

OS AA01

Statement of details of parent law and other information for an overseas company



Companies House

CAR0 f80/21525

What this form is for
You may use this form to
accompany your accounts
disclosed under parent law.

What this form is NOT
You cannot use this form
an alteration of manner
with accounting requirements.

MONDAY



LD3

L8JF087Y

02/12/2019

#68

COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of
overseas company ①

MetLife Europe d.a.c.

UK establishment
number

B R 0 0 8 8 6 6

→ Filling in this form

Please complete in typescript or in
bold black capitals.

All fields are mandatory unless
specified or indicated by *

① This is the name of the company in
its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and,
if applicable, the legislation under which the accounts have been audited.

Legislation ②

The Irish Companies Act 2014

② This means the relevant rules or
legislation which regulates the
preparation and, if applicable, the
audit of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box.

☐ No. Go to **Section A3**.

☒ Yes. Please enter the name of the organisation or other
body which issued those principles below, and then go to **Section A3**.

Name of organisation
or body ③

The International Accounting Standards Board

③ Please insert the name of the
appropriate accounting organisation
or body.

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☐ No. Go to **Section A5**.

☒ Yes. Go to **Section A4**.

OS AA01

Statement of details of parent law and other information for an overseas company

A4

Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ **No.** Go to **Part 3 'Signature'**.

☒ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.

● Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ●

The Auditing Practices Board

A5

Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box.

☐ **No.**

☐ **Yes.**

Part 3

Signature

Signature

I am signing this form on behalf of the overseas company.

Signature

X



X

This form may be signed by:
Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name **Claire Apostolidi**

Company name **MetLife Europe d.a.c.**

Address **One Canada Square**

Post town **London**

County/Region **London**

Postcode **E 1 4 5 A A**

Country **United Kingdom**

DX

Telephone **0207 715 2492**



Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.



Important information

Please note that all this information will appear on the public record.



Where to send

You may return this form to any Companies House address:

England and Wales:

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

Northern Ireland:

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.



Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

MetLife Europe d.a.c.

**Directors' Report and Audited Financial Statements
For the financial year ended 31 December 2017**

Registration number: 415123

Contents

| | |
|-------------------------------------|---------|
| Directors and Other Information | 2 |
| Directors' Report | 3 |
| Directors' Responsibility Statement | 8 |
| Independent Auditors' Report | 9 |
| Statement of Comprehensive Income | 15 |
| Statement of Financial Position | 16 |
| Statement of Changes in Equity | 17 |
| Statement of Cash Flows | 18 |
| Notes to the Financial Statements | 19 - 79 |

MetLife Europe d.a.c.
Directors and Other Information
For the financial year ended 31 December 2017

| | | | |
|----------------------------|--|--|------------------------------------|
| Directors | Director | Residency | |
| | Sarah Alicia Celso | UK | Chairman |
| | Brenda Dunne | Ireland | Independent Non-Executive Director |
| | Éilish Finan | Ireland | Independent Non-Executive Director |
| | Michael Hatzidimitriou | Greece | Non-Executive Director |
| | Nicolas Hayter | Ireland | Chief Finance Officer |
| | Ruairi O'Flynn | Ireland | Independent Non-Executive Director |
| | Dirk Ostijn | Ireland | Chief Executive Officer |
| | Miriam Sweeney | Ireland | Chief Risk Officer |
| | Mario Valdes | Czech Republic | Executive Director |
| Registered Office | 20 on Hatch Lower Hatch Street Dublin 2 | | |
| Head of Actuarial Function | Mark Wharton | | |
| Independent Auditors | Deloitte Chartered Accountants and Statutory Audit Firm Deloitte and Touche House Earlsfort Terrace Dublin 2 | | |
| Company Secretary | MetLife Europe Services Limited 20 on Hatch Lower Hatch Street Dublin 2 | | |
| Principal Bankers | HSBC Bank plc 62-76 Park Street London SE1 SE1 9DZ | Citibank Europe plc 1 North Wall Quay Dublin 1 | |
| Solicitors | McCann Fitzgerald Riverside One Sir John Rogerson's Quay Dublin 2 | | |

MetLife Europe d.a.c.
Directors' Report
For the financial year ended 31 December 2017

The directors submit their report together with the audited financial statements for the financial year ended 31 December 2017.

Principal activities

MetLife Europe d.a.c. ("the Company") is an Irish incorporated entity domiciled in Ireland and is authorised by the Central Bank of Ireland to transact life assurance business in Life Classes I, III, IV and VI and non-life classes 1 and 2 under the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015).

The Company has a wholly owned subsidiary in the United Kingdom (UK), MetLife Pension Trustees Limited.

Review of business and future developments

MetLife Inc. operates within Europe through various subsidiaries. Over the past number of years the Company participated in a significant restructuring of MetLife Inc.'s European operations to leverage the options provided by the European Insurance Directives to "passport" throughout the EU from a single base. This restructuring programme 'Project Evolution' also aligned to the Solvency II implementation strategy. This restructuring was completed in 2016.

The Company established a branch in the UK in 2006. Between 2012 and 2016, as part of the Project Evolution programme, it established branches in Italy, Spain, Portugal, France, Czech Republic, Bulgaria, Slovakia, Hungary, Romania and Cyprus.

The Company also operates via Freedom of Service in Poland, Greece, Norway, Germany, Austria and the Netherlands. It reinsures business from Russia and Indonesia.

The Company's principal performance indicators in 2017 are as follows:

| | 2017 | 2016 |
|--------------------------------|------------------|------------------|
| | € million | € million |
| Non unit-linked earned premium | 903 | 834 |
| Unit-linked earned premium | 547 | 1,013 |
| Profit for the year | 94 | 106 |

Non unit-linked earned premium has increased from €834million in 2016 to €903million in 2017. This is due to business growth across the branches, particularly in the UK through the group and individual protection business as well as in Italy and Spain.

Unit-linked earned premium has decreased from €1,013million in 2016 to €547million in 2017. This is mainly due to the closure of the UK Wealth Management unit-linked business to new business.

Profit has decreased from a profit of €106million in 2016 to a profit of €94million in 2017. The decrease is primarily driven by restructuring costs in the UK and additional data regulatory costs, partially offset by profits arising from business growth during 2017.

On 29 March 2017, the UK Prime Minister triggered the withdrawal process for the UK to leave the EU by invoking Article 50 of the Treaty of Lisbon. The treaty provides that the UK and the EU will negotiate a withdrawal agreement during a maximum two-year period (unless such period is extended by unanimous vote of the other EU member states). The UK remains a member of the EU with unchanged rights to access the single EU market in goods and services until transition commences in 2019. Our UK business model utilizes certain rights to operate cross-border insurance and investment operations which may be modified or eliminated as a result of the UK exiting the EU. At this time, there is still a number of possible outcomes, ranging from a scenario where the business could operate uninterrupted, to a scenario where

MetLife Europe d.a.c.
Directors' Report (continued)
For the financial year ended 31 December 2017

the Company would no longer be able to operate in the UK except through a subsidiary. The Company is monitoring the withdrawal process and assessing the potential impact on the UK branch.

The Company's immediate parent company is MetLife EU Holding Company Limited (MetLife EU) and its ultimate parent company is MetLife Inc..

On 4 December 2017 MetLife EU purchased the 4% minority shareholding from American Life Insurance Company and International Technology and Advisory Services Limited, to become the sole owner of the Company.

On 7 December 2017 the Company paid a dividend of €222million to MetLife EU. The directors were satisfied that there was sufficient solvency cover, based on the Own Risk and Solvency Assessment (ORSA), to support the payment of the dividend. In addition, there were sufficient IFRS distributable reserves based on the Companies Acts 2014 requirements.

The Board reviewed its strategy in 2016, in line with a strategic refresh carried out by the ultimate parent MetLife Inc.. To execute its strategy MetLife Inc., has identified "enablers" such as leveraging digital to help drive transformation and combat customer confusion and hidden costs by focusing on simplifying operations and products. The Company is evaluating processes with the view of simplifying or automating where possible to ensure it can continually adapt to the environment it operates in.

In January 2017 the Company announced the closure of the agency distribution channel in Spanish branch and the merger of the executive management teams of the Czech and Slovakian branches.

On 28 July 2017 the Company closed its UK unit linked business to new business and refocused its strategy within the UK to drive the growth of its group life and individual protection businesses.

Dividends and capital

A dividend of €222million was paid during the financial year (2016: nil).

The Company received no capital contributions during the financial year (2016: nil).

The Company issued no shares during the financial year (2016: 227,800).

Authorised and issued share capital

| | 2017 | 2017 | 2016 | 2016 |
|---|------------------|--------------|------------------|--------------|
| | Number of shares | €'000 | Number of shares | €'000 |
| <u>Allocated, called up and fully paid:</u> | | | | |
| Closing balance at 31 December | <u>4,379,124</u> | <u>4,379</u> | <u>4,379,124</u> | <u>4,379</u> |

Events after the Statement of Financial Position

On 26 March 2018 the Company converted a €50.4million intercompany receivable owing from MetLife EU to an interest bearing ten year loan.

Future developments

The company will continue to implement its strategy and transformation program as outlined in the 'Review of the Business' above.

**MetLife Europe d.a.c.
Directors' Report (continued)
For the financial year ended 31 December 2017**

Solvency II

The Solvency II regulatory framework was implemented on 1 January 2016. In May 2017 the Company made its first submission of the annual Quantitative Reporting Templates (QRTs), the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR).

In addition, throughout 2017 the Company continued submitting quarterly QRTs, quarterly and bi-annual National Specific Templates (NSTs) and the ORSA to the Central Bank of Ireland (CBI).

Based on 2017 submissions the Company has sufficient surplus assets to cover the Solvency Capital Requirement (SCR). The Directors are confident that the Company will continue to have adequate resources under the Solvency II regime to continue in operational existence for the foreseeable future.

Risks and uncertainties

The key categories of risk faced by the Company are credit risk, market risk, liquidity risk, insurance risk and operational risk (see note 27.3). The Company has documented a risk management framework to ensure risk is managed in line with the Company's stated risk appetite. This framework is subject to at least annual review and approval by the Board of Directors to ensure its on-going appropriateness, in line with the CBI's Corporate Governance Requirements for Insurance Undertakings (2015).

Compliance with 2015 Corporate Governance Requirements

The Corporate Governance Requirements for Insurance Undertakings imposes minimum core standards upon all undertakings licensed or authorised by the CBI, which include the Company. It also sets out additional requirements on entities which are designated as 'major' institutions to reflect the risk and nature of those institutions. The Company has been designated as a major institution.

Directors Compliance with 2014 Companies Act

The directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (within the meaning of section 225 of the Companies Act 2014).

The directors confirm that;

- the Company has drawn up a statement setting out the Company's policies that are in the opinion of the directors appropriate respecting compliance by the Company with its relevant obligations;
- there are appropriate arrangements and structures in place designed to secure material compliance with the Company's relevant obligations; and
- a review has been conducted during the financial year of the arrangements or structures that have been put in place.

Board Committees

The Board has established four committees to assist it in the execution of its responsibilities. These are:

- Audit Committee;
- Risk Committee;
- Investment Committee; and
- Nomination Committee.

Each of the committees has written terms of reference which are approved by the Board and set out the committees' powers, responsibilities and obligations. The terms of reference are reviewed at least annually by the relevant committee and updated by the Board where necessary.

MetLife Europe d.a.c.
Directors' Report (continued)
For the financial year ended 31 December 2017

Directors

The following directors served during 2017 and except where indicated they served for the entire financial year:

| | |
|------------------------|---------------------------|
| Sarah Alicia Celso | |
| Brenda Dunne | |
| Éilish Finan | |
| Michael Hatzidimitriou | |
| Nicolas Hayter | |
| Ruairí O'Flynn | Appointed 11 January 2017 |
| Dirk Ostijn | |
| Miriam Sweeney | Appointed 18 January 2017 |
| Mario Valdes | |
| Lukas Ziewer | Resigned 18 January 2017 |

Directors' interest

The interests of the directors, all of which are beneficially held, in the ordinary share capital of MetLife Inc. at 31 December 2017 are less than 1 per cent in nominal value of the issued share capital of MetLife Inc..

Adequate accounting records

The measures which the directors have taken to secure compliance with the requirements of Section 281 to Section 285 of the Companies Act 2014 with regard to the keeping of accounting records include the adoption of suitable policies for recording transactions, assets and liabilities, the employment of appropriately qualified staff and the use of computer and documentary systems. The Company's books of accounts are kept at 20 on Hatch, Lower Hatch Street, Dublin 2.

Statement on relevant audit information

In accordance with the provisions of Section 330 of the Companies Act 2014, so far as the directors are aware, there is no relevant audit information of which the Company's statutory auditors are unaware and the directors have taken all steps in order to make themselves aware of any relevant audit information to establish that the Company's statutory auditors are aware of that information.

Political donations

The Company made no political donations during the financial year (2016: nil).

Auditors

The auditors, Deloitte, Chartered Accountants and Statutory Audit Firm were appointed auditors on 9 February 2006. Under Article 17 of Regulation (EU) no 537/2014 the Company would be required to appoint a new auditor for the 2017 financial year end. However the Irish Auditing and Accounting Supervisory Authority has granted an extension to reappoint Deloitte as its statutory auditor for a further two years, due to exceptional circumstances pursuant to section 104 of S.I. No. 312 of 2016. Deloitte have signified their willingness to continue in office in accordance with the provision of Section 383 of the Companies Act 2014.

On 6 December 2017 the Company appointed Mazars as the new auditor, effective from the financial year ending 31 December 2019.

MetLife Europe d.a.c.
Directors' Report (continued)
For the financial year ended 31 December 2017

On behalf of the board



Dirk Ostijn
Director
Date



Nicolas Hayter
Director
Date

MetLife Europe d.a.c.
Directors' Responsibility Statement
For the financial year ended 31 December 2017

The directors are responsible for preparing the directors' report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company as at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards.

The directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors report comply with the Companies Act 2014 and enable the financial statements to be audited.

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.

Independent auditor's report to the members of MetLife Europe d.a.c.

Report on the audit of the financial statements

Opinion on the financial statements of MetLife Europe d.a.c. ("the Company")

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2017 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows;
- the related notes 1 to 46, including a summary of significant accounting policies as set out in note 4.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

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

Valuation of Liability for insurance Contracts

Key audit matter description



The valuation of the liabilities for insurance contracts involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.

Economic assumptions, such as investment return and associated discount rates, and operating assumptions such as expenses, mortality and lapse rates are the key inputs used to estimate these long-term liabilities.

Due to the significant judgement and estimation involved in the determination of the insurance contract liabilities, this was considered a key audit matter.

Insurance contract liabilities amounted to €9,218 million as at 31 December 2017.

Refer to the accounting policy in note 4.4 and the disclosures in notes 13, 27 and 35 of the financial statements.

How the scope of our audit responded to the key audit matter



We designed our audit procedures in conjunction with our actuarial specialists to address the key audit matter described above.

Procedures included the following:

We obtained an understanding of the key processes and controls in place in respect of setting insurance contracts liabilities.

We tested the key controls over the models used to calculate insurance contract liabilities including controls over the data used in models, changes made to models and the review of output from models.

We tested the key controls over the assumption setting process including the controls in respect of experience studies. On a sample basis, we performed a detailed review of the experience studies including re-performance of the study and reconciliation of data supporting the selected assumptions.

We challenged management's judgements, assumptions and the process followed for setting and updating these assumptions, particularly around persistency, expense and mortality and morbidity assumptions. We evaluated the consistency of methodologies and the appropriateness of the assumptions used by the company.

We performed sample testing over the appropriateness of the data used in management's analysis prepared to set the assumptions noted above.

We assessed whether the models used in calculating the insurance and investment contract liabilities are appropriate and replicated a sample of models for individual contracts.

We tested the key controls over the company's liability adequacy tests and re-performed, for a sample of lines of business, the Company's Liability Adequacy Test and Loss Recognition calculations.

For unit linked contracts, we reconciled the opening to closing unit liability. We performed detailed testing on a sample basis of unit-linked premiums and claims and other unit appropriations during the period to ensure validity and that units have been appropriately priced and allocated.

Valuation of Investments & Derivatives

Key audit matter description



A significant portion of audit effort was directed towards the audit of the valuation of investments and derivatives. As a result, the valuation of investments was considered a key audit matter.

Policyholder funds in the company are substantially invested in readily marketable securities for which quoted prices are available. These investments do not tend to include any complex instruments which are hard to value or difficult to access prices for.

The company recorded €10,404 million in Investments and Derivatives as at 31 December 2017. These consist of; Mortgage loans (€141m), Unit-linked assets (€7,011m), Fixed interest securities (€3,123m), Assets held with credit institutions (€18m) and Derivative assets (€111m).

Refer to the accounting policy 4.8 and the disclosures in note 27 of the financial statements.

How the scope of our audit responded to the key audit matter



The work performed to address the key audit matter of the Valuation of Investments and Derivatives included the following procedures:

We obtained an understanding of the investment valuation process.

We performed testing, on a sample basis, of the key controls which operated over the investments cycle throughout the year.

We performed testing, on a sample basis, of the relevant IT controls over the investment systems operating throughout the period including IT controls on outsourced IT infrastructure. Where necessary, we tested mitigating controls over IT systems in operation.

We performed independent confirmation procedures across the fixed interest and equity investment portfolio with the appointed custodians.

We priced the fixed interest and equity securities using independent market feeds.

We independently confirmed all of the Mutual Fund holdings with relevant counterparties including fund managers. We priced the holdings using independent market feeds.

We tested the key controls around the purchase and reconciliation of securities for Derivative and Commercial Loan positions.

We selected a sample of derivatives and loans to directly confirm with relevant counterparties and recalculated reported balances for these sampled securities.

For investments classified as available for sale, we considered evidence of impairment of the investment balances through review of the investment portfolio and significant unrealised losses.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements of €38,000,000 which is in a range of 2-3% of Shareholder's Funds. We have considered quantitative and qualitative factors such as our understanding of the company and its environment, the history of misstatements, the complexity of the company and the reliability of control environment therein.

In determining materiality, we considered financial metrics which we believe to be most relevant to users of the financial statements. Shareholder's Funds was determined to be the most relevant benchmark as it placed under scrutiny by local regulators and is also a key financial metric regularly assessed by Management and Shareholders.

We agreed with the Audit Committee that we would report to them any audit differences in excess of €1,900,000 or 5% of Materiality as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

The company operates eleven branches across Europe and we assessed each branch as a separate audit component. In assessing the financial significance of the Company's branches, we considered that 40% of our determined materiality as a head office audit team to represent an appropriate level of materiality to be communicated to our component audit teams in respect of their procedures on the Company's branches across Europe.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including the controls operating within the company, and assessing the risks of material misstatement related to the financial statements of the company. We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. The risks of material misstatement that had the greatest effect on our audit are identified as key audit matters in the table above.

In establishing the overall approach to the audit, we determined the type of work that required the involvement of specialists. As a result, we included actuarial and IT specialists as part of our engagement team. Where the work was performed by specialists, we gave instruction as to the type of work to be performed, held regular status discussions during the audit and reviewed the results of this work to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements. We also assessed the competency of the specialists performing the work.

Several of the significant IT systems used by the company are managed and operated within a centralised IT structure within MetLife Inc group. Therefore we obtained support relating to general IT controls from our Deloitte member firm in the US. Where the work was performed by other Deloitte member firms, we determined the level of involvement we needed to have in their work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements.

The Company has eleven branches across Europe in addition to operations located at their Head Office in Ireland. These branches are located in the United Kingdom, Italy, Spain, Portugal, France, Bulgaria, Czech Republic, Slovakia, Hungary, Cyprus and Romania. We seek to centrally test a number of significant balances and perform tests of controls where possible in the areas of Investments and Policyholder Liabilities and other reserves. Balances such as Premiums, Claims, Commissions and Cash fall under the scope of our local component teams. A total number of nine of the branches were deemed significant enough to require us to scope in specific balances to be tested by component teams. For the remaining two branches, all procedures were performed by the central team. The number of branches in scope for component team procedures is in line with the prior year.

We were in continual communication with our branch component teams from planning through to execution and completion of our audit of the Company. There are formal engagement planning and concluding meetings at the interim and reporting phases of our audit respectively as well as a number of site visits made by us as the central audit team. There were three site visits to the component audit teams responsible for the largest branches of the Company which included further meetings with both component audit teams and local management personnel. The selection of branches for site visits is dependent upon the size of the branch and any updates in the business and/or personnel within management or the component audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Director's Report and Audited Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 (Ireland) 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 (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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 the auditor identifies during the audit.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readly and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Other matters

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 9 February 2006 to audit the financial statements for the financial year ended 31 December 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 2006 to 2017.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the company in conducting the audit.

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISA (Ireland) 260.



Glenn Gillard
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 1 May 2018

MetLife Europe d.a.c.
Statement of Comprehensive Income
For the financial year ended 31 December 2017

| | Note | 2017 €'000 | 2016 €'000 |
|---|------|---------------|----------------|
| Income | | | |
| Earned premium | 6 | 902,542 | 833,509 |
| Reinsurance ceded premium | 7 | (228,841) | 18,842 |
| Fee income | 8 | 202,492 | 253,481 |
| Net investment income | 9 | 594,070 | 835,314 |
| Net investment gain | 10 | — | — |
| Net foreign exchange (loss) | 11 | (896) | (3,663) |
| Total income | | 1,469,367 | 1,937,483 |
| Expenses | | | |
| Claims and benefits incurred, net of ceded reinsurance | 12 | (520,238) | (452,149) |
| Change in insurance contract liabilities, net of ceded reinsurance | 13 | (320,665) | (825,931) |
| Change in investment contract liabilities | | (8,516) | (4,523) |
| Commissions, net of ceded reinsurance | 14 | (221,770) | (194,217) |
| Other expenses | 15 | (346,781) | (333,482) |
| Deferred acquisition costs | 19 | 84,728 | 29,501 |
| Total expenses | | (1,333,242) | (1,780,801) |
| Profit before tax | | 136,125 | 156,682 |
| Taxation | 20 | (42,194) | (50,430) |
| Profit for the financial year | | 93,931 | 106,252 |
| Other comprehensive income | | | |
| Currency translation movement | 21 | (4,238) | (47,076) |
| Investment revaluation reserve movement | 22 | (53,250) | 28,150 |
| Tax on unrealised gains/(losses) through other comprehensive income | 22 | 10,775 | (3,261) |
| Other comprehensive income for the financial year | | (46,713) | (22,187) |
| Total comprehensive income for the financial year | | 47,218 | 84,065 |

The accompanying notes form an integral part of the Statement of Comprehensive Income.

MetLife Europe d.a.c.
Statement of Financial Position
For the financial year ended 31 December 2017

| | Note | 2017 €'000 | 2016 €'000 |
|---|------|-------------------|-------------------|
| Assets | | | |
| Investment in subsidiaries | 23 | 1,473 | 1,473 |
| Property and equipment | 24 | 15,979 | 14,998 |
| Intangible assets | 25 | 9,974 | 11,573 |
| Deferred acquisition costs | 19 | 602,716 | 517,996 |
| Deferred cost of reinsurance | 26 | — | — |
| Deferred tax asset | 20 | 3,625 | 7,750 |
| Mortgage loans | 28 | 140,796 | 102,259 |
| Unit-linked assets | 27 | 7,010,551 | 7,276,512 |
| Fixed interest securities | 27 | 3,122,717 | 3,550,882 |
| Asset held with credit institutions | 27 | 18,107 | 7,122 |
| Derivative assets | 27 | 110,578 | 147,340 |
| Reinsurance assets | 29 | 279,405 | 286,398 |
| Receivables and other assets | 30 | 451,826 | 507,887 |
| Cash and cash equivalents | 31 | 379,281 | 359,627 |
| Total assets | | 12,147,028 | 12,791,817 |
| Equity | | | |
| Authorised and issued share capital | 32 | 4,379 | 4,379 |
| Share premium | 33 | 1,212,975 | 1,212,975 |
| Merger reserve | 33 | — | — |
| Retained earnings | 34 | 441,175 | 569,244 |
| Foreign currency translation reserve | 21 | (199,497) | (195,259) |
| Investment revaluation reserve | 22 | 148,867 | 191,342 |
| Total equity | | 1,607,899 | 1,782,681 |
| Liabilities | | | |
| Liability for insurance contracts and other liabilities | 35 | 9,217,673 | 9,573,094 |
| Liability for investment contracts | 35 | 408,382 | 441,457 |
| Liability for guarantees | 35 | (62,420) | (31,382) |
| Derivative liabilities | 27 | 52,051 | 52,317 |
| Trade and other payables | 36 | 591,636 | 674,369 |
| Provisions | 37 | 17,133 | 9,960 |
| Deferred revenue liability | 35 | 191,940 | 155,889 |
| Debts owed to credit institutions | 38 | 18,274 | 14,916 |
| Deferred tax liability | 20 | 104,460 | 118,516 |
| Total liabilities | | 10,539,129 | 11,009,136 |
| Total equity and liabilities | | 12,147,028 | 12,791,817 |

The accompanying notes form an integral part of the Statement of Financial Position.

On behalf of the board

Dirk Ostijn
Director
Date



Nicolas Hayter
Director
Date



MetLife Europe d.a.c.
Statement of Changes in Equity
For the financial year ended 31 December 2017

| | Called up share capital presented as equity €'000 | Share premium €'000 | Merger reserve €'000 | Retained earnings €'000 | Foreign currency translation reserve €'000 | Investment revaluation reserve €'000 | Total €'000 |
|---|--|---------------------------|----------------------------|-------------------------------|--|---|------------------|
| Balance at 1 January 2017 | 4,379 | 1,212,975 | — | 569,244 | (195,259) | 191,342 | 1,782,681 |
| Shares issued | — | — | — | — | — | — | — |
| Shares premium | — | — | — | — | — | — | — |
| Dividend paid | — | — | — | (222,000) | — | — | (222,000) |
| Portfolio transfer and cross border merger | — | — | — | — | — | — | — |
| Profit/(loss) for the financial year | — | — | — | 93,931 | (4,238) | (42,475) | 47,218 |
| Transfer to/from merger reserve | — | — | — | — | — | — | — |
| Balance at 31 December 2017 | 4,379 | 1,212,975 | — | 441,175 | (199,497) | 148,867 | 1,607,899 |
| | Called up share capital presented as equity €'000 | Share premium €'000 | Merger reserve €'000 | Retained earnings €'000 | Foreign currency translation reserve €'000 | Investment revaluation reserve €'000 | Total €'000 |
| Balance at 1 January 2016 | 4,152 | 1,038,245 | — | 539,040 | (148,183) | 166,453 | 1,599,707 |
| Shares issued | 227 | — | — | — | — | — | 227 |
| Shares premium | — | 174,730 | — | — | — | — | 174,730 |
| Dividend paid | — | — | — | — | — | — | — |
| Portfolio transfer and cross border merger | — | — | (76,048) | — | (22,790) | 30,373 | (68,465) |
| Profit/(loss) for the financial year | — | — | — | 106,252 | (24,286) | (5,484) | 76,482 |
| Transfer to/from merger reserve | — | — | 76,048 | (76,048) | — | — | — |
| Balance at 31 December 2016 | 4,379 | 1,212,975 | — | 569,244 | (195,259) | 191,342 | 1,782,681 |

MetLife Europe d.a.c.
Statement of Cash Flows
For the financial year ended 31 December 2017

| | 2017 €'000 | 2016 €'000 |
|---|------------------|------------------|
| Profit for year | 93,931 | 106,252 |
| Depreciation | 5,436 | 1,030 |
| Deferred tax recognised | (9,931) | 17,339 |
| | 89,436 | 124,621 |
| Cash flow from operating activities | | |
| Decrease/(increase) in receivables and other assets | 56,061 | (39,041) |
| Increase/(decrease) in deferred revenue liability | 36,051 | (22,568) |
| Increase/(decrease) in net derivatives | 36,496 | (32,647) |
| Decrease in reinsurance assets | 6,993 | 211,750 |
| Increase in debts owed to credit institutions | 3,358 | 9,259 |
| Decrease/(increase) in intangible assets | 1,599 | (2,104) |
| Decrease in deferred cost of reinsurance | — | 11,425 |
| (Decrease)/increase in liability for guarantees | (31,038) | 12,072 |
| (Decrease)/increase in trade and other payables | (75,560) | 44,785 |
| Increase in deferred acquisitions costs | (84,720) | (12,532) |
| Increase in non linked insurance and investment contracts | (168,427) | (24,349) |
| Net cash flows from operating activities | (129,751) | 280,671 |
| Cash flows from investing activities | | |
| Proceeds from unit-linked customers | 548,536 | 1,013,308 |
| Receipts/(payments) to acquire financial assets | 407,132 | (664,273) |
| Realised gains on financial assets | 251,898 | 200,419 |
| Dividends and rebates on financial assets | 135,718 | 99,806 |
| Proceeds from disposal of equipment | 1,101 | 3,197 |
| Cash transferred in portfolio transfers and cross border mergers | — | 7,185 |
| Payments for property and equipment | (7,518) | (3,917) |
| Payments to unit-linked customers | (918,749) | (844,585) |
| Net cash flows from investing activities | 418,118 | (188,860) |
| Cash flows from financing activities | | |
| Dividend paid | (222,000) | — |
| Proceeds from issue of share capital | — | 227 |
| Net cash flows from financing activities | (222,000) | 227 |
| Net increase in cash and cash equivalents | 66,367 | 92,038 |
| Cash and cash equivalents at beginning of the financial year | 359,627 | 297,359 |
| Effect of foreign exchange rates and investment revaluation reserve changes | (46,713) | (29,770) |
| Cash and cash equivalents at end of the financial year | 379,281 | 359,627 |

MetLife Europe d.a.c.
Notes to the Financial Statements
For the financial year ended 31 December 2017

1. General Information

The Company an Irish incorporated entity domiciled in Ireland is authorised by the Central Bank of Ireland to transact life assurance business in Life Classes I, III, IV and VI and non-life classes 1 and 2 under the European Union Insurance and Reinsurance Regulations 2015 (S.I. No 485 of 2015).

The Company has branches in the UK, Italy, Spain, Portugal, France, Bulgaria, Slovakia, Czech Republic, Hungary, Romania and Cyprus. The Company also operates via Freedom of Service in Poland, Greece, Norway, Germany, Austria and Netherlands. It reinsures business from Russia, Singapore, Malaysia, Thailand and Indonesia.

2. Application of new and revised International Financial Reporting Standards (IFRS's)

2.1 New and revised IFRS's applied with no material effect on the financial statements

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each new standard and amendment is described below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual Financial Statements of the Company.

Amendments to IAS 7 - Statement of cash flows Disclosure initiative

The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for annual periods beginning on or after 1 January 2017.

The adoption of this standard had no material impact on the disclosures or amounts in these financial statements.

IAS 12 - Income taxes

Amendments regarding the recognition of deferred tax assets for unrealised losses. Effective for annual periods beginning on or after 1 January 2017.

The adoption of this standard had no material impact on the disclosures or amounts in these financial statements.

2.2 New and revised IFRS's in issue but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below.

IFRS 9 - Financial instruments (IFRS 9)

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company has deferred the application of IFRS 9 until 1 January 2021, which is also the expected effective date of IFRS 17 - Insurance Contracts (IFRS 17). The Company has deferred the adoption of IFRS 9 by applying the

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

temporary exemption as permitted by IFRS 4 - Insurance Contracts (IFRS 4), based on the required assessment of predominance of insurance activities (see below).

This standard has been endorsed for use in the EU.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest.

An entity may apply the temporary exemption from IFRS 9 if:

- (i) it has not previously applied any version of IFRS 9 before; and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Company has applied the temporary exemption in its reporting period starting on 1 January 2018.

The Amendments to IFRS 4 has been endorsed for use in the EU.

IFRS 15 - Revenue from contracts with customers (IFRS 15)

In May 2014, the IASB issued IFRS 15 which establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

The Company will apply IFRS 15 fully retrospective. Given insurance contracts are scoped out of IFRS 15, the Company expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Company does not expect the impact to be significant.

This standard has been endorsed for use in the EU.

IFRS 16 - Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Company does not expect the impact to be significant.

This standard has been endorsed for use in the EU.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

IFRS 17 - Insurance Contracts

During May 2017, the IASB published its final standard on insurance contracts, IFRS 17. IFRS 17 will be effective for annual periods beginning on or after 1 January 2021. This standard is not yet endorsed for use in the EU.

IFRS 17 replaces the current standard on insurance contracts (IFRS 4), and introduces new measurement models that are to be applied to the valuation of insurance contracts. The implementation of IFRS 17 is expected to bring significant changes to the insurance industry. Therefore, the Company, with the assistance and guidance from the MetLife Group, has established a multi-year program to determine the impact of IFRS 17, and to plan the consequential changes to our systems and processes. The Company is not yet in a position to determine the extent of the impact that the adoption of IFRS 17 will have.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22 which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018. The Company does not expect the impact to be significant.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23 which clarifies the accounting for uncertainties in income tax treatments under IAS 12.

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The Company does not expect the impact to be significant.

3. Going concern

The Directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result they continue to adopt the going concern basis of accounting in preparing the financial statements. In forming this view, the Directors have reviewed the Company's plan for 2018, forecasts for 2019 and the ORSA which take account of reasonably foreseeable changes in trading performance, the key risks facing the business and the medium term plans approved by the Board in its review of the Company's corporate strategy.

4. Significant accounting policies

4.1 Basis of accounting

The financial statements have been prepared in accordance with the provisions of the Companies Act 2014, and International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU). Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions including those that are specific to insurance products, IFRS permits reference to another comprehensive body of accounting principles that uses a similar conceptual framework.

In these cases, the Company typically refers to accounting principles generally accepted in the United States of America (US GAAP) for guidance.

The financial statements have been presented in euro ("EUR") and have been prepared on the historical costs basis, except for those financial instruments which are measured at fair value (note 4.8) and the insurance liabilities which are measured using actuarial valuation models. Items of property, plant and equipment are measured at historical costs less accumulated depreciation. The financial statements have

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

been prepared using the accruals basis of accounting. The principal accounting policies adopted are set out below.

4.2 Consolidation

Consolidated accounts have not been prepared for the financial year ended 31 December 2017. The Company meets all the requirements under IFRS 10 - Consolidated Financial Statements (IFRS 10) necessary to avail of the exemption from preparing consolidated accounts. The accounts of MetLife Inc. are prepared in accordance with US GAAP and have been prepared in a manner equivalent to consolidated accounts drawn up in accordance with the provisions of the Seventh Directive (83/349 EEC). Consequently, the accounts of MetLife Europe d.a.c present information about the Company as an individual undertaking and not about its group. Details of the subsidiary undertaking are included in note 23 of the accounts.

4.3 Foreign currencies

The Company's functional currency is Great British Pound (GBP) for the UK branch, Bulgaria Lev (BGN) for the Bulgarian branch, Czech Koruna (CZK) for the Czech Republic branch, Hungarian Forint (HUF) for the Hungarian branch, Romanian Leu (RON) for the Romanian branch and EUR for head office and all other branches.

In preparing the financial statements of the Company, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing at the dates of the transactions or average monthly rates of exchange. At each Statement of Financial Position date, monetary items denominated in foreign currencies are revalued at the rates prevailing at the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are revalued at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not revalued. Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise except when they relate to non-monetary items for which gains and losses are recognised in equity.

The financial statements of the Company are presented in EUR, which is the reporting currency of the Company. The revalued functional currency transactions in the Statement of Comprehensive Income are translated to EUR at the average monthly rates of exchange. At each Statement of Financial Position date, the revalued functional currency balances are translated to EUR at the rates prevailing at the Statement of Financial Position date. All exchange differences are recognised in the foreign currency translation reserve in the Statement of Financial Position.

4.4 Insurance and investment contracts

Classification

The Company's products are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. All contracts are further classified under the US GAAP accounting product classifications as permitted under IFRS as short duration or long duration contracts.

Insurance contracts are those contracts that transfer significant insurance risk from the insured to the insurer. Insurance risk exists if and only if, an insured event could cause an insurer to incur a significant loss from the contract. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

The Company issues non unit-linked contracts relating to group life and pensions, credit life, individual protection (ordinary life, term assurance, personal accident) and fixed term annuities. These are classified as insurance contracts. The Company also issues non unit-linked contracts relating to investment, whole life and fixed annuities which are classified as investment contracts.

The Company issues unit-linked contracts which are classified as either investment or insurance depending on whether the contract includes significant insurance risk or not.

In addition to issuing insurance and investment contracts, the Company assumes reinsurance business in relation to life and personal accident products. Inward reinsurance is presented in the Statement of Comprehensive Income in earned premium.

Reinsurance

The Company cedes reinsurance in the normal course of business. Reinsurance assets principally include ceded insurance reserves and guarantee liabilities. Amounts recoverable from reinsurers are disclosed in receivables and other assets. Amounts recoverable or due under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in the Statement of Financial Position and Statement of Comprehensive Income on a gross basis unless a right of offset exists.

Reinsurance assets are assessed for impairment on a regular basis and any impairment loss is recognised in the Statement of Comprehensive Income and the carrying amount reduced accordingly.

The primary drivers of reinsurance assets and liabilities are business volumes, movements in interest rates and equity market levels and volatilities.

Deferred cost of reinsurance

The deferred cost of reinsurance is the difference between the reinsurance premium paid and the liabilities reinsured as part of the Company's Reinsurance Agreement for the fixed annuity business with MetLife Bermuda. The net cost of reinsurance to the Company is deferred and amortised to the Statement of Comprehensive Income over the life of the reinsured contracts. On 1 January 2016, the recapture of this business took place. MetLife Bermuda paid the Company an amount equal to the net reinsured liabilities in consideration for the recapture.

Investment contracts

The Company issues unit-linked investment contracts, which entitles the policyholder to the returns generated on the assets invested on their behalf. The Company receives a fee for the services provided under the contract. The Company determines the unit-linked investment contract liabilities by reference to the underlying assets, less the fees earned.

The related assets held under unit-linked investment contracts are classified as designated at fair value through the Statement of Comprehensive Income. Changes in fair value of assets and liabilities are recorded in income. The fees charged for policy administration and investment management services, and surrender and other charges are included in fee income.

Investment contracts may contain embedded derivatives which are bifurcated and measured separately at fair value and recorded as guarantee liabilities. These embedded derivatives are reinsured through a reinsurance contract, and valued consistently with the value of the embedded derivative, and are included in reinsurance assets.

The liability is derecognised when the contract expires, is discharged or is cancelled.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Insurance contracts

Liabilities for insurance contracts

The Company issues unit-linked insurance contracts, which includes significant insurance risk to the Company. The liabilities for such contracts are recorded at an amount equal to the consideration or premiums received plus investment gains and losses, less fees charged and withdrawals.

Insurance contracts may contain certain guarantees in respect of guaranteed minimum death benefits (GMDB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum withdrawal benefits (GMWB).

The liabilities in respect of certain portions of guarantees are considered to be embedded derivatives and are separated and measured at fair value and recorded under guarantee liabilities. Certain other portions of guarantees measured in accordance with relevant US GAAP standards as permitted under IFRS, are accrued in proportion to the receipt of the contracted revenues, and recorded under liabilities for insurance contracts.

The liability is derecognised when the contract expires, is discharged or is cancelled.

The Company also issues non unit-linked insurance contracts and the liabilities are calculated using the methods set out in note 35.

Portfolio transfers from companies under common control

The Company records the assets and liabilities at the carrying value of the predecessor entity, including any intangible assets that relate to the value of the underlying contracts received. Following initial recognition the Company remeasures the assets and liabilities received in accordance with its stated accounting policy.

Liabilities transferred to the Company as a result of the restructuring programme are net of Value of Business Acquired (VOBA) as at the transfer date where applicable.

Liability adequacy tests

Liability adequacy testing is performed at each reporting date. The tests are conducted under the US GAAP "Loss Recognition Testing" (LRT) basis as permitted under IFRS as at 30 September each year in support of the year-end valuation and are applied at the legal entity level by accounting product classification. In order to pass the test, the net liabilities must exceed the corresponding prospective gross premium reserves established on a best estimate assumption basis, applying discount rates on a book yield investment return basis i.e. the net liability must be sufficient to cover the best estimate of future claims, commissions, and maintenance expenses less premiums and book investment returns. If a shortfall is identified, the net liability will be increased to cover the shortfall, in the first instance by writing down intangible assets (such as the deferred acquisition cost, "DAC") and then by establishing a further deficiency reserve if necessary. No shortfall identified in 2017 (2016: Nil).

"Shadow" loss recognition testing (SLRT) is also performed at each reporting date, to reflect the fair value "mark-to-market" basis for both assets and liabilities. The approach mirrors that applied for the base LRT, but moves the liabilities to a current, as opposed to book, discounting basis, and allows for any future benefit changes that would be associated with realization of unrealised gains and losses. Any shortfall arising is termed a 'shadow adjustment' that is recognised in the Investment revaluation reserve in Other Comprehensive Income so as to match against the unrealised gains and losses of the related assets backing the liabilities.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Revenue from contracts with customers

Amounts collected as premiums from unit-linked contracts are reported as deposits. Revenue from such contracts consists of fees for cost of insurance and guarantees, administration and surrenders during the financial year.

Amounts collected as premiums from non unit-linked contracts are reported in the Statement of Comprehensive Income under earned premium and are on a 'receivable' basis.

Unit-linked deferred revenue

Front-end fees from unit-linked contracts are deferred and amortised over the expected life of the book of contracts. For unit-linked contracts amortisation is at a constant rate based on the present value of the estimated gross profit amounts expected to be realised over the life of the book of contracts. Assumptions used to estimate the future value of expected gross margins and profits are evaluated regularly and adjusted if estimates change.

Revenue from inward reinsurance

Inward reinsurance premiums are accounted for in accordance with the contract terms when due, reflecting the period in which the risk is transferred.

Reinsurance commission and deferred fee income

Reinsurance commission income is commissions received from the reinsurer that are not reimbursements of the Company's direct commissions. Reinsurance commission income is reported in the Statement of Comprehensive Income on an accruals basis.

The above reinsurance commissions are deferred. Subsequent to initial recognition, deferred fee income is amortised over the expected life of the book of contracts. Amortisation is at a constant rate based on the premiums expected to be earned over the life of the contracts. Deferred fee income is reported in the Statement of Financial Position under deferred revenue liability.

Deferred acquisition costs (DAC)

Direct response marketing costs relating to the acquisition of life and personal accident business are deferred to the extent that they are expected to be recoverable. Other acquisition costs incurred during the financial year that are directly attributable to the successful acquisition of new business, are deferred to the extent that they are expected to be recoverable. All other costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC is amortised over the expected life of the book of contracts. For unit-linked contracts amortisation is at a constant rate based on the present value of the estimated gross profit amounts expected to be realised over the life of the book of contracts. Assumptions used to estimate the future value of expected gross margins and profits are evaluated regularly and adjusted if estimates change. Deviations of actual results from estimated experience are reflected in income.

For non unit-linked contracts, amortisation is at a constant rate based on the present value of premiums expected to be received over the life of the contracts.

Loss recognition tests are conducted annually to ensure the DAC remains recoverable.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

4.5 Net Investment Income

Investment income comprises dividends, interest receivable, realised gains and losses and unrealised gains and losses on fair value assets (as defined in note 4.8). Interest income is accounted for on an accruals basis. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the financial year end and the carrying value at the previous financial year end or purchase value during the financial year, less the reversal of previously recognised unrealised gains and losses made during the financial year.

4.6 Property and equipment

Equipment includes computer equipment, office equipment and computer software. Equipment is stated at cost less accumulated depreciation and amortisation. Computer software includes both purchased software and internally developed software. Depreciation and amortisation are charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

| | |
|-----------|------------|
| Property | 10 years |
| Equipment | 2-10 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

The Company carries out an annual review of the residual value, useful life and depreciation method used. Impairment reviews are also carried out if any impairment indicators are identified.

4.7 Intangible assets

Intangible assets are stated at cost less accumulated depreciation. Intangible assets are recognised if the undiscounted future cashflows exceed the initial cost of the asset. Intangible assets include those payments made to third party distributors for exclusive distribution rights obtained by the Company. Intangible assets are amortised over its useful life.

Amortisation methods are either proportional to expected profits or expected premiums. The annual amortisation rates range from 8 years to 31 years and are reviewed annually.

The Company routinely reviews intangible assets to determine if there are indications of impairment. If such an indication is present, the Company would apply its policy for impairment testing of financial assets.

4.8 Financial Instruments

Financial assets and liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. All financial instruments reported at fair value are measured based on an exit price.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS) financial investments and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL where the financial asset is either held for trading or it is designated as FVTPL at inception. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the Statement of Comprehensive Income. The net gain or loss recognised in the Statement of Comprehensive Income incorporates any dividend or interest earned on the financial asset.

Financial assets at AFS

AFS assets are stated at fair value at the end of each reporting period. The difference between cost and maturity value is amortised over the period to maturity and recognised in net investment income. The movement from amortised cost to fair value is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accounted for in the investments revaluation reserve is reclassified to the Statement of Comprehensive Income.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Non-cash collateral is not derecognised unless the Company defaults on its obligations under the relevant International Swaps and Derivatives Association (ISDA) Master agreements. It therefore continues to be recognised in the Statement of Financial Position.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Receivables and other assets

Receivables and other assets comprise short-term receivables which are recorded at cost less any irrecoverable amounts and are an approximation of the fair value of these assets.

Trade and other payables

Trade and other payables comprise short-term payables which are recorded at cost and are an approximation of the fair value of these liabilities.

Profit share

Profit share is payable to third party distributors. It is recorded at cost and is an approximation of the fair value of these liabilities.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

With the exception of AFS equity instruments, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Comprehensive Income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying value of these assets approximates to fair value.

Debts owed to credit institutions

Debts owed to credit institutions comprise of bank overdrafts. The carrying value of these liabilities approximates to fair value.

Mortgage loans

Mortgage loans are classified as loans and receivables and are stated at unpaid principal balance, adjusted for any deferred fees. Interest income and prepayment fees are recognised when earned. Interest income is recognised using an effective yield method giving effect to amortisation of premiums and accretion of discounts.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Derivative instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the Statement of Comprehensive Income. Certain fair values are obtained from quoted market prices in active markets. When quoted prices are not available, other valuation techniques are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible. The industry standards and techniques used in pricing over the counter (OTC) derivatives at fair value are set out in note 27.9. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value is derived and recorded in the financial statements at the instrument's exit value.

The Company currently receives and posts collateral in the form of cash and securities, in respect of derivative contracts held, in order to reduce the credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash is recognised as an asset in the Statement of Financial Position with a corresponding liability for the repayment in financial liabilities. Non-cash collateral is not recognised in the Statement of Financial Position unless the Company sells or re-collateralises these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

Current assets

Assets are classified as current when the following criteria are met:

- The Company expects to realise the asset or intends to sell or consume it in the normal operating cycle;
- The Company holds the asset primarily for the purpose of trading;
- The Company expects to realise the asset within 12 months after the reporting period; and
- The asset is cash or cash equivalent, unless the asset is restricted from being exchanged or used to settle liabilities for at least 12 months after the reporting date.

All other assets are classified as non-current assets.

Current liabilities

Liabilities are classified as current when the following criteria are met:

- The Company expects to settle the liability in the normal operating cycle;
- The Company holds the liability primarily for the purpose of trading;
- The Company expects to settle the liability within 12 months after the reporting period; and
- The Company does not have an unconditional right to defer settlement beyond 12 months after the reporting date.

All other liabilities are classified as non-current liabilities.

4.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4.10 Employee benefits

Defined contribution pension plans

A portion of pension costs are allocated from MetLife Services European Economic Interest Group (MetLife Services EEIG), MetLife Europe Services Limited (MESL) and MetLife Slovakia s.r.o (MetLife Services Slovakia) and are not directly paid for by the Company. These allocations are recognised as an expense in the Statement of Comprehensive Income as incurred. MetLife Services EEIG, MESL and MetLife Services Slovakia make payments at agreed rates of the employee's gross salary for each individual's pension fund, the assets of which are invested in independent trustees for the benefit of the employees and their dependants.

The Company makes other payment directly towards pension plans for employees remunerated at branch level. Contributions towards these plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

Life assurance

A portion of life assurance costs are allocated from MetLife Services EEIG, MESL and MetLife Services Slovakia and are not directly paid for by the Company. These allocations are recognised as an expense in the Statement of Comprehensive Income as incurred. MetLife Services EEIG makes payments at agreed rates of the employee's gross salary for each individual's pension fund, the assets of which are vested in independent trustees for the benefit of the employees and their dependants.

The Company makes other payments towards life assurance and permanent health insurance for each eligible employee remunerated directly at branch level. Contributions towards these plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

4.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

The carrying amount of the deferred tax asset is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the Statement of Financial Position date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the financial year

Current and deferred tax are recognised as an expense or income in the Statement of Comprehensive Income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

4.12 Merger reserve

The calculation of share premium on the issuance of shares for a reorganisation is based on fair values. Investments in subsidiaries and assets/liabilities transferred to the Company are recorded at carrying value. The difference between the fair value recorded in equity and the carrying value recognised in net assets results in a merger reserve in equity. The merger reserve is not considered to represent a realised or unrealised loss.

4.13 Italian tax reserve and corporation tax prepayment

Under Italian law, policyholders pay an exit tax on the gain under the policy on surrender or maturity. In 2003 the substitute tax regime was introduced by the Italian Government in order to advance the payment of future exit tax from policyholders. The payments are based on a percentage of the mathematical reserves held at the financial year end. The current levels of payments are 0.45% of the mathematical reserves. The Italian Government currently allows companies to recover the prepayments through the following mechanisms (and in the following order):

- Against future policyholder exit tax on gains on maturity or surrender from two years after the financial year end to which the first prepayment relates;
- Against future prepayments if the prepayment tranche has not been recovered at the end of year five;
- Against Italian taxes payable including payroll taxes, corporation tax and capital gains tax (after year five); and
- Directly from Italian Revenue if no other means exist.

The Company plans to recover its Italian prepaid policyholder reserve tax asset over a number of financial years (against Italian taxes payable including payroll taxes, VAT and withholding tax as well as future policyholder exit tax on maturities and surrenders).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

The value placed on this asset in the financial statements is based on a discounted value of the projected future recoveries, net of the present value of the future expected tax recoveries, that arise from both policyholder exit tax and the other recovery mechanisms available to the Company (as listed above). The discount rates used are based on the market interest rate that would be required by the market on loans issued by the group, of duration equal to the period over which the existing tax payments is expected to be recovered.

4.14 Dividends

A dividend is recognised in equity in the period in which they are paid.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Product classification and contract liabilities

The Company's contracts comprise of investment and insurance contracts. Contracts classified as investment contracts without discretionary participation features (DPF) are accounted for under the requirements of IAS 39. Note 4.4 provides further information on product classification.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Derivatives

The valuation for derivatives is set out in note 27.9.

Deferred tax

The valuation for deferred tax is set out in note 20.1.2

Valuation of liabilities of investment and insurance contracts

The liability for unit-linked investment contracts and the deposit component of the unit-linked insurance contracts are measured at fair value. Such contracts, being unit-linked contracts are measured at fair value and the fair value liability is determined by reference to the assets backing the liabilities.

Liabilities for non-unit linked contracts are measured at the present value of future benefits, to be paid to the policyholders or on behalf of the policyholders and related expenses less the present value of future net premiums. They are estimated based on assumptions including investment returns, discount

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

rates, policy maintenance expense, inflation, mortality and lapse rates, which are locked in at inception and only subject to revision where required under the annual LRT.

The carrying amount of the liabilities for unit linked contracts and non-unit linked contracts at the Statement of Financial Position date is €7,056million and €2,562million respectively (2016: €7,375million and €2,639million respectively).

The liabilities for guarantees on the investment and insurance contracts are based on certain assumptions including mortality, longevity, persistency, surrenders, expense variations and investment returns. The carrying amount of such guarantee liabilities at the Statement of Financial Position date is €(62)million (2016: €(31)million). The guarantee liabilities of the unit-linked contracts are fully reinsured.

Deferred acquisition costs (DAC)

The DAC asset is recognised in respect of net acquisition costs and is amortised over the contract term, in accordance with the accounting policy stated in note 4.4. The DAC asset at the Statement of Financial Position date is €603million (2016: €518million).

| | | |
|--|------------------|----------------|
| 6. <u>Earned premium</u> | 2017 | 2016 |
| | €'000 | €'000 |
| Gross written premium | 932,807 | 867,472 |
| Reinsurance premium assumed | 24,808 | 23,909 |
| Change in unearned premium | (55,073) | (57,872) |
| Total earned premium | 902,542 | 833,509 |
| | | |
| 7. <u>Reinsurance ceded premium</u> | 2017 | 2016 |
| | €'000 | €'000 |
| Reinsurance premium ceded during the financial year | (254,475) | (14,001) |
| Change in unearned premium | 25,634 | 32,843 |
| Total reinsurance ceded premium | (228,841) | 18,842 |
| | | |
| 8. <u>Fee income</u> | 2017 | 2016 |
| | €'000 | €'000 |
| Fees for insurance contracts | 207,683 | 218,945 |
| Reinsurance commission income | 7,266 | 27,874 |
| Other fee income | 21,163 | 23,822 |
| Net change in deferred reinsurance commission income | (2,719) | 3,170 |
| Fees for investment contracts | 879 | 798 |
| Net change in deferred revenue liability | (31,780) | (21,128) |
| Total contract and other fee income | 202,492 | 253,481 |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 9. <u>Net investment income</u> | 2017 | 2016 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Unit linked realised gains | 248,560 | 197,964 |
| Unit linked dividend income | 136,436 | 100,554 |
| Unit linked unrealised gains | 101,682 | 423,851 |
| Unit linked net investment income | 3,839 | (38) |
| Non unit linked net investment income | 98,582 | 102,743 |
| Non unit linked realised (losses)/gains | (225) | 4,734 |
| Mortgage loan income | 3,338 | 2,455 |
| Net gains from derivatives | 1,858 | 3,051 |
| Total net investment income | 594,070 | 835,314 |

Net income from derivatives attributable to unit linked derivatives is Nil (2016: Nil).

| 10. <u>Net investment (loss)/gain</u> | 2017 | 2016 |
|--|--------------|--------------|
| | €'000 | €'000 |
| Change in guarantee liability | (32,978) | 13,894 |
| Change in guarantee liability recoverable from reinsurer | 32,978 | (13,894) |
| Total net investment gain | — | — |

11. Net foreign exchange loss

Total foreign currency revaluation movements during 2017 resulted in a net loss of €(1)million (2016: net loss €(4)million) recognised in the Statement of Comprehensive Income.

| 12. <u>Claims and benefits incurred, net of ceded reinsurance</u> | 2017 | 2016 |
|--|----------------|----------------|
| | €'000 | €'000 |
| Gross claims and benefits incurred | 575,017 | 503,553 |
| Ceded claims and benefits incurred | (54,779) | (51,404) |
| Total claims and benefits incurred, net of ceded reinsurance | 520,238 | 452,149 |

| 13. <u>Change in insurance contract liabilities, net of ceded reinsurance</u> | 2017 | 2016 |
|--|----------------|----------------|
| | €'000 | €'000 |
| Gross change in insurance liabilities | 318,976 | 582,350 |
| Ceded change in insurance liabilities | 1,689 | 243,581 |
| Total change in insurance liabilities, net of ceded reinsurance | 320,665 | 825,931 |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | | |
|--|-----------------------|-----------------------|
| 14. <u>Commissions, net of ceded reinsurance</u> | 2017 | 2016 |
| | €'000 | €'000 |
| Gross commissions | 266,355 | 240,694 |
| Ceded commissions | <u>(44,585)</u> | <u>(46,477)</u> |
| Total commissions, net of ceded reinsurance | <u>221,770</u> | <u>194,217</u> |

| | | |
|--|-----------------------|-----------------------|
| 15. <u>Other expenses</u> | 2017 | 2016 |
| | €'000 | €'000 |
| Operating expenses | 225,331 | 196,314 |
| Staff costs | 119,130 | 123,570 |
| Amortisation of deferred cost of reinsurance | — | 10,379 |
| Amortisation of intangible asset | <u>2,320</u> | <u>3,219</u> |
| Total other expenses | <u>346,781</u> | <u>333,482</u> |

A significant portion of the on-going operating expenses and staff costs are incurred by MetLife Services EEIG, MESL and MetLife Services Slovakia and are recharged to the Company. Details of related party transactions are disclosed in note 40.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 16. Directors' fees | 2017 | 2016 |
|--|---------------------|---------------------|
| | €'000 | €'000 |
| Aggregate emoluments paid to or receivable by directors in respect of qualifying services | 983 | 1,125 |
| Aggregate amount of money or value or other assets, including shares but excluding share options, paid to or receivable by the directors under long term incentive schemes in respect of qualifying services | 301 | 317 |
| Aggregate contributions paid, treated as paid or payable during the financial year to a retirement benefit scheme in respect of qualifying services of directors | | |
| - Defined contribution schemes | 71 | 51 |
| - Defined benefit schemes | — | — |
| Payment to third parties for services of directors | — | — |
| Amounts of loans, quasi-loans and credit to directors (or connected persons) that have been waived during the year | — | — |
| | <u>1,355</u> | <u>1,493</u> |
| Number of directors to whom retirement benefits are arising under this section in respect of qualifying schemes | | |
| - Defined contribution schemes | 3 | 3 |
| - Defined benefit schemes | — | — |
| | <u>3</u> | <u>3</u> |

The aggregate amount of gains on the exercise of share options during the financial year was €4k (2016: 4k).

There were no payments made to connected persons during the financial year.

No compensation has been paid or is payable to past directors for loss of office during the financial year (2016: nil).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

17. Auditors' remuneration

In accordance with Statutory Instrument No. 220 of 2010 enacting the EC directive on statutory audits into Irish law, the following is a description of the audit fee for the Company as at 31 December:

| | 2017 | 2016 |
|---------------------------------|---------------------|---------------------|
| | €'000 | €'000 |
| Audit of individual accounts | 1,103 | 1,126 |
| Other non-audit services | — | — |
| Other assurance services | 201 | 394 |
| Tax advisory services | — | — |
| Total audit remuneration | <u>1,304</u> | <u>1,520</u> |

18. Staff costs

| | 2017 | 2016 |
|--|---------------------|---------------------|
| The average monthly number of employees, including executive directors is: | | |
| Sales and operations | 1,045 | 1,163 |
| Finance | 174 | 205 |
| Administration | 26 | 30 |
| Total | <u>1,245</u> | <u>1,398</u> |

A significant portion of the on-going operating expenses and staff costs of the Company are incurred by MetLife Services EEIG, MESL and MetLife Services Slovakia and recharged to the Company and other companies within the Group.

The total remuneration for staff costs including those recharged to the Company for the financial year is as follows:

| | 2017 | 2016 |
|--------------------------------|-----------------------|-----------------------|
| | €'000 | €'000 |
| Salaries and wages | 88,088 | 91,637 |
| Social security costs | 21,990 | 23,265 |
| Other compensation costs | 5,417 | 4,716 |
| Other retirement benefit costs | 3,635 | 3,952 |
| Total staff costs | <u>119,130</u> | <u>123,570</u> |

Salaries and wages are split as follows:

| | | |
|---|----------------------|----------------------|
| Amount expensed in current financial year | 88,088 | 91,637 |
| Amount capitalised | — | — |
| Total salaries and wages | <u>88,088</u> | <u>91,637</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Other compensation costs are made up of employee reimbursements €3million (2016: €3million), education and training €0.8million (2016: €0.7million) and long term incentives €1.7million (2016: €1million).

| 19. <u>Deferred acquisition costs</u> | 2017 | 2016 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Opening balance 1 January | 517,996 | 484,450 |
| Transferred as part of the portfolio transfers and cross border mergers | — | 21,014 |
| Commission expense capitalised | 148,214 | 124,604 |
| Other acquisition costs capitalised | 1,355 | 3,923 |
| | <u>667,565</u> | <u>633,991</u> |
| Total | 667,565 | 633,991 |
| Interest | 18,841 | 17,171 |
| Amortised during the financial year | (83,682) | (116,197) |
| Foreign currency translation | (8) | (16,969) |
| | <u>602,716</u> | <u>517,996</u> |
| Closing balance 31 December | 602,716 | 517,996 |

DAC is reported net of reinsurance. The DAC expense of €85million (2016: €30million) in the Statement of Comprehensive Income comprises of commission expense €148million (2016: €125million), other acquisition costs €1million (2016: €4million), interest €19million (2016: €17million) and amortised during the year €(84)million (2016: €(116)million).

| 20. <u>Taxation</u> | 2017 | 2016 |
|--|-----------------|-----------------|
| | €'000 | €'000 |
| 20.1 <u>Income tax recognised in profit</u> | | |
| 20.1.1 <u>Current tax</u> | | |
| Current tax (expense)/benefit in respect of the prior financial year | (9,240) | 2,968 |
| Current tax expense in respect of the current financial year | (31,506) | (43,697) |
| Total current tax | (40,746) | (40,729) |
| 20.1.2 <u>Deferred tax</u> | | |
| Deferred tax credit/(charge) in respect of the prior financial year | 6,858 | (4,852) |
| Deferred tax charge in respect of the current financial year | (8,306) | (4,849) |
| Total deferred tax | (1,448) | (9,701) |
| Total tax charge recognised in current tax financial year | (42,194) | (50,430) |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

20.1.3 The total tax charge recognised in current tax year can be reconciled to the accounting loss as follows:

| | 2017 | 2016 |
|--|------------------------|------------------------|
| | €'000 | €'000 |
| Profit before tax | 136,125 | 156,682 |
| Taxation calculated at standard rate of 12.5% (2016:12.5%) | (17,016) | (19,585) |
| Effect on deferred tax balances due to the change in income tax rates | 2,424 | 11,312 |
| Effect of unused tax losses not recognised as deferred tax asset | (132) | 633 |
| Effect of permanent expenses that are not deductible in determining taxable profit | (158) | (2,803) |
| Temporary adjustments | (1,512) | 11,230 |
| Adjustments recognised in the current financial year in relation to the tax of prior financial years | (2,381) | (1,884) |
| Effect of different tax rates of branches operating in other jurisdictions | (23,419) | (49,333) |
| Total tax charge recognised in current tax year | <u>(42,194)</u> | <u>(50,430)</u> |

20.2 Income tax recognised in other comprehensive income

| | | |
|--|----------------------|-----------------------|
| Deferred tax arising on income and expenses recognised in other comprehensive income | 10,775 | (3,261) |
| Total deferred tax recognised in other comprehensive income | <u>10,775</u> | <u>(3,261)</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

20.3 Reconciliation of change in deferred tax assets and liabilities

| 20.3.1 Deferred tax asset | 2017 | 2016 |
|---|--------------|--------------|
| | €'000 | €'000 |
| Opening balance 1 January | 7,750 | 9,711 |
| Deferred tax movement through other comprehensive income | 1,122 | (569) |
| Adjustments recognised in the current financial year in relation to the deferred tax of prior financial years | (704) | (1,141) |
| Deferred tax credit/(expense) for the period | (2,155) | 127 |
| Other movements | (2,388) | (378) |
| Total deferred tax asset | 3,625 | 7,750 |

20.3.2 Deferred tax liability

| | | |
|---|------------------|------------------|
| Opening balance 1 January | (118,516) | (103,138) |
| Transferred as part of portfolio transfers and cross border mergers | — | (7,954) |
| Deferred tax movement through other comprehensive income | 10,188 | (275) |
| Adjustments recognised in the current year in relation to the deferred tax of prior years | 7,562 | (3,711) |
| Other movements | 2,683 | 1,296 |
| Effect due to the change in income tax rates in branch jurisdictions | 2,424 | 11,312 |
| Foreign exchange movements | (307) | (69) |
| Deferred tax expense for the period | (8,494) | (15,977) |
| Total deferred tax liability | (104,460) | (118,516) |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | | | |
|---------------|---|---------------------|---------------------|
| 20.4 | <u>Deferred tax assets and liabilities</u> | 2017 | 2016 |
| | | €'000 | €'000 |
| 20.4.1 | <u>Deferred tax asset</u> | | |
| | <u>Local deferred items</u> | | |
| | Losses carried forward | 2,769 | 2,010 |
| | Property and equipment | 144 | (930) |
| | Other non-insurance reserves | 87 | 87 |
| | Deferred and uncollected premium | — | 3,197 |
| | Unrealised gains | — | 1,645 |
| | Other local deferred items | — | 310 |
| | Deferred compensation | — | 14 |
| | Accrued expenses | (33) | — |
| | Pension plan | (52) | (52) |
| | Unearned premiums | (105) | (1,757) |
| | Bad debts | (214) | (1,359) |
| | Provision for future expenses | (683) | (718) |
| | | <u>1,913</u> | <u>2,447</u> |
| | <u>Differences between local and IFRS balance sheet</u> | | |
| | Actuarial and other | 10,193 | 32,978 |
| | Investments | (1,658) | (10,808) |
| | Deferred acquisition costs | (4,661) | (12,960) |
| | | <u>3,874</u> | <u>9,210</u> |
| | Other comprehensive income | (2,162) | (3,907) |
| | | <u></u> | <u></u> |
| | Total deferred tax asset | <u>3,625</u> | <u>7,750</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 20.4.2 <u>Deferred tax liability</u> | 2017 €'000 | 2016 €'000 |
|--|-------------------------|-------------------------|
| <u>Local deferred items</u> | | |
| Provision for future expenses | 3,688 | 4,092 |
| Property and equipment | 3,505 | 2,415 |
| Commission fees allowable in future years | 3,016 | 3,172 |
| Losses carried forward | 1,689 | 6,326 |
| Premium reserves for claims for non-life insurance contracts | 1,265 | 1,467 |
| Deferred compensation | — | 602 |
| Pension plan | — | 215 |
| Other non-insurance reserves | — | (269) |
| Bad debts | 18 | (370) |
| Accrued expenses | (228) | (1,203) |
| Other local deferred items | (1,934) | (521) |
| Capital gains tax still deferred | (16,026) | (12,506) |
| | <u>(5,007)</u> | <u>3,420</u> |
| <u>Differences between local and IFRS balance sheet</u> | | |
| Actuarial and other | 147,943 | 183,133 |
| Investments | (98,787) | (157,128) |
| Deferred acquisition costs | (118,311) | (109,092) |
| | <u>(69,155)</u> | <u>(83,087)</u> |
| Other comprehensive income | (30,298) | (38,849) |
| Total deferred tax liability | <u>(104,460)</u> | <u>(118,516)</u> |

Deferred tax items are analysed above between local deferred items which represent differences in the tax carrying value under local branch accounting basis and the tax basis and difference between local branch accounting and IFRS.

The Company has a net deferred tax liability of €101million (2016: €111million), which includes a deferred tax liability of €104million (2016: €119million) and a deferred tax asset of €4million (2016: €8million).

The Company is satisfied that the current evidence is sufficient to allow it to recognise a deferred tax asset of €4million that relates to Spain and Bulgaria. These branches were profitable in 2017 and are expected to continue as such. The Company is satisfied it can gain full value for these differences as it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. As a result of the above, there is a full recognition of these deferred tax assets.

The Company has unrecognised deferred tax assets at the end of the financial year totalling €51million (2016: €36million) these relate to the deferred tax assets for the losses transferred from Alico Life Insurance Limited to head office €21million (2016: €20million), foreign tax credits held by head office €15million (2016: nil), UK branch losses €13million (2016: €16million) and €2million (2016: nil) for losses in Cyprus.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 21. Foreign currency translation reserve | 2017 | 2016 |
|---|------------------|------------------|
| | €'000 | €'000 |
| Opening balance 1 January | (195,259) | (148,183) |
| Transferred as part of portfolio transfers and cross border mergers | — | (22,790) |
| Current financial year movement | (4,238) | (24,286) |
| Closing balance 31 December | (199,497) | (195,259) |

The foreign currency exchange rates as at 31 December are as follows:

| | 2017 | 2016 |
|---------|-------------|-------------|
| EUR:GBP | 0.8877 | 0.8536 |
| EUR:USD | 1.2008 | 1.0548 |
| EUR:CZK | 25.529 | 27.0205 |
| EUR:BGN | 1.9559 | 1.9559 |
| EUR:HUF | 310.205 | 308.8651 |
| EUR:RON | 4.6687 | 4.5425 |

Total foreign currency translation movements during 2017 resulted in a net loss recognised in other comprehensive income of (€4)million (2016: net loss €(47)million).

| 22. Investment revaluation reserve | 2017 | 2016 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Opening balance 1 January | 191,342 | 166,453 |
| <u>Transferred as part of portfolio transfers and cross border mergers:</u> | | |
| Investment revaluation reserve | — | 33,078 |
| Tax on unrealised gain | — | (2,705) |
| | — | 30,373 |
| <u>Current year movements:</u> | | |
| Investment revaluation reserve | (53,250) | (4,928) |
| Tax on unrealised gain through other comprehensive income | 10,775 | (556) |
| | (42,475) | (5,484) |
| Closing balance 31 December | 148,867 | 191,342 |

The investment revaluation reserve reflects the accumulation of the movement from amortised costs to fair value on available for sale financial assets and also reflects the related adjustments to insurance liabilities.

The movement in the investment revaluation reserve through other comprehensive income of €53million (2016: €28million), comprises of amounts transferred as part of portfolio transfers and cross border merger €0million (2016: €33million) and current year movement of €(53)million (2016: €(5)million).

The movement in the tax on unrealised gains through other comprehensive income of €11million (2016: €(3.3)million), comprises of amounts transferred as part of portfolio transfers and cross border merger €0million (2016: €(2.7)million) and current year movement of €11million (2016: €(0.6)million).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

23. Investment in subsidiaries

Details of the Company's subsidiaries are as follows:

| Name | Principal activity | Place of incorporation and operation | Proportion of ownership interest | Proportion of voting power held |
|----------------------------------|---|---|---|--|
| MetLife Pension Trustees Limited | Trustee and administrator of personal pension schemes | UK | 100% | 100% |
| | | | 2017 | 2016 |
| | | | €'000 | €'000 |
| Cost of investment | | | <u>1,473</u> | <u>1,473</u> |

Investment in subsidiaries is measured on an historic cost basis.

The Company meets all the requirements under IFRS 10 necessary to avail of the exemption from preparing consolidated accounts.

| 24. <u>Property and equipment</u> | Property | Equipment | Total |
|---|-----------------------|------------------------|------------------------|
| | 2017 | 2017 | 2017 |
| | €'000 | €'000 | €'000 |
| <u>Cost</u> | | | |
| Opening balance 1 January | 11,883 | 14,702 | 26,585 |
| Transferred as part of portfolio transfers and cross border mergers | — | — | — |
| Additions | 125 | 6,874 | 6,999 |
| Disposals | — | (1,101) | (1,101) |
| Effect of foreign exchange translation | — | 140 | 140 |
| Closing balance 31 December | <u>12,008</u> | <u>20,615</u> | <u>32,623</u> |
| <u>Accumulated depreciation</u> | | | |
| Opening balance 1 January | (897) | (10,690) | (11,587) |
| Transferred as part of portfolio transfers and cross border mergers | — | — | — |
| Charge for period | (134) | (5,302) | (5,436) |
| Disposals | — | 486 | 486 |
| Effect of foreign exchange translation | — | (107) | (107) |
| Closing balance at 31 December | <u>(1,031)</u> | <u>(15,613)</u> | <u>(16,644)</u> |
| Total at 1 January | <u>10,986</u> | <u>4,012</u> | <u>14,998</u> |
| Total at 31 December | <u>10,977</u> | <u>5,002</u> | <u>15,979</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | | |
|--|---------------------|----------------------|
| 25. <u>Intangible assets</u> | 2017 | 2016 |
| | <u>€'000</u> | <u>€'000</u> |
| Opening balance 1 January | 11,573 | 9,469 |
| Additions | 863 | 4,964 |
| Charge for the period | <u>(2,320)</u> | <u>(3,219)</u> |
| | 10,116 | 11,214 |
| Foreign currency translation | <u>(142)</u> | <u>359</u> |
| Closing balance 31 December | <u>9,974</u> | <u>11,573</u> |

Intangible assets have finite useful lives and relate to payments made to third party distributors in UK, Spain and Italy for exclusive distribution rights obtained by the Company. Amortisation methods are either proportional to expected profits or expected premiums. The annual amortisation rates range from 8 years to 31 years and are reviewed annually.

The Company reviews the carrying amounts of the intangible assets at each statement of financial position date to determine whether there is any indication that those assets have suffered an impairment loss. No such impairment loss has occurred in the financial year.

Amortisation of the intangible asset is included in the Statement of Comprehensive Income in note 15 Other expenses.

| | | |
|---|---------------------|---------------------|
| 26. <u>Deferred cost of reinsurance</u> | 2017 | 2016 |
| | <u>€'000</u> | <u>€'000</u> |
| Opening balance 1 January | — | 11,425 |
| Amortisation during the financial year | — | (10,379) |
| Foreign currency translation | <u>—</u> | <u>(1,046)</u> |
| Closing balance 31 December | <u>—</u> | <u>—</u> |

As at 31 December 2017, the Company had a deferred cost of reinsurance asset of nil (2016: €0million). On 1 January 2016, the recapture of this business took place. MetLife Bermuda paid the Company an amount equal to the net reinsured liabilities €261million in consideration for the recapture.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27. Financial Instruments

27.1 Categories of financial instruments

| | FVPL | AFS | Loans and Receivables /Other Liabilities | Total |
|--|------------------|------------------|---|-------------------|
| | 2017 | 2017 | 2017 | 2017 |
| | €'000 | €'000 | €'000 | €'000 |
| Unit-linked cash and cash equivalents | 226,915 | — | — | 226,915 |
| Unit-linked fixed interest securities | 146,642 | — | — | 146,642 |
| Unit-linked mutual funds | 6,629,869 | — | — | 6,629,869 |
| Unit-linked structured funds | 7,125 | — | — | 7,125 |
| Total unit-linked assets | 7,010,551 | — | — | 7,010,551 |
| Fixed interest securities | — | 3,122,717 | — | 3,122,717 |
| Mortgage loans | — | — | 140,796 | 140,796 |
| Reinsurance assets | (62,420) | — | 341,825 | 279,405 |
| Receivables and other assets | — | — | 451,826 | 451,826 |
| Cash and cash equivalents | — | — | 379,281 | 379,281 |
| Assets held with credit institutions | — | 18,107 | — | 18,107 |
| Derivative assets | 110,578 | — | — | 110,578 |
| Total financial assets | 7,058,709 | 3,140,824 | 1,313,728 | 11,513,261 |
| Liability for insurance contracts (unit-linked) | 6,863,127 | — | — | 6,863,127 |
| Other insurance liabilities | — | — | 2,354,546 | 2,354,546 |
| Trade and other payables | — | — | 591,636 | 591,636 |
| Other investment contract liabilities | — | — | 215,220 | 215,220 |
| Liability for investment contracts (unit-linked) | 193,162 | — | — | 193,162 |
| Debts owed to credit institutions | — | — | 18,274 | 18,274 |
| Liability for guarantees | (62,420) | — | — | (62,420) |
| Derivative liabilities | 52,051 | — | — | 52,051 |
| Total financial liabilities | 7,045,920 | — | 3,179,676 | 10,225,596 |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | FVPL | AFS | Loans and Receivables /Other Liabilities | Total |
|--|------------------|------------------|---|-------------------|
| | 2016 | 2016 | 2016 | 2016 |
| | €'000 | €'000 | €'000 | €'000 |
| Unit-linked cash and cash equivalents | 285,752 | — | — | 285,752 |
| Unit-linked fixed interest securities | 81,832 | — | — | 81,832 |
| Unit-linked mutual funds | 6,887,194 | — | — | 6,887,194 |
| Unit-linked structured notes | 21,734 | — | — | 21,734 |
| Total unit-linked assets | 7,276,512 | — | — | 7,276,512 |
| Fixed interest securities | — | 3,550,882 | — | 3,550,882 |
| Mortgage loans | — | — | 102,259 | 102,259 |
| Reinsurance assets | (31,382) | — | 317,780 | 286,398 |
| Receivables and other assets | — | — | 507,887 | 507,887 |
| Cash and cash equivalents | — | — | 359,627 | 359,627 |
| Assets held with credit institutions | — | 7,122 | — | 7,122 |
| Derivative assets | 147,340 | — | — | 147,340 |
| Total financial assets | 7,392,470 | 3,558,004 | 1,287,553 | 12,238,027 |
| Liability for insurance contracts (unit-linked) | 7,150,238 | — | — | 7,150,238 |
| Other insurance liabilities | — | — | 2,422,856 | 2,422,856 |
| Trade and other payables | — | — | 674,369 | 674,369 |
| Other investment contract liabilities | — | — | 216,790 | 216,790 |
| Liability for investment contracts (unit-linked) | 224,667 | — | — | 224,667 |
| Debts owed to credit institutions | — | — | 14,916 | 14,916 |
| Liability for guarantees | (31,382) | — | — | (31,382) |
| Derivative liabilities | 52,317 | — | — | 52,317 |
| Total financial liabilities | 7,395,840 | — | 3,328,931 | 10,724,771 |

Comparative figures have been reclassified where necessary to conform to current year presentation. This aligns to regulatory reporting and is disclosed in the new accounting policy in section 4.8 'Debts owed to credit institutions'.

As at 31 December 2017, fixed interest securities and assets held with credit institutions due within one year amounted to €415million (2016: €482million) and those due after one year amounted to €2,726million (2016: €3,076million).

All financial assets at fair value through profit or loss are classified as held for trading. Assets held with credit institutions are AFS fixed interest securities which have been transferred to third parties as collateral in accordance with the Company's privately negotiated International Swaps and Derivatives Association (ISDA) Master Agreements (see note 27.10).

The Company uses English law version of the Credit Support Annex to the ISDA Master Agreement under which legal title to any collateral is held by the secured party.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.2 Financial assets measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.2.1 Financial assets measured at fair value

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|------------------|----------------|-------------------|
| | 2017 | 2017 | 2017 | 2017 |
| | €'000 | €'000 | €'000 | €'000 |
| Unit-linked cash and cash equivalents | 214,452 | 12,463 | — | 226,915 |
| Unit-linked fixed interest securities | 12 | 143,170 | 3,460 | 146,642 |
| Unit-linked mutual funds | 6,602,474 | — | 27,395 | 6,629,869 |
| Unit-linked structured funds | — | 3,234 | 3,891 | 7,125 |
| Total unit-linked assets | 6,816,938 | 158,867 | 34,746 | 7,010,551 |
| Fixed interest securities | 64,760 | 2,975,387 | 82,570 | 3,122,717 |
| Assets held with credit institutions | 2,788 | 15,319 | — | 18,107 |
| Derivative assets | 1,225 | 106,961 | 2,392 | 110,578 |
| Reinsurance assets | — | — | (62,420) | (62,420) |
| Total financial assets measured at fair value | 6,885,711 | 3,256,534 | 57,288 | 10,199,533 |

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|------------------|----------------|-------------------|
| | 2016 | 2016 | 2016 | 2016 |
| | €'000 | €'000 | €'000 | €'000 |
| Unit-linked cash and cash equivalents | 277,426 | 8,326 | — | 285,752 |
| Unit-linked fixed interest securities | — | 79,800 | 2,032 | 81,832 |
| Unit-linked mutual funds | 6,834,368 | — | 52,826 | 6,887,194 |
| Unit-linked structured notes | — | — | 21,734 | 21,734 |
| Unit-linked assets | 7,111,794 | 88,126 | 76,592 | 7,276,512 |
| Fixed interest securities | 3,678 | 3,451,834 | 95,370 | 3,550,882 |
| Assets held with credit institutions | — | 7,122 | — | 7,122 |
| Derivative assets | 1,476 | 142,098 | 3,766 | 147,340 |
| Reinsurance assets | — | — | (31,382) | (31,382) |
| Total financial assets measured at fair value | 7,116,948 | 3,689,180 | 144,346 | 10,950,474 |

Overall, transfers between levels occur when there are changes in the observability of inputs and market activity. Transfers into or out of any level are assumed to occur at the beginning of the period.

Subsequent to initial recognition, fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets that are readily and regularly obtainable. When such quoted prices are not available, fair values are based on quoted prices in markets that are not active, quoted prices for similar but not identical assets or liabilities, or other observable inputs. If these inputs are not available, or observable inputs are not determinable, unobservable inputs and/or adjustments to observable inputs requiring management judgement are used to determine the estimated fair value of assets and liabilities.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Fixed interest securities and assets held with credit institutions are all classified as available for sale and all other financial assets are designated at fair value through the profit and loss.

27.2.2 Financial liabilities measured at fair value

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|----------------|-----------------|------------------|
| | 2017 | 2017 | 2017 | 2017 |
| | €'000 | €'000 | €'000 | €'000 |
| Derivative liabilities | 782 | 46,504 | 4,765 | 52,051 |
| Liability for insurance contracts (unit-linked) | 6,863,127 | — | — | 6,863,127 |
| Liability for investment contracts (unit-linked) | 193,162 | — | — | 193,162 |
| Liability for guarantees | — | — | (62,420) | (62,420) |
| Total financial liabilities measured at fair value | 7,057,071 | 46,504 | (57,655) | 7,045,920 |
| | Level 1 | Level 2 | Level 3 | Total |
| | 2016 | 2016 | 2016 | 2016 |
| | €'000 | €'000 | €'000 | €'000 |
| Derivative liabilities | 318 | 47,209 | 4,790 | 52,317 |
| Liability for insurance contracts (unit-linked) | 7,150,238 | — | — | 7,150,238 |
| Liability for investment contracts (unit-linked) | 224,667 | — | — | 224,667 |
| Liability for guarantees | — | — | (31,382) | (31,382) |
| Total financial liabilities measured at fair value | 7,375,223 | 47,209 | (26,592) | 7,395,840 |

There were no transfers between Level 1 and Level 2 in the year.

27.2.3 Further information on Level 3 assets and liabilities

The principal assets classified as Level 3 and the valuation techniques applied to them, are described below.

Unit linked assets

The valuation of level 3 unit linked assets involves the use of quoted prices in markets that are not active for identical or similar securities. These unit linked assets are less liquid and based on lower levels of trading activity than securities classified in Level 2. This may include the use of independent non-binding broker quotations in valuations.

Fixed interest securities

Level 3 fixed maturity securities are priced principally through market standard valuation methodologies, independent pricing services and independent non-binding broker quotations using inputs that are not market observable or cannot be derived principally from or corroborated by observable market data. Level 3 fixed maturity securities consist of less liquid securities with very limited trading activity or where less price transparency exists around the inputs to the valuation methodologies.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Reinsurance assets

The Company mitigates its liabilities arising from guarantees under its variable annuity business with an internal group reinsurer MetLife Bermuda. The reinsurance asset offsets the guaranteed liability on the statement of financial position.

Derivatives assets

This involves the use of significant unobservable inputs and generally requires a higher degree of management judgement or estimation than the valuations of Level 1 and Level 2 derivatives. Although Level 3 inputs are unobservable, management believes they are consistent with what other market participants would use when pricing such instruments and are considered appropriate given the circumstances.

The principal liabilities classified as level 3 and the valuation techniques applied to them are:

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Liabilities for guarantees

This comprises of guarantees, valued as an embedded derivative on unit linked variable annuity business. The types of guarantees provided on this business are GMAB and GMWB. These guarantees are valued using a risk neutral stochastic assumptions. Non-economic assumptions in this model are deemed to be non-market observable.

Movement in the Level 3 assets and liabilities measured at fair value as at 31 December 2017:

| | Assets | | | Liabilities | |
|---|---------------------------|--------------------|-----------------|-----------------|---------------|
| | Fixed Interest Securities | Unit linked assets | Net Derivatives | Reinsurance | Guarantees |
| | 2017 | 2017 | 2017 | 2017 | 2017 |
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| Opening balance 1 Jan | 95,370 | 76,592 | (1,024) | (31,382) | 31,382 |
| Reclassification from fixed interest securities to unit linked assets | (1,479) | 1,479 | — | — | — |
| Total Gain/(loss) in income Statement | (11,451) | (6,633) | 1,236 | (31,038) | 31,038 |
| Total gains/(loss) recorded in other comprehensive income | 11,044 | 4,128 | (35) | — | — |
| Purchases | 2,446 | 7,806 | — | — | — |
| Sales | (13,379) | (28,102) | (2,550) | — | — |
| Transfers into Level 3 | 3,487 | 1,731 | — | — | — |
| Transfers out of Level 3 | (3,468) | (22,255) | — | — | — |
| Closing balance 31 Dec | 82,570 | 34,746 | (2,373) | (62,420) | 62,420 |

Movement in the Level 3 assets and liabilities measured at fair value as at 31 December 2016:

| | Assets | | | Liabilities | |
|---|---------------------------|--------------------|-----------------|-----------------|---------------|
| | Fixed Interest Securities | Unit linked assets | Net Derivatives | Reinsurance | Guarantees |
| | 2016 | 2016 | 2016 | 2016 | 2016 |
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| Opening balance 1 Jan | 102,295 | 59,540 | 26 | (43,454) | 43,454 |
| Total Gain/(loss) in income Statement | 3,349 | 3,587 | (2,814) | 12,072 | (12,072) |
| Total gains/(loss) recorded in other comprehensive income | (900) | (2,311) | 354 | — | — |
| Purchases | 31,004 | 20,805 | — | — | — |
| Sales | — | (13,030) | 1,410 | — | — |
| Transfers into Level 3 | 41,973 | 15,289 | — | — | — |
| Transfers out of Level 3 | (82,351) | (7,288) | — | — | — |
| Closing balance 31 Dec | 95,370 | 76,592 | (1,024) | (31,382) | 31,382 |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.3 Risk management framework

The key categories of risk faced by the Company are credit risk, market risk, liquidity risk, insurance risk and operational risk.

The Company has documented a risk management framework to ensure risk is managed in line with the Company's stated risk appetite. This framework is subject to at least an annual review and approval by the Board of Directors and continuous review by the Executive Risk Committee, to ensure its on-going appropriateness, in line with the CBI Corporate Governance requirements for Insurance Undertakings (2015).

The Company's risk management framework currently comprises the following elements:

- Company risk strategy and appetite;
- Company corporate governance framework;
- Company risk policy suite;
- Organisational relationships and accountabilities (including committees); and
- Company risk management process.

In addition, the Company proactively identifies risk events, assesses their impact on the business and plans the management of their outcomes. The Company considers these activities as being core to meeting the needs of its shareholder. Consequently, the risk management framework is underpinned by the Company's principles for the effective identification, measurement, management, monitoring and reporting of risk.

Under Solvency II, the key risks faced by the Company are quantified as part of the SCR. The main risk modules in the SCR are market risk, counterparty default risk, underwriting risk and operational risk, as offset by diversification benefits and the loss absorbing capacity of deferred tax. Based on projections and the 2017 submissions, the Company has sufficient surplus assets to cover the SCR and meet its risk appetite target.

27.4 Credit risk

Credit risk is the risk of loss arising from a debtor failing to make those payments to the Company that it is obligated to make. The most significant sources of credit risk borne by the Company are from investments in debt instruments held in its investment portfolio and reinsurance. Credit related losses could also arise from treasury activities (money market transactions) and derivatives.

The Company's appetite for credit risk is articulated in terms of investment and counterparty credit as detailed below:

Investment credit risk

By investing the non unit-linked assets, the Company consciously seeks to take on well-diversified credit risk for appropriate reward, subject to its articulated risk appetite.

The Company limits its aggregate exposure to extreme credit losses in its investment portfolio through economic capital limits. The Company further controls its exposure to rating classes and single issuers through the limits set out in the Investment Guidelines, and incorporates the International Subsidiary Exposure Program Limits (ISEPs), which are also approved and monitored as part of MetLife's credit-risk management.

Investment credit risk on the UK micro- CPPI product is borne by the shareholder for policies in secure asset protection status (invested in bonds in line with the investment fund mandate).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

On linked business without fund-level guarantees, credit risk is borne entirely by the policyholder, and the policyholder is made aware (via policy literature, terms and conditions, key features documentation) of the risk.

Any decisions made by the Company that result in a policyholder taking credit risk on an entity is aligned with local business conduct requirements, including the selection of appropriate funds to offer the policyholder.

Counterparty credit risk

The Company seeks to incur only minimal counterparty exposure as required by its insurance business, financial risk mitigation programmes and treasury operations. These are discussed in the following sections. Each potentially material counterparty is individually approved, and exposure limits and collateral requirements put in place to mitigate the risk. The relevant limits are set as appropriate in the reinsurance risk policy, the derivative use policy, the risk management guidelines for derivatives and treasury procedures.

On linked business with fund-level guarantees, counterparty default risk on unit-linked assets may be borne by the Company in line with product policy terms and conditions.

Credit ratings of fixed income securities held by the Company:

| <u>Standard and Poors Equivalent Ratings</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------------|-------------------------|
| | <u>€'000</u> | <u>€'000</u> |
| AAA | 290,824 | 342,771 |
| AA | 545,290 | 658,822 |
| A | 1,217,817 | 1,461,113 |
| BBB | 882,071 | 895,117 |
| Below investment grade | 186,715 | 193,059 |
| Total | <u>3,122,717</u> | <u>3,550,882</u> |

Credit ratings of cash and cash equivalents held by the Company:

| <u>Standard and Poors Equivalent Ratings</u> | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| | <u>€'000</u> | <u>€'000</u> |
| AAA | 115,838 | 75,743 |
| AA | 13,537 | 6,678 |
| A | 163,057 | 236,673 |
| BBB | 83,122 | 30,066 |
| Below investment grade | 3,727 | 10,467 |
| Total | <u>379,281</u> | <u>359,627</u> |

Comparative figures have been reclassified where necessary to conform to current year presentation. This aligns to regulatory reporting and is disclosed in the new accounting policy in section 4.8 'Debts owed to credit institutions'.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.4.1 Credit risk relating to cash and cash equivalents

The Company bears credit risk on those credit institutions where it holds cash balances. The Company monitors the holdings in cash and cash equivalents on a quarterly basis.

27.4.2 Credit risk on mortgage loans

The Company's investments in mortgage loans of €141million as at 31 December 2017 (2016: €102million) face default risk and are principally collateralised by commercial real estate properties. The credit risk exposure in commercial real estate loans stems from various factors, including the supply and demand of leasable commercial space, creditworthiness of tenants and partners, capital markets volatility and interest rate fluctuations.

27.4.3 Credit risk on derivatives

The Company enters into derivatives in accordance with its derivatives use policy and risk management guidelines for derivatives. These derivatives expose the Company to credit risk. The derivatives use policy requires that credit risk from over-the-counter derivatives is mitigated through collateral arrangements. Collateralisation operates through improving the recovery rate in a post-default situation and thus decreases the loss given default; leading to lower expected losses in a collateralised portfolio than would otherwise be observed. The Company also holds exchange traded derivatives (see note 27.9). The Company's derivatives use policy details the regulated markets on which these can be traded.

27.4.4 Credit risk relating to receivables

The Company bears credit risk on its receivables, in particular receivables from its reinsurance arrangements and premium receivables. The Company's receivables are monitored on a regular basis as part of the quarterly counterparty risk review. The Company's receivables were €452million as at 31 December 2017 (2016: €508million).

As at 31 December 2017, receivables and other assets due within one year amounted to €447million (2016: €500million) and those due after one year amounted to €5million (2016: €8million). None of these assets had been past due or impaired at the end of the reporting period.

27.4.5 Credit risk on prepayments

The Company is exposed to credit risk from approved third party administrators where payment for future services is extended.

27.4.6 Credit risk concentration

The Company routinely monitors and limits credit exposures at counterparty and aggregate level. There were no limit breaches at 31 December 2017 (2016: nil). The Company has prescribed internal issuer limits broken down by rating and asset class as identified in the investment guidelines. Bank limits and derivative counterparty exposures are set out and monitored by global risk management with oversight by the Investment Committee. Concentration is determined using book value of assets. Issuer concentration is rating and asset class, as determined in asset liability management guidelines. Concentrations are coded into group systems and tested by compliance.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.4.7 Credit risk relating to reinsurance assets

The Company uses reinsurance to mitigate certain insurance risk and market risk. The various reinsurance arrangements that are in place expose the Company to credit risk. This credit risk is managed through placing limits on exposures and requiring adherence to stated guidelines. The reinsurance asset valuation at 31 December 2017 is €279million (2016: €286million). These treaties relate predominantly to unit linked guarantees, stop loss reinsurance covering employee benefits business in UK, individual term business in France, event-based catastrophe reinsurance cover (from July 2017), Credit Life reinsurance in Italy and individual term reinsurance in France.

The unit-linked treaty generates significant fair value exposure to MetLife Bermuda which is fully covered by a robust collateral arrangement and has been subject to Board and CBI approvals.

27.5 Market risk

The Company accepts market-risk exposure as it arises from its insurance business:

- Future fee income based on linked fund values - this risk is accepted;
- Linked guarantees - the material risks must be either re-insured or hedged, in which case specific limits need to be set as to the acceptable levels of hedge inefficiencies;
- Box positions - arise from discretionary shareholder exposures to unit-linked funds designed to facilitate the liquidity management of such funds. The risks are acceptable if necessary to facilitate the management of unit-linked funds. Box positions are taken in accordance with the Company's Box Management Policy. Compliance with which is monitored by the unit-linked sub-committee and investment committee;
- Timing mismatches between asset and liability cash flows, in particular where profits are shared with the policyholder - this risk is controlled by managing the investments against targets as set out in the investment guidelines that match liability requirements;
- Currency mismatches between assets and liabilities - currencies must be closely matched within the quantitative limits documented in the MetLife risk appetite and strategy; and
- Surplus assets - the net interest rate risk of the balance sheet is controlled by the economic capital limit as documented in the MetLife risk appetite and strategy; surplus is measured in EUR and may be exposed to other non EUR exchange rate movements to the extent surplus assets are held in non EUR currencies.

Derivatives must be used only to hedge market risks in accordance with an approved derivatives use policy.

Market risk is broken down into the following categories for measurement and management purposes:

- Interest rate risk - see note 27.5.1.
- Equity pricing risk- see note 27.5.2.
- Foreign exchange risk - see note 27.5.3.

27.5.1 Interest rate risk

Interest rate risk is the risk of loss arising from changes in the level of real or nominal interest rate prices, credit spreads, or market implied interest rate volatility levels.

The estimated impact on fixed interest securities of a one percentage point increase in yield curves is a decrease of €158million (2016: €181million).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.5.2 Equity pricing risk

Equity pricing risk is the risk of loss arising from changes in equity prices (including equity index prices), or market implied equity market volatility levels.

The Company does not invest directly in equities on its own account. The key exposure to equity risk arises from the exposure of policy charges which are primarily structured as a percentage of unit funds under management. The sensitivity of the assumptions to change is outlined in note 35.

27.5.3 Foreign exchange risk

Foreign exchange risk is the risk of loss arising from changes in foreign exchange rates or market implied foreign exchange volatility levels.

Direct foreign exchange exposure is limited to changes in surplus shareholder assets held in currencies other than EUR which is the Company's regulatory reporting currency. Indirect exposure occurs from potential loss of fee income due to currency changes impacting policy charges derived from policy holder unit funds under management. The estimated impact of a 10% movement of other currencies against the EUR on the regulatory solvency position is €47million (2016: €53million).

Under Solvency II, currency risk is calculated as part of the SCR within the market risk module. This relates to the loss of fee income on the unit linked business resulting from a fall in unit prices (due to movements in exchange rates), and the extent to which own funds are exposed to exchange movements against the EUR.

27.6 Liquidity risk

Liquidity risk is the risk that the Company, although solvent, is unable, without incurring a premium cost, to make available sufficient resources to meet its financial obligations as they fall due. Management of liquidity risk to ensure that the Company can, at all times, meet its liabilities as they become due, forms a key part of the Company achieving its business objectives and meeting its regulatory requirements. Proper management of liquidity risk is mirrored in the Company's management of credit risk and market risk, which significantly reduce the risk of contagion from credit risk and market risk. The containment of liquidity risk is achieved through the application of limit structures throughout all the Company's investment portfolios. In addition, the Company projects forward its asset and liability cashflows and adjusts the assets it holds to ensure that liquidity is protected at each future point.

The Company accepts liquidity risk arising from the following:

- Actual cashflows differing from predicted cashflows;
- Policyholder behaviour;
- Catastrophic events;
- Non-marketability of assets; and
- Funding of cash collateral for derivative positions.

The Company specifies quantitative and qualitative limits on its liquidity risk exposures, including specific aspects of the above risks that the Company is not willing to accept.

The Company's derivative liability amounts are perfectly matched to the funds withheld facility, with a net impact of all contractual settlements netting to zero.

The Company is a highly liquid entity and based on its business profile monitors its liquidity exposures on an annual basis. The key points are detailed below:

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Unit-Linked business

- The unit-linked assets are predominantly invested in large liquid external funds and the Company reserves the right to defer settlement should there be delays in receiving redemptions from the external funds.
- The unit-linked guarantees are reinsured with MetLife Bermuda and the Company's counterparty exposure is mitigated by robust collateral arrangements.

Liquidity and quality of assets

The projected liability cashflows are derived from Solvency II best estimate liabilities which form part of the asset liability management process.

Projected liability cashflows by currency by duration as at 31 December 2017:

| <u>Duration</u> | <u>EUR in €'000</u> | <u>GBP in €'000</u> | <u>BGN in €'000</u> | <u>CZK in €'000</u> | <u>HUF in €'000</u> | <u>RON in €'000</u> | <u>USD in €'000</u> | <u>Other in €'000</u> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| Not later than one month | 20,641 | 9,170 | 2,051 | 6,138 | 1,477 | 1,935 | 691 | (804) |
| Later than one month and not later than three months | 51,655 | 54,150 | 4,140 | 12,551 | 3,044 | 3,111 | 1,382 | (1,608) |
| Later than three months and not later than one year | 72,006 | 72,469 | 6,520 | 32,295 | 9,404 | 4,601 | 2,070 | (2,412) |
| Later than one year and not later than five years | 76,809 | 181,975 | 3,001 | 112,237 | 24,050 | 47,201 | (9) | — |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Projected liability cashflows by currency by duration as at 31 December 2016:

| <u>Duration</u> | <u>EUR in €'000</u> | <u>GBP in €'000</u> | <u>BGN in €'000</u> | <u>CZK in €'000</u> | <u>HUF in €'000</u> | <u>RON in €'000</u> | <u>USD in €'000</u> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Not later than one month | 17,022 | 50,061 | (44) | 1,436 | 1,072 | (425) | — |
| Later than one month and not later than three months | 49,153 | 36,184 | 29 | 3,793 | 2,583 | (982) | — |
| Later than three months and not later than one year | 39,883 | 47,693 | (83) | 17,320 | 10,367 | (3,304) | (4) |
| Later than one year and not later than five years | 213,478 | 53,695 | 1,431 | 98,844 | 40,548 | 39,507 | (16) |

The Company has a highly diversified, high quality portfolio of liquid fixed interest investments. Total fair value of liquid investments and cash as at 31 December 2017 is €3,298million (2016: €3,652million).

27.7 Insurance risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the Company at the time of underwriting, arising as a consequence of writing business where financial outgo depends upon some or all of mortality, morbidity, longevity, and lapse experience, or upon the exercise of policy options. This also includes the potential for expense overrun relative to pricing assumptions, and includes the consequences of writing new business in volumes or mix different to those anticipated.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

The Company consciously seeks to take on insurance risk for appropriate reward by virtue of its strategic objective to maintain consistent profitable growth, subject to:

- The Company's risk appetite for insurance risk and the desire to limit fluctuations in bottom line results. This will be achieved, inter alia, through reinsuring high face amounts, purchasing catastrophe insurance where appropriate and limiting coverages. The extent of the Company's risk appetite with regards to these considerations is articulated through limit structures that are documented in the insurance risk policy.
- No new types of insurance cover being underwritten (i.e. above and beyond existing coverages) without prior approval by the Company's board.

This risk is controlled through limits and guidelines, which are monitored quarterly by the Product Management Committee.

The Company underwrites a very diversified portfolio and regularly reviews the emergence of any potential concentration. The team responsible for the monitoring is independent of the underwriting and sales functions. The Company has certain geographic concentrations that are monitored and managed as appropriate with catastrophe reinsurance.

Under Solvency II, 'life', 'health' and 'health similar to life' (SLT) underwriting risks are calculated as part of the SCR. The key life underwriting exposures are mortality, catastrophe, lapse and expense risk. The main health SLT risks are lapse and disability.

27.8 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company accepts some operational risk loss events will happen and has set a yearly tolerance for operational risk losses.

The Company manages operational risk to an acceptable level, through a combination of sound corporate and risk governance, strong systems and controls, strong resource management and where appropriate limit and tolerance structures. The Company has a robust system in place which includes written procedures, risk limits and the controls required to implement, measure, monitor, maintain and report on all material operations.

27.9 Derivatives held

The Company utilises derivatives for risk reduction purposes. The Company holds derivatives with a total fair value at 31 December 2017 of €59million (2016: €95million). The Company's exposure under derivative contracts is closely monitored as part of the Company's risk strategy. The Company holds some of these derivatives within a funds withheld arrangement to reduce balance sheet volatility and enhance the Company's credit risk profile. The derivatives held outside of funds withheld arrangements have a nil value.

The Company holds put options relating to the MetLife Protected Growth Funds. Constant Proportion Portfolio Insurance (CPPI) requires constant re-balancing of holdings between risky assets and reserve assets in order to meet the protection goals. The CPPI mechanism will provide the required protection in all but the most extreme circumstances. In those circumstances where the CPPI mechanism fails to provide the required protection, the Company uses its own assets to ensure the protected unit price is not breached. The Company hedges 100% of this guarantee by purchasing put options.

The Company also holds a CPPI derivative in respect of a Micro (Individualised) CPPI which launched in September 2015.

The Company has a robust system in place which includes written procedures, risk limits and the controls required to implement, measure, monitor, maintain and report on derivatives. The Company ensures

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

every procedure, from high level strategy to each individual trading decision, is within the scope of the derivative use policy and risk management guidelines for derivatives.

The derivative types utilised by the Company include but are not limited to:

- FX Forwards;
- FX Futures;
- Equity Options;
- Equity Swaps;
- Equity Futures;
- Variance Swaps;
- Interest Rate Swaps;
- Bond Futures;
- Equity/Interest Rate Hybrid Options; and
- CPPI Derivatives.

The Company uses the industry standard techniques in pricing its derivatives and inputs that management believes are consistent with what other market participants would use when pricing such instruments:

Interest Rate Swaps

The Company uses standard techniques to value its interest rate swaps positions, discounting these with reference to the London Interbank Offered Rate (LIBOR) swap curve.

Equity Futures

The Company uses industry standard techniques to value its Equity Futures.

FX Forward Contracts

The Company uses standard techniques to value its FX Forward Contracts.

The notional amount is the specified amount on which cashflows are calculated. It indicates the size of derivatives outstanding but does not indicate either market risk or credit risk.

| | Asset fair value | Liability fair value | Notional Amount | Asset fair value | Liability fair value | Notional Amount |
|-------------------------|-----------------------------|---------------------------------|----------------------------|-----------------------------|---------------------------------|----------------------------|
| | 2017 | 2017 | 2017 | 2016 | 2016 | 2016 |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| OTC Options | 45,803 | 41,178 | 2,150,947 | 41,613 | 27,322 | 2,469,746 |
| OTC Swaps | 59,159 | 8,913 | 1,295,091 | 97,921 | 20,854 | 1,555,534 |
| OTC Forwards | 4,391 | 1,178 | 288,257 | 6,330 | 3,823 | 352,851 |
| Exchange Traded Futures | 1,225 | 782 | 365,489 | 1,476 | 318 | 431,173 |
| | 110,578 | 52,051 | 4,099,784 | 147,340 | 52,317 | 4,809,304 |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.9.1 Derivatives held

The Company may use derivatives to reduce risk exposure, for example

- To reduce the risk of economic loss due to a change in the value of assets or liabilities (including any group or portfolio of assets or liabilities) which the Company has acquired or incurred or anticipates acquiring or incurring; or
- To reduce the risk of economic loss due to a change in a currency exchange as to any assets or liabilities (including a group or portfolio thereof) which the Company has acquired or incurred or anticipates acquiring or incurring; or
- As an integral part of the Company's asset/liability management strategy, to improve the match between the Company's assets and liabilities, including the assets and liabilities relating to any portfolio or account.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

27.10 Offsetting financial assets and financial liabilities

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Assets | €'000 | €'000 |
| Derivatives subject to ISDA master netting arrangement | | |
| Total gross estimated fair value of derivatives | 111,432 | 149,862 |
| Amounts offset in the statement of financial position | | |
| Estimated fair value of derivatives | 111,432 | 149,862 |
| Gross amounts not offset | | |
| Gross estimated fair value of derivatives | (32,497) | (42,179) |
| Cash collateral | (72,148) | (88,437) |
| Net amount after application of ISDA master netting agreements and cash collateral | 6,787 | 19,246 |
| Securities collateral | (5,233) | (7,201) |
| Net amount after application of ISDA master netting agreements and collateral | 1,554 | 12,045 |
| | 2017 | 2016 |
| Liabilities | €'000 | €'000 |
| Derivatives subject to ISDA master netting arrangement | | |
| Total gross estimated fair value of derivatives | 52,004 | 52,339 |
| Amounts offset in the statement of financial position | | |
| Estimated fair value of derivatives | 52,004 | 52,339 |
| Gross amounts not offset | | |
| Gross estimated fair value of derivatives | (32,497) | (42,179) |
| Cash collateral | (522) | (166) |
| Net amount after application of ISDA master netting agreements and cash collateral | 18,985 | 9,994 |
| Securities collateral | (17,871) | (7,122) |
| Net amount after application of ISDA master netting agreements and collateral | 1,114 | 2,872 |

The Company's OTC-bilateral derivatives are transacted under ISDA Master Agreements which provide for legally enforceable set-off and close out netting.

The Company manages its credit risk related to derivatives by entering into transactions with creditworthy counterparties and establishing and monitoring exposure limits. The Company's OTC bilateral derivative transactions are generally governed by ISDA Master Agreements which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set-off receivables from the counterparty against payables to the same counterparty arising out of all included transactions.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Substantially all of the Company's ISDA Master Agreements also include Credit Support Annex provisions which require both the pledging and accepting of collateral in connection with its OTC-bilateral derivatives.

The Company's OTC-cleared derivatives are affected through central clearing counterparties and its exchange-traded derivatives are affected through regulated exchanges. Such positions are marked to market and margined on a daily basis (both initial margin and variation margin), and the Company has minimal exposure to credit-related losses in the event of non-performance by counterparties to such derivatives.

The amount of securities collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements and cash collateral.

| | | |
|------------------------------------|-----------------------|-----------------------|
| 28. <u>Mortgage loans</u> | 2017 | 2016 |
| | <u>€'000</u> | <u>€'000</u> |
| Opening balance 1 January | 102,259 | 44,763 |
| Loans advanced | 37,093 | 60,643 |
| Fees amortised | 165 | 71 |
| Fees deferred | (592) | (321) |
| Foreign currency translation | 1,871 | (2,897) |
| Closing balance 31 December | <u>140,796</u> | <u>102,259</u> |

As at 31 December 2017 the fair value of the mortgage loans was €146million (2016: €107million) and, if levelled, these would be level 3 assets.

The estimated fair value of mortgage loans is primarily determined by estimating expected future cash flows and discounting them using current interest rates for similar mortgage loans with similar credit risk, or is determined from pricing for similar loans.

29. Reinsurance assets and liabilities

| | | |
|------------------------------------|-----------------------|-----------------------|
| 29.1 <u>Summary</u> | 2017 | 2016 |
| | <u>€'000</u> | <u>€'000</u> |
| Reinsurance assets | | |
| Insurance and investment contracts | 341,825 | 317,780 |
| Unit-linked guarantees | (62,420) | (31,382) |
| Total reinsurance assets | <u>279,405</u> | <u>286,398</u> |

The unit-linked liabilities for variable annuities contain embedded guarantees, which are fully reinsured to MetLife Bermuda. The embedded liability for guarantees and related reinsured asset are reported at fair value. The liability for guarantees represents the present value of claims less the present value of income and is sensitive to capital market movements. This sensitivity results in volatility and the fair value of the liability for guarantees and the related reinsured asset can vary in value. As at 31 December 2017 the value of the unit-linked guarantee reinsurance asset is €(62)million (2016: €(31)million). The reinsured unit-linked guarantees are fully offset by a liability for guarantees per note 35.1.

As at 31 December 2017 €50million (2016: €14million) of the total reinsurance assets, are affiliated with subsidiaries of MetLife Inc..

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | | | |
|-------------|---|----------------|----------------|
| 29.2 | <u>Reconciliation of changes in reinsurance assets</u> | 2017 | 2016 |
| | | €'000 | €'000 |
| | Opening balance 1 January | 286,398 | 492,513 |
| | Transferred as part of portfolio transfers and cross border mergers | — | 5,635 |
| | Reinsurance ceded during the financial year | (9,033) | (224,632) |
| | Foreign currency translation | 2,040 | 12,882 |
| | Closing balance 31 December | 279,405 | 286,398 |
| 30. | <u>Receivables and other assets</u> | 2017 | 2016 |
| | | €'000 | €'000 |
| | Premium receivable | 70,482 | 67,059 |
| | Other receivables | 66,938 | 72,993 |
| | Unearned commission asset | 64,133 | 47,111 |
| | Accrued interest | 55,864 | 65,161 |
| | Receivable from affiliate | 50,468 | 78,657 |
| | Recoverable from reinsurers | 47,810 | 43,778 |
| | Withholding tax from unit-linked funds | 25,641 | 23,037 |
| | Policyholder loans | 21,060 | 25,358 |
| | Shareholder receivables from unit linked funds | 14,158 | 32,044 |
| | Other insurance receivables | 11,239 | 22,632 |
| | Prepaid current tax | 9,476 | 15,056 |
| | Prepaid policy holder exit tax | 8,675 | 10,656 |
| | Prepaid commission asset | 4,376 | 3,146 |
| | Sales inducement asset | 1,506 | 1,199 |
| | Total receivables and other assets | 451,826 | 507,887 |

Comparative figures have been reclassified where necessary to conform to current year presentation which aligns to regulatory reporting. The accounting policy has not changed. Reclassification is effective on lines 'other insurance receivables', 'prepaid commission asset' and 'sales inducement asset'.

As outlined in note 4.13, the Company has prepaid policyholder exit tax to the Italian Revenue for policies written which were transferred as part of the cross border merger with Alico Life International Limited (ALIL) and Alico Italia. The asset valuation as at 31 December 2017 is €9million (2016: €11million). The Company plans to recover this prepaid exit tax as outlined per note 4.13 of the financial statements.

There is an unearned Commission Asset (UCA) to reflect the clawback arrangement in place for associated commission payments. As commission is earned it is moved to DAC. The UCA value as at 31 December 2017 is €64million (2016: €47million).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 31. <u>Cash and cash equivalents</u> | 2017 | 2016 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Cash at bank | 241,290 | 245,492 |
| Cash equivalents | | |
| Liquidity funds | 115,838 | 80,819 |
| Treasury bill | 13,514 | 6,149 |
| Bank deposit | 8,639 | 8,976 |
| Corporate bonds | — | 3,275 |
| Total cash equivalents | 137,991 | 99,219 |
| Total cash and cash equivalents | 379,281 | 359,627 |

Comparative figures have been reclassified where necessary to conform to current year presentation. This aligns to regulatory reporting and is disclosed in the new accounting policy in section 4.8 'Debts owed to credit institutions'.

Included within cash and cash equivalents is cash received for collateral on derivative assets of €74million (2016: €88million).

| 32. <u>Authorised and issued share capital</u> | 2017 | 2016 |
|--|------------------|------------------|
| | €'000 | €'000 |
| Authorised share capital: 100,000,000 shares of €1 each | 100,000 | 100,000 |
| | 2017 | 2016 |
| | Number of | Number of |
| | shares | shares |
| | €'000 | €'000 |
| <u>Allocated, called up and fully paid:</u> | | |
| Opening balance 1 January | 4,379,124 | 4,152,044 |
| Issued during the financial year and fully paid: | — | 227,080 |
| Closing balance at 31 December | 4,379,124 | 4,379,124 |
| | 2017 | 2016 |
| | €'000 | €'000 |
| Amount presented as: | | |
| Called up share capital presented as equity | 4,379 | 4,379 |
| Called up share capital presented as a liability | — | — |
| Closing balance at 31 December | 4,379 | 4,379 |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 33. <u>Merger reserve, shares issued and share premium</u> | 2017 | 2016 |
|---|--------------|--------------|
| | €'000 | €'000 |
| 33.1 <u>Merger reserve</u> | | |
| Opening balance 1 January | — | — |
| Current financial year movement | — | (76,048) |
| Transfer from retained earnings | — | 76,048 |
| Closing balance 31 December | — | — |

In 2016 the Company has elected to transfer €76million from retained earnings to eliminate the merger reserve that arose from the cross border mergers with MetLife Romania and MetLife Cyprus.

| | 2017 | 2016 |
|--------------------------------------|------------------|------------------|
| | €'000 | €'000 |
| 33.2 <u>Share premium</u> | | |
| Opening balance 1 January | 1,212,975 | 1,038,245 |
| Current financial year movement | — | 174,730 |
| Closing balance 31 December | 1,212,975 | 1,212,975 |

On 1 January 2016 the Company issued a share as consideration for the transfer of ownership of MetLife Cyprus to the Company. On 1 May 2016 the Company issued shares as consideration for the transfer of ownership of MetLife Romania to the Company.

The difference between the nominal amount of the shares and the fair value of the businesses acquired is recognised in share premium.

| 34. <u>Retained earnings</u> | 2017 | 2016 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Opening balance 1 January | 569,244 | 539,040 |
| Profit for the financial year | 93,931 | 106,252 |
| Dividend paid | (222,000) | — |
| Transfer from capital contribution | — | — |
| Transfer to merger reserve | — | (76,048) |
| Closing balance 31 December | 441,175 | 569,244 |

In December 2017 the Company elected to pay a dividend of €50.69 per share totaling €222million (2016: nil).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

35. Actuarial assumptions

35.1 Determination of actuarial reserves and related items requiring actuarial assumptions:

| | 2017 | 2016 |
|--|--------------|--------------|
| | €'000 | €'000 |
| Liability for insurance contracts (unit-linked) | 6,863,127 | 7,150,238 |
| Other insurance liabilities | 2,354,546 | 2,422,856 |
| Deferred acquisition costs | 602,716 | 517,996 |
| Other investment contract liabilities | 215,220 | 216,790 |
| Deferred revenue liability | 191,940 | 155,889 |
| Liability for investment contracts (unit-linked) | 193,162 | 224,667 |
| Receivables (unearned commission asset) | 64,133 | 43,778 |
| Receivables (sales inducement asset) | 1,506 | 1,199 |
| Liability for guarantees | (62,420) | (31,382) |

The liability for guarantees relates to variable annuity unit-linked contracts which are fully reinsured to MetLife Bermuda, predominantly embedded derivatives reported at fair value as per note 4.4. and sensitive to capital market movements.

This reinsurance neutralises the associated volatility in the fair value on the Company whereby the ceded balance shown in the table above fully offsets the gross balance.

Key methodology:

(a) Unit-linked contracts

Unit reserves

Liabilities for insurance and investment contracts include unit reserves at fair value, unallocated premiums and sales inducement liability. The unit reserves are equal to the number of policyholder units multiplied by the relevant unit price (at bid price i.e. with fair value adjustment). Unallocated premiums are premiums that have been issued but not yet allocated to units. The sales inducement liability relates to the accruing cost of loyalty bonuses and is based on assumptions set out below, that are common to the other items. The deferred items, relating to acquisition costs, revenues and sales inducements, are based on amortisation patterns of expected gross profits in accordance with the US GAAP accounting product classification as permitted under IFRS and subject to recoverability and loss recognition (adequacy) tests.

Guarantee reserves

The liability for guarantees are a combination of fair value and accrued cost determined under the Company's bifurcation policy as mentioned in note 4.4.

(b) Non unit-linked contracts

Unearned premium reserves (UPR)

Group life and income protection, credit life and personal accident - these products are classified as short duration contracts under the accounting product classification and the main reserve for these products is the unearned premium reserve (UPR). This takes into account the period covered by the unexpired part of the previous premium paid before the valuation date. There are also actuarial reserves for claims "in payment" and claims "incurred but not reported" (IBNR).

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Discounted cash flow reserves (DCF)

Individual protection, fixed term annuity, pensions - these products are classified as long duration contracts and the liabilities represent the present value of future benefits to be paid to the policyholders or on behalf of the policyholders and related expenses less the present value of future net premiums. They are estimated using the assumptions in (i) below. These assumptions are locked-in at inception under the Company's accounting policy and are only subject to revision where required under the annual LRT.

The actuarial reserves and related items have been reviewed by a qualified actuary, Mark Wharton FSAI, having due regard to the actuarial principles pertaining to the Company's accounting policies.

(i) Key assumptions used in calculating the actuarial reserves and related items are:

- Investment return representing the expected long term unit-linked gross return;
- Discount rate being equal to the net return;
- Direct per policy maintenance expenses and associated inflation;
- Mortality rates based on experience and selected published actuarial mortality tables; and
- Lapse rates based on expected surrender experience.

Capital market parameters (swap rates and implied volatilities) as at the valuation date are also used to determine the fair value of those guarantee liabilities that qualify as embedded derivatives.

For non-linked DCF reserves on existing business, the assumptions are locked-in under the Company's accounting policies, subject to loss recognition testing.

The actuarial reserves and related items include balances classified under the Company's accounting policy as VOBA, in respect of the business acquired by MetLife Inc. from Alico in 2010. These items are amortised as this business runs off, based on initial values set in 2010 using assumptions locked-in at that time.

(ii) Sensitivity of assumptions to changes:

(a) Commentary on assumptions used to establish the actuarial reserves

The Company's established practice is to use US GAAP accounting policies to set reserves for IFRS reporting as permitted under IFRS. Under US GAAP, depending on the accounting product classification, assumptions are locked in at issue (or date of acquisition) and assumption risk is addressed by performing LRT. Therefore the impact on the income statement and balance sheet to changes in assumptions is limited to the potential for a shortfall to occur on LRT.

89% (2016: 97%) of the net liabilities (excluding policyholder account balances not subject to assumptions) held at year end are classified under the accounting product classifications as contracts where assumptions are locked-in. In assessing the sensitivity of these reserves to reasonable possible changes in assumptions, the Company has considered the assessment performed under Solvency II of technical provision sensitivity to assumption changes. Plausible variations in best estimate assumptions over a 12 month horizon would not be expected to breach LRT.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

(b) Commentary on best estimate assumptions

Market risks and associated assumptions

In respect of its liabilities, the Company is exposed to market risks (interest, equity, spread) on its unit-linked business, where fee income charged to the funds is generally proportional to the level of such funds hence to the capital markets driving the related investment returns. Such risks are most prominent on the variable annuity portfolio. By way of sensitivity illustration, the impact on pre-tax annual income of a 10% fall in the unit values of the variable annuity portfolio would be €(6)million (2016: €(6)million). The Company is also exposed to market risks related to the assets held, and to related inter-actions with the liabilities.

Insurance risks and associated assumptions

The best estimate demographic and expense assumptions reflect the insurance risks the Company faces across its various lines of business.

Mortality risk

Mortality risk predominantly arises on group life business in the UK and term life business in France. Additional exposure to mortality arises in the credit life and individual life businesses across the branches.

Longevity risk

Exposure to longevity risk arises predominantly in the unit-linked and excess interest benefit businesses.

Disability risk

Exposure to disability risk arises in the credit life, group life and accident and health businesses.

Lapse risk

Lapse risk affects the business in different ways depending on the future expected profitability: the Company is generally exposed to risk of higher lapses (long term trend, or mass lapse) on more profitable business, and lower lapses on less profitable business. In particular a significant proportion of the Company's in-force business offers guarantees (EIB, VA) that are currently valuable and generate exposures to lower lapses on such business.

Catastrophe risk

Exposure to life catastrophe risk arises predominantly on term life business written in France, group employee benefits business written in the UK Branch and, to a lesser extent risk business (group life, credit life and accident and health businesses) written in Italy, Spain and Portugal.

Expense risk

Exposure to expense risk relates to an increase in the level of, and inflation on, future maintenance expenses in relation to the existing business. This affects all business broadly according to the size of each portfolio.

The Company's management of these risks is set out in the risk management framework detailed in note 27.3.

(iii) Impacts of change in assumptions from prior financial year:

The impact of the change in assumptions from the prior financial year is not significant.

(iv) Analysis of contract liabilities maturities:

Unit-linked contracts have open-ended maturities. Certain contracts bear guarantees that mature over durations in excess of 5 years from contract issue.

Fixed term annuity contracts have terms between 3 and 25 years: this business is in run-off with the majority due to mature within 5 years.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Group life contracts have a term of 2 years and individual protection has variable terms generally in excess of 5 years.

Credit protection contracts have a term which varies depending on the type and duration of the loan underlying the insurance cover, ranging from less than 1 year (credit cards and small personal loans business) to more than 20 years (mortgage creditor business).

(v) Liability adequacy test:

The write down required as a result of the liability adequacy testing as set out in note 4.4 is nil (2016: nil).

| 35.2 Reconciliation of changes in liabilities for insurance contracts | | 2017 | 2016 |
|--|--|-------------------------|-------------------------|
| | | €'000 | €'000 |
| Opening balance 1 January | | 9,573,094 | 9,404,707 |
| Transferred as part of portfolio transfers and cross border mergers | | — | 374,584 |
| Foreign currency translation | | (94,935) | (853,879) |
| | | <u>9,478,159</u> | <u>8,925,412</u> |
| Movement in unit-linked liabilities | | | |
| Premiums received | | 548,536 | 1,013,279 |
| Net investment income | | 468,687 | 689,294 |
| Fees deducted from account balance | | (207,683) | (218,945) |
| Payment on death, surrenders and other termination benefits | | (896,919) | (808,007) |
| | | <u>(87,379)</u> | <u>675,621</u> |
| Movement in non unit-linked liabilities | | <u>(173,107)</u> | <u>(27,939)</u> |
| Closing balance 31 December | | <u>9,217,673</u> | <u>9,573,094</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | | | |
|-------------|--|-----------------------|-----------------------|
| 35.3 | <u>Reconciliation of changes in liabilities for investment contracts</u> | 2017 | 2016 |
| | | €'000 | €'000 |
| | Opening balance 1 January | 441,457 | 492,962 |
| | Transferred as part of portfolio transfers and cross border mergers | — | 8,348 |
| | Foreign currency translation | (18,882) | (27,028) |
| | | <u>422,575</u> | <u>474,282</u> |
| | Movement in unit-linked liabilities | | |
| | Net investment income | 3,836 | 932 |
| | Premiums received | — | 29 |
| | Fees deducted from account balance | (879) | (798) |
| | Payment on death, surrenders and other termination benefits | (21,830) | (36,578) |
| | | <u>(18,873)</u> | <u>(36,415)</u> |
| | Movement in non unit-linked liabilities | <u>4,680</u> | <u>3,590</u> |
| | Closing balance 31 December | <u>408,382</u> | <u>441,457</u> |
| 35.4 | <u>Deferred revenue liability</u> | 2017 | 2016 |
| | | €'000 | €'000 |
| | Opening balance 1 January | 155,889 | 176,399 |
| | Transferred as part of portfolio transfers and cross border mergers | — | 2,058 |
| | Current financial year deferred fees liability (unit-linked): | | |
| | Capitalised | 37,699 | 10,230 |
| | Amortised | (20,333) | (27,369) |
| | Interest and adjustments | 14,414 | (6,047) |
| | Total current financial year deferred fees liability (unit-linked) | 31,780 | (23,186) |
| | Current financial year deferred reinsurance commission income (non unit-linked): | | |
| | Capitalised | 7,266 | 6,865 |
| | Amortised | (4,547) | (3,695) |
| | Total current financial year deferred reinsurance commission income | 2,719 | 3,170 |
| | Foreign currency translation | 1,552 | (2,552) |
| | Closing balance 31 December | <u>191,940</u> | <u>155,889</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| 36. Trade and other payables | 2017 | 2016 |
|---|----------------|----------------|
| | €'000 | €'000 |
| Insurance and intermediaries payables | 305,059 | 318,370 |
| Collateral payable | 74,248 | 88,791 |
| Deposits from reinsurers | 44,229 | 77,471 |
| Reinsurance payables | 43,123 | 51,863 |
| Other payables and accrued expenses | 38,189 | 33,241 |
| Payable to affiliate | 34,349 | 43,570 |
| Corporation tax payable | 32,393 | 23,677 |
| Amounts due to shareholder from unit-linked funds | 14,158 | 32,044 |
| Sales inducement liability | 3,063 | 2,753 |
| Other taxes | 2,825 | 2,589 |
| Total trade and other payables | 591,636 | 674,369 |

Comparative figures have been reclassified where necessary to conform to current year presentation which aligns to regulatory reporting. The accounting policy has not changed. Reclassification is effective on lines 'insurance and intermediaries payables', 'deposits from reinsurers', 'reinsurance payables' and 'sales inducement liability'.

| 37. Provisions | 2017 | 2016 |
|-----------------------|--------------|--------------|
| | €'000 | €'000 |
| Opening balance | 9,960 | 5,430 |
| Current year movement | 7,173 | 4,530 |
| Closing balance | 17,133 | 9,960 |

As at 31 December 2017, the Company has estimated an amount of €5million (2016: €5million) in respect of restructuring costs.

As at 31 December 2017, the Company has a provision of €4million (2016: €4million) in respect of potential claims arising from a ruling by the European Court of Justice, which has been applied by the Federal Court of Germany. This ruling impacts a closed block of unit-linked business previously sold by ALIL. The provision is based on an estimate of the total amount at risk and includes administration costs.

As at 31 December 2017, the Company has a provision of €4million (2016: nil) in respect of a pricing error on the unit linked business in the Romania branch.

As at 31 December 2017, the Company has a provision of €2million (2016: nil) in respect of potential costs due to an external IT supplier relating to IT maintenance agreements in the French branch.

As at 31 December 2017 the illiquid funds solution provision is €1million (2016: €1million). The illiquid funds solution provision arose from the balances transferred as part of the cross border merger with ALIL. Under the illiquid funds solution, the Company shall provide the liquidation value of suspended internal funds to policyholders and make a bonus offer linked to the performance of relevant benchmarks. This settlement was agreed with the policyholders who had invested in a number of the ALIL's internal funds, which were suspended in 2008 and 2009 due to a lack of liquidity in their underlying assets. These prolonged periods of illiquidity were outside the Company's control.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

As at 31 December 2017, the Company has a provision of €1million (2016: nil) in respect of unpaid employee social contributions on the Italian branch during the year.

As at 31 December 2017, the Company has a provision of €0.5million (2016: nil) on the Italian branch in respect of employee death in service benefits where insurance cover is not available.

| 38. <u>Debts owed to credit institutions</u> | 2017 | 2016 |
|--|---------------|---------------|
| | <u>€'000</u> | <u>€'000</u> |
| Debts owed to credit institutions | <u>18,274</u> | <u>14,916</u> |

Comparative figures have been reclassified where necessary to conform to current year presentation. This aligns to regulatory reporting and is disclosed in the new accounting policy in section 4.8 'Debts owed to credit institutions'.

Debts owed to credit institutions comprises of bank overdrafts.

39. Events after the Statement of Financial Position

On 26 March 2018 the Company converted a €50.4million inter company receivable owing from MetLife EU to an interest bearing ten year loan.

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

40. Related party transactions

40.1 Balances with companies that are subsidiaries of its ultimate parent

The related party transactions are disclosed in the relevant notes and details of balances between the Company and other related parties who are subsidiaries of its ultimate parent, MetLife Inc. are detailed below:

| | Assumed 2017 €'000 | Ceded 2017 €'000 | Year end 2017 €'000 | Assumed 2016 €'000 | Ceded 2016 €'000 | Year end 2016 €'000 |
|--|-----------------------------------|---------------------------------|------------------------------------|-----------------------------------|---------------------------------|------------------------------------|
| Reinsurance | | | | | | |
| Alico US | 5,377 | (1,946) | 6,293 | 15,883 | (14,001) | 2,423 |
| Delaware Life Insurance | 6,446 | (4,089) | 4,131 | 5,727 | (4,339) | 3,780 |
| Metropolitan Life Insurance Company | 1,525 | (31) | 192 | 532 | — | (109) |
| MetLife USA International Reinsurance | 174 | — | 39 | 961 | — | (78) |
| Metropolitan Life Training and Consulting s.r.l. | — | — | 6 | — | — | 4 |
| MetLife Inc. | — | — | (5) | — | — | — |
| MetLife Reinsurance Company of Bermuda Limited | 42,112 | (5,829) | (102,400) | 65,601 | — | (82,328) |
| MetLife Insurance Company of Connecticut | — | — | — | 6,832 | (5,668) | (316) |

As disclosed in note 29 reinsurance balances are ceded to and assumed from subsidiaries of MetLife Inc..

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

| | Income 2017 €'000 | Expenditure 2017 €'000 | Year end 2017 €'000 | Income 2016 €'000 | Expenditure 2016 €'000 | Year end 2016 €'000 |
|--|-------------------------|------------------------------|---------------------------|-------------------------|------------------------------|---------------------------|
| Trading - administration expenses | | | | | | |
| MetLife Solutions SAS | (56) | 1,637 | 1,098 | — | 2,185 | 575 |
| Alico United Arab Emirates | (1,913) | — | 922 | (734) | — | 133 |
| MetLife Ireland Treasury d.a.c. | — | — | 50 | — | — | 1 |
| MetLife Services Spain | (14) | — | 1 | (13) | — | 7 |
| Metropolitan Asigurari Romania | — | — | (10) | — | 102 | — |
| WEE HO exp allocation | — | — | — | — | — | 405 |
| International MetLife Insurance Limited | — | 13 | — | — | 354 | — |
| MetLife Services Sp z.o.o | — | 173 | (20) | — | 144 | (6) |
| MetLife Greece | — | 270 | (183) | — | 248 | (215) |
| MetLife Pension Trustees Limited | — | 228 | (225) | — | — | 1 |
| MetLife Europe Insurance d.a.c. | (1,700) | — | (830) | (1,756) | — | 2,516 |
| MetLife Services Cyprus Limited | (315) | — | (1,441) | (330) | — | (687) |
| MetLife International Holdings Inc | — | 6,139 | (1,642) | — | 4,435 | (2,321) |
| MetLife Slovakia s.r.o. | — | 18,311 | (3,133) | — | 20,876 | (3,474) |
| MetLife Services EEIG | — | 44,859 | (9,238) | — | 37,554 | (5,441) |
| MetLife Europe Services Limited | — | 72,098 | (19,228) | — | 64,747 | (5,265) |

As disclosed in note 16 and note 18 a significant portion of the on-going operating expenses and staff costs are recharged to the Company from subsidiaries of MetLife Inc..

Trading - technical expenses

| | | | | | | |
|-----------------|---|---|-------|---|---|---------|
| Agenvita s.r.l. | — | — | (290) | — | — | (1,053) |
|-----------------|---|---|-------|---|---|---------|

This relates to a provision of premium collected and payment services to the Company from a subsidiary of MetLife Inc..

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

Distributions to shareholders

| | | | | | | |
|------------|---|---|---------------|---|---|---------------|
| MetLife EU | — | — | <u>50,375</u> | — | — | <u>50,375</u> |
|------------|---|---|---------------|---|---|---------------|

This relates to a balance receivable from share purchase agreements.

Investment - advisory and management services

| | | | | | | |
|-----------------------------|---|--------------|--------------|---|--------------|--------------|
| MetLife Investments Limited | — | <u>2,181</u> | <u>(136)</u> | — | <u>2,347</u> | <u>(177)</u> |
|-----------------------------|---|--------------|--------------|---|--------------|--------------|

This relates to a provision of investment advisory and management services to the Company from a subsidiary of MetLife Inc..

Dividend paid

| | | | | | | |
|------------|---|----------------|---|---|---|---|
| MetLife EU | — | <u>222,000</u> | — | — | — | — |
|------------|---|----------------|---|---|---|---|

A dividend was paid to MetLife EU during 2017 amounted to €222million.

40.2 Compensation of key management personnel

Key management personnel are those personnel having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Key management personnel costs include non-executive directors paid directly by the Company. All other key personnel are paid by one or more affiliated companies and partly recharged to the Company. The compensation costs for key management personnel for direct and recharged costs for the financial year are as follows:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| | €'000 | €'000 |
| Long-term benefits | — | — |
| Short-term benefits | 645 | 606 |
| Termination benefits | — | — |
| Post-employment benefits | 38 | 86 |
| Share based benefits | <u>85</u> | <u>60</u> |
| Total compensation of key management personnel | <u>768</u> | <u>752</u> |

41. Capital risk management

The Company manages its capital to ensure that it can continue as a going concern. The capital structure of the Company consists of short term investments and equity attributable to equity holders of the parent, comprising issued capital, capital contributions and retained earnings as disclosed in notes 32, 33 and 34 respectively.

The operations of the Company are subject to regulatory requirements, which prescribe the capital to be held for the type, quality and concentration of investments held and for the type of insurance contracts held.

The Company is committed to managing its capital so as to maximise returns to shareholders while maintaining an adequate regulatory solvency position. The board of directors reviews the capital structure

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

frequently to determine the appropriate level of capital required to pursue the Company's growth plans while maintaining an adequate solvency position under the Solvency II regime.

The Company at all times maintains capital in excess of the minimum required capital to manage the business having regard for the basis of calculating liabilities and the insurance and operational risks inherent in the underlying products under the Solvency II regime. The Company has complied with external capital requirements during the year.

42. Contingent Liability

The Company had no contingent liabilities at 31 December 2017 (2016: nil).

43. Immediate parent undertaking

The Company's immediate parent Company is MetLife EU and its ultimate parent Company is MetLife Inc, a company domiciled in the U.S.A. The Company's financial statements and results are consolidated by MetLife Inc.. The registered address of MetLife Inc. is 200 Park Avenue, New York, NY 10166-0188.

During the year the immediate parent Company purchased the remaining shares from the other qualifying holdings, American Life Insurance Company and International Technology and Advisory Services Limited, to become the sole owner of the Company.

44. Reconciliation of results to US GAAP

| | 2017 €'000 | 2016 €'000 |
|--|------------------|------------------|
| <u>Reconciliation of shareholders' funds</u> | | |
| Reported shareholders' funds per IFRS | 1,607,899 | 1,782,681 |
| Intangible assets not permitted | 289,984 | 293,851 |
| Deferred and prepaid tax | 6,288 | 4,847 |
| Timing differences | 5,511 | (423) |
| Actuarial adjustments | (5,107) | (1,838) |
| Foreign exchange | (9,726) | (86) |
| | <u>1,894,849</u> | <u>2,079,032</u> |
| <u>Reconciliation of profit for the financial year</u> | | |
| Reported profit per IFRS | 93,931 | 106,252 |
| Deferred and prepaid tax | 5,539 | (392) |
| Timing differences | (95) | (463) |
| Actuarial adjustments | (3,241) | 2,396 |
| Transfer accounting | (3,255) | (3,564) |
| Foreign exchange | (13,679) | (9,074) |
| | <u>79,200</u> | <u>95,155</u> |

MetLife Europe d.a.c.
Notes to the Financial Statements (continued)
For the financial year ended 31 December 2017

45. Commitments

The Company had no capital commitments at 31 December 2017 (2016: nil).

46. Approval of financial statements

The directors approved the financial statements on 25 April 2018.