People you can trust

Atlas Insurance

Annual Report 2017

atlas.com.mt

Cover Image by Patrick J Fenech © 2008
Photography composite from the series 'The New Eye of Osiris'

Atlas Insurance PCC Limited

31 December 2017

OUR VISION

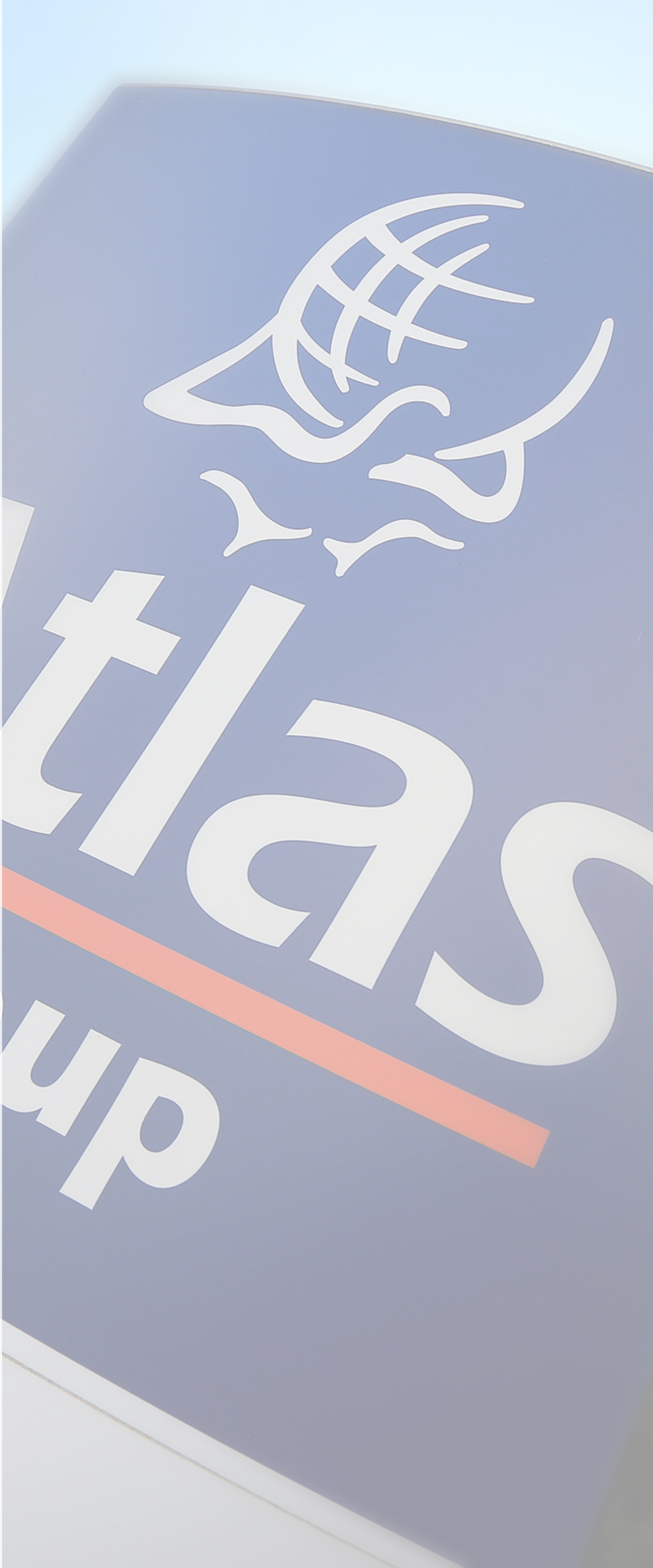
The Atlas Group will be recognised as trusted, long term suppliers of insurance and financial services in Malta and overseas and will provide security and value to all stakeholders with a purpose beyond profit.

OUR MISSION

Atlas fosters a respectful environment between staff, clients, intermediaries and suppliers that empowers our people to build on their skills and training to develop and provide innovative, personalised, top quality products while ensuring the consistent delivery of our service promise to exceed our clients' expectations.

OUR CORE VALUES

- Creating value for all stakeholders,
- Empowerment and innovation,
- Commitment to service,
- Passion,
- Respect.



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CHAIRMAN'S STATEMENT

The profit registered by Atlas Insurance in 2017 was the highest in its history. For that the leadership team and all the employees can take great credit. The business is stronger and is highly focused on enhancing the customer experience, while improving efficiency and ensuring that regulations and risk standards are effectively implemented.

ECONOMIC ENVIRONMENT

Investor and consumer sentiment in Malta have remained high, resulting in a very positive performance for the national economy. In 2017 the gross domestic product grew by 6.6% in real terms, compared to 5.5% the previous year. Employment continued to grow and exceeded the 200,000 mark in 2017, an increase of 5.1% over 2016. Average wages and salaries for the whole economy increased by 1.4% in 2017 over 2016, while average wages and salaries in the finance and insurance activities sector increased by 10.4%.

Household consumption rose by 4.5% over the previous year, compared to 4.2% in 2016. In December 2017, the annual rate of inflation was registered at 1.3%. The current account of the balance of payments stood at €1.395 million at the end of 2017 while the balance on the capital account stood at €44 million.

Gross value added of financial and insurance activities increased by 2.8% to €605 million, a somewhat reduced level of growth when compared to the growth of the national economy and the growth in household consumption. This sector was reported to have employed 9,500 persons at the end of 2017, an increase of 4.5% over the previous year.

FINANCIAL RESULTS

The total assets of the Company stood at €121 million at the end of December 2017, up from €97 million the previous year. Net assets increased from €35 million to €38 million. This increase in net assets was mainly attributable to the non-cellular operation (Core).

Gross premiums written by the Core have increased by 7.2% in 2017 over 2016 to €25.3 million. Gross premiums written by the Cells went down by €3.1 million to €16.1 million. The balance on the Technical Account for the Core increased by €1.6 million to €4.0 million while the balance on the Technical Account of the Cells increased by €0.5 million to €2.9 million. The total balance increased by 44.5% to just under €7 million.

Operating expenses increased to €3.1 million, mainly due to an increase in the remuneration of employees, an increase in acquisition costs due to increased sales and increased compliance costs.

The investment income, excluding fair value gains on investment property registered in 2016, accruing to the Core policyholders and shareholders, net of investment costs, for the year experienced an increase following the sharp drop in 2016. It increased to €1.4 million.

Profit before tax accruing to the Core increased to €4.6 million while profit before tax for the PCC as a whole increased to €7.5 million from €5.5 million. Earnings per share for the Core shareholders amounted to €0.95, and the return on capital employed for the PCC as a whole stood at 19.8%.

Dividends amounting to €5.0 million were paid to the Core shareholders in 2017. An interim dividend was proposed by the Board of Directors and paid to the Core shareholders amounting to €0.7 million in February 2018 and at the forthcoming Annual General Meeting, a final dividend of €0.7 million after tax is being proposed by the directors to the Core shareholders. Interim dividends to cell shareholders were also paid during 2017 amounting to €1.9 million.

The Company's balance sheet continues to show high levels of capital surplus over regulatory requirements. The solvency ratio stood at 2.34 times the capital requirement for the Core as on 31 December 2017.

MANAGEMENT AND STAFF

Atlas is a people business and people are at the core of what we do. As such we foster an agile organisation with a dynamic culture supported by a number of people orientated initiatives to provide our staff with a positive employment experience. The leadership team and staff seek to capitalise fully on all opportunities, to defend and maximise financial performance and to respond to existing and evolving customer demands.

The team led by the CEO, Michael Gatt, has shown great dedication and commitment to promote the Atlas values in their work and to hold high the position of prestige that the Company has achieved in the insurance sector. On behalf of the Board, I thank them for their determined commitment and the results they have delivered.

BOARD OF DIRECTORS

All my colleagues on the Board of Directors continue to make a strong and active contribution to the Board's deliberations and decision making. We have strengthened our communication with the Executive Committee and there is a very healthy exchange of ideas in the formulation of the Company's business strategy and the adoption of the appropriate risk appetite parameters as well as the Own Risks and Solvency Assessment (ORSA), the Solvency and Financial Condition Report (SFCR) and the Regulatory Solvency Report (RSR). As from 2017, the Malta Financial Services Authority has opted to require audit certification of the SFCR and this, together with tightened reporting deadlines in general, has brought forward reporting timelines.

Non-Executive Directors also chair five committees, set up to enhance the corporate governance structure. These five committees are the Audit Committee, the Risk and Compliance Committee, the Remuneration and Nominations Committee, the Investments Committee and from March 2018 the Information Systems Committee. The charters of the various committees as well as the various policies of the company are formally reviewed annually to ensure that these policies reflect best practice in corporate governance.

The non-executive directors of Atlas have a broad and complementary mix of business skills, knowledge and experience acquired across sectors. This allows them to provide strong, independent and external perspectives to Board discussions, which complement the skills and experience of the three executive directors.

OUR CONTRIBUTION TO SOCIETY

The Atlas Group focuses its corporate social responsibility efforts in three main areas being our contribution to our nation's health and fitness, our contribution to our heritage as well as to children's charities. A cornerstone to all our efforts in these areas is the involvement of our key stakeholders in what we do and we endeavour to involve our staff and clients in various CSR initiatives throughout the year.

In 2017, we continued our sponsorship of Melita FC and organised a football festival at Melita involving seven other football nurseries towards the end of the year. 2017 was also the final year of our Sponsorship of the University of Malta Sahhtek initiative, the major health and wellbeing study, and organised the final information session for clients and staff in collaboration with Sahhtek.

We also supported and collaborated with a number of other fitness and wellbeing related initiatives including Alive, LifeCycle, the Malta Marathon and Action for Breast Cancer, the latter two again with staff involvement.

Two new projects were started in 2017 being the collaboration with Din L-Art Helwa on the restoration of the White Tower in Armier and the upgrading of the Rainbow Ward at Mater Dei Hospital. Two groups of staff members were given volunteering leave to help Din L-Art Helwa in clean-ups around the White Tower in autumn and further initiatives of this kind are planned.

We continued to support both Fondazzjoni Patrimonju Malti and Young Enterprise during 2017, two organisations that we have worked closely with for many years.

OUTLOOK

The actions taken in 2017 and in previous years have equipped Atlas better to build long term shareholder value, to provide excellent customer service, to develop the skills of our staff and to serve Maltese society. This has positioned the Company well for the future. I thank all the Group's customers, employees, the leadership team, shareholders and partners for their support throughout the year.

Lawrence Zammit
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

Gross written premiums for the Core and including premiums written by our wholly owned subsidiary Atlas Healthcare Insurance Agency Ltd., reached €34.4 million, an increase of 7.2% over the previous year. Furthermore, we wrote an additional €16.1 million of cellular premium to reach an overall group premium of €50.5 million.

OVERVIEW

The performance and results for Atlas Insurance PCC Limited (Atlas) for the year under review were very encouraging with the Company's overall profit before tax rising by 37% to €7.5 million. The largest growth was in the non-cellular (Core) business where profit before tax increased by 51% to €4.6 million whilst the cellular profit before tax rose by 20% to €3.0 million. The Core results are boosted by dividends received from subsidiary companies mainly Atlas Healthcare Insurance Agency Ltd who write health insurance products as agents for AXA PPP healthcare Ltd. These results were achieved despite a 20.5% drop in investment income, following the performance of the market, when compared to 2016.

During 2017 GDP grew strongly and continued to surprise on the upside, reaching 6.6%. The external sector, driven by growing services exports, remained the main driver of growth in 2017. Economic growth is projected to slow in 2018 to 5.6%. Private consumption is expected to become the main driver of growth on the back of strong employment growth, improved consumer confidence and growing disposable income. Investment is forecast to recover, led by the residential construction sector, which is expected to continue growing in 2018.

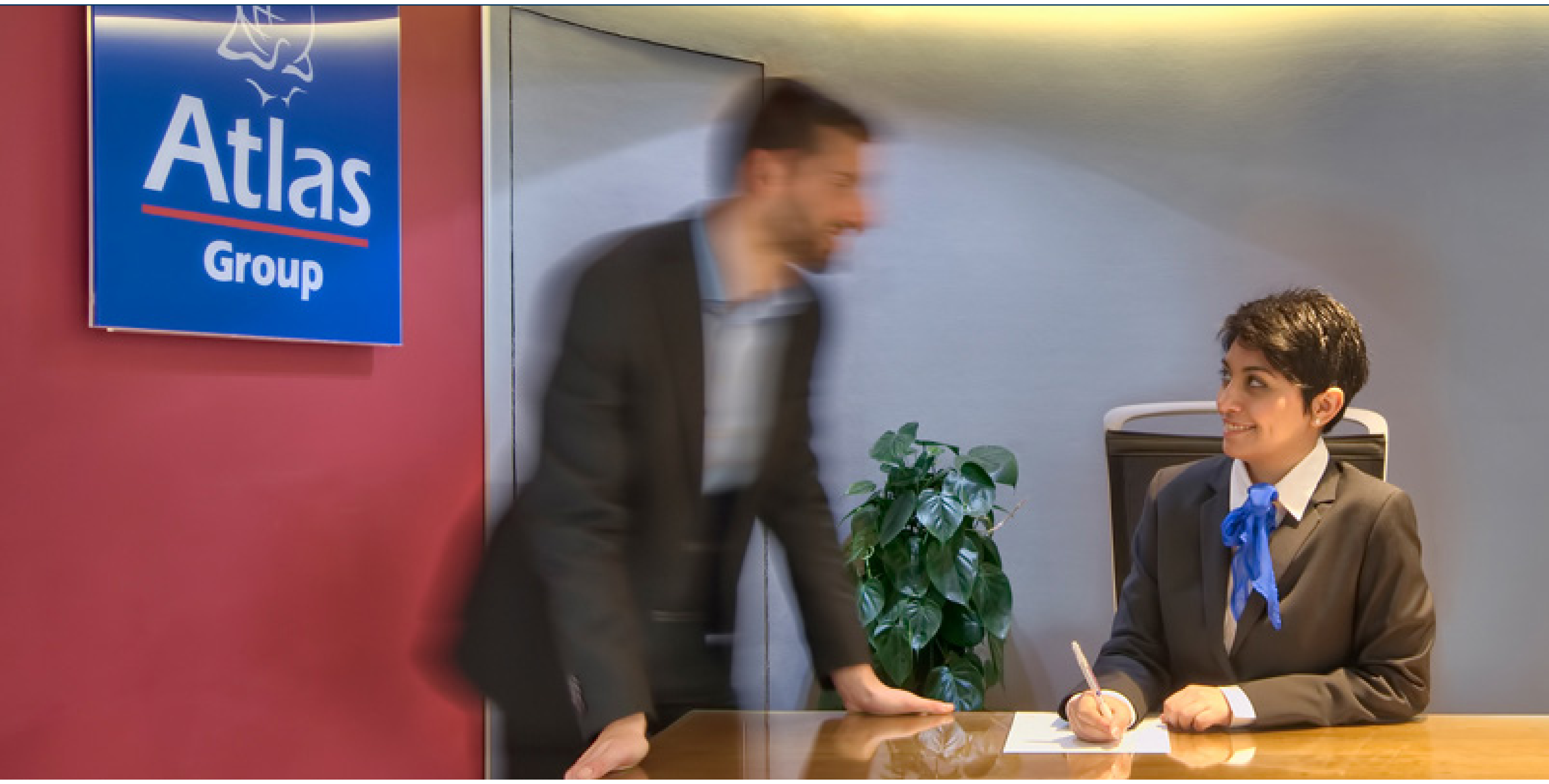
We continue to write a very healthy and well-balanced portfolio with non-motor business making up 55% of our total Core premiums when compared to the market's 45%. Our portfolio by source of business is also well structured with 50% of premiums written directly through Atlas's Head Office or our network of Branches and the other 50% is equally written through insurance brokers and our Tied Insurance Intermediaries. This mix of distribution continues to serve us well and meet our customers' expectations and enables us to reach out to all corners of Malta and Gozo.

The overall combined Core loss ratio on gross premium earned for 2017 improved drastically ending the year at a very satisfactory 82.6%.

We have successfully turned around the motor insurance results following two consecutive years of losses where combined loss ratios had reached lows of 122.2% and 108.7% respectively in the previous two years. This year, after having put in place a number of corrective measures over the last 24 months, we managed to obtain a much improved combined motor loss ratio of 95.3%. We will continue to closely monitor this class of business as both frequency and severity of motor accidents involving bodily injuries and fatalities unfortunately continue to increase.

Despite the burden of rising regulatory costs associated mainly with Solvency II requirements, we nonetheless managed to contain our operating costs within budget. Our solvency ratio continues to be well above the minimum regulatory requirement at 234% of the Solvency Capital Requirement under Regulation for the Core. During 2017, the Company's non-cellular share capital was increased out of retained profits to €12.0 million from €8.2 million to further consolidate our balance sheet.

Whilst the employment market continued to present challenges to local employers across all industries, with national unemployment figures continuing to decrease, causing significant increases in related costs, at Atlas we continued to focus on our people centric strategic HR policies. These bore fruit with our level of turnover remaining lower than the market and in May of 2017, we were very proud to be awarded the Business Leaders Award in HR for 2016 (in the category 150+ employees). This award is based on internal employee engagement figures which are benchmarked against other participating employers.



We continue to focus mainly on talent management and to make Atlas a workplace of choice for millennials. Our commitment to training remains unwavering and apart from our study sponsorship scheme we also invested in an online learning management system which will also help us deal with increased training requirements coming up with the introduction of the Insurance Distribution Directive, as well as other onerous regulatory requirements.

At Atlas, we pride ourselves on our client service as part of the way we differentiate ourselves from our competition. We continue to focus on client satisfaction, asking claimants for feedback on their experiences and concentrating our efforts on areas where least satisfaction was experienced. We are proud to say that our client satisfaction levels overall are very positive and have remained so consistently.

We have focused, during 2017, on website upgrades, ensuring that a direct connection to our insurance IT system increases efficiency in processing of online transactions, a project which will be ongoing in 2018 too. We are investing more and more in technology which helps us improve our services and efficiency. However this increased dependency on technology and new data protection regulations have increased the associated risks. We have therefore endeavoured to improve prevention by further investing in our information security framework and data privacy programme. With the involvement of operational departments, we have also addressed preparedness and resilience by enhancing our contingency plans in the areas of manual systems, human resources, premises and communications, both internal and external.

The overall economic environment remains a favourable one and so we look forward to the coming year with optimism. The Group will remain vigilant as to what is evolving on the international scene and seeks to take advantage of any opportunities that will bring in new revenue streams. Government has given priority to making Malta the blockchain island and Atlas is very active in this area on the InsurTech front, which we can facilitate through our protected cells.

At this early stage of the year, results available augur well for further growth and we are in line with our expectations for 2018. We are committed to facing the challenges ahead with determination, we will endeavour to build closer synergies with our clients and we are determined to be there when they need us most.

To conclude, this positive performance would not have been possible without the dedication of our loyal and hardworking management team and all the Atlas staff. I am similarly thankful to all our Tied Insurance Intermediaries many of whom have grown with us over a long number of years as well as the Broking community for always showing their trust in the Atlas brand. I would finally also like to thank the Executive Committee and the Board of Directors for their professional commitment and continuous support.

Michael Gatt
Managing Director and CEO

BOARD AND EXECUTIVE COMMITTEES

FROM LEFT TO RIGHT

Matthew von Brockdorff
FCII
Deputy Managing

Andre Camilleri
LL.D, Dip. Econ. & Ind. Law (Milan)
Non Executive

Catherine Calleja
B.A.(Hons.), A.C.I.I.
Executive and Company Secretary

Lawrence Zammit
M.A. (Econ.)
Chairman

Michael Gatt
Managing

Philip Micallef
B.Sc.(Eng.), M.I.E.E., C.Eng., Eur. Ing., M.B.A. (Warwick)
Non Executive

Franco Azzopardi
M.Sc. (Leicester), F.I.A., C.P.A.
Non Executive

MATTHEW VON BROCKDORFF, is a fellow of the Chartered Insurance Institute and has been in the insurance industry for over 30 years. He is responsible for the Claims, IT and Property Management functions at Atlas Insurance. Matthew is a director of Atlas Holdings Ltd, Atlas Insurance PCC Ltd, Atlas Healthcare Insurance Agency Ltd, Ark Insurance Management PCC Ltd and Jesmond Mizzi Financial Advisors Ltd. He is a past president of the Malta Insurance Association and of the Rotary Club La Valette Malta, a board member of JAYE Malta and a member of the Executive board of Fondazzjoni Patrimonju Malti.

ANDRÉ CAMILLERI graduated in law and economics in Malta and Milan, Italy. He worked with Saudi Aramco in The Netherlands, Brazil and South Korea and, in Malta, at the Attorney General's Office, the Malta Development Corporation and Simonds Farsons Cisk plc. From 2002 to 2014 he served as the Director General of the Malta Financial Services Authority. He is currently a member of the ECB's Administrative Board of Review.

CATHERINE CALLEJA is Director and Company Secretary of Atlas Insurance PCC Limited and holds the position of Director and Group Company Secretary of the Atlas Group of Companies and is Managing Director of Atlas Healthcare Insurance Agency, a subsidiary of Atlas Insurance and agent for AXA PPP healthcare limited. She is currently President of the Malta Insurance Association, chairs the Human Resources Committee at the Chamber of Commerce, Enterprise and Industry and is a Visiting Lecturer at the Department of Insurance and Risk Management at the University of Malta.

LAWRENCE ZAMMIT is a Founding Partner and a Director of MISCO. At MISCO he serves as a consultant on HR matters to a number of business organisations across a range of economic sectors. He set up the marketing and opinion research unit of MISCO and delivers training programmes on strategic leadership and marketing issues. He also has direct hands on experience in leading organisations, serving and having served on the Board of Directors of a number of Companies and Public Corporations. Lawrence is also the Chairman of the Board of Atlas Holdings Limited. He is a Fellow of the Chartered Institute of Marketing and a member of ESOMAR.

MICHAEL GATT is the Chief Executive Officer of Atlas Insurance PCC Limited. He has been in the insurance industry for over 40 years. In 2000, he became sales director for Atlas Insurance Agency Limited then agents for AXA Insurance plc. When the company became a fully-fledged Maltese insurance company in 2004, he was appointed Managing Director and saw it through its conversion to a Protected Cell Company in 2006, thereby expanding services into international business. He is also a director of Atlas Healthcare Insurance Agency Ltd., Ark Insurance Management PCC Ltd., Assikura Insurance Brokers Ltd. and Jesmond Mizzi Financial Advisors Ltd.

PHILIP MICALLEF holds a Bachelor's degree in electrical engineering and an MBA and has worked in various senior positions both in private and public sectors in Malta and abroad. He started his career with Olivetti in Italy, Switzerland and Spain and some of the positions he held include Director Global Customer Service France Telecom, CEO Malta Enterprise, CEO Melita Cable, Executive Chairman Malta Communications Authority, Chief Executive Bermuda Telecom Regulatory Authority and CEO Air Malta.

FRANCO AZZOPARDI, a Certified Public Accountant with a UK post-graduate MSc in Finance, spent twenty-seven years working in public practice, ten of which with Deloitte Haskins and Sells and later in a firm he co-founded. In 2007 he decided to exit the firm to contribute more towards the strategic direction of boards of directors. He is today a professional director and a registered fellow member of the UK Institute of Directors. His portfolio includes directorships on Boards, Audit Committees, and Risk and Compliance Committees of both listed and private companies in various sectors including banking, insurance, software, logistics, private equity, and professional services, among others.

EXECUTIVE COMMITTEE

AUDIT COMMITTEE

Franco Azzopardi
MSc (Leicester) FIA CPA
Chairman

Philip Micallef
B.Sc.(Eng.), M.I.E.E., C.Eng., Eur. Ing., M.B.A. (Warwick)

Lawrence Zammit
MA (Econ)

RISK AND COMPLIANCE COMMITTEE

Andre Camilleri
LL.D, Dip. Econ. & Ind. Law (Milan)
Chairman

Franco Azzopardi
MSc (Leicester) FIA CPA

Catherine Calleja
BA(Hons) ACII

Philip Micallef
B.Sc.(Eng.), M.I.E.E., C.Eng., Eur. Ing., M.B.A. (Warwick)

Matthew von Brockdorff
FCII

REMUNERATION AND NOMINATIONS COMMITTEE

Lawrence Zammit
MA (Econ)
Chairman

Andre Camilleri
LL.D, Dip. Econ. & Ind. Law (Milan)

Philip Micallef
B.Sc.(Eng.), M.I.E.E., C.Eng., Eur. Ing., M.B.A. (Warwick)

INVESTMENTS COMMITTEE

Lawrence Zammit
MA (Econ)
Chairman

Franco Azzopardi
M.Sc. (Leicester), F.I.A., C.P.A.

John P Bonett

Andre Camilleri
LL.D, Dip. Econ. & Ind. Law (Milan)

Mark Camilleri

Michael Gatt

EXECUTIVE COMMITTEE

David Mifsud
FCII

Catherine Calleja
B.A.(Hons.), A.C.I.I.

Matthew von Brockdorff
FCII

Michael Gatt
Chairman

Robert Micallef

Mark Camilleri

Ian-Edward Stafrace
M.Sc. (Risk Management) C.F.I.R.M. FCII P.I.O.R.

PROTECTED CELLS COMMITTEE

Michael Gatt
Chairman

John P Bonett

Catherine Calleja
BA(Hons) ACII

Mark Camilleri

David Mifsud
FCII

Ian-Edward Stafrace
M.Sc. (Risk Management) C.F.I.R.M. FCII P.I.O.R.

Matthew von Brockdorff
FCII

INFORMATION TECHNOLOGY COMMITTEE

Philip Micallef
B.Sc.(Eng.), M.I.E.E., C.Eng., Eur. Ing., M.B.A. (Warwick)
Chairman

Vinay Aarohi

Michael Gatt

Ian-Edward Stafrace
M.Sc. (Risk Management) C.F.I.R.M. FCII P.I.O.R.

Matthew von Brockdorff
FCII

Lawrence Zammit
MA (Econ)

OFFICES AND BRANCHES, CELLS AND PROFESSIONAL SERVICES

OFFICES AND BRANCHES

HEAD OFFICE
48-50, Ta' Xbiex Seafront, Ta' Xbiex XBX 1021

BIRKIRKARA BRANCH
1, Psaila Street, Birkirkara BKR 9070

BORMLA BRANCH
55, Gavino Gulia Square, Bormla BML 1800

MOSTA BRANCH
94, Constitution Street, Mosta MST 9055

COMPLIANCE AND INTERNAL AUDIT OFFICE/ATLAS HEALTHCARE, INSURANCE AGENCY AND ARK INSURANCE MANAGEMENT PCC OFFICES
Abate Rigord Street, Ta' Xbiex XBX 1121

PAOLA REGIONAL OFFICE
Valletta Road, Paola PLA 1517

RABAT BRANCH
45, Vjal il-Haddiem, Rabat RBT 1769

SAN GWANN BRANCH
Naxxar Road c/w, Bernardette Street,
San Gwann SGN 9030

SKYPARKS BRANCH
Malta International Airport, Luqa LQA 3290

ST PAUL'S BAY BRANCH
2, Toni Bajada Street, St Paul's Bay SPB 3227

CELLS

AMPLIFON CELL
GEMINI CELL
OCADO CELL
L'AMIE CELL
PERFECTHOME CELL
TRAVELODGE CELL
TVIS CELL

PROFESSIONAL SERVICES

ACTUARIES
KPMG

AUDITORS
PricewaterhouseCoopers

BANKERS
APS Bank Limited

Bank of Valletta p.l.c.

Barclays Bank plc.

HSBC Bank Malta p.l.c.

Lombard Bank Malta p.l.c.

INVESTMENT MANAGERS
BOV Asset Management Limited

Jesmond Mizzi Financial Advisors Limited

ReAPS Asset Management Limited

Rizzo Farrugia & Co (Stockbrokers) Limited

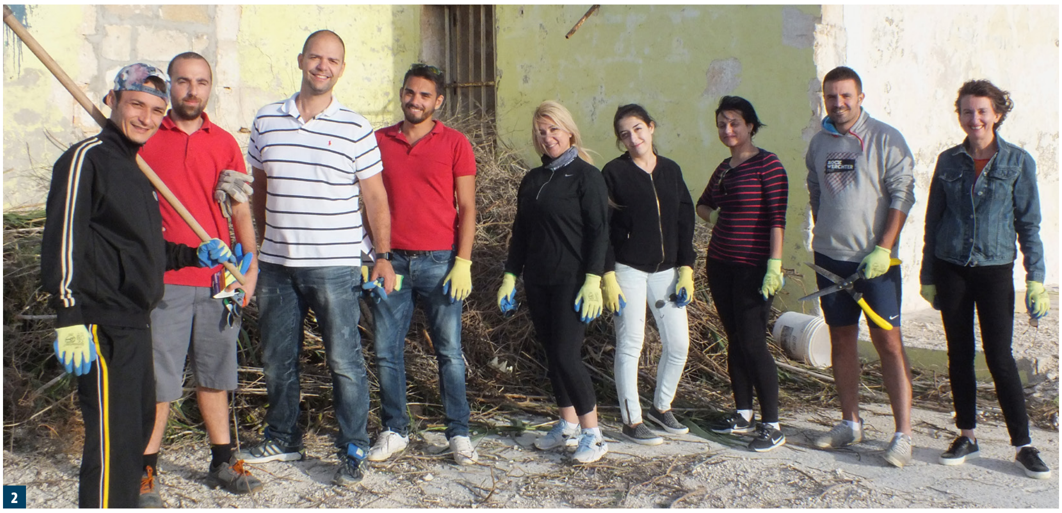
LEGAL ADVISORS
Ganado & Associates

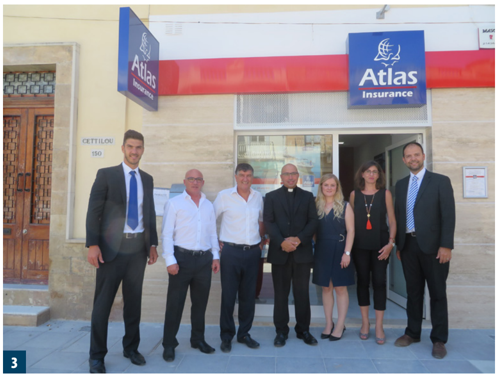
Mamo TCV Advocates

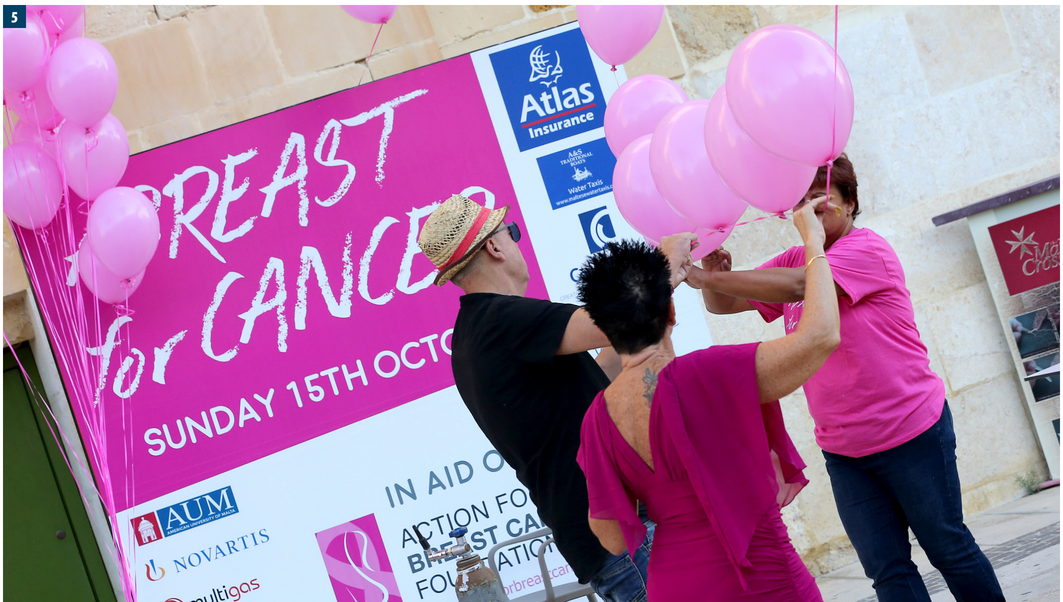
SD Advocates

Vella Zammit McKeon

PICTORIAL HIGHLIGHTS







1 Atlas Sponsors Alive 2017 – **2** Atlas staff clean up White Tower as part of White Tower Restoration Sponsorship for Din L-Art Ħelwa – **3** At the opening of the new Żebbuġ Branch – **4** Atlas wins Business Leaders Employee Engagement Award – **5** Atlas supports Action for Breast Cancer

ATLAS INSURANCE PCC LIMITED

Annual Report and Financial Statements
31 December 2017

Company Registration Number: C5601

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Principal activities

The principal activities of the Company consist of the business of insurance. The Company is licensed as a cell company to write general business in terms of Article 7 of the Insurance Business Act (Cap.403) by the Malta Financial Services Authority in accordance with the Companies Act (Cell Companies carrying on business of insurance) Regulations, 2004.

Review of the business

The Board of Directors reports that the Company registered good results for 2017 for both the Non-Cellular shareholders (Core) and the Cellular shareholders with the PCC reporting continued improving results. A reasonably good return arising from the Core's investment portfolio complemented good technical results.

The Company registered an aggregate net profit before tax for the year of €7,522,707 (2016: €5,489,279) and a net profit after tax of €4,886,507 (2016: €3,743,231). Profits accruing to the non-cellular shareholders amounted to €4,560,478 (2016: €3,024,590) before taxation.

Core

The Board of Directors' objective remains that of consolidating balance sheet reserves with an end to safeguarding Policyholder interest, balanced with its dividend distribution policy. In this regard the relatively conservative underwriting and reinsurance policies as well as a prudent dividend policy applied by the Board continue to work toward this objective and consistently produce profitability as well as growing the Company's reserves and consolidating its balance sheet strength. The Core's regulated solvency position as at 31 December 2017 stood at 234% of the minimum Solvency requirement.

Whereas in recent years the results for the motor class have negatively impacted the Core's technical results through increased claims costs and bodily injury claims and fatalities, the year under review has seen a substantial improvement in the light of appropriate adjustments in premiums to reflect today's reality for the class of business. This resulted in a combined loss ratio of 83% (2016: 90%) across the Core's full portfolio. Early results for 2018 continue a trend of reporting improved motor class results.

During the financial year ended 31 December 2017 the Core continued to increase premium income with important growth being registered in all classes of business. The resulting premium written increased by 7% over the previous year. The Company's prudent investment policy returned 4% in investment income net of investment expenses during what proved to be a very volatile year in both local and international stock exchange market places.

In the coming financial year, the Company expects to continue to grow in both the core local business as well as internationally through the protected cell operation. It will continue to focus on improving the profitability of the motor account, the prudent management of core operating costs and will continue with its cautious investment strategy.

Besides operating through its Ta' Xbiex Offices, the Company also operated during 2017 through ten branches strategically spread throughout the Island to service its clients. During 2017, the Company opened its tenth branch in Zebbug, and closed its branch office in Qormi in March 2018.

Cellular

During the year under, review no new cell has been incorporated within the PCC. The Company's executive has been engaged for a number of cell prospects during 2017 for potential shareholders to seek feasibility for their business plan.

Directors' report - continued

The operating cells have continued to contribute to the Company's aggregated profitability. Such portion of profitability accrues to cell shareholders.

During the year, the cells carried on operations registering continued positive results with a combined profit before tax at €2,962,229 (2016: €2,464,689) and after tax at €1,874,877 (2016: €1,556,424) accruing to the cell shareholders.

Principal risks and uncertainties

The Board is confident that it addresses a full inventory of the risks the Company's administration and operations face through its risk management structures. The mitigation for the principal risks are disclosed under note 3 of these accounts which impact is reported under notes 14, 15 and 21.

Core assets, cellular assets and share capital

The core assets comprise the assets of the Company which are non-cellular assets relating to the core operation. The assets of Atlas Insurance PCC Limited 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.

Subsidiaries

The Company fully owns two licensed subsidiaries Atlas Healthcare Insurance Agency Limited, agents for AXA PPP healthcare limited and Ark Insurance Management PCC Limited, a licensed insurance manager and protected cell company.

It is the Company's declared financial policy to direct its subsidiaries' reserves within its own financial management processes and for this reason, causes its subsidiaries to upstream excess financial resources over those required under regulation, while preserving their regulated financial positions.

Atlas Healthcare's increased growth and profitability has continued to contribute to the Company's success during the period under review through increased dividend income. The agency's net asset value totaled €1,059,561 as on 31 December 2017, which result is in in excess over regulated financial resources requirements under the Insurance Intermediaries Act.

Ark Insurance Management PCC Limited saw an increase in its revenue through increased insurance management activity and for this reason invested further in its human resources to meet increased operations. This subsidiary also manages its financial resources in excess of that under regulation for its enrollment under the Insurance Intermediaries Act. The net asset value of the insurance manager is reported as on 31 December 2017 at €87,454.

Board of Directors

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

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

The current directors have expressed their willingness to remain in office.

Directors' report - continued

Results and dividends

The profit and loss account is set out on pages 19 and 20.

During the year under review the directors declared the payment of a dividend net of tax to the non-cellular shareholder in the form of a bonus share issue of €3,802,000, equivalent to the issue of 1,520,800 €2.50 "A" ordinary shares fully paid up. Furthermore during 2017 Ordinary dividends of €1,215,000 net of tax were declared.

2017 saw four of the Company's cellular shareholders receive a total of €1,860,300 net of tax in interim dividends declared by the Board. 2017 was a very active year for movements in cellular equity. Upon the request of the Ocado Cell's shareholder, the Board declared the payment of an interim dividend net of tax of €470,000 in the form of a bonus share issue equivalent to the issue of 376,000 €2.50 Ocado Cell Shares 50% paid up. The TVIS Cell increased its paid up capital by €240,300, equivalent to the issue of 142,400 TVIS Cell shares 67.5% paid up, while the PerfectHome Cell shareholder contributed €500,000 to the Cell's equity by notarized public deed. Furthermore TVIS Cell & Amplifon cell issued a dividend of € 390,300 and € 500,000 respectively.

On 31 January 2018, the Board approved the payment of a net interim dividend of €677,000 to the non-cellular shareholders.

The directors propose the payment of a final dividend of €700,000 net of tax to the non-cellular shareholder.

Statement of directors' responsibilities for the financial statements

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

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap.386). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In terms of the Companies Act (Cell companies carrying on business of insurance) Regulations, 2010, the directors are responsible to keep separate accounts and records 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.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

The financial statements of Atlas Insurance PCC Limited for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and may be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have expressed willingness to continue in office as auditors of the Company and a resolution proposing their reappointment will be put to the forthcoming Annual General Meeting.

On behalf of the board

Lawrence Zammit
Chairman

Michael Gatt
Managing Director and CEO

Registered office
48-50 Ta' Xbiex Seafront
Ta' Xbiex
Malta

2 May 2018

Corporate Governance – Statement of Compliance

The Company adopts the Malta Financial Services Authority (MFSA) Corporate Governance Guidelines for Public Interest Companies. As a licensed insurance undertaking, it is also regulated by various rules issued under the Insurance Business Act (Cap 403) and is guided by the EIOPA Guidelines on Systems of Governance and other international models of best practice.

The Board

The members of the Board of Directors are fit and proper to direct the business of the Company and have the required diversity of qualifications, knowledge and relevant experience to oversee the continued successful performance of an insurance undertaking. The board in fact collectively possesses a background in insurance and financial markets, business strategy and governance, financial analysis and the legal and regulatory framework as well as information technology and human resources management background. The board is appointed at the Annual General Meeting as per the Memorandum and Articles of Association of the Company. It is composed of a majority of four Independent Non-Executive Directors and three Executive Directors one of whom is the Chief Executive Officer of the Group and Managing Director of the Company. The other Executive Directors on the board are the Deputy Managing Director and the Group Company Secretary, and they bring additional skills, experience and knowledge to the board. This mix of executive and non-executive directors enables a free flow of relevant information to the board as well as access to individuals having key responsibilities for the day-to-day operations of the Company. Furthermore, the board meets several times a year with the full Executive Committee of the Company and with other key executives to further strengthen the effective discussion and understanding of the issues to be debated at board level. The Executive Committee is also involved in board discussion on Strategy and the Own Risk and Solvency Assessment (ORSA).

It is felt that the board composition is the right mix for the size and complexity of the Company. As required by the Insurance Business Act, the Board of Directors is ultimately responsible for the compliance by the Company with the Act, regulations, and Insurance Rules issued thereunder. The board has a number of board policies and reporting procedures, which ensure an effective internal controls procedure with pertinent monitoring and reporting mechanisms to the board itself.

The independent non-executive directors of the Company provide constructive debate and challenge and facilitate strategic decision taking with executive directors and other Executive Committee members. The Chairman promotes a culture of impartiality and openness and is responsible for effective communication with shareholders, also being Chairman of Atlas Holdings Limited, which owns 100% of the ordinary non-cellular shareholding of the Company. The non-executive directors chair five of the board committees being the Audit Committee, the Investments Committee, the Risk and Compliance Committee, the Remuneration and Nominations Committee and the Information Technology Committee. Through these committees, non-executive directors are further enabled to evaluate management performance and satisfy themselves on the integrity of the financial information and the internal controls system.

The primary role of the Chairman of the board is to focus the board on the ongoing development and determination of the Company's strategy and direction. While creating and maintaining the right conditions for constructive discussion and the participation of all directors, the Chairman must ensure that the board's annual objectives are met. The Chairman focuses the board's attention on matters relating to strategy, risk, performance, value creation, accountability and matters which are of concern to members of the board or of management. He also sets the agenda and the order of that agenda, in collaboration with the Company Secretary, to ensure that the board is focused on these issues. The Chairman ensures that the board receives accurate, timely and clear information and directs discussion to the emergence of a consensus view and sums up discussions to ensure the accurate recording and follow up of the key decisions taken.

Corporate Governance – Statement of Compliance - continued

The Senior Independent Director's role is to provide a sounding board for the Chairman and Group Chief Executive Officer on board matters, as well as a trusted intermediary for non-executive directors. This Director is also available to address the concerns of shareholders or, indeed, members of staff, through the Group's Raising a Concern (Whistleblowing) Policy. The Senior Independent Director also administers the board evaluation exercise during the last quarter of each year. This process is the basis for a review of board activity during the past period and for planning the board agenda for the following year. The Senior Independent Director also chairs the Risk and Compliance Committee

The separation of the chair and Chief Executive Officer roles increases the board's independence from management and leads to better monitoring and oversight and, ultimately, to board independence. The Chief Executive Officer runs the Company and is answerable to the board for the realisation of the Company strategy, and the non -executive Chairman serves as a valuable sounding board and mentor for the Chief Executive Officer, which is beneficial for the Chief Executive Officer, shareholders and the Company. The Chief Executive Officer also chairs the Executive Committee made up of the three executive directors, the Chief Underwriting Officer, the Group Chief Financial Officer, the Chief Commercial Officer and the Chief Risk and Compliance Officer.

All board and board committee meetings are scheduled prior to the start of each year and, during 2017, the board met nine times with two of the meetings being convened together with the Executive Committee to discuss various matter of strategic importance including the Own Risks and Solvency Assessment.

Under Solvency II Group Supervision rules, Atlas Holdings, as the ultimate parent insurance holding company of the Group, has identified Atlas Insurance as the undertaking responsible for fulfilling the governance requirements for the Group. As the responsible undertaking for group supervision, the board and board committees as well as the key functions have an effective overview of the whole Group, and key performance indicators of the Group are regularly discussed within these fora.

Agendas and information packs are sent well in advance of board meetings and the agenda is set keeping a balance between strategy and planning, reporting on key performance indicators and current operational issues. Minutes of board meetings faithfully record attendance, issues discussed and resolutions, and are issued on a timely basis. Minutes and reports of all board and committee meetings are securely recorded and stored in a web portal enabling access by authorised individuals when and as required.

Board and Executive Committees

In accordance with the provisions of the Memorandum and Articles of the Company, the board has delegated specific responsibilities to board committees. With due regard to the System of Governance required by the Solvency II Directive, the board has established the Audit Committee, the Remuneration and Nominations Committee, the Risk and Compliance Committee, the Investment Committee, the Protected Cells Committee, the Information Technology Committee and the Executive Committee. Appointment to these committees is the prerogative of the board of directors; however the board ensures an appropriate interaction with all of the committees it establishes as well as key functions reporting to such committees and to the boards of daughter companies. Members of these committees are listed on pages 7-10. The board is copied with minutes of the committee meetings but it also requests information proactively and performance is regularly discussed and challenged both at board and committee level. These committees have charters, which are set and annually reviewed by the board. The two executive committees, being the Executive and the Protected Cells Committees, are chaired by the Chief Executive Officer, while the Audit, Remuneration, Risk Management and Information Technology Committees are chaired by non-executive directors.

Corporate Governance – Statement of Compliance - continued

Audit Committee

The Audit Committee met seven times during 2017. The Committee, composed entirely of non-executive directors, is chaired by Mr Franco Azzopardi who is considered by the board to have the relevant financial literacy and expertise in accounting, internal controls and auditing to perform this function. Other members of the committee are Mr Lawrence Zammit and Mr Philip Micallef.

The Committee has oversight of the integrity of the Group's financial statements, the qualifications and independence and performance of the Group's external auditors as well as the performance of the Group's internal audit function. It also reviews and assesses the qualitative aspects of financial reporting to shareholders and meets with external auditors, as and when required. The Committee also exercises final approval on the appointment or discharge of the auditors and pre-approves any permitted non-audit services to be performed by the auditors. During 2017, it obtained alternative proposals for the continuing external audit function for the next financial period.

As part of its oversight of the internal audit function, the Committee is involved in the setting of risk based annual internal audit plans. It also reviews the internal audit function's performance relative to the plan. Regular liaison with the Risk function and indeed the collaboration with the Risk and Compliance Committee enable the Internal Audit Committee to function according to priorities aligned with the Group's top risks and risk appetite. The Committee also reviews protected cell issues and monitors results of cell inspections and audits. The internal auditor also assesses internal control systems of cell managers. Meetings between the Committee and other board committee members and members of senior management also take place, especially in the area of information systems.

The Committee appoints the Internal Auditor and ensures that the function is free to work independently and objectively. It also ensures that the internal auditor has the necessary resources and access to information to fulfil the mandate of the function. During the period under review, Mr Martin Gauci, the previous internal auditor, was available to continue to offer assistance where necessary. The Committee also benchmarks the function's activities against recognised standards and Solvency II expectations. The Internal Audit function, through the Audit Committee and its Chairman, has direct access to the Board of Directors.

During 2017, Mr Ivan Distefano received MFSA approval to take over the internal audit function from Mr Martin Gauci. The Committee Chairman regularly met the Internal Auditor outside the formal Audit Committee meetings to give guidance and receive feedback, and is very much involved in his continuing professional development. Other key senior executives are also invited to appropriate meetings of the Committee. During 2017 oversight of related party transactions was transferred to this Committee.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee, also composed entirely of independent non-executive directors, met three times during 2017. The Chairman of the board chairs this Committee and is considered by the board to have the required knowledge, experience and skills for this position. Dr Andre Camilleri, the Senior Independent Director, and Mr Philip Micallef are the other two non-executive Directors appointed to sit on the Committee. Executive Directors attend meetings by invitation as and when required.

The main role of this Committee is to assist and advise the board on matters relating to the remuneration of the board and senior management. It oversees the ongoing effectiveness of the Group's remuneration policy and, in particular, determines the remuneration of the Chief Executive, Executive Directors, members of the Executive Committee and the Internal Auditor. The Committee approves the structure and design of any performance related pay schemes and approves annual payments made under this policy. It also ensures that the remuneration offered by the Group is sufficient to motivate and retain executives and ensures that the Group attracts and retains the best talent in the industry to maximise shareholder value.

Corporate Governance – Statement of Compliance - continued

To this end, salary levels are regularly benchmarked against the industry. The Committee also makes sure that all provisions regarding disclosure of remuneration are fulfilled.

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, the Group ensures that all persons who effectively run the undertaking or have other key functions are at all times 'fit and proper' persons. The Committee has been assigned the responsibility for overseeing the continuing fitness and properness of such persons and oversees this process on an ongoing basis, in 2017 increasing the cross checks carried out.

The board determines that the size and complexity of the Group does not necessitate a separate nominations committee and the remuneration committee leads the process for board appointments and makes recommendations to the board and shareholders for board appointments. It is also involved in senior succession planning issues.

Risk and Compliance Committee

This Committee's primary objective is to approve, review and advise the board on appropriate risk management and compliance frameworks and to ensure that these are consistently implemented across the Group through adherence to the risk management and compliance policies. Dr Andre Camilleri, the Senior Independent Director, chairs the Committee as the designated director for oversight of the risk management system, as required for regulatory purposes. During the period under review, the committee met four times. Mr Franco Azzopardi, Ms Catherine Calleja, Mr Philip Micallef and Mr Matthew von Brockdorff also form part of the Committee. The Chief Risk Officer regularly attends meetings and other key members of the senior management team are occasionally invited where relevant to the discussion.

During 2018, the Chief Risk Officer, Mr Ian-Edward Stafrace, was appointed to be the Group's Risk and Compliance Officer.

Together with the Chief Risk and Compliance Officer, this Committee coordinates, facilitates and has oversight of the risk management function including the development of the Group's risk appetite and future risk strategy and governing policies. The Committee also carries out risk management at corporate level, monitoring developments in the Group's policies, strategy, operations, and environment that may significantly affect uncertainties faced by the organisation.

The Committee continues to develop its role in evolving the methodology and assumptions underlying the models for determining the Group's economic and regulatory capital requirements including the ORSA (Own Risk and Solvency Assessment) process. It reviews quarterly status reports on the Company's risk appetite in the major risk categories, as well as regular reports relating to the various risk areas of accountability assigned across the organisation. During 2017, the Committee has involved itself significantly in issues relating to cyber security and data protection, also in preparation for the General Data Protection Regulations (GDPR) coming into force in May 2018. It met with the company's consultants in these areas to ensure that the Group is fully prepared to meet the increasing challenges of securing personal data and the company's systems in this changing environment and ensuring that the Group's employees, TIIs and any outsourced functions are also trained and well equipped to withstand challenge in these areas.

The Committee also reports and monitors any significant incidents, including near misses and the appropriateness of subsequent management responses, both in the core and for cells. It also has oversight of the Compliance function. It ensures that the Group continues to maintain its systems to ensure regulatory compliance and readiness for anticipated regulatory changes.

Regular reporting on the various areas of risk and compliance and on the risk and compliance owner activity is also made to the Committee using a 'traffic lights' system.

Corporate Governance – Statement of Compliance – continued

Investment Committee

The board has appointed this Committee to take responsibility for assisting it in setting the Investment Policy to be adopted for the Group's investment portfolio and to ensure that the actual investment is conducted according to the investment policy. The Committee acts in accordance with the Prudent Person Principle as stipulated in Chapter 5 of the Insurance Rule Book – Valuation of Assets and Liabilities Technical Provisions, Own Funds, Solvency Capital Requirement, Minimum Capital Requirement and Investment Rules.

In 2017, the committee met four times. Mr Lawrence Zammit again chaired the Committee and members included Dr Andre Camilleri, Mr Franco Azzopardi and Mr Michael Gatt, Chief Executive Officer, as directors on the committee while the Group Chief Financial Officer, Mr Mark Camilleri and Mr John Bonett are additional members. The Company's discretionary investment managers regularly address and report to the Committee and other board and Executive Committee members attend these presentations.

The Committee sets investment parameters, mandates with discretionary managers, and asset allocations in line with the Investment Policy, the Asset Liability Management Policy and the Board's Risk Appetite Statement. It may also recommend to the board changes to the Investment Policy, set the Liability Management Policy and the Risk Appetite Statement, and ensure alignment with each other and regulatory requirements.

The Committee also engages, after board appointment, financial services providers entrusted to manage the investment portfolio, and reviews the performance of such managers. Detailed reports of the performance of such managers are provided to Investment Committee members on a monthly basis. Any investments made in excess of their mandate are always subject to the Board's Risk Appetite or with the Board's exceptional approval. It also oversees the Company's property investments.

Protected Cells Committee

This Committee proposes policy and broad guidelines to the board in relation to underwriting policy for the acceptance of protected cells within the Company. The Committee has oversight over the operational and financial progress of each cell, including its solvency and any potential impact on the solvency of the Atlas core and also ensures that regular cell inspections are carried out. The Committee also, where applicable, oversees relationships with cell managers.

The Chief Executive Officer chairs the Committee, which met four times in 2017. Apart from the Chairman, the Committee is composed of the two other Executive Directors of the Company as well as the Chief Underwriting Officer, the Chief Risk and Compliance Officer and the Group Chief Financial Officer, as well as Mr John Bonett.

The Chief Underwriting Officer and Group Chief Financial Officer, as representatives of the Committee, form part of the cell committees of the relative cells, which review risk management and compliance issues relating to cells together with cell owners and managers. The Committee is delegated with the responsibility to approve charters and membership of the said cell committees, which are central to the maintenance of the positive ongoing relationship with cell shareholders.

The Committee reports to the board on a regular basis and reviews new cell applications including appropriate due diligence enquiries, cell agreements and other critical outsourcing agreements. Before presenting cell applications to the Regulator, the Committee presents detailed proposals to the board in order to seek approval to proceed. During the year under review, the Committee was also involved in preparations for the changes foreseen with the UK's exiting of the European Union.

Corporate Governance – Statement of Compliance – continued

Information Technology Committee

The committee was constituted by the board of directors in March 2018 to address strategic issues relating to Information Technology. The committee is chaired by Mr Philip Micallef and the members are Mr Lawrence Zammit, Mr Michael Gatt, Mr Matthew von Brockdorff, Mr Ian Stafrace and Mr Vinay Aarohi who is the Group IT Manager.

Executive Committee

This Committee is chaired by the Chief Executive Officer and made up of the three Executive Directors and the Group Chief Financial Officer, the Chief Underwriting Officer, the Chief Commercial Officer and the Chief Risk and Compliance Officer. It met eight times in 2017. The minutes of the meetings of this Committee are copied to board members, and matters arising are regularly discussed at board meetings.

The Executive Committee is responsible for implementing the strategy of the Company which involves development of business plans and detailed budgets on an annual basis to achieve the key strategic goals developed with the Board of Directors. It is also heavily involved in policy development and change in various areas of the Group including information systems planning, human resources development and talent management, sales and marketing and the consideration of new business opportunities.

Relations with Shareholders

The Group ensures an ongoing dialogue between the board and shareholders based on the mutual understanding of objectives. The level of disclosure with these important stakeholders within the Group continues to be in excess of statutory requirements under the Companies Act. During the Annual General Meeting, besides the statutory business as laid down in the Memorandum and Articles of the Company, information on group performance is presented through the publication of the Annual Report and Financial Statements.

Further communication with shareholders is enabled through the functioning of the Atlas Holdings Limited board of directors. Atlas Holdings is the shareholder of the non-cell shares ('core shareholder'), in Atlas Insurance PCC Limited and this board appoints the directors of the Company at the Annual General Meeting. Mr Lawrence Zammit also chairs the Atlas Holdings Board and this structure ensures that both boards are kept aware of the priorities of the ultimate core shareholders.

Communication with cell shareholders is facilitated through regular meetings of the individual cell committees. Reporting to the board through the Protected Cell Committee of any issues as well as financial and solvency performance of the cells is carried out on a quarterly basis

Corporate Governance – Statement of Compliance – continued

Directors and Officers Liability Insurance

Directors and officers of the Group are covered by the Directors and Officers Liability insurance purchased by the Group. Atlas Healthcare Insurance Agency Limited and Ark Insurance Management PCC Limited, as subsidiaries of the Company, and other fellow subsidiaries of Atlas Holdings, are also covered by the same policy.

Approved by the Board of Directors on 2 May 2018 and signed on its behalf by:

Lawrence Zammit
Chairman

Michael Gatt
Managing Director and CEO

Independent auditor's report

To the Shareholders of Atlas Insurance PCC Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Atlas Insurance PCC Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2017, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

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

What we have audited

Atlas Insurance PCC Limited's financial statements, set out on pages 19 to 80 comprise:

- the profit and loss account and the statement of comprehensive income for the year ended 31 December 2017;
- the balance sheet as at 31 December 2017;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independent auditor's report - continued

To the Shareholders of Atlas Insurance PCC Limited

Independence

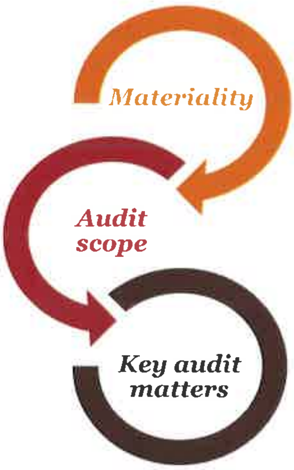
We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of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

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

The non-audit services that we have provided to the company, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 6 to the financial statements.

Our audit approach

Overview



Overall materiality: €376,000 that represents 5% of the profit before tax for the company

Valuation and accuracy of claims outstanding and claims incurred but not reported

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

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Independent auditor's report - continued

To the Shareholders of Atlas Insurance PCC Limited

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

Materiality

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

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

Overall materiality	€376,000
How we determined it	5% of the profit before tax for the company.
Rationale for the materiality benchmark applied	We chose profit before tax because, in our view, it is the benchmark against which the performance of the company is most commonly measured by users, and is a generally accepted benchmark. We selected 5% based on our professional judgement, noting that it is also within the range that we would consider to be acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €37,600 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

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Independent auditor's report - continued

To the Shareholders of Atlas Insurance PCC Limited

Key audit matter	How our audit addressed the Key audit matter
Valuation and accuracy of claims outstanding and claims incurred but not reported Valuation of insurance provisions is judgemental, and requires a number of assumptions to be made that have estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Company as some claims can take time to emerge or develop. The determination of the value of these insurance reserves requires judgement in the selection of key assumptions and methodologies. The company has estimated claims outstanding mainly on a case by case basis, and supplemented this with an Incurred but Not Reported (IBNR) claims provision based on different reserving methodologies applicable to the relevant policy portfolios. The Company's net claims outstanding and IBNR provisions are disclosed in note 21 at €13m and €3.3m respectively, and favourable variations arising from prior year claims amounted to €1.96m. Further information on the development of the ultimate cost of claims over the years is disclosed in note 22. We focused on this area due to its inherent subjectivity and complexity (refer to note 21).	Our audit procedures included - applying our industry knowledge and experience in understanding and evaluating the claims outstanding and IBNR reserving methodology, models and assumptions used; - assessing management's estimate of the incurred but not reported reserved based on the methodology, assumptions and judgements made and also considered whether the reserving methodology has been applied consistently across periods - checking sample of claims case reserves and settlements to appropriate documentation and obtained evidence that they were based on the most recent claims information - considering the quality of historical reserving by tracking the outcome of prior years' liabilities provisions - considering the extent of related disclosures to the financial statements. Based on the work performed, we found the claims outstanding and claims incurred but not reported to be consistent with the explanations and evidence obtained.

Independent auditor's report - *continued*

To the Shareholders of Atlas Insurance PCC Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and Corporate Governance – Statement of Compliance (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Chairman's Statement and the Chief Executive Officer's Report, which are expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

When we read the Chairman's Statement and the Chief Executive Officer's Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with International Standards on Auditing.

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

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

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

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

Independent auditor's report - continued

To the Shareholders of Atlas Insurance PCC Limited

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Independent auditor's report - *continued*

To the Shareholders of Atlas Insurance PCC Limited

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

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

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

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

Appointment

We were first appointed as auditors of the company for the financial year ended 31 December 1991. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 27 years. The company became licensed as an insurance undertaking in terms of the Maltese Insurance Business Act (Cap. 403) on 29 April 2004.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Simon Flynn
Partner

2 May 2018

Profit and loss account
Technical account – General business
year ended 31 December

	Notes	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Earned premiums, net of reinsurance							
Gross premiums written		**25,262,348**	23,573,516	**16,144,907**	19,233,050	**41,407,255**	42,806,566
Outward reinsurance premiums		**(10,279,094)**	(9,997,552)	**(1,024,052)**	(911,941)	**(11,303,146)**	(10,909,493)
Net premiums written		**14,983,254**	13,575,964	**15,120,855**	18,321,109	**30,104,109**	31,897,073
Change in the provision for unearned premiums							
- gross amount	21	**(1,181,275)**	(548,141)	**(1,563,173)**	(1,421,170)	**(2,744,448)**	(1,969,311)
- reinsurers' share	21	**477,505**	198,313	**92,284**	114,844	**569,789**	313,157
		(703,770)	(349,828)	**(1,470,889)**	(1,306,326)	**(2,174,659)**	(1,656,154)
Earned premiums, net of reinsurance		**14,279,484**	13,226,136	**13,649,966**	17,014,783	**27,929,450**	30,240,919
Allocated investment return transferred from the non-technical account	5	**767,572**	962,065	**(103,826)**	2,457	**663,746**	964,522
Total technical income		**15,047,056**	14,188,201	**13,546,140**	17,017,240	**28,593,196**	31,205,441
Claims incurred, net of reinsurance							
Claims paid							
- gross amount		**11,442,662**	9,359,271	**7,558,942**	7,265,231	**19,001,604**	16,624,502
- reinsurers' share	21	**(3,898,884)**	(1,854,609)	**(1,372,523)**	(1,505,285)	**(5,271,407)**	(3,359,894)
		7,543,778	7,504,662	**6,186,419**	5,759,946	**13,730,197**	13,264,608
Change in the provision for claims							
- gross amount	21	**5,416,211**	2,589,631	**15,195,654**	808,483	**20,611,865**	3,398,114
- reinsurers' share	21	**(5,045,245)**	(883,882)	**(15,434,715)**	14,595	**(20,479,960)**	(869,287)
		370,966	1,705,749	**(239,061)**	823,078	**131,905**	2,528,827
Claims incurred, net of reinsurance		**7,914,744**	9,210,411	**5,947,358**	6,583,024	**13,862,102**	15,793,435
Net operating expenses	4	**3,083,036**	2,565,295	**4,658,248**	8,009,775	**7,741,284**	10,575,070
Total technical charges		**10,997,780**	11,775,706	**10,605,606**	14,592,799	**21,603,386**	26,368,505
Balance on the technical account for general business (page 20)		**4,049,276**	2,412,495	**2,940,534**	2,424,441	**6,989,810**	4,836,936

Profit and loss account
Non-technical account
year ended 31 December

	Notes	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Balance on technical account – general business (page 19)		**4,049,276**	2,412,495	**2,940,534**	2,424,441	**6,989,810**	4,836,936
Investment income	5	**1,679,009**	1,973,701	**97,050**	82,705	**1,776,059**	2,056,406
Investment expenses and charges	5	**(254,518)**	(257,257)	**(139,578)**	(1,391)	**(394,096)**	(258,648)
Allocated investment return transferred to the general business technical account	5	**(767,572)**	(962,065)	**103,826**	(2,457)	**(663,746)**	(964,522)
Administrative expenses	6	**(145,717)**	(142,284)	**(39,603)**	(38,609)	**(185,320)**	(180,893)
Profit before tax		**4,560,478**	3,024,590	**2,962,229**	2,464,689	**7,522,707**	5,489,279
Tax expense	8	**(1,548,848)**	(837,783)	**(1,087,352)**	(908,265)	**(2,636,200)**	(1,746,048)
Profit for the year		**3,011,630**	2,186,807	**1,874,877**	1,556,424	**4,886,507**	3,743,231

Statement of comprehensive income

	Notes	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Profit for the year		**3,011,630**	2,186,807	**1,874,877**	1,556,424	**4,886,507**	3,743,231
Other comprehensive income: Items that will not be reclassified to profit or loss							
Net reporting currency differences arising on translation from functional currency to presentation currency	20	-	-	**(337,671)**	(1,405,851)	**(337,671)**	(1,405,851)
Revaluation surplus/(release)	20	**(23,413)**	1,603,965	-	-	**(23,413)**	1,603,965
Movement in deferred tax relating to property, plant and equipment	20	**6,346**	(113,054)	-	-	**6,346**	(113,054)
Total other comprehensive income, net of tax		**(17,067)**	1,490,911	**(337,671)**	(1,405,851)	**(354,738)**	85,060
Total comprehensive income for the year		**2,994,563**	3,677,718	**1,537,206**	150,573	**4,531,769**	3,828,291

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component is disclosed in Notes 8 and 16.

The notes on pages 25 to 80 are an integral part of these financial statements.

Balance sheet
as at 31 December

	Notes	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
ASSETS							
Intangible assets	11	**17,425**	31,908	**-**	-	**17,425**	31,908
Tangible assets:							
- land, buildings and improvements	12	**5,174,264**	5,250,408	**-**	-	**5,174,264**	5,250,408
- plant and equipment	12	**742,094**	604,604	**-**	-	**742,094**	604,604
Investments:							
- land and buildings	13	**3,549,950**	3,549,950	**-**	-	**3,549,950**	3,549,950
- investment in subsidiaries	14	**698,000**	698,000	**-**	-	**698,000**	698,000
- other financial investments	15	**30,875,415**	27,637,868	**5,213,726**	5,486,652	**36,089,141**	33,124,520
Reinsurers' share of technical Provisions	21	**14,383,938**	8,861,188	**28,140,307**	13,896,983	**42,524,245**	22,758,171
Deferred acquisition costs	17	**848,326**	790,940	**470,882**	295,261	**1,319,208**	1,086,201
Receivables:							
- debtors arising out of direct insurance operations	18	**4,437,190**	3,526,012	**-**	-	**4,437,190**	3,526,012
- receivables from reinsurers	18	**220,222**	-	**-**	-	**220,222**	-
- other debtors	18	**428,868**	448,796	**10,578,397**	4,458,275	**11,007,265**	4,907,071
Taxation recoverable		**40,521**	524,891	**-**	-	**40,521**	524,891
Prepayments and accrued income	18	**158,760**	178,766	**132,320**	144,963	**291,080**	323,729
Cash and cash equivalents	25	**3,833,445**	4,569,286	**11,078,922**	16,257,808	**14,912,367**	20,827,094
Total assets		**65,408,418**	56,672,617	**55,614,554**	40,539,942	**121,022,972**	97,212,559
EQUITY							
Capital and reserves							
Share capital	19	**12,000,000**	8,198,000	**8,816,809**	8,106,509	**20,816,809**	16,304,509
Capital contribution		**-**	-	**500,000**	-	**500,000**	-
Other reserves	20	**2,451,052**	2,468,119	**(858,089)**	(520,418)	**1,592,963**	1,947,701
Profit and loss account		**11,938,971**	13,944,341	**3,189,357**	3,174,780	**15,128,328**	17,119,121
Total equity		**26,390,023**	24,610,460	**11,648,077**	10,760,871	**38,038,100**	35,371,331
LIABILITIES							
Technical provisions	21	**32,790,885**	26,193,399	**39,513,708**	24,236,490	**72,304,593**	50,429,889
Payables:							
- borrowings	22	**13,568**	45,225	**-**	-	**13,568**	45,225
- creditors arising out of direct insurance operations	23	**1,097,418**	1,034,091	**806,796**	645,700	**1,904,214**	1,679,791
- creditors arising out of reinsurance operations	23	**-**	-	**-**	144,881	**-**	144,881
- balances payable to reinsurers	23	**977,999**	1,151,836	**1,247,873**	1,100,964	**2,225,872**	2,252,800
- other creditors	23	**270,633**	95,208	**237,813**	1,913,375	**508,446**	2,008,583
Deferred taxation	16	**1,667,192**	1,489,173	**-**	-	**1,667,192**	1,489,173
Taxation payable		**-**	-	**1,995,617**	1,564,353	**1,995,617**	1,564,353
Accruals and deferred income	23	**2,200,700**	2,053,225	**164,670**	173,308	**2,365,370**	2,226,533
Total liabilities		**39,018,395**	32,062,157	**43,966,477**	29,779,071	**82,984,872**	61,841,228
Total equity and liabilities		**65,408,418**	56,672,617	**55,614,554**	40,539,942	**121,022,972**	97,212,559

The notes on pages 25 to 80 are an integral part of these financial statements.

The financial statements on pages 19 to 80 were authorised for issue by the board on 2 May 2018 and were signed on its behalf by:

Lawrence Zammit
Chairman

Michael Gatt
Managing Director and CEO

Statement of changes in equity

		Core				Cells				Total			
	Notes	Share capital €	Other reserves €	Profit and loss account €	Total €	Share capital €	Other reserves €	Profit and loss account €	Total €	Share capital €	Other reserves €	Profit and loss account €	Total €
Balance at 1 January 2016		8,198,000	977,208	12,962,534	22,137,742	8,106,509	885,433	1,618,356	10,610,298	16,304,509	1,862,641	14,580,890	32,748,040
Comprehensive income													
Profit for the year		-	-	2,186,807	2,186,807	-	-	1,556,424	1,556,424	-	-	3,743,231	3,743,321
Other comprehensive Income													
Net reporting currency differences arising on translation from functional currency to presentation Currency	20						(1,405,851)	-	(1,405,851)	-	(1,405,851)	-	(1,405,851)
Fair value gains		-	1,603,965	-	1,603,965	-	-	-	-	-	1,603,965	-	1,603,965
Movement in deferred tax relating to property, plant and equipment	20	-	(113,054)	-	(113,054)	-	-	-	-	-	(113,054)	-	(113,054)
Total other comprehensive Income		-	1,490,911	-	1,490,911	-	(1,405,851)	-	(1,405,851)	-	85,060	-	85,060
Total comprehensive income		-	1,490,911	2,186,807	3,677,718	-	(1,405,851)	1,556,424	150,573	-	85,060	3,3743,231	3,828,291
Transactions with owners													
Dividends	10	-	-	(1,205,000)	(1,205,000)	-	-	-	-	-	-	(1,205,000)	(1,205,000)
Total transactions with owners		-	-	(1,205,000)	(1,205,000)	-	-	-	-	-	-	(1,205,000)	(1,205,000)
Balance at 31 December 2016		8,198,000	2,468,119	13,944,341	24,610,460	8,106,509	(520,418)	3,174,780	10,760,871	16,304,509	1,947,701	17,119,121	35,371,331

Statement of changes in equity - continued

	Core				Cells					Total				
	Share capital €	Other reserves €	Profit and loss account €	Total €	Share capital €	Capital contribution €	Other reserves €	Profit and loss account €	Total €	Share capital €	Capital contribution €	Other reserves €	Profit and loss account €	Total €
Balance at 1 January 2017	8,198,000	2,468,119	13,944,341	24,610,460	8,106,509	-	(520,418)	3,174,780	10,760,871	16,304,509	-	1,947,701	17,119,121	35,371,331
Comprehensive income														
Profit for the year	-	-	3,011,630	3,011,630	-	-	-	1,874,877	1,874,877	-	-	-	4,886,507	4,886,507
Other comprehensive income														
Net reporting currency differences arising on translation from functional currency to presentation Currency (note 20)	-	-	-	-	-	-	(337,671)	-	(337,671)	-	-	(337,671)	-	(337,671)
Fair value gains/(release on disposal)	-	(23,413)	-	(23,413)	-	-	-	-	-	-	-	(23,413)	-	(23,413)
Movement in deferred tax relating to property, plant and equipment (note 20)	-	6,346	-	6,346	-	-	-	-	-	-	-	6,346	-	6,346
Total other comprehensive Income	-	(17,067)	-	(17,067)	-	-	(337,671)	-	(337,671)	-	-	(354,738)	-	(354,738)
Total comprehensive income	-	(17,067)	3,011,630	2,994,563	-	-	(337,671)	1,874,877	1,537,206	-	-	(354,738)	4,886,507	4,531,769
Transactions with owners														
Increase in share capital	3,802,000	-	-	3,802,000	710,300	-	-	-	710,300	4,512,300	-	-	-	4,512,300
Issue of capital contribution	-	-	-	-	-	500,000	-	-	500,000	-	500,000	-	-	500,000
Dividends (note 10)	-	-	(5,017,000)	(5,017,000)	-	-	-	(1,860,300)	(1,860,300)	-	-	-	(6,877,300)	(6,877,300)
Total transactions with owners	3,802,000	-	(5,017,000)	(1,215,000)	710,300	500,000	-	(1,860,300)	(650,000)	4,512,300	500,000	-	(6,877,300)	(1,865,000)
Balance at 31 December 2017	**12,000,000**	**2,451,052**	**11,938,971**	**26,390,023**	**8,816,809**	**500,000**	**(858,089)**	**3,189,357**	**11,648,077**	**20,816,809**	**500,000**	**1,592,963**	**15,128,328**	**38,038,100**

The notes on pages 25 to 80 are an integral part of these financial statements.

Statement of cash flows

Year ended 31 December

		Core		Cells		Total	
	Notes	**2017 €**	2016 €	**2017 €**	2016 €	**2017 €**	2016 €
Cash flows from operating activities							
Cash generated from operations	24	**1,741,172**	1,914,648	**(3,240,195)**	6,053,003	**(1,499,023)**	7,967,651
Income tax paid		**(782,199)**	(961,170)	**(682,180)**	(761,561)	**(1,464,379)**	(1,722,731)
Net cash generated from operating activities		**958,973**	953,478	**(3,922,375)**	5,291,442	**(2,963,402)**	6,244,920
Cash flows from investing activities							
Purchase of property, plant and equipment		**(514,799)**	(278,368)	**-**	-	**(514,799)**	(278,368)
Disposal of property, plant and equipment		**89,852**	18,800	**-**	-	**89,852**	18,800
Purchase of investment property		**-**	-	**-**	-	**-**	-
Net cash (used in) investing activities		**(424,947)**	(259,568)	**-**	-	**(424,947)**	(259,568)
Cash flows from financing activities							
Dividends paid		**(5,017,000)**	(1,205,000)	**(1,860,300)**	-	**(6,877,300)**	(1,205,000)
Issue of share capital		**3,802,000**	-	**710,300**	-	**4,512,300**	-
Issue of capital contribution		**-**	-	**500,000**	-	**500,000**	-
Net cash (used in)/generated from financing activities		**(1,215,000)**	(1,205,000)	**(650,000)**	-	**(1,865,000)**	(1,205,000)
Movement in cash and cash equivalents		**(680,974)**	(511,090)	**(4,572,375)**	5,291,442	**(5,253,349)**	4,780,352
Cash and cash equivalents at beginning of year		**4,524,061**	5,054,085	**16,257,808**	13,187,248	**20,781,869**	18,241,333
Exchange (losses)/gains on cash and cash equivalents		**(23,210)**	(18,934)	**(606,511)**	(2,220,882)	**(629,721)**	(2,239,816)
Cash and cash equivalents at end of year	25	**3,819,877**	4,524,061	**11,078,922**	16,257,808	**14,898,799**	20,781,869

The notes on pages 25 to 80 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU as modified by Article 174 of the Maltese Companies Act (Cap.386) and in accordance with the requirements of the said Act and the requirements of the Maltese Insurance Business Act, 1998. Atlas Holdings Limited (Note 29) prepares consolidated financial statements as required by the Maltese Companies Act (Cap.386) and these are delivered to the Registrar of Companies in Malta in terms of Article 174 (2) (e). Accordingly, Atlas Insurance PCC Limited is exempt from the preparation of consolidated financial statements by virtue of Article 174 of the Companies Act, 1995.

The financial statements of Atlas Insurance PCC Limited include the financial performance and financial position of the Core operation together with the operations of the Cells.

As at 31 December 2017, the Company had seven Cells, the Perfect Home Cell, the Travelodge Cell, the Ocado Cell, the TVIS Cell, the Amplifon Cell, the Gemini Cell and the L'Amie Cell referred to in these financial statements as Cell 1, Cell 2, Cell 4, Cell 7, Cell 8, Cell 9 and Cell 10 respectively. The Company maintains separate accounts for each Cell. Cellular assets and liabilities are separate and separately identifiable from Core and Cellular assets attributable to other Cells. Separate balance sheets, profit and loss accounts and statements of comprehensive income, changes in equity and cash flows have accordingly been prepared for the Cells.

The financial statements 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 at fair value through profit or loss.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2017. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. The new expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

As the activities of the company are predominantly connected with insurance, the company intends to apply the temporary exemption from IFRS 9, subject to EU endorsement.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021 but is not yet endorsed by the EU, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Once effective,

IFRS 17 will replace IFRS 4 Insurance Contracts. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 introduces an accounting model that measures groups of insurance contracts based on fulfilment cash flows and a contractual service margin. Through the new measurement model and presentation and disclosure requirements, IRFS 17 aims to allow for greater comparability and transparency in relation to the profitability of new and in-force business.

IFRS 17 together with IFRS 9 will result in a profound change to the accounting in IFRS financial statements for insurance companies. Management is considering the implications of this standard and its impact on the Company's financial results and position.

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

1. Summary of significant accounting policies - continued

1.2 Revenue recognition

Revenue comprises the fair value for services and is recognised as follows:

(a) Rendering of services

Premium recognition is described in accounting policy 1.15 dealing with insurance contracts.

(b) Interest income

Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Rental income

Rental income from investment property is accounted for on an accruals basis in accordance with the substance of the relevant lease agreements.

1.3 Investment return

Investment return comprises investment income including fair value movements, interest income, dividends and rental income, and is net of investment expenses, charges and interest. Dividends are recorded on the date when the shareholder's right to receive income is established. Interest and expenses are accounted for on an accruals basis.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments supporting the insurance net technical provisions.

1.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

All foreign exchange gains and losses are presented in the profit and loss account within 'investment return'.

1. **Summary of significant accounting policies** - continued

1.4 Foreign currencies - continued

(b) Transactions and balances - continued

The results and the financial position of the cells are translated from GBP 'the functional currency' into euro 'the presentation currency' as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and

(ii) income and expenses for each profit and loss account are translated at average exchange rates.

All resulting exchange differences are recognised as a component of equity and are accounted for in the functional currency exchange reserve (Note 19).

1.5 Intangible assets

(a) Customer relationships

Acquired customer relationships are shown at historical cost. Customer relationships have an indefinite useful life.

(b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of three years.

All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

1.6 Tangible assets - Property, plant and equipment

Tangible fixed assets comprising land and buildings, computer equipment and furniture and fittings are initially recorded at cost. Land and buildings included within property, plant and equipment are subsequently shown at fair value, based on valuations by the directors after seeking due professional advice, less subsequent depreciation. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the balance sheet date. All other tangible fixed assets are stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account.

1. Summary of significant accounting policies - continued

1.6 Tangible assets - Property, plant and equipment - continued

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Buildings	1
Improvement to leasehold premises	10
Furniture, equipment and motor vehicles	10 - 20

Freehold land is not depreciated.

Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

1.7 Land and buildings - Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company, is classified as investment property. Investment property comprises freehold buildings.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors after seeking professional advice.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred. Changes in fair values are recorded in the profit and loss account.

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in the profit and loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

1. **Summary of significant accounting policies** - continued

1.8 Investment in subsidiaries

Investment in subsidiaries is accounted for at cost less impairment. The results of the subsidiary undertakings are reflected in the Company's financial statements only to the extent of dividends receivable.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

1.9 Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. The directors determine the appropriate classification of the investments at the time of purchase and re-evaluate such designation at every reporting date.

1.9.1 Classification

(a) Financial assets at fair value through profit or loss

Financial assets are designated at inception as fair value through profit or loss, if they are part of a group of investments that are managed on a portfolio basis, and whose performance is evaluated and reported internally on fair value basis to the Board in accordance with a documented investment strategy.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell in the short term or that it has designated as fair value through profit or loss. They include, inter alia, deposits held with credit or financial institutions, debtors and cash and cash equivalents.

1.9.2 Recognition and measurement

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase and sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment. Realised and unrealised gains and losses arising from changes in fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

The fair values of quoted investments and units in collective investment schemes are based on quoted market prices at the reporting date. If the market for an investment is not active, the Company establishes fair value by using valuation techniques. Equity securities for which the fair value cannot be measured reliably are recognised at cost less impairment.

1. **Summary of significant accounting policies** - continued

1.9 Financial assets - continued

On disposal, the difference between the net disposal proceeds and the carrying amount is included in the net profit or loss for the period.

1.10 Impairment of assets

(a) Impairment of financial assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as default or delinquency in payments;
(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; and
(iv) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually-assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are assessed individually for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

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

(b) Impairment of other non-financial assets

Assets that have an indefinite useful life, such as customer relationships, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

1. **Summary of significant accounting policies** - continued

1.11 Operating leases

Assets leased out under operating leases are included as investment property in the balance sheet. Rental income is recognised in the profit and loss account over the period of the lease to which it relates.

1.12 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts, and other short-term highly liquid investments with original maturities of three months or less. In the balance sheet, bank overdrafts are included in borrowings.

1.13 Share capital

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

1.14 Current and deferred tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised, 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.

Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

1. **Summary of significant accounting policies** - continued

1.15 Insurance contracts - classification

The Company issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Company 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.

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 Company. 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 Company 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 Company and statistical analyses for the claims incurred but not reported. The Company 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 Company, 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.

1. **Summary of significant accounting policies** - continued

1.15 **Insurance contracts - classification** - continued

Reinsurance contracts held

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

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

Receivables and payables related to insurance contracts

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 Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account. The Company 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.

1.16 **Provisions**

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1. Summary of significant accounting policies - continued

1.17 Borrowings

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months from the end of the reporting period.

1.18 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.19 Dividend distribution

Dividends on ordinary shares or on cell shares are recognised in equity in the period in which they are declared by the directors or approved by the Company's shareholders.

2. Critical accounting estimates and judgements in applying accounting policies

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

Provision is made as and when claims are notified for the estimated cost of claims. This estimate will include expenses to be incurred in settling the claim. All provisions for claims incurred but not settled by balance sheet date are carried forward to the following financial period. Given the uncertainty in establishing claims provisions, it is possible that the final outcome may prove to be different from the original liability estimated.

In reporting claims incurred and balance sheet provisions the Company takes all reasonable steps to curtail any future deviations in establishing its liabilities by ensuring that it has appropriate information regarding its claims exposures and related future liabilities from the outset, the results of which are elaborated in the claims cost progression tables disclosed in Note 21.

The Company believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end.

3. Management of insurance and financial risk

3.1 Insurance risk

The Company issues contracts that transfer the insurance risk of the Company's clients. This section summarises these risks and how the Company manages them.

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 Company 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 Company 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 Company 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 Company's portfolio is evenly spread between personal lines and commercial lines business.

The Company 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 Company 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. Travelodge Cell ceased writing new business in August 2016 and is in run-off.

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, Belgium, Germany, the UK and Switzerland. 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.

3. Management of insurance and financial risk - continued

3.1 Insurance risk - continued

3.1.1 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 Company's 2017 gross motor result remains affected by bodily injury losses and underlying attritional losses on motor own damage however the increases in premium rates have had a positive effect on overall results as did a lessening of the frequency and severity of bodily injury losses, particularly in the second part of the year.

The review of Maltese law on civil damages in tort remains unconcluded and no untoward trends have been observed in legal judgements in the interim.

Property

While no major natural events were experienced in 2017 the gross property result was impacted by two large property and engineering losses in May and September respectively.

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 2017 showed no extraordinary experience in this respect. In general however this class grouping and that on travel and personal accident had a worse year than 2016.

Marine

The marine account performed worse than usual in the light of a rather eventful year on the marine hull sub-class where claim frequencies were probably driven by increased use of recreational vessels. Cargo results were within the norm which helped to mitigate the poor hull performance.

Miscellaneous Financial Risk

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

3. **Management of insurance and financial risk** - continued

3.1 **Insurance risk** - continued

3.1.1 **Frequency and severity of claims** - continued

The Company manages all the above via:

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

(a) Underwriting strategy

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

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

The Company 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 Company views several property, accident and liability risks first hand via its policy of risk surveying (in-house and external).

The Company 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 Company's pre-risk survey strategy and with the added knowledge of flood-prone areas, the Company filters the incoming new business portfolio or alternatively manages the risk of storm.

The Company, 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 EU countries).

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

The risks underwritten by the Company 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.

3. **Management of insurance and financial risk** - continued

3.1 **Insurance risk** - continued

3.1.1 **Frequency and severity of claims** - continued

(b) Reinsurance

The Company places its reinsurance programme with overseas reinsurers who all meet the financial approval of the local regulator. It is generally the Company's policy for reinsurance to be placed in the Lloyd's market or with listed multinational reinsurance companies whose credit rating is not less than A-. The portfolio programme is a mix of proportional and non-proportional protection which also includes protection from industrial disease losses incurred but not reported during the years prior to the portfolio transfers in 2004 and 2005 from AXA Insurance plc to the Company.

The Company's decision on the type of reinsurance obtained, the level of retention and the width of cover are recommended by the Company's own technical personnel in collaboration with overseas consultants and the board of directors approves the reinsurance programme on an annual basis.

The effectiveness of reinsurance protection in place for the Company has worked towards reducing the impact of net retained losses for the year by the Company.

(c) Claims techniques

Claims are handled and reserved on a claim by claim basis.

The Company employs in-house specialised claims personnel. In addition to having in place authority levels for its staff to negotiate claims, it also employs a panel of external loss adjusters and technical experts who are regularly utilised in the Company's quest for sound and equitable claim handling.

The Company has a policy of analysing claims progressions and thus determines if reserving policies adopted in the past have been successful. This procedure has pre-dated the setting up of the Company as an underwriter and the Company in fact tracks claims which were incurred in years during which the Company formerly acted as an agent for overseas principals.

The Company actively pursues early settlement of all claims to reduce exposure to unpredictable developments and equally the Company maintains a proactive system that ensures that timely action is taken on all claims and reviews are carried out when required. This 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.

3. Management of insurance and financial risk - continued

3.1 Insurance risk - continued

3.1.2 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 Company 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 Company adds an IBNR provision with particular emphasis on the motor and liability class.

The Company 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 Company will also note current trends.

The Company 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 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.

3. Management of insurance and financial risk - continued

3.2 Financial risk management

The Company 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 Company's financial risk are market risk (cash flow and fair value interest rate risk, equity price 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 Company's 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.

3.2.1 Market risk

(a) Cash flow and fair value interest rate risk

In general, the Company 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 Company to cash flow interest rate risk. Financial instruments issued at fixed rates expose the Company to fair value interest rate risk. The Company 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 Company's asset allocation policy limits the amount of investment in any one asset or towards any one counterparty. Notes 15 and 25 incorporate interest rate and maturity information with respect to the Company's assets.

The total assets and liabilities subject to interest rate risk are the following:

	2017	2016
	€	€
Assets at floating interest rates - bank balances	**14,386,802**	20,271,506
Assets at fixed interest rates		
- Listed debt securities	**7,413,902**	7,716,979
- Deposits with banks or financial institutions	**265,000**	265,000
- Amounts owed from related parties	**243,888**	4,146,326
	22,309,592	32,399,811
Liabilities at floating interest rates - bank balance overdrawn	**13,568**	45,225

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.

3. **Management of insurance and financial risk** - continued

3.2 Financial risk management - continued

3.2.1 Market risk - continued

(a) Cash flow and fair value interest rate risk - continued

Deposits with banks or financial institutions potentially expose the Company 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 Company to cash flow interest rate risk.

The sensitivity analysis for interest rate risk illustrates 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 2017 the Company was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities. If interest rates at that date would have been 50 basis points (2016: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €203,653 higher (2016: €270,752 higher). An increase of 50 basis points (2016: 50 basis points), with all other variables held constant, would have resulted in pre-tax profits being €202,424 (2016: €266,120 lower). Up to the end of the reporting period the Company 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.

(b) Equity price risk

The Company 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 Company reduces this risk by diversifying its investments in different countries and in different sectors.

The Company'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 Company's overall investment objective, which is principally the preservation of capital and liabilities.

The total assets subject to equity price risk are the following:

	Core		**Cells**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Assets subject to equity price risk						
Equity securities	**3,888,199**	3,017,491	**-**	-	**3,888,199**	3,017,491
Units in unit trusts	**19,064,426**	16,394,510	**5,213,726**	1,584,214	**24,278,152**	17,978,724
	22,952,625	19,412,001	**5,213,726**	1,584,214	**28,166,351**	20,996,215

3. **Management of insurance and financial risk** - continued

3.2 **Financial risk management** - continued

3.2.1 **Market risk** - continued

(b) Equity price risk - continued

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The sensitivity for equity price risk is derived based on global equity returns, assuming that currency exposures are hedged. A 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase or a decrease of 10 % (2016: 10%) in equity prices, with all other variables held constant, would result in an impact on the Core pre-tax profit for the year of €2,294,862 (2016: €1,941,200). An increase or a decrease of 10% (2016: 10%) in equity prices, with all other variables held constant, would result in an impact on the Cells pre-tax profit for the year of €521,373 (2016: €158,421).

(c) 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 Company 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 Company's exposure to such risk.

As the Company's technical reserves arising from its core operation are wholly denominated in euro due to the fact that all insurance policies are written in euro, funds covering such liabilities are largely invested in euro instruments.

Similarly, in managing its cells, the Company 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.

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 Company's financial strength in matching its liabilities, primarily its insurance technical provisions.

At 31 December 2017, foreign currency exposure, principally comprising a mix of US Dollar and UK Pound, amounted to €1,443,006 (2016: €1,887,686). If the above currencies had weakened or strengthened by 15% against the euro with all other variables held constant, pre-tax profit for the year would have been lower by €254,648 (2016: €333,121) or higher by €188,218 (2016: €246,220).

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.2 Credit risk

The Company 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 Company 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 Company'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 Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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 as stated in Note 3.1.1 (b).

The Company is also exposed to credit risk for its investments and its cash at bank. The Company'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 Company'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.

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.2 Credit risk - continued

The following table illustrates the assets that expose the Company to credit risk as at the balance sheet date and includes the Standard & Poor's (or equivalent) composite rating, when available. Financial assets that are not rated principally comprise locally traded bonds on the Malta Stock Exchange, debtors and certain deposits with local bank institutions for which no international rating is available.

Assets bearing credit risk at the end of the reporting period, split up between Core and Cell operations are analysed as follows:

	As at 31 December 2017						
	AAA to AA Core €	A to A- Core €	BBB to B Core €	Not rated Core €	A to A- Cells €	Not rated Cells €	Total €
Investments							
Debt securities - listed fixed interest rate	633,332	1,650,604	1,057,137	4,072,830	-	-	7,413,903
Deposits with banks or financial institutions	-	-	265,000	-	-	-	265,000
	633,332	1,650,604	1,322,137	4,072,830	-	-	7,678,903
Loans and receivables							
Discounted securities to cell owners	-	-	-	-	-	-	-
Debtors and prepayments and accrued income	-	-	-	5,246,885	-	11,876,855	17,123,740
Cash equivalents	-	10,948	3,257,694	39,238	5,035,099	6,043,823	14,386,802
	-	10,948	3,257,694	5,286,123	5,035,099	17,920,678	31,510,542
Reinsurers' share of technical provisions	12,368,522	1,959,448	-	55,968	28,140,307	-	42,524,245
Total assets bearing credit risk	13,001,854	3,621,000	4,579,831	9,414,921	33,175,406	17,920,678	81,713,690

3. **Management of insurance and financial risk** - continued

3.2 Financial risk management - continued

3.2.2 Credit risk - continued

	As at 31 December 2016						
	AAA to AA Core €	A to A- Core €	BBB to B Core €	Not rated Core €	A to A- Cells €	Not rated Cells €	Total €
Investments							
Debt securities - listed fixed interest rate	1,002,216	2,475,317	1,194,214	3,054,232	-	-	7,725,979
Deposits with banks or financial institutions	-	-	265,000	-	-	-	265,000
	1,002,216	2,475,317	1,459,214	3,054,232	-	-	7,990,979
Loans and receivables							
Discounted securities to cell owners	-	-	-	-	-	3,902,438	3,902,438
Debtors and prepayments and accrued income	-	-	-	4,153,574	-	4,603,238	8,756,812
Cash equivalents	-	11,661	2,504,726	1,497,311	6,084,852	10,172,956	20,271,506
	-	11,661	2,504,726	5,650,885	6,084,852	18,678,632	32,930,756
Reinsurers' share of technical provisions	7,206,298	1,633,830	-	21,060	13,896,983	-	22,758,171
Total assets bearing credit risk	8,208,514	4,120,808	3,963,940	8,726,177	19,981,835	18,678,632	63,679,906

3.2.3 Liquidity risk

The Company'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 Company's financial assets and liabilities. The Company'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 Company ensures that a reasonable level of funds is available at any point in time for unexpected large claims and the Company may also resort to an overdraft facility which provides a short-term means of finance.

The table below analyses the Company's financial liabilities (gross of reinsurers' share of claims outstanding (Note 21) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash outflows.

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.3 Liquidity risk - continued

Liquidity risk is split up between Core and Cell operations as follows:

As at 31 December 2017 — **Contracted undiscounted cash outflows**

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Core					
Trade and other creditors	2,346,050	-	-	-	2,346,050
Accruals and deferred income	2,200,700	-	-	-	2,200,700
Cells					
Trade and other creditors	3,458,043	-	-	-	3,458,043
Accruals and deferred income	164,670	-	-	-	164,670
	8,169,463	-	-	-	8,169,463

As at 31 December 2017 — **Expected undiscounted cash outflows**

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Core					
Technical provisions					
- Claims outstanding	15,067,422	3,924,908	1,845,131	1,024,861	21,862,322
Cells					
Technical provisions					
- Claims outstanding	2,297,885	2,474,312	27,029,206	-	31,801,403
	17,365,307	6,399,220	28,874,337	1,024,861	53,663,725

As at 31 December 2016 — **Contracted undiscounted cash outflows**

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Core					
Trade and other creditors	2,281,135	-	-	-	2,281,135
Accruals and deferred income	2,053,225	-	-	-	2,053,225
Cells					
Trade and other creditors	3,804,920	-	-	-	3,804,920
Accruals and deferred income	173,308	-	-	-	173,308
	8,312,588	-	-	-	8,312,588

3. Management of insurance and financial risk - continued

3.2 Financial risk management - continued

3.2.3 Liquidity risk - continued

As at 31 December 2016 — **Expected undiscounted cash outflows**

	Less than one year	Between one and two years	Between two and five years	Over five years	Total
Core	€	€	€	€	€
Technical provisions					
- Claims outstanding	10,664,778	3,650,634	690,646	1,260,053	16,266,111
Cells					
Technical provisions					
- Claims outstanding	3,942,542	1,680,820	12,430,046	-	18,053,408
	14,607,320	5,331,454	13,120,692	1,260,053	34,319,519

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2017 and 2016:

	Core		**Cells**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	Level 1		Level 1		Level 1	
	€	€	**€**	€	**€**	€
Assets						
Financial assets at fair value through profit or loss						
- Equity securities and units in unit trusts	**22,952,625**	19,412,001	**5,213,726**	1,584,214	**28,166,351**	20,996,215
- Debt securities	**7,413,902**	7,716,979	**-**	-	**7,413,902**	7,716,979
Total assets	**30,366,527**	27,128,980	**5,213,726**	1,584,214	**35,580,253**	28,713,194

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. At 31 December 2017 and 2016, the carrying amount of the Company's other financial assets and liabilities approximate their fair value in view of their short-term maturity.

4. Net operating expenses

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Acquisition costs	**3,605,963**	3,407,803	**3,948,107**	7,221,124	**7,554,070**	10,628,927
Change in deferred acquisition costs (Note 17)	**(57,386)**	(41,232)	**(178,978)**	(84,190)	**(236,364)**	(125,422)
Administrative expenses	**3,492,560**	3,166,035	**548,425**	530,081	**4,040,985**	3,696,116
Reinsurance commission earned	**(3,396,608)**	(3,586,222)	**(311)**	(716)	**(3,396,919)**	(3,586,938)
Other net technical (income)/expense	**(561,493)**	(381,089)	**341,005**	343,476	**(220,488)**	(37,613)
	3,083,036	2,565,295	**4,658,248**	8,009,775	**7,741,284**	10,575,070

Total commissions included in acquisition costs and accounted for in the financial period amounted to €2,024,638 in respect of the core operations (2016: €1,878,178) and €3,772,727 in respect of the cell operations (2016: €7,221,124).

5. Investment return

Investment income

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Interest receivable from financial assets that are not at fair value through profit or loss	**-**	645	**74,234**	69,462	**74,234**	70,107
Net gains from financial assets at fair value through profit or loss:						
- dividend income	**122,993**	124,898	**-**	-	**122,993**	124,898
- net fair value gains	**844,701**	650,167	**-**	-	**844,701**	650,167
Dividend from subsidiary undertaking	**584,615**	523,077	**-**	-	**584,615**	523,077
Fair value gains on investment property	**-**	559,992	**-**	-		559,992
Exchange differences	**-**	-	**22,816**	13,243	**22,816**	13,243
Rental income from investment property	**126,700**	114,922	**-**	-	**126,700**	114,922
	1,679,009	1,973,701	**97,050**	82,705	**1,776,059**	2,056,406

5. Investment return - continued

Investment expenses and charges	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Interest expense and charges for financial liabilities that are not at fair value through profit or loss	**99,722**	85,622	**2,567**	1,391	**102,289**	87,013
Investment expenses	**131,586**	152,699	**-**	-	**131,586**	152,699
Net losses from financial assets at Fair value through profit & loss	**-**	-	**17,691**	-	**17,691**	-
Exchange differences	**23,210**	18,936	**119,320**	-	**142,530**	18,936
	254,518	257,257	**139,578**	1,391	**394,096**	258,648
Total investment return/(expense)	**1,424,491**	1,716,444	**(42,528)**	81,314	**1,381,963**	1,797,758
Allocated investment return transferred to:						
general business technical account	**767,572**	962,065	**(103,826)**	2,457	**663,746**	964,522
non-technical account	**656,919**	754,379	**61,298**	78,857	**718,217**	833,236

6. Expenses by nature

	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Employee benefit expense and directors' fees	**3,174,557**	2,833,681	**-**	-	**3,174,557**	2,833,681
Commissions payable	**2,024,638**	1,878,188	**3,948,107**	7,221,124	**5,972,745**	9,099,312
Change in deferred acquisition costs	**(57,386)**	(41,232)	**(178,978)**	(84,190)	**(236,364)**	(125,422)
Reinsurance commissions Earned	**(3,396,608)**	(3,586,222)	**(311)**	(716)	**(3,396,919)**	(3,586,938)
Amortisation of intangible assets (Note 11)	**8,326**	14,569	**-**	-	**8,326**	14,569
Impairment of intangible assets	**-**	46,040	**-**	-	**-**	46,040
Depreciation of property, plant and equipment (Note 12)	**415,949**	383,242	**-**	-	**415,949**	383,242
Auditor's fees	**71,220**	46,040	**80,360**	35,080	**151,580**	81,120
Other expenses	**988,057**	1,133,273	**848,673**	877,086	**1,836,730**	2,010,359
Total operating and administrative expenses	**3,228,753**	2,707,579	**4,697,851**	8,048,384	**7,926,604**	10,755,963
Allocated to:						
Technical account	**3,083,036**	2,565,295	**4,658,248**	8,009,775	**7,741,84**	10,575,070
Non-technical account	**145,717**	142,284	**39,603**	38,609	**185,320**	180,893

6. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2017 and 2016 relate to the following:

	2017	2016
	€	€
Annual statutory audit	**69,000**	69,000
Other assurance services	**39,500**	-
Tax advisory and compliance services	**43,080**	12,120
	151,580	81,120

7. Employee benefit expense

	2017	2016
	€	€
Salaries and related costs (including directors' salaries)	**3,863,378**	3,521,539
Social security costs	**241,324**	217,492
	4,104,702	3,739,031
Inter-company payroll charge	**(218,384)**	(226,863)
	3,886,318	3,512,168

The average number of persons employed during the year was:

	2017	2016
Directors	**7**	7
Managerial	**16**	15
Clerical	**111**	103
	134	125

8. Tax expense

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Current tax expense	**1,357,525**	752,095	**1,087,352**	908,265	**2,444,877**	1,660,360
Deferred tax charge (Note 17)	**184,365**	100,566	**-**	-	**184,365**	100,566
Over provision in previous years	**6,958**	(14,878)	**-**	-	**6,958**	(14,878)
	1,548,848	837,783	**1,087,352**	908,265	**2,636,200**	1,746,048

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2017	2016
	€	€
Profit before tax	**7,522,707**	5,489,279
Tax on profit at 35%	**2,632,947**	1,921,248
Tax effect of:		
Differences due to the application of Flat Rate Foreign Tax Credit	**(27,885)**	(25,864)
Income subject to reduced rates of tax	**(807)**	(237,201)
Expenses not deductible for tax purposes	**1,223**	29,286
Over provision in previous years	**6,958**	(14,878)
Unrecognised temporary differences	**(2,221)**	45,623
Other movements	**25,985**	27,834
Tax charge in the accounts	**2,636,200**	1,746,048

9. Directors' emoluments

	2017	2016
	€	€
Directors' fees	**80,562**	76,833
Salaries and other emoluments	**383,880**	354,136
	464,442	430,969

During the year, benefits in kind valued at €24,870 (2016: €18,873) were provided to the directors.

10. Dividends declared

	2017 €	2016 €
To the ordinary shareholders:		
Net	**5,017,000**	1,205,000
Dividends per ordinary share	**1.05**	0.37
To the cell shareholders:		
Cell 1	**500,000**	-
Cell 4	**470,000**	-
Cell 7	**390,300**	-
Cell 8	**500,000**	
Net	**1,860,300**	-
Dividends per preference share		
Cell 1	**0.34**	-
Cell 4	**0.36**	-
Cell 7	**0.72**	-
Cell 8	**0.56**	-
Total dividends	**6,877,300**	1,205,000

On 31 January 2018, the Board approved the payment of a net interim dividend of €677,000 to the non-cellular shareholders.

At the forthcoming Annual General Meeting a net dividend in respect of 2017 amounting to €700,000 is to be presented for shareholders' approval.

These financial statements do not recognise these dividends paid and proposed during 2017, which will be accounted for in shareholders' equity as an apportionment of retained earnings in the year ending 31 December 2018.

11. Intangible assets

	Customer relationships €	Computer Software €	Total €
At 1 January 2016			
Cost	194,735	531,410	726,145
Accumulated amortisation and impairment	(194,735)	(479,027)	(673,762)
Net book amount	-	**52,383**	**52,383**
Year ended 31 December 2016			
Opening net book amount	-	52,383	52,383
Additions	-	(5,906)	(5,906)
Amortisation charge	-	(14,569)	(14,569)
Closing net book amount	-	31,908	31,908
At 31 December 2016			
Cost	194,735	525,504	720,239
Accumulated amortisation and impairment	(194,735)	(493,596)	(688,331)
Net book amount	-	**31,908**	**31,908**
Year ended 31 December 2017			
Opening net book amount	-	31,908	31,908
Additions	-	5,428	5,428
Amortisation charge	-	(19,911)	(19,911)
Closing net book amount	-	17,425	17,425
At 31 December 2017			
Cost	194,735	530,932	725,667
Accumulated amortisation and impairment	(194,735)	(513,507)	(708,242)
Net book amount	-	**17,425**	**17,425**

12. Property, plant and equipment

	Land and buildings €	Improvements to leasehold premises €	Furniture, equipment and motor vehicles €	Total €
At 1 January 2016				
Cost or revaluation	3,200,721	1,540,721	3,533,475	8,274,917
Accumulated depreciation	(34,101)	(805,881)	(2,873,068)	(3,713,050)
Net book amount	**3,166,620**	**734,840**	**660,407**	**4,561,867**
Year ended 31 December 2016				
Opening net book amount	3,166,620	734,840	660,407	4,561,867
Additions	-	118,520	165,752	284,272
Fair value increases	1,603,965	-	-	1,603,965
Reclassification to Investment Property	(211,850)	-	-	(211,850)
Disposals	-	-	(50,469)	(50,469)
Depreciation charge	(33,558)	(128,129)	(221,555)	(383,242)
Depreciation released on disposal	-	-	50,469	50,469
Closing net book amount	4,525,177	725,231	604,604	5,855,012
At 31 December 2016				
Cost or revaluation	4,558,735	1,659,241	3,648,758	9,866,734
Accumulated depreciation	(33,558)	(934,010)	(3,044,154)	(4,011,722)
Net book amount	**4,525,177**	**725,231**	**604,604**	**5,855,012**
Year ended 31 December 2017				
Opening net book amount	4,525,177	725,231	604,604	5,855,012
Additions	-	119,052	390,319	509,371
Fair value increases	-	-	-	-
Disposals	(70,000)	-	(371,966)	(441,966)
Depreciation charge	(45,528)	(131,734)	(238,687)	(415,949)
Depreciation released on disposal	52,066	-	357,824	409,890
Closing net book amount	4,461,715	712,549	742,094	5,916,358
At 31 December 2017				
Cost or revaluation	4,552,769	1,778,293	3,667,111	9,998,173
Accumulated depreciation	(91,054)	(1,065,744)	(2,925,017)	(4,081,815)
Net book amount	**4,461,715**	**712,549**	**742,094**	**5,916,358**

12. Property, plant and equipment - continued

Fair value of Property

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

The Company is required to disclose fair value measurements by level of the following fair value measurement hierarchy for non-financial assets carried at fair value. These have been defined in Note 3.3 to the financial statements.

The Company's recurring fair value measurements are categorised as level 3 as they are based on significant unobservable inputs. The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. During the current financial year there were no transfers between the fair value levels.

The Company's property used in operations represents property predominantly located in Ta' Xbiex. The Company's investment properties represent property located in Mellieha. The current value of both categories of property equates to the highest and best use.

A reconciliation between the opening balance and the closing balance of the property's carrying amount is presented in the table above and in the table in Note 13, for property used in operations and for investment properties, respectively.

Valuation process and techniques

The Company's 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.

The valuation was determined using the sales comparison approach. Properties valued using this approach take into consideration comparable properties in close proximity. These values are adjusted for differences in key attributes such as property size and quality of interior fittings. The most significant input into this valuation approach is price per square metre. The average price per square metre as at 31 December ranged circa €2,500 in the case of property used in operations. The weighted average price per square metre as at 31 December was €2,300 in the case of investment properties. An increase in the adjusted sales prices per square metre would result in a higher fair value.

12. Property, plant and equipment - continued

Valuation process and techniques - continued

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 €	2016 €
Cost	**4,973,536**	4,973,536
Accumulated depreciation	**(345,495)**	(311,937)
Net book amount	**4,628,041**	4,661,599

13. Land and buildings - investment property

	2017 €	2016 €
Year ended 31 December		
At beginning of year	**3,549,950**	2,778,108
Reclassification from Property, Plant and Equipment	-	211,850
Fair value increases	-	559,992
Additions	-	-
At end of year	**3,549,950**	3,549,950
At 31 December		
Cost and net book amount	**3,549,950**	3,549,950

The valuation process and techniques are included under Note 12.

If the investment property was stated on the historical cost basis, the amounts would be as follows:

	2017 €	2016 €
Cost	**3,549,950**	3,549,950
Accumulated depreciation	**(181,789)**	(146,289)
Net book amount	**3,368,161**	3,403,661

14. Investment in subsidiaries

	2017 €	2016 €
Year ended 31 December		
At beginning and end of year	**698,000**	698,000

The subsidiaries at 31 December 2017 and 2016 are shown below:

Name of subsidiary	Registered office	Class of shares	Percentage of shares held 2017	2016
Atlas Healthcare Insurance Agency Ltd	47-50, Ta' Xbiex Seafront Ta' Xbiex	Ordinary 'A' shares	**100.0%**	100.0%
Ark Insurance Management PCC Ltd	47-50, Ta' Xbiex Seafront Ta' Xbiex	Ordinary 'A' shares	**100.0%**	100.0%
Stuart Property Development Limited	48-50, Ta' Xbiex Seafront Ta' Xbiex	Ordinary 'A' shares Ordinary 'B' shares	**45.8%**	45.8%

The investment of Atlas Insurance PCC Limited in Stuart Property Development Limited represents 45.8% of the shares issued, and 50% of the voting shares. In terms of the Memorandum of Association, Atlas Insurance PCC Limited is entitled to appoint two directors out of a board of four directors.

As an ordinary 'A' shareholder, Atlas Insurance PCC Limited is entitled to elect the Chairman of the Board. The Chairman has a casting vote both in the case of a tie during board meetings, as well as in case of a tie during general meetings.

Accordingly, such investment is being considered as a subsidiary since Atlas Insurance PCC Limited has the power over the investee; and rights to variable returns from its involvement with the investee as well as the ability to use its power over the investee to affect the amount of the shareholders' returns.

15. Investments

The investments are summarised by measurement category in the table below.

	2017 €	2016 €
Fair value through profit or loss	**35,580,253**	28,713,194
Loans and receivables	**508,888**	4,411,326
	36,089,141	33,124,520

15. **Investments** - continued

(a) *Investments at fair value through profit or loss*

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
At 31 December						
Equity securities and units in unit trusts	**22,952,625**	19,412,001	**5,213,726**	1,584,214	**28,166,351**	20,996,215
Debt securities – listed fixed interest rate	**7,413,902**	7,716,979	**-**	-	**7,413,902**	7,716,979
Total investments at fair value through profit or loss	**30,366,527**	27,128,980	**5,213,726**	1,584,214	**35,580,253**	28,713,194

Equity securities and units in unit trusts are classified as non-current. During 2016 the Company invested €13m as seed capital in the Merill Total Return Income Fund following a transfer of existing investments held under a discretionary management agreement.

Maturity of fixed income debt securities:

	2017	2016
	€	€
Within 1 year	**647,828**	103,000
Between 1 and 2 years	**644,753**	691,235
Between 2 and 5 years	**3,635,414**	1,594,955
Over 5 years	**2,485,907**	5,327,789
	7,413,902	7,716,979
Weighted average effective interest rate	**4.14%**	3.69%

The movements for the year are summarised as follows:

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Year ended 31 December						
At beginning of year	**27,128,980**	23,991,710	**1,584,214**	482,953	**28,713,194**	24,474,663
Additions	**5,664,088**	7,931,233	**3,700,000**	1,163,705	**9,364,088**	9,094,938
Disposals	**(3,003,553)**	(5,102,112)	**-**	-	**(3,003,553)**	(5,102,112)
Fair value gains/(losses)	**577,012**	308,149	**(17,691)**	-	**559,321**	308,149
Other movements	**-**	-	**(52,797)**	(62,444)	**(52,797)**	(62,444)
At end of year	**30,366,527**	27,128,980	**5,213,726**	1,584,214	**35,580,253**	28,713,194
As at 31 December						
Cost	**27,163,801**	24,410,886	**5,293,345**	1,593,345	**32,457,146**	26,004,231
Accumulated net fair value gains	**3,202,726**	2,718,094	**(79,619)**	(9,131)	**3,123,107**	2,708,963
	30,366,527	27,128,980	**5,213,726**	1,584,214	**35,580,253**	28,713,194

15. Investments - continued

(b) Loans and receivables

	2017	2016
	€	€
At 31 December		
Deposits with banks or financial institutions (i)	**265,000**	265,000
Discounted securities (ii)	**-**	3,902,438
Loan to subsidiary company (iii)	**-**	-
Loan to parent company (iv)	**243,888**	243,888
	508,888	4,411,326

(i) Deposits with banks or financial institutions

	Core		**Cells**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Within 3 months	**265,000**	265,000	**-**	-	**265,000**	265,000

The deposits with banks or financial institutions earn interest as follows:

	2017	2016
	€	€
At fixed rates	**265,000**	265,000
Weighted average effective interest rate	**0.1%**	0.1%

(ii) Discounted securities

These consist of discounted securities issued by related parties which are not subject to interest, were issued at a discount and are redeemable at par upon maturity. No guarantees have been given or received in respect of these notes and the amounts outstanding will be settled in cash.

No discounted securities where held as at 31 December 2017.

Details for their redemption dates and values and effective interest rates for 31 December 2016 are as follows.

15. **Investments** - continued

(b) *Loans and receivables* - continued

(ii) *Discounted securities* - continued

As at 31 December 2016

	Original note value	**Redemption date**	**Redemption value**	**Effective interest rate %**	**Value in Balance Sheet €**
Redemption period calculated from the balance sheet date:					
Within one year					
Cell 1	GBP2,929,364	15/11/2017	GBP2,982,439	0.18	3,429,246
Cell 2	GBP399,740	30/09/2017	GBP411,178	0.20	473,192
					3,902,438

(iii) *Loan to subsidiary company*

The loan to subsidiary company is classified as non-current. The amount is stated net of a provision for impairment of €221,224 (2016: €221,224).

(iv) *Loan to parent company*

The loan to the parent Company is an interest free loan. The amount is €243,888 (2016: €243,888).

16. **Deferred taxation**

	2017 €	2016 €
Year ended 31 December		
At beginning of year	**(1,489,173)**	(1,258,781)
Charged to other comprehensive income (Note 20)	**6,346**	(129,826)
Charged to profit and loss account (Note 8)	**(184,365)**	(100,566)
At end of year	**(1,667,192)**	(1,489,173)

The total deferred tax liability is not expected to fall due within 12 months.

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2016: 35%) with the exception of investment property and freehold and other property, for which deferred taxes are calculated using a tax rate of 8% or 10% of the carrying amount (2016: 8% or 10%) depending on acquisition dates.

16. Deferred taxation - continued

The balance at 31 December represents temporary differences on:

	2017 €	2016 €
Revaluation of land and buildings	**(243,516)**	(249,862)
Revaluation of investment property	**(289,075)**	(289,075)
Temporary differences on:		
- Financial investments at fair value through profit or loss	**(1,101,605)**	(894,752)
- Fixed assets	**(57,454)**	(79,942)
- Provisions	**24,458**	24,458
	(1,667,192)	(1,489,173)

Movements in deferred tax arising on revaluation of land and buildings are accounted for in Other comprehensive income. All other temporary differences are accounted for in the profit and loss account. Deferred income taxes and liabilities are offset when there is a legally enforceable right to set-off under the Malta Income Tax regime.

17. Deferred acquisition costs

	Core		Cells		Total	
	2017 €	2016 €	2017 €	2016 €	2017 €	2016 €
Year ended 31 December						
At beginning of year	**790,940**	749,708	**295,261**	228,162	**1,086,201**	977,870
Net amount credited to profit and loss account (Note 4)	**57,386**	41,232	**178,978**	84,190	**236,364**	125,422
Exchange differences resulting from translation to presentation currency	-	-	**(3,357)**	(17,091)	**(3,357)**	(17,091)
At end of year	**848,326**	790,940	**470,882**	295,261	**1,319,208**	1,086,201
Current portion	**848,326**	790,940	**470,882**	295,261	**1,319,208**	1,086,201

18. Debtors and prepayments and accrued income

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Debtors arising from direct Insurance operations						
Due from policyholders	**1,907,405**	1,436,558	-	-	**1,907,405**	1,436,558
Due from agents, brokers and intermediaries	**2,529,785**	2,089,454	-	-	**2,529,785**	2,089,454
Due from reinsurers	**220,222**	-	-	-	**220,222**	-
	4,657,412	3,526,012	-	-	**4,657,412**	3,526,012
Other debtors						
Receivable from parent	**43,185**	95,561	-	-	**43,185**	95,561
Receivable from subsidiaries	**117,792**	62,170	-	-	**117,792**	62,170
Receivable from fellow subsidiaries	-	181	-	-	-	181
Receivable from related parties	**55,418**	81,965	**9,235,305**	3,933,995	**9,290,723**	4,015,960
Amounts owed by directors/ shareholders	-	-	-	-	-	-
Other debtors	**212,473**	208,919	**1,343,092**	524,280	**1,555,565**	733,199
	428,868	448,796	**10,578,397**	4,458,275	**11,007,265**	4,907,071
Prepayments and accrued income						
Prepayments	**52,529**	72,227	**132,320**	144,963	**184,849**	217,190
Accrued interest	**106,231**	106,539	-	-	**106,231**	106,539
	158,760	178,766	**132,320**	144,963	**291,080**	323,729
Total debtors and prepayments and accrued income	**5,245,040**	4,153,574	**10,710,717**	4,603,238	**15,955,757**	8,756,812
Current portion	**5,245,040**	4,153,574	**10,710,717**	4,603,238	**15,955,757**	8,756,812

18. Debtors and prepayments and accrued income - continued

Core debtors are presented net of an allowance for impairment of €69,881 (2016: €69,881). As at 31 December 2017, total debtors amounting to €3,983,374 (2016: €3,122,673) were fully performing, whereas debtors amounting to €1,104,596 (2016: €852,134) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of significant default. The ageing analysis of amounts past due but not impaired is as follows:

	2017	2016
	€	€
Up to 3 months	**817,311**	620,197
3 to 9 months	**187,923**	118,431
More than 9 months	**99,362**	113,506
	1,104,596	852,134

Receivables from group undertakings and related parties are unsecured, interest free and repayable on demand.

19. Share capital

	2017	2016
	€	€
Authorised share capital:		
4,997,000 'A' ordinary voting shares of €2.50 each	**12,492,500**	12,492,500
3,000 'B' cumulative preference shares of €2.50 each	**7,500**	7,500
6,000,000 cell shares of €2.50 each	**15,000,000**	15,000,000
	27,500,000	27,500,000
Core		
Issued and fully paid up share capital:		
4,797,000 (2017) 3,276,200 (2016) 'A' ordinary voting shares of €2.50 each	**11,992,500**	8,190,500
3,000 'B' cumulative preference shares of €2.50 each	**7,500**	7,500
	12,000,000	8,198,000
Cells		
Cell 1		
Issued and 100% paid up share capital: 1,466,240 cell shares	**3,665,600**	3,665,600
Cell 2		
Issued and 80% paid up share capital: 155,000 cell shares	**310,000**	310,000
Cell 4		
Issued and 50% paid up share capital: 1,309,377 (2017) 1,121,377 (2016) cell shares	**1,871,721**	1,401,721
Cell 7		
Issued and 67.5% paid up share capital: 544,215 (2017) 401,815 (2016) cell shares	**918,363**	678,063
Cell 8		
Issued and 44.5% paid up share capital: 900,000 cell shares	**1,000,125**	1,000,125
Cell 9		
Issued and 55% paid up share capital: 328,000 cell shares	**451,000**	451,000
Cell 10		
Issued and 100% paid up share capital: 240,000 cell shares	**600,000**	600,000
	8,816,809	8,106,509
Total share capital	**20,816,809**	16,304,509

19. Share capital - continued

All cell shares have a nominal value of €2.50 each.

In terms of a resolution dated 9 June 2017, the issued share capital of the Company was increased by 142,400 cell shares of €2.50 each 67.5% paid up in relation to Cell 7.

In terms of a resolution dated 25 August 2017, the issued share capital of the Company was increased through a bonus issue by 1,520,800 shares of €2.50 each and fully paid up in relation to Core.

In terms of a resolution dated 28 December 2017, the issued share capital of the Company was increased through a bonus issue by 376,000 shares of €2.50 each 50% paid up in relation to Cell 4.

During 2017, the shareholders of the various cells resolved the following resolutions relating to increases in cell shares:

Cell	Resolution date	Nature of increase	Nominal value	Paid up
Core	25 August 2017	Issue of 1,520,800 shares	€2.50	Fully paid up
Cell 4	28 December 2017	Issue of 376,000 cell shares	€2.50	50% paid up
Cell 7	9 June 2017	Issue of 142,400 cell shares	€2.50	67.5% paid up

20. Reserves

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Revaluation reserve	**2,249,510**	2,266,577	**-**	-	**2,249,510**	2,266,577
Functional currency exchange reserve	**-**	-	**(858,089)**	(520,418)	**(858,089)**	(520,418)
General reserve	**201,542**	201,542	**-**	-	**201,542**	201,542
Total other reserves	**2,451,052**	2,468,119	**(858,809)**	(520,418)	**1,592,963**	1,947,701

Revaluation reserve

	Core	
	2017	2016
	€	€
Year ended 31 December		
At beginning of year	**2,266,577**	775,666
Revaluation increase/(release on disposal) land and buildings (Note 12)	**(23,413)**	1,603,965
Movement in deferred tax relating to property, plant and equipment (Note 16)	**6,346**	(129,826)
Transfer from subsidiary	**-**	16,772
At end of year	**2,249,510**	2,266,577

Functional currency exchange reserve

	Cells	
	2017	2016
	€	€
Year ended 31 December		
At beginning of year	**(520,418)**	885,433
Exchange differences resulting from translation to presentation currency	**(337,671)**	(1,405,851)
At end of year	**(858,089)**	(520,418)

The movements during the year are accounted for in other comprehensive income. The amounts gross of tax do not differ from the net amounts.

Revaluation reserve represents the revaluation surplus on freehold and other property, net of deferred tax.

Functional currency exchange reserve represents movements in the exchange to the reporting currency of those assets and liabilities held by cellular operations in the currency it operates in, the functional currency.

The directors consider other reserves to be non-distributable.

20. Reserves - continued

Profit and loss account

	2017	2016
	€	€
Core	**11,938,971**	14,318,644
Cells		
Cell 1	**1,909,284**	1,524,987
Cell 2	**255,947**	317,038
Cell 4	**397,161**	513,971
Cell 7	**210,445**	380,989
Cell 8	**533,686**	504,283
Cell 9	**56,422**	23,704
Cell 10	**(173,588)**	(90,192)
	3,189,357	3,174,780
Total profit and loss account	**15,128,328**	17,493,424

The profit and loss account balance represents the amount available for dividend distribution to the respective shareholders, except any amount that is not distributable in terms of the solvency capital requirements under the Insurance Business (Assets and Liabilities), Regulations 2007 and any amount that is not distributable under the Maltese Companies Act (Cap.386), as it represents unrealised profits.

21. Technical provisions and reinsurance assets

Gross technical Provisions	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Claims reported and loss adjustment expenses	**19,937,793**	14,949,470	**29,495,683**	15,068,395	**49,433,476**	30,017,865
Claims incurred but not reported	**1,744,529**	1,316,641	**2,305,720**	2,985,013	**4,050,249**	4,301,654
Unearned premiums	**11,108,563**	9,927,288	**7,712,305**	6,183,082	**18,820,868**	16,110,370
Total insurance liabilities, gross	**32,790,885**	26,193,399	**39,513,708**	24,236,490	**72,304,593**	50,429,889
Reinsurers' share of technical provisions						
Claims reported and loss adjustment expenses	**8,949,411**	4,399,530	**27,221,578**	13,063,393	**36,170,989**	17,462,923
Claims incurred but not reported	**866,284**	370,920	**-**	-	**866,284**	370,920
Unearned premiums	**4,568,243**	4,090,738	**918,729**	833,590	**5,486,972**	4,924,328
Total reinsurers' share of insurance liabilities	**14,383,938**	8,861,188	**28,140,307**	13,896,983	**42,524,245**	22,758,171
Net technical provisions						
Claims reported and loss adjustment expenses	**10,988,382**	10,549,940	**2,274,105**	2,005,002	**13,262,487**	12,554,942
Claims incurred but not reported	**878,245**	945,721	**2,305,720**	2,985,013	**3,183,965**	3,930,734
Unearned premiums	**6,540,320**	5,836,550	**6,793,576**	5,349,492	**13,333,896**	11,186,042
	18,406,947	17,332,211	**11,373,401**	10,339,507	**29,780,348**	27,671,718

Maturity information related to claims outstanding and claims incurred but not reported is presented in Note 3.2.3. Unearned premium is current in nature.

21. Technical provisions and reinsurance assets - continued

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

The Company 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. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. 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 Company, 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 Company uses statistical analyses of historical experience in order to identify the IBNR component to be added to its known claims reserves. The basic assumption that the development pattern of the current claims will be consistent with past experience is also complemented with allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

During 2017 a provision to cover claims handling was introduced and is based on an estimated settlement fee on the number of open claims outstanding at year end. A subrogation or salvage recovery on gross claims has also been recognised and is based on statistical analyses of historical experience.

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 Company'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.

The risk and claim profile of the Company do not indicate any conditions or variables that are likely to impact significantly upon the Company's cash flow. During the year there were no significant changes required in the assumptions used to estimate the ultimate cost of claims.

21. **Technical provisions and reinsurance assets** - continued

The reasonableness of the estimation processes on claims is monitored using claims' cost progression tables. These are reproduced below:

Estimate of the ultimate Gross claims costs for the Core:

	2008 €	2009 €	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	Total €
- at end of reporting year	7,990,595	10,233,170	10,031,590	8,302,389	9,790,944	10,344,366	11,283,117	15,231,792	14,400,164	19,016,753	116,624,880
- one year later	7,164,318	9,374,647	9,005,458	7,276,342	8,583,139	9,373,332	9,022,726	13,446,678	13,173,332		
- two years later	6,907,429	8,673,410	8,345,563	6,581,449	8,062,640	8,761,064	8,015,028	12,337,696			
- three years later	6,827,888	8,389,139	7,882,614	6,138,583	7,686,076	8,553,785	7,802,011				
- four years later	7,011,852	8,320,524	8,018,995	6,014,570	7,585,657	8,405,629					
- five years later	6,734,033	8,238,753	7,923,623	5,938,102	7,444,976						
- six years later	6,699,496	8,276,002	7,884,434	5,913,793							
- seven years later	6,777,428	8,369,496	7,932,012								
- eight years later	6,816,249	8,362,108									
- nine years later	6,814,699										
Current estimates of :											
Cumulative claims	6,814,699	8,362,108	7,932,012	5,913,793	7,444,976	8,405,629	7,802,011	12,337,696	13,173,332	19,016,753	97,203,008
Cumulative payments to date	(6,568,956)	(7,964,514)	(7,862,026)	(5,878,315)	(7,336,156)	(8,108,860)	(7,385,131)	(10,909,490)	(9,133,957)	(5,461,387)	(76,608,792)
Liability recognised in the balance sheet	245,743	397,594	69,986	35,478	108,821	296,769	416,880	1,428,206	4,039,375	13,555,366	20,594,219
Reserve in respect of prior years											1,088,105
Total reserve included in the balance sheet											21,682,322

21. Technical provisions and reinsurance assets - continued

Estimate of the ultimate Net claims costs for the Core:

	2008 €	2009 €	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	Total €
- at end of reporting year	5,738,975	6,478,050	6,736,170	6,822,148	7,278,905	8,039,367	7,768,761	9,431,033	10,106,850	9,212,017	77,612,275
- one year later	5,244,482	5,806,238	5,993,703	5,964,826	6,476,750	7,258,996	6,881,159	8,675,037	9,465,006		
- two years later	5,094,412	5,259,385	5,678,373	5,494,456	6,056,331	6,642,433	6,357,253	7,697,462			
- three years later	5,033,480	5,027,885	5,328,498	5,088,202	5,808,076	6,470,996	6,170,581				
- four years later	5,131,648	4,998,718	5,470,410	4,971,888	5,736,542	6,362,895					
- five years later	4,945,625	4,929,276	5,378,238	4,892,818	5,640,427						
- six years later	4,916,552	5,026,195	5,340,697	4,871,086							
- seven years later	4,957,882	5,123,822	5,392,202								
- eight years later	5,007,246	5,116,210									
- nine years later	5,009,243										
Current estimates of :											
Cumulative claims	5,009,243	5,116,210	5,392,202	4,871,086	5,640,427	6,362,895	6,170,581	7,697,462	9,465,006	9,212,017	64,937,128
Cumulative payments to date	(4,777,445)	(4,798,662)	(5,322,150)	(4,836,967)	(5,532,873)	(6,090,342)	(5,805,619)	(6,529,681)	(6,263,929)	(4,148,707)	(54,106,373)
Liability recognised in the balance sheet	231,798	317,549	70,052	34,119	107,554	272,553	364,962	1,167,781	3,201,077	5,063,310	10,830,755
Reserve in respect of prior Years											1,035,872
Total reserve included in the balance sheet											11,866,627

22. Technical provisions and reinsurance assets - continued

Estimate of the ultimate Gross claims costs for the Cells:

Cells	2008 €	2009 €	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	Total €
- at end of reporting year	6,608	436,538	750,960	2,097,027	2,128,125	10,125,682	4,535,651	6,724,620	8,735,822	6,127,245	41,668,278
- one year later	10,596	422,616	876,294	1,921,989	1,929,797	10,664,268	4,479,656	6,742,010	8,252,378		35,299,605
- two years later	10,596	422,616	655,087	1,640,648	1,938,163	18,018,955	4,427,930	6,296,589			33,410,584
- three years later	10,596	422,616	676,499	1,681,901	1,747,566	15,834,488	4,404,344				24,778,011
- four years later	10,596	422,616	675,860	1,636,471	1,653,096	31,496,234					35,894,873
- five years later	10,596	422,616	635,644	1,612,358	1,593,776						4,274,990
- six years later	10,596	422,616	613,987	1,525,953							2,573,152
- seven years later	10,596	422,616	619,816								1,053,028
- eight years later	10,596	422,616									433,212
- nine years later	10,596										10,596
Current estimates of:											
Cumulative claims	10,596	422,616	619,816	1,525,953	1,593,776	31,496,234	4,404,344	6,296,589	8,252,378	6,127,245	60,749,548
Cumulative payments to date	(10,352)	(421,954)	(640,807)	(1,619,463)	(1,601,559)	(5,330,917)	(3,942,156)	(5,254,131)	(5,686,760)	(3,741,824)	(28,249,924)
Other movements	(244)	(662)	32,492	93,676	8,115	123,646	(210,816)	(565,586)	(91,307)	(87,535)	(698,221)
Liability recognised in the balance sheet	-	-	11,501	166	332	26,288,963	251,372	476,872	2,474,311	2,297,886	31,801,403

21. Technical provisions and reinsurance assets - continued

Estimate of the ultimate Net claims costs for the Cells:

Cells	2008 €	2009 €	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	Total €
- at end of reporting year	6,608	436,538	750,960	2,097,027	2,128,125	2,895,624	4,535,651	6,724,620	7,334,247	6,080,983	32,990,383
- one year later	10,596	422,616	876,294	1,921,989	1,929,797	2,886,026	4,479,656	6,681,076	7,315,605		26,523,656
- two years later	10,596	422,616	655,087	1,640,648	1,938,163	2,911,341	4,427,930	6,296,589			18,302,970
- three years later	10,596	422,616	676,499	1,681,901	1,747,566	2,592,339	4,352,572				11,484,090
- four years later	10,596	422,616	675,860	1,636,471	1,653,096	2,330,649					6,729,288
- five years later	10,596	422,616	635,644	1,612,358	1,593,776						4,274,990
- six years later	10,596	422,616	613,987	1,525,953							2,573,152
- seven years later	10,596	422,616	619,816								1,053,028
- eight years later	10,596	422,616									433,212
	10,596										10,596
Current estimates of:											
Cumulative claims	10,596	422,616	619,816	1,525,953	1,593,776	2,330,649	4,352,572	6,296,589	7,315,605	6,080,983	30,549,156
Cumulative payments to date	(10,352)	(421,954)	(640,807)	(1,619,463)	(1,601,559)	(2,352,102)	(3,942,156)	(5,254,131)	(5,686,759)	(3,741,825)	(25,271,108)
Other movements	(244)	(662)	32,491	93,676	8,114	123,646	(210,816)	(565,586)	(91,307)	(87,534)	(698,223)
Liability recognised in the balance sheet	-	-	11,500	166	331	102,193	199,600	476,872	1,537,539	2,251,624	4,579,825

21. Technical provisions and reinsurance assets - continued

(a) Claims and loss adjustment expenses - Core

	Year ended 31 December 2017			Year ended 31 December 2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	€	€	€	€	€	€
Notified claims still outstanding	**14,949,470**	**(4,399,530)**	**10,549,940**	12,407,684	(3,570,755)	8,836,929
Incurred but not reported	**1,316,641**	**(370,920)**	**945,721**	1,115,371	(315,813)	799,558
Total at beginning of year	**16,266,111**	**(4,770,450)**	**11,495,661**	13,523,055	(3,886,568)	9,636,487
Increase in liabilities:						
- arising from current year claims	**19,016,753**	**(9,804,736)**	**9,212,017**	14,400,164	(4,293,314)	10,106,850
- arising from prior year claims	**(2,956,209)**	**860,607**	**(2,095,602)**	(3,058,963)	1,554,823	(1,504,140)
Claims settled during the year	**(10,644,333)**	**3,898,884**	**(6,745,449)**	(8,598,145)	1,854,609	(6,743,536)
Total at end of year	**21,682,322**	**(9,815,695)**	**11,866,627**	16,266,111	(4,770,450)	11,495,661
Notified claims still outstanding	**19,887,405**	**(8,949,411)**	**10,937,994**	14,949,470	(4,399,530)	10,549,940
Incurred but not reported	**1,794,917**	**(866,284)**	**928,633**	1,316,641	(370,920)	945,721
Total at end of year	**21,682,322**	**(9,815,695)**	**11,866,627**	16,266,111	(4,770,450)	11,495,661

(a) Claims and loss adjustment expenses - Cells

	Year ended 31 December 2017			Year ended 31 December 2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	€	€	€	€	€	€
Notified claims still outstanding	**15,068,395**	**(13,063,393)**	**2,005,002**	16,757,593	(15,107,618)	1,649,975
Incurred but not reported	**2,985,013**	**-**	**2,985,013**	3,072,378	-	3,072,378
Total at beginning of year	**18,053,408**	**(13,063,393)**	**4,990,015**	19,829,971	(15,107,618)	4,722,353
Increase in liabilities:						
- arising from current year claims	**6,127,243**	**(46,262)**	**6,080,981**	8,388,631	(1,401,575)	6,987,056
- arising from prior year claims	**16,627,129**	**(16,760,977)**	**(133,848)**	(314,917)	(89,115)	(404,032)
Claims settled during the year	**(7,558,716)**	**1,372,523**	**(6,186,193)**	(7,265,231)	1,505,285	(5,759,946)
Other movements	**(1,447,661)**	**1,276,531**	**(171,130)**	(2,585,046)	2,029,630	(555,416)
Total at end of year	**31,801,403**	**(27,221,578)**	**4,579,825**	18,053,408	(13,063,393)	4,990,015
Notified claims still outstanding	**29,495,683**	**(27,221,578)**	**2,274,105**	15,068,395	(13,063,393)	2,005,002
Incurred but not reported	**2,305,720**	**-**	**2,305,720**	2,985,013	-	2,985,013
Total at end of year	**31,801,403**	**(27,221,578)**	**4,579,825**	18,053,408	(13,063,393)	4,990,015

21. Technical provisions and reinsurance assets - continued

(b) Gross and Net unearned premiums - Core

	Year ended 31 December 2017			Year ended 31 December 2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	€	€	€	€	€	€
At beginning of year	**9,927,288**	**(4,090,738)**	**5,836,550**	9,379,147	(3,892,425)	5,486,722
Net charge/(credit) to profit and loss	**1,181,275**	**(477,505)**	**703,770**	548,141	(198,313)	349,828
At end of year	**11,108,563**	**(4,568,243)**	**6,540,320**	9,927,288	(4,090,738)	5,836,550

(b) Gross and Net unearned premiums - Cells

	Year ended 31 December 2017			Year ended 31 December 2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	€	€	€	€	€	€
At beginning of year	**6,183,082**	**(833,590)**	**5,349,492**	5,135,680	(802,565)	4,333,115
Net charge/(credit) to profit and loss	**1,563,171**	**(92,283)**	**1,470,888**	1,421,170	(114,844)	1,306,326
Other movements	**(33,948)**	**7,144**	**(26,804)**	(373,768)	83,819	(289,949)
At end of year	**7,712,305**	**(918,729)**	**6,793,576**	6,183,082	(833,590)	5,349,492

22. Borrowings

	2017	2016
	€	€
Bank balance overdrawn (Note 25)	**13,568**	45,225

The Company has the following undrawn borrowing facilities:

	2017	2016
	€	€
Floating rate and expiring within one year	**903,736**	903,736

23. Creditors and accruals and deferred income

	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Creditors arising out of direct insurance operations						
Trade creditors	**1,097,418**	1,034,091	**806,796**	645,700	**1,904,214**	1,679,791
Payable to reinsurers	**977,999**	1,151,836	**1,247,873**	1,100,964	**2,225,872**	2,252,800
	2,075,417	2,185,927	**2,054,669**	1,746,664	**4,130,086**	3,932,591
Creditors arising out of reinsurance operations	-	-		144,881		144,881
Other creditors						
Payable to related parties	-	-	**237,813**	1,913,375	**237,813**	1,913,375
Other creditors	**270,633**	95,208	-	-	**270,633**	95,208
	270,633	95,208	**237,813**	1,913,375	**508,446**	2,008,583
Accruals and deferred income	**2,200,700**	2,053,225	**164,670**	173,308	**2,365,370**	2,226,533
Total creditors and accruals and deferred income	**4,546,750**	4,334,360	**2,457,152**	3,978,228	**7,003,902**	8,312,588
Current portion	**4,546,750**	4,334,360	**2,457,152**	3,978,228	**7,003,902**	8,312,588

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

24. Cash generated from operations

	Core 2017 €	Core 2016 €	Cells 2017 €	Cells 2016 €	Total 2017 €	Total 2016 €
Insurance premiums received	**24,351,170**	23,467,187	**16,144,907**	19,233,050	**40,496,077**	42,700,237
Reinsurance premiums paid	**(10,609,826)**	(9,877,545)	**(1,024,052)**	(911,941)	**(11,633,878)**	(10,789,486)
Claims paid	**(11,442,662)**	(9,359,271)	**(7,558,942)**	(7,265,231)	**(19,001,604)**	(16,624,502)
Reinsurance claims received	**3,898,884**	1,854,609	**1,372,523**	1,505,285	**5,271,407**	3,359,894
Commission and other income	**3,544,083**	3,657,217	**(8,638)**	18,105	**3,535,445**	3,675,322
Cash paid to employees, related parties and other suppliers for services and goods	**(6,237,632)**	(5,859,858)	**(12,492,895)**	(6,286,788)	**(18,730,527)**	(12,146,646)
Interest received	**267,997**	440,498	**53,976**	68,071	**321,973**	508,569
Dividends received	**502,993**	464,898	-	-	**502,993**	464,898
Rental Income	**126,700**	114,922	-	-	**126,700**	114,922
Net (purchase)/disposal of operating assets:						
- loans and receivables	-	(158,888)	**272,926**	(307,548)	**272,926**	(466,436)
- financial assets at fair value through profit or loss	**(2,660,535)**	(2,829,121)	-	-	**(2,660,535)**	(2,829,121)
Cash generated from operations	**1,741,172**	1,914,648	**(3,240,195)**	6,053,003	**(1,499,023)**	7,967,651

25. Cash and cash equivalents

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise the following:

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Cash at bank and in hand	**2,556,405**	1,970,536	**11,078,922**	16,257,808	**13,635,327**	18,228,344
Held with investment managers	**1,277,040**	2,598,750	**-**	-	**1,277,040**	2,598,750
Bank balance overdrawn	**(13,568)**	(45,225)	**-**	-	**(13,568)**	(45,225)
At end of year	**3,819,877**	4,524,061	**11,078,922**	16,257,808	**14,898,799**	20,781,869

The weighted average interest rate on interest bearing bank balances as at year-end was 0.04% p.a. (2016: 0.04% p.a.). As at 31 December 2016 cash at bank and in hand included an amount of €600k that is restricted in use.

26. Related party transactions

All companies forming part of the Atlas Group of Companies are considered by the directors to be related parties since these companies are ultimately owned and controlled by Atlas Holdings Limited.

The following transactions were carried out by the Company with related parties:

	2017	2016
	€	€
Income		
Fellow subsidiaries:		
Payroll costs charged	**-**	232
Subsidiaries:		
Payroll costs charged	**198,831**	204,773
Other related entities:		
Payroll costs charged	**19,553**	21,858

Dividend receivable from subsidiary is disclosed Note 5. Dividends payable to the parent company are disclosed in Note 9.

26. Related party transactions - continued

	2017 €	2016 €
Expenditure		
Fellow subsidiaries:		
Commissions	-	322
Other related entities:		
Management fees	-	12,679

In relation to cells, companies ultimately owned and controlled by the Cell owners are considered as related parties in connection with the respective cells. As part of the ordinary course of business, the cells transact business with related parties including the collection of premiums, settlement of claims and payment of commissions.

Year end balances owed by or to group undertakings and other related parties are disclosed in Notes 18 and 23 to these financial statements respectively.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 9 to these financial statements.

27. Capital management

As from 1 January 2016, the Company was subject to the requirements of the EU Solvency II.

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To comply with the obligations to maintain positive solvency position based on the requirements under regulation;
- To ensure sufficient capital funding in order that the Company may continue as a going concern;
- To safeguard the interests of policy holders arising from the Company's contractual obligations;
- To provide adequate returns for shareholders; and
- To ensure that shareholder and other stakeholder interests are safeguarded at all times.

In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders. The Company is required to hold regulatory capital for its insurance business in compliance with the rules issued by the Malta Financial Services Authority (MFSA). The minimum capital requirement must be maintained at all times throughout the year. The Company monitors its capital level on a regular basis, by ensuring that sufficient assets are maintained to match insurance liabilities and to provide solvency cover.

The company defines capital as the excess of assets over liabilities as valued in accordance with the respective regulatory requirements.

Any transactions that may affect the Company's solvency position are immediately reported to the directors and shareholders for resolution, prior to notifying MFSA. Any potential shortfall in capital requirements necessitates the development of a recovery plan with a list of possible actions.

27. Capital management – continued

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

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2017, the Company's eligible own funds amounting to €38.3m (unaudited) (2016: €35.6m (unaudited)) adequately covered the required SCR.

The Company was compliant with its regulatory capital requirements throughout the financial year.

Liabilities arising from cell operations

In terms of Legal Notice 412 of 2007 of the Companies Act, (Cell Companies carrying on business of insurance), where any liability arises which is attributable to a particular cell of a cell company –

a. the cellular assets attributable to that cell shall be primarily used to satisfy the liability;
b. the Company's core assets shall be secondarily used to satisfy the liability, provided that the cellular assets attributable to the relevant cell have been exhausted; and
c. any cellular assets not attributable to the relevant cell shall not be used to satisfy the liability.

The Company has taken the following safeguards in this respect:

(a) if the assets of the Cell are at any time insufficient to meet any payments, liabilities or obligations due or about to become due by the Cell, the Company shall notify the Cell owners in writing and the Cell owners shall ensure forthwith that the Cell is adequately funded to meet all payments, liabilities or other obligations due or becoming due by the cell.

(b) in the event that the Cellular Assets of the Cell are exhausted, the Cell Owner agrees to indemnify the Company for any assets paid or otherwise transferred to creditors of the Cell asset of the non-cellular assets of the Company.

28. Operating lease commitments

As at year-end the Company had commitments under non-cancellable operating leases where the Company is the lessee. These arrangements relate to leasing of a number of branches in difference locations.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
	€	€
Not later than 1 year	**46,731**	40,889
Later than 1 year and not later than 5 years	**14,128**	72,221
	60,499	113,110

During the current year, operating lease payments in respect of cancellable and non-cancellable leases amounting to €105,846 (2015: €100,123) were recognised as an operating expense in profit or loss.

29. Statutory information

Atlas Insurance PCC Limited is a limited liability company and is incorporated in Malta. The immediate and ultimate parent company of Atlas Insurance PCC Limited is Atlas Holdings Limited, a company registered in Malta, with its registered address at 47-50, Ta' Xbiex Seafront, Ta' Xbiex, which prepares consolidated financial statements.

30. Comparative information

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with current year's disclosure for the purpose of fairer presentation.

Atlas Insurance PCC Limited

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