Atlas Holdings Limited

("Atlas Group")

Solvency and Financial Condition Report

for the Financial Year ended 31 December 2016

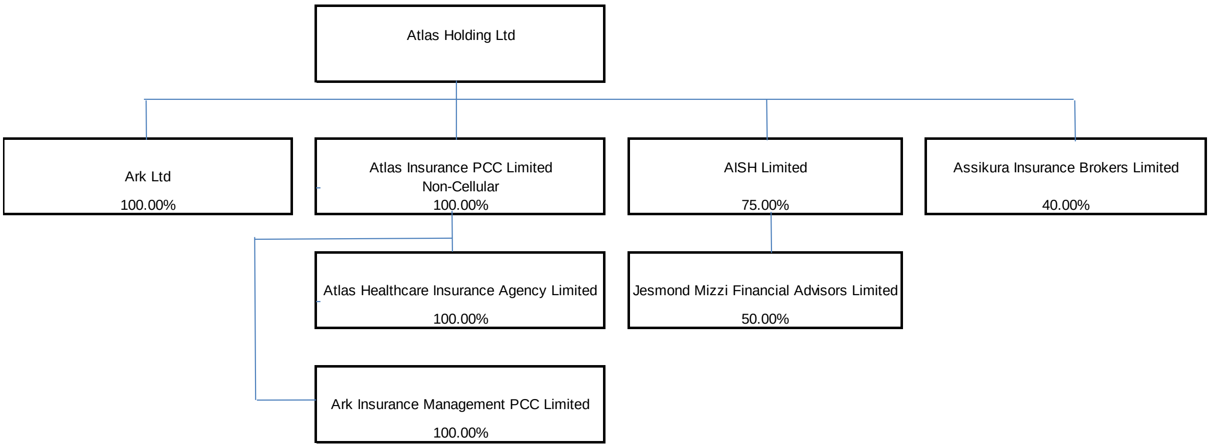
TABLE OF CONTENTS

1. Executive summary

The Solvency and Financial Condition Report (SFCR) is presented in line with the requirements of Directive 2009/138/EC (Solvency II Directive) and the Commission Delegated Regulation (EU) 2015/35.

Atlas Holdings Limited (the Atlas Group, the Group) is principally engaged in the holding of investments with a particular interest in insurance. The Atlas Group has been captured for Group Supervision under the Solvency II Directive which came in to force as on the 1 January 2016. As such this report is intended to satisfy compliance with Group Supervisory requirements under such regulation while also reporting on the Protected Cell Company and its Cells' results for the year under review as a single entity.

The Atlas Group's corporate structure is demonstrated in the following organogram:



1.1 Business and Performance

Atlas Holdings Limited

Atlas Holdings Limited receives dividend income from its equity investment in its controlled subsidiaries or from its associate company. During the year under review the Company received dividends before taxation totalling €2,025,192 (2015: €2,093,269). The Company reports a profit before taxation of €2,020,365 (2015: €2,085,865).

Atlas Group and its subsidiaries

The Atlas Group's consolidated accounts consider the results and financial positions of the holding company and its subsidiaries and associate companies. These include Atlas Insurance PCC Limited, Atlas Healthcare Insurance Agency Limited, Ark Insurance Management PCC Limited, AISH Limited and Ark Limited, besides two associate companies Jesmond Mizzi Financial Advisors Limited and Assikura Insurance Brokers Limited. In consolidating the results for the Atlas Group, Atlas Insurance PCC Limited only reports the results for the non-cellular operations and financial positions. The Cells results and financial positions included within the Atlas Insurance PCC Limited annual accounts are discarded for the purpose of accounting under International Financial Reporting Standards (IFRS) since such results do not form part of the Atlas Group.

Atlas Insurance PCC Limited (the PCC, the Solo Undertaking) is the flagship company within a group of companies specialising in insurance underwriting and insurance services. As such it plays a pivotal role within the group offering its own resources to its sister and subsidiary companies, on a cost sharing basis. These resources include its expert human resources, finance, office premises and IT infrastructure.

The Solo Undertaking was authorised on the 29 April 2004 by the Malta Financial Services Authority (MFSA) to carry on business in the following Insurance Classes of Business:

Class 1 – Accident,
Class 2 – Sickness,
Class 3 – Land Vehicles,
Class 6 – Ships,
Class 7 – Goods in Transit,
Class 8 – Fire and Natural Forces,
Class 9 – Other Damage to Property,
Class 10 – Motor Vehicle Liability,
Class 12 – Liability for Ships,
Class 13 – General Liability,
Class 16 – Miscellaneous Financial Loss,
Class 17 – Legal Expenses, and
Class 18 – Assistance.

The Solo Undertaking was further authorised by MFSA to convert to a Protected Cell Company on the 1 November 2006, and later, on 11 June 2009, the MFSA reissued its authorisation to also carry on Reinsurance Business under its license.

The Companies Act (Cell Companies Carrying on Business of Insurance) Regulations determine under article 9 (1) "that the assets of a cell company shall be either cellular assets or non-cellular assets". In accordance with article 9 (2) of the same regulations, the Directors of Atlas are obliged to keep: "(a) cellular assets separate and separately identifiable from non-cellular assets; (b) cellular assets attributable to each cell separate and separately identifiable from cellular assets attributable to other cells; and (c) separate records, accounts, statements and other documents as may be necessary to evidence the assets and liabilities of each cell as distinct and separate from the assets and liabilities of other cells in the same company." For the purposes of this report the non-cellular assets are referred to as "Core" assets.

Therefore, within the PCC the core assets comprise the assets of the Company which are non-cellular assets relating to the core operation. The assets of the PCC are either core assets or cellular assets. The assets attributable to a cell comprise assets represented by the proceeds of cell share capital, reserves and other assets attributable to the cell.

The PCC underwrites (re)insurance risk through both its Core Activity and its Cellular Activity.

As at 31 December 2016, the PCC had seven Cells incorporated within its structure; the Perfect Home Cell, the Travelodge Cell, the Ocado Cell, the TVIS Cell, the Amplifon Cell, the Gemini Cell and the L'Amie Cell.

As on 31 December 2016 the Core's regulated solvency ratio stood at 268% before any cellular deficits.

Atlas Healthcare Insurance Agency Limited's (the Agency) increased growth and profitability has continued to contribute to the Atlas Group's success during the period under review allowing for the payment of increased dividend income upstream.

The Agency is an enrolled agent authorised by the MFSA in accordance with the Insurance Intermediaries Act. Its agency representation is focuses on health insurance products as its mainstream product line and is an insurance agent for AXA PPP healthcare Limited.

The Agency's net asset value totalled €924,165 as on 31 December 2016, which result is in excess over regulated financial resources requirements under the Insurance Intermediaries Act.

Ark Insurance Management PCC Limited (Ark) also saw an increase in its profitability through increased insurance management activity.

Ark is also regulated under the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations. Within its capital structure it may incorporate Cells which would be authorised by the MFSA and enrolled in the insurance managers register as individual entities. Ark currently does not have any cells incorporated within its structure.

This subsidiary also manages its financial resources in excess of that under regulation for its enrollment under the Insurance Intermediaries Act (Cap 487). The net asset value of the insurance manager is reported as on 31 December 2016 at €74,958.

Atlas Group's Financial Position Statement also recognises the financial positions equivalent to its ultimate shareholding in **the Associate Companies**. This is equivalent to a contribution of €1,033,890 (2015: €689,919) to the Net Asset Value of the Atlas Group.

AISH Limited (AISH) is an intermediate holding company within the Atlas Group set up to hold its 50.0% share in **Jesmond Mizzi Financial Advisors Limited** (JMFA). 25% of AISH is owned by a third party shareholder and as such the Atlas Group's share reduces to 37.5% in JMFA.

During 2016 AISH received dividends before taxation from JMFA totalling €217,645 (2015: €238,462).

Ark Limited, formerly Ark Insurance Brokers Limited, has relinquished its authorisation by the MFSA to be enrolled under the Insurance Brokers Register. It is intended to absorb this Company's remaining assets into Atlas Holdings Limited with an end to having it struck off the register of companies. This strategic decision was taken with the objective for the Atlas Group to acquire a 40% share in Assikura Insurance Brokers Limited.

1.2 System of Governance

As is required under Solvency II for the Atlas Group's regulatory requirements under group supervision rules the PCC's Board is entrusted to oversee compliance with all three Pillars under the Solvency II regime and as such is also responsible to ensure that appropriate governance procedures are set within the whole group.

The PCC's Board exercises accountability through oversight which is entrusted to a number of board committees who have the responsibility to oversee key functional areas of the Group. The relevant Committees are:

- the Investment Committee;
- the Audit Committee;
- the Remuneration, Nominations and Related Parties Committee; and,
- the Risk and Compliance Committee.

The Atlas Group believes that good risk management that is visible, repeatable and consistently applied to support decision making increases probability of success and reduces probability of failure and the uncertainty of achieving overall objectives.

For this purpose the Atlas Group adopts a three lines of defence approach considered as best practice. Responsibilities are defined in the Risk Management Policy.

1.3 Risk Profile

Atlas Group takes and manages risks to achieve its objectives. The Board has set a risk appetite statement that broadly describes the types and amounts of risk we are willing to take in pursuit of these objectives.

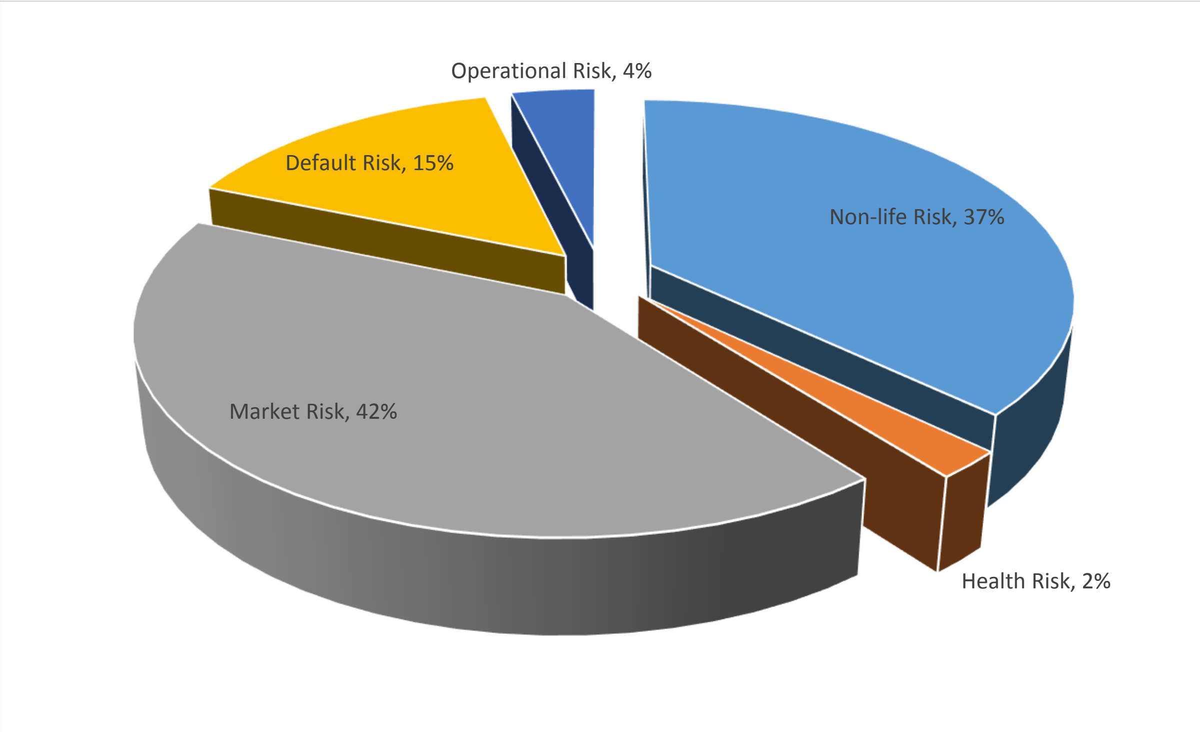
The Group's objectives include achieving target performance and maximising shareholder value, preserving a level of solvency that would support Atlas in challenging environments, maintaining adequate liquidity to satisfy obligations as they come due, and protecting all aspects of Atlas's value, including its brand and reputation.

Underlying the Goup's risk appetite are risk tolerances, high-level quantitative measures and qualitative assertions for the maximum risk allowed, set at corporate level and in line with the needs of its stakeholders. At the highest level, they are intended to assure we maximise the likelihood of delivering on the Group's vision, mission, and values.

As is obligatory under the Solvency II regime Atlas Group reserves equity so as to ensure that risk scenarios at a minimum confidence level will be sufficiently matched with appropriate assets matched to its existing and contingent liabilities. In so doing the Atlas Group has opted to adopt the standard formula which is driven by European Union (EU) regulation as being the model in calculating the regulated equity required for the matching of its solvency positions.

Regulation requires all Cells to determine their individual notional Solvency Capital Requirement (nSCR) under "ring fenced funds" Solvency II rules. The PCC's Core Capital surplus over its own nSCR may also be utilised to cover any shortfall in each Cell's equity in matching their own individual nSCR (See Section 6.2 of this report).

The Atlas Group risk profile is simply reproduced and expressed in percentages of the calculated end 2016 solvency capital requirement of €8,992,986 as follows:



As part of the Atlas Group’s regulated Own Risk and Solvency Assessment (ORSA) the Group carries out a number of stress tests on various risk scenarios, while also comparing these results with those produced under the standard formula. This reporting procedure to the Board of Directors is carried out by the Chief Risk Officer of the Group.

1.4 Valuation of Assets and Liabilities

The preparation of the Atlas Group's financial statements is carried out in conformity with IFRSs as adopted by the EU and this requires the use of critical accounting estimates.

It requires the directors to exercise their judgement in the process of applying the Group's accounting policies. A higher degree of judgement for the complexity of the management of insurance and financial risk is also required where these areas of assumptions and estimates are significant to the consolidated financial statements.

Insurance risk

The Atlas Group recognises liabilities arising from its operations, and specifically identifies those arising from premium written and claims incurred, while also establishing recoverability from reinsurers.

The PCC uses various techniques in estimating liabilities arising from claims. A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the PCC where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until several years after the event. In calculating the estimate cost of unpaid claims the PCC uses statistical analyses of historical experience in order to identify the IBNR component to be added to its known claims reserves

Unearned premium reserves are formulated on a 365^{ths} time apportionment basis of calculation. This method of calculation proves to be most accurate in identifying arising liabilities at the time of Balance Sheet reporting. These liabilities are reflective of that amount of premium remaining unearned on an individual policy basis, aggregated to determine the PCC's total liability at any point in time.

Provision is also made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Financial Risk

The Atlas Group is exposed to financial risk through its financial assets and liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets would not be sufficient to fund the obligations arising from its insurance contracts and investing activity. The most important components of the Group's financial risk are market risk (cash flow and fair value interest rate risk, equity risk, spread risk, concentration risk and currency risk), credit risk and liquidity risk. These risks mainly arise on open positions in interest rate, debt and equity products, and currency exposures, which are all subject to market movements.

The Group holds investments mostly in equity and debt securities. Debt securities are subject to spread risk, interest rate risk and concentration risk. Equities are subject to equity risk and concentration risk. Foreign denominated equity and debt securities are also subject to currency risk.

As such both types of securities are fair valued for reporting the balance sheet in accordance with IFRS.

Solvency II values

A set of rules under Solvency II regulation requires that differing criteria are applied to the valuation of Assets and Liabilities representing the Group's Equity in the Balance Sheet causing deviation from those represented under accounting principles.

The value of assets represented in the Solvency II balance sheet totalling €52,088 thousand differ from the total of the assets as represented under IFRS for the Group of €58,680 thousand (the Solo Undertaking – €86,565 thousand for Solvency II, IFRS - €97,226 thousand). The differences between the Solvency II values and those of IFRS arise due to different criteria of valuation for deferred acquisition costs, deferred taxation and reinsurance recoverables.

The Technical Provisions have been calculated as the sum of a best estimate plus a risk margin in accordance with the Solvency II Directive and associated texts. The claims provision is the discounted best estimate of cash flows relating to past claim events that occurred before the valuation date, whether reported or not. The cash flows include: future cash flows resulting from past claims events (including salvage and subrogation) and cash flows arising from allocated and unallocated expenses in respect of past claims events. The methodology used to determine the best estimate and risk margin for technical provisions may be found under Section 5.3. This different approach results in the value of liabilities represented in the Solvency II balance sheet totalling €28,396 thousand having reduced from the total of the liabilities as represented under IFRS of €33,090 thousand (the Solo Undertaking – €52,374 thousand for Solvency II, IFRS - €61,855 thousand).

1.5 Capital Management

Atlas Group recognises the importance of optimising the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with the risk appetite.

The Group adheres to a Capital Management Policy approved by the PCC's Board which includes procedures to ensure that the own funds items satisfy at issue the prescribed profiling of Solvency II regulated tiering under Article 93 of Directive 2009/13/EC of capital on an ongoing basis. Such Policy includes controls on issuance of new capital instruments and sets out the approach to managing dividends and distribution.

As on 31 December 2016 the Atlas Group eligible own funds in matching the Group's SCR stood at a Solvency ratio of 261% of the required margin and this positioning is perfectly reflective of the prudence applied by the Atlas Group in ensuring sufficient reserves under own funds. This position also factors in any Cells' shortfall in matching their individual nSCR within the PCC.

The PCC's Board are ultimately responsible for the establishment of such procedures and controls in order to provide reasonable assurance that the Atlas Group is adequately capitalised in the interest of all stakeholders.

The PCC's Board of Directors has also developed a Group wide medium-term capital management plan. This control is largely reflected in the Group's ORSA which factors in future year projections for both the Group and the Cells incorporated within the PCC. The ORSA approved by the Solo Undertaking's board carries forecasts that the PCC will carry on to register high solvency margin ratios in excess of those required for the medium term.

2. Business and Performance

2.1 Business

2.1.1 Corporate form, Regulatory Supervision and Beneficial Owners

Atlas Holdings Limited is a limited liability Company incorporated in Malta (Company Registration no. C 23431) with registered office at 48-50, Ta'Xbiex Seafront, Ta'Xbiex, Malta. The Company is considered by the Solvency II Directive as being an "insurance holding company" as defined by Title III, Section 1, Article 212 1.f. of the Directive.

Supervision of the Group

As such the MFSA is the national regulator responsible for the Group Supervision of the Atlas Group. The MFSA offices are located at Notabile Road, Mriehel, Malta having its registered site website www.mfsa.com.mt.

Under Group Supervision Regulation the Group is required to report on the consolidated results for the Atlas Group and for the authorised undertaking, **Atlas Insurance PCC Limited** and the PCC's **Cells**.

As highlighted under the Executive Summary of this report, the Cell's results are discarded for the reporting of the Group's consolidated results. The Cells are then also reported on separately.

External Auditors

The external auditors for the Atlas Group are PricewaterhouseCoopers (PWC) whose registered address is 78, Mills Street, Qormi, Malta and having their registered website www.pwc.com/mt/en. PWC have issued unqualified audit reports for the Atlas Group, and its subsidiaries, financial statements.

Shareholders and qualifying ultimate beneficial owners holding more than 10% holding of the Atlas Group

The Group is immediately owned by:

- Walter Camilleri Management Limited – 19.05%
- Catherine Calleja – 0.80%
- Albert Formosa – 19.85%
- John Formosa – 14.33%
- Brockland Holdings Limited – 26.97%
- Arva Holdings Limited – 8.00%
- Palico Holdings Limited – 0.15%
- Safaco Limited – 1.30%
- Earli Limited – 1.30%
- SIGA Limited – 5.50%
- Alf Mizzi & Sons Limited – 2.75%

Individuals holding shares amounting to more than 10% of the total issued shares as ultimate beneficial owners are:

- Mr Matthew von Brockdorff – 15.48% as shareholder of Brockland Holdings Limited
- Mrs Michelle Lundquist – 11.49% as shareholder of Brockland Holdings Limited
- Mr Albert Formosa – 19.85%
- Mr John Formosa – 14.33%

2.1.2 Review of the Business

Atlas Group reports for its controlling interests in its subsidiaries and for its associate companies a consolidated profit before tax for the financial year ended 31 December 2016 of €3,391,694 (2015: €4,461,406).

While sustained profitability continues to be reported, the Group registered reduced consolidated results for the year under review. The main factor contributing to the Group's drop in profit of just over €1mln on the previous year's results is largely due to the volatility of the financial markets during 2016. The "Brexit" experience and subsequent USA elections impacting the financial markets exposed the Group's investment portfolio to a lower return on that registered the prior year. The Solo Undertaking's pure technical results showed improvement. This result, combined with the increased profitability for the Agency and good returns from the Group's Associate Companies, worked toward what is considered by the board of directors to be yet another good year working well in strengthening the Atlas Group's Balance Sheet and reserves.

The Group Companies' profit before taxation is summarised in the below table as follows:

Profit before Taxation	**2016**	2015
	€	€
Atlas Holdings Limited	**2,020,365**	2,085,875
Atlas Insurance PCC Limited - Core	**3,024,590**	4,058,393
Atlas Healthcare Insurance Agency Limited	**612,782**	564,718
Ark Insurance Management PCC Limited	**43,733**	25,898
AISH Limited	**215,030**	235,127
Ark Limited	**(23,526)**	(10,323)
Share in Associate Companies' Results	**227,151**	297,268
Leading to Consolidated Results	**3,391,694**	4,461,406
Atlas Insurance PCC Limited - Aggregated Cells	**2,464,689**	1,859,852

The Atlas Group saw its premium underwritten by the PCC through its Core operation grow from €22,127,732 to €23,573,516, an increase of 6.5% over the prior year, whereas the aggregated Cells' premium underwritten by the PCC (not forming part of the Group's results) reduced from €22,706,228 to €19,233,050. This reduction in premium for the Cells reported in the Euro currency is largely due to the 2016 weakening of the British pound (GBP) against the Euro currency, GBP being the functional currency for four of the PCC's Cells writing United Kingdom risks. One of these Cells also experienced marginal reduction in its premium income turnover since reengineering its insurance product and marketing strategy, a result for the Cell which was expected in the short term. The PCC's Core net combined claims loss ratio is reported in the audited financial statements at 89% compared to that of

2015 at 90%, an improvement of 1 percentage point. The PCC's aggregate net combined loss ratio for the Cells also shows improvements over the prior year and is being reported for the year ended 31 December 2016 at 86% compared to that reported for 2015 at 91%. Both performance indicators do not factor in the recognition of investment income allocated to the Technical Account reported in the financial statements.

The Agency also saw its premium written base grow for the year under review by 10% from €7,788,544 for 2015 to €8,538,148 for the year ended 31 December 2016. This increase in premium results in increased agency commission earned for the year under review causing improved profits over those reported during 2015.

2.1.3 Atlas Group Income Statement

The below statement, an extract from the Group's audited accounts, summarises the results for the Group after taxation and reports a consolidated profit of €2,478,126 accruing to the Atlas Holdings Limited shareholders for the year ended 31 December 2016.

	Year Ended 31 December	
	2016	2015
	€	€
Revenue	**1,965,991**	1,999,340
Direct expenses	**(291,051)**	(264,531)
Balance on the general business of insurance technical account	**1,935,713**	2,473,981
Gross profit	**3,610,653**	4,208,790
Administrative expenses	**(1,192,259)**	(1,357,709)
Operating profit	**2,418,394**	2,851,081
Investment income	**754,379**	1,320,811
Net interest (expense)/income	**(8,230)**	(7,754)
Share of results of associates	**227,151**	297,268
Profit before tax	**3,391,694**	4,461,406
Tax expense	**(876,360)**	(1,504,809)
Profit for the year	**2,515,334**	2,956,597
Attributable to:		
Owners of the Group	**2,478,126**	3,083,348
Non-controlling interests	**37,208**	(126,751)
	2,515,334	2,956,597

The Atlas Group is also required to report on the Solo Undertaking and its incorporated Cells and in the following extract from the financial statements the Group is reproducing the PCC's aggregated results for the year ended 31 December 2016.

	Core		Cells		Total	
	2016 **€**	2015 €	**2016** **€**	2015 €	**2016** **€**	2015 €
Balance on technical account – general business	**2,412,495**	2,879,735	**2,424,441**	1,838,790	**4,836,936**	4,718,525
Investment income	**1,954,765**	3,333,061	**69,462**	80,892	**2,024,227**	3,413,953
Investment expenses and charges	**(238,321)**	(353,571)	**11,852**	(23,501)	**(226,469)**	(377,072)
Allocated investment return transferred to the general business technical account	**(962,065)**	(1,658,679)	**(2,457)**	(2,995)	**(964,522)**	(16,616,674)
Administrative expenses	**(142,284)**	(142,153)	**(38,609)**	(33,334)	**(180,893)**	(175,487)
Profit before tax	**3,024,590**	4,058,393	**2,464,689**	1,859,852	**5,489,279**	5,918,245
Tax expense	**(837,783)**	(1,458,943)	**(908,265)**	(682,178)	**(1,746,048)**	(2,141,121)
Profit for the year	**2,186,807**	2,599,450	**1,556,424**	1,177,674	**3,743,231**	3,777,124

The Atlas Group underwrites insurance risk through its protected cell company, Atlas Insurance PCC Limited. As such the Group is also required to report on the technical results of the PCC for its Core and Cells separately.

The following table illustrates summarily the technical results for the PCC for both insurance and reinsurance operations.

Atlas Insurance PCC Limited - Core in Euro '000	Premium Written					Net Claims Loss Ratio
	Gross	Reinsurer	Net	Net Premium Earned	Net Claims Incurred	before other costs
Income Protection Insurance	519	5	514	509	5	0.98%
Motor Vehicle Liability Insurance	5,679	429	5,250	5,147	3,349	65.07%
Other Motor Insurance	4,373	-	4,373	4,245	4,182	98.52%
Marine, Aviation and Transport Insurance	1,401	846	555	558	182	32.62%
Fire and Other Damage to property Insurance	8,262	7,299	963	917	549	59.87%
General Liability Insurance	2,562	661	1,901	1,832	924	50.44%
Miscellaneous Finacancial Loss Insurance	778	758	20	18	19	105.56%
Total	**23,574**	**9,998**	**13,576**	**13,226**	**9,210**	**69.64%**

Atlas Insurance PCC Limited - Cells in Euro '000	Premium Written					Net Claims Loss Ratio
	Gross	Reinsurer	Net	Net Premium Earned	Net Claims Incurred	before other costs
Income Protection Insurance	-	-	-	-	-	0.00%
Motor Vehicle Liability Insurance	2,522	680	1,842	2,149	1,668	77.62%
Other Motor Insurance	411	169	242	56	207	369.64%
Marine, Aviation and Transport Insurance	-	-	-	-	-	0.00%
Fire and Other Damage to property Insurance	15,884	2	15,882	14,474	4,456	30.79%
General Liability Insurance	193	59	134	107	91	85.05%
Miscellaneous Finacancial Loss Insurance	222	-	222	229	112	48.91%
Total	**19,232**	**910**	**18,322**	**17,015**	**6,534**	**38.40%**

Atlas Insurance PCC Limited - PCC Aggregate in Euro '000	Premium Written					Net Claims Loss Ratio
	Gross	Reinsurer	Net	Net Premium Earned	Net Claims Incurred	before other costs
Income Protection Insurance	519	5	514	509	5	0.98%
Motor Vehicle Liability Insurance	8,201	1,109	7,092	7,296	5,017	68.76%
Other Motor Insurance	4,784	169	4,615	4,301	4,389	102.05%
Marine, Aviation and Transport Insurance	1,401	846	555	558	182	32.62%
Fire and Other Damage to property Insurance	24,146	7,301	16,845	15,391	5,005	32.52%
General Liability Insurance	2,755	720	2,035	1,939	1,015	52.35%
Miscellaneous Finacancial Loss Insurance	1,000	758	242	247	131	53.04%
Total	**42,806**	**10,908**	**31,898**	**30,241**	**15,744**	**52.06%**

At year end 2016 the Group Registered through the PCC's Core an overall net claims loss ratio before other expenses of 69.64%, whereas the PCC itself registered an aggregated claims loss ratio before other expenses of 52.06%.

Solvency II rules require that quantitative information is reported under prescribed templates. Below the Group is reproducing the Quantitative Reporting Templates (QRT) as required under regulation.

QRT Table 1 – Atlas Group in Euro '000

S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional**							
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	Total
		C0020	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0120**	**C0200**
Premiums written									
Gross - Direct Business	**R0110**	519	5,679	4,373	1,401	8,262	2,562	778	23,574
Reinsurers' share	**R0140**	5	429	0	846	7,298	661	758	9,998
Net	**R0200**	514	5,250	4,373	555	965	1,900	19	13,576
Premiums earned									
Gross - Direct Business	**R0210**	513	5,477	4,244	1,393	8,254	2,437	706	23,025
Reinsurers' share	**R0240**	4	331	0	835	7,337	605	688	9,799
Net	**R0300**	509	5,147	4,245	558	917	1,832	18	13,226
Claims incurred									
Gross - Direct Business	**R0310**	1	4,351	4,182	420	1,762	963	269	11,949
Reinsurers' share	**R0340**	-3	1,002		238	1,213	39	250	2,738
Net	**R0400**	5	3,349	4,182	182	549	924	19	9,210
Expenses incurred	**R0550**	74	811	625	200	1,180	366	111	3,367
Other expenses	**R1200**								
Total expenses	**R1300**								3,367

QRT Table 2 – PCC Aggregated Core and Cells in Euro '000

S.05.01.02									
Premiums, claims and expenses by line of business									
		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							Total
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	
		C0020	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0120**	**C0200**
Premiums written									
Gross - Direct Business	**R0110**	519	8,201	4,784	1,401	21,183	2,755	1,000	39,843
Gross - Proportional reinsurance accepted	**R0120**	0	0	0	0	2,963	0	0	2,963
Gross - Non-proportional reinsurance accepted	**R0130**								0
Reinsurers' share	**R0140**	5	1,109	169	846	7,301	720	758	10,909
Net	**R0200**	514	7,093	4,614	555	16,845	2,035	242	31,898
Premiums earned									0
Gross - Direct Business	**R0210**	513	8,284	4,382	1,393	21,179	2,600	935	39,286
Gross - Proportional reinsurance accepted	**R0220**	0	0	0	0	1,551	0	0	1,551
Gross - Non-proportional reinsurance accepted	**R0230**								0
Reinsurers' share	**R0240**	4	988	81	835	7,338	661	688	10,596
Net	**R0300**	509	7,296	4,301	558	15,391	1,939	247	30,242
Claims incurred									0
Gross - Direct Business	**R0310**	1	7,480	4,469	420	5,500	1,054	380	19,305
Gross - Proportional reinsurance accepted	**R0320**	0	0	0	0	717	0	0	717
Gross - Non-proportional reinsurance accepted	**R0330**								0
Reinsurers' share	**R0340**	-3	2,413	80	238	1,213	39	250	4,229
Net	**R0400**	5	5,017	4,389	182	5,005	1,015	131	15,793
Expenses incurred	**R0550**	74	811	625	200	8,201	366	227	10,503
Other expenses	**R1200**								-894
Total expenses	**R1300**								9,610

QRT Table 3 – PCC Aggregated Core and Cells in Euro '000

Top 5 Countries other than Malta

S.05.02.01
Premiums, claims and expenses by country

		Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5
		C0020	C0030	C0040	C0050	C0060	C0070
	R0010	GB	BE	AT	NL	CH	
		C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	R0110	15,987	279	3			16,270
Gross - Proportional reinsurance accepted	R0120	172			2,471	321	2,963
Reinsurers' share	R0140	908		3			911
Net	R0200	15,251	279		2,471	321	18,322
Premiums earned							
Gross - Direct Business	R0210	15,966	293	2			16,261
Gross - Proportional reinsurance accepted	R0220	46			1,430	75	1,551
Reinsurers' share	R0240	795		2			796
Net	R0300	15,218	293		1,430	75	17,015
Claims incurred							
Gross - Direct Business	R0310	7,277	79				7,356
Gross - Proportional reinsurance accepted	R0320	77			577	63	717
Reinsurers' share	R0340	1,491					1,491
Net	R0400	5,864	79		577	63	6,583
Expenses incurred	R0550	7,141			-4		7,137
Other expenses	R1200						869
Total expenses	R1300						8,006

2.2 Investment Performance

The Group reports on the results for investment return of the Atlas Group, and that of the PCC Core and for the PCC Cells.

The Atlas Group reports total investment income net of investment expenses for the year ended 31 December 2016 of €1,193,367 equivalent to 4% return on the total average investment portfolio held during the year. In recognising the results for the Group's participation in its associates, this return increased to €1,420,518.

The PCC registered total investment income net of investment expenses for the year ended 31 December 2016 through its Core of €1,716,444 equivalent to 6% return on the total average investment portfolio held during the year.

The Atlas Group consolidated results differ from those of the PCC Core due to two Group Accounting rules. These are:

- The write back of the PCC's dividend income arising from subsidiary companies upon consolidation within the Atlas Group;
- The inclusion of Associate Company results in the Group's reporting.

A summary of the investment portfolio performance is included in the below table.

Atlas Group and the PCC Core and Cells **Investment Performance in Euro**	**Atlas Group**	**Atlas Insurance PCC Limited** **Core**	 **Cells**
Interest receivable from financial assets that are not held at fair value through profit or loss	645	645	69,462
Net gains from financial assets held at fair value through profit or loss			
- dividend income	124,898	124,898	-
- net fair value gains	650,167	650,167	-
Dividend from subsidiary undertaking	-	523,077	-
Fair value gains on investment property	559,992	559,992	-
Exchange differences	-	(18,936)	-
Rental income from investment property	114,922	114,922	-
Investment expenses	(257,257)	(238,321)	-
Total	**1,193,367**	**1,716,444**	**69,462**

These results are reflective of the volatility in both the local and international markets. The Group's and PCC's Board of Directors direction in applying the relevant prudence for protecting the stakeholders' interests results in a reasonable return under the circumstances. The principle of prudence applied here is elaborated on under sections 3 and 4 of this report.

2.3 Performance of other activities

The Group reports other income totalling €1,995,991 for the year ended 31 December 2016. The additional revenue reported is distinct from its Solo Undertaking technical results and as such is reported from its various subsidiaries on consolidation. The below table defines the components making up such results.

Other Income in Euro	**Atlas Group**
Commissions	1,772,250
Survey and other Fees	193,741
Total	**1,965,991**

Survey and other fees are reported in the Atlas Group's financial statements as follows:

Surveys and other fees in Euro	**Atlas Group**
Cell facility and insurance management fees	173,651
Other income	20,090
Total	**193,741**

The Group receives commissions for its agency representation of AXA PPP healthcare Limited underwriting Health Insurance. The PCC Core receives Cell facility, insurance management and oversight fees for the hosting and management of the Cells, while also recognising income derived from its expert surveying resources.

3. System of Governance

3.1 General Information on the system of governance

The following is a brief outline of how the Atlas Group proceeds in addressing its system of governance by applying appropriate corporate procedures in achieving its business objectives. It is the responsibility of the PCC's Board of Directors to oversee that a system of good corporate governance is in place throughout the whole Group.

Relations with Policy Holders

Atlas Group adheres to all regulated requirements given to the policy holder and the public in general. The Group welcomes all enquiries after having assessed the relevance and appropriateness of such enquiries. Senior management, including executive board members, make themselves available to any reasonable scrutiny by the policy holder and the public. At all times such communication of information is carried responsibly by the management of the Group so as to ensure appropriate disclosure.

Furthermore the Group adheres to a strict complaints procedure as directed by Chapter 12 of the Insurance Rule Book under the Insurance Business Act.

Relations with Shareholders

Recognising the importance of keeping open communication with shareholders, the level of disclosure with these important stakeholders within the Atlas Group is in excess of statutory requirements under the Companies Act. An Annual General Meeting for shareholders of Atlas Holdings Limited is held each year and, besides the statutory business of the Annual General Meeting as laid down in the memorandum and articles of the Company, information on group performance is presented routinely to both the Group's Board of Directors and the PCC's Board of Directors. The Chairman also communicates with shareholders through his directorship on the Atlas Holdings Limited Board which convenes three times a year and where the major shareholding groups are represented. This structure also ensures that directors of the Company are kept aware of the priorities of the shareholders, and that this is transmitted down through to all subsidiaries.

The Board of Directors of Atlas Holdings Limited who are appointed by the shareholders in accordance with the Company's Memorandum and Articles are:

Lawrence Zammit MA (Econ) – Chairman
Michael Gatt – Managing Director
Catherine Calleja BA (Hons), ACII
Matthew von Brockdorff FCII
Robert von Brockdorff
Walter Camilleri
Albert Formosa
John Formosa
Brian Valenzia

Atlas Group Systems of Governance

As explained Atlas Holdings Limited is captured as an insurance holding company under the SII directive and within its corporate structure owns 100% of the Core of Atlas Insurance PCC Limited, a public interest company. For this reason the Group adopts the MFSA's principles of good corporate governance for Public Interest Companies. The Group adheres to the rules set under the MFSA's Insurance Rulebook Chapter 6, System of Governance, a regulation set up under the Insurance Business Act (Cap 403) and is accordingly guided by them.

3.2 Responsibilities, reporting lines and allocation of functions

The Solo Undertaking's members of the Board of Directors are elected by the shareholder at the Annual General Meeting.

This structure of the board establishes checks and balances and is designed to provide for institutional independence of the Board of Directors from the Chief Executive Officer (CEO) and the Executive Committee responsible for managing the Group on a day-to-day basis. The roles of Chairman of the Board of Directors and the CEO are separated, thus providing for separation of powers between the functions and ensuring the autonomy of the Board.

The Board of Directors establishes committees with delegated authority and clear reporting lines. These committees exercise adequate oversight over, among other things, audit, risk management, compliance, and remuneration.

3.2.1 Responsibilities and reporting lines

The Solo's Board of Directors

The Solo's board of directors is appointed at the Solo Undertaking annual general meeting as per statute. It is composed of a majority of four non-executive independent directors and three executive directors. The board considers that the number of board members and composition of the board is the right mix for the size and complexity of the Solo Undertaking.

While the board structure is designed to have executive management representation through the three executive directors' input, it is led by a non-executive Chairman. The three other independent non-executive directors bring a breadth of experience, skills and knowledge to be able to contribute their experience to the development of the strategy and governance of the company. Non-executive board members are chosen for their diverse and complementary backgrounds in the fields of law, auditing and accounting, international business, HR and IT.

The Chairman's responsibilities include management of the board of directors including the setting of the agenda in consultation with the Company Secretary with adequate time being given to important areas of focus. He ensures, with the Company Secretary, that the directors receive accurate, timely and clear information including financial and non-financial key performance indicators well in advance of every board meeting. The Chairman also ensures that the directors' development needs are addressed with a focus on, but not limited to, the risk based Solvency II regime. The Chairman regularly runs board evaluation questionnaires and encourages active participation of all board members.

The separation of roles of the Chairman and CEO avoids concentration and authority in one individual with the CEO being responsible for the executive management of the Group's operation. Other executive directors, being the Deputy Managing Director and the Company Secretary, bring an element of balance and extra information to the board while the CEO is answerable to the board for the performance of the business. The CEO also chairs the Executive Committee made up of the three executive directors and senior executive representation of Atlas's management structure.

Board and board committee meetings are scheduled at the start of the year. During 2016 the board met 10 times including ad-hoc meetings set for specific agenda items of discussion such as the Own Risk and Solvency Assessment report proposed reinsurance programmes.

Board members also attend relevant seminars relating to key events or developments which effectively serve as professional development. After each board meeting and well in advance of the next meeting, minutes that faithfully record attendance, issues discussed and resolutions are circulated.

Executive Committee (EXCO)

The board actively involves the Executive Committee in the development of strategy and delegates the responsibility of the implementation of the Group's strategy to the Executive Committee under the Chairmanship of the CEO. The committee met 9 times during the period under review and was instrumental in the proposing of annual budgets and funding plans as well as detailed business plans in various areas including sales and marketing and information technology for the approval of the board of directors.

The committee is made up of the three executive directors and the Group Chief Financial Officer, the Chief Underwriting Officer, the Group Chief Risk Officer and the Chief Commercial Officer of the PCC. Minutes of the EXCO meetings are copied to board members and matters arising regularly discussed at board level

Board Committees

The board delegates specific responsibilities to a number of board and executive committees, notably the Audit, Risk and Compliance, Remuneration, Nominations and Related Parties, Investment, and the Protected Cells Committees.

These committees have charters which are set and regularly reviewed by the board Committee meeting progress and matters arising from minutes of meetings are regularly discussed at board level.

3.2.2 Group structure and allocation of responsibilities

The Board of Directors of the Solo Undertaking have identified key function areas of responsibilities as defined in Chapter 6 under Malta's insurance regulations. These key function areas of responsibility are those identified as the:

- Actuarial Function
- Risk Management Function
- Internal Audit Function
- Compliance Function

The Board of Directors has also identified other critical functions of the Group and these are:

- Insurance Claims
- Corporate
- Underwriting and Reinsurance
- Finance
- Information Systems
- Marketing and HR
- Complaints Handling

Atlas Group Governance Structure

Atlas Holdings Limited
Board of Directors
Lawrence Zammit - Chairman
Michael Gatt - Managing Director
Matthew von Brockdorff
Robert von Brockdorff
Walter Camilleri
Catherine Calleja
Albert Formosa
John Formosa
Brian Valenzia

Atlas Insurance PCC Limited
Board of Directors
Lawrence Zammit M.A. (Econ.) – Chairman
Franco Azzopardi M.Sc. (Leicester), F.I.A. , C.P.A. – Non Executive
Andre Camilleri LL.D, Dip. Econ. & Ind. Law (Milan) – Non Executive
Catherine Calleja B.A.(Hons.), A.C.I.I. – Executive and Company Secretary
Michael Gatt – Managing and Chief Executive Officer
Philip Micallef B.Sc.(Eng.), M.I.E.E., C.Eng., Eur. Ing., M.B.A. (Warwick) – Non Executive
Matthew von Brockdorff FCII – Deputy Managing

Remuneration, Nominations and Related Parties Committee
Lawrence Zammit MA (Econ) – Chairman
Andre Camilleri LLD, Dip Econ & Ind Law (Milan)
Philip Micallef BSc (Eng), MIEE, CEng, Eur Ing, MBA (Warwick)

Investment Committee
Lawrence Zammit MA (Econ) – Chairman
Franco Azzopardi MSc (Leicester), FIA, CPA
John P Bonett
Andre Camilleri LLD, Dip Econ & Ind Law (Milan)
Mark Camilleri
Michael Gatt

Risk and Compliance Committee
Andre Camilleri LLD, Dip Econ & Ind Law (Milan) - Chairman
Franco Azzopardi MSc (Leicester), FIA, CPA
Catherine Calleja BA (Hons), ACII
Philip Micallef BSc (Eng), MIEE, CEng, Eur Ing, MBA (Warwick)
Matthew von Brockdorff FCII
*Ian-Edward Stafrace M.Sc FCII FIRM PIOR – **in attendance***
*Elaine Scerri Bcom (Hons) – **in attendance***

Audit Committee
Franco Azzopardi MSc (Leicester), FIA, CPA – Chairman
Philip Micallef BSc (Eng), MIEE, CEng, Eur Ing, MBA (Warwick)
Lawrence Zammit MA (Econ)
*Ivan Distefano – **in attendance***

Executive Committee
Michael Gatt – Chairman
Catherine Calleja BA (Hons), ACII
Mark Camilleri
Robert Micallef
David Mifsud FCII
Matthew von Brockdorff FCII
Ian-Edward Stafrace M.Sc FCII FIRM PIOR

Protected Cells Committee
Michael Gatt – Chairman
John Bonett
Catherine Calleja BA (Hons), ACII
Mark Camilleri
David Mifsud FCII
Ian-Edward Stafrace, M.Sc FCII FIRM PIOR
Matthew von Brockdorff FCII

Key Functions of the Group:
Risk Management - Ian-Edward Stafrace M.Sc FCII FIRM PIOR
Internal Audit - Ivan Distefano
Actuarial Function – Outsourced to KPMG Malta
Compliance – Elaine Scerri Bcom (Hons)

Other Critical Functions of the Group:
Insurance Claims - Matthew von Brockdorff FCII
Corporate - Catherine Calleja BA (Hons), ACII
Outsourcing - Elaine Scerri Bcom (Hons)
Underwriting and Reinsurance - David Mifsud FCII
Finance - Mark Camilleri, Group
John Muscat FCCA, Solo Undertaking

3.2.3 Board committees

Audit

The Committee met 5 times during the period under review. The committee is composed entirely of non-executive directors and is chaired by Mr Franco Azzopardi who is considered competent by the board in this field as having the relevant qualifications in accounting and/or auditing. The Committee oversees the accounting and financial reporting processes of the Group, the audits of the Group's financial statements, the qualifications of the accounting firm engaged as the Group's external auditors to prepare or issue an audit report on the financial statements of the various Group companies. The Committee also reviews and assesses the qualitative aspects of financial reporting to shareholders.

The Committee also has oversight of the internal audit function including the setting of risk based annual internal audit plans. The committee is responsible to appoint the Group Internal Auditor and review findings from the Group Internal Auditor's work and management's response thereto. The Group Internal Audit function is independent from the operations of the Company and as such the Group Internal Auditor, through the Audit committee and its Chairman, has direct access to the Board of Directors.

Remuneration, Nominations and Related Parties

The Remuneration, Nominations and Related Parties committee, composed entirely of non-executive directors, met 3 times during the period under review. It is chaired by Mr Lawrence Zammit, who is considered by the board to have relevant experience for this position. The committee's role is to determine and agree with the board the framework or broad policy for the overall remuneration policy including performance related pay of the Group as well as well as the remuneration of the Group's Chief Executive Officer, executive directors, the members of the Executive Committee and the Group Internal Auditor. The committee also reviews the remuneration trends across the Group, performs benchmarking exercises against the industry and ensures that all disclosures regarding remuneration are fulfilled. No director or manager is involved in deciding his or her own remuneration.

The committee also identifies nominees qualified to fill board vacancies for recommendation to the board and shareholders, as well as assessing their ongoing independence and relevant fitness and properness. The committee also consults with executive directors on succession planning issues relating to senior management.

Finally the committee also agrees with the board the related party transaction policy of the Group and reviews and makes recommendations to the board with respect to any related party transactions.

Risk and Compliance

The primary objectives of the Committee are to ensure that an appropriate risk management, internal controls and compliance framework is in place within the Atlas Group. The Chairman of the Committee is Dr Andre Camilleri and is also entrusted with the oversight of the risk management system on behalf of the Committee.

Together with the Group Chief Risk Officer, the committee performs the risk management support function in the risk management framework so that it coordinates, facilitates and has oversight of the function including the development and maintenance of the risk management policy and methodology. The internal controls environment is an integral part of the organisation's risk management. The committee also carries out risk management at Group corporate level monitoring developments in the Group's policies, strategy, operations, and environment that may significantly affect uncertainties faced by the organisation. The committee supports the board in reviewing and contributing to the Own Risk Solvency Assessment (ORSA) process as well as reviewing periodic status reports on major initiatives or potential risks.

The committee also is responsible to monitor and review the formalised risk management systems to ensure they are operating appropriately and effectively including the monitoring of significant incidents, including near-misses; recent major strategic decisions; and appropriateness of subsequent management responses.

It also has oversight of the compliance function through the Group Compliance Officer, and its systems to ensure regulatory compliance and readiness for anticipated regulatory changes. The committee also ensures that training in the various areas of regulatory compliance is regularly carried out for new and existing staff members. The committee regularly reviews reports prepared by both the Group Chief Risk Officer and the Group Compliance Officer relating to the various risks and compliance areas for which accountability is assigned across the organisation.

The committee met 3 times during 2016. The meetings are regularly addressed by the Group Chief Risk Officer, Mr Ian-Edward Stafrace and the Group Compliance Officer, Ms Elaine Scerri while other senior management members may also be invited to review various aspects of internal controls.

Investment

The Board of Directors of an authorised Insurance Company is required under regulation to appoint an investment committee responsible for the formulation of the Group's investment policy and the issuing of guidelines to management.

The objective of the Group's Investment Committee is to assist the board in setting the Investment Policy to be adopted for its investment portfolio, and to ensure that the investment of the Atlas Group's funds is conducted in accordance with the Investment Policy. The committee also recommends to the Board investment parameters, mandates, and asset allocations in line with the Investment Policy, ALM Policy and the Board's Risk Appetite Statement and may also recommend changes to the board in respect of the ALM policy and Risk Appetite statement.

The Committee is chaired by Mr Lawrence Zammit and met 4 times during the year under review.

Protected Cells

The Chief Executive Officer chairs the protected cells committee which is responsible for the oversight of the protected cells of the PCC. This is a specialised area of the business which is increasing in size and complexity. The committee meets four times a year to propose policy and analyse new cell prospects as well as to monitor and report on the performance of the existing cells as regards various KPIs including profitability and solvency. The committee is composed of the three executive directors of the Solo Underetaking as well as the Chief Underwriting Officer, the Chief Risk Officer and the Chief Financial Officer as well as Mr John Bonett. The committee oversees the liaison with insurance managers and cell owners and also regular cell inspections as compliance matters. The Chief Underwriting Officer and Chief Financial Officer, as representatives of the committee, form part of the investment and underwriting committees of the relative cells, which also review risk management and compliance issues relating to cells together with cell owners and managers

During the period under review, representatives of the committee made presentations to the PCC's board of directors about the progress of the existing cells. The Committee is also required to report to the Board on new cell applications being presented to the MFSA.

Individual Cell Committees

The PCC establishes a Cell Committee for each cell with terms of reference approved by the Board to decide on, coordinate and monitor operations of the respective cells including underwriting and investments. Each Cell Committee includes the PCC's Chief Underwriting Officer and Group Chief Financial Officer with delegated authority approved by the Board. These two officers of the PCC are also supported by the Group Chief Risk Officer, the Group Compliance Officer and the Chief Financial Officer. The other members could include representatives of the cell owner and where applicable of the insurance management company.

The Group Chief Financial Officer owns the following risks within each cell: Market, Credit, Liquidity Risk and Operational risk of compliance failure and changes to regulation/legislation/taxation.

The Chief Underwriting Officer owns the following risks within each cell: Insurance, Cell Risk Gap and other Operational Risk (other failure of systems, people, processes and external events).

The individual Cell Committees are part of the first line of defence in managing the risks of the respective cells. Atlas requires Cell Committees to have as a minimum a standing agenda item to "Review progress of outstanding items on past cell site inspections, audits or compliance visits" where outstanding items apply. Cell Committee meetings predominantly discuss arising/pending risk and compliance items besides general performance, however a general item “other risk and compliance matters” must be kept as a standing item in each agenda.

3.3 Fit and proper requirements

An authorised undertaking must apply fit and proper criteria on an ongoing basis for all persons who effectively run the operation or hold other key functions. In terms of article 8(1) of the Insurance Business Act and more specifically as per Insurance Rulebook's Chapter 2: Fit and Proper Criteria, Notification and Assessment, Atlas Group should ensure that all persons who effectively run the undertakings or have other key functions are at all times 'fit and proper' persons.

Atlas Group's Fit and Proper Policy regulates the compliance procedures which are implemented within the Group. To ensure that the foregoing policy statement is carried out, and to ensure adherence with all related legislation, the Atlas Holdings Limited Board of Directors established and approved such Policy for the Group.

The Atlas Holdings Board has delegated to the Solo Undertaking's Board and eventually to the Group's Remuneration, Nomination and Related Parties Committee authority and responsibility for fitness and properness requirements in accordance with the Committee Charter approved by the Atlas Board.

3.3.1 Applicability

The Policy will apply to:

a) Persons who effectively run the Atlas Group i.e. Directors (Executive and Non-Executive), Controllers or Chief Executive Officers;

b) Controllers who alone or with others exercise control of the body corporate, CEOs, persons responsible for key functions or overseeing key functions where such functions are outsourced;

c) Individuals who are responsible for the effective management of Atlas Group's Branches;

d) Atlas Group's Tied Insurance Intermediaries;

e) Members of Atlas Group's various Board Committees;

3.3.2 Requirement of fitness and properness and implementation

In terms of article 8(1) of the Insurance Business Act and more specifically as per Insurance Rulebook's Chapter 2: Fit and Proper Criteria, Notification and Assessment, Atlas Group should ensure that all persons who effectively run the undertakings or have other key functions are at all times 'fit and proper' persons.

In deciding whether a person is 'fit and proper', Atlas Group should be satisfied that the persons listed indicated above:

a) Have the personal characteristics, including that of being of good repute and integrity (proper);
b) Have the professional qualifications, and possess the adequate level of competence, knowledge and experience (fit),

so as to enable such persons to carry out their duties and perform the key function effectively and to enable sound and prudent management of the relevant Companies. Furthermore, Atlas Group should ensure that the persons proposed/performing a key function are ideally in possession of the following relevant qualifications.

Key function	Qualification
Risk Management function	- Risk Management qualification from a reputable professional or tertiary education institution; or - Financial services qualification from a reputable professional or tertiary education institution; or - Engineering/Scientific qualification from a reputable professional or tertiary education institution.
Compliance function	- Legal qualification from a reputable professional or tertiary education institution; or - Financial services compliance qualification from a reputable professional or tertiary education institution; or - Other financial services qualification from a reputable professional or tertiary education institution.
Internal Audit function	- Internal/Quality auditing qualification from a reputable professional or tertiary education institution; or - Financial services (including accounting) qualification from a reputable professional or tertiary education institution; or - Scientific qualification from a reputable professional or tertiary education institution.
Actuarial function, *where the insurance undertaking carries on with-profits business and/or life insurance business with guarantees* **Actuarial function**, *where the insurance undertaking carries on life insurance business (not writing with-profits business and/or life insurance business with guarantees) and/or non-life companies*	- Fellow of the Institute and Faculty of Actuaries (UK) or actuarial qualifications of similar standing from a reputable institute - Certified Actuarial Analyst (CAA) offered by the Institute and Faculty of Actuaries (UK) or actuarial qualifications of similar standing from a reputable institute
Additional key functions	**Qualification**
Underwriting function for undertakings carrying on non-life business	- Insurance qualification from a reputable professional or tertiary education institution; or - Risk Management qualification from a reputable professional or tertiary education institution.

Claims function	- Insurance qualifications from a reputable professional or tertiary education institution; or - Legal qualifications from a reputable professional or tertiary education institution; or - Financial services qualifications from a reputable professional or tertiary education institution.
Anti-Money Laundering/Combating the Financing of Terrorism function *(where applicable)*	- Financial services qualification from a reputable professional or tertiary education institution; or - Legal qualification from a reputable professional or tertiary education institution; or - Anti-Money Laundering qualification from a reputable professional or tertiary education institution.
Investment function	- Financial services qualification from a reputable professional or tertiary education institution.
Finance/Accounting	- A university degree with honours in accountancy or accountancy qualification gained from a reputable professional institution. In addition, the applicant must have been awarded the Certified Public Accountant (CPA) certification or its equivalent.
Information Technology function	- IT qualification from a reputable professional or tertiary education institution.

If a Company within Atlas Group outsources its key functions, it applies fit and proper procedures in assessing persons employed by the services providers or sub-service providers to perform an outsourced key function.

Implementation and Controls

In order to ensure that this policy is fully implemented and controlled Atlas Group has delegated the Company Secretary who is also the Group's Director responsible for HR to be responsible for Compliance in respect of the above regulatory requirements. In the Atlas' Group Compliance Control Calendar the following controls have been set:

- The responsibility for the completion and sending to the MFSA of Personal Questionnaires (PQs), Competence Forms and Assessment Forms in relation to new appointments for qualifying individuals rests with the Company Secretary who may delegate such completion to the Branches Manager or any relevant person whom s/he sees fit however this officer is responsible for the filing and follow up of such PQs with the MFSA. Such PQs have to be submitted to the MFSA prior to the date when the Company concerned would like the individual to take up the appointment. The individual shall be then appointed when the Authority has notified the Company in writing that there is no objection to that individual being appointed to that position.

- The responsibility for the notification to the MFSA that any such person has ceased to hold such a position also rests with the said Company Secretary.

- Any person who no longer meets any of the Fitness and Properness criteria will need to be referred to the Remuneration, Nomination and Related Parties Committee for discussion as to their future position within the company.

Furthermore the Group also has a performance management system whereby roles and responsibilities of all persons holdings positions of responsibility including board members (codified in board and board committee charters which also include required attributes of board members and committee chairmen) and management (codified in accountability profiles) are clearly defined and regularly assessed.

At the time of employment, the qualifying individuals are assessed based on their skill set identified within their provided CV and other information available to Atlas Group. These are compared to the requirements of a position. For that purpose the requirements of the position have to be specified. The level of detail may vary by position. The requirements are specified by the line manager.

Key Function Holders

For key function holders, Atlas Group ensures that they hold recognised qualifications by, obtaining a copy of the certificate/transcript/ records evidencing the qualifications. The Group also monitors compliance with ongoing continuing professional development (CPD) requirements.

a) If the Key Function Holder is required to be registered with a professional body, it is the duty of the Group to require and maintain a copy of the person's licence or certificate to practice and where licence/ certificate is renewed on an annual basis (or more or less frequent) basis, Atlas Group would require a copy of the most recent renewal;
b) If maintenance of a qualification is dependent on completing continuing professional development (CPD), the Group requires the person to self-certify that he or she is compliant with the particular CPD requirements. Where an individual must maintain up-to-date CPD in order to renew his/her practising certificate, evidence of the renewal of that practising certification will be regarded as sufficient to evidence CPD.
c) The Group uses the recruitment interview process to assess competence and capability (such as skills and experience), they maintain written notes of the interview to evidence this;
d) As part of their assessment, Atlas Group make all reasonable efforts to obtain adequate references in respect of previous employment and keep these records in the key function holders' HR file.
e) Where the person performing or overseeing the key function has other involvements in other entities, the Group obtains confirmation from that person that the performance of his/her responsibilities in the other directorships will not adversely impact on his or her ability to perform or oversee the key function from a timing perspective or otherwise.
f) The company concerned within the Group should ensure that the person performing or overseeing the key function does not have other engagements which conflicts with the performance or oversight of the key function.

In addition Atlas Group ensures that ongoing integrity checks are run for key functions, including both potential legal or reputational issues related to the individuals.

In this regard, on an ongoing basis fitness and properness of an individual for the role is controlled by the completion of a "Fitness and Properness Questionnaire" which template for disclosure is provided the Group. Such individuals need to complete the Questionnaire on a regular basis and submit it to the Group's Company Secretary who together with the Group Compliance Officer assess the fitness and properness of such individuals. Regular related checks to involvement in litigation, creditworthiness and listing in sanctions lists are also carried out.

In addition fitness and properness of the Group's Tied Insurance Intermediaries is controlled by the completion of a Specific Tied Insurance Intermediary Questionnaire. Such Tied Insurance Intermediaries need to complete such Questionnaire on an annual basis and submit it to the Group's Branches and Intermediaries Manager who together with the Company Secretary and the Group Compliance Officer assess the fitness and properness of such Tied Insurance Intermediaries.

Furthermore, on a regular basis throughout the year, the Company Secretary carries out a review of related parties and potential conflicts of interest.

3.4 Risk management system, including the Own Risk and Solvency Assessment

3.4.1 Governance framework

The Board of Directors of the Atlas Group approved and adopts a Risk Management Policy and this Section outlines key elements of Atlas Group's Risk Management Framework that are of particular relevance.

Atlas Group's Risk Management Policy describes the framework and principles for risk management and internal controls in place. For the purposes of regulatory compliance with Solvency II implementation guidelines, the Risk Management Policy addresses Pillar II requirements for risk management policy and procedures, internal controls, operational risk management, strategic risk management and reputational risk management and Own Risk and Solvency Assessments policy.

Other sub-policies, charters (terms of reference) and other documents relevant to Solvency II Pillar II are as follows:

Governance & Strategy

- Board Governance Charter
- Business Planning Cycle and Rolling Strategic Plan
- Risk & Compliance Committee Charter
- Audit Committee Charter
- Internal Auditor Charter
- Investments Committee Charter
- Actuarial Governance Policy and Terms of Reference

General

- Risk Appetite Statement
- Risk Register
- Fit & Proper Policy
- Remuneration Policy
- Outsourcing Policy
- Business Continuity Management Policy
- Common Risk Language & Glossary Of Risk Terms

Risk Specific

- ALM Policy
- Credit Risk Policy
- Investment Policy
- Liquidity Risk Policy
- Underwriting and Reinsurance Policy (Atlas PCC)
- Claims Management Policy
- Compliance Policy

Protected Cells (Atlas PCC)

- Cells Committee Terms of Reference
- Committee Terms of Reference of individual Cells
- Operations Manuals of individual Cells

Board policies are reviewed on a yearly basis to reflect regulatory, organisational and risk environment changes.

Risk Philosophy and Guiding Principles

"Atlas Group believes that good risk management that is visible, repeatable and consistently applied to support decision making increases probability of success and reduces probability of failure and the uncertainty of achieving overall objectives."

The risk management function ensures that all significant risks to the organisation are identified, measured, assessed, prioritised, managed, monitored and treated in a consistent and effective manner.

The risk framework is based on the firm belief that risk management must be integrated into the culture of the organisation with each employee responsible for the management of risk as part of his or her duties and accountability profiles.

The following are the risk management guiding principles adopted by the Group, which also fit its organisational culture:

a) Atlas Group organises & controls its affairs responsibly and effectively with sound risk management systems & procedures;

b) Atlas Group manages risk in a cost effective manner, subject to compliance with applicable legislation and regulatory requirements and effective management of risk exposures;

The Group's staff all play an active role in the management of risk.

A broad four stage RM Process is emphasised with all staff in training and workshops that is to be also applied in decision-making, objective setting and project management with the aim of ensuring such is embedded into the organisation's risk culture:

Roles and Responsibilities

Atlas adopts a three lines of defence approach considered as best practice. Responsibilities are defined in the Risk Management Policy along this approach:

As a first line of defence, all individuals are responsible for the management of risks in their respective areas. Risk owners and management have ownership, responsibility and accountability for assessing, controlling and mitigating risks together with maintaining effective internal controls. Risk management responsibilities are accordingly incorporated in the accountabilities of the individuals concerned. The second line of defence facilitates and monitors the implementation of effective risk management practices by operational management and risk owners. As a third line of defence, the internal audit function, through a risk based approach, provides independent assurance to the organisation's board and senior management, on how effectively the organisation assesses and manages its risks, including the manner in which the first and second lines of defence operate.

In this regard the Group adopts a four-eyes principle whereby significant decisions are required to be supported by at least two persons having major decision-taking powers. Sufficient segregation of duties is required to be maintained to ensure persons performing tasks are not also responsible for monitoring and controlling the adequacy of this performance. Where such is not possible then any potential conflicts of interest are managed appropriately to safeguard proper decision-taking or task execution.

3.4.2 Risk register

The central active risk management document used by the Group is the Risk Register, which besides comprehensively capturing the list of risks facing the organisation under all Risk Categories, for each risk identified it establishes:

a) The Risk Category and detailed risk description;
b) The Risk Owner (and assistants to the risk owner where applicable) responsible for the risk as part of the organisation's first line of defence;
c) Evaluation of risk's likelihood and severity together with its ranking in relation to other risks;
d) Risk Appetite and Key Risk Indicators (qualitative &/or quantitative);
e) Current Risk Controls;
f) Future planned controls;
g) Economic Capital Requirements.

This is a living working document in constant evolution such as with the inclusion of new risks, changes to risk owners, formalisation or improvement of risk controls and audits.

The risk register is maintained by the CRO through input from Risk Owners, Senior Managers and staff in general in accordance with the established roles and responsibilities and reviewed by the Risk & Compliance Committee.

The risk register enables a bottom up approach of analysing and allocating any identified risks. This combines with a top-down approach of risk appetite set by the board and Economic Capital Requirements estimation and allocation. The regular review of risk rating, defining risk appetite, controls and audits increase the knowledge on risks and mitigation practices at various levels of the Group.

3.4.3 Risk evaluation

Via review and discussion with risk owners, the Group ranks identified sub-risks on a 5 x 5 risk matrix of probability for severity and probability.

The Severity Ranking of Operational Risks, feeds back to the ORSA process. Other Risk Categories follow more quantitative approaches in their evaluation.

The Group defines the following risk categories:

Risk Category	Definition
Operational	Risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events
Insurance	Risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.
Credit	Risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Key counterparties are reinsurers, intermediaries, insureds, reinsureds & bonds.
Market	Risk that arises from fluctuations in values of, or income from, assets or interest or exchange rates.
Liquidity	Risk that sufficient financial resources are not maintained to meet liabilities as they fall due
Group	Potential impact of risk events, of any nature, arising in or from membership of a corporate group.

The categorisation follows best practice and current regulations.

Strategic Risk is the impact on current or future earnings or capital arising from adverse business decisions or inadequate strategic decision-making. It is considered under the Operational Risk Category that is intentionally a broad category. Likewise is Reputational Risk considered under the Operational Risk Category.

The Group identifies its **Credit risk** through the review and measurement of the factors that could affect the credit rating of its counterparties, intermediaries and insureds.

Atlas Group assesses the creditworthiness of all reinsurers, intermediaries and customers by using credit grade reference`s provided by rating agencies, and other publicly available financial information. Where this information is not available the granting of credit facilities to customers and intermediaries would be dependent on trends and historical data in order to obtain comfort on creditworthiness.

In reviewing its intermediary and customer debtors, the Group considers bad debt history and the concentration of this credit risk. Routine reviews of payment history and the status of any ongoing negotiations with counterparties is carried out by the credit control team in order to detect any deterioration in the creditworthiness of individual counterparties.

3.4.4 Risk appetite

The Atlas Group takes and manages risks to achieve its objectives. The Board has set a risk appetite statement that broadly describes the types and amounts of risk we are willing to take in pursuit of these objectives.

Our objectives include achieving target performance and maximising shareholder value, preserving a level of solvency that would support the Group in challenging environments, maintaining adequate liquidity to satisfy obligations as they come due, and protecting all aspects of Atlas Group's value, including its brand and reputation.

Underlying the Group's risk appetite are risk tolerances, high-level quantitative measures and qualitative assertions for the maximum risk allowed, set at corporate level and in line with the needs of our stakeholders. At the highest level, they are intended to assure we maximise the likelihood of delivering on our mission, strategy and objectives.

Risk Appetite is cascaded down by senior management into more detailed expressions of appetite or limits applicable to each business function and each risk described in the Risk Register. This facilitates risk-taking decisions of all employees.

3.4.5 Reporting processes for the risk management system

As already expressed in this report the Group adopts a wide and detailed reporting process with the Board of Directors ultimately having full overview.

The Risk and Compliance Committee reviews updates given by the Risk Management Function through reports dealing:

- Risk appetited status updates
- Periodic status updates on risk and compliance objectives and initiatives
- Updates and annual reports given by the Risk Owners
- Updates on running of controls listed in the Risk Control Calendar
- Escalation of risk notifications from staff and management
- Updates on other risk events and near misses included in the Risk Events Register
- Matters related to risks listed in the Risk Register and potential new risks being identified
- Matters related to the ORSA process

3.4.6 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (ORSA) is a continuous forward-looking process by which the Atlas Group, through an internal self-assessment, can assess all its present and prospective material risks and formulates its own required Economic Capital Requirements to mitigate these risks.

Article 45 of the Solvency II Directive states that as part of its risk-management system every insurance undertaking shall conduct its ORSA and that such shall include:

a) the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
b) the compliance, on a continuous basis, with the regulatory capital requirements and with the requirements regarding technical provisions;
c) the significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR.

The directive also states that the ORSA shall be an integral part of the business strategy and shall be taken into account on an ongoing basis in the strategic decisions of the undertaking.

The purpose of the ORSA report is to record the ORSA and present the results of that assessment. This includes the following for the year under review:

a) Qualitative and quantitative results of the ORSA and the conclusions drawn from those results
b) Methods and assumptions used
c) Comparison between the overall solvency needs, the regulatory capital requirements and Atlas's own funds

The ORSA process produces a holistic enterprise-wide risk management evaluation and evidence of capital adequacy. It gives both the Board and senior management an effective tool to identify appropriate actions to influence the group's risk profile and Economic Capital Requirements.

The process is steered by the Board and executed by the CRO with support throughout from the Actuarial Function. It is repeated at least once annually and whenever there is a material business change or strategic plan considered in accordance with the Risk Management Policy.

3.4.7 Risk management strategies, objectives and processes

The ORSA is required to reflect the business strategy. Hence, when performing the ORSA, Atlas Group takes into account the business strategy and any strategic decisions influencing the risk situation, regulatory capital requirement as well as overall solvency needs. A key input is any material update to Atlas's 3 Year Rolling Strategic Plan. The Board needs to be aware of the implications that strategic decisions have and to consider whether these effects are desirable, affordable and feasible also considering the quantity and quality of Atlas's own funds.

Any strategic or other major decisions that may materially affect the Atlas Group's risk or own funds' position therefore needs to be considered through the ORSA before such a decision is taken. This does not necessarily imply a full performance of the ORSA. Atlas Group considers how the output of the last assessment of the overall solvency needs would change if certain decisions were taken and how these decisions would affect the regulatory capital requirements.

Where the Group is relying on management processes, in particular systems and controls, in order to mitigate risks, it considers the effectiveness of those systems and controls in a stress situation.

3.5 Internal control system

The internal controls environment is an integral part of Atlas Group's Risk Management. It encompasses controls relating to key processes and aims to ensure compliance with current law as well as operational efficiency. The ultimate responsibility for the internal controls environment lies with the PCC's Board of Directors. However, all employees play a key role in maintaining and improving the control system as part of its first line of defence.

In the Group's second line of defence, the internal controls, risk management and compliance functions are supported, facilitated and reviewed by the Risk & Compliance Committee.

As per defined roles & responsibilities, Atlas Group's third line of defence includes the key function of the internal audit that provides the required independent assurance and challenge across all business functions in respect of integrity and effectiveness of the risk management framework and its internal controls.

The organisation's internal controls environment is founded on a culture of ethical behaviour and accountability of processes. Based on the Fit and Proper Policy all key functions, including other critical functions, are assessed in terms of competence and ethical standards. Each employee and each process owner contributes to the internal controls environment by fulfilling an ongoing control function through every day activity. Each employee has included in their accountability profile the responsibility to "report systematically and promptly to senior management any perceived new risks or failures of existing control measures". The Board maintains a culture of openness within the Group to ensure employees report on potential threats and failures.

The Board of Directors sets the strategy of the different Group Company's firms and controls the implementation of the strategy. The strategy is detailed in objectives, which are clear and measurable.

Additional internal control activities and monitoring mechanism include:

a) Internal controls and audit mechanisms per risk as described in the Risk Register
b) Intranet site documenting internal procedures and controls specific to each respective function and department
c) Risk Owner annual reports
d) Risk control calendar that identifies and is updated with any key controls that happen quarterly or less frequently
e) Risk events register
f) Risk appetite status reporting

Compliance Function

Every authorised undertaking is required to identify an individual who will be responsible for ensuring adherence by the Group to all the requirements under the Act and under the Directive. Atlas Group have appointed a Group Compliance Officer as required under regulation. The compliance function plays a very important role in Group's internal control processes with an emphasis on regulation.

The Group's Compliance Officer makes use of the following internal control systems to ensure that the Company is abiding by all the Laws and Regulations:

- Compliance Control Calendar
- Compliance Annual Reports received from the compliance owners

- Compliance Audits within the various departments by the Internal Auditor and followed by a Compliance/ Internal Audit Report
- Compliance Training Sessions
- Tied Insurance Intermediaries’ (TIIs) Audits conducted by the Branches and Intermediaries team and followed by a Compliance Audit report
- Tied Insurance Intermediaries’ Compliance Training Sessions
- Frequent updates on Compliance Matters to all Staff and Tied Intermediaries
- Drafting of various Guidelines made available to all Staff Tied Intermediaries
- Traffic Lights Reporting Template on compliance areas
- Violation Log which is used to record all compliance breaches and actions taken.

3.6 Internal audit function

The Group Internal Auditor is responsible for conducting activities in accordance with international Internal Audit Standards and international best practices. For this purpose adherence to the Institute of Internal Auditors' (IIA) Code of Ethics, Standards for the Professional Practice of Internal Auditing and guidance position papers (as at January 2009 and October 2010), shall be construed as adherence to best International practices in the Internal Auditing field.

The Group Internal Auditor reports to the PCC's Audit Committee. For day-to-day operational purposes, liaison is with the PCC's Executive Directors and/or Chief Executive Officer.

The organisational status promotes the independence of the function as a whole and allows the internal auditor to form their judgment objectively. The internal audit function has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of the Group Internal Auditor's work. The Internal Auditor directs audit resources in a manner that ensures the delivery of the Internal Audit plan that is prepared by end October of each year. The Group Internal Auditor has full and unrestrictive access to the audit committee.

In fulfilling his responsibility in accordance with the above, the Group Internal Auditor:

- generally assumes an advisory role in the design, installation and operation of control procedures. Established controls are reviewed periodically in order to assess their continued effectiveness and application;
- is fundamentally concerned with the evaluation of the Group's management of risk. Its role in this respect is to provide assurance to management that key risks are effectively being taken into consideration by the Group's Risk Management Framework. In providing assurance on risk, the Internal Auditor ensures that the latter's activities are in line with the IIA position papers (as at January 2009) on Enterprise-Wide Risk Management;
- reports diverging points of view with management and instances in which a request for access or response is not granted or provided in a reasonable time, format and manner to Senior Management and the Audit Committee;
- holds data and information obtained during the course of its audit activities with due care and the appropriate level of confidentiality. The Group Internal Auditor has the authority to grant, limit and restrict access to work papers and records;
- does not:
  - perform any operational duties for the organisation or its affiliates, and/or
  - initiate or approve accounting transactions external to the Internal Audit Function.
- co-ordinates the work with other internal functions and third parties that provide assurance on controls as a result of their activities. Generally, this includes the risk management and compliance functions within the Group and the external auditors and regulator/s as external parties.

3.7 Actuarial Function

Article 48 of the Solvency II Directive places the Actuarial Function on a statutory basis covering, inter alia:

- Skill sets required for those working within the Actuarial Function;
- Tasks & responsibilities assigned to the Actuarial Function;
- Actuarial Function interactions with other prescribed functions under Solvency II (Risk and Compliance Function, Finance Function, Internal Audit Function); and
- Prescribed outputs & reporting required from the Actuarial Function on an ongoing basis.

Atlas Group is required to have an Actuarial Function. The Solo Undertaking Board of Directors approved and implemented the Actuarial Function policy on the 3rd December 2014 and later further approved updates to the policy to apply across the Group.

In accordance with EIOPA guidelines, Atlas Group requires the actuarial function to provide input as to whether the Group and the Solo Undertaking would comply continuously with EIOPA requirements regarding the calculation of technical provisions and identify potential risks arising from the uncertainties connected to this calculation. The tasks covered by the Actuarial Function include:

a) apply methodologies and procedures to assess the sufficiency of technical provisions and to ensure that their calculation is consistent with the requirements set out in Articles 75 to 86 of the Solvency II Directive;
b) assess the uncertainty associated with the estimates made in the calculation of technical provisions;
c) ensure that any limitations of data used to calculate technical provisions are properly dealt with;
d) ensure that the most appropriate approximations for the purposes of calculating the best estimate are used in cases referred to in Article 82 of the Solvency II Directive;
e) ensure that homogeneous risk groups of insurance and reinsurance obligations are identified for an appropriate assessment of the underlying risks;
f) consider relevant information provided by financial markets and generally available data on underwriting risks and ensure that it is integrated into the assessment of technical provisions;
g) compare and justify any material differences in the calculation of technical provisions from year to year; and
h) ensure that an appropriate assessment is provided of options and guarantees included in insurance and reinsurance contracts.

The Group's Actuarial Function is currently outsourced under an agreement with KPMG Malta, which agreement also considers actuarial services provided by KPMG Ireland.

As Actuarial Function Holder, KPMG is responsible for writing and overseeing the production and accuracy of the results contained within the annual Actuarial Function Report. The Certified Actuary is also supported by senior actuaries who run the valuation processes for the Group.

Carrying out the tasks required of the Actuarial Function requires the application of expert judgement, including judgement on the choice of assumptions and methodologies adopted. Further detail of the methodologies and approach on these procedures are detailed under Section 5.3 of this report.

3.8 Outsourcing

Atlas Group is required to have an Outsourcing Function which oversees services provided to Group Companies by third parties on a continuous basis, which would otherwise be performed by the Atlas Group. The Solo Undertaking Board of Directors approved and implemented the Outsourcing policy on the 1st January 2014 and later further approved updates to the policy to apply across the Group.

Outsourcing of critical or important functions (key operational activities) is subject to particular oversight and approval by the regulator. Critical or Important Functions are fundamental activities of the firm, without which it would be unable to deliver its services to policyholders. Examples of such activities include pricing insurance products, investment management, claims handling, actuarial assessments and risk management. Any outsourcing agreement which could materially impact the performance or materially increase operational risk for Atlas Group would also be classified as material function.

Due Diligence

Before outsourcing any critical or important function, Atlas Group carries out a due diligence process on the service provider, irrespective of whether it is a supervised entity.

The due diligence process should assess:

1. the technical and financial ability of the service provider and its capacity to perform the outsourced function;
2. the internal control system of the service provider;
3. any conflicts of interest that may exist between Atlas Group and the service provider or arrangements with competitors;
4. track record;
5. reputation;
6. confidentiality/data protection concerns;
7. business continuity plans;

The results of the due diligence should enable Atlas Group to assess the level of risk they are facing as a result of the outsourcing. The due diligence exercise performed by the Group Companies and their outcome are documented to enable subsequent review at any time.

Approval and Monitoring

Outsourcing of critical/important functions are approved by the Board. Other outsourced functions can be approved by the CEO of the relevant Group Company.

Approval is based on a business case specifying the scope and content of the outsourced function, the related costs and potential risks to the firm. The Board shall only grant approval of critical/important functions if it deems the governance requirements defined in this Outsourcing Policy are fulfilled.

A list of all outsourced functions is presented once a year to the Board through the Atlas Group's Risk and Compliance Committee. The Board reviews on a yearly basis whether the governance criteria and economic rationale for existing agreements are still met.

Control

As Atlas Group remains fully responsible for all outsourced functions and activities it needs to include in its risk management systems and controls a process for monitoring and reviewing the quality of the service provided.

The Function Owners as identified within the 'Register of Outsourced Functions' are the persons responsible for controlling the outsourced activities in terms of risks and performance. Such persons must monitor and review the service providers on an on-going basis and ensure the functions under his control are performed in accordance with the agreed terms. On a yearly basis, the Function Owners are to confirm to the Group Compliance Officer that the terms of the outsourcing agreements are actually being adhered to by the outsourced functions.

3.9 Any other information

The Atlas Group and its Solo Undertaking follows all requirements of Directive 2009/138/EC (Solvency II Directive) and the Commission Delegated Regulation (EU) 2015/35. All governance structures in place as defined under this section also apply the principle of proportionality related to its business' nature, scale and complexity of the risks attaching to its operations.

Furthermore the Solo Undertaking applies all governance procedures to the PCC as a whole, but also to its individual Cells incorporated within the PCC.

4. Risk profile

Atlas takes and manages risks to achieve its objectives. Risk is accepted as a potential cost of being open for new business, and servicing existing business. The cost of controlling all risks to a "minimal" level could easily outweigh any benefits derived from reducing the cost of risk events. Atlas Group does accept some volatility in operational profit in order to generate profits over the long term.

Risk Appetite is the expression of the level of risk to be pursued (propensity to take risk), the maximum level of risk to be tolerated in pursuit of the Group's objectives (propensity to exercise control) and the level of risk that is unacceptable, as defined by the Board of Directors and Senior Management. Risk appetite reflects the Group's willingness to take on risk as derived from its capacity to bear risk and the philosophy and attitude toward risk taking. Atlas Group's philosophy, guiding principles and approach to Enterprise Risk Management is described in its Risk Management Policy. Its objectives include achieving target performance and maximising shareholder value, preserving a level of solvency that would support the Group in challenging environments, maintaining adequate liquidity to satisfy obligations as they come due, and protecting all aspects of the Group's value, including its brand and reputation.

Underlying the Group's risk appetite are risk tolerances, high-level quantitative measures and qualitative assertions for the maximum risk allowed, set at corporate level and in line with the needs of its stakeholders. At the highest level, they are intended to assure that the undertakings maximise the likelihood of delivering on set missions, strategies and objectives.

To the extent pragmatically possible, the framework is based on quantitative risk measures. Qualitative risk measures are also used as applicable for risks that are difficult and not practical to quantify. The Atlas Group defines the following risk categories it is exposed to in carrying on its business:

Risk Category	Definition
Insurance Underwriting	Risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Applicable only to Atlas PCC.
Market	Risk that arises from fluctuations in values of, or income from, assets or interest or exchange rates.
Credit	Risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Key counterparties are reinsurers, intermediaries, insureds, reinsureds & bonds.
Liquidity	Risk that sufficient financial resources are not maintained to meet liabilities as they fall due
Operational	Risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events
Group	Potential impact of risk events, of any nature, arising in or from membership of a corporate group.

This categorisation follows best practice and current regulations.

4.1 Underwriting risk

The Atlas Group through its Solo Undertaking (PCC) issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the PCC defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

4.1.1 Insurance contracts - general business

The results for direct business are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(i) Premiums earned relate to business incepted during the year together with any differences between the booked premiums for prior years and thus previously accrued, less cancellations.

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

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

(iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provision for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

(v) Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the PCC. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The PCC takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the The PCC and statistical analyses for the claims incurred but not reported. The PCC does not discount its liabilities for unpaid claims.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the PCC, where more information about the claim event is generally available.

(vi) Provision in the form of an unexpired risk provision will be made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

4.1.2 Reinsurance contracts held

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

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

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

4.1.3 Receivables and payables

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders.

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

4.1.4 Management of insurance risk

The risk under any one insurance contract is the uncertainty of whether the insured will sustain the contingency insured against. If that happens, then further uncertainty lies in how many times this can happen and how much it will cost, i.e. the frequency and severity of resultant claims.

Insurance risk is by its nature random and unpredictable. Consequently the PCC writes portfolios of risk with the intention of taking refuge within the theory of probability (large numbers) and thus being able to correctly construct pricing of its insurance contracts.

The risk the PCC faces however remains that actual claims incurred exceed the amounts of such provisions since the frequency and severity incurred exceed the estimated ones.

Insurance events, due to their random nature, can vary in severity and frequency from year to year. However the larger the portfolio involved, the lower the deviation from estimates which is why the PCC endeavours to acquire growth in areas of insurance risk which it deems attractive.

Another method used to mitigate random deviations is that of diversification in portfolio characteristics. Atlas Insurance PCC Limited is not unduly dependant on one class or sector of business and in fact is deemed to be privileged with a balanced mix of various classes of Motor, Liability, Marine, Miscellaneous Accident, Property and Travel and Personal Accident. Likewise the PCC's portfolio is evenly spread between personal lines and commercial lines business.

The PCC has a rather even geographical spread of property risks within the Maltese isles and is well spread among the various sectors of commerce e.g. tourism and hotel accommodation; manufacture; services and it is not unduly dependent on one sector alone.

Once again this diversification ensures that the type and amount of risks presented are spread out without there being undue concentrations in one area alone.

During the year the PCC did not license any new cells but Gemini Cell, L'Amie Cell, PerfectHome Cell, Travelodge Cell, Ocado Cell, Amplifon Cell and TVIS Cell carried on business during the year in accordance with their licence conditions.

The insurance business written by the Gemini Cell emanates from Belgium and the Netherlands and that of L'Amie Cell relates to risks situated in Austria. The reinsurance business written by Amplifon Cell relates to risks originally written in the Netherlands. The other cells all write property, accident, sickness, motor, general liability and motor liability and miscellaneous financial risks in the United Kingdom. The property risks are equally well-spread geographically. The cells' results are amply reflected in these financial statements.

Frequency and severity of claims

Motor and liability

The danger is that competition restrains average premium growth while the frequency and severity of claims may be seriously affected by:

(i) the long lifetime which motor and other liability claims tend to have and which can lead to negative effects of inflation on claim amounts;
(ii) changes in traffic management and density and the increased presence of more vulnerable road users;
(iii) increased court awards arising from increased sensitivity of courts to the plight of accident victims spurred also by EU directives and "pro-victim" court/legislative tendencies in other EU jurisdictions; and
(iv) increased responsibilities of employers and business owners in the light of health and safety and consumer legislation; and
(v) the latent effect of disease claims on the employers liability and products liability portfolio
(vi) the effect of inflation on motor repair costs
(vii) the effect of natural hazards affecting comprehensive motor results.

The PCC's 2016 gross motor result remained affected by the continued spike in the frequency of bodily injury losses and underlying attritional losses on motor own damage.

The review of Maltese law on civil damages in tort is not yet concluded and no untoward trends have been observed in legal judgements in the interim.

Of note on the part of cell activity is a particular claim which involves catastrophic injuries sustained by a young motorcyclist in relation to the fleet of vehicles insured under the Ocado cell. This claim was the subject of a reserve recalculation in 2015 which took into consideration the demands of the third party and the level of future care needed. The incurred value of the claim shows at around Stg 11.5 million as at the end of 2016. The cell's retention is Stg 100,000 and the balance affects the level of reinsurer's commitment.

Property

The October windstorm had a relatively minor effect of performance and no other extreme weather "catastrophe" events of note occurred. However, the gross property result was impacted by a large engineering loss in September.

Miscellaneous accident, and personal accident and travel

The nature of claims on Money, Glass, Goods in Transit and Fidelity relate very much to the prevalence of crime in Malta and the 2016 year showed no extraordinary experience in this respect. Travel as a class had a relatively uneventful year.

Marine

The marine account tends to produce regular patterns of claim frequency though years of increased frequency can arise owing to particular localised problems and the windstorm of October did have some impact on the marine hull result.

Miscellaneous Financial Risk

Risk carried by the PCC and managed under this class of business did not materially impact the results of the PCC and the risk profiles do not pose any threat to the PCC's core capital.

The PCC manages all the above via:

(a) underwriting strategy,
(b) adequate reinsurance arrangements, and
(c) proactive claims handling

(a) Underwriting strategy

The PCC follows strict risk acceptance selection processes and only accepts risks that possess characteristics which the PCC feels will lead to low or average frequency and severity of losses. This criteria applies across all classes and for this purpose the PCC uses underwriting guidelines and sets limits on the overall retention of the risks it writes.

The PCC inserts certain exclusions in its contracts to enforce underwriting criteria. For example, in the context of liability exposures, the PCC applies asbestos liabilities exclusions on all liability policies.

The PCC closely scrutinises the business activities of its client base to determine any undue exposure to long-term industrial disease claims and to assist in this process and that of analysing other potential exposures, the PCC views several property, accident and liability risks first hand via its policy of risk surveying (in-house and external).

The PCC also has a regular renewal analysis and reserves the right to reassess each contract based on its claims experience and any other changes in material information. The majority of the marine cargo account is based on open covers. Thorough controls on each marine open cover are carried out regularly ensuring that performance is acceptable.

Malta's storm and flood exposure is localised in particular areas of flash flood exposure. With the PCC's pre-risk survey strategy and with the added knowledge of flood-prone areas, the PCC filters the incoming new business portfolio or alternatively manages the risk of storm.

The PCC, as a standard, applies limits on all motor and liability policies. The only area of unlimited liability is that of Motor EU use (in line with legislation in certain countries).

The PCC's internal underwriting authority limits mean that authority to bind is delegated in a controlled manner. The PCC's branches likewise follow and are subject to specific underwriting limitations beyond which they must seek head office approval.

The risks underwritten by the PCC may also be in the form of reinsurance contracts issued on a proportional basis whereby it assumes a portion of the risk which the ceding insurance undertakings undertake with their direct clients.

is particularly important in the context of motor and liability claims. In the context of reserving active use is made of a panel of legal advisors and full acquaintance is made with courtroom developments by our specialist claims team headed by the claims director.

Sources of uncertainty in estimation of future claims payments

Owing to the fact that liability claims are normally payable on a *claims occurrence* basis, a claim is payable if the accident occurred in the year of insurance even if the damage is manifest long afterwards. This is accentuated in the context of employers' liability claims where cover is provided on a loss *caused* basis. Therefore not only can known liability claims take longer to be settled owing to lengthy court proceedings and the like, but claims can take long to be registered. This is why known claims outstanding provisions must be adequately increased by a provision for IBNR (incurred but not reported) claims.

Therefore when estimating the cost due to be paid in future the PCC looks at:

(i) the monetary provision necessary for pending non-liability claims based on the latest available facts and estimates

(ii) the monetary provision for the future payment of claims for bodily injuries to employees or third party victims of accidents. This is based on the accepted basis of:

  (a) loss of future earnings as a result of disability percentages along with estimated rehabilitation expenses;
  (b) an element of direct damages; and
  (c) costs of settlement including legal and other fees and court expenses; and

(iii) to the above provisions for known reported claims, the PCC adds an IBNR provision with particular emphasis on the motor and liability class.

The PCC also makes a provision for the unexpired period of cover of policies running at the time of the balance sheet date.

Like all claims, large claims are assessed on a case by case basis and accurately analysed, and Atlas will take pessimistic scenarios based on legal precedent (of particular relevance to motor and liability class) and similar cases. The PCC will also note current trends.

The PCC takes care to ensure it is in possession of knowledge on all bodily injury claims notified and carries out active reviews of the larger/more serious bodily injury cases on motor and liability classes.

IBNR percentages are taken as a factor on outstanding claims provision and are arrived at on the basis of an annual historical analyses of different classes' performance vis-a-vis actual IBNR experienced since 2005.

Uncertainty on the estimation of claim payments on property classes is considerably lower than that on motor and liability classes. The same can be said of personal accident, travel and miscellaneous accident.

Uncertainty in general is reduced by ensuring thorough knowledge of the circumstances and extent of losses reported; and through the use of medical and loss assessors and adjusters to ensure correct reserving.

A high degree of certainty on marine claims is achieved via collection of survey evidence and value documentation.

4.2 Financial risk

The Atlas Group is exposed to financial risk through its financial assets and liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets would not be sufficient to fund the obligations arising from its insurance contracts and investing activity. The most important components of the Group's financial risk are market risk, credit risk and liquidity risk identifying the following areas:

- cash flow and fair value interest rate risk,
- equity price risk;
- currency risk
- credit risk; and
- liquidity risk.

These risks mainly arise on open positions in interest rate, debt and equity products, and currency exposures, which are all subject to market movements.

The Group's financial risk management and investment strategy reflects its profile of liabilities to ensure that sufficient assets of appropriate nature, term and liquidity enable it to meet the liabilities as they become due.

4.2.1 Market risk

The Atlas Group is exposed to market risk. The Group mitigates exposures to market risk by implementing controls for interest rate risk, equity risk, property risk, spread risk and currency risk. The Group is largely exposed to market risk through its Solo Undertaking.

Interest Rate risk

In general the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Financial instruments issued at variable rates expose the Group to cash flow interest rate risk. Financial instruments issued at fixed rates expose the Group to fair value interest rate risk. The Group holds investments mostly in equity and debt securities. Debt securities are subject to interest rate risk.

Fair value interest rate risk is the risk that the relative value of a security will worsen due to an interest rate increase. Interest rate risk is mitigated through the distribution of fixed interest investments over a range of maturity dates. Moreover, the Group's asset allocation policy limits the amount of investment in any one asset or towards any one counterparty.

Bank and other borrowing facilities are not commonly availed of and the directors traditionally sanction the use of such facilities for short-term operational cash flow bridging as and when the requirement arises. The exposure to interest rate risk in respect of borrowings is accordingly not material.

Deposits with banks or financial institutions potentially expose the Group to fair value interest rate risk. However, since these instruments are not fair valued, a change in interest rates will not have an effect on profit or loss or other comprehensive income. Cash at bank subject to floating interest rates expose the Group to cash flow interest rate risk.

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

At 31 December 2016 the Group was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities.

Up to the end of the reporting period the Group did not have any hedging policy with respect to interest rate risk on other financial instruments as exposure to such risks was not deemed to be significant by the directors.

Equity risk

The Group is exposed to market price risk on its equity investments. These investments are subject to stock market volatility and the value can decline significantly in response to adverse political, market or economic developments. The GROUP reduces this risk by diversifying its investments in different countries and in different sectors.

The Group's investment portfolio is overseen by the Investment Committee that meets on a regular basis in order to review the position of its investments and to plan its investment strategy in accordance with established guidelines. Investment decisions are taken on the basis of an Investment Policy approved by the Board. The Investment Policy includes benchmarks and guidelines on various aspects of portfolio management, including currency, instrument, rating, localisation, concentration and maturity. It is periodically reviewed by the Investment Committee and, subject to Board approval, amended as necessary so as to reflect the Group's overall investment objective, which is principally the preservation of capital and liabilities.

Property Risk

The Atlas Group is exposed to property risk and this risk only affects the group and core with practically the entire balance sheet values of Tangible Assets – Land, Buildings & Improvements and Investments – Land & Buildings pertaining to the Solo Undertaking.

The Solo Undertaking's property used in operations and investment property were last revalued on 12 November 2016 based on professional independent valuations.

The property is valued on periodic valuation by the directors after seeking professional advice from independent professionally qualified valuers who hold a recognised relevant professional qualification and have the necessary experience in the location and segments of the property being valued. When external valuations are carried out in accordance with this policy, the valuer reports directly to the board of directors and discussions on the valuation technique and its results, including an evaluation of the inputs to the valuation, are held between these parties.

At the end of every reporting period during which an external valuation is not carried out, the directors also assess whether any significant changes in actual circumstances and developments have been experienced since the last external valuation. An adjustment to the carrying amount of the property is only reflected if it has been determined that there has been significant change.

Currency risk

Currency risk relates to the risk of fluctuations in the value of financial instruments and assets and liabilities due to changes in exchange rates. The Group may experience losses arising from a decrease in values of its assets held in foreign currency or an increase in value of its technical reserves denominated in foreign currencies. The board of directors implements a policy of currency matching rules thus minimising the Group's exposure to such risk.

As the Group's net technical provision reserves arising from its operations are largely denominated in Euro due to the fact that the net contingent value of its policies are written in euro, or naturally hedged in their original currency, their funds covering such liabilities are largely invested in euro instruments.

Similarly, in managing its cells, the Group applies the same currency matching policy by identifying the currency in which cellular technical provisions arise and as such administers a balance of matched assets with a natural hedge. The standard formula under S II is not sensitive to this "natural hedge" and on that basis, the Cells operating in a currency other than Euro which is the capital denominating cellular incorporation under the Companies Act, requires that a "shock" margin of capital is maintained to mitigate this inexistent risk.

In an effort to maximise return on investment the board directs its investments committees to prudently apply a certain degree of flexibility which is limited to the extent of not compromising the Group's financial strength in matching its liabilities, primarily its insurance technical provisions.

4.2.2 Credit risk

The Group is exposed to credit risk, that risk of loss due to a counterparty being unable to pay amounts in full when due. The following are the areas where credit risk is identified:

(i) reinsurers' share of insurance technical provisions;
(ii) amounts due from reinsurers in respect of claims already paid;
(iii) amounts due from insurance contract holders;
(iv) amounts due from insurance intermediaries; and
(v) investments and cash and cash equivalents.

Limits of authority and segregation of duties in the granting of credit are in place to maintain objectivity, independence and control over new and existing lending exposures.

The credit risk management team assesses the creditworthiness of all reinsurers, intermediaries and customers by using credit grade references provided by rating agencies, and other publicly available financial information. Where this information is not available, detailed analysis is carried out by investigating both financial strength and market repute. The Atlas Group experiences a low level of bad debts and concentration of credit risk with respect to debts is limited due to the large number of customers comprising the Group's debtor base.

Routine reviews of payment history and the status of any ongoing negotiations with counterparties is carried out by the credit risk management in order to detect any deterioration in the creditworthiness of individual counterparties.

While reinsurance is used to manage insurance risk, this does not discharge the PCC's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the PCC remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by the directors on an ongoing basis by reviewing their financial strength within the terms of their credit ratings.

The Atlas Group is also exposed to credit risk for its investments and its cash at bank. The Group's cash is placed with quality financial institutions. Credit risk in respect of investments is not considered by the directors to be significant in view of the credit standing of the issuers.

The Investment Committee takes account of the credit risk inherent in the Group's investment portfolio by adopting similar cautious practices in identifying investment opportunities and monitoring portfolio performance. The investment instruments acquired are highly rated by the internationally-renowned credit rating agencies like Moody's and Standard and Poor's. The policy adopted by the investment committee is that of directing most of the funds available for investment to A-rated securities and deposits. There are certain instances whereby the committee may opt for placing these funds in B-rated securities only once the circumstances of such an opportunity are fully assessed and are beneficial to the performance of the investment portfolio.

Credit risk in relation to cells is not considered to be significant as a substantial amount of the receivables is due from related parties.

4.2.3 Liquidity risk

The Group's exposure to liquidity risk arises from the eventuality that the frequency or severity of claims are greater than estimated. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The directors do not consider this risk as significant given the nature of the Group's financial assets and liabilities. The Atlas Group's financial assets are considered to be readily realisable as they consist of local and foreign securities listed on recognised stock markets and deposits held with first-class-rated credit institutions. Moreover, the Group ensures that a reasonable level of funds is available at any point in time for unexpected large claims and in this case the PCC may also resort to an overdraft facility which provides a short-term means of finance.

4.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Group identifies in the Risk Register the following items which it considers as material contributors to such risk:

- **Market Environment** - include possible recession in Maltese or world economy, more aggressive competition and other changes in the insurance business environment including new entrants, changing distribution models or loss of intermediaries
- **Lack of Innovation** - Failure to positively and effectively change in a way that adds value, leading to missed opportunities, loss of market share and/or higher costs than necessary.
- **Compliance** - Failure to comply with or changes to legislation and regulations.
- **Reputation**
- **Key infrastructure** - Failure or loss of key infrastructure other than IT, Telecommunication or Power outage. Includes losses of infrastructure due earthquake, storm, fire or construction/property related accidents
- **BCP Failure** - Failure of Disaster Recovery Plan or Business Continuity Plan whether due to a narrow scope, lack of testing or otherwise ineffectiveness
- **Data Quality** - Inaccurate, incomplete or inappropriate data in data collection, processing or reporting.
- **Loss of Physical Data** - includes both loss of individual files or archive boxes and larger losses of physical files due to events such as fire, flooding, damp, vermin or malicious damage
- **Loss of Electronic Data** - loss of live database or backups whether due to internal error, program error, sabotage or viruses
- **Data Fraud/Leakage** – Data theft, breaches or leakages. This risk is to be reviewed in light of changing Data Protection Legislation and increased fines or potential liabilities in the event of any data breaches particularly in respect of overseas risks.
- **External Financial Fraud** - Primarily includes claim fraud but also other types of external financial fraud such as that that could arise through suppliers.
- **Internal Financial Fraud** - Includes misappropriation of cash
- **IT/Communication Outage**
- **Loss of Electronic Power**
- **Loss of staff** - Loss of key staff following accident, catastrophe, competitive poaching, lack of motivation, etc. This includes risks related to succession planning, inappropriate allocation of responsibilities, failure to appropriately develop people and inappropriate reward structure. In respect of cells this includes outsourced staff.
- **Staff/TII Negligence/Breach of Instructions** - Negligence or breach of instructions by staff or tied intermediaries.
- **Outsourcing (New)** – Risks arising from outsourcing were previously considered under other risk groupings such as Staff Negligence / Breach of Instructions were outsourced functions were considered an extension of staff. As from 2016, this risk is being considered separately in the risk register for assessment purposes and as outsourced functions carry specific risks and related controls. It should be noted that an outsourcing policy and register was already in place, including related underlying processes.
- **Theft, H&S** - Health and safety of employees and risks of theft or holdup.

Operational Risk is the most difficult risk to quantify. EIOPA recognises this and the standard formula in effect works Operational Risk as simply 3% of projected premium. For the ORSA, the limited scale of Atlas Group makes reference to historic operational risk events inadequate for the purposes of projecting forward Economic Capital Requirements due to insufficiency in numbers of such events. In order to better quantify the risk in relation to Atlas's risk profile, reference is instead made to the anticipated worst scenario for each risk after key controls i.e. the residual risk for a subjectively determined 1 in 200 year event.

4.4 Other material risk

Cellular Solvency Capital Deficit Risk

In line with EU regulations, EIOPA guidelines on ring fenced funds and MFSA's Guidance Note on solvency requirements in relation to PCCs, other than for cells with a non-recourse provision, cells would be allowed to be in deficit on capital requirements so long as there are sufficient unrestricted surplus funds in the PCC Core and in the Group to meet such cellular deficits.

Regulations correctly do not allow for consideration of any surplus funds in cells when calculating the solvency position of the Group and PCC as a whole, since such funds can only be used in respect of the specific cell to which the funds appertain. Regulations also do not allow for any diversification benefits to accrue between the Cells and the Core.

Cyber Risk

Atlas Group recognises through its risk management procedures the growing threat for cyber risk, that risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems.

The Group considers a cyber Incident as being an adverse event (or threat of an adverse event) in a computer system.

These adverse events include the following categories:

- Compromise of Confidentiality
- Compromise of Integrity
- Denial of Resources (Availability)
- Intrusion
- Misuse
- Damage
- Hoaxes

4.5 Any other information

The Atlas Group diversifies its operations with an end to minimise risks that may threaten the financial stability of the Group and its stakeholders.

Mitigation of risk ranks highly in priority in all the various Board of Directors business within the Group as evidenced throughout this report. The key highlights for mitigating the risks identified are:

- A diversified and balanced insurance risk portfolio;
- Diversification in its operations taking opportunity of the leading regulatory positioning of Malta as a primary financial services provider within the European Union;
- Prudent application of risk management techniques and risk mitigation policies;
- Absolute prudence applied through its investment policy and strategy for its asset base;
- Investment in its human resources for their personal development through both external and in-house training of staff;
- The reserving of capital that goes beyond the regulatory driven requirement. This financial strategy is further enhanced through the Group's detailed ORSA which reviews and promotes the use of "economic capital" in matching all risks.

Both reporting processes for the Group under insurance regulation and financial requirements set under the Company's Act are complete. All insurance technical contingent liabilities are recognised under the Solo Undertakings reporting of technical provisions and more than adequately reserved as reported in the Balance Sheets reproduced in this report. Furthermore all other contingent liabilities are disclosed in the Group's and subsidiary companies' financial statements for the year under review as evidenced by the external auditor report attaching to the respective financial statements.

5. Valuation of assets and liabilities for solvency purposes

The financial statements of Atlas Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as modified by Article 174 of the Maltese Companies Act, 1995 and in accordance with the requirements of the said Act and the requirements of the Maltese Insurance Business Act, 1998. As such they are prepared under the historical cost convention as modified by the fair valuation of Land and buildings. Investment property, Land and buildings – property, plant and equipment, and financial assets are recognised at fair value through profit or loss.

Assets and liabilities under Solvency II are valued in accordance with the SII Directive and the Commission Delegated Regulation 2015/35Act. Article 75 of Directive 2009/138/EC requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the risk-based approach of Solvency II, when valuing balance sheet items on an economic basis, undertakings need to consider the risks that arise from a particular balance sheet item, using assumptions that market participants would use in valuing the asset or the liability.

The Group is required to report on such valuations for both the Atlas Group and the Solo Undertaking, Atlas Insurance PCC Limited.

5.1 Assets

The Atlas Group total Assets are represented in the below table showing IFRS values which have been adjusted for Solvency II purposes.

Atlas Group in Euro '000 Assets	IFRS	Solvency II Adjustment	Solvency II value
Deferred acquisition costs	791	-791	0
Intangible assets	155	-155	0
Property, plant & equipment held for own use	5,894	0	5,894
Investments (other than assets held for index-linked and unit-linked			
Property (other than for own use)	3,550	0	3,550
Holdings in related undertakings, including participations	1,034	0	1,034
Equities			
Equities - listed	2,938	0	2,938
Equities - unlisted	0	0	0
Bonds			
Government Bonds	1,698	15	1,713
Corporate Bonds	6,019	104	6,124
Collective Investments Undertakings	16,477	0	16,477
Deposits other than cash equivalents	265	0	265
Reinsurance recoverables from:			
Non-life and health similar to non-life			
Non-life excluding health	8,859	-4,230	4,629
Health similar to non-life	2	-8	-6
Insurance and intermediaries receivables	3,526	-1,409	2,117
Receivables (trade, not insurance)	1,986	-120	1,867
Cash and cash equivalents	5,485	0	5,485
Total assets	58,680	-6,592	52,088

The total assets reported below in the PCC's balance sheet are reproduced as an aggregation of the total assets held by both the Core and its individual cells.

Assets	IFRS	Solvency II Adjustment	Solvency II value
Deferred acquisition costs	1,086	-1,086	0
Intangible assets	32	-32	0
Deferred tax assets	0	439	439
Property, plant & equipment held for own use	5,855	0	5,855
Investments (other than assets held for index-linked and unit-linked			
Property (other than for own use)	3,550	0	3,550
Holdings in related undertakings, including participations	698	0	698
Equities			
Equities - listed	2,935	0	2,935
Bonds			
Government Bonds	1,698	15	1,713
Corporate Bonds	6,019	105	6,124
Collective Investments Undertakings	18,062	0	18,062
Deposits other than cash equivalents	265	0	265
Other investments	3,902	0	3,902
Loans and mortgages			
Other loans and mortgages	259	0	259
Reinsurance recoverables from:			
Non-life and health similar to non-life			
Non-life excluding health	22,756	-6,590	16,166
Health similar to non-life	2	-8	-6
Deposits to cedants	364	0	364
Insurance and intermediaries receivables	7,619	-3,504	4,115
Receivables (trade, not insurance)	1,297	0	1,297
Cash and cash equivalents	20,827	0	20,827
Total assets	97,226	-10,661	86,565

The following are the explanations for the movements arising therefrom which result in a reduction in total assets held for the Atlas Group of €6,592 thousand and of €10,663 for the PCC.

Atlas Group in Euro '000 Deferred acquisition costs and intangible assets	IFRS	Solvency II Adjustment	Solvency II value
Deferred acquisition costs	791	-791	0
Intangible assets	155	-155	0
	946	-946	0

Deferred acquisition costs, which are recognised under IFRS as being a cost carried forward in the Balance Sheet for the future earning of premium, have been removed in total from the asset base as these are considered in arriving at the best estimate valuations for technical provisions. As such the asset does not carry any value within the Solvency II asset base of the Group.

For the Solvency II balance sheet the intangible asset values recognised under IFRS are also removed. The IFRS assets are recognised for goodwill (value for business acquired which is impaired in accordance with IFRS) and computer software (depreciated in accordance with IFRS rules). The goodwill recognised in the Group's books does not meet the requirements for Solvency II valuation purpose. This regulation also requires that any intangible asset other than goodwill must carry a value equal to its resale value. The Atlas Group does not consider any resale value for computer software.

PCC Aggregate in Euro '000 Deferred acquisition costs and intangible assets	IFRS	Solvency II Adjustment	Solvency II value
Deferred acquisition costs	1,086	-1,086	0
Intangible assets	32	-32	0
	1,118	-1,118	0

The deferred acquistion cost asset recognised in the IFRS balance sheet for the PCC considers assets reported for the Core and the Cells on an aggregate basis.

Atlas Group in Euro '000 Fixed income securities	IFRS	Solvency II Adjustment	Solvency II value
Bonds			
Government Bonds	1,698	15	1,713
Corporate Bonds	6,019	104	6,124
	7,717	120	7,837

Fixed income securities are reported in the IFRS balance sheet at fair value to profit and loss. For the purpose of Solvency II balance sheet valuation accrued income has been added to such fair value. This accounts for the increase in Solvency II balance sheet values.

The exposures to fixed income securities reported for the Atlas Group are equal to those reported for the PCC. The incorporated cells within the PCC do not carry any such exposures.

Atlas Group in Euro '000 Reinsurance recoverables	IFRS	Solvency II Adjustment	Solvency II value
Reinsurance recoverables from:			
Non-life and health similar to non-life			
Non-life excluding health	8,859	-4,230	4,629
Health similar to non-life	2	-8	-6
	8,861	-4,238	4,623

According to the Atlas Group's Reinsurance Policy, all reinsurers require a minimum S&P credit rating of A- (or equivalent) other than for specific risks locally placed with Maltese authorised reinsurance companies. This is consistent with the Risk Appetite which has an appetite of A and a floor of A-. Lower or unrated reinsurers may be used if agreed by both the Chief Underwriting Officer and Chie Executive Officer provided the board is notified at the next available board meeting. All of the reinsurers on the in force treaties comply with this requirement.

Reinsurance recoverables from such reinsurers have a direct relationship with the gross technical provisions shown in the liabilities section of the balance sheet and arise as a direct consequence of the valuations of such technical provisions reserved in the balance sheet. As such the reduction in recoverables for Solvency II valuations follows the modelling of “Best Estimate” calculations carried out on the gross technical provisions in accordance with the different reinsurance treaties in place.

PCC Aggregate in Euro '000 Reinsurance recoverables	IFRS	Solvency II Adjustment	Solvency II value
Reinsurance recoverables from:			
Non-life and health similar to non-life			
Non-life excluding health	22,756	-6,590	16,166
Health similar to non-life	2	-8	-6
	22,758	-6,598	16,160

Only three cells within the PCC have reinsurance in place.

One cell has separate excess of loss reinsurance contracts for the Motor Third Party Liability exposure and the Public & Products’ Liability exposure. Another cell is fully reinsured, and a third cell reinsurers its liability section within the insurance policy it underwrites.

As noted under section 4.1.7 of this report a cell underwriting motor liability risk registers a claim for injuries sustained by a young motorcyclist in relation to the fleet of vehicles insured by the cell. The cell has robust reinsurance arrangements in place and as such the aggregate technical provisions reported for the PCC include a recoverable for this claim which increases the PCC’s recoverables for this classification.

Atlas Group in Euro '000 Insurance receivables and other trade receivables	IFRS	Solvency II Adjustment	Solvency II value
Insurance and intermediaries receivables	3,526	-1,409	2,117
Receivables (trade, not insurance)	1,986	-120	1,867
	5,512	-1,528	3,984

Atlas Group operates its insurance underwriting either on a direct line of business with negotiation carried out with its policy holders on a direct basis and through a network of intermediaries. This gives rise to timing differences for the collection of premium. These balances under Solvency II are considered to be future cash flows and therefore reclassified to technical provisions in the calculation of “best estimate” values for such provisions. IFRS valuation considers fair value for the amounts receivable. The adjustment to technical provisions is shown in the above table.

Receivables which are not classified as insurance receivables include accrued income and prepayments under IFRS valuations. For the purpose of Solvency II valuation the amount of accrued income arising from interest to be earned on fixed income securities is reclassified to the fair value for such securities.

PCC Aggregate in Euro '000 Insurance receivables and other trade receivables	IFRS	Solvency II Adjustment	Solvency II value
Insurance and intermediaries receivables	7,619	-3,504	4,115
Receivables (trade, not insurance)	1,297	0	1,297
	8,916	-3,504	5,413

It is noted here that the Group reports its insurance receivables for the PCC Core operation. The PCC also reports on an aggregated basis including receivables reported for all its cells.

5.2 Total liabilities

The Atlas Group total liabilities are represented in the below table showing IFRS values which have been adjusted for Solvency II purposes.

Atlas Group in Euro '000 Liabilities	IFRS	Solvency II Adjustment	Solvency II value
Technical provisions – non-life			
Technical provisions – non-life (excluding health)	25,792	-25,792	0
Best Estimate	0	21,496	21,496
Risk margin	0	668	668
Technical provisions - health (similar to non-life)	402	-402	0
Best Estimate	0	142	142
Deferred tax liabilities	1,729	-92	1,637
Debts owed to credit institutions	48	0	48
Insurance & intermediaries payables	1,034	-290	744
Reinsurance payables	1,152	-424	728
Payables (trade, not insurance)	2,933	0	2,933
Total liabilities	33,090	-4,694	28,396

The total liabilities reported below in the PCC's balance sheet are reproduced as an aggregation of the total assets held by both the Core and its individual cells.

PCC Aggregate in Euro '000 Liabilities	IFRS	Solvency II Adjustment	Solvency II value
Technical provisions – non-life			
Technical provisions – non-life (excluding health)	49,971	-49,971	0
Best Estimate	0	39,663	39,663
Risk margin	0	1,580	1,580
Technical provisions - health (similar to non-life)	402	-402	0
Best Estimate	0	142	142
Deferred tax liabilities	1,489	232	1,721
Debts owed to credit institutions	45	0	45
Insurance & intermediaries payables	1,852	-300	1,552
Reinsurance payables	2,253	-424	1,829
Payables (trade, not insurance)	5,843	0	5,843
Total liabilities	61,855	-9,480	52,375

5.2.1 Technical provisions

Technical provisions as reported under IFRS are revalued under Solvency II requirements. The best estimate technical provisions comprise of the claims provision and premium provision.

The claims provision is the discounted best estimate of cash flows relating to past claim events that occurred before the valuation date, whether reported or not. The cash flows include: future cash flows resulting from past claims events (including salvage and subrogation) and cash flows arising from allocated and unallocated expenses in respect of past claims events.

The premium provision is the discounted best estimate of cash flows relating to future claim events that have not yet occurred, but that are covered by existing and legally binding pre-inception contracts.

The following is a description of each step of the change in technical provisions:

Claims Provision adjustment

a) Best estimate of claims reserves have been calculated using standard actuarial techniques including: Paid Chain Ladder Method, Incurred Chain Ladder Method, Paid Bornhuetter Ferguson Method, Incurred Chain Ladder Method, Expected Loss Ratio Method and frequency severity methods.

b) An explicit allowance has been made for unallocated loss adjustment expenses which include investment management expenses, administration expenses and overhead expenses.

c) An explicit allowance has been made for binary events / ENIDs.

Premium Provision

a) Cash flows resulting from future claims events have been included based on the UPR and a loss ratio assumption. The loss ratio assumption is based on historic loss ratio experience arising from the claims provision analysis.

b) An allowance for binary events / ENIDs is included in the claims cash flows.

c) Expenses associated with servicing of in force policies has been made.

d) Future premium cash flows have been included.

Discounting

Both claims and premium provisions cash flows were modelled using payment patterns derived from historic experience. These were discounted by the year end 2016 yield curves as published by EIOPA.

Risk Margin

The risk margin was calculated without simplification. Each component of the SCR was calculated at each future date assuming no future business was written. This was then discounted using the year end 2015 yield curve and a 6% cost of capital was applied.

Reinsurers' share of SII Technical Provisions (Section 5.1 – Reinsurance recoverables)

This was calculated based on the gross less net best estimate liabilities, where the net claims liabilities have been derived based on netting down ratios (for example net to gross premiums / paid or incurred claims) and allowance for an additional reinsurance cash flows. An allowance for counterparty default risk has been included.

Atlas Group in Euro '000 Technical provisions	IFRS	Solvency II Adjustment	Solvency II value
Technical provisions – non-life			
Technical provisions – non-life (excluding health)	25,792	-25,792	0
Best Estimate	0	21,496	21,496
Risk margin	0	668	668
Technical provisions - health (similar to non-life)	402	-402	0
Best Estimate	0	142	142
	26,193	-3,887	22,306

PCC Aggregate in Euro '000 Technical provisions	IFRS	Solvency II Adjustment	Solvency II value
Technical provisions – non-life			
Technical provisions – non-life (excluding health)	49,971	-49,971	0
Best Estimate	0	39,663	39,663
Risk margin	0	1,580	1,580
Technical provisions - health (similar to non-life)	402	-402	0
Best Estimate	0	142	142
	50,373	-8,989	41,384

Valuation principles

The Technical Provisions have been calculated as the sum of a best estimate plus a risk margin in accordance with the Solvency II Directive and associated texts.

Segmentation

The technical provision analysis is performed based on the following line of business segmentation:

Motor vehicle liability insurance ("MTPL"), Other motor insurance, Fire and other damage to property insurance ("Fire"), General liability insurance, Income protection insurance and Miscellaneous financial loss.

Contract boundaries

Under Solvency II, undertakings shall only recognise the obligations within the boundary of the contract. A contract boundary is defined as where the insurance or reinsurance undertaking has at a future date:

- A unilateral right to terminate the contract or a part of it;
- A unilateral right to reject premiums payable under the contract; or
- A unilateral right to amend the premiums or the benefits payable under the contract such that the premiums of the portfolio fully reflect the risk.

The assumption here is that the policy renewal date is the contract boundary since the PCC has the ability to re-price policies at each renewal date.

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation.

QRT Table 4 – PCC Aggregated Core and Cells in Euro '000

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance							
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	Total Non-Life obligation
		C0030	C0050	C0060	C0070	C0080	C0090	C0130	C0180
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	**R0060**	0	2,437	1,977	93	2,109	295	8	6,918
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	-6	69	-43	53	1,235	-34	23	1,298
Net Best Estimate of Premium Provisions	**R0150**	5	2,368	2,019	40	874	329	-15	5,620
Claims provisions									
Gross	**R0160**	142	23,288	1,749	470	4,458	2,485	295	32,887
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**		12,315	78	218	1,917	99	235	14,862
Net Best Estimate of Claims Provisions	**R0250**	142	10,973	1,671	252	2,541	2,386	60	18,025
Total Best estimate - gross	**R0260**	142	25,725	3,725	562	6,567	2,780	303	39,805
Total Best estimate - net	**R0270**	148	13,340	3,690	292	3,415	2,715	45	23,645
Risk margin	**R0280**		796	145	12	502	114	11	1,580
Technical provisions - total									
Technical provisions - total	**R0320**	142	26,521	3,870	574	7,070	2,894	314	41,384
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	-6	12,384	36	270	3,152	65	258	16,160
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	148	14,137	3,835	303	3,917	2,829	56	25,224

QRT Table 5 – PCC Aggregated Core and Cells in Euro ‘000

S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	Z0010	Accident year [AY]

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	Development year	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											152
N-9	R0160	3,589	1,828	118	381	0	11	-12	-4	1	5	
N-8	R0170	3,770	1,602	439	105	15	116	-13	397	-13		
N-7	R0180	5,101	2,355	316	88	37	5	4	-7			
N-6	R0190	4,701	2,147	761	342	62	119	109				
N-5	R0200	4,507	1,414	267	42	65	-5					
N-4	R0210	5,323	2,067	267	134	1						
N-3	R0220	6,334	2,011	1,072	1,649							
N-2	R0230	5,895	2,680	855								
N-1	R0240	10,112	3,734									
N	R0250	7,537										

		In Current year	Sum of years
		C0170	C0180
	R0100	152	16,834
	R0160	5	6,192
	R0170	-12	6,583
	R0180	-7	8,364
	R0190	109	8,385
	R0200	-5	6,490
	R0210	5	8,041
	R0220	1,683	11,266
	R0230	886	9,706
	R0240	3,842	13,985
	R0250	7,599	7,599
Total	R0260	14,256	103,444

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											1,201
N-9	R0160										332	
N-8	R0170									357		
N-7	R0180								546			
N-6	R0190							13				
N-5	R0200						97					
N-4	R0210					183						
N-3	R0220				13,638							
N-2	R0230			934								
N-1	R0240		2,869									
N	R0250	13,466										

		Year end (discounted data)
		C0360
	R0100	1,204
	R0160	333
	R0170	357
	R0180	547
	R0190	13
	R0200	97
	R0210	184
	R0220	13,530
	R0230	870
	R0240	2,873
	R0250	13,452
Total	R0260	33,461

5.2.2 Other liabilities

Section 5.2 above provides the reporting for the Atlas Group's and the PCC's total liabilities. The following section reports on the movements for other liabilities. Liabilities arising from technical provisions have been reported on under Section 5.3 of this report.

Atlas Group in Euro '000 **Other liabilities**	**IFRS**	**Solvency II Adjustment**	**Solvency II value**
Deferred tax liabilities	1,729	-92	1,637
Insurance & intermediaries payables	1,034	-290	744
Reinsurance payables	1,152	-424	728
Total liabilities	3,915	-806	3,109

PCC Aggregate in Euro '000 **Other liabilities**	**IFRS**	**Solvency II Adjustment**	**Solvency II value**
Deferred tax liabilities	1,489	232	1,721
Insurance & intermediaries payables	1,852	-300	1,552
Reinsurance payables	2,253	-424	1,829
	5,594	-492	5,101

Deferred tax liabilities

The Atlas Group and the PCC recognise deferred tax liabilities under IFRS using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The transition of IFRS balance sheet values to those of Solvency II as reported do cause balance sheet movements adjusting the net asset value reported in both the Group's S II balance sheet and that of the PCC. Such movement gives rise to the recognition of a deferred tax asset/liability adjustment for such movements.

Insurance and intermediaries payables and reinsurance payables

These balances under Solvency II are considered to be future cash flows and therefore reclassified to technical provisions in the calculation of "best estimate" values for such provisions. IFRS valuation considers fair value for the amounts receivable.

5.3 Alternative methods for valuation

The Atlas Group or the PCC does not use any alternative methods for the calculation of the arising liabilities.

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation.

QRT Table 6 – Atlas Group in Euro '000

S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Property, plant & equipment held for own use	**R0060**	5,894
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	32,101
Property (other than for own use)	**R0080**	3,550
Holdings in related undertakings, including participations	**R0090**	1,034
Equities	**R0100**	2,938
Equities - listed	**R0110**	2,938
Bonds	**R0130**	7,837
Government Bonds	**R0140**	1,713
Corporate Bonds	**R0150**	6,124
Collective Investments Undertakings	**R0180**	16,477
Deposits other than cash equivalents	**R0200**	265
Reinsurance recoverables from:	**R0270**	4,623
Non-life and health similar to non-life	**R0280**	4,623
Non-life excluding health	**R0290**	4,629
Health similar to non-life	**R0300**	-6
Insurance and intermediaries receivables	**R0360**	2,117
Receivables (trade, not insurance)	**R0380**	1,867
Cash and cash equivalents	**R0410**	5,485
Total assets	**R0500**	52,088

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	22,306
Technical provisions – non-life (excluding health)	**R0520**	22,165
Best Estimate	**R0540**	21,496
Risk margin	**R0550**	668
Technical provisions - health (similar to non-life)	**R0560**	142
Best Estimate	**R0580**	142
Deferred tax liabilities	**R0780**	1,637
Debts owed to credit institutions	**R0800**	48
Insurance & intermediaries payables	**R0820**	744
Reinsurance payables	**R0830**	728
Payables (trade, not insurance)	**R0840**	2,933
Total liabilities	**R0900**	28,396
Excess of assets over liabilities	**R1000**	23,691

QRT Table 7 – PCC Aggregated Core and Cells in Euro '000

S.02.01.02

Balance sheet

		Solvency II value
Assets		**C0010**
Deferred tax assets	**R0040**	439
Property, plant & equipment held for own use	**R0060**	5,855
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	37,248
Property (other than for own use)	**R0080**	3,550
Holdings in related undertakings, including participations	**R0090**	698
Equities	**R0100**	2,935
Equities - listed	**R0110**	2,935
Bonds	**R0130**	7,837
Government Bonds	**R0140**	1,713
Corporate Bonds	**R0150**	6,124
Collective Investments Undertakings	**R0180**	18,062
Deposits other than cash equivalents	**R0200**	265
Other investments	**R0210**	3,902
Loans and mortgages	**R0230**	259
Other loans and mortgages	**R0260**	259
Reinsurance recoverables from:	**R0270**	16,160
Non-life and health similar to non-life	**R0280**	16,160
Non-life excluding health	**R0290**	16,166
Health similar to non-life	**R0300**	-6
Deposits to cedants	**R0350**	364
Insurance and intermediaries receivables	**R0360**	4,115
Receivables (trade, not insurance)	**R0380**	1,297
Cash and cash equivalents	**R0410**	20,827
Total assets	**R0500**	86,565

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	41,384
Technical provisions – non-life (excluding health)	**R0520**	41,243
Best Estimate	**R0540**	39,663
Risk margin	**R0550**	1,580
Technical provisions - health (similar to non-life)	**R0560**	142
Best Estimate	**R0580**	142
Deferred tax liabilities	**R0780**	1,721
Debts owed to credit institutions	**R0800**	45
Insurance & intermediaries payables	**R0820**	1,552
Reinsurance payables	**R0830**	1,829
Payables (trade, not insurance)	**R0840**	5,825
Any other liabilities, not elsewhere shown	**R0880**	18
Total liabilities	**R0900**	52,374
Excess of assets over liabilities	**R1000**	34,191

6. Capital management

The value of own funds has reduced under Solvency II valuations due to the changes in values for assets and liabilities. The differences between the financial statements balance sheet and the solvency II balance sheet have been reported under Section 5 of this report.

In order to maintain or adjust the capital structure, the Group may issue new shares or capitalise contributions received from its shareholders. The PCC applies the same policy for its cellular shareholders.

The Group and PCC are required to hold regulatory capital for its general insurance business in compliance with the rules issued by the MFSA. The minimum capital requirement must be maintained at all times throughout the year. The Group monitors its capital level, and that of the cells, on a regular basis at least once a month through detailed reports compiled from management accounts. Such reports are circulated to the Boards and senior management. Any transactions that may potentially affect the Group's or the PCC's solvency position are immediately reported to the directors for resolution prior to notifying the MFSA.

6.1 Own Funds

A major component of the Own Funds of the Atlas Group and the PCC is that of Tier 1 Capital, which include:

a) **Paid-in Ordinary Share Capital** of the highest quality Own Funds which can be relied on to absorb losses on a going-concern basis. Such shares are issued directly by Atlas Holdings Limited and the PCC with the prior approval of its shareholder and, where applicable, of the Atlas Core and cell shareholders, and ultimately the approval of the MFSA.
b) **Reconciliation Reserve** which is the resultant variance in Own Funds between the Solvency II and the IFRS Balance Sheet with an allowance for Deferred Tax Assets/ Liability movements is also to be factored in the Group's and the PCC's (where applicable) Own Funds total as Tier 1 Capital.
c) **Other Reserves** which include reserves in equity being the resultant movement in property revaluation under IFRS as per the Group's Audited Annual Financial Statements.
d) **Retained Earnings** which include accumulated profit reserves after the payment of dividends as confirmed through the Group's and the PCC's Audited Annual Financial Statements.
e) **Functional Currency Exchange Reserve** which is the resulting difference between functional and reporting currencies arising from the cellular operations. Such reserve is also audited on an annual basis by the external auditors.

As per the Commission Delegated Regulation 2015/35 on Solvency II, the Atlas Group's boards may consider in future the use of Share Premium accounts and Capital Contributions as a form of Own Funds eligible as Tier 1 Capital. It may also make recommendations to the Atlas Holdings Limited Board to accept such capital instruments. Under regulation the PCC is obliged to seek regulatory approval for such instruments.

Another component of the Own Funds of the Group and the PCC is that of ancillary own funds qualifying as Tier 2 Capital. Preferred instruments by the Group are in the form of unpaid ordinary share capital. Under special circumstances the Group's Board will also consider Letters of Credit. It is the responsibility of the Board to review and ensure the substance and ultimate financial strength underlying the capital instruments which qualify as ancillary own funds under Tier 2 capital.

The total own funds for the Atlas Group in matching the Solvency Capital Requirement as on 31 December 2016 is equal to €23,516 thousand. The Group does not consider any ancillary own funds.

The PCC total own funds in matching the aggregated Solvency Capital Requirement as on 31 December 2016 is equal to €35,593 thousand which is inclusive of available unpaid capital for ancillary own funds of €1,402 thousand, and eligible under Solvency II regulation up to €937 thousand in matching the Minimum Capital Requirement.

The Own Funds applied in matching the Solvency Capital Requirements are detailed in the below tables for both the Group and for the PCC on an aggregate basis.

Atlas Group in Euro '000 Own funds	IFRS	Solvency II Adjustment	Solvency II value
Paid up ordinary shares	5,325	0	5,325
Revaluation reserves	2,993	-2,993	0
Other reserves	-593	593	0
Retained earnings	18,014	-18,014	0
Non-controlling interests in equity	-149	149	0
Reconciliation reserve	0	18,191	18,191
	25,590	-2,074	23,516

PCC Aggregate in Euro '000 Own funds	IFRS	Solvency II Adjustment	Solvency II value
Paid up ordinary shares	16,305	0	16,305
Revaluation reserves	0	0	0
Other reserves	1,948	-1,948	0
Retained earnings	17,119	-17,119	0
Surplus funds	0	596	596
Reconciliation reserve	0	17,290	17,290
Ancillary own funds - issued capital unpaid	0	1,402	1,402
	35,372	221	35,593

Under Solvency II regulation certain components for equity recognised under IFRS are reclassified to a reconciliation reserve, which reserve also accounts for the movements carried out to the net asset value in the Solvency II balance sheet. Such movement is considered to be an unrealised gain/loss in valuation and on that basis recognises this movement net of deferred taxation.

All the Group and PCC own funds are classified under Solvency II as Tier 1 capital since they are considered to be of high quality. In the case of the PCC an element of unpaid capital totalling €1,402 thousand is also considered for the purposes of Solvency II own funds, but is considered as Tier 2 capital and classified as ancillary own funds. Such capital undergoes ongoing due process for MFSA authorisation for its applicability.

Application and review of own funds.

It is also the responsibility of the Board of Directors of the PCC to monitor on a continuous basis the adequacy of Eligible Own funds according to the medium-term capital management plan and it is its responsibility to ensure before issuance of any own fund items that it can satisfy the criteria for the appropriate tier on a continuous basis, where this is applicable.

The Group Chief Financial Officer liaises with the Company Secretary, where applicable, to support backing calculations showing the effect of any proposed increase in paid/unpaid share capital for Atlas Holdings Limited, the Core or the Cells on the own funds for approval by the respective Boards of the Atlas Group.

This procedure is to be also followed by the Group Chief Financial Officer in the event that any Regulatory Solvency shortfalls are identified to be matched by financial instruments other than capital instruments. An example of this would be bankers' guarantees issued by shareholders.

Medium-Term Capital Management Plan

The Group adopts a medium term capital management plan which is consistently reflected in other risk management policies and procedures set by the Board.

This plan considers the various disciplines and parameters which govern the underlying asset exposures to the Group Companies' balance sheets and incorporated cells within the PCC. Priority is given to the loss absorbency aspects of these assets. They are driven by:

- The Group's policy on Risk Management and the risk register arising therefrom;
- The Group's Investment Policy; and
- The Group's Asset Liability Management Policy and set investment parameters arising therefrom which include consideration for:
    - Counterparty default risk;
    - Currency risk;
    - Market risk;
    - Liquidity risk;
    - Concentration risk

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation.

QRT Table 8 – Atlas Group in Euro '000

S.23.01.22
Own funds

		Total	Tier 1 - unrestricted
		C0010	C0020
Basic own funds before deduction for participations in other financial sector			
Ordinary share capital (gross of own shares)	R0010	5,325	5,325
Reconciliation reserve	R0130	18,191	18,191
Total basic own funds after deductions	R0290	23,516	23,516
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	23,516	23,516
Total available own funds to meet the minimum consolidated group SCR	R0530	23,516	23,516
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	23,516	23,516
Total-eligible own funds to meet the minimum consolidated group SCR	R0570	23,516	23,516
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	23,516	23,516
Group SCR	R0680	8,993	
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	3	

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	23,691
Other basic own fund items	R0730	5,325
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	175
Reconciliation reserve before deduction for participations in other financial sector	R0760	18,191

QRT Table 9 – PCC Aggregated Core and Cells in Euro '000

S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 2
		C0010	C0020	C0040
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35				
Ordinary share capital (gross of own shares)	**R0010**	16,305	16,305	
Surplus funds	**R0070**	596	596	
Reconciliation reserve	**R0130**	17,290	17,290	
Total basic own funds after deductions	**R0290**	34,191	34,191	
Ancillary own funds				
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	1,402		1,402
Total ancillary own funds	**R0400**	1,402		1,402
Available and eligible own funds				
Total available own funds to meet the SCR	**R0500**	35,593	34,191	1,402
Total available own funds to meet the MCR	**R0510**	35,593	34,191	1,402
Total eligible own funds to meet the SCR	**R0540**	35,593	34,191	1,402
Total eligible own funds to meet the MCR	**R0550**	35,128	34,191	937
SCR	**R0580**	18,080		
MCR	**R0600**	4,685		
Ratio of Eligible own funds to SCR	**R0620**	2		
Ratio of Eligible own funds to MCR	**R0640**	7		

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	34,191
Other basic own fund items	**R0730**	16,901
Reconciliation reserve	**R0760**	17,290

6.2 Solvency capital requirement and minimum capital requirement

The Atlas Group does not make use of internal models, partial internal models or undertaking specific parameters in calculating its solvency capital requirement (SCR). The Group and Solo Undertaking calculate their respective SCR's utilising the standard formula. The Solo Undertaking, as a protected cell company, calculates the notional solvency capital requirement (nSCR) for each component; i.e. the Core and each cell individually. The nSCR products are then aggregated to report the PCC's SCR.

Individual cells are not obliged to hold the absolute floor minimum capital requirement (AMCR of €3,700 thousand) as this is an obligation imposed on the PCC's Core, nor is an individual cell obliged under regulation to match its own nSCR with its own funds for as long as that Cell has financial recourse to the Core's own funds. Under the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, the PCC may impose non-recourse for cells authorised to carry on Captive insurance business and/or reinsurance business. Under such circumstances these cells would have to match their own nSCR with its own funds. The PCC has one cell which is authorised to carry on the business of reinsurance where non-recourse is in place and on that basis matches its own funds to its nSCR with a solvency ratio of 140%.

The following table illustrates the various risk components making up the SCR requirements for both the Group and the PCC.

Solvency capital requirement in Euro '000	Atlas Group	Aggregated PCC
Non-life Risk	4,991	12,671
Health Risk	302	315
Market Risk	7,601	11,997
Default Risk	2,710	6,111
Operational Risk	691	1,556
LACDT	(3,418)	(7,941)
Diversification	(3,884)	(6,629)
Total SCR	**8,993**	**18,080**

Authorised insurance undertakings are required to also report on the minimum capital requirement (MCR) which is required to be matched at all times by own funds. This regulation allows exception for cells incorporated within a PCC as this is covered by the PCC as a whole.

For the Group as on 31 December 2016, in view that the MCR calculation under the standard formula results in being less than the AMCR, the absolute floor applies to the Atlas Group at €3,700 thousand. For the PCC the MCR calculation results in a requirement of €4,685 thousand. In both cases the own funds reported for Solvency II comfortably exceed the above MCR requirements.

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation.

QRT Table 10 – Atlas Group in Euro '000

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement
		C0110
Market risk	**R0010**	7,601
Counterparty default risk	**R0020**	2,710
Health underwriting risk	**R0040**	302
Non-life underwriting risk	**R0050**	4,991
Diversification	**R0060**	-4,008
Intangible asset risk	**R0070**	124
Basic Solvency Capital Requirement	**R0100**	11,720

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	691
Loss-absorbing capacity of deferred taxes	**R0150**	-3,418
Solvency capital requirement excluding capital add-on	**R0200**	8,993
Solvency capital requirement	**R0220**	8,993
Other information on SCR		
Solvency capital requirement	**R0570**	8,993

QRT Table 11 – PCC Aggregated Core and Cells in Euro '000

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement
		C0110
Market risk	**R0010**	11,997
Counterparty default risk	**R0020**	6,111
Health underwriting risk	**R0040**	315
Non-life underwriting risk	**R0050**	12,671
Diversification	**R0060**	-7,966
Intangible asset risk	**R0070**	26
Basic Solvency Capital Requirement	**R0100**	23,153

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	1,556
Loss-absorbing capacity of deferred taxes	**R0150**	-6,629
Solvency capital requirement excluding capital add-on	**R0200**	18,080
Solvency capital requirement	**R0220**	18,080
Other information on SCR		
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	8,834
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	9,247

QRT Table 12 – PCC Aggregated Core and Cells in Euro '000

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	**R0010**	4,685

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Income protection insurance and proportional reinsurance	**R0030**	148	514
Motor vehicle liability insurance and proportional reinsurance	**R0050**	13,340	7,522
Other motor insurance and proportional reinsurance	**R0060**	3,690	4,614
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	292	562
Fire and other damage to property insurance and proportional reinsurance	**R0080**	3,435	14,878
General liability insurance and proportional reinsurance	**R0090**	2,715	2,235
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	45	242

Overall MCR calculation

		C0070
Linear MCR	**R0300**	4,685
SCR	**R0310**	18,080
MCR cap	**R0320**	8,136
MCR floor	**R0330**	4,520
Combined MCR	**R0340**	4,685
Absolute floor of the MCR	**R0350**	3,700
		C0070
Minimum Capital Requirement	**R0400**	4,685

6.3 Use of the duration-based equity risk sub-module in the calculation of Solvency Capital Requirement

Both the Atlas Group and the PCC did not use the duration-based equity risk sub module set out in Article 304 of the Directive for the calculation of its Solvency Capital Requirement.

6.4 Differences between the Standard Model and any Internal Model used

Both the Atlas Group and the PCC do not make use of the possibility allowed under the Solvency II Directive to apply internal or partial internal models and on this basis have nothing to report.

6.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

As on 31 December 2016 the Group reports a Solvency Ratio of 261% for Solvency II Own Funds over the Solvency Capital Requirement. As such there is no non-compliance issue to report.

The same is reported for the PCC which registers a Solvency ratio of Own Funds over the Solvency Capital Requirement for the aggregated position of the PCC of 261%.

6.6 Any other information

As noted throughout the report the Atlas Group reports its results for all its subsidiaries and the PCC under regulation.

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation.

QRT Table 13 – Atlas Group

S.32.01.22
Undertakings in the scope of the group

								Criteria of influence					Inclusion in the scope of group supervision	Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Level of influence	Proportional share used for group solvency calculation	YES/NO	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0220	C0230	C0240	C0260
MT	5299009OC7HGHKVM2254	LEI	Atlas Holdings Ltd	5	Ltd liability company	2	MFSA						1	1
MT	529900F52D5B51ONO136	LEI	Atlas Insurance PCC Ltd	2	Ltd liability company	2	MFSA	1	1	1	1	100	1	1
MT	C15701	SC	Ark Ltd	99	Ltd liability company	2	MFSA	1	1	1	1	100	1	1
MT	529900ETP4ZUO613S537	LEI	AISH Ltd	99	Ltd liability company	2	MFSA	1	1	1	1	75	1	1
MT	529900N7YYVZLTVTZ734	LEI	Jesmond Mizzi Financial Advisors Ltd	99	Ltd liability company	2	MFSA	0		0	2	38	1	1
MT	529900FSDRG7F53V7G49	LEI	Ark Insurance Management PCC Ltd	99	Ltd liability company	2	MFSA	1	1	1	1	100	1	1
MT	529900QZNMH0YY2B9Z44	LEI	Atlas Healthcare Insurance Agency Ltd	99	Ltd liability company	2	MFSA	1	1	1	1	100	1	1
MT	C35771	SC	Stuart Property Development Ltd	99	Ltd liability company	2	MFSA	1	1	1	1	50	1	1