | **2,729** | **–** | **2,729** |
| Other comprehensive income | | | | |
| Net fair value movement on fair value through other comprehensive income financial assets, net of tax | **–** | **–** | **(10)** | **(10)** |
| **Total comprehensive income for the year** | **–** | **2,729** | **(10)** | **2,719** |
| **Transactions with owners, recorded directly in equity** | | | | |
| Dividends (note 28.3) | **–** | **(6,000)** | **–** | **(6,000)** |
| Net distributions to owners | **–** | **(6,000)** | **–** | **(6,000)** |
| **Balance at 31 December 2018** | **27,961** | **54,371** | **–** | **82,332** |

The notes on pages 17 to 59 are an integral part of these financial statements.

## Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

| | Note | 2018 €000 | 2017 €000 |
|---|---|---|---|
| **Technical Statement** | | | |
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 6 | **62,224** | 76,984 |
| Outward reinsurance premiums | 6 | **(3,724)** | (3,482) |
| Net premiums written | | **58,500** | 73,502 |
| Investment contracts fee income | 7 | **1,892** | 2,375 |
| Investment (loss)/income | 8 | **(60,022)** | 28,581 |
| | | **370** | 104,458 |
| **Claims incurred and benefits accrued, net of reinsurance** | | | |
| Claims paid: | | | |
| – Gross amount | | **(81,701)** | (64,180) |
| – Reinsurers' share | | **20,365** | 2,267 |
| | | **(61,336)** | (61,913) |
| Change in provisions for claims: | | | |
| – Gross amount | 19.3 | **625** | (300) |
| – Reinsurers' share | 19.4 | **(666)** | 477 |
| | | **(41)** | 177 |
| **Change in technical provisions, net of reinsurance** | | | |
| Long term business: | | | |
| – Gross amount | 19.3 | **28,545** | 9,462 |
| – Reinsurers' share | 19.4 | **(182)** | 304 |
| | | **28,363** | 9,766 |
| Movement in technical provisions for linked insurance contracts | 19.3 | **12,224** | (17,627) |
| | | **40,587** | (7,861) |
| Bonuses and rebates, net of reinsurance | 19.3 | **(3,384)** | (4,766) |
| **Balance carried forward** | | **(23,804)** | 30,095 |
| **Balance brought forward** | | **(23,804)** | 30,095 |
| Investment contract benefits | 9, 22, 18.3 | **39,727** | (13,290) |
| Change in present value of in-force business | 16 | **(5,773)** | (1,674) |
| Acquisition costs | 10 | **(1,693)** | (1,912) |
| Administrative expenses | 11 | **(5,857)** | (7,086) |
| Net investment management charges | | **(15)** | (12) |
| **Balance on the Technical Statement** | | **2,585** | 6,121 |

The notes on pages 17 to 59 are an integral part of these financial statements.

# Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018 (continued)

| | Note | 2018 €000 | 2017 €000 |
|---|---|---|---|
| **Non-Technical Statement** | | | |
| Balance on the Technical Statement | | **2,585** | 6,121 |
| Investment income | *8* | **372** | 332 |
| Investment management charges | | **(2)** | (4) |
| Administrative expenses | | **(635)** | (390) |
| Commission receivable | | **1,403** | 1,272 |
| **Profit before tax** | | **3,723** | 7,331 |
| Tax expense | *13* | **(994)** | (2,509) |
| **Profit for the year** | | **2,729** | 4,822 |
| **Other comprehensive income** – items that may be reclassified to profit or loss | | | |
| Net fair value movement on available-for-sale financial assets: | | | |
| – Policyholders' investment portfolio | | **–** | (78) |
| – Shareholder's investment portfolio | | **(15)** | (72) |
| – Income tax on other comprehensive income | | **5** | 53 |
| **Other comprehensive income** | | **(10)** | (97) |
| **Total comprehensive income** | | **2,719** | 4,725 |

The notes on pages 17 to 59 are an integral part of these financial statements.

## Statements of Cash Flows for the year ended 31 December 2018

| | Note | 2018<br>€000 | 2017<br>€000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Insurance premiums received | | **63,251** | 76,705 |
| Reinsurance premiums paid | | **(3,795)** | (3,448) |
| Fees and commissions received | | **3,294** | 3,637 |
| Interest received | | **17,998** | 26,674 |
| Dividends received | | **3,182** | 4,391 |
| Rental Income from investment property received | | **–** | 45 |
| Claims and benefits paid as adjusted for movements in claims payable | | **(83,293)** | (63,303) |
| Reinsurance claims received | | **20,365** | 2,267 |
| Investment contract receipts | | **43,677** | 6,203 |
| Investment contract benefits paid | | **(57,594)** | (222,713) |
| Payments to employees and suppliers | | **(7,406)** | (6,867) |
| Policyholders' investments portfolio: | | | |
| – Acquisition of investments | | **(327,051)** | (426,319) |
| – Proceeds from sale of investments | | **303,237** | 599,636 |
| – Cash balances released on portfolio transfer | *29* | **(43,423)** | – |
| Tax paid | | **(3,697)** | (6,148) |
| **Net cash used in operating activities** | | **(71,256)** | (9,240) |
| **Cash flows from investing activities** | | | |
| Interest received | | **1,585** | 1,518 |
| Acquisition of intangible assets | | **(174)** | (116) |
| Shareholder's investments portfolio: | | | |
| – Acquisition of investments | | **(8,696)** | (5,319) |
| – Proceeds from sale of investments | | **6,076** | 5,944 |
| Acquisition of investment property | | **–** | (26) |
| Disposal of investment property | | **1,300** | – |
| **Net cash from investing activities** | | **91** | 2,001 |
| **Cash flows from financing activities** | | | |
| Dividends paid | *28.3* | **(6,000)** | – |
| **Cash used in financing activities** | | **(6,000)** | – |
| **Net decrease in cash and cash equivalents** | | **(77,165)** | (7,239) |
| Cash and cash equivalents at 1 January | | **133,936** | 141,175 |
| **Cash and cash equivalents at 31 December** | *21* | **56,771** | 133,936 |

The notes on pages 17 to 59 are an integral part of these financial statements.

## 1 Reporting entity

HSBC Life Assurance (Malta) Ltd ("the Company") is a limited liability Company domiciled and incorporated in Malta.

## 2 Basis of preparation

### 2.1 *Statement of compliance*

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. All references in these financial statements to IAS, IFRSs or SIC/IFRIC interpretations refer to those adopted by the EU. They have also been drawn up in accordance with the provisions of the Companies Act, (Chapter 386, Laws of Malta).

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

### 2.2 *Basis of measurement*

Assets and liabilities are measured at historical cost except for the value of in-force long-term assurance business within intangible assets which is measured at present value, and the following which are measured at fair value:

– derivative financial instruments;

– financial instruments at fair value through profit or loss;

– financial instruments at fair value through other comprehensive income; and

– investment property.

### 2.3 *Functional and presentation currency*

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

### 2.4 *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any further periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 4.

### 2.5 *Standards, interpretations and amendments to published standards effective in 2018*

In 2018, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies and financial statements.

## 2 Basis of preparation *(continued)*

### *2.5 Standards, interpretations and amendments to published standards effective in 2018 (continued)*

The Company has applied the following standards for the first time for the annual reporting period commencing 1 January 2018:

*IFRS 9 Financial Instruments*

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities and replaces the multiple classification and measurement models in IAS 39. IFRS 9 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. There is now a new expected credit losses model that replaces the incurred loss impairment model. 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.

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. As a result of the assessment, financial assets previously designated at fair value through profit and loss remain at fair value through profit and loss, because the designation remains effective. Other financial assets, mainly cash and cash equivalents and receivables which are held for collection remain measured at amortised cost. As expected, the adoption has resulted in an insignificant expected credit loss allowance on 1 January 2018 and this remained immaterial through 2018. IFRS 9 was adopted without restating comparative information.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

There was no material impact to the financial statement on adoption of IFRS 15.

### *2.6 New standards, interpretations and amendments to published standards not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. The Company is considering the implications of the below standard on the Company's financial results and position, and the timing of its adoption, taking cognisance of the endorsement process by the European Commission.

IFRS 17 'Insurance Contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The Company is in the process of implementing IFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to it, therefore the likely impact of its implementation remains uncertain.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1 *Insurance and investment contracts*

#### 3.1.1 *Classification*

The Company issues contracts that transfer insurance risk and/or financial risk.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines significant insurance risk as 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. Also refer to note 3.1.2.

A number of insurance contracts contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional 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 Company; and
- that are contractually based on investment returns on a specified pool of assets held by the Company.

Board policy and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the amount and timing of their payment to contract holders. At least 90% of the eligible investment return must be attributed to contract holders as a group while the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Approved Actuary.

*Long-term insurance contracts with fixed and guaranteed term*

These contracts insure events associated with human life (for example death or survival) over a long duration. 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.

Death benefits are recorded as an expense when they are incurred.

#### 3.1.2 *Recognition and measurement of contracts*

A liability for contract benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined by a discounted cash flow approach incorporating margins for adverse deviations in the assumptions. The liability is based on assumptions as to mortality, maintenance expenses and investment income.

The liabilities are recalculated by the Company at each reporting date using the assumptions established at the measurement date.

*Creditor insurance contracts*

For the creditor protection business (in run-off since December 2009), premiums are earned or deferred depending on the period of risk that the premiums relate to. Earned premiums are premiums whose risk relates to the accounting period and are recorded as revenue. Unearned premiums are premiums relating to periods of risk subsequent to the accounting period. Premiums are shown before commission.

Claims incurred comprise the settlement of claims paid, including handling costs, and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions. All claims are recorded on the basis of notifications received up to the reporting date.

## 3 Significant accounting policies *(continued)*

### *3.1 Insurance and investment contracts (continued)*

#### *3.1.2 Recognition and measurement of contracts (continued)*

*Long-term insurance contracts with DPF and unit-linked insurance contracts*

These contracts insure human life events (for example death or survival) over a long duration. Premiums are accounted for on a receivable basis, except for premiums relating to linked contracts which are accounted for in the period in which the corresponding liability is established. In this case, insurance premiums are recognised in profit or loss and simultaneously within liabilities. These liabilities are increased by credited interest (in the case of savings with-profit) and change in unit prices (in the case of unit-linked contracts) and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. These liabilities are the contract holders' account balances.

Savings with-profit contracts contain a DPF that entitles the holders to a credit of bonus declared by the Company from the DPF investment income (i.e. all interest and, realised and unrealised gains and losses arising from assets backing these contracts) accumulated to date. The Company has an obligation to eventually pay to contract holders up to 90% of the DPF eligible investment return. Any portion of this investment return that is not declared as a bonus and credited to the individual contract holders is reserved as a liability for the benefit of all contract holders until declared and credited to them individually in future periods. For contracts with DPF or unit-linked business a further non-unit liability is recorded in respect of any additional mortality and expense risks. This liability is calculated using the same method for contracts with fixed and guaranteed term.

*Reinsurance*

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

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Reinsurance commission is recognised as it is received unless the amounts receivable can be reliably measured.

Outward reinsurance premiums are accounted for in profit or loss on an accruals basis. For reinsurance of the creditor protection business (in run-off since December 2009), reinsurance premiums are accounted for and earned in the same manner as the relative premiums, with the un-expensed portion of ceded reinsurance premiums included in reinsurers' share of technical provisions. Reinsurance assets for this run-off portfolio also include recoveries due from reinsurance companies in respect of claims incurred.

Premiums ceded and benefits reimbursed are presented in the primary statements on a gross basis other than for creditor protection business which is fully reinsured. The company is only exposed to credit risk in this respect, and assets and liabilities are therefore not set off.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist principally of longer term receivables (classified as reinsurance assets) that are dependent on 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 Company assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost stipulated in IAS 39. The impairment loss is calculated using an incurred loss approach since these assets are within the scope of IFRS 4 and not IFRS 9. These processes are described in note 3.10.3.

## 3 **Significant accounting policies** *(continued)*

### *3.1 Insurance and investment contracts (continued)*

#### *3.1.2 Recognition and measurement of contracts (continued)*

*Liability adequacy test*

Contract liabilities are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss for the year.

*Investment contracts*

Amounts collected on investment contracts are accounted for using deposit accounting, under which the amounts collected are credited directly to the Statement of Financial Position as an adjustment to the liability to the policyholder.

Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, (also known as unit-linked investment contracts) and are designated at fair value through profit or loss from inception.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (that is, the fair value received).

The Company’s main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. For the traditional unit-linked business, the fair value of financial liabilities for investment contracts is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Company’s unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the end of the reporting period by the unit value for the same date. For a portion of the 2014 acquired business, the fair value of the financial liabilities for investment contracts is determined using the current net asset values of the policies’ underlying assets.

When the investment contract has an embedded surrender option, the fair value of the financial liability is never less than the amount payable on surrender.

Some investment contracts issued include the provision of investment management services. These services are accounted for in accordance with IFRS 15, 'Revenue from Contracts with Customers', where the revenue associated with the service component is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. This is achieved by reference to the stage of completion of the transaction and deferring revenue over the duration of the investment contract (note 3.2.2).

The incremental costs directly related to the acquisition of new investment contracts are capitalised and amortised over the period of the provision of the investment management services.

*Receivables and payables related to insurance contracts and investment contracts*

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders which primarily comprise insurance receivables. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that insurance receivables are impaired using the same process adopted for reinsurance assets. The impairment loss is calculated under the same method as described in note 3.10.3 since premium receivables arise from insurance contracts and fall within the scope of IFRS 4 and not IFRS 9.

## 3 Significant accounting policies *(continued)*

### *3.2 Revenue*

#### *3.2.1 Insurance and investment contracts*

The accounting policy in relation to revenue from insurance and investment contracts is disclosed in note 3.1.

#### *3.2.2 Fees and commission income*

Fees and commission income includes fees on investment management services contracts and are recognised in profit or loss as the services are provided. Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

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

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds.

Fees, commission and customer charges other than front end fees vary depending on the net asset value of the assets and the fair value of the customer's underlying assets respectively. The income is calculated periodically as a percentage of these amounts and cannot be clawed back. These fees are therefore recognised in profit or loss when the fees are earned from investment managers or charged to customers respectively.

Surrender charges and policy administration charges are recognised in profit or loss when the service is provided.

#### *3.2.3 Investment income*

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established which, in the case of quoted securities is usually the ex-dividend date.

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

Policyholders' fund financial income and expenses are accounted for through the Technical Statement, while shareholders' fund financial income and expenses are accounted for through the non-Technical Statement of Profit or Loss and Other Comprehensive Income.

#### *3.2.4 Net income from other financial instruments at fair value*

Net income from other financial instruments at fair value relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedge relationship and financial assets and liabilities designated at fair value through profit or loss. Net income includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

### *3.3 Employee benefits*

#### *3.3.1 Defined contribution plan*

The Company contributes towards the State pension defined contribution plan in accordance with local legislation, and to which, it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as employee benefit expense in profit or loss in the periods during which services are rendered by employees.

#### *3.3.2 Share based payment transactions*

The company enters into equity-settled share-based payment arrangements with its employees as compensation for services provided by employees.

## 3 **Significant accounting policies** *(continued)*

### *3.3 Employee benefits (continued)*

#### *3.3.2 Share based payment transactions (continued)*

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to retained earnings.

Fair value is determined by using appropriate valuation models. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions.

Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of the award at the date of the award. Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction.

### *3.4 Tax*

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax related to fair value re-measurement of financial instruments at fair value through other comprehensive income, which are charged or credited directly in other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently recognised in the profit or loss together with the deferred gain or loss.

### *3.5 Foreign currency transactions*

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign currency gains and losses arising on retranslation are recognised in profit or loss.

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 financial instruments measured at fair value through other comprehensive income are included in 'Other comprehensive income'.

## 3 Significant accounting policies *(continued)*

*3.6 Property and equipment*

*3.6.1 Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment.

The gain or loss on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expense in profit or loss.

*3.6.2 Subsequent costs*

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

*3.6.3 Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

| | | |
|---|---|---|
| – office furniture | 10 | years |
| – office equipment | 4 | years |
| – computer equipment | 3 | years |
| – telecommunication equipment | 5 | years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

*3.7 Investment properties*

Property held for long-term rental yields and/or capital appreciation that is not occupied by the Company is classified as investment property.

Investment property comprises land and buildings and is measured at cost on initial recognition and subsequently at fair value with any changes therein recognised in profit or loss. 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 the information is not available the Company uses alternative valuation methods such as the income method, whereby future earnings from the property are capitalised or discounted to present value at an appropriate discount rate which reflects the rate of return a buyer would require to purchase the property. These valuations are reviewed annually by a valuation expert.

Changes in fair values are reported in the profit or loss account.

## 3 Significant accounting policies *(continued)*

### 3.8 *Intangible assets*

#### 3.8.1 *Present value of in-force ('PVIF') long-term assurance business*

A prudent valuation of future earnings expected to emerge from life assurance business currently in-force is determined annually by the directors. The value of in-force business is based on the advice of the Company's Approved Actuary. The valuation represents the discounted value of projected future transfers to shareholders from life assurance business currently in-force, after adjusting for the effective rate of taxation. In determining this valuation, assumptions relating to the future mortality, persistency and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed are based on the market risk free rates which the directors derive from the Euro Swap Curve.

Annual movements in the value of in-force business are recognised in the profit or loss.

#### 3.8.2 *Deferred acquisition costs*

Incremental costs that are incurred in acquiring investment management contracts and creditor protection business are deferred and amortised as the related revenue is recognised. All deferred acquisition costs are reviewed regularly to determine if they are recoverable from future cash flows on the associated contracts.

Deferred acquisition costs that are not deemed to be recoverable are charged to profit or loss. The test for recoverability is performed at a portfolio level, on portfolios of relatively homogeneous contracts. Deferred acquisition costs are amortised in profit or loss on a straight line basis over the estimated useful life of the contract.

#### 3.8.3 *Computer software*

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is based on the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life for the current and comparative periods of computer software is three years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3.9 *Financial instruments*

#### 3.9.1 *Non-derivative financial instruments*

Non-derivative financial instruments are recognised initially at fair value and adjusted for any directly attributable costs. Subsequent to initial recognition, financial instruments are measured as described below.

#### 3.9.2 *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and deposits with contractual maturity of less than three months. Subsequent to initial recognition cash equivalents are measured at amortised cost.

In terms of IFRS 9, assets are measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI).

IFRS 9 introduces an new expected credit loss (ECL) impairment model (note 3.10).

## 3 Significant accounting policies *(continued)*

### *3.9 Financial instruments (continued)*

#### *3.9.3 Financial instruments at fair value through profit or loss*

The Company classifies its investments based on each portfolio's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolios of financial assets are managed and performance is evaluated on a fair value basis. The Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Company has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, all investments are mandatorily measured at fair value through profit or loss. In the comparative period, most of the company's financial assets were subsequently measured at fair value due to fair value through profit and loss designation at initial recognition.

##### *3.9.3.1 Recognition and valuation of financial instruments*

Regular purchases and sales of investments are recognised on trade date – the date on which the company commits to purchase or sell the investment. All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Company recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in profit or loss over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the Company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the Company measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRSs offsetting criteria.

The best evidence of fair value is a quoted price in an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable inputs, they rely to a greater extent on management judgement and the fair value derived becomes less reliable. In the absence of observable valuation inputs, due to lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

## 3 Significant accounting policies *(continued)*

### *3.9 Financial instruments (continued)*

#### *3.9.3 Financial instruments at fair value through profit or loss (continued)*

##### *3.9.3.1 Recognition and valuation of financial instruments (continued)*

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

##### *3.9.3.2 Control framework*

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the reporting date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and, where possible, (iv) model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

##### *3.9.3.3 Determination of fair value*

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price. In the event that the market for a financial instrument is not active, a valuation technique is used.

## 3 Significant accounting policies *(continued)*

### *3.9 Financial instruments (continued)*

#### *3.9.3 Financial instruments at fair value through profit or loss (continued)*

##### *3.9.3.3 Determination of fair value (continued)*

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process. Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

##### *3.9.3.4 Valuation techniques*

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). All fair value adjustments are included within the levelling determination.

Changes in fair value are generally subject to a profit and loss analysis process. This process disaggregates changes in fair value into two high level categories; (i) portfolio changes, such as new transactions or maturing transactions, (ii) market movements, such as changes in foreign exchange rates or equity prices.

##### *3.9.3.5 Basis of valuing assets and liabilities measured at fair value*

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The fair value of investments in other funds that are not quoted in an active market is determined primarily by reference to the latest available redemption price of such units of each investment fund, as determined by the administrator of such fund. The company may make adjustments to the reporting net asset value of various investment funds based on considerations such as:

- Liquidity of the investment fund or its underlying funds;
- The value date of the net asset value provided;
- Any restrictions on redemptions; and
- The basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the investee fund's advisors.

## 3 **Significant accounting policies** *(continued)*

### *3.9 Financial instruments (continued)*

#### *3.9.4 Financial Instruments at Fair Value through Other Comprehensive Income/Available for Sale*

In 2018, financial assets at fair value through other comprehensive income (FVOCI) comprise debt securities where the contractual cash flows are solely principal and interest and the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gain or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. On disposal of these debt securities, any related balance within the FVOCI reserve is reclassified to profit or loss. The Company no longer holds assets in this category.

Given that the company did not adopt IFRS 9 retrospectively, in 2017 available-for-sale (AFS) securities were initially measured at fair value plus direct and incremental transaction costs. They were subsequently re-measured at fair value, and changes therein were recognised in other comprehensive income and presented in the fair value reserve in equity, until the securities were sold or impaired. When available-for-sale securities were sold, cumulative gains or losses previously recognised in equity were recognised in profit or loss.

#### *3.9.5 Financial instruments measured at amortised cost*

Other financial instruments are subsequently measured at amortised cost using the effective interest method. These mainly comprise of cash and cash equivalents and receivables.

#### *3.9.6 Derivative financial instruments*

Derivatives are initially recognised and subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Notes 17 and 18 contain further information in this respect.

#### *3.9.7 Derecognition of financial assets and liabilities*

Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Company has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

#### *3.9.8 Offsetting of financial assets and liabilities*

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### *3.10 Impairment*

#### *3.10.1 Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed for impairment at initial recognition. At this stage an impairment allowance is required for expected credit losses resulting from default events that are possible within the next twelve months.

The general principle of IFRS 9's expected credit loss accounting requires that the credit risk of financial instruments within the scope of impairment is to be assessed for significant increase since initial recognition at each balance sheet date. The principle of significant increase in credit risk can be achieved by performing an assessment to compare the risk of default occurring at the reporting date with the risk of default occurring at the date of initial recognition.

## 3 Significant accounting policies *(continued)*

### *3.10 Impairment (continued)*

#### *3.10.1 Non-derivative financial assets (continued)*

The assessment of credit risk and the estimation of expected credit loss, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss takes into account the time value of money.

In 2018, in terms of IAS 39, the company assessed assets not carried at fair value through profit and loss for impairment using an incurred loss approach. This approach is described in note 3.10.3.

#### *3.10.2 Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets and investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *3.10.3 Reinsurance assets*

Impairment on reinsurance assets fall within the scope of IFRS 4 and not IFRS 9, and hence it is calculated using an incurred loss approach as described below.

Reinsurance assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A reinsurance asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that reinsurance assets are impaired can include default or delinquency by a reinsurer and restructuring of an amount due to the Company on terms that the Company would not consider otherwise and indications that a reinsurer will enter bankruptcy.

The Company considers evidence of impairment for reinsurance assets at a specific asset level. All individually significant receivables are assessed for specific impairment.

An impairment loss in respect of a reinsurance asset is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against reinsurance assets. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### *3.11 Provision for liabilities and charges*

A provision for contingent liabilities and charges is recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

### *3.12 Assets and liabilities forming part of a disposal group*

In 2017, assets and liabilities forming part of a disposal group were classified as held for sale given that their carrying amounts were to be recovered principally through sale rather than through continuing use. Held for sale assets are generally measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current Assets Held for sale and Discontinued Operations', such as those measured in accordance with IAS39 (which was still applicable in 2017).

## 3 Significant accounting policies *(continued)*

### *3.12 Assets and liabilities forming part of a disposal group (continued)*

Immediately before the initial classification as assets held for sale, the carrying amounts of the relevant assets and liabilities are measured in accordance with applicable IFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, but are included in a disposal group classified as held for sale, are remeasured under applicable IFRSs before the fair value less costs to sell of the disposal group is determined. The company no longer holds such assets and liabilities (note 18).

### *3.13 Share capital*

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

### *3.14 Borrowings*

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

### *3.15 Dividend distribution*

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 4 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are frequently re-evaluated and based on product assessment of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### *4.1 Policyholder claims and benefits*

The estimation of future benefit payments and premiums arising from long-term insurance contracts is the Company's most critical accounting estimate. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on industry standard mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. The estimated number of deaths determines the value of future benefit payments. The main source of uncertainty is that epidemics such as AIDS, SARS, pandemic flu, swine flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. New estimates are made each subsequent year to reflect the current long term outlook.

Estimates are also made as to future investment income arising from the assets backing long-term insurance. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rate assumptions for the purposes of valuing liabilities at reporting date are based on the Euro Swap Rates Curve.

Appropriate margins were taken for bond portfolio and equities/property portfolio. If the average future investment returns differ by +/-1% from management's estimates, the insurance liability would decrease by €15,135,000 (2017: €16,670,000) or increase by €21,638,000 (2017: €21,838,000). In this case there is no relief arising from reinsurance contracts held.

If the number of deaths in future years differ by +/-10% from management's estimate, the liability would increase by €1,241,000 (2017: €1,153,000) or decrease by €1,360,000 (2017: €1,248,000). These impacts are calculated before considering changes to other assets and liabilities which may offset the gross impacts of these changes.

Further information is disclosed within notes 5.1 and 19.

## 4 Critical accounting estimates and judgements *(continued)*

### *4.2 Present value of in-force long-term assurance business (PVIF)*

The PVIF measures the shareholder's share of the future profits that are expected to be earned in future years attributable to the long-term life insurance business in force at the valuation date. Policies classified as investment contracts are excluded. The approach is to take a present value of the expected future shareholder cash flows, discounted using the risk discount rate.

The risk free rate of return used within the valuation is the Euro Swap Rate Curve as at 31 December 2018 (2017: same approach). The risk discount rate is based on the risk free curve with an additional 0.5% margin (2017: 0.5% margin) to allow for operational risk. The PVIF valuation assumes lapse rates varying by product and duration in-force that range from 0% to 18.7% p.a. (2017: from 0% to 18.7% p.a.). Expense inflation is calculated as a blend of wage inflation and price inflation, with the latter based on an adjusted French inflation curve. This results in a term dependent expense inflation assumption increasing from 1.4% p.a. to 2.6% p.a. (2017: 2.0% p.a. to 2.7% p.a.).

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The following table shows the increase/(decrease) on the PVIF of reasonably possible changes in the main assumptions across the insurance business:

| | | *PVIF Impact* | |
|---|---|---|---|
| | | **2018** | 2017 |
| **Assumptions** | **Movement** | **€000** | €000 |
| Risk free rate | +100 basis points | **(587)** | (1,440) |
| Risk free rate | -100 basis points | **4,529** | 3,845 |
| Expenses | +10% | **(1,241)** | (1,168) |
| Expenses | -10% | **1,318** | 1,231 |
| Lapse rate | +100 basis points | **2,111** | 1,490 |
| Lapse rate | -100 basis points | **(3,043)** | (2,259) |

Assumptions are reviewed annually by the Company's Board of Directors.

## 5 Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages these contracts.

### *5.1 Insurance risk*

The risk under any 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 random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year and 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. The Company uses reinsurance appropriately to reduce 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. For contracts with DPF, the participating nature of these contracts result in a significant portion of the insurance risk being shared with the insured party.

## 5 Management of insurance and financial risk *(continued)*

### 5.1 *Insurance risk (continued)*

*Frequency and severity of claims*

For contracts where death or morbidity 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 Company. 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 the policy. Investment contracts with DPF carry negligible insurance risk.

The Company manages its insurance risk through strict underwriting limits and claims management; approval procedures for new products and pricing reviews; close monitoring of reinsurance arrangements and monitoring of emerging issues.

The Company's underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Company balances death risk across its portfolio. Medical selection is also included in the Company's underwriting procedures, with premium varied to reflect the health condition and family medical history of the applicants.

*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 behavior. The Company uses appropriate base tables of standard mortality according to the type of contract being written. The Company does not take credit for future lapses in determining the liability of long term contracts. Further details on the process for estimation and other key assumptions, is provided in note 19.2 to these financial statements.

The following table provides an analysis of the insurance risk exposures by type of business on a gross of reinsurance basis:

| | **2018** | 2017 |
|---|---|---|
| | **€000** | €000 |
| Life insurance (non-linked) | | |
| Insurance contracts with discretionary participation feature | **292,495** | 318,296 |
| Term assurance and other long-term contracts | **116,988** | 117,239 |
| Total non-linked | **409,483** | 435,535 |
| Life insurance (linked) | **211,299** | 223,257 |
| **Liabilities under insurance contracts** | **620,782** | 658,792 |

### 5.2 *Financial risk*

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

For unit-linked insurance and investment contracts, the Company matches all the liabilities on which the unit prices are based with assets in the unit-linked portfolios. There is therefore no direct equity price, currency, credit or interest risk exposure for these contracts which is borne by the Company.

## 5 Management of insurance and financial risk *(continued)*

### 5.2 *Financial risk (continued)*

#### 5.2.1 *General nature of participation feature*

The Company offers savings with-profit policies which participate in the investment returns of the with-profit funds. Up to 90% of the eligible investment return is attributed to the contract holders. Policyholders receive regular (reversionary) bonus. A regular bonus rate is declared yearly in advance. This rate may be reviewed upwards during the course of the year based on the performance of the fund. This provides a progressive build-up of guaranteed benefits over the lifetime of the policy. Regular bonuses are set by the Board of Directors on the recommendation of the Approved Actuary. The Company is exposed to adverse market conditions which could lead to the value of assets backing the liabilities to fall below the guaranteed benefit at policy maturity, which could lead to a potential loss to the shareholders.

#### 5.2.2 *Market risk*

Market risk can be described as the risk of change in cash flows or fair value of a financial instrument due to changes in interest rates, exchange rates or equity prices.

*Interest rate risk*

The Company's exposure to interest rate changes is concentrated in its non-linked investment portfolio. Changes in investment values attributable to interest rate changes are mitigated by partially offsetting changes in the economic value of insurance provisions. The Company monitors this exposure through periodic reviews of its asset and liability positions. Estimates of future cash flows, as well as the impact of interest rate fluctuations on its investment portfolio and insurance liabilities, are modelled and reviewed quarterly. The Company minimises interest rate risks primarily by matching estimated future cash outflows to be paid to policyholders by expected cash flows from assets. The pool of investments backing liabilities is managed to duration targets that aim to make the net effect of interest rate changes on assets and liabilities manageable.

*Exchange risk*

The Company is exposed to currency risk on the shareholder's investment portfolio and to 10% of the investments backing contracts with DPF. The net exposure for the Company amounts to €4,208,500 (2017: €4,761,000) and a sensitivity analysis is not deemed necessary on the basis of significance.

*Equity price risk*

The Company manages the equity risk arising from its holdings of equity securities by setting limits on the maximum market value of equities that it holds. Equity risk is also monitored by estimating the effect of predetermined movements in equity prices on the profit and total net assets of the insurance underwriting business.

*Sensitivity analysis*

The Company performs various sensitivity analyses as summarised below. An immediate and permanent movement in interest yield curves or equity prices at the reporting date would have the following impact on the profit for the year and net assets at that date:

| | *Impact on profits and net assets for the year* | |
|---|---|---|
| | **2018** | 2017 |
| | **€000** | €000 |
| +100 basis points shift in yield curves | **895** | 195 |
| -100 basis points shift in yield curves | **(1,314)** | (1,030) |
| +10 per cent increase in equity prices | **712** | 902 |
| -10 per cent decrease in equity prices | **(721)** | (1,081) |

The impact of the above sensitivity analysis on other comprehensive income for 2017 was negligible in light of the amount of financial investments at fair value through other comprehensive income held.

## 5 Management of insurance and financial risk *(continued)*

### *5.2 Financial risk (continued)*

#### *5.2.3 Credit risk*

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

– reinsurers' share of insurance liabilities;

– amounts due from reinsurers in respect of claims already paid;

– investment portfolios of debt securities;

– insurance and other receivables; and

– call deposits.

Investments in bonds are made within the credit limits permitted within the investment credit risk mandate conferred by HSBC Group.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to investment grade single counterparty, or groups of counterparties, and to geographical and industry segments. Investment credit exposures positions are reviewed on a quarterly basis by the Company's Asset Liability Committee.

The selection of reinsurers also includes restrictions designed to minimise the risk of credit exposure.

The Company currently manages the majority of reinsurance risk by using reinsurers with a minimum rating of AA-. The creditworthiness of reinsurers is confirmed from public rating information and considered as a part of any tender activity prior to finalisation of any contract for new business.

Insurance and other receivables amount to €3,851,000 (2017: €4,803,000). This balance includes accrued interest amounting to €3,264,000 (2017: €3,947,000) which would follow a similar rating profile to debt securities below.

Cash and cash equivalents held with third party banks amount to €2,025,000 (2017: €42,975,000) and the counterparties are rated A- and above. The remaining cash at bank comprises amounts held with the immediate parent Company, HSBC Bank Malta p.l.c., and other related parties. As from 2018, in line with IFRS 9, the company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2018 cash deposits are held with reputable counter parties and are due on demand. Management consider the probability of default to be close to zero as the counter parties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the company.

The following table presents the analysis of debt securities by rating agency (Standard and Poor's Rating Agency):

**Financial Investments**

| | *Debt securities – Unit-linked* | | *Debt securities – Others* | | *Total* | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **€000** | €000 | **€000** | €000 | **€000** | €000 |
| AAA | **–** | – | **10,218** | 10,418 | **10,218** | 10,418 |
| AA+ to AA- | **–** | – | **43,204** | 58,456 | **43,204** | 58,456 |
| A+ to A- | **–** | – | **151,906** | 135,808 | **151,906** | 135,808 |
| BBB+ to BBB- | **193** | 402 | **41,723** | 42,674 | **41,916** | 43,076 |
| BB+ to B- | **679** | 1,190 | **1,594** | 1,721 | **2,273** | 2,911 |
| Lower than B- | **–** | 158 | **–** | – | **–** | 158 |
| Unrated | **1,047** | 790 | **10,093** | 12,215 | **11,140** | 13,005 |
| Total | **1,919** | 2,540 | **258,738** | 261,292 | **260,657** | 263,832 |

**Assets held for sale**

| | *Debt securities – Unit-linked* | |
|---|---|---|
| | **2018** | 2017 |
| | **€000** | €000 |
| AAA | **–** | 9,382 |
| AA+ to AA- | **–** | 5,646 |
| A+ to A- | **–** | 24,954 |
| BBB+ to BBB- | **–** | 44,599 |
| BB+ to B- | **–** | 164,295 |
| Lower than B- | **–** | 6,687 |
| Unrated | – | 25,265 |
| Total | – | 280,828 |

The Company is not exposed to credit risk in respect of unit-linked business, although the relevant credit information is disclosed.

5.2.4 *Liquidity risk*

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk. As part of the management of this exposure, estimates are prepared for most lines of insurance business of cash flows expected to arise from insurance funds at the reporting date.

The Company actively manages its assets in such a manner as to achieve a competitive rate of return within the prevailing risk objectives delineated by asset liquidity and credit quality, and asset-liability matching. The Company's Asset Liability Committee reviews and approves investment strategies on a periodic basis, ensuring that assets are managed efficiently within approved risk mandates.

For the comparative period, the assets pertaining to a disposal group (2018: NIL) have been analysed by contractual maturity in line with the requirements of IFRS 7 but classified as current in the statement of financial position (note 18) in line with the requirements of IFRS 5.

The following table shows the cash flows expected to arise pertaining to insurance and investment liabilities as well as the contractual maturity of financial assets as at reporting date.

**5 Management of insurance and financial risk** *(continued)*

*5.2 Financial risk (continued)*

*5.2.4 Liquidity risk (continued)*

| | *No fixed maturity* | *Due within 3 months* | *Due between 3 and 12 months* | *Due between 1 and 5 years* | *Due after 5 years* | *Total* |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| **At 31 December 2018** | | | | | | |
| Financial investments | 433,533 | 4,421 | 2,602 | 100,560 | 153,079 | 694,195 |
| Reinsurance assets | 85,205 | – | – | – | – | 85,205 |
| Cash | 56,771 | – | – | – | – | 56,771 |
| | 575,509 | 4,421 | 2,602 | 100,560 | 153,079 | 836,171 |

| | *On demand* | *Due within 3 months* | *Due between 3 and 12 months* | *Due between 1 and 5 years* | *Due after 5 years* | *Gross nominal outflow* |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| **At 31 December 2018** | | | | | | |
| Liabilities to customers: | | | | | | |
| – insurance contracts | – | 19,749 | 46,181 | 189,752 | 404,059 | 659,741 |
| – investment contracts | 116,166 | 596 | 1,450 | 14,722 | 38,341 | 171,275 |
| | 116,166 | 20,345 | 47,631 | 204,474 | 442,400 | 831,016 |

## 5 Management of insurance and financial risk *(continued)*

### *5.2 Financial risk (continued)*

#### *5.2.4 Liquidity risk (continued)*

| | *No fixed maturity* | *Due within 3 months* | *Due between 3 and 12 months* | *Due between 1 and 5 years* | *Due after 5 years* | *Total* |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| At 31 December 2017 | | | | | | |
| Financial investments | 466,829 | 1,011 | 9,929 | 90,826 | 160,850 | 729,445 |
| Reinsurance assets | 85,887 | – | – | – | – | 85,887 |
| Cash | 94,751 | – | – | – | – | 94,751 |
| Assets held for sale: | | | | | | |
| – Financial investments | 153,783 | 7,044 | 10,751 | 47,285 | 215,749 | 434,612 |
| – Cash | 39,185 | – | – | – | – | 39,185 |
| | 840,435 | 8,055 | 20,680 | 138,111 | 376,599 | 1,383,880 |

| | *On demand* | *Due within 3 months* | *Due between 3 and 12 months* | *Due between 1 and 5 years* | *Due after 5 years* | *Gross nominal outflow* |
|---|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 | €000 |
| At 31 December 2017 | | | | | | |
| Liabilities to customers: | | | | | | |
| – insurance contracts | – | 23,463 | 53,055 | 213,819 | 413,973 | 704,310 |
| – investment contracts | 167,697 | 237 | 653 | 7,027 | 33,113 | 208,727 |
| Liabilities held for sale: | | | | | | |
| – investment contracts | 473,797 | – | – | – | – | 473,797 |
| | 641,494 | 23,700 | 53,708 | 220,846 | 447,086 | 1,386,834 |

The methodology used for estimating cash outflows on liabilities to customers can be found below:

– Linked insurance reserves: derived via undiscounted cash flows. No future premiums are assumed and investment returns are not included in the provisions. All decrements are considered.

– Non-linked reserve: derived via undiscounted reserves run-off on a reporting basis. All future premiums are considered and provisions based on all expected decrements. The timing of cash flows is based on the expected run-off of the reserves.

– Linked investment reserves: derived via undiscounted cash flows but only considering contractual maturities and no other form of decrement. When there is no contractual maturity, the reserve is placed within the 'on demand' bucket.

#### *5.2.5 Capital management and allocation*

It is the Company's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements imposed by the MFSA at all times. The Company recognises the impact on shareholder returns of the level of its equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

## 5 Management of insurance and financial risk *(continued)*

### *5.2 Financial risk (continued)*

#### *5.2.5 Capital management and allocation (continued)*

The annual budget and planning process takes into account projected capital demands with the objective of ensuring regulatory solvency and maintaining capital adequacy at all times. The Company regularly monitors its capital requirements and applies limits to asset balances with respect to asset types and counterparty exposures.

The Company defines its capital as the excess of assets over liabilities as valued in accordance with the respective regulatory requirements. In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders.

As from 1 January 2016, the Company was subject to the requirements of the EU Solvency II directive. The Solvency II regime establishes a set of EU-wide capital requirements, risk management and disclosure standards. The Company must hold eligible own funds to cover the Solvency Capital Requirement (SCR) and eligible basic own funds to cover the Minimum Capital Requirement (MCR). The SCR shall be calculated either in accordance with the standard formula or using a full or partial internal model (PIM) as approved by the Regulator. The Company must immediately inform the Regulator where it observes that its SCR or MCR are no longer complied with or where there is risk of non-compliance in the following six months for SCR and three months for MCR.

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2018, the Company's eligible own funds adequately covered the required SCR, and amounted to €75,871,000 (unaudited) (2017: €71,643,000).

## 6 Premiums

Insurance premiums written by the Company are mainly premiums from direct business received from contracts written in Malta. Insurance premiums are analysed below:

| | **2018** | 2017 |
|---|---|---|
| | **€000** | €000 |
| *Gross premiums written in Malta* | | |
| Individual business | **60,503** | 75,177 |
| Group/block business | **1,721** | 1,807 |
| | **62,224** | 76,984 |
| *Premium:* | | |
| Single | **5,531** | 19,933 |
| Periodic | **56,693** | 57,051 |
| | **62,224** | 76,984 |
| *Insurance contracts:* | | |
| Non-participating | **14,187** | 14,010 |
| Insurance contracts with DPF | **24,162** | 40,457 |
| Premiums for which investment risk is borne by policyholders | **23,875** | 22,517 |
| | **62,224** | 76,984 |

Outward reinsurance premiums relate to non-participating insurance contracts, and are net of commission received of €1,300,000 (2017: €1,500,000), in relation to lives reinsured on contracts written up to 2014.

## 7 Investment contracts fee income

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Fixed fees | 182 | 166 |
| Change in deferred income | 12 | 189 |
| Annual management charges on transferred portfolio | 1,698 | 2,020 |
| | 1,892 | 2,375 |

## 8 Investment (loss)/income – net

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| **Technical Statement** | | |
| Income on financial instruments at fair value through other comprehensive income | – | 85 |
| Net (losses)/gains from financial assets | (3,280) | 1,909 |
| Net gains from investment properties | 378 | 227 |
| Net (losses)/gains from policyholders' unit-linked investment held at fair value through profit and loss | (57,120) | 26,360 |
| | (60,022) | 28,581 |
| **Non-technical Statement** | | |
| Net gains from financial assets | 372 | 332 |
| | 372 | 332 |

## 9 Investment contract benefits

These comprise single and regular premium individual life non-participating unit-linked business where the investment risk is borne by the policyholder and the insurance risk is not significant. The benefits from unit-linked investment contracts accrue to the account of the contract holder at the fair value of the gains/(losses) arising from the underlying linked assets and are credited/(debited) to financial liabilities – investment contracts at fair value through profit or loss. These contracts are all designated as at fair value through profit or loss and were designated in this category upon initial recognition.

## 10 Acquisition costs

Acquisition costs include commissions and deferred acquisition costs as follows:

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Commissions payable | 590 | 765 |
| Change in deferred acquisition costs – Investment contracts | 80 | 198 |
| Allocated administrative expenses | 1,023 | 949 |
| | 1,693 | 1,912 |

## 11 Administrative expenses

*11.1* Administrative expenses include auditors' remuneration pertaining to the annual statutory audit amounting to €70,775 exclusive of VAT.

Other fees, exclusive of VAT, charged by the appointed independent auditors, comprise:

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Other assurance services | 48 | 42 |
| | 48 | 42 |

## 11 Administrative expenses *(continued)*

*11.2 Profit before tax is stated after charging:*

| | **2018** | 2017 |
|---|---|---|
| | **€000** | €000 |
| Depreciation and amortisation of software | **94** | 74 |
| Investment management and administrator fees | **2,103** | 2,105 |
| Actuarial services | **794** | 754 |
| Computer software licence fees | **643** | 641 |
| Provisions for future losses on onerous contract (note 23) | **202** | 689 |

*11.3 Administrative expenses included in the Technical Statement of Profit or Loss and Other Comprehensive Income include commissions payable amounting to €651,000 (2017: €749,000).*

## 12 Personnel expenses

*12.1 Personnel expenses incurred by the Company during the year are analysed as follows:*

| | **2018** | 2017 |
|---|---|---|
| | **€000** | €000 |
| Wages, salaries and allowances | **2,065** | 2,009 |
| Redundancy costs | **–** | 89 |
| Compulsory social security costs | **118** | 119 |
| | **2,183** | 2,217 |

All employees are seconded from the immediate parent company and other related parties.

Included in salaries is an amount of €313,450 (2017: €273,500) payable to the directors.

*12.2 The weekly average number of persons employed by the Company during the year is analysed as follows:*

| | **2018** | 2017 |
|---|---|---|
| | **No.** | No. |
| Operating | **28** | 32 |
| Management and administration | **22** | 21 |
| | **50** | 53 |

*12.3 Share-based payments*

In order to align the interests of employees with those of shareholders, share options in ordinary shares of HSBC Holdings plc (the "ultimate parent Company") are offered to HSBC Group (the "Group") employees under all-employee share plans and achievement shares awarded to the Group senior management, under discretionary incentives plans. The Company offered two types of share option schemes to its employees.

Under the HSBC Holdings savings-related share option plans, options are offered at nil consideration at an exercise price discounted at a rate of 20 per cent of the market value immediately preceding the date of invitation. The options are exercisable either on the first, third or fifth anniversary of the commencement of the relevant savings contract.

Options awarded up to May 2005 under the HSBC Holdings Group Share Option Plan were offered for nil consideration and granted at market value and were normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

Shares in HSBC Holdings plc awarded under the discretionary HSBC Holdings Group Achievement Share Scheme are offered at nil consideration. Shares are released to individuals after three years provided they remain employed by the Group. There is no performance condition attached to these awards. For those receiving share awards, additional awards will be made during the three year life of the award, representing equivalent value to dividends reinvested in shares. At the end of the three year period, the value of the award will have grown in line with HSBC's total shareholder return over the same period.

## 13 Tax expense

*13.1 Recognised in profit or loss*

| | 2018 | 2017 |
|---|---|---|
| | **€000** | €000 |
| **Current tax expense** | | |
| Current year | **(3,447)** | (11,059) |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **2,453** | 8,550 |
| | **(994)** | (2,509) |

*13.2 Reconciliation of tax expense*

| | 2018 | 2017 |
|---|---|---|
| | **€000** | €000 |
| Profit before tax | **3,723** | 7,331 |
| Income tax using the Company's domestic tax rate of 35% | **(1,303)** | (2,566)) |
| Tax effect of: | | |
| – tax exempt dividends | **88** | 2 |
| – non-deductible expenses | **–** | (3) |
| – non-taxable income | **133** | – |
| – property sales tax consequences | **109** | 58 |
| – other | **(21)** | – |
| Total income tax expense in profit or loss | **(944)** | (2,509) |

*13.3* During 2017, the Commissioner of Inland Revenue authorised the company not to adjust for any fair value movements through profit and loss in computing taxable income as from financial year 2017. Any such movements are being adjusted to tax and claimed as a deduction in the year in which such movements are accounted for. Also, the Commissioner of Inland Revenue authorised that the balance of €7,779,968 representing the deferred tax on fair value movement of investments through the profit and loss as at 31 December 2016, be transferred to current tax. The balance, net of the amounts of tax recoverable, was settled during 2017.

## 14 Property and equipment

| | *Office furniture and equipment* | *Computer equipment* | *Total* |
|---|---|---|---|
| | **€000** | **€000** | **€000** |
| **Cost** | | | |
| Balance at 1 January 2017 | 119 | 146 | 265 |
| Balance at 31 December 2017 | 119 | 146 | 265 |
| Balance at 1 January 2018 | 119 | 146 | 265 |
| **Balance at 31 December 2018** | **119** | **146** | **265** |
| **Depreciation** | | | |
| Balance at 1 January 2017 | 118 | 144 | 262 |
| Depreciation charge for the year | 1 | 1 | 2 |
| Balance at 31 December 2017 | 119 | 145 | 264 |
| Balance at 1 January 2018 | 119 | 145 | 264 |
| Depreciation charge for the year | – | – | – |
| **Balance at 31 December 2018** | **119** | **145** | **264** |
| **Carrying amounts** | | | |
| At 1 January 2017 | 1 | 2 | 3 |
| At 31 December 2017 | – | 1 | 1 |
| At 1 January 2018 | – | 1 | 1 |
| **At 31 December 2018** | **–** | **1** | **1** |

## 15 Investment properties

*15.1*

| | **2018** | 2017 |
|---|---|---|
| | **€000** | €000 |
| Balance at 1 January | **3,100** | 2,846 |
| Additions | **–** | 27 |
| Disposals | **(1,300)** | – |
| Fair value adjustments | **399** | 227 |
| Balance at 31 December | **2,199** | 3,100 |
| Cost of acquisition | **1,720** | 2,488 |

**15 Investment properties** *(continued)*

*15.2* Investment property is carried at fair value. In estimating fair value, the Directors consider valuations determined by professional valuers who applied recognised valuation techniques, together with open market valuations provided by real estate agents, where this information is available.

The Company has in place set benchmarks to ensure that professional valuers hold the necessary recognised and relevant professional qualifications as well as the knowledge and experience depending on the location and category of the investment property being valued.

The valuations provided by the architect are principally based on expected future earnings to be received from the rental of the property. The main unobservable inputs used by the architect in valuing the investment property include the capitalisation rate which amounted to 4.75% (2017: 5%) and the future rental cash flows. These valuations are considered to be level 3 in the fair value hierarchy.

At 31 December 2017, the values of the properties had been capped at the value indicated by a local real estate agent and the value stipulated in a promise for sale. These values did not exceed that provided by the architect.

*15.3* At 31 December 2018, investment property comprises of one (2017: two) commercial property. The current use of the property equates to the highest and best use. The property is currently held for capital appreciation.

No rental income was generated from investment properties during the current and comparative years.

## 16 Intangible assets

| | *PVIF* | *Deferred acquisition costs* | *Computer software* | *Total* |
|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** |
| **Carrying amount** | | | | |
| Balance at 1 January 2017 | 60,171 | 2,008 | 171 | 62,350 |
| Additions | – | – | 116 | 116 |
| Movements/amortisation through profit or loss: | | | | |
| – Addition from new business | 4,458 | 108 | – | 4,566 |
| – Movement in in-force business | (6,132) | – | – | (6,132) |
| – Amortisation | – | (1,341) | (71) | (1,412) |
| Balance at 31 December 2017 | 58,497 | 775 | 216 | 59,488 |
| Balance at 1 January 2018 | 58,497 | 775 | 216 | 59,488 |
| Additions | – | – | 174 | 174 |
| Movements/amortisation through profit or loss: | | | | |
| – Addition from new business | 5,668 | 169 | – | 5,837 |
| – Movement in in-force business | (11,442) | – | – | (11,442) |
| – Amortisation | – | (659) | (93) | (752) |
| **Balance at 31 December 2018** | **52,723** | **285** | **297** | **53,305** |
| **Accumulated amortisation** | | | | |
| Balance at 1 January 2017 | – | – | 1,158 | 1,158 |
| Balance at 31 December 2017 | – | – | 1,229 | 1,229 |
| Balance at 1 January 2018 | – | – | 1,229 | 1,229 |
| **Balance at 31 December 2018** | **–** | **–** | **1,323** | **1,323** |

The effect of the theoretical changes in the main economic assumptions on PVIF at the reporting date is analysed in note 4.2.

## 17 Financial investments

*17.1* All assets within this note are carried at fair value through profit or loss except where otherwise stated.

In 2018, under IFRS 9, the designation of fair value through profit and loss was mandatory. In the comparative period, assets were designated to be of fair value through profit and loss upon initial recognition.

Financial investments include:

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Equity securities – listed | 16,175 | 14,887 |
| Debt securities – fixed interest | | |
| Financial instruments at fair value through other comprehensive income (2017: available for sale) | – | *1,213* |
| Debt securities – fixed interest: | | |
| – Government bonds – listed | 165,642 | 179,698 |
| – other listed | 93,096 | 80,381 |
| | 258,738 | 260,079 |
| Collective investment schemes: | | |
| – listed | 22,282 | 23,728 |
| – unlisted | 26,825 | 19,000 |
| | 49,107 | 42,728 |
| Unit-linked net financial investments: | | |
| Equities – listed | 23,668 | 26,601 |
| Debt securities – Others: | | |
| – listed | 1,674 | 2,504 |
| – unlisted | 245 | 36 |
| Collective investment schemes: | | |
| – listed | 4,067 | 3,815 |
| – unlisted | 340,407 | 377,343 |
| Accrued interest | 114 | 239 |
| | 370,175 | 410,538 |
| Total | 694,195 | 729,445 |

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Current | 7,022 | 12,154 |
| Non-current | 687,173 | 717,291 |
| | 694,195 | 729,445 |

Investments with a fixed maturity date (i.e. debt securities) are classified as non-current unless they are expected to mature within twelve months or be realised within twelve months. All other investments without a fixed maturity date are considered to be substantially non-current in nature.

## 17 Financial investments *(continued)*

*17.2 Fair values*

There are certain financial assets and liabilities that are carried at amortised cost. The fair value of these assets and liabilities is not disclosed given that the carrying amount is considered to be a reasonable approximation of fair value because they are either frequently re-priced to current market rates or short term in nature. A detailed analysis of the fair value level splits of financial assets and liabilities is provided in note 26.

## 18 Held for sale assets and liabilities

*18.1* On 9 November 2017, the Company has entered into a Portfolio transfer agreement with Lombard International Assurance S.A. for the sale of the policies of insurance governed by the Wealth Insurance Italy portfolio.

In November 2017, the assets and liabilities pertaining to this portfolio were categorised as a disposal group in accordance with IFRS 5 'Non-current Assets Held for sale and Discontinued Operations'. They were consequently considered to be current in nature.

This portfolio formed part of a larger portfolio which was acquired in 2014 for nil consideration and was sold on 7 December 2018 for €1 (refer to note 29).

On 7 December 2018, €9,119,000 were reclassified to financial investments – net assets held to cover linked liabilities as the respective policies were excluded from the portfolio transfer.

At 31 December 2017 the portfolio comprised:

| | 2017 |
|---|---|
| | €000 |
| **Assets** | |
| Net assets held to cover linked liabilities | |
| Equities – listed | 16,543 |
| Debt Securities – Government bonds: | |
| – listed | 100,846 |
| – unlisted | 4,999 |
| Debt securities – Others: | |
| – listed | 167,802 |
| – unlisted | 7,181 |
| Collective investment schemes: | |
| – listed | 37,920 |
| – unlisted | 130,557 |
| Policyholders' loans | (37,427) |
| Net derivative financial assets | 1,755 |
| Accrued interest | 4,436 |
| Cash at bank | 39,185 |
| **Total** | 473,797 |
| **Liabilities** | |
| Financial liabilities: | |
| Investment contracts at fair value through profit or loss | 473,797 |

Given that policyholders' loans pertained to individual policies which were at all times in a net asset position (i.e. a positive policy account balance), these balances were netted off against assets within these financial statements. Derivatives pertained solely to policies on which the Company did not hold investment discretion.

## 18 Held for sale assets and liabilities *(continued)*

*18.2 Derivatives*

***Derivatives held to cover linked liabilities***

| | *Notional amount* | *Fair value assets* | *Fair value liabilities* |
|---|---|---|---|
| | **€000** | **€000** | **€000** |
| **At 31 December 2017** | | | |
| *Currency derivatives* | | | |
| – foreign exchange contracts | **9,872** | **39** | **2** |
| *Equity derivatives* | | | |
| – equity options | **339** | **30** | **–** |
| – currency options | **14,475** | **1,688** | **–** |
| | **24,686** | **1,757** | **2** |

*18.3 Liabilities held for sale*

| | **2018** | 2017 |
|---|---|---|
| | **€000** | €000 |
| At 1 January | **473,797** | – |
| Transferred (to)/from investment contract liabilities (note 22) | **(9,119)** | 495,479 |
| *Premium* | **33,547** | – |
| Account balances paid on surrender and other termination during the year | **(41,337)** | (582) |
| Changes in unit prices and other movements | **(25,095)** | (21,100) |
| Transferred to third party | **(431,793)** | – |
| | **–** | 473,797 |

Surrenders stated above include an amount of €10,617,000 (2017: NIL) where the company transferred assets to the policyholder instead of cash.

## 19 Insurance liabilities and reinsurance assets

*19.1 Analysis of insurance liabilities and reinsurance assets*

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| **Gross** | | |
| Claims outstanding: | | |
| – Non-linked | 2,443 | 3,334 |
| – Linked | 756 | 490 |
| **Total claims outstanding – gross** | 3,199 | 3,824 |
| Long term insurance contracts: | | |
| – Non-linked | 407,040 | 432,201 |
| – Linked | 210,543 | 222,767 |
| **Total long term insurance contracts – gross** | 617,583 | 654,968 |
| **Total insurance liabilities – gross** | 620,782 | 658,792 |
| **Reinsurance assets** | | |
| Claims outstanding: | | |
| – Non-linked | 1,908 | 2,574 |
| Long term insurance contracts: | | |
| – Non-linked | 84,465 | 84,647 |
| Other reinsurance payables | (1,168) | (1,334) |
| **Total reinsurance assets** | 85,205 | 85,887 |
| **Net** | | |
| Claims outstanding: | | |
| – Non-linked | 535 | 760 |
| – Linked | 756 | 490 |
| **Total claims outstanding – net** | 1,291 | 1,250 |
| Long term insurance contracts: | | |
| – Non-linked | 322,575 | 347,554 |
| – Linked | 210,543 | 222,767 |
| **Total insurance liabilities – net** | 533,118 | 570,321 |
| **Other reinsurance payables** | 1,168 | 1,334 |
| **Total insurance contract provisions – net** | 535,577 | 572,905 |

Claims outstanding are considered to be current in nature. Long-term insurance contract liabilities are substantially non-current in nature.

## 19 Insurance liabilities and reinsurance assets *(continued)*

*19.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity*

The technical provisions in respect of long-term life insurance contracts are subject to quarterly valuations by the Approved Actuary based on data and information provided by the Company.

*19.2.1 Process used for assumptions*

For non-linked reserves on protection policies the long-term business provision is calculated on a net premium basis. This involves subtracting the present value of future net premiums from the present value of future benefits payable under a policy until it ceases on maturity or at death if earlier. For the non-unit portion of with-profit and unit-linked business, a discounted cash flow approach is used, with a minimum reserve of the surrender benefit payable on the policies.

The reserves on the acquired creditor contracts are the sum of an unexpired premium reserve, an expense reserve and an outstanding claims reserve. These contracts are 100% reinsured and therefore have no net impact on the Statement of Financial Position.

The principal assumptions underlying the calculation of the long-term business provision are the following:

*Mortality*

A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in the table below are adjusted by the expected mortality based on a statistical investigation into the Company's mortality experience.

*Reserving interest rates*

Reserving interest rates for the current and comparative financial periods were determined based on Euro Swap Curves as at reporting dates. Rates for bond portfolio and equities/property portfolio were based on swap curves, which were considered as risk-free, and by adding appropriate margins. The reserving interest rates at different terms for with-profits policy account, non-linked reserves and linked reserves were the weighted average of the constituents of the respective portfolio.

For many of the life insurance products, the interest rate risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective of these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest rate sensitivity of the Company's insurance liabilities than those of the related assets, to the extent that the Company can measure such sensitivities, management believes that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying products.

*Renewal expenses and inflation*

The current level of renewal expenses is assumed to be an appropriate expense base. Expense inflation is based on the French inflation swap curve modified to estimate future inflation for Malta.

*Taxation*

The Company has assumed that current tax legislation and rates will not change.

## 19 Insurance liabilities and reinsurance assets *(continued)*

*19.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity (continued)*

*19.2.1 Process used for assumptions (continued)*

*Key assumptions*

The principal assumptions used to value the life reserves of the main classes of business were as follows:

**At 31 December 2018**

| *Class of business* | *Renewal expense (p.a.)* | *Mortality* |
|---|---|---|
| Term assurances | **€40.80** | **97.75% TM08 / 97.75%TF08** |
| Savings Plans | **€40.80** | **97.75% TM08 / 97.75%TF08** |
| Unit-Linked – Malta portfolio | **€40.80** | **97.75% TM08 / 97.75%TF08** |

At 31 December 2017

| *Class of business* | *Renewal expense (p.a.)* | *Mortality* |
|---|---|---|
| Term assurances | €36.70 | 103.50% TM00 / 103.50%TF00 |
| Savings Plans | €36.70 | 92% TM00 / 92%TF00 |
| Unit-Linked – Malta portfolio | €36.70 | 92% TM00 / 92%TF00 |

Savings plans and unit-linked policies are valued at the gross value of the policy account together with a non-unit provision. The non-unit provision allows for the future cost of expenses and mortality where these cannot be met from available margins in the plan.

Riders (other than term riders) are valued using approximate methods.

*19.2.2 Change in assumptions*

Assumptions are adjusted for changes in investment return and policy maintenance expenses to reflect changes in market conditions and experience. The effect of changes in current year's assumptions used to measure insurance liabilities and PVIF on current year's profit before tax and balance of insurance liabilities, net of the impact on PVIF, at the reporting date was as follows:

| | *Gross PVIF increase/ (decrease)* | *Liabilities increase/ (decrease)* | *Profit/(loss)* |
|---|---|---|---|
| | **€000** | **€000** | **€000** |
| **At 31 December 2018** | | | |
| Economic | **117** | **462** | **(345)** |
| Lapse | **(503)** | **–** | **(503)** |
| Expenses | **(1,364)** | **977** | **(2,341)** |
| Mortality | **(91)** | **(518)** | **427** |
| Expense inflation | **(133)** | **196** | **(329)** |
| Other | **(81)** | **116** | **(197)** |

| | *Gross PVIF increase/ (decrease)* | *Liabilities increase/ (decrease)* | *Profit/(loss)* |
|---|---|---|---|
| | €000 | €000 | €000 |
| At 31 December 2017 | | | |
| Economic | 195 | (1,829) | 2,024 |
| Lapse | (1,126) | – | (1,126) |
| Expenses | (565) | 500 | (1,065) |
| Expense inflation | 111 | (180) | 291 |
| Bond risk premium | 520 | 551 | (31) |
| Other | (15) | (3) | (12) |

## 19 Insurance liabilities and reinsurance assets *(continued)*

### *19.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity (continued)*

#### *19.2.3 Sensitivity analysis*

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its life assurance contracts. The table presented below demonstrates the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

| **At 31 December 2018** | *Movement* | *Reported value of net non-linked insurance liabilities* |
|---|---|---|
| | **€000** | **€000** |
| **Base stress** | | |
| Interest rates increasing 100 basis points | **(15,135)** | **307,440** |
| Interest rates reducing 100 basis points | **21,638** | **344,213** |
| All mortality and morbidity rates increasing by 10% | **1,241** | **323,816** |
| All mortality and morbidity rates reducing by 10% | **(1,360)** | **321,215** |
| All expenses increase by 10% | **969** | **323,544** |
| All expenses reduce by 10% | **(874)** | **321,701** |

| At 31 December 2017 | *Movement* | *Reported value of net non-linked insurance liabilities* |
|---|---|---|
| | €000 | €000 |
| Base stress | | |
| Interest rates increasing 100 basis points | (16,670) | 330,884 |
| Interest rates reducing 100 basis points | 21,838 | 369,392 |
| All mortality and morbidity rates increasing by 10% | 1,153 | 348,707 |
| All mortality and morbidity rates reducing by 10% | (1,248) | 346,306 |
| All expenses increase by 10% | 766 | 348,320 |
| All expenses reduce by 10% | (700) | 346,854 |

The analysis above has been prepared for a change in variable with all other assumptions remaining constant and ignores changes in the value of any related assets. As described in notes 3 and 5, linked insurance contract liabilities are not exposed to the above assumption changes and have consequently been excluded from the above analysis.

## 19 Insurance liabilities and reinsurance assets *(continued)*

### *19.3 Movements in insurance liabilities*

| | 2018 | 2017 |
|---|---|---|
| | **€000** | €000 |
| **Claims outstanding** | | |
| At 1 January | **3,824** | 3,524 |
| Movement for the year taken to profit or loss | **(625)** | 300 |
| **At 31 December** | **3,199** | 3,824 |
| **Non-linked long-term business** | | |
| At 1 January | **432,201** | 436,897 |
| Movement for the year | **(25,161)** | (4,696) |
| **At 31 December** | **407,040** | 432,201 |
| **Linked long-term business** | | |
| At 1 January | **222,767** | 205,140 |
| Premiums received | **23,875** | 22,517 |
| Account balances paid on surrender and other terminations during the year | **(16,616)** | (16,895) |
| Changes in unit prices and other movements | **(19,483)** | 12,005 |
| **At 31 December** | **210,543** | 222,767 |

### *19.4 Movements in reinsurance assets*

| | 2018 | 2017 |
|---|---|---|
| | **€000** | €000 |
| **Claims outstanding** | | |
| At 1 January | **2,574** | 2,097 |
| Movement for the year taken to profit or loss | **(666)** | 477 |
| **At 31 December** | **1,908** | 2,574 |
| **Non-linked long-term business** | | |
| At 1 January | **84,647** | 84,343 |
| Movement for the year | **(182)** | 304 |
| **At 31 December** | **84,465** | 84,647 |

**Linked long-term business**

The Company did not cede any of these liabilities to its reinsurers during the current and comparative year.

## 20 Insurance and other receivables

| | 2018 | 2017 |
|---|---|---|
| | **€000** | €000 |
| **Current portion** | | |
| Receivables arising from insurance | **565** | 839 |
| Accrued income and prepayments | **3,286** | 3,964 |
| | **3,851** | 4,803 |

## 21 Cash and cash equivalents

Balances of cash and cash equivalents are analysed below:

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Cash at bank | | |
| – Linked business | 6,766 | 15,380 |
| – Non-linked business | 50,005 | 79,371 |
| As per statement of financial position | 56,771 | 94,751 |
| Liabilities held for sale | | |
| – Cash at bank within a disposal group of assets | – | 39,185 |
| As per statement of cash flows | 56,771 | 133,936 |

## 22 Investment contract liabilities

Investment contracts at fair value through profit or loss (unit-linked):

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| At 1 January | 203,136 | 930,936 |
| Transferred from/(to) liabilities of disposal group classified as held for sale (note 18) | 9,119 | (495,479) |
| Premiums received | 10,130 | 6,203 |
| Account balances paid on surrender and other termination during the year | (41,411) | (272,914) |
| Changes in unit prices and other movements | (14,632) | 34,390 |
| | 166,342 | 203,136 |

Surrenders stated above include an amount of €8,931,000 (2017: €50,781,000) where the company transferred assets to the policyholder instead of cash.

Investment contract liabilities have been designated by the Company as at fair value through profit or loss. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

## 23 Provision for liabilities and charges

The balance constitutes a provision in relation to an onerous contract which results from a closed investment product where related income is based on balances under management, whilst related costs are fixed. The provision for liabilities and charges represents an estimate of future losses and is substantially not current in nature.

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| **Contingent Liability** | | |
| At 1 January | 689 | – |
| Increase taken to profit and loss | 202 | 689 |
| **At 31 December** | 891 | 689 |

## 24 Insurance payables, other payables and deferred income

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| **Current Portion** | | |
| Direct insurance contract payables | **3,409** | 3,964 |
| Amounts due to related parties | **496** | 625 |
| Other payables and accrued expenses | **2,763** | 3,007 |
| Deferred income | **125** | 390 |
| Deferred commission on reinsurance | **363** | 620 |
| | **7,156** | 8,606 |

*24.1* Deferred income includes €139,000 (2017: €136,000) deferred under investment management services contracts that are recognised as revenue over the lifetime of the product.

*24.2* Amounts due to related parties are unsecured, interest free and payable on demand.

## 25 Deferred tax assets and liabilities

*25.1 Recognised deferred tax assets and liabilities*

Deferred tax (assets) and liabilities are attributable to the following temporary differences:

| | *Assets* | | *Liabilities* | | *Net* | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **€000** | €000 | **€000** | €000 | **€000** | €000 |
| Property and equipment | – | 1 | – | – | – | 1 |
| Investment properties | – | – | **176** | 274 | **176** | 274 |
| Intangible assets | – | – | **18,453** | 20,474 | **18,453** | 20,474 |
| Financial assets | – | – | – | – | – | – |
| Insurance payables and deferred income | – | – | **7** | 271 | **7** | 271 |
| Share-based payments | **(51)** | (51) | **51** | 51 | – | – |
| Other provisions | **(328)** | (259) | – | – | **(328)** | (259) |
| Fair value reserves – AFS | – | – | – | 5 | – | 5 |
| | **(379)** | (309) | **18,687** | 21,075 | **18,308** | 20,766 |

*25.2 Movement in temporary differences during the year*

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| At 1 January | **20,766** | 29,369 |
| Transfer to current tax (note 13.3) | **(264)** | (7,780) |
| Recognised in profit or loss | **(2,189)** | (770) |
| Recognised in equity | **(5)** | (53) |
| At 31 December | **18,308** | 20,766 |

## 26 Financial assets and liabilities – basis of valuation

### 26.1 *Fair value valuation*

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company sources alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The table below analyses financial instruments carried at fair value, by valuation method.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** |
| **At 31 December 2018** | | | | |
| **Assets** | | | | |
| Equity securities | **39,843** | **–** | **–** | **39,843** |
| Debt securities | **260,412** | **245** | **–** | **260,657** |
| Collective investment schemes | **378,038** | **7,390** | **8,153** | **393,581** |
| **Liabilities** | | | | |
| Investment contracts at fair value through profit or loss | **163,354** | **2,408** | **580** | **166,342** |
| **At 31 December 2017** | | | | |
| **Assets** | | | | |
| Equity securities | 41,488 | – | – | 41,488 |
| Debt securities | 263,832 | – | – | 263,832 |
| Collective investment schemes | 416,001 | 411 | 7,474 | 423,886 |
| Assets held for sale: | | | | |
| – Equity securities | 16,543 | – | – | 16,543 |
| – Debt securities | 270,614 | 10,214 | – | 280,828 |
| – Collective investment schemes | 37,920 | 127,823 | 2,734 | 168,477 |
| **Liabilities** | | | | |
| Investment contracts at fair value through profit or loss | 202,725 | 411 | – | 203,136 |
| Liabilities held for sale: | | | | |
| Investment contracts at fair value through profit or loss | 331,271 | 139,792 | 2,734 | 473,797 |

As further explained in note 18, derivatives are netted off.

The analysis of investment properties is included in note 15.

Although the Company believes its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values, especially for Level 3 assets. Nonetheless, management is confident that changing one or more of the assumptions used to reasonably possible alternative assumptions would not change fair value significantly.

The following table shows a reconciliation from the opening balances to the closing balances of financial assets for fair value measurements classified within Level 3 of the fair value hierarchy.

## 26 Financial assets and liabilities – basis of valuation *(continued)*

### *26.1 Fair value valuation (continued)*

| | 2018 | 2017 |
|---|---|---|
| | **€000** | €000 |
| **Level 3** | | |
| **Collective investment Schemes** | | |
| **Financial investments:** | | |
| At 1 January | **7,474** | 5,840 |
| Purchases | **59** | 2,787 |
| Transferred from/(to) assets held for sale | **307** | (1,003) |
| Disposals | **(1,713)** | (282) |
| Transfer from level 2 | **1,259** | – |
| Gains recognised in profit or loss | **767** | 132 |
| At 31 December | **8,153** | 7,474 |
| **Assets held for sale:** | | |
| At 1 January | **2,734** | – |
| Transferred (to)/from financial investments – net assets held to cover linked liabilities | **(307)** | 1,003 |
| Purchases | – | 250 |
| Disposals | **(454)** | |
| Transfer from level 1 | – | 1,646 |
| Transfer to third party | **(1,993)** | – |
| Gains/(losses) recognised in profit or loss | **20** | (165) |
| At 31 December | – | 2,734 |

On 1 January 2017, the collective investment scheme categorised in level 3 comprised of an investment in a European Mid-Market Debt Fund amounting to €4,545,000 and collective investment schemes consisting of shares in alternative funds which are unlisted and have illiquid price sources amounting to €1,295,000. The latter were transferred to Assets held for sale in November 2017 (note 18) valued at €1,003,000.

The European Mid-Market Debt Fund consists of predominantly senior debt to European mid-market companies concentrating on primary market transactions, within Western Europe, focusing on the largest economies.

During 2017, an investment in a collective investment scheme of €1,646,000 was transferred from Level 1 to Level 3. The price for this fund was no longer being quoted on the market.

During 2017 and 2018, the Company made further investments of €2,787,000 and €59,000, respectively, in the European Mid-Market Debt Fund in line with the original commitment.

On 7 December 2018, as part of the portfolio transfer to a third party, €1,993,000 were transferred out and €307,000 were reclassified from Assets held for sale to Financial investments – net assets held to cover linked liabilities, as the respective policies were excluded from the portfolio transfer.

During 2018, two collective investment schemes amounting to €1,259,000 were transferred from Level 2 to Level 3. The price for these funds is no longer being quoted on the market.

In view of no quoted market prices or observable inputs for modelling the value of collective investment schemes categorised in Level 3, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians. The uncertainty in utilising the net asset value lies in the availability of the financial statements of the alternative funds at 31 December 2018 and their respective audit opinion.

Investment risk on Level 3 assets held to cover linked liabilities totalling to €580,000 is borne by the policyholder as it was the decision of the policyholder to invest in these assets.

## 27 Capital and reserves

*27.1 Share capital*

| | Ordinary shares | |
|---|---|---|
| | **2018** | 2017 |
| | **No.** | No. |
| On issue at 1 January | **24,007,288** | 24,007,288 |
| On issue at 31 December – fully paid | **24,007,288** | 24,007,288 |

At 31 December 2018, the authorised share capital comprised 30,000,000 (2017: 30,000,000) ordinary shares at a par value of €1.164686 each. All issued shares are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Dividends distributed during the year are disclosed in note 28.3.

*27.2 Fair value reserve*

Fair value reserve comprised the cumulative net change in the fair value of financial investments at fair value through other comprehensive income, net of deferred taxation. This balance was held in reserves until the investments were derecognised.

## 28 Related party transactions

*28.1 Parent and ultimate controlling party*

The Company is a wholly owned subsidiary of HSBC Bank Malta p.l.c., the registered address of which is 116, Archbishop Street, Valletta, Malta.

The Company's ultimate parent Company is HSBC Holdings plc, the registered office of which is 8, Canada Square, London E14 5HQ, United Kingdom.

HSBC Bank Malta p.l.c., prepares the consolidated financial statements of the Group of which HSBC Life Assurance (Malta) Ltd forms part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

HSBC Holdings plc in turn prepares the consolidated financial statements of which HSBC Bank Malta p.l.c. and its subsidiaries form part. These consolidated financial statements may be obtained from the ultimate parent Company.

*28.2 Transactions with key management personnel*

Directors' fees and emoluments are included in administrative expenses and are stated in note 12.

## 28 Related party transactions *(continued)*

*28.3 Other related party transactions*

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| **Net income** | | |
| Fees and commissions income – other related parties | 684 | 768 |
| Investment income – parent | (1) | (1) |
| Debt security interests income – other related parties | 215 | 578 |
| Dividend income – other group | 36 | 40 |

Net income from related party transactions arises from:
– rebates of annual management charges;
– interest receivable on cash balances deposited;
– dividend receivable on equities;
– interest receivable on bonds; and
– interest payable on borrowings.

| | 2018 | 2017 |
|---|---|---|
| **Expenses** | | |
| Fees and commissions expense – parent | 1,196 | 1,437 |
| Fees and commission expense – other related parties | – | 20 |
| Other administrative expense – other related parties | 2,743 | 2,691 |

Expenditure from related party transactions includes expenses incurred for the provision of services by related entities such as custodian and asset administraion, investment management and actuarial services. It also includes commissions payable to group companies in relation to sales of the Company's products. The Company's products are marketed and sold primarily by HSBC Bank Malta p.l.c. through its sales channels.

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| Dividend paid | | |
| €0.25 (2017: Nil) net dividend per share | 6,000 | – |

**Investment in Group Companies**

The Company holds one share in HSBC Global Asset Management (Malta) Limited. This share has a par value of €2.329373 and was originally acquired at nil consideration.

*28.4 Related party balances*

| | 2018 | 2017 |
|---|---|---|
| | €000 | €000 |
| **Year-end balances with related parties** | | |
| **Assets** | | |
| Insurance and other receivables – other related parties | 44 | 142 |
| Cash and cash equivalents – parent | 51,766 | 81,146 |
| Cash and cash equivalents – other related parties | 2,980 | 9,815 |
| Debt securities – parent | – | 723 |
| Collective investment schemes | 255,158 | 267,950 |
| **Liabilities** | | |
| Insurance and other payables: | | |
| – Parent | 97 | 237 |
| – Other related parties | 1,662 | 1,255 |

## 29 Sale of business

On 7 December 2018, a portfolio of unit-linked investment products was sold to a third party for €1. The following assets and liabilities were transferred:

| | €000 |
|---|---|
| **Assets** | |
| Financial Investments: | |
| Net assets held to cover linked liabilities | |
| Equities – listed | 14,941 |
| Debt Securities – Government bonds: | |
| – listed | 114,003 |
| – unlisted | 788 |
| Debt securities – Others: | |
| – listed | 102,684 |
| – unlisted | 9,824 |
| Collective investment schemes: | |
| – listed | 41,528 |
| – unlisted | 100,570 |
| Net derivative financial assets | 269 |
| Accrued interest | 3,763 |
| Cash at bank | 43,423 |
| **Total** | 431,793 |
| **Liabilities** | |
| Financial liabilities: | |
| Investment contracts at fair value through profit or loss | 431,793 |

## 30 Commitments

At 31 December 2018, the Company has open commitments to invest a further €1,013,000 (2017: €1,600,000) in private equities.

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