HSBC Life Assurance (Malta) Ltd

Annual Report 2016

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 p.l.c., headquartered in London. HSBC Group serves customers worldwide from around 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,375 at 31 December 2016, HSBC is one of the world's largest financial services organisations.

HSBC Life Assurance (Malta) Ltd.
Registered in Malta: number C18814
Registered Office and Head Office:
80 Mill Street
Qormi QRM 3101
Malta
Telephone: 00356 2380 8699
Facsimile: 00356 2380 8691
www.hsbc.com.mt

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Directors' Report

For the Year Ended 31 December 2016

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 2016.

Board of directors

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

Andrew Beane (Chairman)
Philip Farrugia
Mary Grace Demicoli
Ian Moore
Rashid Daurov
Harpal Karlcut appointed on 9 August 2016
Daniel Robinson appointed on 9 September 2016
Ingrid Azzopardi appointed on 16 January 2017
Stuart John Fairbairn appointed on 17 February 2017
Paul Steel resigned on 30 March 2016
Nicolas H Taylor resigned on 31 May 2016
James Allardice resigned on 1 August 2016
Geoffrey L Brooks resigned on 30 September 2016

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, 1998. 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 €7.3 million for 2016, which is 17% below prior year's level of €8.8 million.

Despite a 3% increase in protection premiums, total premium income was 3% lower than the previous year due to a reduction in both regular and single premium savings business.

Despite very challenging market conditions with low interest rates (negative at the short end of the curve) and volatile returns, the Company generated stronger investment income increasing from €65.0 million in 2015 to €110.1 million in 2016 including a significant element attributable to unit-linked products. The Company continued to invest in highly rated securities and equities, in line with its prudent investment strategy. The Company holds a conservative and diversified investment portfolio. This portfolio delivered returns above those expected at budgeting stage.

During the year under review, movements in the Euro interest rate yield curve and inflation impacted the Company's financial results negatively by €2.3 million.

As a result of the positive investment performance, the with-profits smoothing reserves continued to grow, allowing for the continuation and improvement in the levels of terminal bonus payments to eligible policies which matured during 2016, as well as for the declaration of a 2% top-up revisionary bonus for 2016. Furthermore, the Board also declared a guaranteed bonus of 1.25% for 2017. This is payable to policyholders net of tax. This rate allows for potential upward revision based on the portfolio performance during 2017.

At 31 December 2016, total assets are recorded at €1,697 million, a reduction of €35.8 million from prior year's level. This reduction is largely attributable to surrenders of unit-linked investment policies which formed part of the 2014 acquired business.

At the end of 2016, the Company is adequately capitalised with an unaudited Solvency Ratio well in excess of the Solvency Capital Requirement stipulated by the Solvency II regime.

The Company's fully owned subsidiary, HSBC Insurance Management Services (Europe) Limited, whose principal activities were to carry on, undertake and transact the business of managing, administering, advising and servicing of insurance and reinsurance companies, was merged with the Company with an effective accounting date of 1 January 2016, in line with Registrar of Companies' approval following the surrender of the subsidiary's license.

Future developments

The Company expects to continue its core growth during 2017 leveraging on the current Maltese economic environment, new pensions legislation and HSBC's financial planning and wealth management capabilities. The Company is committed to increase its focus in product innovation and customers' need for protection and long-term savings.

Risks and uncertainties

A major challenge which the Company will be facing over the next twenty four months is the adoption of the various regulatory changes which will come into force, namely Packaged Retail and Insurance-based Investment Products Regulation, the Markets in Financial Instruments Directive II, The Insurance Distribution Directive, MFSA Conduct Rule Book and Data Protection Reform.

The current low interest rate environment also poses a challenge to the Company mainly due to the lack of good quality fixed interest instruments with an adequate return.

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

Dividends

On 30 December 2016, the Company paid an interim dividend of €8 million, following approval by the Board of Directors on 15 December 2016.

No final dividends are being recommended.

Reserves

The directors propose that the balance of retained earnings amounting to €52.8 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, 1998 and the Maltese Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the 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:

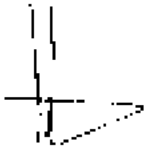
- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial 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.

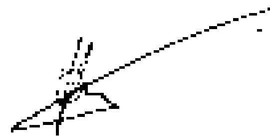
Directors' Report (continued)

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 Insurance Business Act, 1998 and with the Maltese Companies Act, 1995. 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 2016 are included in the Annual Report 2016, which is published in hard-copy printed form and may be made 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 17 February 2017 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 (the "financial statements") give a true and fair view of the Company's financial position as at 31 December 2016, 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 Maltese Companies Act (Cap. 386).

What we have audited

HSBC Life Assurance (Malta) Ltd's financial statements, set out on pages 8 to 50, comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity 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 the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon). 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 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 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 has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 judgment 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.

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.

Romina Soler (Partner) for and on behalf of

PricewaterhouseCoopers
Registered Auditors
78, Mill Street, Qormi, Malta

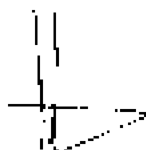
17 February 2017

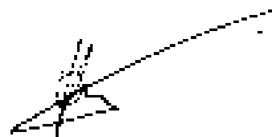
Statement of Financial Position at 31 December 2016

	Notes	Group 2016 €000	Group 2015 €000
Assets			
Property and equipment	*14*	**3**	6
Investment in subsidiary	*15*	**–**	25
Investment properties	*16*	**2,846**	4,583
Intangible assets	*17*	**62,350**	66,126
Financial investments:	*18*		
– Equities		**18,949**	16,008
– Debt securities – available-for-sale		**4,648**	4,843
– Debt securities – at fair value through profit or loss		**283,723**	270,262
– Collective investment schemes		**34,205**	29,008
– Net assets held to cover linked liabilities		**1,052,891**	1,064,045
Reinsurance assets	*19*	**85,228**	83,088
Current tax assets		**5,047**	5,730
Insurance and other receivables	*20*	**5,170**	5,031
Cash at bank	*21*	**141,175**	183,302
Total assets		**1,696,235**	1,732,057
Liabilities			
Insurance contract provisions:	*19*		
– Claims outstanding		**3,524**	6,604
– Non-linked business		**436,897**	419,318
– Linked business		**205,140**	190,735
Financial liabilities:			
– Investment contracts at fair value through profit or loss	*22*	**930,936**	987,008
Loans and borrowings	*27.4*	**–**	8,200
Reinsurance payables		**90**	2
Insurance payables, other payables and deferred income	*23*	**9,391**	8,138
Deferred tax liabilities	*24*	**29,369**	27,979
Total liabilities		**1,615,347**	1,647,984
Net assets		**80,888**	84,073
Shareholders' equity			
Share capital	*26.1*	**27,961**	27,961
Retained earnings		**52,820**	55,905
Fair value reserve	*26.2*	**107**	207
Total shareholders' equity		**80,888**	84,073

The notes on pages 13 to 50 are an integral part of these financial statements.

The financial statements on pages 8 to 50 were approved and authorised for issue by the Board of Directors on 17 February 2017 and signed on its behalf by:





Andrew Beane, *Chairman*

Harpal Karlcut, *Non-executive Director*

Statement of Changes in Equity for the year ended 31 December 2016

	Share capital	*Retained earnings*	*Fair value reserve*	*Total*
	€000	**€000**	**€000**	**€000**
Balance at 1 January 2015	27,961	50,211	371	78,543
Comprehensive income for the year				
Profit for the year	–	5,692	–	5,692
Other comprehensive income				
– Net fair value movement on available-for-sale financial assets, net of tax	–	–	(164)	(164)
Total comprehensive income for the year	–	5,692	(164)	5,528
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners:				
– Share-based payments	–	2	–	2
Net distributions to owners	–	2	–	2
Balance at 31 December 2015	27,961	55,905	207	84,073
Balance at 1 January 2016	**27,961**	**55,905**	**207**	**84,073**
Comprehensive income for the year				
Profit for the year	**–**	**4,741**	**–**	**4,741**
Other comprehensive income				
– Net fair value movement on available-for-sale financial assets, net of tax	**–**	**–**	**(100)**	**(100)**
Total comprehensive income for the year	**–**	**4,741**	**(100)**	**4,641**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners:				
– Accumulated reserves acquired from amalgamation of subsidiary company	**–**	**148**	**–**	**148**
– Share-based payments acquired from amalgamation of subsidiary company	**–**	**26**	**–**	**26**
Dividends (note 27.3)	**–**	**(8,000)**	**–**	**(8,000)**
Net distributions to owners	**–**	**(7,826)**	**–**	**(7,826)**
Balance at 31 December 2016	**27,961**	**52,820**	**107**	**80,888**

The notes on pages 13 to 50 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

	Notes	**2016** €000	2015 €000
Technical Statement			
Earned premiums, net of reinsurance			
Gross premiums written	*6*	**57,921**	59,839
Outward reinsurance premiums		**(4,543)**	(4,596)
Net premiums written		**53,378**	55,243
Investment contracts fee income	*7*	**2,575**	3,361
Investment income	*8*	**108,796**	64,961
		164,749	123,565
Claims incurred and benefits accrued, net of reinsurance			
Claims paid:			
– Gross amount		**(39,959)**	(46,384)
– Reinsurers' share		**3,413**	1,889
		(36,546)	(44,495)
Change in provisions for claims:			
– Gross amount	*19.3*	**3,080**	(1,630)
– Reinsurers' share	*19.4*	**(3,219)**	1,656
		(139)	26
Change in technical provisions, net of reinsurance			
Long term business:			
- Gross amount	*19.3*	**(9,275)**	(3,613)
- Reinsurers' share	*19.4*	**5,332**	(3,973)
		(3,943)	(7,586)
Movement in technical provisions for linked insurance contracts	*19.3*	**(14,405)**	(15,169)
		(18,348)	(22,755)
Bonuses and rebates, net of reinsurance	*19.3*	**(8,304)**	(3,866)
Balance carried forward		**101,412**	52,475
Balance brought forward		**101,412**	52,475
Investment contract benefits	*9,22*	**(86,910)**	(33,999)
Change in present value of in-force business	*17*	**(1,688)**	(3,017)
Acquisition costs	*10*	**(1,833)**	(2,144)
Administrative expenses	*11*	**(6,334)**	(6,901)
Net investment management charges		**(104)**	(38)
Balance on the Technical Statement		**4,543**	6,376

The notes on pages 13 to 50 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016 (continued)

	Notes	**2016** €000	2015 €000
Technical Statement (continue)			
Non-Technical Statement			
Balance on the Technical Statement		**4,543**	6,376
Investment income	*8*	**1,879**	1,306
Investment management charges		**(3)**	(11)
Administrative expenses	*11*	**(310)**	(282)
Commission receivable		**1,230**	1,425
Profit before tax		**7,339**	8,814
Tax expense	*13*	**(2,598)**	(3,122)
Profit for the year		**4,741**	5,692
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		**(74)**	(175)
– Shareholder's investment portfolio		**(80)**	(77)
– Income tax on other comprehensive income		**54**	88
Other comprehensive income		**(100)**	(164)
Total comprehensive income		**4,641**	5,528

The notes on pages 13 to 50 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2016

	Note	**2016** €000	2015 €000
Cash flows from operating activities			
Insurance premiums received		**57,900**	59,199
Reinsurance premiums paid		**(4,489)**	(4,748)
Fees and commissions received		**3,805**	4,278
Interest received		**27,379**	26,849
Dividends received		**4,662**	5,274
Rental income from investment property received		**49**	101
Claims and benefits paid as adjusted for movements in claims payable		**(38,045)**	(46,384)
Reinsurance claims received		**3,413**	1,889
Investment contract receipts		**7,946**	55,001
Investment contract benefits paid		**(150,258)**	(132,703)
Payments to employees and suppliers		**(6,581)**	(6,778)
Policyholders' investments portfolio:			
– Acquisition of investments		**(309,984)**	(380,207)
– Proceeds from sale of investments		**374,436**	470,117
Tax paid		**(400)**	(3,822)
Net cash (used in)/from operating activities		**(30,167)**	48,066
Cash flows from investing activities			
Interest received		**1,536**	1,298
Acquisition of property and equipment		**–**	(3)
Acquisition of intangible assets		**(145)**	(132)
Shareholder's investments portfolio:			
– Acquisition of investments		**(962)**	(10,763)
– Proceeds from sale of investments		**1,896**	11,149
Acquisition of investment property		**(14)**	–
Disposal of investment property		**1,945**	–
Received from amalgamation of subsidiary company		**120**	–
Net cash from investing activities		**4,376**	1,549
Cash flows from financing activities			
Dividends paid		**(8,000)**	–
Interest paid		**(136)**	(296)
Repayment of subordinated loan advanced by parent bank		**(8,200)**	(3,300)
Cash used in financing activities		**(16,336)**	(3,596)
Net (decrease)/increase in cash and cash equivalents		**(42,127)**	46,019
Cash and cash equivalents at 1 January		**183,302**	137,283
Cash and cash equivalents at 31 December	*21*	**141,175**	183,302

The notes on pages 13 to 50 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 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, 1995 (Chapter 386, Laws of Malta) and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta).

In the comparative period, the Company had availed itself of the exemption to present consolidated financial statements of the Group of which it is the parent provided by IFRS 10, *Consolidated Financial Statements* and Article 174 of the Companies Act, 1995, on the basis that a parent produces consolidated financial statements available for public use that comply with IFRSs.

These financial statements therefore represent the separate financial statements of the Company, in which the investments are accounted for on the basis of the direct equity interest, rather than on the basis of the reported results and net assets of the investee.

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 designated at fair value through profit or loss;

– financial instruments classified as available-for-sale; 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 2016*

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

2 Basis of preparation *(continued)*

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 2016, and have not been applied in preparing these consolidated financial statements. The Company is considering the implications of the below standards on the Company's financial results and position, and the timing of their adoption, taking cognisance of the endorsement process by the European Commission.

IFRS 9, *'Financial instruments'*, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

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.

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 (note 3.1.2) are those contracts that transfer financial risk with no significant insurance risk.

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.

3 Significant accounting policies *(continued)*

3.1 *Insurance and investment contracts (continued)*

3.1.2 Recognition and measurement of contracts

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.

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.

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.

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.

3 Significant accounting policies *(continued)*

3.1 *Insurance and investment contracts (continued)*

3.1.2 Recognition and measurement of contracts *(continued)*

Reinsurance (continued)

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. The impairment loss is calculated following the same method used for these financial assets. These processes are described in note 3.10.

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 IAS 18, *Revenue*, where the revenue associated with the service component is recognised by reference to the stage of completion of the transaction and deferred over the duration of the investment contract.

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.

3 Significant accounting policies *(continued)*

3.1 *Insurance and investment contracts (continued)*

3.1.2 Recognition and measurement of contracts *(continued)*

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. 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 an insurance receivable is impaired using the process adopted for receivables. The impairment loss is calculated under the same method used for these financial assets. These processes are described in note 3.10.

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.

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 Significant accounting policies *(continued)*

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

Share-based payment arrangements in which the Company receives goods or services as consideration for equity instruments in the ultimate parent Company are accounted for as equity-settled share-based payment transactions.

The grant date fair value of awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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 tax 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 available-for-sale investments, 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 equities classified as available-for-sale financial assets 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/(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 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 discounted cash flow projections.

Valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and associated costs where relevant, as well as open market valuations, where available. 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.

3.9.3 Financial instruments at fair value through profit or loss

A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management.

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 Valuation of financial instruments

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.

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 Significant accounting policies *(continued)*

3.9 *Financial instruments (continued)*

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

3.9.3.2 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.

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.

3 Significant accounting policies *(continued)*

3.9 *Financial instruments (continued)*

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

3.9.3.4 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.

3.9.4 Available-for-sale

Available-for-sale (AFS) securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value, and changes therein are recognised in other comprehensive income and presented in the fair value reserve in equity, until the securities are sold or impaired. When available-for-sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in profit or loss.

3.9.5 Other

Other financial instruments are subsequently measured at amortised cost using the effective interest method. Loans and receivables mainly comprise 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. Note 18 contains 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 expire.

3 Significant accounting policies *(continued)*

3.9 *Financial instruments (continued)*

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 at each reporting date to determine whether there is objective evidence that it is impaired. A financial 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 financial assets are impaired can include default or delinquency by a debtor and restructuring of an amount due to the Company on terms that the Company would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

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

An impairment loss in respect of a financial asset measured at amortised cost 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 receivables. 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.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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.

3.11 *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 Significant accounting policies *(continued)*

3.12 *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.

3.13 *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.

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 €19,316,000 (2015: €17,888,000) or increase by €26,198,000 (2015: €20,779,000). 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 €1,148,000 (2015: €1,169,000) or decrease by €1,193,000 (2015: €1,110,000).

For long term insurance contracts with fixed and guaranteed term and with DPF, estimates of future deaths, investment returns and administration expenses form the assumptions used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. New estimates are made each subsequent year to reflect the current long term outlook.

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 the 30th December 2016 (2015: same approach). The risk discount rate is based on the risk free curve with an additional 0.5% margin (2015: 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. (2015: 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 2.0% p.a. to 2.9% p.a. (2015: 1.7% 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 effect on the PVIF of reasonably possible changes in the main assumptions across the insurance business:

Assumptions	Movement	**2016** **€000**	2015 €000
Risk free rate	+100 basis points	**(2,837)**	(2,232)
Risk free rate	-100 basis points	**7,497**	2,981
Expenses	+10%	**(964)**	(853)
Expenses	-10%	**1,043**	919
Lapse rate	+100 basis points	**1,291**	867
Lapse rate	-100 basis points	**(1,994)**	(1,413)

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 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 behaviour. 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:

	2016	2015
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**324,996**	316,298
Term assurance and other long-term contracts	**114,976**	109,145
Total non-linked	**439,972**	425,443
Life insurance (linked)	**205,589**	191,214
Liabilities under insurance contracts	**645,561**	616,657

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. Therefore on assets held to back the with-profits portfolio, the Company's exposure to financial risk is limited to 10%.

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 its investment portfolio and to 10% of the investments backing contracts with DPF. The net exposure for the Company amounts to €4,272,000 (2015: €4,261,000) 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	
	2016	2015
	€000	€000
+100 basis points shift in yield curves	**(248)**	81
-100 basis points shift in yield curves	**(79)**	(283)
+10 per cent shift in equity prices	**756**	346
-10 per cent shift in equity prices	**(782)**	(347)

The impact of the above sensitivity analysis on other comprehensive income is negligible in light of the amount of available-for-sale investments 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; and

– call and term 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 on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Cash and cash equivalents held with third party banks amount to €69,851,000 (2015: €98,169,000) 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.

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

	Debt securities – Unit-linked		*Debt securities – Others*		*Total*	
	2016	2015	**2016**	2015	**2016**	2015
	€000	€000	**€000**	€000	**€000**	€000
AAA	**11,651**	12,042	**16,479**	13,395	**28,130**	25,437
AA+ to AA-	**7,655**	14,217	**78,819**	74,573	**86,474**	88,790
A+ to A-	**57,918**	34,946	**138,353**	46,921	**196,271**	81,867
BBB+ to BBB-	**61,163**	69,668	**42,178**	130,214	**103,341**	199,882
BB+ to B-	**149,026**	97,329	**1,642**	–	**150,668**	97,329
Lower than B-	**19,001**	10,501	–	–	**19,001**	10,501
Unrated	**49,024**	99,005	**10,900**	10,002	**59,924**	109,007
Total	**355,438**	337,708	**288,371**	275,105	**643,809**	612,813

Although this table includes all assets, as disclosed in note 5.2, the Company is not exposed to credit risk in respect of unit-linked business.

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.

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

5.2 *Financial risk (continued)*

5.2.4 Liquidity risk *(continued)*

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

	No fixed maturity	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 year and 5 years*	*Due after 5 years*	*Total*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
At 31/12/2016						
Financial investments	**750,607**	**13,715**	**47,055**	**177,593**	**405,446**	**1,394,416**
Reinsurance assets	**85,228**	–	–	–	–	**85,228**
Cash	**141,175**	–	–	–	–	**141,175**
	977,010	**13,715**	**47,055**	**177,593**	**405,446**	**1,620,819**

	On demand	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 year and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
At 31/12/2016						
Liabilities to customers:						
– insurance contracts	–	**20,376**	**60,717**	**231,483**	**377,204**	**689,780**
– investment contracts	**898,760**	**230**	**521**	**6,113**	**29,746**	**935,370**
	898,760	**20,606**	**61,238**	**237,596**	**406,950**	**1,625,150**

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 31/12/2015						
Financial investments	771,353	17,681	49,046	189,217	356,869	1,384,166
Reinsurance assets	83,088	–	–	–	–	83,088
Cash	183,302	–	–	–	–	183,302
	1,037,743	17,681	49,046	189,217	356,869	1,650,556

	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 31/12/2015						
Liabilities to customers:						
– insurance contracts	–	17,053	41,957	164,293	437,243	660,546
– investment contracts	955,990	419	3,894	4,939	27,875	993,117
	955,990	17,472	45,851	169,232	465,118	1,653,663

The methodology used for estimating liquidity risk can be found below:

- Linked insurance reserves are 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 is 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 are also derived via undiscounted cash flows but only consider 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.

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 equity and up to 2015, the subordinated loan balance which was repaid in 2016. In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders.

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

5.2 *Financial risk (continued)*

5.2.5 Capital management and allocation *(continued)*

As from 1 January 2016, the Company was subject to the requirements of the EU Solvency II directive. The Solvency II regime establishes a new 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 2016, the Company's eligible own funds adequately covered the required SCR amounting to €24,686,000 (unaudited).

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:

	2016	2015
	€000	€000
Gross premiums written in Malta		
Individual business	**55,707**	57,591
Group/block business	**2,214**	2,248
	57,921	59,839
Premium:		
Single	–	15
Periodic	**57,921**	59,824
	57,921	59,839
Insurance contracts:		
Non-participating	**14,152**	13,501
Insurance contracts with DPF	**21,521**	23,443
Premiums for which investment risk is borne by policyholders	**22,248**	22,895
	57,921	59,839

Outward reinsurance premiums relate to non-participating insurance contracts.

7 Investment contracts fee income

	2016	2015
	€000	€000
Fixed fees	**203**	218
Change in deferred income	**245**	325
Annual management charges on transferred portfolio	**2,127**	2,818
	2,575	3,361

8 Investment income – net

	2016	2015
	€000	€000
Technical Statement		
Income on available-for-sale assets	**107**	234
Interest on cash and cash equivalents	**39**	73
Net gains from financial assets held at FVTPL	**13,059**	16,411
Rental income from investment properties	**92**	104
Net gains from policyholders' unit-linked investments held at FVTPL	**95,499**	48,139
	108,796	64,961
Non-technical Statement		
Interest on loans with group companies	**(130)**	(275)
Net gains from financial assets	**2,009**	1,581
	1,879	1,306

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:

	2016	2015
	€000	€000
Commissions payable	**676**	738
Change in deferred acquisition costs – Investment contracts	**254**	358
Allocated administrative expenses	**903**	1,048
	1,833	2,144

11 Administrative expenses

11.1 *Administrative expenses include auditors' remuneration amounting to €69,500, exclusive of VAT.*

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

	2016	2015
	€000	€000
Tax compliance services	**2**	3
Other non-audit services	–	3
	2	6

11 Administrative expenses *(continued)*

11.2 *Profit before tax is stated after charging:*

	2016	2015
	€000	€000
Depreciation	**59**	58
Investment management and administrator fees	**2,091**	2,316
Actuarial services	**504**	812
Computer software licence fees	**764**	557

11.3 *Administrative expenses included in the Technical Statement of Profit or Loss and Other Comprehensive Income include commissions payable amounting to €774,000 (2015: €871,000).*

12 Personnel expenses

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

	2016	2015
	€000	€000
Wages, salaries and allowances	**2,054**	1,725
Redundancy costs	**53**	322
Compulsory social security costs	**115**	70
Share-based payments	**–**	4
	2,222	2,121

All employees are seconded from the immediate parent company.

Included in salaries is an amount of €341,175 (2015: €539,314) payable to the directors.

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

	2016	2015
	No.	No.
Operating	**30**	14
Management and administration	**21**	20
	51	34

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 p.l.c. (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*

	2016	2015
	€000	€000
Current tax expense		
Current year	**(1,111)**	(3,316)
Deferred tax expense		
Origination and reversal of temporary differences	**(1,487)**	194
	(2,598)	(3,122)

13.2 *Reconciliation of tax expense*

	2016	2015
	€000	€000
Profit before tax	**7,339**	8,814
Income tax using the Company's domestic tax rate of 35%	**(2,569)**	(3,085)
Tax effect of:		
– tax exempt dividends	**7**	–
– non-deductible expenses	**(102)**	(39)
– profits taxed at different rates	**19**	8
– property sales tax consequences	**47**	(21)
– other	**–**	15
Total income tax expense in profit or loss	**(2,598)**	(3,122)

The Company is in the process of considering the impact of advance tax payments made in the past, and expects that such evaluation will not result in financial loss to the Company.

14 Property and equipment

	Office furniture and equipment	*Computer equipment*	*Total*
	€000	€000	€000
Cost			
Balance at 1 January 2015	103	140	243
Acquisitions	–	3	3
Balance at 31 December 2015	103	143	246
Balance at 1 January 2016	103	143	246
Acquired from amalgamation of subsidiary company	16	3	19
Balance at 31 December 2016	**119**	**146**	**265**
Depreciation			
Balance at 1 January 2015	100	137	237
Depreciation charge for the year	1	2	3
Balance at 31 December 2015	101	139	240
Balance at 1 January 2016	101	139	240
Depreciation on assets acquired from amalgamation of subsidiary company	16	2	18
Depreciation charge for the year	1	3	4
Balance at 31 December 2016	**118**	**144**	**262**
Carrying amounts			
At 1 January 2015	3	3	6
At 31 December 2015	2	4	6
At 1 January 2016	2	4	6
At 31 December 2016	**1**	**2**	**3**

15 Investment in subsidiary

The investment in subsidiary, represents the cost of shares in incorporating the following subsidiary, which was merged with the Company during 2016 with an accounting effective date of 1 January 2016.

Name of company	*Incorporated in*	*Nature of business*	*Equity interest*			
			2016	2015	**2016**	2015
			%	%	**€000**	€000
HSBC Insurance Management Services (Europe) Limited	Malta	Insurance management services	**–**	99.99	**–**	25

16 Investment properties

16.1

	2016	2015
	€000	€000
Balance at 1 January	**4,583**	4,659
Additions	**14**	–
Disposals	**(1,945)**	–
Fair value adjustments	**194**	(76)
Balance at 31 December	**2,846**	4,583
Cost of acquisition	**2,461**	3,798

16.2

Investment property is carried at fair value. In estimating fair value, the directors consider valuations determined by professional valuers who applied recognised valuation techniques, also considering 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.

Valuations are based on expected future rental earnings discounted using market rates existing at the reporting date also considering open market valuations, where available. The main unobservable inputs used in valuing the investment property include the capitalisation rate which amounted to 5.5% (2015: 6%) and the future rental cash flows. These valuations are considered to be level 3 in the fair value hierarchy.

16.3

At 31 December 2016, investment property comprises of two (2015: three) commercial properties. For all properties, their current use equates to the highest and best use. The properties are currently held for capital appreciation. During the year, a buy-back option which was entered into on acquisition of one of the three investment properties held, was exercised by the original vendor.

Rental income arising from investment properties amounted to €92,000 (2015: €104,000) (note 8).

17 Intangible assets

	PVIF	*Deferred acquisition costs*	*Computer software*	*Total*
	€000	€000	€000	€000
Carrying amount				
Balance at 1 January 2015	64,876	9,345	107	74,328
Additions	–	–	132	132
Movements/amortisation through profit or loss:				
- Addition from new business	5,325	61	–	5,386
- Movement in in-force business	(8,342)	–	–	(8,342)
- Amortisation	–	(5,324)	(54)	(5,378)
Balance at 31 December 2015	61,859	4,082	185	66,126
Balance at 1 January 2016	61,859	4,082	185	66,126
Additions	–	–	145	145
Movements / amortisation through profit or loss:				
- Addition from new business	5,898	48	–	5,946
- Movement in in-force business	(7,586)	–	–	(7,586)
- Amortisation	–	(2,122)	(55)	(2,177)
- Impairment	–	–	(104)	(104)
Balance at 31 December 2016	**60,171**	**2,008**	**171**	**62,350**
Accumulated amortisation				
Balance at 1 January 2015	–	–	1,049	1,049
Balance at 31 December 2015	–	–	1,103	1,103
Balance at 1 January 2016	–	–	1,103	1,103
Balance at 31 December 2016	**–**	**–**	**1,158**	**1,158**

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

18 Financial investments

18.1

All assets within this note are carried at fair value through profit or loss (designated at initial recognition) except where otherwise stated.

Financial investments include:

	2016	2015
	€000	€000
Equity securities – listed	**18,949**	16,008
Debt securities – fixed interest (Available-for-sale)	**4,648**	4,843
Debt securities – fixed interest:		
– Government bonds – listed	**192,566**	184,986
– other listed	**91,157**	84,724
– other unlisted	**–**	552
	283,723	270,262
Collective investment schemes:		
– listed	**17,551**	16,726
– unlisted	**16,654**	12,282
	34,205	29,008
Unit-linked net financial investments:		
Equities – listed	**76,841**	65,888
Government bonds:		
– listed	**35,213**	30,801
– unlisted	**–**	212
Debt securities:		
– listed	**278,315**	242,474
– unlisted	**41,910**	64,221
Collective investment schemes:		
– listed	**70,451**	74,203
– unlisted	**564,804**	597,161
Policyholders' loans	**(20,050)**	(16,955)
Net derivative financial (liabilities)/assets – FVTPL held for trading	**(765)**	493
Accrued interest	**6,172**	5,547
	1,052,891	1,064,045
Total financial investments	**1,394,416**	1,384,166

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

18 Financial investments *(continued)*

18.1 *(continued)*

	2016	2015
	€000	€000
Current	**53,946**	63,521
Non-current	**1,340,470**	1,320,645
	1,394,416	1,384,166

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.

18.2 *Derivatives*

Derivatives held to cover linked liabilities

	Notional	*Fair value assets*	*Fair value liabilities*
	€000	**€000**	**€000**
At 31 December 2016			
Currency derivatives			
– foreign exchange contracts	**217,583**	**104**	**69**
Equity derivatives			
– equity options	**6,721**	**2**	**802**
	224,304	**106**	**871**
At 31 December 2015			
Currency derivatives			
– foreign exchange contracts	172,220	74	80
Equity derivatives			
– equity options	13,927	521	22
	186,147	595	102

18.3 *Fair values*

There are certain financial assets and liabilities that are carried at amortised cost. The fair value of these assets and liabilities are not disclosed given that the carrying amount is 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 25.

19 Insurance liabilities and reinsurance assets

19.1 *Analysis of insurance liabilities and reinsurance assets*

	2016	2015
	€000	€000
Gross		
Claims outstanding:		
– Non-linked	**3,074**	6,125
– Linked	**450**	479
Total claims outstanding – gross	**3,524**	6,604
Long term insurance contracts:		
– Non-linked	**436,897**	419,318
– Linked	**205,140**	190,735
Total long term insurance contracts – gross	**642,037**	610,053
Total insurance liabilities – gross	**645,561**	616,657
Reinsurance assets		
Claims outstanding:		
– Non-linked	**2,097**	5,316
Long term insurance contracts:		
– Non-linked	**84,343**	79,011
Other reinsurance payables	**(1,212)**	(1,239)
Total reinsurance assets	**85,228**	83,088
Net		
Claims outstanding:		
– Non-linked	**977**	809
– Linked	**450**	479
Total claims outstanding – net	**1,427**	1,288
Long term insurance contracts:		
– Non-linked	**352,554**	340,307
– Linked	**205,140**	190,735
Total insurance liabilities – net	**557,694**	531,042
Other reinsurance payables	**1,212**	1,239
Total insurance contract provisions – net	**560,333**	533,569

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 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 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 the swap curves which was considered as risk-free and 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 constituent 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 2016	*Renewal expense (p.a.)*	*Mortality*
Class of business		
Term assurances	**€34.80**	103.50% TM00/ 103.50%TF00
Savings Plans	**€34.80**	92% TM00/92%TF00
Unit-Linked – Malta portfolio	**€34.80**	92% TM00/92%TF00

At 31 December 2015	*Renewal expense (p.a.)*	*Mortality*
Class of business		
Term assurances	€34.80	103.50% TM00 / 103.50%TF00
Savings Plans	€34.80	92% TM00 / 92%TF00
Unit-Linked – Malta portfolio	€34.80	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 2016			
Economic assumptions	**173**	**2,525**	**(2,352)**
Lapse assumptions	**399**	**–**	**399**
Expense unit cost assumptions	**(1)**	**42**	**(43)**
Critical illness assumptions	**254**	**(357)**	**611**
Cost of guarantee review	**–**	**526**	**(526)**

	Gross PVIF increase/ (decrease)	*Liabilities increase/ (decrease)*	*Profit/(loss)*
	€000	€000	€000
At 31 December 2015			
Economic assumptions	200	(999)	1,199
Lapse assumptions	(1,413)	–	(1,413)
Expense unit cost assumptions	(658)	1,202	(1,860)
Margin review	117	(1,589)	1,706
Other assumptions	52	(138)	190

19 Insurance liabilities and reinsurance assets *(continued)*

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

19.2.2 Change in assumptions *(continued)*

Change in Valuation interest Rate Methodology

The methodology underlying the calculation of interest rates used in valuing the technical provisions up to 2015 was based on the Insurance Business Regulations effective until the 31 December 2015. The said regulations prescribed that the valuation interest rate should be lower than the yield to maturity on the assets. While the Company has used an alternative risk free yield curve approach to calculating technical provisions since 2009, up to 2015 an adjustment was then made to ensure that the most prudent result was taken of the two methods. As new Insurance Business Regulations are now in place since 1 January 2016, this adjustment is no longer required and has been removed.

This change resulted in a reduction in technical provisions of €2,113,000 which was largely offset by a reduction in PVIF of €1,936,000. The net change of €177,000 reflects the small cost of holding these additional reserves.

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 2016	*Movement*	*Reported value of net non-linked insurance liabilities*
	€000	**€000**
Base stress		
Interest rates increasing 100 basis points	**(19,316)**	**333,238**
Interest rates reducing 100 basis points	**26,198**	**378,752**
All mortality and morbidity rates increasing by 10%	**1,148**	**353,702**
All mortality and morbidity rates reducing by 10%	**(1,193)**	**351,361**
All expenses increase by 10%	**877**	**353,431**
All expenses reduce by 10%	**(794)**	**351,760**

At 31 December 2015	*Movement*	*Reported value of net non-linked insurance liabilities*
	€000	€000
Base stress		
Interest rates increasing 100 basis points	(17,888)	322,419
Interest rates reducing 100 basis points	20,779	361,086
All mortality and morbidity rates increasing by 10%	1,169	341,476
All mortality and morbidity rates reducing by 10%	(1,110)	339,197
All expenses increase by 10%	900	341,207
All expenses reduce by 10%	(831)	339,476

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 note 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*

	2016	2015
	€000	€000
Claims outstanding		
At 1 January	**6,604**	4,974
Movement for the year taken to profit or loss	**(3,080)**	1,630
At 31 December	**3,524**	6,604
Non-linked long-term business		
At 1 January	**419,318**	411,839
Movement for the year	**17,579**	7,479
At 31 December	**436,897**	419,318
Linked long-term business		
At 1 January	**190,735**	175,565
Premiums received	**22,248**	22,895
Account balances paid on surrender and other terminations during the year	**(14,675)**	(20,039)
Changes in unit prices and other movements	**6,832**	12,314
At 31 December	**205,140**	190,735

19.4 *Movements in reinsurance assets*

	2016	2015
	€000	€000
Claims outstanding		
At 1 January	**5,316**	3,660
Movement for the year taken to profit or loss	**(3,219)**	1,656
At 31 December	**2,097**	5,316
Non-linked long-term business		
At 1 January	**79,011**	82,984
Movement for the year	**5,332**	(3,973)
At 31 December	**84,343**	79,011

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

	2016	2015
	€000	€000
Current portion		
Receivables arising from insurance	**978**	687
Accrued income and prepayments	**4,192**	4,344
	5,170	5,031

21 Cash and cash equivalents

Balances of cash and cash equivalents are analysed below:

	2016	2015
	€000	€000
Cash at bank		
– Linked business	**83,230**	114,195
– Non-linked business	**57,945**	69,107
As per Statement of Financial Position	**141,175**	183,302
As per Statement of Cash Flows	**141,175**	183,302

22 Investment contract liabilities

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

	2016	2015
	€000	€000
At 1 January	**987,008**	1,030,928
Premiums received	**7,946**	54,783
Account balances paid on surrender and other termination during the year	**(150,928)**	(132,702)
Changes in unit prices and other movements	**86,910**	33,999
	930,936	987,008

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 Insurance payables, other payables and deferred income

23.1

	2016	2015
	€000	€000
Current Portion		
Direct insurance contract payables	**3,993**	1,714
Amounts due to related parties	**485**	375
Other payables and accrued expenses	**2,641**	1,932
Deferred income	**405**	142
Deferred commission on reinsurance	**1,867**	3,975
	9,391	8,138

23.2

Deferred income includes €132,772 (2015: €124,000) deferred under investment management services contracts that are recognised as revenue over the lifetime of the product.

23.3

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

24 Deferred tax assets and liabilities

24.1 *Recognised deferred tax assets and liabilities*

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

	Assets		*Liabilities*		*Net*	
	2016	2015	**2016**	2015	**2016**	2015
	€000	€000	**€000**	€000	**€000**	€000
Property and equipment	**(8)**	(3)	–	–	**(8)**	(3)
Investment properties	–	–	**252**	387	**252**	387
Intangible assets	–	–	**21,060**	21,651	**21,060**	21,651
Financial assets	–	–	**7,780**	5,760	**7,780**	5,760
Insurance payables and deferred income	–	–	**227**	185	**227**	185
Share-based payments	**(51)**	(42)	**51**	42	–	–
Other provisions	–	(113)	–	–	–	(113)
Fair value reserves – AFS	–	–	**58**	112	**58**	112
	(59)	(158)	**29,428**	28,137	**29,369**	27,979

24.2 *Movement in temporary differences during the year*

	2016	2015
	€000	€000
At 1 January	**27,979**	28,259
Acquired from amalgamation of subsidiary company	**(43)**	–
Recognised in profit or loss	**1,487**	(194)
Recognised in equity	**(54)**	(86)
At 31 December	**29,369**	27,979

25 Financial assets and liabilities – basis of valuation

25.1 *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.

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

25.1 *Fair value valuation (continued)*

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 2016				
Assets				
Equity securities	**95,790**	**–**	**–**	**95,790**
Debt securities	**621,153**	**22,656**	**–**	**643,809**
Collective investment schemes	**596,468**	**67,152**	**5,840**	**669,460**
Liabilities				
Investment contracts at fair value through profit or loss	**840,577**	**89,074**	**1,285**	**930,936**
Net financial derivatives	**–**	**765**	**–**	**765**
At 31 December 2015				
Assets				
Equity securities	81,896	–	–	81,896
Debt securities	558,961	53,852	–	612,813
Collective investment schemes	604,836	93,134	2,402	700,372
Net financial derivatives	–	493	–	493
Liabilities				
Investment contracts at fair value through profit or loss	863,225	121,381	2,402	987,008

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

The analysis of investment property is included in note 16.

There have been no transfers of assets into or out of the Level 3 category in 2016 and 2015.

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.

	2016	2015
	€000	€000
Level 3		
Collective investment schemes		
At 1 January	**2,402**	6,553
Purchases	**4,555**	–
Disposal of assets	**(1,027)**	(4,195)
Gains recognised in profit or loss	**(90)**	44
At 31 December	**5,840**	2,402

The collective investment schemes categorized in Level 3 in 2015, were acquired as part of the portfolio transfer of unit-linked investment contracts from HSBC Life (Europe) Limited in 2014.

During 2016, the Company invested in a European Mid-Market Debt Fund. This consists of predominantly senior debt to European mid-market companies concentrating on primary market transactions, within Western Europe, focusing on the largest economies. The other collective investment schemes, categorized in Level 3, consist of shares in alternative funds which are unlisted and have illiquid price sources.

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

25.1 *Fair value valuation (continued)*

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 2016 and their respective audit opinion.

At 31 December 2016, €1,285,000 (2015: €2,402,000) of the collective investment schemes categorised in Level 3 are financial assets held to cover linked liabilities. The corresponding liabilities to customers under investment contracts in relation to these investments are also categorised in Level 3. Investment risk on these Level 3 assets is borne by the policyholder as it was the decision of the policyholder to invest in these assets.

26 Capital and reserves

26.1 *Share capital*

	Ordinary shares	
	2016	2015
	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 2016, the authorised share capital comprised 30,000,000 (2015: 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 27.3.

26.2 *Fair value reserve*

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, net of deferred taxation. This balance is held in reserves until the investments are derecognised or impaired.

27 Related party transactions

27.1 *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, 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 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.

27.2 *Transactions with key management personnel*

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

27 Related party transactions *(continued)*

27.3 *Other related party transactions*

	2016	2015
	€000	€000
Net income		
Fees and commissions income – other related parties	**810**	898
Investment income – parent	**42**	100
Debt security interests income – other related parties	**353**	337
Dividend income – other group	**(100)**	(59)
Interest expense on loan advanced by parent	**(133)**	(307)

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.

	2016	2015
	€000	€000
Expenses		
Fees and commissions expense – parent	**1,369**	1,516
Fees and commission expense – other related parties	**19**	32
Other administrative expense – other related parties	**2,341**	3,264

Expenditure from related party transactions includes expenses incurred for the provision of services by related entities such as custodian and asset administration, 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.

	2016	2015
	€000	€000
Dividend paid		
€0.33 (2015: Nil) net dividend per share	**8,000**	–

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. During 2016 the Company disposed of one share in HSBC Stockbrokers (Malta) Limited for a consideration of €2.33.

Amalgamation of Subsidiary Company

On 1 January 2016, the Company, as a result of amalgamation, acquired its subsidiary HSBC Insurance Management Services (Europe) Limited. In accordance with Section 354 of the Companies Act, 1995, the Company has succeeded to all rights, obligations, assets and liabilities of HSBC Insurance Management Services (Europe) Limited.

27 Related party transactions *(continued)*

27.3 *Other related party transactions (continued)*

The Company acquired the following assets, liabilities and reserves:

	2016
	€000
Assets	
Property and equipment	**1**
Deferred tax asset	**43**
Current tax asset	**28**
Insurance and other receivable	**7**
Cash at bank	**240**
Liabilities	
Insurance payables, other payables and deferred income	**120**
Retained earnings	**174**

27.4 *Loans and advances*

During 2014, the Company entered into a subordinated loan agreement with the immediate parent for an amount of €11,500,000, of which €3,300,000 was repaid during 2015. During 2016, the balance of €8,200,000 was fully repaid.

27.5 *Related party balances*

	2016	2015
	€000	€000
Year-end balances with related parties		
Assets		
Insurance and other receivables – parent	–	20
Insurance and other receivables – other related parties	**344**	456
Cash and cash equivalents – parent	**59,258**	70,808
Cash and cash equivalents – other related parties	**12,066**	14,325
Debt securities – parent	**755**	783
Debt securities – other related parties	**22,849**	49,873
Liabilities		
Insurance and other payables – parent	**226**	125
Insurance and other payables – other related parties	**1,495**	942
Loans and advances – parent	–	8,200

28 *Commitments*

At 31 December 2016, the Company has open commitments to invest a further €4,387,000 (2015: nil) in private equities.

29 *Comparative information*

Certain amounts in these financial statements have been reclassified to conform with the current year's presentation.

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HSBC Life Assurance (Malta) Ltd.
80 Mill Street
Qormi QRM 3101
Malta
Telephone: 356 2380 8699
www.hsbc.com.mt