# 2017.
# FINANCIAL STATEMENTS

MIC INSURANCE

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# FINANCIAL STATEMENTS

MIC INSURANCE

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# 01.
# CHAIRMAN´S LETTER

***Seville Cathedral,*** *Seville (Spain).*

# 01. CHAIRMAN´S LETTER

No doubt, 2017 has been an exciting year for MIC Insurance - Millennium, undoubtedly, an inflexion period in our Company's history. After a few years of unstoppable growth, the Company aims had to be focused on the reinforcement of the regulatory, procedural and risk management structure. This has been the year of revision, adjustments, and the encouragement of reinforce our management procedures.

The continuous and permanent adaptation of these last years to the formal requirements, reinforced by the work of the actuarial department, has meant a logical and necessary evolution in MIC Insurance fulfilling the requirements of Solvency II in all its parameters. The Company has also adjusted its outstanding claim reserves and provisions to the circumstances of each market, always in accordance with the maximum guarantees for our management, increasing its reserves in concept of IBNR, which means a decrease in the benefit but a greater support of tranquility.

The result is that MIC has a perfectly organized company model, prepared and directed to make the leap to the consolidation of its growth in a controlled equilibrium phase between underwriting and profitability. MIC continues to grow in the business that interest the Company and reducing those that do not have profitability, but we must do so always having as pillars of our business the one in which we are really specialists: surety, construction and Third Party Liability. Without a doubt our extensive knowledge places MIC in a position of true experts in these fields. We have a history, we know competition, markets, hedges, evolution, risk, it is in these market segments where we have to work and strengthen our future.

I would like with these lines to thank also the work of our executives, employees, collaborators, agencies and producers who have walked with us this year to reach a regulatory level necessary for the demands that we have set for them that have studied and designed their needs adapting them to our requirements in an agile and decisive way.

For the year 2017, more than 90 percent of the gross premium issued by the Company is related to risks located in the European Union. Therefore, the Company has been working on several alternatives in the case of the Brexit even with the uncertainty that there is an agreement between the United Kingdom and the European Union in a transition period after that the United Kingdom (and Gibraltar) allegedly leave the European Union (on March 29, 2019).

After that, the company is in the process of obtaining a license in another member country of the European Union, in order to continue operating in those markets that, in the case of the Brexit, would be outside the commercial scope in which Gibraltar would be included. Alternatively, other options are raised from the company's management so that in no case will there be any difficulty at the time of continuing with 100% of the current business and the coverage of all the insureds.

In the years to come we will focus on intensifying the work we have been doing so far. In addition to all regulatory and documentation requirements, technological, digital and operational developments continue to be strategic pillars along with the consolidation of our quality and governance processes. We will continue working every day to achieve excellence in all areas of the Company which is always the best way to obtain very positive results.

Antonio Morera Vallejo

# 02.

# 2017 MANAGEMENT REPORT

***The Church of the Savior on Spilled Blood,*** *Saint Petersburg (Russia).*

# 02. 2017 MANAGEMENT REPORT

## Report presentation

The directors present their report and the audited financial statements of Millennium Insurance Company Limited (MIC or the Company) for the year ended 31 December 2017.

### Principal activities and ownership

The Company is licensed by the Gibraltar Financial Services Commission under the Financial Services (Insurance Companies) Act to underwrite the following insurance classes:

- Accident
- Sickness
- Goods in transit
- Fire and natural forces
- Damage to property
- General liability
- Credit
- Suretyship
- Miscellaneous financial loss
- Legal expenses

The principal activity of the Company is that of a direct insurance underwriter, offering its products for sale in the European Union.

## Review of the business

In this exercise, different IBNR analyzes were carried out, outstanding, by several first-rate audit firms, and taking into account the particularities of each country, in terms of risk management and loss ratio figures, the company has made an important effort to assess and attend independently all the recommendations made by the different regulatory authorities. This means that the MIC reserves are fully consistent with the indications of regulatory bodies, and always with a conservative approach.

For this reason, the company has considered it appropriate to carry out various capital increases, for an amount of € 11,200,000. This implies a total of Own Funds of € 32,723,833 in the financial year 2017, which represents an increase of 30.66% over the previous year. In this way, MIC has strengthened its solvency in order to have the possibility of obtaining an important rating, obtaining a Minimum Capital Requirement ratio of 379% and a 112% SCR (Solvency Capital Requirement) at the end of the year.

As it published in previous years, the work done by the Underwriting Agencies in all countries where MIC operates allows us to achieve partnerships with local agencies, which provide us their knowledge and know-how. This, combined with MIC's team expertise and capabilities of the Company, created important synergies that enabled our country and product diversification and with costs levels far below the European average.

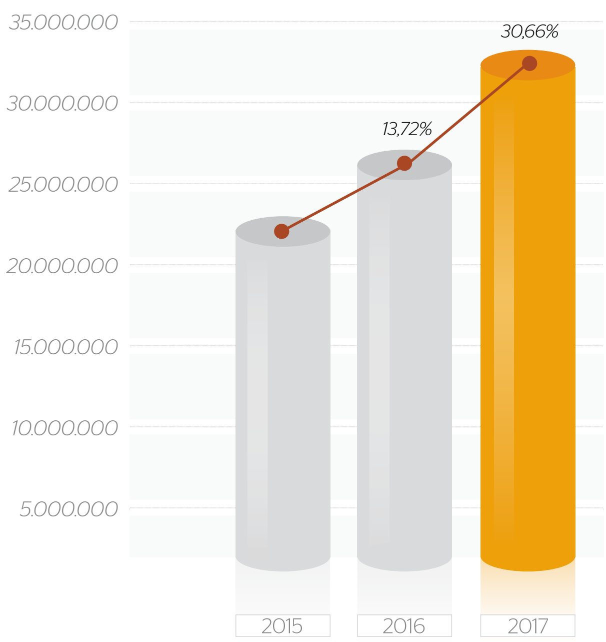
For yet another year, MIC has been reinsured by large continental reinsurance companies, such as Mapfre Re, Nacional de Reaseguro, Catlin Re, Q-Re, CCR, Endurance RE and IRB Brasil RE, as well as supported by major Lloyd's syndicates, such us Liberty SM, Tokio Marine, Kiln, Chaucer, Brit Global Specialty, QBE Syndicate and International General Insurance Co. Ltd. The good work done by MIC has been shown in new renovations by the reinsurers, with increases in capacities in some lines of business in comparison with previous years.

For the year 2017, MIC continues adapting and forming their resources, both human and technological, to make possible its growth, and to respond adequately to the new requirements and needs that the market itself and the insurance sector are developing, such as Solvency II. After several analysis and (internal and external) test, MIC is proud of the development and the advances obtained in this year and the consolidation to Solvency II regulations is very satisfactory.

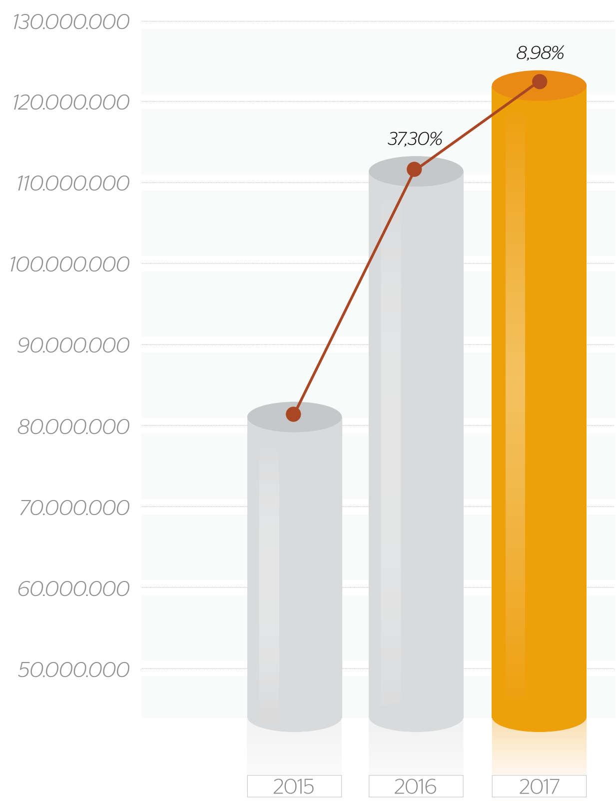
Therefore, and in conclusion, we can affirm that in 2017 MIC has managed, once again, to exceed all expectations of growth and diversification, with great results, and building trust between their collaborators (agencies and reinsurers) and customers.

## Evolution

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Assets | 41.425.699,00 € | 51.167.967,00 € | 51.369.325,00 € | 65.504.870,00 € | 90.436.538,99 € | 114.584.927,00 € | 139.280.802,00 € | 164.923.509,00 € |




Evolution
OWN FUNDS
(Millions €)




Evolution
TECHNICAL PROVISIONS
(€ 000)


**TOTAL ASSETS growth/development (€ 000)**
(Growth with respect to the previous year)

## Future Developments

Following the same policy than previous years, in 2018 MIC will keep its premium policy and try to increase its existing premium volume whilst at the same time looking for new geographical areas to diversify into it. MIC will do this whilst at the same time consolidating developed markets and searching for new products and great business opportunities which are demanded by consumers.

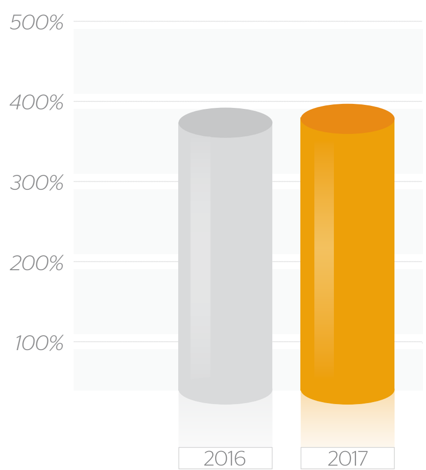
In this sense, international expansion remains a main objective of the Company both in new European countries and Worldwide. To achieve these aims, the Company will continue working closely with its Underwriting Agencies and looking for new potential partners that may contribute to the development and diversification of the Company.

In order to get this, MIC will continue to strengthen its relationships with the reinsurance companies that it has been supporting with for many years whilst at the same time seeking out new reinsurance partners (and facilities) to work with.

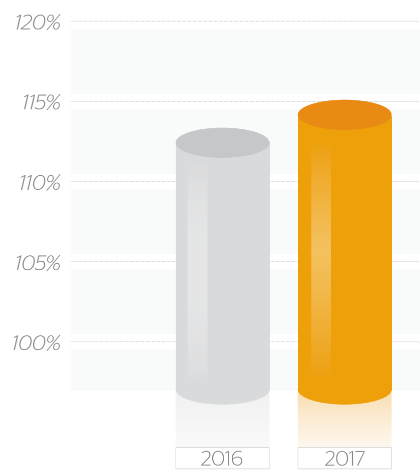
Another core objective of MIC will be maintaining its loss ratio which has provided such good results over the years. In particular, in the Spanish market, MIC will work for keeping the surety loss ratio further from the market ratio. To do this, MIC is making great efforts to recruit the right people with the right knowledge of the business written in each sector and to maintain its conservative risk policy. Focused on the mutual profitability and satisfaction both MIC and its Brokers and Agencies.

Moreover, the Company continues to work towards full compliance with all requirements set by Solvency II.

In conclusion, by 2018, taking into account the expected economic recovery and growth in different countries, the specialisation and expertise in many lines of business and relationship with new partners, will mean a new leap of the company, with the intention of continuing to grow as a reliable company for all its partners and customers.




Evolution
MINIMUM CAPITAL REQUIRED
(%)




Evolution
SCR (SOLVENCY CAPITAL REQUIREMENT)
(%)

## Ranking ICEA–Surety

This ranking has been elaborated from the following data: Insurance Market evolution Statistic as of December 2017.

ICEA Association (Investigación Cooperativa de Entidades Aseguradoras), February 2018.

| Nº | Entity | Premiums issues direct (euros) | Growth | Market share |
|---|---|---|---|---|
| **1.** | **MIC-MILLENNIUM Insurance Company Limited** | **13.254.167,10** | **1,92%** | **21,87%** |
| 2. | A. CRÉDITO Y CAUCIÓN | 9.559.828,10 | 10,80% | 15,78% |
| 3. | AXA SEGUROS GENERALES | 8.824.858,18 | 44,55% | 14,56% |
| 4. | MAPFRE GLOBAL RISKS | 5.820.619,45 | 12,07% | 9,61% |
| 5. | CESCE | 4.709.961,35 | -9,07% | 7,77% |
| 6. | ZURICH INSURANCE | 3.234.371,99 | 126,01% | 5,34% |
| 7. | ASEFA | 3.048.397,71 | 5,63% | 5,03% |
| 8. | GENERALI SEGUROS | 2.389.673,79 | 41,00% | 3,94% |
| 9. | CHUBB EUROPEAN | 2.363.534,00 | 83,33% | 3,90% |
| 10. | HCC TOKIO MARINE | 989.414,00 | -87,80% | 1,63% |

*“5th consecutive year ranking number one in Spain”.*

# 03.
# ANNUAL ACCOUNTS 2017

***Kilmainham Gaol,*** *Dublin (Ireland).*

# 03. ANNUAL ACCOUNTS 2017

## Technical and non-technical accounts

| TECHNICAL ACCOUNT | 2017 (€) | 2016 (€) |
|---|---|---|
| Gross premiums written | 59.864.031 | 74.332.203 |
| Outward reinsurance premiums | (12.934.885) | (12.456.076) |
| Total | 46.929.146 | 61.876.127 |
| Change in the provision for unearned premiums | (1.272.552) | (18.740.496) |
| Reinsurers' share | (317.311) | (195.709) |
| Total | (1.589.863) | (18.936.205) |
| TOTAL TECHNICAL INCOME | 45.339.283 | 42.939.922 |
| CLAIMS PAID | (25.969.696) | (21.477.760) |
| Reinsurers' share | 5.511.308 | 4.560.156 |
| Total | (20.458.388) | (16.917.604) |
| Change in the provision for claims | (9.011.559) | (8.286.106) |
| Reinsurers' share | 37.870 | (1.808.341) |
| Total | (8.973.689) | (10.076.447) |
| Claims incurred, net of reinsurance | (29.432.077) | (26.994.051) |
| Net operating expenses | (14.976.600) | (13.001.002) |
| TOTAL TECHNICAL CHARGES | (44.408.677) | (39.995.053) |
| Balance on the technical account for general business | 930.606 | 2.944.869 |

| NON-TECHNICAL ACCOUNT | 2017 (€) | 2016 (€) |
|---|---|---|
| Balance on the general business technical account | 930.606 | 2.944.869 |
| Realised Investments income | 279.489 | 82.583 |
| Unrealised profit on investments | 439.919 | 274.458) |
| Investment expenses and charges | 67.108 | 16.180 |
| Profit/(loss) on ordinary activities before taxation | 1.717.122 | 3.318.090 |
| Tax on profit/(loss) on ordinary activities | 473.095 | (295.655) |
| Profit/(loss) for the financial year | 2.190.217 | 3.022.435 |

## Results and dividens

| ASSETS | 2017 (€) | 2016 (€) |
|---|---|---|
| TOTAL INVESTMENTS | 16.146.488 | 11.854.651 |
| Land and buildings | 400.568 | 423.087 |
| Properties for rent | 13.003.400 | 7.437.500 |
| Other financial investments | 2.742.520 | 3.944.064 |
| TOTAL REINSURERS’ SHARE OF TECHNICAL PROVISIONS | 20.071.086 | 20.350.526 |
| Provision for unearned premiums | 12.489.747 | 12.807.057 |
| Claims outstanding | 7.581.339 | 7.543.469 |
| TOTAL DEBTORS | 46.479.925 | 39.615.464 |
| Debtors arising out of direct insurance operations-intermediaries | 19.502.783 | 27.509.987 |
| Debtors arising out of reinsurance operations | 10.552.974 | 4.674.357 |
| Other debtors | 13.468.420 | 4.123.929 |
| Subrogation and recoveries | 2.955.748 | 3.307.191 |
| OTHER ASSETS | 65.778.432 | 50.945.998 |
| Cash at bank and in hand | 65.778.432 | 50.945.998 |
| PREPAYMENTS AND ACCRUED INCOME | 16.447.578 | 16.514.163 |
| Deferred acquisition costs – gross amounts | 16.447.578 | 16.514.163 |
| Other prepayments and accrued income | - | - |
| TOTAL ASSETS | 164.923.509 | 139.280.802 |

| LIABILITIES | 2017 (€) | 2016 (€) |
|---|---|---|
| CAPITAL AND RESERVES | 32.723.833 | 19.361.166 |
| Called up share capital | 21.172.450 | 10.000.000 |
| Profit and loss account | 11.551.383 | 9.361.166 |
| TECHNICAL PROVISIONS | 120.490.290 | 110.557.622 |
| Provision for unearned premiums – gross amount | 68.573.204 | 67.300.651 |
| Claims outstanding – gross amount | 51.917.086 | 43.256.971 |
| DEPOSITS RECEIVED FROM REINSURERS | 459.852 | 469.109 |
| CREDITORS | 10.560.676 | 8.097.782 |
| Creditors arising out of direct insurance operations | 1.509.080 | 834.847 |
| Creditors arising out of reinsurance operations | 7.518.499 | 4.789.242 |
| Other creditors including taxation and socials security | 1.533.097 | 2.473.693 |
| ACCRUALS AND DEFERRED INCOME | 688.858 | 795.123 |
| TOTAL  LIABILITIES | 164.923.509 | 139.280.802 |

***Schönbrunn Palace,*** *Vienna (Austria).*

## Cash-flow

| | 2017 (€) | 2016 (€) |
|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 14.519.055 | 27.256.345 |
| Taxation Paid | 473.095 | (295.655) |
| NET CASH INFLOW BEFORE FINANCING | 14.992.150 | 26.960.690 |
| EQUITY DIVIDENDS PAID TO SHAREHOLDERS | - | - |
| NET CASH INFLOW | 14.992.150 | 26.960.690 |

## Results and dividens

The Company's profit for the financial year after taxation was € 2.190.217 (2016: € 3.022.435). No dividends were declared during the year and the retained profit of € 2.190.217 has been transferred to reserves, for a total amount of € 32.723.833 including capital and reserves..

## Solvency Margin

The Solvency Margin gives a greater degree of guarantee and solidity to the group of measures that, in the long term, shape MIC´s technical and economic balance.

In 2017, under Solvency II regulations, MIC has a Minimum Capital Required ratio of 379% and 112% of SCR (Solvency Capital Requirement) at the year end.

# 04.

# NOTES TO THE FINANCIAL STATEMENTS

**Brandenburg Gate,** *Berlin (Germany).*

# 04. NOTES TO THE FINANCIAL STATEMENTS

## 04.1 ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, as modified for investments at fair value through profit and loss. The financial statements have also been prepared under the accounting policies set out below, applicable legislation and in accordance with Gibraltar Accounting Standards.

The legislation applied in the preparation of these financial statements includes the Companies Act 2014, the Financial Services (Insurance Companies) Act and the Insurance Companies (Accounts Directive) Regulations 1997.

### 1.1. Premiums written

Premiums written relate to total premiums receivable for insurance contracts entered into during the accounting period, together with any differences between the booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company, except a forecast to cancel them.

Decennial policies which involve a number of buildings as part of a single construction project, often referred to as "Group Policies" are deemed to have gone on risk when individual buildings within the construction project are completed.

### 1.2. Reinsurance

Outward reinsurance premiums are accounted for in the same accounting period as the related insurance business.

### 1.3. Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of the policies in force at the balance sheet date, calculated on a time apportioned basis.

### 1.4. Pre-paid insurance policies

Deposits on insurance policies which have not yet come on risk are accounted for as deferred income.

Reinsurance and brokerage commission paid on pre-paid policies that have not yet come on risk are accounted for as deferred expenses.

### 1.5. Acquisition costs

Acquisition costs comprise brokerage and service company acquisition costs incurred on insurance contracts written during the financial year. They are spread over a period equivalent to that over which the premiums on the underlying business are earned.

Prepaid policies that are yet to come on risk are still liable to pay brokerage commission on a percentage basis of the prepaid policy premium.

Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

### 1.6. Processing costs

Processing costs are included within net operating expenses and comprise service company charges incurred in handling insurance contracts written during the financial year. This charge incorporates claims handling charges. They are spread over a period equivalent to that over which the premiums on the underlying business are earned.

Deferred processing costs represent the proportion of processing costs incurred in respect of unearned premiums at the balance sheet date.

## 1.7. Levies

Levies payable to the Spanish authorities for the insurance compensation scheme and natural disaster fund are recognised within net operating expenses.

## 1.8. Claims incurred

Claims incurred represents claim payments adjusted for the movement in the outstanding claims liability, net of salvage and subrogation recoveries. Reinsurance recoveries are accounted for in the same accounting period as the claims for the related business being reinsured.

The outstanding claims liability is measured as the value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full and claims incurred but not reported ("IBNR") and the anticipated direct and indirect claims handling costs.

## 1.9. Reinsurance recoveries

Reinsurance recoveries in respect of claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

The reinsurers' share of claims incurred in the profit and loss account reflects the amount received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as "Outward reinsurance premiums" when due.

## 1.10. Salvage and subrogation recoveries

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Salvage and subrogation recoveries are included in other assets. For salvage recoveries, the amount recognised is the amount that can be reasonably recovered from the disposal of the property. For subrogation reimbursements, the amount recognised is the amount that can reasonably be expected to be recovered from the action against the liable third party.

## 1.11. Profit commission

Under some reinsurance contracts entered into by the Company, the Company is entitled to sliding scale or profit commission depending on the overall result derived on the line of business covered by that particular reinsurance contract. The Company may also be required to pay a profit commission to its agents. Given that the overall result generated by the Company is subject to significant uncertainty as all claims data may not be known until subsequent periods, the company can find it difficult to estimate sliding scale and profit commission (see note two, critical accounting estimates).

## 1.12. Taxation and deferred tax

Provision is made at the applicable rate for corporation tax payable on profit for the year, as adjusted for tax purposes.

Spanish capital gains tax is payable on certain realised gains on investments.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on a non-discounted basis, using the tax rates that are expected to apply in the periods in which the timing difference are expected to reverse based on tax rates and laws that have been enacted by the balance sheet date.

## 1.13. Insurance premium tax and levies

Insurance premium taxes and levies (IPS, Clea and

Consorcio) are based on a percentage of Net Written Premiums, where Net Written Premiums are the actual insurance premium written in the year. Gross premiums written are recognised net of insurance premium taxes whereas levies are recognised as direct insurance costs within operating expenses.

## 1.14. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

## 1.15. Financial instruments

The company classifies its financial assets in the following categories:

**Loans and receivables**

Loans and receivables and investments at fair value through profit and loss account. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise debtors and cash at bank and in hand in the balance sheet.

**Investments at fair value through profit and loss account**

Investments at fair value through profit and loss are financial assets that are principally acquired for the purpose of selling in the short term and are recorded within "other financial investments" on the balance sheet.

## 1.16. Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Investments at fair value are carried at the bid price. Loans and receivables are carried at amortised cost using the effective interest method.

Dividend income from financial assets is recognised in the income statement as part of other income when the Company's right to receive payments is established.

The market values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

The amount of the asset only increases with the amount that the original had had if the deterioration had not occured.

## 1.17. Impairment of assets

**Financial assets**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about the following events:

**(i)** significant financial difficulty of the issuer or debtor;

**(ii)** a breach of contract, such as a default or delinquency in payments;

**(iii)** it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

**(iv)** the disappearance of an active market for that financial asset; or

**(v)** observable data indicating a measurable decrease in the estimated cash flow from those financial assets.

If there is objective evidence that an impairment loss has been incurred on trades and other receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss recognised in the profit and loss account.

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

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

Any impairment is recognised in the profit and loss account in the period in which the loss occurs. If an external event gives rise to a reversal of the impairment loss, the reversal is recognised in the profit and loss account by increasing the carrying amount of the asset in the period in which it occurs. The carrying amount of the asset will only be increased to the amount that it would have been had the original impairment not occurred.

The amount of teh asset only increases with the amount that the original has had if the deterioration had not occured

## 1.18. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is recorded in the non-technical account.

## 1.19. Fixed assets

The cost of fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

**Building:** 47 years (over the term of the lease)
**Computer equipment:** 4 years

## 1.20. Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

## 1.21. Foreign currency traslation

All assets and liabilities in foreign currency are translated into Euros at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currency are translated into Euros at the rate ruling on the date of the transaction or the average rate for the period, provided that there are no significant fluctuations in the exchange rate during this time. Any differences arising on exchange are dealt with through the profit and loss account.

## 1.22. Cash at bank and in hand

Cash at bank and in hand includes cash in hand and balances available on demand held with banks.

## 1.23. Other financial investments

Other financial investments include all deposit balances held with banks that require notification of more than 24 hours prior to any withdrawal of cash and equity investments.

## 1.24. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

# 04.2 CRITICAL ACCOUNTING ESTIMATES

## Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and is recorded gross of any expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding the claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between the initial estimates and the final outcomes because of the greater degree of difficulty of estimating those reserves. Classes of business where claims are typically reported relatively quickly after the claim event will tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The Financial Statements of the Company have been adjusted so that the outstanding claims are consistent with the recommended estimation of an independent Actuarial Department hired by MIC.

## Salvage and subrogation recoveries

For salvage recoveries, the amount recognised is the amount that can be reasonably recovered from the disposal of the property. For subrogation reimbursements, the amount recognised is the amount that can reasonably be expected to be recovered from the action against the liable third party. Given that these relate to uncertain future events, the directors have based the recoverable amount on a prudent estimate of the total recoveries that are being pursued by the Company.

The Company attempts to obtain the most recent financial information on companies from whom recoveries are anticipated and has a legal and underwriting team to consider the probabilities of success at court and the likely outcome from pursuing the recoveries before deciding the amount to include as recoveries in the financial statements. Given this uncertainty, the directors have adopted a prudent approach to the recognition of recovery assets, and expect that eventual amounts received will exceed the recognised amount.

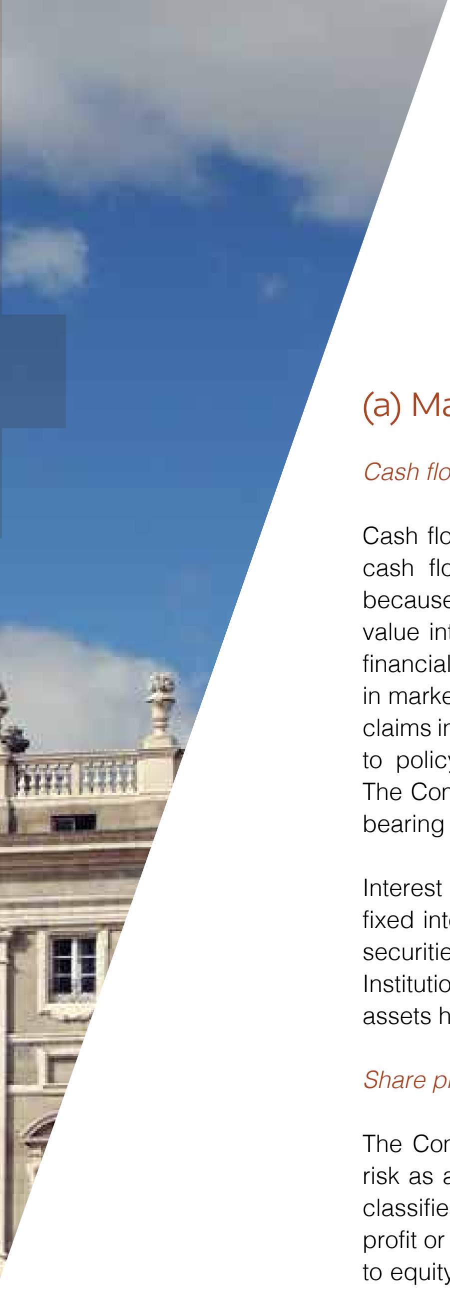
## 04. 3 MANAGEMENT OF FINANCIAL RISK

| MARKET RISK | 2017 (€) | 2016 (€) |
|---|---|---|
| Fixed interest rate bearing financial assets | 72.591 | 72.831 |
| Floating rate interest rate bearing financial assets | 65.778.432 | 50.945.998 |
| TOTAL | 65.851.023 | 51.018.829 |

| CREDIT RISK | 2017 (€) | 2016 (€) |
|---|---|---|
| Deposit with financial institutions | 72.591 | 72.831 |
| Debtors arising out of direct insurance operations-intermediaries | 19.502.783 | 27.509.987 |
| Loans and receivables | 12.425.481 | 4.072.535 |
| Assets arising from reinsurance contracts held | 18.134.313 | 12.217.826 |
| Cash at bank in hand | 65.778.432 | 50.945.998 |
| Other debtors | - | - |
| Subrogation and recoveries | 2.955.748 | 3.307.191 |
| TOTAL ASSETS BEARING CREDIT RISK | 118.869.348 | 98.126.368 |

| | 2017 (€) | 2016 (€) |
|---|---|---|
| AA or A | 16.609.597 | 12.217.826 |
| BBB | - | - |
| | 16.609.597 | 12.217.826 |

***Royal Palace,** Madrid (Spain).*



## (a) Market risk

*Cash flow and fair value interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company does not have any significant interest bearing liabilities.

Interest rate risk arises primarily from investments in fixed interest securities and loans, floating rate debt securities and short term deposits with Financial Institutions. The profile of the interest bearing financial assets held by the company is as follows:

*Share price risk*

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

Listed equity securities represent 100% of the total equity investments at fair value. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by 133.496€.

## (b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key 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;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries; and
- Amounts due from counterparties and financial institutions.

The Company manages the levels of credit risk it accepts by spreading its exposure to a wide range of counterparties.

Reinsurance is used to manage insurance risk. The creditworthiness of counterparties and reinsurers can be considered on reviewing credit grades provided by rating agencies and other publicly available financial information. Deposits from reinsurers are also held as collateral.

MIC supports its insurance management through agreements with high level reinsurers and rating A, in addition to these Continental reinsurers, MIC is included in sime of the most prestigious syndicates of Lloyd´s.

## 04.4 SEGMENTAL REPORTING

| 2017 | Gross premiums written (€) | Gross premiums earned (€) | Gross claims incurred (€) | Gross operating expenses (€) |
|---|---|---|---|---|
| Third party liability | 32.496.175 | 24.605.055 | 12.721.537 | 7.372.112 |
| Fire and other damage to property | 7.288.711 | 11.220.280 | 8.264.185 | 4.644.331 |
| Surety | 14.177.260 | 14.915.947 | 7.663.407 | 1.508.158 |
| Accident and sickness | 5.602.754 | 7.622.908 | 6.272.848 | 1.317.318 |
| Legal expenses | 86.760 | 95.788 | 6.918 | 69.698 |
| Miscellaneus | 212.372 | 131.501 | 52.359 | 64,944 |
| TOTAL | 59.864.031 | 58.591.479 | 34.981.255 | 14.976.560 |

| 2016 | | | | |
|---|---|---|---|---|
| Third party liability | 38.378.261 | 24.334.902 | 13.793.360 | 6.081.612 |
| Fire and other damage to property | 12.319.784 | 10.857.178 | 6.392.493 | 3.349.407 |
| Surety | 17.384.530 | 16.080.642 | 4.753.617 | 2.500.567 |
| Accident and sickness | 6.067.927 | 4.235.430 | 4.804.673 | 1.022.647 |
| Legal expenses | 109.587 | 61.076 | (12.364) | 38.778 |
| Miscellaneus | 63.114 | 22.478 | 14.086 | 7.991 |
| TOTAL | 74.332.203 | 55.591.706 | 29.745.865 | 13.001.002 |

## 04.5 GROSS WRITTEN PREMIUMS (Net of Taxes)

| 2017 | Gross (€) |
|---|---|
| Premiums written | 59.864.031 |
| Unearned premiums carried forward | (68.573.204) |
| Unearned premiums brought forward | 67.300.651 |
| Change in the provision for unearned premiums | (1.272.553) |
| Earned premiums | 58.591.478 |

| 2016 | Gross (€) |
|---|---|
| Premiums written | 74.332.203 |
| Unearned premiums carried forward | (67.300.651) |
| Unearned premiums brought forward | 48.560.155 |
| Change in the provision for unearned premiums | (18.740.496) |
| Earned premiums | 55.591.707 |

## 04.6 NET OPERATING EXPENSES

| 2017 | (€) |
|---|---|
| Acquisition costs | 14.143.792 |
| Change in deferred acquisition costs | 66.585 |
| Administrative expenses | 4.159.519 |
| Reinsurance commission and profit participation | (3.393.296) |
| | 14.976.600 |

| 2016 | |
|---|---|
| Acquisition costs | 18.185.973 |
| Change in deferred acquisition costs | (4.188.819) |
| Administrative expenses | 2.597.532 |
| Reinsurance commission and profit participation | (3.593.684) |
| | 13.001.002 |

## 04.7 EQUITY SHARESHOLDERS´ FUND

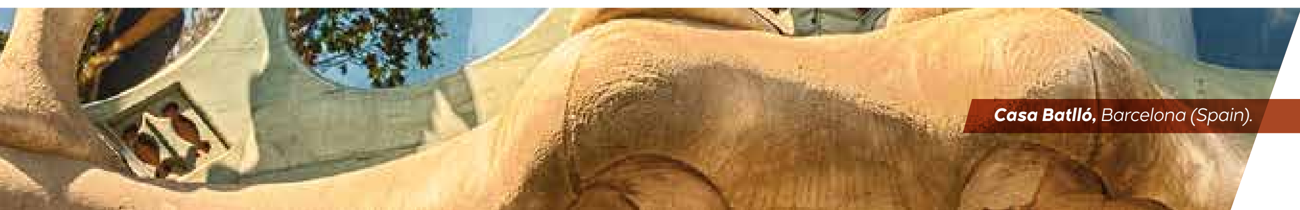
| | 2017 (€) | 2016 (€) |
|---|---|---|
| Alloted and fully paid share capital | 21.172.450 | 10.000.000 |
| Reserves | 11.551.383 | 15.045.166 |
| Equity shareholders´ funds | 32.723.833 | 25.045.166 |

The underwriting and paid up Company Equity is 21.172.450 € which represents an increase of 111.72%.

## 04.8 PORTFOLIO INVESTEMENTS

*(i) Movement in cash, portfolio investments and financing*

| | At 31 December 2017 (€) | At 31 December 2016 (€) |
|---|---|---|
| Cash at bank and in hand | 65.778.432 | 50.945.998 |
| Deposits with credit institutions | 72.591 | 72.831 |
| Other investments | 2.742.520 | 3.994.064 |
| Properties for rent | 13.003.400 | 7.448.254 |
| TOTAL | 81.596.943 | 62.461.147 |



***Casa Batlló,*** *Barcelona (Spain).*

# 05.
# AUDIT REPORT

***Charles Bridge,*** *Prague (Czech Republic).*

BDO

**Independent auditors' report to the members of Millennium Insurance Company Limited *(continued)***

**Report on the Audit of the Financial Statements *(continued)***

**Report on Other Legal and Regulatory Requirements**

**Opinion on other matter prescribed by the Companies Act 2014**

In our opinion, based on the work undertaken in the course of the audit:

- 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 requirements of the Companies Act 2014.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the matter where the Companies Act 2014 requires us to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 257 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other matters**

- We were appointed as auditors by the Board of Directors and signed an engagement letter on 6 December 2017 to audit the financial statements for the year ended 31 December 2017. The period of total uninterrupted engagements is five years, covering the years ended 31 December 2013 to 31 December 2017.
- The audit opinion is consistent with the additional report to the Audit Committee.

Christian Summerfield (Statutory Auditor)
for and on behalf of
**BDO Limited**

5.20 World Trade Center
6 Bayside Road
PO Box 1200
Gibraltar

29 June 2018