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Atlas Insurance

Solvency and Financial Condition Report 2017

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Photography composite from the series 'The New Eye of Osiris'

Atlas Insurance PCC Limited

Solvency and Financial Condition Report (SFCR)

for the financial year ended 31 December 2017

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1. Executive summary

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

Atlas Insurance PCC Limited (Atlas, the PCC, the Company) is the flagship company within the Atlas group of companies (the Group) specialising in insurance and reinsurance underwriting and insurance services.

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

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

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

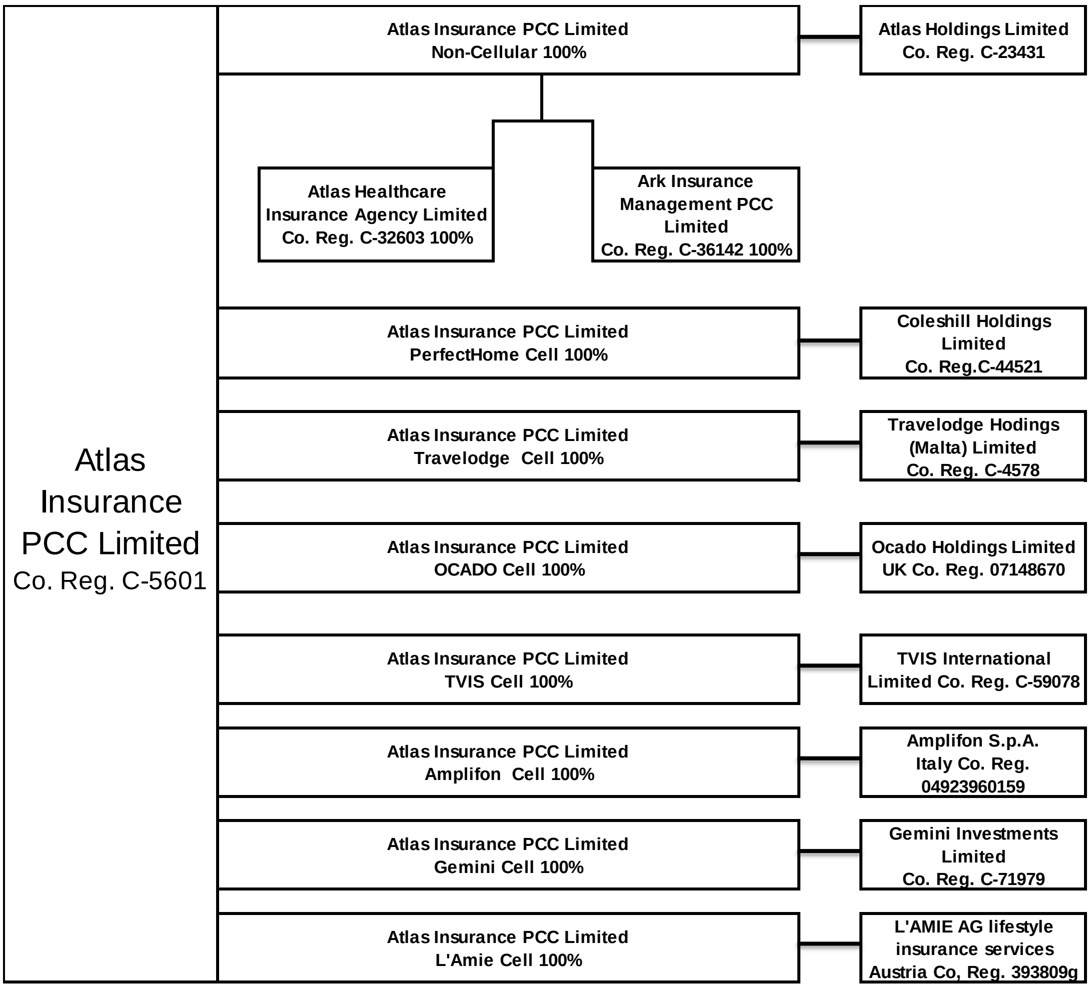
1.1 Business and Performance

The Company is authorised by the MFSA to carry on business of insurance and re-insurance (re/Insurance) in accordance with the Insurance Business Act Cap. 403. Atlas underwrites local insurance risk through its non-cellular structure and is a leader in the local market, when combined with its international cellular business is considered to be Malta's leading insurer.

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

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

The PCC underwrites (re)insurance risk through both its Core Activity and its Cellular Activity. The Company's corporate structure is represented as follows:



Total premium income for the PCC as a whole and split by Geographical area is reported in the below table:

Premim Written by Geographical Area	Northern Europe		Western Europe		Sothern Europe		Total	
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	Euro
	2017	2016	2017	2016	2017	2016	2017	2016
Core	-	-	-	-	25,262,348	23,573,516	25,262,348	23,573,516
Amplifon Cell	315,080	171,940	2,899,010	2,791,501	-	-	3,214,090	2,963,440
Other Cells	12,187,106	15,987,017	743,711	282,593	-	-	12,930,817	16,269,610
Total	12,502,186	16,158,956	3,642,721	3,074,094	25,262,348	23,573,516	41,407,255	42,806,566
Percentage Share of Total Premium	30%	38%	9%	7%	61%	55%	100%	100%

Core Results

The PCC through its Core underwrites a balanced general insurance business portfolio as a leading insurer of Maltese insurance risk. During 2017 the Core registered substantial growth in premium income, together with important technical results arising from the prudence applied in its underwriting operation.

Premium Written		Motor	Non-Motor	Total	Motor Share	Non-Motor Share
		Euro	Euro	Euro		
	2017	11,284,003	13,978,345	25,262,348	45%	55%
	2016	10,052,278	13,521,238	23,573,516	43%	57%
Percentage Growth for 2017		12%	3%	7%		

2017 has seen improved pure technical results, in particular within the Motor Class. In recent years Motor Claims Expenses have been on the rise combined with unusual increased frequency of third party bodily injury and fatality claims. The management have taken remedial underwriting action which has returned the Class of Business to positive results, thus allowing the Company to reserve funds in the interest of the stakeholders.

The following table reports the Core's Gross loss ratios before reinsurance expenses.

Gross Claims Loss Ratio	Motor		Non-Motor		Total	
	Euro	Euro	Euro	Euro	Euro	Euro
	2017	2016	2017	2016	2017	2016
Premium Earned	10,626,716	9,721,829	13,454,357	13,303,546	24,081,073	23,025,375
Claims Incurred	6,561,295	8,528,062	10,297,578	3,420,840	16,858,873	11,948,902
Gross Ratio	62%	88%	77%	26%	70%	52%

For its prudent underwriting strategy the Core reinsures the insurance business risk it underwrites with a pool of "A" credit rated reinsurers of international repute.

During 2017 the Core saw its Gross Claims Loss Ratio of 70% positively reduce to 55% after reinsurance costs allowing for pure technical profitability which management have materially reserved in the interests of the policy holders.

In the below table the improved net claims position retained by the Core is being noted.

Net Claims Loss Ratio	Total	
	Euro	Euro
	2017	2016
Net Premium Earned	14,279,484	13,226,136
Net Claims Incurred	7,914,744	9,210,411
Net Ratio	55%	70%

Notwithstanding substantial volatility experienced during 2017 in the local and international stock exchange market places, the Core registers important results for its investment portfolio. The Board of Directors applies an investment policy which allows for reasonable return on investment while safeguarding prudence by causing appropriate spread in its allocation, and largely placing investments in high grade securities.

The investment portfolio held in the balance sheet at year end 2017 totalled €36,089,141, 2016 - €33,124,520. These positions returned a total investment income net of expenses of €1,424,491, 2016: €1,716,444, equivalent to 4%, 2016: 5%.

The results combine to produce a very satisfactory profit before tax of €4,560,478 compared to a prior year profit before tax of €3,024,590, increasing the total equity of the Core to €26,390,023 at year end from €24,610,460 at the beginning of the year under review. During the year under review the Board of Directors proposed the payment of an interim dividend of €3,802,000 in the form of a bonus share issue to the Core shareholder increasing fully paid up capital to €12,000,000.

The results for the two daughter companies, specifically Atlas Healthcare Insurance Agency Limited and Ark Insurance Management PCC Limited, are not consolidated in the Company's accounts and are recognised in Atlas' Financial Statements and Solvency II Balance Sheet as equity investments held. These two companies' results are then consolidated in the Group Consolidation of the ultimate parent, Atlas Holdings Limited.

Atlas Healthcare Insurance Agency Limited (the Agency)

The Agency increased growth and profitability has continued to contribute to the Company's overall result allowing for the payment of increased dividend income.

The Agency is an enrolled agent authorised by the MFSA in accordance with the Insurance Intermediaries Act (Cap 487). Its agency representation focuses on health insurance products as its mainstream product line and is an insurance agent for AXA PPP healthcare Limited.

The Agency's net asset value totaled €1,059,561 as on 31 December 2017 (31 December 2016 - €1,341,733), which result is in excess over regulated financial resources requirements under the Insurance Intermediaries Act.

Ark Insurance Management PCC Limited (Ark)

Ark also saw an increase in its insurance management activity resulting in an increase in income and in its net asset value.

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

This subsidiary also manages its financial resources in excess of that under regulation for its enrollment under the Insurance Intermediaries Act (Cap 487). The net asset value of the insurance manager is reported as on 31 December 2017 at €87,454 (31 December 2016 at €74,958).

Cells

The PCC had seven Cells incorporated within its structure as on 31 December 2017; the PerfectHome Cell, the Travelodge Cell, the Ocado Cell, the TVIS Cell, the Amplifon Cell, the Gemini Cell and the L'Amie Cell.

In accordance with the Companies Act regulations and Insurance Business Act rules all Cellular Assets are segregated (ring fenced) one from the other and from the Core, whereas all Cells have recourse to the Core's assets once their own assets have been exhausted. There is one exception currently on the PCC's books, that of the Amplifon Cell. The Companies Act (Cell Companies Carrying on Business of Insurance) Regulations determine under article 15 that "where a cell exclusively carries on business of affiliated insurance or business of reinsurance and provided that it is specifically permitted by the memorandum and articles of association of the cell company, the company may, by specific written agreement to that effect, provide that only the cellular assets of that cell may be utilised to satisfy the cellular liability of such cell". This is known as non-recourse to the Core's Assets.

The ***PerfectHome Cell*** writes theft and accidental damage insurance cover for furniture and white and brown goods in the United Kingdom. The PerfectHome Group's mainstream operation is that of online retail. The PerfectHome business sells primarily via an HP agreement repayable over weekly cash or monthly instalments. The Cell also writes a much smaller book of extended warranty on such products.

This Cell was incorporated within the PCC during 2008 and has grown its insurance operation substantially over the years. Its operating functional currency is British Pound.

During 2017 the PerfectHome Cell shareholder contributed €500,000 to the Cell's equity by notarised public deed.

The ***OCADO Cell*** is ultimately wholly owned by OCADO Group plc (OCADO), a public company listed on the London Stock Exchange. OCADO is a leading online supermarket in the UK and provides home delivery of food, drink and household goods. This Cell was incorporated within the PCC during 2010 with the purpose of underwriting OCADO's Motor Own Damage/Third Party Liability & Public and Products Liability insurance risk in the United Kingdom and its operating functional currency is British Pound.

During 2017, 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*** is ultimately owned by TVIS Limited, an insurance intermediary authorised by the Financial Conduct Authority in the UK. The intermediary works in partnership with vets as a distribution point for pet insurance. This Cell was incorporated within the PCC during 2014 to specifically underwrite the United Kingdom book of Pet Insurance held by the intermediary and with the intention to grow the portfolio.

The Cell's operating functional currency is British Pound.

The TVIS Cell increased its paid up capital during 2017 by €240,300 equivalent to the issue of 142,400 TVIS Cell shares 67.5% paid up.

The ***Gemini Cell*** is ultimately owned by Aftersales Group and was incorporated within the PCC during 2015.

Aftersales Group specialises in after sale services, operating leases and insurance programmes for electronic devices such as mobile telephones, tablets, laptops and hard disk drives. The cell underwrites related theft and material damage programmes.

The Gemini Cell underwrites the business via Aftersales Group BV which is an authorised intermediary regulated by the Dutch authorities and passported to a number of European member states. The Cell currently underwrites insurance risk in Belgium and the Netherlands and its operating functional currency is Euro.

The ***L'Amie Cell*** is immediately owned by L'AMIE AG lifestyle insurance services, an insurance intermediary authorised by the Austrian insurance regulator. The Cell is ultimately owned by Integral Insurance Broker Gmbh, which is likewise authorised in Austria. With a licence issued during 2015 and updated in 2017 the L'Amie Cell writes a handset theft and material damage portfolio in Austria and is expected to grow the portfolio materially over the coming years in other European countries and, as a reinsurer, in certain non-EU countries.

The Cell's operating functional currency is Euro

The ultimate owner of the **Amplifon *Cell,*** Amplifon SpA, is a publicly listed company on the Milan Stock Exchange and is a world leader in the distribution of hearing solutions and small hearing aids. The company is present in 21 countries.

Amplifon Cell reinsures risks originating from various territories within the European Union. The insurance product is introduced by Amplifon SpA, insured by a primary multinational insurer and then reinsured with the Cell. The primary policy cover is for theft and material damage to the Insured hearing aid.

The Cell's operating functional currency is Euro.

The ***Travelodge Cell*** was originally incorporated within the PCC in 2014 to underwrite room cancellation insurance, which is essentially connected travel insurance sold by the Travelodge Group as part of a hotel room booking package.

During 2017 the Cell shareholder took the decision to wind up the Cell's insurance operation and requested the Board of Directors of the PCC to initiate the process of closing down the Cell. The Travelodge Cell ceased to sell new insurance risk effective 31 August 2017 and as such still carries insurance risk running through to August 2018. The Cell is expected to be fully unwound by the end of 2018 subject to the Malta Financial Services Authority approval.

This Cell's operating functional currency is British Pound.

Aggregate Cell's Results

Premium written for the Cells has seen a diminution in aggregate. There have been two factors that have contributed to this.

1. A Cell has modified its model for operations where it has changed its strategy for sales by moving on to online sales.
2. The weakening of the British Pound to the Euro. The PCC's reporting currency is that of Euro for its capital denomination. Over 70% of premium written by the Cells is written in GBP and, consequently, the weaker sterling currency during 2017 impacted conversion to Euro.

Two Cells have seen important growth for premium income.

The total premium written by the Cells for 2017 is reported in aggregate in the below table, highlighting the Amplifon Cell results separately.

Premium Written		Amplifon Cell	Other Cells	Aggregate
		Euro	**Euro**	**Euro**
	2017	**3,214,090**	**12,930,817**	**16,144,907**
	2016	2,963,440	16,269,610	19,233,050
Percentage Growth/-Diminution for 2017		**8%**	**-21%**	**-16%**

The Cells' gross claims loss ratio for 2017 has been materially impacted by revisions of motor bodily injury claim reserves following the revised UK Ogden discount rate. Such movements are however fully recoverable from reinsurers.

This may be noted from the progression in the table reproduced below moving from gross to net claims loss ratios.

Gross Claims Loss Ratio	Amplifon		Other Cells		Aggregate	
	Euro	Euro	**Euro**	Euro	**Euro**	Euro
	2017	2016	**2017**	2016	**2017**	2016
Premium Earned	**2,423,682**	1,550,914	**12,158,052**	16,260,966	**14,581,734**	17,811,880
Claims Incurred	**1,320,489**	717,249	**21,434,107**	7,356,465	**22,754,596**	8,073,714
Gross Ratio	**54%**	46%	**176%**	45%	**156%**	45%

Net Claims Loss Ratio	Amplifon		Other Cells		Aggregate	
	Euro	Euro	**Euro**	Euro	**Euro**	Euro
	2017	2016	**2017**	2016	**2017**	2016
Premium Earned	**2,423,682**	1,550,914	**11,226,284**	15,463,869	**13,649,966**	17,014,783
Claims Incurred	**1,320,489**	717,249	**4,626,869**	5,865,775	**5,947,358**	6,583,024
Gross Ratio	**54%**	46%	**41%**	38%	**44%**	39%

1.2 System of Governance

As noted in the corporate structure under 1.1 above Atlas insurance PCC Limited forms part of the Atlas Group and the PCC's Core is wholly owned by Atlas Holdings Limited (the Parent). The parent also owns 75% controlling interest in AISH Limited, a holding company which in turn owns 50% of Jesmond Mizzi Financial Advisors Limited. Furthermore the Parent owns 40% of the issued share capital in Assikura Insurance Brokers Limited.

The executive of the PCC, including the Cells, is carried by the Company's Board of Directors as appointed by Atlas Holdings in accordance with the Company's Memorandum and Articles, and as such is responsible for the Company's Solvency II regulatory compliance.

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

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

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

With due regard to the system of governance required by the Solvency II Directive and in considering the specific requirements of the PCC as a whole the Board also appoints the Protected Cells Committee and the Executive Committee.

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

The PCC defines the following risk categories being key:

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

Group	Potential impact of risk events, of any nature, arising in or from membership of a corporate group.

The categorisation follows best practice and current regulations.

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

1.3 Risk Profile

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

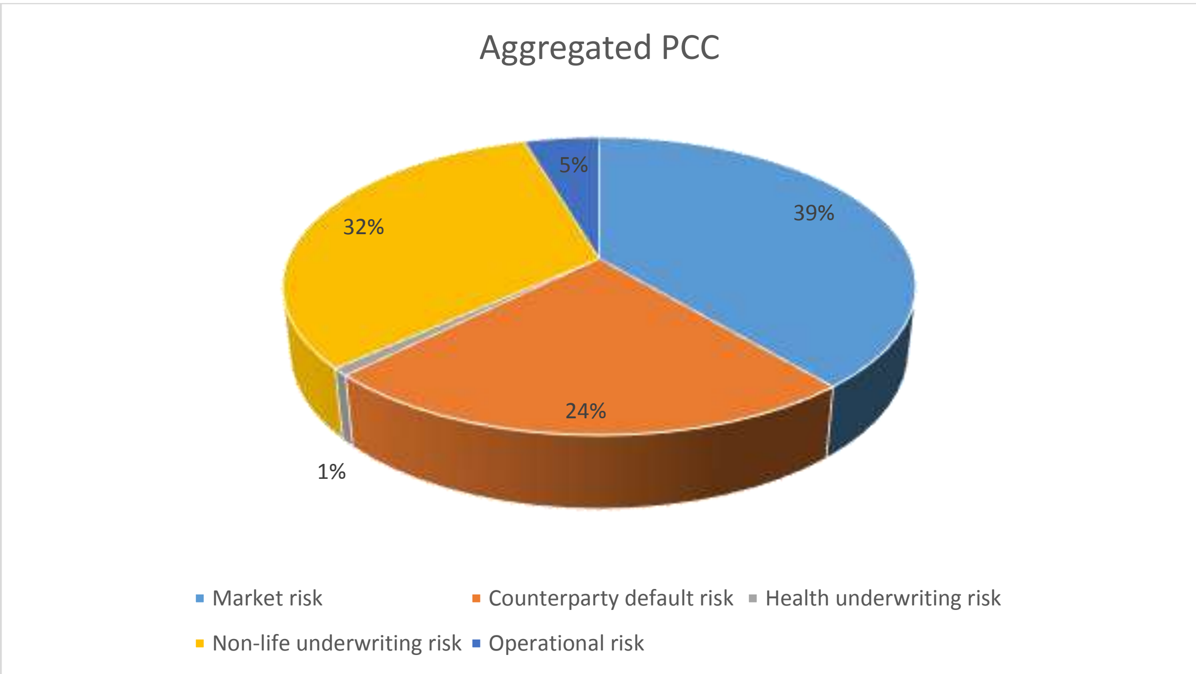
Atlas' objectives include achieving target performance and maximising shareholder value, preserving a level of solvency that would support Atlas in challenging environments, maintaining adequate liquidity to satisfy obligations as they come due, and protecting all aspects of Atlas' value, including its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

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

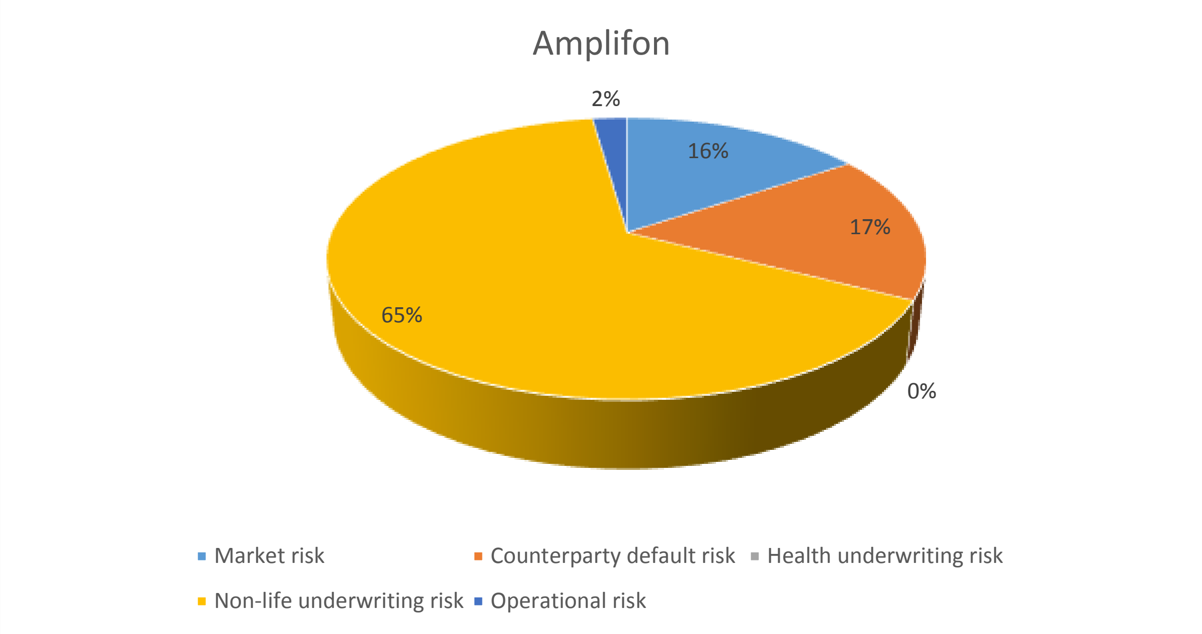
As is obligatory under the Solvency II regime Atlas reserves equity so as to ensure that risk scenarios at a minimum confidence level will be sufficiently matched with appropriate assets matched to its existing and contingent liabilities. In so doing the PCC's Board has opted to adopt the standard formula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

Regulation requires all Cells to determine their individual notional Solvency Capital Requirement (nSCR) under "ring fenced funds" Solvency II rules. The PCC's Core Capital surplus over its own nSCR may also be utilised to cover any shortfall in each Cell's equity in matching their own individual nSCR with the exception of the Amplifon Cell, which Cell too reserves equity to match its own nSCR.

The PCC's risk profile is simply reproduced and expressed in percentages of the calculated end 2017 solvency capital requirement (SCR) of €21,995,569 as follows:



Included in the above SCR is the nSCR for the Amplifon Cell. This too is calculated as at end 2017 and reported at €2,540,961 with 65% arising from its insurance risk.



Solvency II regulation requires that the PCC as a whole is to match its SCR with an equal amount or more of Own Funds (Equity). It also defines Equity in three tiers, with Tier 1 ranking to its full capacity and Tiers 2 and 3 allowed to apply for up to 50% of the nSCR. One must here note that Cells not applying nonrecourse to the Core's Equity are allowed under regulation to fall short of their nSCR by having the shortfall offset against the Core's surplus equity.

The following table identifies the Equity applied by the PCC in matching the individual component nSCR's:

Own Funds	Core Euro 2017	Amplifon Euro 2017	Aggregate Euro 2017
Tier 1	27,231,709	2,818,113	36,475,813
Tier 2	-	-	1,441,430
Tier 3	-	-	-
Total eligible own funds to meet the SCR	**27,231,709**	**2,818,113**	**37,917,243**

Solvency II regulations require an insurance undertaking to ensure that it matches appropriate own funds to the minimum capital requirement (MCR) at all times and may not fall below a 100% ratio of the MCR threshold.

The MCR is a product of the entity's SCR calculation as determined under the standard formula. The regulations apply the principle of an Absolute Minimum Capital Requirement (AMCR) which is currently set at €3,700,000. The undertaking would be required to hold sufficient own funds in excess of the MCR or AMCR whichever is the highest. The PCC's MCR for 2018 is being reported at €5,498,892.

This regulation applies to the PCC as a whole and the PCC's qualifying own funds in aggregate serve the purpose for satisfying the MCR rule.

As may be seen under section 1.4 below, Atlas' substantial own funds do not fall short of this requirement and notes material surplus capital over its SCR.

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

1.4 Valuation of Assets and Liabilities

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

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

Insurance risk

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

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

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

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

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

Financial Risk

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

Atlas holds investments mostly in equity and debt securities. Debt securities are subject to spread risk, interest rate risk and concentration risk. Equities are subject to equity risk and concentration risk. Foreign denominated equity and debt securities are also subject to currency risk. As such both types of securities are fair valued for reporting the balance sheet in accordance with IFRS.

Solvency II values

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

The value of assets represented in the Solvency II balance sheet totalling €105,812,171 differ from the total of the assets as represented under IFRS for the PCC of €121,022,972. The differences between the Solvency II values and those of IFRS arise due to different criteria of valuation for deferred acquisition costs, deferred taxation and reinsurance recoverables.

The Technical Provisions have been calculated as the sum of a best estimate plus a risk margin in accordance with the Solvency II Directive and associated texts. The claims provision is the discounted best estimate of cash flows relating to past claim events that occurred before the valuation date, whether reported or not. The cash flows include: future cash flows resulting from past claims events (including salvage and subrogation) and cash flows arising from allocated and unallocated expenses in respect of past claims events. The methodology used to determine the best estimate and risk margin for technical provisions may be found under Section 5.3. This different approach results in the value of liabilities represented in the Solvency II balance sheet totalling €66,486,137 having reduced from the total of the liabilities as represented under IFRS of €82,984,872.

In arriving at the best estimate for technical provisions no transitional arrangements allowed under Solvency II regulation have been used by the actuaries.

1.5 Capital Management

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

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

As on 31 December 2017 the Core's Solvency ratio for its Own Funds matching its nSCR stood at 234%, and the PCC's total eligible own funds in matching its SCR stood at a Solvency ratio of 172% of the required margin. In the PCC's aggregation all Cells match their own nSCR's. As is required under regulation the PCC is obliged to discard any surplus Own Funds for the individual Cells in matching their own nSCR. The surplus Own Funds that have been discarded in arriving to full compliance of this rule for the Cells totals €2,850,221.

The Amplifon Cell, which excludes recourse to the PCC's Core's capital is also being reported at a ratio of 111% over its nSCR for separate consideration. Any arising cellular surplus capital over the individual nSCRs is discarded for the purpose of aggregating the PCC's SCR. This positioning is perfectly reflective of the prudence applied by Atlas in ensuring sufficient reserves under own funds

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

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

2. Business and Performance

2.1 Business

2.1.1 Corporate form, Regulatory Supervision and Beneficial Owners

Atlas Insurance PCC Limited is a limited liability company incorporated in Malta (Company Registration no. C 5601) with its registered office at 48-50, Ta' Xbiex Seafront, Ta' Xbiex, Malta. As the insurance undertaking in the Atlas Group the Company is considered by the Solvency II Directive to be regulated by the MFSA as a Solo Undertaking.

The PCC is required to report on the Company for its whole PCC results on an aggregate basis. It is required to report on segmental analysis of the PCC's business profile and also highlight any material facts relating to the Core and Cells individually where applicable.

External Auditors

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

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

The Core is 100% owned by Atlas Holdings Limited which in turn is immediately owned by:

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

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

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

The various Cells' immediate owners may be seen in the corporate structure represented under Sub Section 1.1 of this report.

The following are individuals owning more than 10% of their respective Cells where applicable:

The PerfectHome Cell

- Mr John V Deventer – 42.80% as shareholder of the upstream shareholder Cabot Square Partners Holdings Limited
- Mr James R Clark – 10.70% as shareholder of the upstream shareholder Cabot Square Partners Holdings Limited
- Mr Alaric Smith – 11.70% as shareholder of the upstream shareholder PerfectHome Holdings Limited
- Mr Michael J Sweetland – 15.80% as shareholder of the upstream shareholder PerfectHome Holdings Limited
- Mr Michael W Cooper – 11.70% as shareholder of the upstream shareholder PerfectHome Holdings Limited

The TVIS Cell

- Mr Ashley Gray – 25.00% as shareholder of the upstream shareholder TVIS Limited
- Mr Theodore S Duchen – 25.00% as an upstream shareholder of TVIS Limited
- Mr David McDonald – 25.00% as shareholder of the upstream shareholder TVIS Limited
- Mr Brendan Robinson – 25.00% as an upstream shareholder of TVIS Limited

The Amplifon Cell

- Ms Susan C Holland – 54.20% as bare owner shareholder of the upstream shareholder Amplifon SpA, having Mrs Anna Maria Formiggini as usufruct

The Gemini Cell

- Mr Bruno Lisen – 16.66% as shareholder of the upstream shareholder Gemini Insurance Group
- Mr Frank Vernooij – 50.00% as shareholder of the upstream shareholder Gemini Insurance Group
- Mr Mark Gommers – 25.00% as shareholder of the upstream shareholder Gemini Insurance Group

The L'Amie Cell

- Mr Heinz Pedak – 17.90% as shareholder of the upstream shareholder L'Amie lifestyle insurance services
- Mrs Katarina Pedak – 12.39% as shareholder of the upstream shareholder L'Amie lifestyle insurance services
- Mr Roland Pedak – 25.00% as shareholder of the upstream shareholder L'Amie lifestyle insurance services
- Mr Christian Pedak – 25.00% as shareholder of the upstream shareholder L'Amie lifestyle insurance services

2.1.2 Review of the Business

The PCC reports an aggregated profit before tax for the financial year ended 31 December 2017 of €7,522,707 (2016: €5,489,279).

The PCC continues to report sustained profitability in both its Core and individual cellular operations.

The Company's aggregate profit before taxation is summarised in the below table as follows:

Profit before Taxation	**2017**	2016
	€	€
Core	**4,560,478**	3,024,590
Amplifon Cell	**814,467**	701,282
Other Cells	**2,147,762**	1,763,407
Aggregate PCC Profit before Taxation	**7,522,707**	5,489,279

The Core has registered good profits in the light of underwriting measures taken during 2016 and 2017. 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.

The PCC's pool of Cells have also performed well registering increased profitability over the previous year.

The Amplifon Cell registers a combined loss ratio of 66% an increase over 2016 which had been reported at 54%. Notwithstanding the increase in technical costs, the growth in premium for the Cell allows for increased technical profit.

Other Cells performed well registering a combined loss ratio of 83% for their aggregate results, down from the 89% registered during 2016.

The PCC continues to grow its premium income through its Core operation with premium written for the Core being reported at €25,262,348, an increase of 7% over the previous year which had been reported at €23,573,516.

Notwithstanding this increase for the Core, the PCC's aggregate premium income registers a marginal diminution over the previous year. The aggregate premium income is reported for 2017 at €41,407,255 (2016: €42,806,566).

As has been reported in the Executive Summary the drop in overall premium income is largely due to the two following factors:

- The contraction in premium income was expected for a particular Cell and the Cell is back on track in reaching its premium income objectives.

- A second and more material factor is due to the weakening of the British Pound to the Euro. The PCC's reporting currency is that of Euro for its capital denomination. Over 70% of premium written by the cells is written in GBP and on that basis the weakened sterling currency during 2017 impacted conversion to Euro.

The aggregated Cells' premium underwritten by the PCC in fact reduced from €19,233,050 to €16,144,907.

The PCC has seen increased interest from prospective cell shareholders during 2017, also being engaged on feasibility studies for such operational prospects pan Europe. This augurs well for the Company to grow its cellular network during 2018 and in moving forward. While Great Britain and the European Union have reached an agreement for a transition period for Brexit, it is still unclear what environment will be in place for cross border transacting, past the transition period. For this reason the management of the Company is proactively in discussion with the Prudential Regulation Authority of the United Kingdom with an end to put into place a structure which will accommodate underwriting UK insurance risk past the transition period.

During 2017 the global stock exchange markets carried on in producing very volatile results largely due to the continued global political turmoil. Notwithstanding this the Company's investment portfolio delivered important results contributing to the Company's overall profitability. These results are elaborated upon under subsection 2.2 of this report.

2.1.3 The PCC Income Statement

Atlas is required to report on the PCC's aggregated results for its Core and incorporated Cells and in the following extract from the financial statements the Atlas' aggregated results for the year ended 31 December 2017 are being reproduced.

	Core		Cells		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€	€	**€**	€	**€**	€
Balance on technical account – general business	**4,049,276**	2,412,495	**2,940,534**	2,424,441	**6,989,810**	4,836,936
Investment income	**1,679,009**	1,973,701	**97,050**	82,705	**1,776,059**	2,056,406
Investment expenses and charges	**(254,518)**	(257,257)	**(139,578)**	(1,391)	**(394,096)**	(258,648)
Allocated investment return transferred to the general business technical account	**(767,572)**	(962,065)	**103,826**	(2,457)	**(663,746)**	(964,522)
Administrative expenses	**(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	**(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

The below tables report on how the balance on the technical accounts for the Core and the Cells have been arrived at.

Atlas Insurance PCC Limited - PCC Aggregate in Euro '000	**Premium Written**					
	Gross	**Reinsurer**	**Net**	**Net Premium Earned**	**Net Claims Incurred**	**Net Claims Loss Ratio before other costs**
Income Protection Insurance	505,461	4,940	500,521	504,513	73,212	14.51%
Motor Vehicle Liability Insurance	9,227,165	1,305,109	7,922,056	7,390,827	5,262,064	71.20%
Other Motor Insurance	5,421,914	192,548	5,229,366	4,834,344	2,607,063	53.93%
Marine, Aviation and Transport Insurance	1,329,636	792,617	537,019	536,831	294,942	54.94%
Fire and Other Damage to property Insurance	21,424,404	7,834,961	13,589,443	12,372,222	5,089,174	41.13%
General Liability Insurance	2,703,354	463,349	2,240,005	2,205,764	459,292	20.82%
Miscellaneous Finacancial Loss Insurance	795,321	709,622	85,699	84,949	76,356	89.88%
Total	**41,407,255**	**11,303,146**	**30,104,109**	**27,929,450**	**13,862,103**	**49.63%**

Atlas Insurance PCC Limited - Core in Euro '000	**Premium Written**					
	Gross	**Reinsurer**	**Net**	**Net Premium Earned**	**Net Claims Incurred**	**Net Claims Loss Ratio before other costs**
Income Protection Insurance	505,461	4,940	500,521	504,513	73,212	14.51%
Motor Vehicle Liability Insurance	6,292,819	534,921	5,757,898	5,436,305	4,149,874	76.34%
Other Motor Insurance	4,991,184	-	4,991,184	4,648,570	2,380,133	51.20%
Marine, Aviation and Transport Insurance	1,329,636	792,617	537,019	536,831	294,942	54.94%
Fire and Other Damage to property Insurance	8,911,229	7,836,484	1,074,745	1,067,156	617,017	57.82%
General Liability Insurance	2,502,889	400,510	2,102,379	2,066,618	364,035	17.62%
Miscellaneous Finacancial Loss Insurance	729,130	709,622	19,508	19,491	35,532	182.30%
Total	**25,262,348**	**10,279,094**	**14,983,254**	**14,279,484**	**7,914,745**	**55.43%**

Atlas Insurance PCC Limited - Amplifon Cell Euro '000	**Premium Written**					
	Gross	**Reinsurer**	**Net**	**Net Premium Earned**	**Net Claims Incurred**	**Net Claims Loss Ratio before other**
Fire and Other Damage to property Reinsurance	**3,214,090**	**-**	**3,214,090**	**2,423,683**	**1,320,489**	**54.48%**

Atlas Insurance PCC Limited - Other Cells in Euro '000						Net Claims
	Premium Written			Net Premium	Net Claims	Loss Ratio
	Gross	Reinsurer	Net	Earned	Incurred	before other
Income Protection Insurance	-	-	-	-	-	0.00%
Motor Vehicle Liability Insurance	2,934,346	770,188	2,164,158	1,954,522	1,112,190	56.90%
Other Motor Insurance	430,730	192,548	238,182	185,774	226,930	122.15%
Marine, Aviation and Transport Insurance	-	-	-	-	-	0.00%
Fire and Other Damage to property Insurance	9,299,085	- 1,523	9,300,608	8,881,383	3,151,668	35.49%
General Liability Insurance	200,465	62,839	137,626	139,146	95,257	68.46%
Miscellaneous Finacancial Loss Insurance	66,191	-	66,191	65,458	40,824	62.37%
Total	**12,930,817**	**1,024,052**	**11,906,765**	**11,226,283**	**4,626,869**	**41.21%**

At year end 2017 the PCC's Core registered an overall net claims loss ratio before other expenses of 55%, whereas the PCC registered an aggregated claims loss ratio before other expenses of 50%.

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

QRT Table 1 – PCC Aggregated Core and Cells in Euro '000

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

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional**							
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	Total
		C0020	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0120**	**C0200**
Premiums written									
Gross - Direct Business	**R0110**	505	8,985	5,664	1,330	18,050	2,712	948	38,193
Gross - Proportional reinsurance accepted	**R0120**					3,214			3,214
Gross - Non-proportional reinsurance accepted	**R0130**								
Reinsurers' share	**R0140**	5	1,305	193	793	7,835	463	710	11,303
Net	**R0200**	501	7,680	5,472	537	13,429	2,248	238	30,104
Premiums earned									
Gross - Direct Business	**R0210**	509	8,629	5,008	1,334	17,343	2,653	762	36,239
Gross - Proportional reinsurance accepted	**R0220**					2,424			2,424
Gross - Non-proportional reinsurance accepted	**R0230**								
Reinsurers' share	**R0240**	5	1,238	174	797	7,407	440	672	10,733
Net	**R0300**	505	7,391	4,834	537	12,359	2,213	91	27,929
Claims incurred									
Gross - Direct Business	**R0310**	65	21,906	2,772	871	9,807	509	2,362	38,293
Gross - Proportional reinsurance accepted	**R0320**					1,320			1,320
Gross - Non-proportional reinsurance accepted	**R0330**								
Reinsurers' share	**R0340**	0	16,784	24	307	6,515	35	2,087	25,751
Net	**R0400**	65	5,123	2,748	564	4,613	474	275	13,862
Expenses incurred	**R0550**	130	1,779	1,321	341	6,238	662	202	10,672
Other expenses	**R1200**								
Total expenses	**R1300**								10,672

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

Top 5 Countries other than Malta

S.05.02.01
Premiums, claims and expenses by country

		Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0020	C0030	C0040	C0050	C0060	C0070
	R0010	GB	AT	DE	CH	NL	
		C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	R0110	12,187	152				12,340
Gross - Proportional reinsurance accepted	R0120	315		115	525	2,244	3,198
Reinsurers' share	R0140	1,026					1,026
Net	R0200	11,477	152	115	525	2,244	14,512
Premiums earned							
Gross - Direct Business	R0210	11,855	6				11,861
Gross - Non-proportional reinsurance accepted	R0230	153		28	288	1,950	2,420
Reinsurers' share	R0240	931					931
Net	R0300	11,077	6	28	288	1,950	13,350
Claims incurred							
Gross - Direct Business	R0310	21,367	2				21,369
Gross - Proportional reinsurance accepted	R0320	540		15	341	335	1,231
Reinsurers' share	R0340	16,807					16,807
Net	R0400	5,100	2	15	341	335	5,792
Expenses incurred	R0550	1,470	84	2	19	129	1,704
Other expenses	R1200						198
Total expenses	R1300						1,903

2.2 Investment Performance

Atlas reports on the results for investment return of the PCC Core and for the Cells.

The PCC Core registered total investment income net of investment expenses for the year ended 31 December 2017 of €1,424,491 (2016: €1,716,444) equivalent to 4% return on the total investment portfolio held as on 31 December 2017.

As reported earlier under the executive summary, notwithstanding substantial volatility experienced during 2017 in the local and international stock exchange market places, the Core registered important results for its investment portfolio. The Board of Directors applies an investment policy which allows for reasonable return on investment while safeguarding prudence by causing appropriate spread in its allocation, and largely placing investments in high grade securities.

During the year two Cells took opportunity to place a substantial amount of their growing reserves into A rated money funds seeking opportunity to return income for their growing cash reserves.

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

Atlas Insurance PCC Limited	**PCC Total**		**Core**		**Amplifon Cell**		**Other Cells**	
Investment Performance in Euro	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Interest receivable from financial assets that are not held at fair value through profit or loss	**74,234**	70,107	**-**	645	**82**	203	**74,152**	69,259
Net gains from financial assets held at fair value through profit or loss								
- dividend income	**390,682**	466,915	**390,682**	466,915	**-**	-	**-**	-
- net fair value gains	**559,321**	308,150	**577,012**	308,150	**(17,691)**	-	**-**	-
Dividend from subsidiary undertaking	**584,615**	523,077	**584,615**	523,077	**-**	-	**-**	-
Fair value gains on investment property	**-**	559,992	**-**	559,992	**-**	-	**-**	-
Exchange differences	**(119,714)**	(5,693)	**(23,210)**	(18,936)	**(65,152)**	(1,544)	**(31,352)**	14,787
Rental income from investment property	**126,700**	114,922	**126,700**	114,922	**-**	-	**-**	-
Investment expenses	**(233,875)**	(239,712)	**(231,308)**	(238,321)	**(46)**	(45)	**(2,521)**	(1,346)
Total	**1,381,963**	1,797,758	**1,424,491**	1,716,444	**(82,807)**	(1,386)	**40,279**	82,700
Perecntage Return as on 31 December	***3.43%***	*4.81%*	***4.06%***	*5.38%*	***-2.25%***	*0.00%*	***2.63%***	*0.00%*

Atlas Insurance PCC Limited	**PCC Total**		**Core**		**Amplifon Cell**		**Other Cells**	
Investment Portfolio held in Euro	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
- land and buildings	**3,549,950**	3,549,950	**3,549,950**	3,549,950	**-**	-	**-**	-
- investment in subsidiaries	**698,000**	698,000	**698,000**	698,000	**-**	-	**-**	-
- other finanancial investments	**36,089,141**	33,124,520	**30,875,415**	27,637,868	**3,682,309**	-	**1,531,417**	5,486,652
Total	**40,337,091**	37,372,470	**35,123,365**	31,885,818	**3,682,309**	**-**	**1,531,417**	**5,486,652**

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

2.3 Revenue derived from International Business and from other activities

The Core receives Cell facility, insurance management and oversight fees for the hosting and management of the Cells, while also recognising income derived from its expert surveying resources.

The Cells do not derive any other income other than that through their underwriting operations.

3. System of Governance

3.1 General Information on the system of governance

As stated in the executive summary Atlas Insurance PCC Limited forms part of the Atlas Group. The Group is also captured for group regulatory reporting under the Solvency II regime. As is required under Solvency II for the Atlas Group's regulatory requirements under group supervision rules the PCC's Board, is entrusted to oversee the Group's compliance with all three Pillars under the Solvency II regime besides that of the PCC. As such it is also responsible to ensure that appropriate governance procedures are set within the whole group.

The PCC's system of governance is best reported on by addressing the whole structure and organisation put in place for the Group as a whole. Such system of governance is clearly addressing the PCC as a whole, Core and Cells, and sister companies within the Atlas Group.

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

Relations with Policy Holders

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

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

Relations with Shareholders

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

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

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

Cellular shareholders within the PCC are also addressed by the PCC's Board as is explained in the following sub sections.

Atlas Group Systems of Governance

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

3.2 Responsibilities, reporting lines and allocation of functions

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

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

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

3.2.1 Responsibilities and reporting lines

The PCC's Board of Directors

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

The current board members appointed by Atlas Holdings Limited are:

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 F.C.I.I. – Deputy Managing

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

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

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

Board and board committee meetings are scheduled at the start of the year. During 2017 the board met 10 times including ad-hoc meetings set for specific agenda items of discussion such as the Own Risk and Solvency Assessment report proposed reinsurance programmes.

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

Executive Committee (EXCO)

The board actively involves the Executive Committee in the development of strategy and delegates the responsibility of the implementation of the Group's strategy to the Executive Committee under the Chairmanship of the CEO. The committee met 8 times during the period under review and was instrumental in the proposing of annual budgets and funding plans as well as detailed business plans in various areas including sales and marketing and information technology for the approval of the board of directors.

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

Board Committees

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

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

3.2.2 Group structure and allocation of responsibilities

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

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

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

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

Atlas Group Governance Structure

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

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

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

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

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

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

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

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

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

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

3.2.3 Board 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 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. 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.

In March 2018 the board of directors constituted the **Information Technology Committee** 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 Edward Stafrace and Mr Vinay Aarohi who is the Group IT Manager.

Audit Committee

The Audit Committee met five 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.

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.

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.

Board's Risk Appetite or with the Board's exceptional approval. It also oversees the Company's property investments.

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.

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.

Individual Cell Committees

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

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

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

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

3.3 Fit and proper requirements

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

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

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

3.3.1 Applicability

The Policy applies to:

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

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

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

d) Atlas Group's Tied Insurance Intermediaries;

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

3.3.2 Requirement of fitness and properness and implementation

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

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

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

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

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

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

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

Implementation and Controls

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

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

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

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

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

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

Key Function Holders

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

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

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

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

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

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

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

3.4.1 Governance framework

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

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

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

Governance & Strategy

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

General

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

Risk Specific

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

Protected Cells (Atlas PCC)

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

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

Risk Philosophy and Guiding Principles

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

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

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

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

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

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

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

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

Roles and Responsibilities

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

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

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

3.4.2 Risk register

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

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

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

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

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

3.4.3 Risk evaluation

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

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

The Group defines the following risk categories:

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

The categorisation follows best practice and current regulations.

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

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

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

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

3.4.4 Risk appetite

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

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

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

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

3.4.5 Reporting processes for the risk management system

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

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

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

3.4.6 Own Risk and Solvency Assessment

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

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

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

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

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

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

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

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

3.4.7 Risk management strategies, objectives and processes

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

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

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

3.5 Internal control system

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

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

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

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

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

Additional internal control activities and monitoring mechanism include:

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

Compliance Function

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

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

- Compliance Control Calendar

- Compliance Annual Reports received from the compliance owners
- Compliance Audits within the various departments by the Internal Auditor and followed by a Compliance/ Internal Audit Report
- Compliance Training Sessions
- Tied Insurance Intermediaries’ (TIIs) Audits conducted by the Branches and Intermediaries team and followed by a Compliance Audit report
- Tied Insurance Intermediaries’ Compliance Training Sessions
- Frequent updates on Compliance Matters to all Staff and Tied Intermediaries
- Drafting of various Guidelines made available to all Staff Tied Intermediaries
- Traffic Lights Reporting Template on compliance areas

3.6 Internal audit function

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

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

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

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

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

3.7 Actuarial Function

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

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

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

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

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

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

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

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

3.8 Outsourcing

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

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

Due Diligence

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

The due diligence process should assess:

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

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

Approval and Monitoring

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

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

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

Control

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

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

3.9 Any other information

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

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

4. Risk profile

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

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

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

To the extent pragmatically possible, the framework is based on quantitative risk measures. Qualitative risk measures are also used as applicable for risks that are difficult and not practical to quantify.

4.1 Underwriting risk

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

4.1.1 Insurance contracts - general business

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

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

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

(iii) Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and are shown as deferred acquisition costs

("DAC") in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

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

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

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

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

4.1.2 Reinsurance contracts held

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

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

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

4.1.3 Receivables and payables

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

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

4.1.4 Management of insurance risk

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

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

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

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

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

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

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

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

The insurance business written by the Gemini Cell emanates from Belgium and the Netherlands and that of L'Amie Cell relates to risks situated in Austria. The reinsurance business written by Amplifon Cell relates to risks originally written in various countries in Europe. 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 this report.

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.

In the context of the Core in particular 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.

The PCC's management remain conscious of the possibility that a spike in the frequency of bodily injury losses and underlying attritional losses on motor own damage may negatively impact the Company's results.

Of note on the cell motor portfolio is the effect of injury reserve upwards revisions consequent upon the revision of the UK's Ogden discount rate. This had a major impact on the gross result but owing to reinsurance no effect was sustained by net results.

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. 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.

The PCC 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 criterion 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.

(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.

Sources of uncertainty in estimation of future claims payments

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

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

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

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

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

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

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

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

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

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

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

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

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

4.2 Financial risk

Atlas 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 PCC's financial risk are market risk, credit risk and liquidity risk identifying the following areas:

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

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

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

4.2.1 Market risk

The PCC is exposed to market risk and mitigates exposures by implementing controls for interest rate risk, equity risk, property risk, spread risk and currency risk.

Interest Rate risk

In general the PCC 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 Atlas to cash flow interest rate risk. Financial instruments issued at fixed rates expose the Company to fair value interest rate risk. The PCC 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.

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

Deposits with banks or financial institutions potentially expose the PCC 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 PCC carries out sensitivity analyses for interest rate risk which illustrate how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

At 31 December 2017 the Company was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities.

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

Equity risk

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

Property Risk

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

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

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

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

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

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

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

4.2.2 Credit risk

Atlas 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 Group's debtor base.

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

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

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

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

4.2.3 Liquidity risk

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

4.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Company identifies in the Risk Register the following risk items:

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

Operational Risk is the most difficult risk to quantify. EIOPA recognises this and the standard formula in effect works Operational Risk as simply 3% of projected premium. For the ORSA, the limited scale of the PCC makes reference to historic operational risk events inadequate for the purposes of projecting forward Economic Capital Requirements due to insufficiency in numbers of such events.

In order to better quantify the risk in relation to Atlas risk profile, reference is instead made to the anticipated worst scenario for each risk after key controls i.e. the residual risk for a subjectively determined 1 in 200 year event.

4.4 Other material risk

Cellular Solvency Capital Deficit Risk

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

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

4.5 Any other information

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

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

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

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

5. Valuation of assets and liabilities for solvency purposes

The financial statements of Atlas Insurance PCC Limited are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as modified by Article 174 of the Maltese Companies Act, (Cap 386) and in accordance with the requirements of the said Act and the requirements of the Maltese Insurance Business Act, 1998. As such they are prepared under the historical cost convention as modified by the fair valuation of Land and buildings. Investment property, Land and buildings – property, plant and equipment, and financial assets are recognised at fair value through profit or loss.

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

The PCC is required to report on such valuations. In the following subsections you will see the Company reporting its PCC financial positions on a PCC aggregate basis, the Core and separate aggregate Cellular positions. The Amplifon Cell is also reported separately and is not included in the Cells' aggregate position due to the fact that the Cell does not have recourse to the Core Capital.

Therefore all financial information being reproduced is reported for:

- The PCC aggregate;
- The Core;
- The Amplifon Cell;
- Other Cells.

5.1 Assets

The total assets reported in the PCC's balance sheet are reproduced below for the PCC and for separate components being the Core, the Amplifon Cell and the aggregate for other Cells

The following Asset Table represents the aggregated total assets for the PCC as a whole as recognised under IFRS and those as recognised in accordance with Solvency II regulation.

PCC Aggregate in Euro '000 **Assets**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Deferred acquisition costs	1,319	-1,319	**0**	0
Intangible assets	17	-17	**0**	0
Deferred tax assets	0	467	**467**	439
Property, plant & equipment held for own use	5,916	0	**5,916**	5,855
Investments (other than assets held for index-linked and unit-				
Property (other than for own use)	3,550	0	**3,550**	3,550
Holdings in related undertakings, including participations	698	0	**698**	698
Equities				
Equities - listed	3,888	0	**3,888**	2,935
Bonds				
Government Bonds	342	4	**346**	1,713
Corporate Bonds	7,072	111	**7,182**	6,124
Collective Investments Undertakings	24,278	0	**24,278**	18,062
Deposits other than cash equivalents	265	0	**265**	265
Other investments	0	0	**0**	3,902
Loans and mortgages				
Other loans and mortgages	259	0	**259**	259
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	42,522	-10,241	**32,281**	16,166
Health similar to non-life	2	-6	**-3**	-6
Deposits to cedants	364	0	**364**	364
Insurance and intermediaries receivables	10,732	-3,989	**6,743**	4,115
Re-Insurance receivables	220	-220	**0**	0
Receivables (trade, not insurance)	4,665	0	**4,665**	1,297
Cash and cash equivalents	14,912	0	**14,912**	20,827
Total assets	121,023	-15,211	**105,812**	86,565

You will note that adjustments are carried to IFRS values in arriving at Solvency II Balance Sheet values. The following are the explanations for the movements arising therefrom which result in a reduction in total assets held for the PCC of €15,211 thousand (€10,661 thousand for 2016).

Deferred Acquisition Costs

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

Intangible Assets

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

Deferred Tax Asset

Please see note under subsection 5.2.2 “Deferred Tax Liabilities”.

Bonds

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

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

Reinsurance Recoverables

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

Reinsurance recoverables from such reinsurers have a direct relationship with the gross technical provisions shown in the liabilities section of the balance sheet and arise as a direct consequence of the valuations of such technical provisions reserved in the balance sheet. As such the reduction in recoverables for Solvency II valuations follows the modelling of “Best Estimate” calculations carried out on the gross technical provisions in accordance with the different reinsurance treaties in place. Please see notes under subsection 5.2.1.

Insurance and Intermediaries Receivables

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

Receivables (trade, not insurance)

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

The following Asset Tables highlight the Balance Sheet movements of the PCC components as expained above.

PCC Core in Euro '000 **Assets**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Deferred acquisition costs	848	-848	**0**	0
Intangible assets	17	-17	**0**	0
Property, plant & equipment held for own use	5,916	0	**5,916**	5,855
Investments (other than assets held for index-linked and unit-				
Property (other than for own use)	3,550	0	**3,550**	3,550
Holdings in related undertakings, including participations	698	0	**698**	698
Equities				
Equities - listed	3,888	0	**3,888**	2,935
Bonds				
Government Bonds	342	4	**346**	1,713
Corporate Bonds	7,072	110	**7,182**	6,124
Collective Investments Undertakings	19,064	0	**19,064**	16,477
Deposits other than cash equivalents	265	0	**265**	265
Loans and mortgages				
Other loans and mortgages	244	0	**244**	244
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	14,382	-4,601	**9,781**	4,629
Health similar to non-life	2	-6	**-3**	-6
Insurance and intermediaries receivables	4,437	-1,831	**2,606**	2,117
Re-Insurance receivables	220	-220	**0**	0
Receivables (trade, not insurance)	628	0	**628**	1,152
Cash and cash equivalents	3,833	0	**3,833**	4,569
Total assets	65,408	-7,409	**57,999**	50,323

Amplifon Cell Euro '000 **Assets**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Deferred acquisition costs	254	-254	**0**	0
Collective Investments Undertakings	3,682	0	**3,682**	16,477
Deposits to cedants	364	0	**364**	364
Insurance and intermediaries receivables	348	0	**348**	1,387
Cash and cash equivalents	3,193	0	**3,193**	4,357
Total assets	7,842	-254	**7,588**	6,108

Other Cells Euro '000 **Assets**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Deferred acquisition costs	217	-217	**0**	0
Deferred tax assets	0	467	**467**	439
Pension benefit surplus	0	0	**0**	0
Investments (other than assets held for index-linked and unit-linked contracts)				
Collective Investments Undertakings	1,531	0	**1,531**	1,584
Other investments	0	0	**0**	3,902
Loans and mortgages	15	0	**15**	15
Reinsurance Recoverables - Non-life excluding health	28,140	-5,639	**22,500**	11,537
Insurance and intermediaries receivables	5,947	-2,158	**3,789**	611
Receivables (trade, not insurance)	3,501	0	**3,501**	145
Cash and cash equivalents	7,886	0	**7,886**	11,901
Total assets	47,237	-7,547	**39,689**	30,135

5.2 Total liabilities

The following Liabilities Table represents the aggregated total liabilities for the PCC as a whole.

PCC Aggregate in Euro '000 **Liabilities**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	71,895	-71,895	**0**	0
Best Estimate	0	53,604	**53,604**	39,663
Risk margin	0	1,711	**1,711**	1,580
Technical provisions - health (similar to non-life)	410	-410	**0**	0
Best Estimate	0	147	**147**	142
Risk margin	0	8	**8**	0
Provisions other than Technical Provisions	141	-141	**0**	0
Deferred tax liabilities	1,667	1,161	**2,828**	1,721
Debts owed to credit institutions	14	0	**14**	45
Insurance & intermediaries payables	1,775	-336	**1,438**	1,552
Reinsurance payables	2,226	-305	**1,921**	1,829
Payables (trade, not insurance)	4,858	-43	**4,815**	5,843
Total liabilities	82,985	-16,498	**66,487**	52,375

The following Liabilities Table highlight the Balance Sheet component movements of the PCC as explained above.

PCC Core in Euro '000 **Liabilities**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	32,381	-32,381	**0**	0
Best Estimate	0	23,927	**23,927**	21,496
Risk margin	0	733	**733**	668
Technical provisions - health (similar to non-life)	410	-410	**0**	0
Best Estimate	0	147	**147**	142
Risk margin	0	8	**8**	0
Deferred tax liabilities	1,667	455	**2,122**	1,154
Debts owed to credit institutions	14	0	**14**	45
Insurance & intermediaries payables	1,097	-313	**784**	743
Reinsurance payables	978	-305	**673**	728
Payables (trade, not insurance)	2,471	-114	**2,357**	2,148
Total liabilities	39,018	-8,254	**30,764**	27,124

Amplifon Cell Euro '000 **Liabilities**	**IFRS**	**2017** **Solvency II Adjustment**	**Solvency II value**	2016 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	5,759	-5,759	**0**	0
Best Estimate	0	3,164	**3,164**	2,358
Risk margin	0	366	**366**	221
Deferred tax liabilities	0	692	**692**	566
Insurance & intermediaries payables	0	0	**0**	145
Payables (trade, not insurance)	549	0	**549**	263
Total liabilities	6,308	-1,538	**4,770**	3,553

Other Cells Euro '000 Liabilities	IFRS	2017 Solvency II Adjustment	Solvency II value	2016 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	33,754	-33,754	**0**	0
Best Estimate	0	26,513	**26,513**	15,809
Risk margin	0	613	**613**	691
Insurance & intermediaries payables	661	-8	**653**	663
Reinsurance payables	1,248	0	**1,248**	1,101
Payables (trade, not insurance)	1,838	71	**1,909**	3,431
Total liabilities	37,501	-6,565	**30,936**	21,695

5.2.1 Technical provisions

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

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

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

The following Technical Provisions extracted from the total liabilities tables highlight the Balance Sheet component movements of the PCC as explained above.

PCC Aggregate in Euro '000		**2017**		2016
Technical provisions	**IFRS**	**Solvency II Adjustment**	**Solvency II value**	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	71,895	-71,895	**0**	0
Best Estimate	0	53,604	**53,604**	39,663
Risk margin	0	1,711	**1,711**	1,580
Technical provisions - health (similar to non-life)	410	-410	**0**	0
Best Estimate	0	8	**8**	0
Best Estimate	0	147	**147**	142
	72,305	-16,835	**55,470**	41,384

PCC Core in Euro '000		**2017**		2016
Technical provisions	**IFRS**	**Solvency II Adjustment**	**Solvency II value**	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	32,381	-32,381	**0**	0
Best Estimate	0	23,927	**23,927**	21,496
Risk margin	0	733	**733**	668
Technical provisions - health (similar to non-life)	410	-410	**0**	0
Best Estimate	0	147	**147**	142
Risk margin	0	8	**8**	0
Total liabilities	32,791	-7,976	**24,814**	22,306

Amplifon Cell Euro '000		**2017**		2016
Technical provisions	**IFRS**	**Solvency II Adjustment**	**Solvency II value**	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	5,759	-5,759	**0**	0
Best Estimate	0	3,164	**3,164**	2,358
Risk margin	0	366	**366**	221
Total liabilities	5,759	-2,230	**3,530**	2,578

Other Cells Euro '000		**2017**		2016
Technical provisions	**IFRS**	**Solvency II Adjustment**	**Solvency II value**	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	33,754	0	**0**	0
Best Estimate	0	0	**26,513**	15,809
Risk margin	0	-6,636	**613**	691
Total liabilities	33,754	-6,636	**27,126**	16,500

A description of each step of the change in technical provisions as reported in the above tables is as follows:

Claims Provision adjustment

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

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

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

Premium Provision

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

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

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

d) Future premium cash flows have been included.

Discounting

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

Risk Margin

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

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

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

Valuation principles

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

Segmentation

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

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

Contract boundaries

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

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

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

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

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

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance							Total Non-Life obligation
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	
		C0030	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0130**	**C0180**
Technical provisions calculated as a whole	**R0010**								
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**								
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	**R0060**	-4	2,570	1,473	109	1,988	167	-31	6,272
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	-3	119	-15	72	1,349	-24	32	1,531
Net Best Estimate of Premium Provisions	**R0150**	0	2,451	1,488	37	638	191	-63	4,741
Claims provisions									
Gross	**R0160**	151	32,089	1,664	366	8,810	2,261	2,138	47,479
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**		22,652	52	203	5,626	283	1,932	30,747
Net Best Estimate of Claims Provisions	**R0250**	151	9,437	1,613	162	3,184	1,979	206	16,732
Total Best estimate - gross	**R0260**	147	34,659	3,137	475	10,798	2,429	2,107	53,751
Total Best estimate - net	**R0270**	151	11,888	3,101	199	3,823	2,170	142	21,473
Risk margin	**R0280**	8	828	161	10	551	119	41	1,719
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	**R0290**								
Best estimate	**R0300**								
Risk margin	**R0310**								
Technical provisions - total									
Technical provisions - total	**R0320**	155	35,487	3,298	485	11,349	2,548	2,148	55,470
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	-3	22,771	36	276	6,975	259	1,964	32,278
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	158	12,716	3,262	210	4,374	2,289	183	23,192

S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	Z0020	Accident year [AY]

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

		Development year												In Current year	Sum of years (cumulative)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100												R0100	-27	
2008	R0160	3,806	1,666	496	113	15	116	-13	397	-12	-4		R0160	-4	6,579
2009	R0170	5,416	2,428	319	103	78	6	9	-7	14			R0170	14	8,364
2010	R0180	4,720	2,178	792	387	63	117	109	-8				R0180	-8	8,358
2011	R0190	4,521	1,543	274	69	63	2	1					R0190	1	6,474
2012	R0200	5,353	2,110	362	179	8	1						R0200	1	8,013
2013	R0210	6,439	2,155	1,054	1,360	1,336							R0210	1,336	12,344
2014	R0220	6,600	2,927	822	186								R0220	186	10,535
2015	R0230	10,698	3,704	872									R0230	872	15,275
2016	R0240	8,538	5,866										R0240	5,866	14,405
2017	R0250	10,764											R0250	10,764	10,764
												Total	R0260	19,001	101,111

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year												Year end (discounted data)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100												R0100	0
2008	R0160									357	275		R0160	273
2009	R0170								546	428			R0170	426
2010	R0180							13	116				R0180	115
2011	R0190						67	34					R0190	34
2012	R0200					179	142						R0200	141
2013	R0210				838	22,589							R0210	22,588
2014	R0220			692	609								R0220	606
2015	R0230	764	3,165	1,535									R0230	1,529
2016	R0240	10,642	5,541										R0240	5,535
2017	R0250	15,015											R0250	15,026
												Total	R0260	47,098

5.2.2 Other liabilities

Section 5.2 above provides the reporting for the PCC's total liabilities in aggregate and by component. The following section reports on the movements for other liabilities. Liabilities arising from technical provisions have been reported on under Section 5.2.1 of this report.

PCC Aggregate in Euro '000 Other liabilities	IFRS	Solvency II Adjustment	Solvency II value	2016 Solvency II value
Deferred tax liabilities	1,667	1,161	**2,828**	1,721
Provisions other than Technical Provisions	141	-141	**0**	0
Insurance & intermediaries payables	1,775	-336	**1,438**	1,552
Reinsurance payables	2,226	-305	**1,921**	1,829
	5,809	379	**6,188**	5,101

PCC Core in Euro '000 Other liabilities	2017 IFRS	 Solvency II Adjustment	 Solvency II value	2016 Solvency II value
Deferred tax liabilities	1,667	455	**2,122**	1,154
Insurance & intermediaries payables	1,097	-314	**784**	743
Reinsurance payables	978	-305	**673**	728
Payables (trade, not insurance)	2,471	-114	**2,357**	2,148
	6,214	-278	**5,936**	2,624

Amplifon Cell Euro '000 Other liabilities	2017 IFRS	 Solvency II Adjustment	 Solvency II value	2016 Solvency II value
Deferred tax liabilities	0	692	**692**	566
	0	692	**692**	566

Other Cells Euro '000 Other liabilities	2017 IFRS	 Solvency II Adjustment	 Solvency II value	2016 Solvency II value
Insurance & intermediaries payables	661	-8	**653**	663
	661	-8	**653**	663

Deferred tax liabilities

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

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

Insurance and intermediaries payables and reinsurance payables

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

5.3 Alternative methods for valuation

Atlas does not use any alternative methods for the calculation of the arising liabilities.

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

QRT Table 6 – PCC Aggregated Core and Cells in Euro '000

S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Deferred tax assets	**R0040**	467
Property, plant & equipment held for own use	**R0060**	5,916
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	40,207
Property (other than for own use)	**R0080**	3,550
Holdings in related undertakings, including participations	**R0090**	698
Equities	**R0100**	3,888
Equities - listed	**R0110**	3,888
Bonds	**R0130**	7,528
Government Bonds	**R0140**	346
Corporate Bonds	**R0150**	7,182
Collective Investments Undertakings	**R0180**	24,278
Deposits other than cash equivalents	**R0200**	265
Loans and mortgages	**R0230**	259
Other loans and mortgages	**R0260**	259
Reinsurance recoverables from:	**R0270**	32,278
Non-life and health similar to non-life	**R0280**	32,278
Non-life excluding health	**R0290**	32,281
Health similar to non-life	**R0300**	-3
Deposits to cedants	**R0350**	364
Insurance and intermediaries receivables	**R0360**	6,743
Receivables (trade, not insurance)	**R0380**	4,665
Cash and cash equivalents	**R0410**	14,912
Total assets	**R0500**	105,812

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	55,470
Technical provisions – non-life (excluding health)	**R0520**	55,315
Best Estimate	**R0540**	53,604
Risk margin	**R0550**	1,711
Technical provisions - health (similar to non-life)	**R0560**	155
Best Estimate	**R0580**	147
Risk margin	**R0590**	8
Deferred tax liabilities	**R0780**	2,828
Debts owed to credit institutions	**R0800**	14
Insurance & intermediaries payables	**R0820**	1,438
Reinsurance payables	**R0830**	1,921
Payables (trade, not insurance)	**R0840**	4,815
Total liabilities	**R0900**	66,486
Excess of assets over liabilities	**R1000**	39,326

6. Capital management

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

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

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

6.1 Own Funds

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

a) **Paid-in Ordinary Share Capital** of the highest quality Own Funds which can be relied on to absorb losses on a going-concern basis. Such shares are issued directly by Atlas Holdings Limited and the PCC with the prior approval of its shareholder and, where applicable, of the Atlas Core and cell shareholders, and ultimately the approval of the MFSA.
b) **Reconciliation Reserve** which is the resultant variance in Own Funds between the Solvency II and the IFRS Balance Sheet with an allowance for Deferred Tax Assets/ Liability movements is also to be factored in the PCC's (where applicable) Own Funds total as Tier 1 Capital.
c) **Other Reserves** which include reserves in equity being the resultant movement in property revaluation under IFRS as per the Group's Audited Annual Financial Statements.
d) **Retained Earnings** which include accumulated profit reserves after the payment of dividends as confirmed through the Group's and the PCC's Audited Annual Financial Statements.
e) **Capital Contributions** which allow for shareholders to top up capital with reserves. Such contributions do not give rise to any increased rights the shareholder may have arising from issued shares.
f) **Functional Currency Exchange Reserve** which is the resulting difference between functional and reporting currencies arising from the cellular operations. Such reserve is also audited on an annual basis by the external auditors.

As per the Commission Delegated Regulation 2015/35 on Solvency II, Atlas' board may in future consider the use of Share Premium accounts and further Capital Contributions as a form of Own Funds eligible as Tier 1 Capital. Under regulation the PCC is obliged to seek regulatory approval for such instruments.

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

The aggregate own funds for all components of the PCC in matching the Company's Solvency Capital Requirement total €37,917,243 as on 31 December 2017 (€35,592,531 as on 31 December 2016).

This is inclusive of available unpaid capital for ancillary own funds of €1,844 thousand, and eligible under Solvency II regulation up to €1,441 thousand in matching the Minimum Capital Requirement.

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

PCC Aggregate in Euro '000 Own funds	IFRS	Solvency II Adjustment	Solvency II value
Paid up ordinary shares	20,817	0	**20,817**
Capital Contribution	500	0	**500**
Other reserves	1,593	-1,593	**0**
Retained earnings	15,128	-15,128	**0**
Reconciliation reserve	0	15,159	**15,159**
Ancillary own funds - issued capital unpaid	0	1,441	**1,441**
	38,038	-121	**37,917**

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

All the Core's own funds are classified under Solvency II as Tier 1 capital since they are considered to be of high quality. In the case of two Cells an element of unpaid capital totalling €1,844 thousand is also considered for the purposes of Solvency II own funds, but is recognised as Tier 2 capital and classified as ancillary own funds. Such capital undergoes ongoing due process for MFSA authorisation for its applicability.

Application and review of own funds.

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

The Group Chief Financial Officer liaises with the Company Secretary, where applicable, to support backing calculations showing the effect of any proposed increase in paid/unpaid share capital for the PCC.

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

Medium-Term Capital Management Plan

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

This plan considers the various disciplines and parameters which govern the underlying asset exposures to the Core's balance sheet and Cells within the Company. Priority is given to the loss absorbency aspects of these assets. They are driven by:

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

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

QRT Table 8 – Atlas PCC Aggregated Core and Cells in Euro '000

S.23.01.01

Own funds

		Total	Tier 1 - unrestricted	Tier 2
		C0010	C0020	C0040
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35				
Ordinary share capital (gross of own shares)	**R0010**	20,817	20,817	
Reconciliation reserve	**R0130**	15,159	15,159	
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	500	500	
Total basic own funds after deductions	**R0290**	36,476	36,476	
Ancillary own funds				
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	1,844		1,844
Total ancillary own funds	**R0400**	1,844		1,844
Available and eligible own funds				
Total available own funds to meet the SCR	**R0500**	38,320	36,476	1,844
Total available own funds to meet the MCR	**R0510**	38,320	36,476	1,844
Total eligible own funds to meet the SCR	**R0540**	37,917	36,476	1,441
Total eligible own funds to meet the MCR	**R0550**	36,639	36,476	163
SCR	**R0580**	21,996		
MCR	**R0600**	5,499		
Ratio of Eligible own funds to SCR	**R0620**	2		
Ratio of Eligible own funds to MCR	**R0640**	7		

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	39,326
Other basic own fund items	**R0730**	21,317
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	2,850
Reconciliation reserve	**R0760**	15,159
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	1,123
Total Expected profits included in future premiums (EPIFP)	**R0790**	1,123

6.2 Solvency capital requirement and minimum capital requirement

The PCC does not make use of internal models, partial internal models or undertaking specific parameters in calculating its solvency capital requirement (SCR). The Company calculates its respective nSCR's and ultimate aggregated SCR utilising the standard formula.

Individual cells are not obliged to hold the absolute minimum capital requirement (AMCR of €3,700 thousand) as this is an obligation imposed on the PCC's Core, nor is an individual cell obliged under regulation to match its own nSCR with its own funds for as long as that Cell has financial recourse to the Core's own funds. Under the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, the PCC may impose non-recourse for cells authorised to carry on Captive insurance business and/or Reinsurance business. Under such circumstances these cells would have to match their own nSCR with its own funds. The PCC has the Amplifon Cell which is authorised to carry on the business of reinsurance where non-recourse is in place and on that basis matches its own funds to its nSCR with a solvency ratio of 111%.

The following table illustrate the various risk components making up the SCR requirements for both the PCC, its Core, the Amplifon Cell and all Other Cells.

Solvency Capital Requirement	**Core**	**Amplifon**	**Other Cells**	**Aggregated PCC**
Market risk	12,517	662	2,355	**15,534**
Counterparty default risk	2,664	722	5,906	**9,292**
Health underwriting risk	320	-	-	**320**
Non-life underwriting risk	5,215	2,771	4,092	**12,078**
Diversification	(4,694)	(721)	(2,425)	**(7,840)**
Operational risk	722	95	979	**1,796**
LACDT	(5,086)	(988)	(3,110)	**(9,184)**
Total SCR	**11,659**	**2,541**	**7,796**	**21,996**

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

The PCC's MCR calculation results in a requirement of €5,499 thousand. The own funds reported for Solvency II comfortably exceed the above MCR requirements.

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

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

S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement
		C0110
Market risk	**R0010**	16,603
Counterparty default risk	**R0020**	9,931
Health underwriting risk	**R0040**	342
Non-life underwriting risk	**R0050**	12,909
Diversification	**R0060**	-10,402
Basic Solvency Capital Requirement	**R0100**	29,384

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	1,796
Loss-absorbing capacity of deferred taxes	**R0150**	-9,184
Solvency capital requirement excluding capital add-on	**R0200**	21,996
Solvency capital requirement	**R0220**	21,996
Other information on SCR		
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	11,659
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	10,337

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

S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	**R0010**	4,482

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Income protection insurance and proportional reinsurance	**R0030**	151	501
Motor vehicle liability insurance and proportional reinsurance	**R0050**	11,888	7,922
Other motor insurance and proportional reinsurance	**R0060**	3,101	5,229
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	199	537
Fire and other damage to property insurance and proportional reinsurance	**R0080**	3,823	13,428
General liability insurance and proportional reinsurance	**R0090**	2,170	2,249
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	175	219

Overall MCR calculation

		C0070
Linear MCR	**R0300**	4,482
SCR	**R0310**	21,996
MCR cap	**R0320**	9,898
MCR floor	**R0330**	5,499
Combined MCR	**R0340**	5,499
Absolute floor of the MCR	**R0350**	3,700
		C0070
Minimum Capital Requirement	**R0400**	5,499

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

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

6.4 Differences between the Standard Model and any Internal Model used

The PCC does not make use of the possibility allowed under the Solvency II Directive to apply internal or partial internal models and on this basis has nothing to report.

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

As on 31 December 2017 the PCC reports an aggregated Solvency Ratio of 172% for Solvency II Own Funds over the Solvency Capital Requirement. In calculating this ratio all surplus own Funds arising from cells is discarded. The surplus Own Funds that have been discarded in arriving to full compliance of this rule for the Cells totals €2,850,221.

As such there is no non-compliance issue to report.

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