# Annual Report & Audited Financial Statements 2019

Atlas Insurance PCC Limited

People you can trust

atlas.com.mt

# Our Vision

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

# Our Mission

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

# Our Core Values

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


Cover Image by Artist Andrew Borg
Ħondoq, Malta, Oil on canvas 90 x 60cm, 2017

# Contents

# Chairman's Statement

The performance of Atlas Insurance in 2019 on its Core technical account and other insurance activities was once more the best ever in the history of the Company. For this I thank the leadership team and all the employees for the service they gave to the Company and the results they have achieved. Atlas continues to operate in a very demanding trading environment, which has challenged us to create a balance among the clients', employees' and shareholders' expectations.

## ECONOMIC ENVIRONMENT

The Maltese economy has continued on its growth path, even though the growth rate in 2019 was of 4.4% compared to over 6% experienced in the previous two years. The slowdown in the economic growth rate reflected itself in a number of other indicators.

The labour market has also continued to expand, with a total of 220,871 persons being in full time employment and 34,426 persons being in part time employment. Average wages and salaries for the whole economy increased by 4.8% in 2019 over 2018. Household consumption grew by 3.9% after a growth of 8.3% over the previous year, denoting a still positive consumer sentiment. The annual rate of inflation in December 2019 was 1.3%.

Financial and insurance activities have also performed well during 2019, with gross value added of this sector increasing by 2.3% compared to 7.7% in 2018. This sector was reported to have employed 11,738 persons at the end of 2019, at the same level as in 2018.

## FINANCIAL RESULTS

Total written premiums underwritten by the Company amounted to over €64.4 million in 2019, up from €45.3 million in 2018. Of these €40.6 million were underwritten by the Core. The balance on the technical account of the Core showed an improvement of €2.6 million in 2019. Investment income reached €5.4 million compared to €0.04 million in 2018. Profit before tax by the Core was €9.7 million compared to €4.4 million in 2018. Earnings per share for the Core shareholders stood at €1.37 in 2019, compared to €0.57 in 2018. Total net assets increased to €47.0 million.

Dividends amounting to €1.4 million were paid to the Core shareholders in 2019. An interim dividend was proposed by the Board of Directors and paid to the Core shareholders amounting to €1.0 million after tax in January 2020. Interim dividends to cell shareholders were also paid during 2019 amounting to €0.1 million.

The Company's balance sheet continues to show high levels of capital surplus over regulatory requirements. The solvency ratio stood at 2.83 times the capital requirement for the Company as a whole as on 31 December 2019.

## MANAGEMENT AND STAFF

I would like to thank all our staff for their significant contribution in 2019. It is the commitment, support and dedication from all of them that enables us to succeed. I thank the Managing Director, Michael Gatt, and his leadership team for their continued focus on serving our customers, the pride they have in their work, and their desire to improve. This year Michael retired from his role at the end of March 2020 after fifteen successful years leading the Company and he is being replaced by Matthew von Brockdorff. The Board is convinced that under Matthew's leadership the Company shall continue to thrive.

We are pleased to announce that the efforts to develop the Atlas employer brand to achieve our objective to transform Atlas into an employer of choice in the insurance sector, is reaping benefits. We strive to give our staff an enriching employment experience, which helps them to develop their skills and develop personally, while helping them to remain forward looking and continually responsive to customer needs.

## BOARD OF DIRECTORS

The Board of Directors is fully conscious of its responsibility to ensure our Company is appropriately managed and we achieve our objectives, and to ensure we have an appropriate system of governance throughout our Company. We value the richness that diversity brings in providing the range of perspectives, experience and insights needed to support good decision making and to give the appropriate direction to the Company.

Non-Executive Directors chair five committees, set up to enhance the corporate governance structure. These five committees, which meet regularly and include the participation of executive management, are the Audit Committee, the Risk and Compliance Committee, the Remuneration and Nominations Committee the Investments Committee, and the Information Systems Committee. The charters of the various committees as well as the various policies of the Company are formally reviewed annually to ensure that these policies reflect best practice in corporate governance.

We undertake an evaluation of the performance of the Board and its Committees on annual basis which enables us to examine our progress against our plans and our collective effectiveness. We seek to ensure that all our deliberations take place within the context of the risks involved as we recognize that effective risk management is essential to the Company achieving its objectives.

We also attach great importance to communication with the Executive Committee and there is a very healthy exchange of ideas in the formulation of the Company's business strategy and budget and the adoption of the appropriate risk appetite parameters as well as the Own Risks and Solvency Assessment (ORSA), the Solvency and Financial Condition Report (SFCR), the Regulatory Solvency Report (RSR) and the feedback from the Actuarial Function Report. Members of the Executive Committee also take an active part in the meetings of the Board Committees.

## DEVELOPMENTS

During 2019, there were a number of developments which are worth highlighting.

We started to underwrite directly the health business, a portfolio previously underwritten by AXA PPP healthcare Limited and intermediated by Atlas Healthcare Insurance Agency Limited, our subsidiary. This provides further opportunities for growth for the Company. The investment project in information technology announced last year has taken off and, once completed, is expected

to make a significant change in the way the Company operates. We also continue to assess our Cells portfolio with a view to determining how best to manage it once the Brexit transition period is over. The Company was also very active in the presentation of an application to the Regulator for the setting up of a life insurance undertaking with three other shareholders.

## OUR CONTRIBUTION TO SOCIETY

During 2019, our Corporate Social Responsibility (CSR) efforts continue to be focused primarily in three areas being our contribution to our nation's health and fitness, our contribution to our heritage as well as to children's charities. There is also a growing awareness that the preservation of heritage as well as our nation's health includes adopting a more vigilant approach to environmental social governance. A key criterion for the prioritisation of various proposals made to the Company for CSR remains the ability to involve our key stakeholders in what we do and we make every endeavour to involve our staff and clients in various CSR initiatives.

During 2019, we continued our sponsorship of Melita FC and held a successful football festival as part of this programme. We also supported and collaborated on a number of other fitness and wellbeing related initiatives during the year including Alive and a Volleyball marathon in aid of Dar tal-Providenza. During the year, we held campaigns both internally and externally on the promotion of the importance of mental health and resilience and this was reinforced by the launch of our ICAS Employee Assistance Programme to the local market by Atlas Healthcare. Wellness related talks for staff continued to be held, again with a focus on mental health and mindfulness this year but also on ergonomics, skin cancer and influenza prevention.

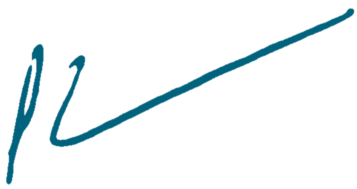
The collaboration with Din L-Art Helwa on the restoration of the White Tower in Armier ended in 2019 and visits to the Tower for our staff and their families were organised. The upgrading of the Rainbow Ward at Mater Dei Hospital was completed and Atlas was pleased to see the completion of our project to fund the Teen room, a recreation area for teenagers.

We continued to support both Fondazzjoni Patrimonju Malti and Young Enterprise during 2019, two organisations that we have worked closely with for many years.

## OUTLOOK

The Board remains confident in our strategy, the fruits of which are reflected in our improved operating results. However, as we all know, in the insurance sector, the journey is never done. The current situation is presenting us with new challenges that we have not faced before, but we are cautiously optimistic that we will be able to deal with these as they arise.

Once again, I thank all the Group's customers, employees, the leadership team, shareholders and partners for their continued support.



Lawrence Zammit

# Chief Executive Officer's Report

2019 was a very successful year for the Atlas Group, in particular for Atlas Insurance PCC Ltd. We delivered on all our key performance indicators enabling us to produce a strong underwriting performance as well as very satisfactory returns on our investment portfolio. This was also the first full year wherein we wrote health insurance directly into the insurance undertaking and this helped in no small way to grow core gross premium income by 52% to €40.6 million.

Through the cells, Atlas actively writes business in the UK and several EU countries. Despite having two cells in run off and one having parked its captive operations, cell premium nonetheless increased by 28% to €23.8 million as the three remaining active Cells have successfully penetrated new markets and achieved substantial premium growth. Following Brexit, it is our intention to maintain access to the UK market through the setting up of a UK branch.

Total gross written premium for the Company for both local risks underwritten by the Core and Cell risks based overseas reached a record high of €64.4 million. It was a most positive year all round as we reported a 122% increase in profit before tax of €9.7 million for the Core. In addition, the cells in total produced a profit of €0.7 million, these profits accruing solely to the benefit of the respective cell shareholders. In total, the Company generated profits before tax of €10.4 million. Core shareholder equity grew by 25% to €34.8 million and core return on equity before tax at the beginning of the year was 35%.

During the year, we remained committed to meet all regulatory obligations and requirements, looked to consolidate the implementation of the Insurance Distribution Directive (IDD) by rolling out our updated training program to our entire distribution network, and ensured that all product oversight and training obligations were met. As we move forward into the digital future, we continue to monitor the evolution of cyber security risks so that we remain ahead of the ever-evolving cyber threats. We are committed to remain equipped to meet the threat of technological disruption and see this an opportunity for cyber security investment and risk management to further drive business growth, strengthen customer trust and generate new competitive advantage.

In our pursuit of leading-edge customer experience, we are making significant investments in innovative cloud-based technology. This will help us deliver existing and new services more nimbly and efficiently both directly and through our highly successful branch and intermediary network. Our new digital strategy has rapidly evolved to a wider business transformation strategy. We are introducing agile leadership and cross-functional teams to further embrace an agile culture. We are also seeking new ways to empower and enable our talented people to achieve ambitious goals as one team including radical changes to our objective setting, performance management and remuneration systems. While it will take time to permeate all product lines through our new technology platform, our customers, intermediaries and partners will begin seeing the benefits early on as we prototype, learn, iterate and scale easier to use products and services.

Our efforts in employer branding are bearing fruit evidenced in a decreased turnover in what continued to be a very challenging employment market with unemployment decreasing further in 2019. This gives credit to our continued efforts to create a positive values based work environment whilst always ensuring that our remuneration is pitched at the right levels. Our main strategy lies in developing our people and strengthening our learning environment especially when length of tenure continues to decrease globally. We are pleased to report that our training hours per employee far outstripped the requirements of the IDD. We furthermore continued to develop our wellness programme, which includes educational talks, on site exercise classes and a focus on mental wellbeing.

We are also looking ahead to new challenges brought about by the new accounting standard IFRS17 and have already started our preparations for a smooth and successful implementation in order for us to be ready well ahead of the planned effective time. As part of our commitment to reinforce the transparent relationship we have with our clients, we have enhanced our focus on business ethics in our day-to-day operations.

## OUTLOOK

Whilst of course there are always challenges to overcome, it would be unwise to expect next year's results to match this year's rate of increases in profitability and growth; however, I am optimistic that Atlas's strengths and distinctive values together with the dedication and professionalism of our employees place us in a strong position as we enter this new decade.

2019 was my last full year in office and I am proud to say it was a very rewarding and fruitful year. Of course, this would not have been possible without the loyalty and dedication of our management team and all our staff who deliver premium service to our customers. I have always firmly believed that our people are our greatest assets. Achieving good results can only be realised through the professionalism, dedication and hard work of all our team. Therefore, I must be the first to thank them for this year's record achievement.

By the date of publishing of this report, I will have retired and from April 2020 will be replaced by Matthew von Brockdorff, who has been deputy Managing Director for a good number of years. I wish Matthew well in his new role and I am confident the Company will continue to thrive under his leadership. I will continue to contribute to the Company as a non-executive director on the board.

Our success and good fortune would not be possible without the enduring support of the broker community, our tied insurance intermediaries and introducers in both Malta and Gozo as well as all our customers. On behalf of everyone at Atlas, we offer our sincere appreciation and gratitude for your business and the trust you place in us.

Finally, I must also thank our Chair and board members, who bring varied skills and experience to our board, for their support in setting the direction, vision and a positive board environment that enabled us, all together, to achieve these highly satisfying results.

Michael Gatt

# Board of Directors

FROM LEFT TO RIGHT

**Lawrence Zammit**

**Franco Azzopardi**

**Catherine Calleja**

**Michael Gatt**

**Matthew von Brockdorff**

**André Camilleri**

**Philip Micallef**

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

**CATHERINE CALLEJA** is Director and Company Secretary of Atlas Insurance PCC Limited and holds the position of Director and Group Company Secretary of the Atlas Group of Companies and is Managing Director of Atlas Healthcare Insurance Agency, a subsidiary of Atlas Insurance. She is also a director of Atlas Holdings Limited, Jesmond Mizzi Financial Advisors Limited and Eagle Star (Malta) Limited. She is an Associate of the Chartered Insurance Institute and graduated in business management from the University of Malta. She is Immediate Past President of the Malta Insurance Association, chairs the Human Resources Committee at the Chamber of Commerce, Enterprise and Industry and is a Visiting Lecturer at the Department of Insurance and Risk Management at the University of Malta.

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

**MICHAEL GATT** was the Chief Executive Officer of Atlas Insurance PCC Limited until March 2020 and continues to contribute to the group as a non-executive director. He has been in the insurance industry for over 40 years. In 2000, he became sales director for Atlas Insurance Agency Limited then agents for AXA Insurance plc. When the Company became a fully-fledged Maltese insurance Company in 2004, he was appointed Managing Director and saw it through its conversion to a Protected Cell Company in 2006, thereby expanding services into international business. He is also a director of Strategic Risk Solutions Insurance Management Services Europe PCC Limited, Assikura Insurance Brokers PCC Limited and Jesmond Mizzi Financial Advisors Limited.

**MATTHEW VON BROCKDORFF**, is a fellow of the Chartered Insurance Institute, working in insurance for over 33 years. He is the Managing Director and CEO of Atlas Group and Atlas Insurance PCC Ltd, moving into this role in the second quarter of 2020. He is also director of Atlas Holdings Limited, Atlas Healthcare Insurance Agency Limited, Eagle Star Malta Limited and Jesmond Mizzi Financial Advisors Limited. He is a past president of the Malta Insurance Association and of the Rotary Club La Valette Malta, a board member of JAYE Malta and a member of the Executive Board of Fondazzjoni Patrimonju Malti.

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

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

KEITH TANTI

CATHERINE CALLEJA

MATTHEW VON BROCKDORFF

VINAY AAROHI

ROBERT MICALLEF

IAN-EDWARD STAFRACE

MICHAEL GATT

MARK CAMILLERI

DAVID MIFSUD

# Executive Committee

## BOARD OF DIRECTORS

**Lawrence Zammit** M.A. (Econ.)
*Chair*

**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 until March 2020*

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

**Matthew von Brockdorff** FCII
*Managing from April 2020*

## AUDIT COMMITTEE

**Franco Azzopardi** MSc (Leicester) FIA CPA
*Chair*

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

**Lawrence Zammit** MA (Econ)
*until March 2020*

**Michael Gatt**
*from April 2020*

## RISK AND COMPLIANCE COMMITTEE

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

**Franco Azzopardi** MSc (Leicester) FIA CPA

**Catherine Calleja** BA(Hons) ACII

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

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

**Matthew von Brockdorff** FCII
*until March 2020*

## REMUNERATION AND NOMINATIONS COMMITTEE

**Lawrence Zammit** MA (Econ)
*Chair*

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

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

## INVESTMENTS COMMITTEE

**Lawrence Zammit** MA (Econ)
*Chair*

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

**John P Bonett**

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

**Mark Camilleri**

**Michael Gatt**

**Matthew von Brockdorff** FCII
*from April 2020*

## EXECUTIVE COMMITTEE

**Matthew von Brockdorff** F.C.I.I.
*Chair from January 2020*

**Michael Gatt**
*until March 2020*

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

**Mark Camilleri**

**Robert Micallef**

**David Mifsud** F.C.I.I.

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

**Keith Tanti** MA Financial Serv, FCII, ACIB
*from January 2020*

**Vinay Aarohi** BA (Comp Sci)
*from January 2020*

## PROTECTED CELLS COMMITTEE

**Matthew von Brockdorff** FCII
*Chair from April 2020*

**Michael Gatt**
*until March 2020*

**John P Bonett**

**Catherine Calleja** BA(Hons) ACII

**Mark Camilleri**

**David Mifsud** FCII

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

## INFORMATION TECHNOLOGY COMMITTEE

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

**Vinay Aarohi** (Comp Sci)

**Catherine Calleja** BA(Hons) ACII
*from April 2020*

**Michael Gatt**

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

**Matthew von Brockdorff** FCII

**Lawrence Zammit** M.A. (Econ.)

# Board and Executive Committees

# Offices and Branches, Cells and Professional Services

## OFFICES AND BRANCHES

**Head Office**
48-50, Ta' Xbiex Seafront, Ta' Xbiex XBX 1021

**Atlas Healthcare Insurance Agency/Eagle Star (Malta) Limited/Finance and Internal Audit Office**
Abate Rigord Street, Ta' Xbiex XBX 1121

**Birkirkara Branch**
1, Psaila Street, Birkirkara BKR 9070

**Bormla Branch**
55, Gavino Gulia Square, Bormla BML 1800

**Mosta Branch**
94, Constitution Street, Mosta MST 9055

**Paola Regional Office**
Valletta Road, Paola PLA 1517

**Rabat Branch**
45, Vjal il-Ħaddiem, Rabat RBT 1769

**San Ġwann Branch**
Naxxar Road c/w, Bernardette Street,
San Ġwann SĠN 9030

**SkyParks Branch**
Malta International Airport, Luqa LQA 3290

**St Paul's Bay Branch**
2, Toni Bajada Street, St Paul's Bay SPB 3227

**Żebbuġ Branch**
148, Vjal il-Ħelsien, Żebbuġ ŻBĠ 2079

## CELLS

- Perfecthome Cell
- Ocado Cell
- TVIS Cell
- Amplifon Cell
- Gemini Cell
- L'AMIE Cell

## PROFESSIONAL SERVICES

**Actuaries**
- Barnett Waddingham LLP

**Auditors**
- PricewaterhouseCoopers

**Bankers**
- APS Bank Limited
- Bank of Valletta p.l.c.
- Barclays Bank plc.
- HSBC Bank Malta p.l.c.
- Lombard Bank Malta p.l.c.

**Investment Managers**
- APS Asset Management Limited
- BOV Asset Management Limited
- Jesmond Mizzi Financial Advisors Limited
- Rizzo Farrugia & Co (Stockbrokers) Limited

**Legal Advisors**
- Ganado & Associates
- Mamo TCV Advocates
- SD Advocates
- Vella Zammit McKeon

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# Pictorial Highlights

Atlas Foodbank donation[1]
Atlas Wellness series – Educational Talk for parents[2]
Atlas sponsors refurbishment of Rainbow Ward at Mater Dei Hospital[3]
Atlas presence at University KSU Freshers' Week[4]
Atlas JAYE Digital Marketing Award Sponsorship[5]
Melita Football Festival[6]

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# Pictorial Highlights

THANK YOU #TeamAtlas – to all at Atlas Insurance, Atlas Healthcare, Jesmond Mizzi Financial Advisors and Eagle Star for working so hard to keep up our level of client service during the COVID-19 crisis (photo taken before social distancing measures)

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2019.

### Principal activities

The principal activities of the Company consist of the business of insurance. The Company is licensed as a cell company to write general business in terms of Article 7 of the Insurance Business Act (Cap.403) by the Malta Financial Services Authority in accordance with the Companies Act (Cell Companies carrying on business of insurance) Regulations, 2010.

### Review of the business

The Board of Directors reports that the Protected Cell Company as a whole registered very positive results for 2019 for the Non-Cellular shareholders (Core). Individual Cellular shareholders have also seen good results accruing to their Cells in line with their business plan. The financial year under review saw technical results contributing significantly to the Company's profit, with excellent investment performance experiencing a recovery over the prior year, leading to material fair value gains for the portfolio on both local and foreign securities held.

The Company registered an aggregate net profit before tax for the year of €10,363,099 (2018: €6,005,524) and a net profit after tax of €6,864,992 (2018: €3,731,205). Profits before tax accruing to the non-cellular shareholders amounted to €9,674,992 (2018: €4,362,052).

### Core

The Board of Directors' objective remains that of consolidating balance sheet reserves with an end to safeguarding policyholder interest, balanced with its dividend distribution policy. In this regard the relatively conservative underwriting and reinsurance policies as well as a prudent dividend policy applied by the Board continue to work toward this objective and consistently produce steady profitability as well as growing the Company's reserves and consolidating its balance sheet strength. The Core's regulated solvency position as at 31 December 2019 stood at 283% (2018: 294%) of the minimum Solvency requirement.

The motor class continues to produce positive results for the year under review which combine well with the continued positive results in other classes. This has resulted in a combined loss ratio of 80% (2018: 82%) across the Core's full portfolio.

During the financial year ended 31 December 2019 the Core assumed the underwriting for health insurance risk intermediated by its subsidiary, Atlas Healthcare Insurance Agency Limited. This strategic move lead to the Core growing its premium portfolio substantially over the prior year. In writing the health portfolio the Company still retains a strong association with by AXA PPP healthcare Limited through a robust reinsurance treaty put in place for the portfolio class assumed.

The Company also registered continued good growth in other classes. This, combined with that for the health portfolio, results in premium written for the year for the Core increasing by 52% over the previous year.

A major contributor to the result achieved during the year under review was the performance registered for the Core's Investment Portfolio. The Company saw increases in both realised income and fair value gains as returns on the investment portfolio held during the year. This result is attributed to the prudent decisions for investment strategy taken during the year as well as market recovery following negative fair value movement in 2018.

## Directors' report - continued

The Company will continue to focus on maintaining profitability on the technical account, the prudent management of core operating costs and its cautious investment strategy.

Besides operating through its Ta' Xbiex Offices, the Company also operated during 2019 through nine branches strategically spread throughout the Island to service its clients.

**Cellular**

During the year under review no new cell has been incorporated within the PCC.

The operating cells have continued to contribute to the Company's aggregated profitability. Such portion of profitability accrues to cell shareholders. Premiums written for the Cells registered an increase of 28% over those of the prior year.

The combined profit before tax for all Cells is reported at €688,107 (2018: €1,643,472) and after tax at €284,279 (2018: €985,372) accruing to the cell shareholders.

**Principal risks and uncertainties**

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

**Core assets, cellular assets and share capital**

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

**Subsidiaries**

The Company fully owns two licensed subsidiaries Atlas Healthcare Insurance Agency Limited and Eagle Star (Malta) Limited

Atlas Healthcare Insurance Agency Limited is authorised by the MFSA under the Insurance Distribution Act to act as enrolled insurance agents for the Company. The Company retains a strong partnership with AXA PPP Healthcare Limited as reinsurer for the health insurance portfolio.

Eagle Star (Malta) Limited is the appointed entity to run off a Long Term Insurance Business portfolio and is overseen by the MFSA.

The Company owns 25% in an associate company, Strategic Risk Solutions Insurance Management Services Europe PCC (SRS) and has also invested a 25% equity share in a company currently applying for authorization to act as a life insurance undertaking. Both these companies are not considered to be subsidiaries.

It is the Company's declared financial policy to direct its subsidiaries' reserves within its own financial management processes and upstream excess financial resources over those required under regulation.

## Directors' report – continued

Atlas Healthcare's increased growth and sustained profitability has continued to contribute to the Company's success during the period under review through dividend income distribution. The agency's net asset value totaled €1,185,449 as on 31 December 2019, which result is in excess of regulated financial resources requirements under the Insurance Distribution Act.

Eagle Star (Malta) Limited carries on to hold sufficient financial resources ensuring continued operation for the run off it is appointed to carry out. The net asset value of the company is reported as on 31 December 2019 at €182,828.

**Board of Directors**

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

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

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

Mr Michael Gatt resigned his position as Managing Director and Chief Executive Officer on 31 March, 2020 at which date the shareholder, Atlas Holdings Limited, has reappointed him as a non-executive director for the Company. Mr Matthew von Brockdorff has replaced Mr Gatt as Managing Director and Chief Executive Officer from April 2020.

**Events after the reporting period – COVID-19 Pandemic**

The spread of Covid-19 across the globe from the beginning of the financial year 2020 is having a significant economic impact both world-wide and locally. The virus was first detected in Malta in the beginning of March 2020. Whilst events pertaining to the COVID-19 pandemic occurred after the balance sheet date, and are hence deemed to be non-adjusting events, Atlas has been closely and constantly monitoring developments as these unfold in order to assess the effects which this pandemic could have on the Company. Due consideration has been given to the impact this may have on the Company's prospects, financial performance, asset values, operations and capital adequacy going forward.

In terms of operations, Atlas rolled out its business continuity contingency plans as soon as developments started to emerge. A dedicated COVID-19 response team was set up in order to monitor developments on a daily basis. Atlas' readiness in terms of business continuity meant that disruptions to the daily operations were kept to a minimum.

The Company has stressed its cash flow projections, and other financial indicators such as asset values, and in view of its capital position as at 31 December 2019, does not envisage that the potential financial impact challenges the going concern basis of preparation of the financial statements, or entails major action. The short term impact will be mitigated, where and when necessary, through certain measures such as access to short term liquidity facilities. Whilst as at 31 March 2020 the Company reports a 9% diminution in the value of its financial assets, it is also

## **Directors' report** – continued

### Events after the reporting period – COVID-19 Pandemic

the company's understanding that this situation is currently fluid and expects that markets will recover once the current situation ameliorates, with asset values rebounding. When considering stress and scenario testing carried out as part of the Company's ORSA (Own Risk Solvency Assessment) process on its market and capital positions, the directors consider that Atlas is able to withstand a potential longer term adverse impact on its assets. This assessment also captures the estimated impact on underlying insurance operations by line of business, including the potential for reduced premium or increased claims exposure for certain lines of business at the same time contemplating offsetting factors, such as likely reduced claims frequency in other lines of business. Atlas further considers that the current high grade quality of its reinsurance panel protects the Company from material exposure in this regard, although downgrading of reinsurers cannot be excluded. The Directors' assessment has primarily focused on the Core's business in light of the nature of the cells' operations and assets, which are expected to be less affected.

Given the current economic outlook at the time of writing, Atlas remains confident that it will continue to adequately cover its regulatory capital requirements. At the same time, the Directors acknowledge that the global and local economic environment remains uncertain.

### Results and dividends

The profit and loss account is set out on pages 22 and 23.

During the year under review the directors declared the payment of non-cellular Ordinary dividends of €1,400,000 net of tax and paid to the shareholder. The directors also approved the payment of an interim dividend net of tax of €60,000 and €56,419 to the cellular shareholder, TVIS Limited and Gemini Investments Limited respectively, out of the profit reserves of these Cells.

On 29 January 2020, the Board approved the payment of a net interim dividend of €1,000,000 to the non-cellular shareholders.

The directors do not propose the payment of a final dividend to the non-cellular shareholder in view of the COVID-19 pandemic and also in line with the recent EIOPA statement on the distribution of dividends.

### Statement of directors' responsibilities for the financial statements

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

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

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU as modified by Article 174 of the Maltese Companies Act, (Cap. 386);
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

## **Directors' report** – continued

**Statement of directors' responsibilities for the financial statements**

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

In terms of the Companies Act (Cell companies carrying on business of insurance) Regulations, 2010, the directors are responsible to keep separate accounts and records as may be necessary to evidence the assets and liabilities of each cell as distinct and separate from the assets and liabilities of other cells in the same Company.

The financial statements of Atlas Insurance PCC Limited for the year ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and may be made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

**Auditors**

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

On behalf of the board

Lawrence Zammit
Chairman

Michael Gatt
Director

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

20 April 2020

## Corporate Governance – Statement of Compliance 2019

The Atlas Insurance PCC Limited board adopts the Malta Financial Services Authority (MFSA) Corporate Governance Guidelines for Public Interest Companies. As a public interest company as well as a large private company as defined under these Guidelines, the Company highlights adherence to this Code in this Annual Report. As a licensed insurance undertaking, the Company is also regulated by the Insurance Business Act (Cap 403) and its various rules and is guided by the EIOPA Guidelines on Systems of Governance and other international models of best practice. The board is also guided by the Companies Act, which establishes the accountabilities of the board of directors, the rights of shareholders and its transparency obligations.

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

## The Board

The Atlas Board of Directors is composed of seven members who are considered fit and proper to direct the business of the Company. The board is appointed annually and assessed in order to ensure that members collectively have the required mix of knowledge, judgement and experience as well as qualifications to oversee the continued successful performance of the insurance undertaking. Board Members are judged to have the necessary background in insurance and financial markets, business strategy, risk management and governance, financial and actuarial analysis, legal and regulatory frameworks as well as information technology and Human Resources Management in order to be able to provide the necessary leadership, integrity and judgement to direct the Company.

The board is appointed at the Annual General Meeting as per the Memorandum and Articles of Association of the Company and during 2019 was composed of a majority of four Independent Non-Executive Directors (NEDs) and three Executive Directors one of whom was the Chief Executive Officer of the Group and Managing Director of the Company. The other Executive Directors on the board were the Deputy Managing Director and the Group Company Secretary, who bring additional knowledge and experience to the table. At the end of March 2020, Mr Michael Gatt retired from his position as Chief Executive and Mr Matthew von Brockdorff, previously the Deputy Managing Director, assumed this role from April 2020. Mr Michael Gatt remains on the board as a non-executive director.

The collaboration on the board of executive and non-executive directors as well as close contact maintained with other executives enables appropriate interaction with senior management and adequate access to key performance indicators. The board also ensures that it has, also through the various board committees listed below, access to enough information to be able to constructively challenge and develop Group strategy as well as satisfy itself on the integrity of the financial information and controls as well as the risk management systems in place. The board meets several times a year with the full Executive Committee of the Company and with other key executives, to further strengthen significant decision taking including the budgetary and Own Risk and Solvency Assessment (ORSA) processes. During this period of transition for the Company, it is felt that the board composition and balance is the right mix for its circumstances, size and complexity.

**Corporate Governance – Statement of Compliance 2019** - continued

**The Board** - continued

The Board of Directors is ultimately responsible for the compliance by the Company with the Insurance Business Act, regulations, and Insurance Rules issued thereunder as well as all Solvency II regulation (Solvency II Directive supplemented by the Commission Delegated Regulations). The board has a number of annually reviewed board policies and reporting procedures, the latter ensuring effective internal controls procedures with pertinent monitoring and reporting mechanisms to the board itself.

The roles of the independent Chairman and Managing Director are kept separate in order to highlight the clear division of responsibilities between the running of the board and the executive responsibility for the running of the business. The independent Chairman serves as a valuable sounding board and mentor for the Chief Executive Officer, which is beneficial for the Chief Executive Officer, shareholders and the Company. The non-executive directors appointed are of sufficient calibre to balance the strength of character of the executive directors and the chair encourages active engagement of all members of the board especially where there may be complex or contentious issues discussed. This atmosphere of constructive and impartial debate is also encouraged by the Chair to optimize strategic decision taking together with executive directors and other senior executives.

Non-executive directors chair five board committees being the Audit, the Investments, the Risk and Compliance, IT and the Remuneration and Nominations Committees. Through these committees, non-executive directors can recognise and support innovation within the management of the company while striking a balance between enterprise and control at Atlas.

The primary role of the Chairman of the board is to focus the board on the ongoing development and determination of the Company's strategy and direction. He leads the board and sets the agenda and the order of that agenda, in collaboration with the Company Secretary. The Chairman ensures that the board receives precise, timely and clear information and where possible directs discussion to the emergence of a consensual view and sums up discussions to ensure the accurate recording and follow up of the key decisions taken. Mr Lawrence Zammit, as Chairman of the board, also holds the Chairmanship of the Atlas Holdings board where the significant shareholding groups of the Company appoint directors. This ensures effective communication with shareholders.

The Atlas Insurance board has also appointed a Senior Independent director, Dr Andre Camilleri. This position provides a sounding board for the Chairman and Group Chief Executive Officer on board matters, as well as a trusted intermediary, if required, for other non-executive directors. This Director is also available to address the concerns of shareholders or, indeed, members of staff, through the Group's Raising a Concern (Whistleblowing) Policy. The Senior Independent Director annually administers the board evaluation process during the last quarter. This includes discussing the results of the board committee evaluation and is an important component of the board's annual review process. The evaluation process also is important for planning the board agenda for the following year including identifying development areas. The Senior Independent Director also chairs the Risk and Compliance Committee.

The Chief Executive Officer is responsible for the overall success of the Company and is answerable to the board for the realisation of the Company strategy, The Chief Executive Officer also chairs the Executive Committee, which in 2019 was made up of the three executive directors, the Chief Underwriting Officer, the Group Chief Financial Officer and the Chief Commercial Officer. From January 2020, the Deputy Managing Director took over the chair of the Executive committee as part of the succession plan. The Chief Executive Officer also chairs the Protected Cells Committee.

**Corporate Governance – Statement of Compliance 2019** - continued

**The Board** - continued

All board and board committee meetings are scheduled prior to the start of each year and, during 2019, the board met eleven times, three meetings being dedicated to specific matters of strategic importance including the Group Own Risk and Solvency Assessment process.

Agendas and information packs are sent well in advance of all board and board committee meetings and organised and recorded on a secure web portal. Agendas are set keeping a balance between strategy and planning, reporting on key performance indicators and current operational issues. Minutes of board meetings faithfully record attendance, decisions taken and resolutions, and are issued on a timely basis and made available to all directors, as soon as practicable, after every meeting.

**Board and Executive Committees**

As provided for in the Memorandum and Articles of the Company and in line with the System of Governance requirements under the Solvency II Directive and the Commission Delegated Regulations, the board has delegated specific responsibilities to board committees. The Audit Committee, the Remuneration and Nominations Committee, the Risk and Compliance Committee, IT Committee and the Investment Committee are all chaired by independent directors and oversee policy and controls in these important areas.

The Protected Cells Committee, the Information Technology Committee and the Executive Committee provide additional support and information to the board. Appointment to all the above mentioned committees is the prerogative of the board of directors. Each committee enables a high level of interaction with key functions reporting to such committees and to the boards of group companies. Members of these committees are listed on pages 8 -13. The board is also copied with minutes of the committee meetings and matters arising from such committees are a standard agenda item at board meetings. The committees also have charters, which are set and annually reviewed by the board and they also annually review their performance.

**Audit Committee**

The Audit Committee met five times during 2019. The Committee, composed entirely of non-executive directors, is chaired by Mr Franco Azzopardi who has the required competence in 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. Mr Michael Gatt joined this committee in April 2020 and Mr Lawrence Zammit resigned from this committee from the same date.

The Committee has oversight of the integrity of the Group's financial reporting, the qualifications and independence and performance of the Group's external auditors as well as the performance of the Group's internal audit function including the internal control systems. It also reviews and assesses the qualitative aspects of financial reporting to shareholders and meets with external auditors, to review any problems or difficulties they encounter as well as to review audit plans prior to the commencement of audit cycles and finally to review financial statements prior to their presentation to the board. The Committee also takes responsibility for the selection process for external auditors as well as reviewing and monitoring the independence of the external auditors and pre-approves any permitted non-audit services to be performed by the auditors.

**Corporate Governance – Statement of Compliance 2019** - continued

**Audit Committee** - continued

As part of its oversight of the internal audit function, the Committee is involved in the setting of risk based annual internal audit plans for the Group. 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 enables the Audit Committee to function according to priorities aligned with the Group's risk register and risk appetite. The Committee also reviews protected cell issues and monitors results of cell inspections and related internal control systems. Meetings between the Committee, other board committee members and members of senior management also take place, especially in the area of financial controls.

The Committee appoints the Internal Auditor and ensures that the function is free to work independently and objectively and ensures succession planning of this role. It also ensures that the internal auditor has the necessary resources and access to information to fulfil the mandate of the function and does not perform any operational functions. The Committee benchmarks the function's activities against recognised standards such as, inter alia the Institute of Internal Auditors and the International Standards for Professional Practice of Internal Auditing as well as Regulatory requirements. The Internal Audit function, through the Audit Committee and its Chairman, has direct access to the Board of Directors and meets regularly with the Company's Chief Risk and Compliance Officer.

Outside the formal Audit Committee meetings, the Audit Committee Chairman regularly met the Internal Auditor, Mr Ivan Distefano, during 2019. These meetings serve to give guidance and receive feedback, and ensure the independence of the internal auditor as well as his continuing professional development. The oversight of related party transactions is also the responsibility of this Committee.

**Remuneration and Nominations Committee**

This committee, composed entirely of independent non-executive directors, met twice during 2019. 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.

As per the EIOPA Guidelines on Systems of Governance, this Committee is established to exercise competent and independent judgement on the Group's Remuneration policy and its oversight. The Committee also assists and advises the board on matters relating to the remuneration of the board and senior management 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 performance related pay schemes and approves annual payments made under this policy. During 2019, a review of the remuneration policy including the performance management system, including a detailed benchmarking exercise, was carried out. It was felt that this was required in the challenging recruitment and retention climate in 2019. The Committee also ensures that provisions regarding disclosure of remuneration are fulfilled and that the Remuneration Policy is applied consistently across the Group and complies with legal requirements. Furthermore it ensures that material risks at Group level linked to remuneration issues are managed.

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

**Corporate Governance – Statement of Compliance 2019** - continued

**Remuneration and Nominations Committee** - continued

continuing fitness and properness of such persons and oversees this process on an ongoing basis. Questionnaires are completed and independent checks using various sources are also carried out on an annual basis.

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 of succession planning for board appointments and as such makes recommendations to the board and shareholders for such appointments.

**Risk and Compliance Committee**

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, Mr Ian-Edward Stafrace and Mr Matthew von Brockdorff also formed part of the Committee during 2019. Mr Matthew von Brockdorff will resign from this committee in April 2020. Mr Andrew Briffa, Chief Risk and Compliance Officer and an Associate Actuary of the UK Institute and Faculty of Actuaries and the Chief Risk and Compliance Officer, regularly attends meetings.

Together with the Chief Risk and Compliance Officer, the Committee coordinates, facilitates and has oversight of the risk management function including the development of the Group's risk appetite and ongoing risk strategy and governing policies. The Committee also oversees risk management at Group level, monitoring developments in the Group's policies, strategy, operations, and environment that may significantly affect uncertainties faced by the organisation. 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 and any significant incidents including any near misses, both in the core and in cell operations. The committee also has oversight of the Compliance function ensuring that the Group continues to maintain its systems to ensure regulatory compliance and readiness for anticipated regulatory changes.

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 as assessed under the ORSA (Own Risk and Solvency Assessment) process. Key members of the senior management team are invited where relevant to the discussion and regular attendance from external experts such as those in the area of Cyber risk is also a feature of the committee meetings. During 2019, the committee continued to monitor closely the Group's adherence to the highest of standards in cyber security to ensure full compliance with data protection requirements for Group Companies, TIIs and outsourced functions. The committee also reviews customer complaints and the root cause analysis, which is carried out to analyse these, as well as relevant training in various areas of compliance and risk management.

**Investments Committee**

This Committee is appointed to take responsibility for formulating the Group's Investment Policy and to ensure that the Group's investment management is conducted according to this policy. The Committee acts in accordance with the Prudent Person Principle as stipulated in Article 132 of the Solvency II Directive.

**Corporate Governance – Statement of Compliance 2019** - continued

**Investment Committee** - continued

In 2019, 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. Mr Matthew von Brockdorff joined the committee on 1 April 2020.

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 annually reviews the Investment Policy, the Asset Liability Management Policy and the relevant Risk Appetite Statement and ensures alignment between these policies and regulatory requirements.

The Committee also engages, after board appointment, investment services providers entrusted to manage the investment portfolio on a discretionary basis, and reviews the performance of such managers. Discretionary managers regularly address and report to the Committee and other board and Executive Committee members attend these presentations. Detailed performance reports are provided to Investment Committee members on a monthly basis. Any investments made in excess of their mandate are always referred and subject to the Board's Risk Appetite or with the Board's exceptional approval. The Committee also oversees the Company's property investments and recommends action to the board. During 2019 a number of acquisitions and sales of property were made in line with the direction taken to move away from residential and more into commercial rentals

**Information Technology Committee**

This Committee addresses strategic issues relating to Information Technology. The committee is chaired by Mr Philip Micallef and the members are Mr Lawrence Zammit, Mr Michael Gatt, Mr Matthew von Brockdorff, Mr Ian Stafrace and Mr Vinay Aarohi who is the Group IT Manager. Ms Catherine Calleja joined the committee from April 2020. The committee met ten times during 2019 and oversaw the decision making process on the choice of provider of the new digital platform which has since been purchased during the period.

This Committee's mandate is to ensure that IT priorities, particularly during the deployment of this new digital platform, are aligned with the Group's strategy and that the major IT investment and expenditure deliver the expected results. The committee supports Atlas Management on IT policy, strategy and governance and reviews the reports obtained by external consultants in this area.

**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. It also ensures that regular cell inspections are carried out. The Committee also, where applicable, oversees relationships with cell managers and quarterly cell KPIs are submitted to the board of directors as part of the financial reporting process. The Committee also oversees the review of new cell applications and presents detailed cell application proposals to the board for approval, prior to submitting them to the Regulator. The committee has overseen the process of the Company's acceptance into the UK's Temporary Permissions Regime by the UK FCA/PRA which will ensure the continued right to write UK business under different Brexit scenarios following December 2020.

The Chief Executive Officer chairs the Committee, which met four times in 2019. Apart from the Chairman, the Committee was composed of the two other Executive Directors of the Company as well as the Chief Underwriting Officer, the Chief Strategy Officer and the Group Chief Financial Officer, as well as Mr John Bonett during 2019. Mr Michael Gatt will no longer form part of the committee after April 2020.

**Corporate Governance – Statement of Compliance 2019** - continued

**Protected Cells Committee** - continued

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 financial performance, 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.

**Executive Committee**

This Committee is chaired by the Chief Executive Officer and during 2019 was made up of the three Executive Directors and the Group Chief Financial Officer, the Chief Underwriting Officer, the Chief Commercial Officer and the Chief Strategy Officer. It met ten times in 2019 but also met on specific issues with the board on two other occasions during the period and participates in board education initiatives. 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 developed with the board. This involves development and deployment 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, information systems planning and the consideration of new business opportunities. As part of the succession plan, from January 2020, the Deputy Managing Director, now the Managing Director, took the Chair of the Executive Committee and two further senior executives joined the committee being the Chief Information Officer, Mr Vinay Aarohi, and the Chief Officer, Personal Insurance Operations, Mr Keith Tanti.

**Relations with Shareholders**

The Guidelines stipulate that the board shall serve the legitimate interests of the company and account to shareholders fully and that companies should use the general meeting to communicate with shareholders. The Atlas Group ensures an ongoing dialogue between the board and shareholders based on the mutual understanding of objectives. The level of disclosure with these important stakeholders continues to be in excess of statutory requirements under the Companies Act. During the Annual General Meeting, besides the statutory business as laid down in the Memorandum and Articles of the Company, information on group performance is presented through the publication of the Annual Report and Financial Statements.

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

Communication with cell shareholders is facilitated through regular meetings of the individual cell committees at which cell managers, where they exist, also participate. Reporting to the board through the Protected Cell Committee of any issues as well as financial and solvency performance of the cells is carried out on a quarterly basis.

**Corporate Governance – Statement of Compliance 2019** - continued

**Directors and Officers Liability Insurance**

Directors and officers of the Group are covered by the Directors and Officers Liability insurance purchased by the Group. Atlas Healthcare Insurance Agency and Eagle Star (Malta) Limited, as subsidiaries of the Company, and other fellow subsidiaries of Atlas Holdings, are also covered by the same policy.

Approved by the Board of Directors on 20 April 2020 and signed on its behalf by:

Lawrence Zammit
Chairman

Michael Gatt
Director

# *Independent auditor's report*

To the Shareholders of Atlas Insurance PCC Limited

## *Report on the audit of the financial statements*

### *Our opinion*

In our opinion:

- Atlas Insurance PCC Limited's financial statements, as a standalone, give a true and fair view of the company's financial position as at 31 December 2019, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU as modified by Article 174 of the Maltese Companies Act, (Cap. 386); and
- The financial statements have been prepared in accordance with the requirements of the said Act.

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

**What we have audited**

Atlas Insurance PCC Limited's financial statements, as a standalone, set out on pages 22 to 85, comprise:

- The profit and loss account and the statement of comprehensive income for the year ended 31 December 2019;
- the balance sheet as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Basis for opinion*

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

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

**Independence**

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

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

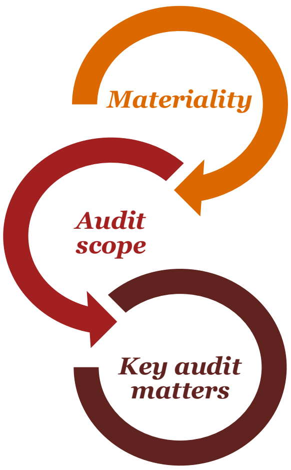
The non-audit services that we have provided to the company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 6 to the Financial Statements.

## *Emphasis of matter*

We draw attention to Note 29 to these financial statements that refers to the uncertainties associated with COVID-19. This matter is considered to be of fundamental importance to the understanding of the financial statements due to its nature and significance. Our opinion is not modified in respect of this matter.

## *Our audit approach*

**Overview**




*Overall materiality: €518,155 that represents 5% of the profit before tax for the company*

*Valuation of provision for claims incurred but not reported*

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

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

**Materiality**

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

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

| | |
|---|---|
| ***Overall materiality*** | €518,155 |
| ***How we determined it*** | 5% of the profit before tax for the company |
| ***Rationale for the materiality benchmark applied*** | We chose profit before tax because, in our view, it is the benchmark against which the performance of the company is most commonly measured by users and is a generally accepted benchmark.<br>We selected 5% based on our professional judgement, noting that it is also within the range that we would consider to be acceptable. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €51,815 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

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

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| *Valuation of provision for claims incurred but not reported*<br><br>Valuation of insurance provisions is judgemental and requires a number of assumptions to be made that have estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred but have not yet been reported, or enough reported, to the Company as some claims can take time to emerge or develop. The determination of the value of these insurance provisions requires judgement in the selection of key assumptions and methodologies.<br><br>The Company makes claims estimates mainly on a case by case basis, and supplements these case estimates with an incurred but not reported (IBNR) provision based on different reserving methodologies applicable to the relevant product portfolios.<br><br>The Company's net claims outstanding and IBNR provisions are disclosed in note 21 at €13.1m and €3.8m respectively. Further information on the development of the ultimate cost of claims over the years is also disclosed in note 21.<br><br>We focused on the provision for claims incurred but not reported due to its inherent subjectivity and complexity (refer to note 2, note 3.1 and note 21). | Our audit procedures included:<br>- applying our industry knowledge and experience in understanding and evaluating the claims outstanding and IBNR reserving methodology, models and assumptions used;<br>- assessing management's estimate of the incurred but not reported provisions based on the methodology, assumptions and judgements made, and also considering whether the reserving methodology has been applied consistently across periods;<br>- performing our own independent IBNR projections on a sample basis, through the involvement of our own actuarial experts, and comparing the results to management's estimates;<br>- considering the quality of underlying data through testing of a sample of claims to underlying documentation, including bordereaux, and performing certain data analysis;<br>- considering the quality of historical reserving by reviewing variations arising from prior year technical provisions; and<br>- considering the extent of related disclosures to the financial statements.<br><br>Based on the work performed, we found the provision for claims incurred but not reported to be consistent with the explanations and evidence obtained. |

## *Other information*

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' Report and Corporate Governance – Statement of Compliance 2019 (but does not include the financial statements and our auditor's report thereon).

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

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

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

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

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

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

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU as modified by Article 174 of the Maltese Companies Act (Cap. 386) and the requirements of the said Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## *Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers, suppliers and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

## *Report on other legal and regulatory requirements*

### *Other matters on which we are required to report by exception*

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

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

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

## *Appointment*

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

**PricewaterhouseCoopers**
78, Mill Street
Qormi
Malta

Romina Soler
Partner

20 April 2020

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

| | Notes | Core 2019 € | Core 2018 € | Cells 2019 € | Cells 2018 € | Total 2019 € | Total 2018 € |
|---|---|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | | | |
| Gross premiums written | | **40,573,438** | 26,689,044 | **23,822,157** | 18,595,980 | **64,395,595** | 45,285,024 |
| Outward reinsurance premiums | | **(20,536,891)** | (10,560,302) | **(12,719,066)** | (5,584,682) | **(33,255,957)** | (16,144,984) |
| Net premiums written | | **20,036,547** | 16,128,742 | **11,103,091** | 13,011,298 | **31,139,638** | 29,140,040 |
| Change in the provision for unearned premiums | | | | | | | |
| - gross amount | 21 | **(4,381,383)** | (487,987) | **(5,117,398)** | (3,793,849) | **(9,498,781)** | (4,281,836) |
| - reinsurers' share | 21 | **2,770,452** | (29,659) | **4,987,383** | 3,869,652 | **7,757,835** | 3,839,993 |
| | | **(1,610,931)** | (517,646) | **(130,015)** | 75,803 | **(1,740,946)** | (441,843) |
| **Earned premiums, net of reinsurance** | | **18,425,616** | 15,611,096 | **10,973,076** | 13,087,101 | **29,398,692** | 28,698,197 |
| **Allocated investment return transferred from the non-technical account** | 5 | **2,449,337** | 23,739 | **19,731** | (5,210) | **2,469,068** | 18,529 |
| **Total technical income** | | **20,874,953** | 15,634,835 | **10,992,807** | 13,081,891 | **31,867,760** | 28,716,726 |
| **Claims incurred, net of reinsurance** | | | | | | | |
| Claims paid | | | | | | | |
| - gross amount | | **16,753,263** | 10,281,951 | **8,909,471** | 30,652,335 | **25,662,734** | 40,934,286 |
| - reinsurers' share | 21 | **(7,447,305)** | (2,426,975) | **(2,894,188)** | (23,255,186) | **(10,341,493)** | (25,682,161) |
| | | **9,305,958** | 7,854,976 | **6,015,283** | 7,397,149 | **15,321,241** | 15,252,125 |
| Change in the provision for claims | | | | | | | |
| - gross amount | 21 | **5,017,221** | 1,236,028 | **342,916** | (26,554,109) | **5,360,137** | (25,318,081) |
| - reinsurers' share | 21 | **(4,822,471)** | (1,152,794) | **(25,741)** | 26,374,358 | **(4,848,212)** | 25,221,564 |
| | | **194,750** | 83,234 | **317,175** | (179,751) | **511,925** | (96,517) |
| **Claims incurred, net of reinsurance** | | **9,500,708** | 7,938,210 | **6,332,458** | 7,217,398 | **15,833,166** | 15,155,608 |
| **Net operating expenses** | 4 | **4,219,106** | 3,093,476 | **3,910,685** | 4,195,507 | **8,129,791** | 7,288,983 |
| **Total technical charges** | | **13,719,814** | 11,031,686 | **10,243,143** | 11,412,905 | **23,962,957** | 22,444,591 |
| **Balance on the technical account for general business** (page 23) | | **7,155,139** | 4,603,149 | **749,664** | 1,668,986 | **7,904,803** | 6,272,135 |

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

| | | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|---|
| | Notes | **2019** **€** | 2018 € | **2019** **€** | 2018 € | **2019** **€** | 2018 € |
| **Balance on technical account – general business** (page 22) | | **7,155,139** | 4,603,149 | **749,664** | 1,668,986 | **7,904,803** | 6,272,135 |
| Investment income | 5 | **5,434,477** | 253,652 | **40,933** | 5,949 | **5,475,410** | 278,915 |
| Investment expenses and charges | 5 | **(239,217)** | (209,456) | **(4,167)** | (3,525) | **(243,384)** | (232,295) |
| Allocated investment return transferred to the general business technical account | 5 | **(2,449,337)** | (23,739) | **(19,731)** | 5,210 | **(2,469,068)** | (18,529) |
| Administrative expenses | 6 | **(226,070)** | (261,554) | **(78,592)** | (33,148) | **(304,662)** | (294,702) |
| **Profit before tax** | | **9,674,992** | 4,362,052 | **688,107** | 1,643,472 | **10,363,099** | 6,005,524 |
| Tax expense | 8 | **(3,094,279)** | (1,616,219) | **(403,828)** | (658,100) | **(3,498,107)** | (2,274,319) |
| **Profit for the year** | | **6,580,713** | 2,745,833 | **284,279** | 985,372 | **6,864,992** | 3,731,205 |

## Statement of comprehensive income

| | | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|---|
| | Notes | **2019** **€** | 2018 € | **2019** **€** | 2018 € | **2019** **€** | 2018 € |
| **Profit for the year** | | **6,580,713** | 2,745,833 | **284,279** | 985,372 | **6,864,992** | 3,731,205 |
| **Other comprehensive income:** | | | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | | | |
| Net reporting currency differences arising on translation from functional currency to presentation currency | 20 | **-** | - | **469,116** | (61,450) | **469,116** | (61,450) |
| Movements relating to property, plant and equipment – land and buildings: | | | | | | | |
| - Revaluation surplus | 20 | **2,101,360** | (1,000) | **-** | - | **2,101,360** | (1,000) |
| - Deferred tax relating to revaluation | | **(221,062)** | 4,553 | **-** | - | **(221,062)** | 4,553 |
| Total other comprehensive income, net of tax | | **1,880,298** | 3,553 | **469,116** | (61,450) | **2,349,414** | (57,897) |
| **Total comprehensive income for the year** | | **8,461,011** | 2,749,386 | **753,395** | 923,922 | **9,214,406** | 3,673,308 |

Income tax relating to each component is disclosed in Notes 8 and 16.

The notes on pages 28 to 85 are an integral part of these financial statements.

# Balance sheet

as at 31 December

| | Notes | Core 2019 € | Core 2018 € | Cells 2019 € | Cells 2018 € | Total 2019 € | Total 2018 € |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Intangible assets | 11 | **1,244** | 4,384 | **-** | - | **1,244** | 4,384 |
| Tangible assets: | | | | | | | |
| - land, buildings and improvements | 12 | **7,403,491** | 5,204,162 | **-** | - | **7,403,491** | 5,204,162 |
| - plant and equipment | 12 | **868,244** | 895,749 | **-** | - | **868,244** | 895,749 |
| -right-of-use assets | 12 | **369,149** | - | **-** | - | **369,149** | - |
| Investments: | | | | | | | |
| - land and buildings | 13 | **11,220,883** | 5,746,210 | **-** | - | **11,220,883** | 5,746,210 |
| - investment in subsidiaries | 14 | **748,058** | 748,058 | **-** | - | **748,058** | 748,058 |
| - investment in associates | 14 | **378,500** | 3,500 | **-** | - | **378,500** | 3,500 |
| - other financial investments | 15 | **34,073,942** | 30,065,075 | **5,257,786** | 5,189,243 | **39,331,728** | 35,254,318 |
| Reinsurers' share of technical provisions | 21 | **23,099,996** | 15,507,073 | **10,417,273** | 5,398,479 | **33,517,269** | 20,905,552 |
| Deferred acquisition costs | 17 | **1,713,742** | 856,929 | **602,478** | 987,735 | **2,316,220** | 1,844,664 |
| Receivables: | | | | | | | |
| - debtors arising out of direct insurance operations | 18 | **4,410,964** | 4,656,543 | **-** | - | **4,410,964** | 4,656,543 |
| - receivables from reinsurers | 18 | **255,018** | 18,331 | **-** | - | **255,018** | 18,331 |
| - other debtors | 18 | **477,411** | 604,033 | **19,197,278** | 13,120,977 | **19,674,689** | 13,725,010 |
| Prepayments and accrued income | 18 | **333,015** | 186,130 | **220,576** | 203,460 | **553,591** | 389,590 |
| Cash and cash equivalents | 25 | **3,108,486** | 4,575,077 | **11,062,332** | 15,201,246 | **14,170,818** | 19,776,323 |
| **Total assets** | | **88,462,143** | 69,071,254 | **46,757,723** | 40,101,140 | **135,219,866** | 109,172,394 |
| **EQUITY** | | | | | | | |
| **Capital and reserves** | | | | | | | |
| Share capital | 19 | **12,000,000** | 12,000,000 | **8,563,228** | 8,506,809 | **20,563,228** | 20,506,809 |
| Capital contribution | | **-** | - | **500,000** | 500,000 | **500,000** | 500,000 |
| Other reserves | 20 | **4,334,903** | 2,454,605 | **(450,423)** | (919,539) | **3,884,480** | 1,535,066 |
| Profit and loss account | | **18,488,517** | 13,307,804 | **3,580,457** | 3,412,597 | **22,068,974** | 16,720,401 |
| Total equity | | **34,823,420** | 27,762,409 | **12,193,262** | 11,499,867 | **47,016,682** | 39,262,276 |
| **LIABILITIES** | | | | | | | |
| Technical provisions | 21 | **43,913,504** | 34,514,900 | **20,284,856** | 16,182,209 | **64,198,360** | 50,697,109 |
| Lease liabiities | 12 | **370,492** | - | **-** | - | **370,492** | - |
| Payables: | | | | | | | |
| - borrowings | 22 | **343,644** | - | **-** | - | **343,644** | - |
| - creditors arising out of direct insurance operations | 23 | **1,137,414** | 1,088,774 | **1,908,373** | 1,600,599 | **3,045,787** | 2,689,373 |
| - balances payable to reinsurers | 23 | **303,655** | 920,150 | **10,618,282** | 5,284,050 | **10,921,937** | 6,204,200 |
| - other creditors | 23 | **192,632** | 183,205 | **565,158** | 3,731,519 | **757,790** | 3,914,724 |
| Deferred taxation | 16 | **2,459,902** | 1,323,896 | **-** | - | **2,459,902** | 1,323,896 |
| Taxation payable | | **536,514** | 1,072,084 | **1,056,106** | 1,627,545 | **1,592,620** | 2,699,629 |
| Accruals and deferred income | 23 | **4,380,967** | 2,205,836 | **131,686** | 175,351 | **4,512,653** | 2,381,187 |
| Total liabilities | | **53,638,724** | 41,308,845 | **34,564,461** | 28,601,273 | **88,203,185** | 69,910,118 |
| **Total equity and liabilities** | | **88,462,144** | 69,071,254 | **46,757,723** | 40,101,140 | **135,219,867** | 109,172,394 |

The notes on pages 28 to 85 are an integral part of these financial statements.

The financial statements on pages 22 to 85 were authorised for issue by the board on 20 April 2020 and were signed on its behalf by:

Lawrence Zammit
Chairman

Michael Gatt
Director

## Statement of changes in equity

| | Core | | | | Cells | | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital € | Other reserves € | Profit and loss Account € | Total € | Share capital € | Capital contribution € | Other reserves € | Profit and loss Account € | Total € | Share capital € | Capital contribution € | Other reserves € | Profit and loss Account € | Total € |
| Balance at 1 January 2018 | 12,000,000 | 2,451,052 | 11,938,971 | 26,390,023 | 8,816,809 | 500,000 | (858,089) | 3,189,357 | 11,648,077 | 20,816,809 | 500,000 | 1,592,963 | 15,128,328 | 38,038,100 |
| **Comprehensive income** | | | | | | | | | | | | | | |
| Profit for the year | - | - | 2,745,833 | 2,745,833 | - | - | - | 985,372 | 985,372 | - | - | - | 3,731,205 | 3,731,205 |
| **Other comprehensive Income** | | | | | | | | | | | | | | |
| Net reporting currency differences arising on translation from functional currency to presentation currency (note 20) | - | - | - | - | - | - | (85,187) | - | (85,187) | - | - | (85,187) | - | (85,187) |
| Movements relating to property, plant and equipment - land and buildings: | | | | | | | | | | | | | | |
| - Revalution surplus | - | (1,000) | - | (1,000) | - | - | - | - | - | - | - | (1,000) | - | (1,000) |
| - Deferred tax (note 20) | - | 4,553 | - | 4,553 | - | - | - | - | - | - | - | 4,553 | - | 4,553 |
| Total other comprehensive Income | - | 3,553 | - | 3,553 | - | - | (85,187) | - | (85,187) | - | - | (81,634) | - | (81,364) |
| **Total comprehensive income** | - | 3,553 | 2,745,833 | 2,749,386 | - | - | (85,187) | 985,372 | 900,185 | - | - | (81,634) | 3,731,205 | 3,649,571 |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Decrease in share capital (note 19) | - | - | - | - | (310,000) | - | - | 310,000 | - | (310,000) | - | - | 310,000 | - |
| Assignment of reserves (note 19) | - | - | - | - | - | - | 23,737 | (451,910) | (428,173) | - | - | 23,737 | (451,910) | (428,173) |
| Dividends (note 10) | - | - | (1,377,000) | (1,377,000) | - | - | - | (620,222) | (620,222) | - | - | - | (1,997,222) | (1,997,222) |
| **Total transactions with owners** | - | - | (1,377,000) | (1,377,000) | (310,000) | - | 23,737 | (762,132) | (1,048,395) | (310,000) | - | 23,737 | (2,139,132) | (2,425,395) |
| **Balance at 31 December 2018** | **12,000,000** | **2,454,605** | **13,307,804** | **27,762,409** | **8,506,809** | **500,000** | **(919,539)** | **3,412,597** | **11,499,867** | **20,506,809** | **500,000** | **1,535,066** | **16,720,401** | **39,262,276** |

## **Statement of changes in equity** – continued

| | Core | | | | Cells | | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Other reserves** | **Profit and loss Account** | **Total** | **Share capital** | **Capital contribution** | **Other reserves** | **Profit and loss account** | **Total** | **Share Capital** | **Capital contribution** | **Other reserves** | **Profit and loss sccount** | **Total** |
| | € | € | € | € | € | € | € | € | € | € | € | € | € | € |
| Balance at 1 January 2019 | **12,000,000** | **2,454,605** | **13,307,804** | **27,762,409** | **8,506,809** | **500,000** | **(919,539)** | **3,412,597** | **11,499,867** | **20,506,809** | **500,000** | **1,535,066** | **16,720,401** | **39,262,276** |
| **Comprehensive income** | | | | | | | | | | | | | | |
| Profit for the year | **-** | **-** | **6,580,713** | **6,580,713** | **-** | **-** | **-** | **284,279** | **284,279** | **-** | **-** | **-** | **6,864,992** | **6,864,992** |
| **Other comprehensive Income** | | | | | | | | | | | | | | |
| Net reporting currency differences arising on translation from functional currency to presentation currency (note 20) | **-** | **-** | **-** | **-** | **-** | **-** | **469,116** | **-** | **469,116** | **-** | **-** | **469,116** | **-** | **469,116** |
| Movements relating to property, plant and equipmemnt – land and buildings: | | | | | | | | | | | | | | |
| - Revaluation surplus | **-** | **2,101,360** | **-** | **2,101,360** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,101,360** | **-** | **2,101,360** |
| - Deferred tax (note 20) | **-** | **(221,062)** | **-** | **(221,062)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(221,062)** | | **(221,062)** |
| Total other comprehensive Income | **-** | **1,880,298** | **-** | **1,880,298** | **-** | **-** | **469,116** | **-** | **469,116** | **-** | **-** | **2,349,414** | **-** | **2,349,414** |
| **Total comprehensive income** | **-** | **1,880,298** | **6,580,713** | **8,461,011** | **-** | **-** | **469,116** | **284,279** | **753,395** | **-** | **-** | **2,349,414** | **6,864,992** | **9,214,406** |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Increase in share capital (note 19) | **-** | **-** | **-** | **-** | **56,419** | **-** | **-** | **-** | **56,419** | **56,419** | **-** | **-** | **-** | **56,419** |
| Dividends (note 10) | **-** | **-** | **(1,400,000)** | **(1,400,000)** | **-** | **-** | **-** | **(116,419)** | **(116,419)** | **-** | **-** | **-** | **(1,516,419)** | **(1,516,419)** |
| **Total transactions with owners** | **-** | **-** | **(1,400,000)** | **(1,400,000)** | **56,419** | **-** | **-** | **(116,419)** | **(60,000)** | **56,419** | **-** | **-** | **(1,516,419)** | **(1,460,000)** |
| **Balance at 31 December 2019** | **12,000,000** | **4,334,903** | **18,488,517** | **34,823,420** | **8,563,228** | **500,000** | **(450,423)** | **3,580,457** | **12,193,262** | **20,563,228** | **500,000** | **3,884,480** | **22,068,974** | **47,016,682** |

The notes on pages 28 to 85 are an integral part of these financial statements.

## Statement of cash flows

Year ended 31 December

| | | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|---|
| | Notes | **2019 €** | 2018 € | **2019 €** | 2018 € | **2019 €** | 2018 € |
| **Cash flows from operating activities** | | | | | | | |
| Cash generated from /(used in) operations | 24 | **7,587,223** | 5,539,199 | **(2,282,703)** | 6,601,345 | **5,304,520** | 12,140,544 |
| Income tax paid | | **(2,408,731)** | (554,291) | **(945,195)** | (950,845) | **(3,353,926)** | (1,505,136) |
| Net cash generated from /(used in) operating activities | | **5,178,492** | 4,984,908 | **(3,227,898)** | 5,650,500 | **1,950,594** | 10,635,408 |
| **Cash flows from investing activities** | | | | | | | |
| Purchase of property, plant and equipment | 12 | **(546,613)** | (651,040) | **-** | - | **(546,613)** | (651,040) |
| Disposal of property, plant and equipment | 12 | **17,400** | 10,000 | **-** | - | **17,400** | 10,000 |
| Disposal of investment property | | **1,904,532** | - | **-** | - | **1,904,532** | - |
| Disposal of shares in subsidiary undertaking | | **-** | 48,650 | **-** | - | **-** | 48,650 |
| Purchase of investment property | 13 | **(6,595,623)** | (2,196,260) | **-** | - | **(6,595,623)** | (2,196,260) |
| Investment in subsidiary undertakings | 14 | **(375,000)** | (64,058) | **-** | - | **(375,000)** | (64,058) |
| Net cash used in investing activities | | **(5,595,304)** | (2,852,708) | **-** | - | **(5,595,304)** | (2,852,708) |
| **Cash flows from financing activities** | | | | | | | |
| Dividends paid | 10 | **(1,400,000)** | (1,377,000) | **(116,419)** | (620,222) | **(1,516,419)** | (1,997,222) |
| Issue of share capital | | **-** | - | **-** | (428,173) | **-** | (428,173) |
| Issue of capital contribution | 10 | **-** | - | **56,419** | - | **56,419** | - |
| Net cash used in financing activities | | **(1,400,000)** | (1,377,000) | **(60,000)** | (1,048,395) | **(1,460,000)** | (2,425,395) |
| **Movement in cash and cash Equivalents** | | **(1,816,812)** | 755,200 | **(3,287,898)** | 4,602,105 | **(5,104,710)** | 5,357,305 |
| **Cash and cash equivalents at beginning of year** | | **4,575,077** | 3,819,877 | **15,201,246** | 11,078,922 | **19,776,323** | 14,898,799 |
| Exchange (losses)/gains on cash and cash equivalents | | **6,577** | - | **(851,016)** | (479,781) | **(844,439)** | (479,781) |
| **Cash and cash equivalents at end of year** | 25 | **2,764,842** | 4,575,077 | **11,062,332** | 15,201,246 | **13,827,174** | 19,776,323 |

The notes on pages 28 to 85 are an integral part of these financial statements.

# Notes to the financial statements

## 1. Summary of significant accounting policies

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

### 1.1 Basis of preparation

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

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

As at 31 December 2019, the Company had six Cells, the Perfect Home Cell, the Ocado Cell, the TVIS Cell, the Amplifon Cell, the Gemini Cell and the L'Amie Cell referred to in these financial statements as Cell 1, Cell 4, Cell 7, Cell 8, Cell 9 and Cell 10 respectively. The Travelodge Cell was wound up during 2018. The Company maintains separate accounts for each Cell. Cellular assets and liabilities are separate and separately identifiable from Core and Cellular assets attributable to other Cells. Separate balance sheets, profit and loss accounts and statements of comprehensive income, changes in equity and cash flows have accordingly been prepared for the Cells.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of Land and buildings - investment property, Land and buildings – property, plant and equipment, and financial assets at fair value through profit or loss (FVTPL).

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

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

*Standards, interpretations and amendments to published standards effective in 2019*

In 2019, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies.

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain leases whose term is of not more than one year, as well as leases of low-value assets. The standard is effective as from the annual period beginning on 1 January 2019

As indicated in note 12, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. No reclassifications or adjustments arising from the new leasing rules were recognised in the opening balance sheet on 1 January 2019 as the impact was considered insignificant. The new accounting policies are disclosed in 1.11. On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. The Company is considering the implications of the below standards on the Company's financial results and position, and the timing of their adoption.

IFRS 9, 'Financial Instruments', became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39. IFRS 9 addresses a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9, the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

IFRS 4 (Amendments), 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' provides two options for entities that issue insurance contracts within the scope of IFRS 4 i.e. an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach") or a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

The activities of the Company are predominantly connected with insurance. In this regard, the directors have assessed the following:

(a) The Company has not previously applied any version of IFRS9.
(b) The total carrying amount of liabilities arising from contracts within the scope of IFRS 4 for the year ended 31 December 2015 represents over 90% of total liabilities, which is considered significant.

There has been no change in the Company's activities that warrants a reassessment of the above information.

The amendment of IFRS 4 Insurance Contracts requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interest ("SPPI") and other financial assets separately.

Such disclosure is not required since the Company invests in debt instruments held at fair value through profit and loss (FVTPL) and are of a trading nature, not categorised as SPPI.

IFRS 17 was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2023. However, the IASB is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The Company is in the process of evaluating the impact IFRS 17. Industry practice and interpretation of the standard are still developing and there may be changes to it. Therefore, the likely impact of its implementation remains uncertain.

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

### 1.2 Revenue recognition

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

(a) Rendering of services

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

(b) Interest income

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

(c) Dividend income

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

(d) Rental income

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

## 1. Summary of significant accounting policies - continued

### 1.3 Investment return

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

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

### 1.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

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

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

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

### 1.5 Intangible assets

*(a) Customer relationships*

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

*(b) Computer software*

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

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

### 1.6 Tangible assets - Property, plant and equipment

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

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

## 1. Summary of significant accounting policies - continued

### 1.6 Tangible assets - Property, plant and equipment - continued

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

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

Freehold land is not depreciated.

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

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

Tangible asset also includes right-of-use assets.

### 1.7 Land and buildings - Investment property

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

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

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

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

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

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

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

## 1.8 Investment in subsidiaries and associates

Investment in subsidiaries is accounted for at cost less impairment. The results of the subsidiary undertakings are reflected in the Company's financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

Associates are all entities over which the company has significant influence but not control, generally accompanying a shareholding of between 20% to 50% voting rights. Investment in associates is accounted for at cost less impairment.

## 1.9 Financial assets

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

*1.9.1 Classification*

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

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

(b) Loans and receivables

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

*1.9.2 Recognition and measurement*

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

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

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

## 1. Summary of significant accounting policies - continued

### 1.9 Financial assets - continued

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

### 1.10 Impairment of assets

(a) Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

(b) Impairment of other non-financial assets

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

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

## 1. Summary of significant accounting policies - continued

### 1.11 Leases

Until the 2018 financial year, leases of property, plant and equipment where a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. These arrangements relate to leasing of a number of branches in different locations. Until 31 December 2018, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. The Company changed its accounting policy for leases where the Company is the lessee.

From 1 January 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Such leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee’s increamental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are generally depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. While the Company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Company.

Leases income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet as investment property based on the nature of the assets. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

### 1.12 Cash and cash equivalents

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

### 1.13 Share capital

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

## 1. Summary of significant accounting policies - continued

### 1.14 Current and deferred tax

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

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

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

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

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

### 1.15 Insurance contracts - classification

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

*Insurance contracts – General business*

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

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

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

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

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

**1.15 Insurance contracts - classification** - continued

(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 or not enough reported ("IBNR" or "IBNER") 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 or not enough reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported or not enough reported. The Company does not discount its liabilities for unpaid claims.

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

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

*Reinsurance contracts held*

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

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

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

## 1. Summary of significant accounting policies - continued

### 1.15 Insurance contracts - classification - continued

*Receivables and payables related to insurance contracts*

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

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

### 1.16 Provisions

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

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

### 1.17 Borrowings

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

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

### 1.18 Offsetting financial instruments

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

### 1.19 Dividend distribution

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

## 2. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are frequently re-evaluated and based on product assessment of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

In reporting claims incurred and technical provisions the Company takes all reasonable steps to curtail any future deviations in establishing its liabilities by ensuring that it has appropriate information regarding its claims exposures and related future liabilities from the outset. The results of the Company's claims cost progression are disclosed in development tables included in Note 21

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

## 3. Management of insurance and financial risk

### 3.1 Insurance risk

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

*Insurance risk - Core*

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

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

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

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

Another method used to mitigate random deviations is that of diversification in portfolio characteristics. Atlas Insurance PCC Limited is not unduly dependant on one class or sector of business and in fact is deemed to be privileged with a balanced mix of various classes of Motor, Liability, Marine, Miscellaneous Accident, Property and Travel and Personal Accident. Private Medical Insurance was included in 2019. Furthermore, the Company's portfolio is spread between personal lines and commercial lines business.

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

**3.1 Insurance risk** - continued

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

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

*Insurance risk - Cells*

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

PerfectHome Cell however ceased writing new business as of the second quarter of 2019 and is planning to be unwound in 2020 and Ocado Cell did not write new business in 2019.

While retaining its traditional market in Belgium and the Netherlands, new business opportunities in late 2019 led to Gemini Cell writing business in France, Germany, Italy, Malta, Portugal, Spain, the UK, Sweden and Austria.

L'Amie Cell remains active with its Austrian and Bulgarian direct portfolio but also started writing direct business in Slovenia. Inwards reinsurance from Macedonia was added to that from Serbia. The cell also started writing Travel business and extended its licence to include the relevant classes.

The other cells are licensed to 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.

**3.1.1 Frequency and severity of claims**

Further details on insurance risk exposures for the Core are described below.

*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.

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

**3.1 Insurance risk** - continued

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

The Company's gross motor performance mirrored the improved result of 2018.

The review of Maltese law on civil damages in tort remains un-concluded while legal judgements remain relatively consistent.

*Property*

The gross property result was impacted by an exceptional single claim late in the year but also by the severe windstorm that hit Malta in late February 2019. The effects of the events were very much mitigated by reinsurance.

*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 2019 showed no extraordinary experience in this respect.

*Marine*

Overall marine performance in 2019 experienced a marked improvement driven mostly by improved hull results notwithstanding the windstorm in February.

*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.

*Health*

The full impact of the health account was included in 2019 results were within the expected parameters.

The Company manages all the above via:

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

*(a) Underwriting strategy*

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

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

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

### 3.1 Insurance risk - continued

### 3.1.1 Frequency and severity of claims - continued

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 is also conscious of the susceptibility of certain locations to windstorm and endeavours to limit shoreline exposures.

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*

Reported 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. In the case of cells, the Company outsources claims handling to specialised third party administrators who, where necessary, may be permitter to sub-outsource certain services e.g. mobile phone repairs and motor vehicle surveying.

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

### 3.1 Insurance risk - continued

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

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 and in the case of such claims arising from cells, this function is performed by the outsourced specialist administrators and supervised by the relevant cell committee. In the context of reserving active use is made of a panel of legal advisors and full acquaintance is made with courtroom developments by our specialist claims team headed by the claims director.

#### 3.1.2 Sources of uncertainty in estimation of future claims payments

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

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

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

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

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

to the above provisions for known reported claims, the Company adds an IBNR provision
The Company also makes a provision for the unexpired period of cover of policies running at the time of the balance sheet date.

Large claims are also assessed on a case-by-case basis, and Atlas takes a prudent approach to determining outstanding reserves based on legal precedent (of particular relevance to motor and liability class) and similar cases. The Company also notes current trends.

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

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

### 3.1.2 Sources of uncertainty in estimation of future claims payments - continued

IBNR reserves are determined using the historical actual development of incurred claims and IBNR levels are expressed as a proportion of claims outstanding by individual class in order to have an ongoing level of IBNR reserves. Such percentages are reassessed annually.

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, health, travel and miscellaneous accident.

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

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

### 3.2 Financial risk management

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

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

### 3.2.1 Market risk

(a) Cash flow and fair value interest rate risk

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

Fair value interest rate risk is the risk that the relative value of a security will worsen due to an interest rate increase. Interest rate risk is mitigated through the distribution of fixed interest investments over a range of maturity dates. Moreover, the Company's asset allocation policy limits the amount of investment in any one asset or towards any one counterparty. Notes 15 and 25 incorporate interest rate and maturity information with respect to the Company's assets.

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

### 3.2 Financial risk management - continued

### 3.2.1 Market risk - continued

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

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Assets at floating interest rates - bank balances | **13,581,260** | 19,566,852 |
| Assets at fixed interest rates | | |
| - Listed debt securities | **8,415,161** | 8,399,689 |
| - Deposits with banks or financial institutions | **369,187** | 369,747 |
| - Amounts owed from related parties | **778,348** | - |
| | **23,143,956** | 28,336,288 |
| Liabilities at floating interest rates - bank balance overdrawn | **343,644** | - |

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.

Cash at bank subject to floating interest rates expose the Company to cash flow interest rate risk.

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

At 31 December 2019 the Company was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities. If interest rates at that date would have been 50 basis points (2018: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €155,273 higher (2018: €217,805 higher). An increase of 50 basis points (2018: 50 basis points), with all other variables held constant, would have resulted in pre-tax profits being €201,470 (2018: €212,656 lower). Up to the end of the reporting period the Company did not have any hedging policy with respect to interest rate risk on other financial instruments as exposure to such risks was not deemed to be significant by the directors.

(b) Equity price risk

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

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

**3.2 Financial risk management** - continued

**3.2.1 Market risk** - continued

(b) Equity price risk - continued

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

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

| | **Core** | | **Cells** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| **Assets subject to equity price risk** | | | | | | |
| Equity securities | **4,845,882** | 3,625,803 | **-** | - | **4,845,882** | 3,625,803 |
| Units in unit trusts | **19,665,364** | 17,669,836 | **5,257,786** | 5,189,243 | **24,923,151** | 22,859,079 |
| | **24,511,246** | 21,295,639 | **5,257,786** | 5,189,243 | **29,769,033** | 26,484,882 |

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The sensitivity for equity price risk is derived based on global equity returns, assuming that currency exposures are hedged. A 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase or a decrease of 10% (2018: 10%) in equity prices, with all other variables held constant, would result in an impact on the Core pre-tax profit for the year of €2,451,125 (2018: €2,129,564). An increase or a decrease of 10% (2018: 10%) in equity prices, with all other variables held constant, would result in an impact on the Cells pre-tax profit for the year of €525,779 (2018: €518,924).

(c) Currency risk

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

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

Similarly, in managing its cells, the Company applies the same currency matching policy by identifying the currency in which cellular technical provisions arise and as such administers a balance of matched assets.

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

**3.2 Financial risk management** - continued

**3.2.1 Market risk** - continued

(c) Currency risk - continued

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

At 31 December 2019, foreign currency exposure, principally comprising a mix of US Dollar and UK Pound, amounted to €1,775,555 (2018: €1,526,583). If the above currencies had weakened or strengthened by 15% against the euro with all other variables held constant, pre-tax profit for the year would have been lower by €313,333 (2018: €269,397) or higher by €231,594 (2018: €199,120).

**3.2.2 Credit risk**

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

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

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

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

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

While reinsurance is used to manage insurance risk, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by the directors on an ongoing basis by reviewing their financial strength within the terms of their credit ratings as stated in Note 3.1.1 (b).

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

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

### 3.2 Financial risk management - continued

### 3.2.2 Credit risk – continued

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

Credit risk in relation to cells is not considered to be significant when considering payment patterns and/or assessment of counterparties and contractual arrangements.

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

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

**As at 31 December 2019**

| | AAA to AA Core € | A to A- Core € | BBB to B Core € | Not rated Core € | BBB to B Cells € | Not rated Cells € | Total € |
|---|---|---|---|---|---|---|---|
| **Investments** | | | | | | | |
| Debt securities - listed fixed interest rate | 171,014 | 2,213,095 | 625,834 | 5,405,218 | - | - | 8,415,161 |
| Deposits with banks or financial institutions | - | - | 369,187 | - | - | - | 369,187 |
| | 171,014 | 2,213,095 | 995,021 | 5,405,218 | - | - | 8,784,348 |
| **Loans and receivables** | | | | | | | |
| Debtors and prepayments and accrued income | - | - | - | 5,476,408 | - | 19,417,854 | 24,894,262 |
| Cash equivalents | - | 11,332 | 1,897,905 | 609,691 | 6,280,101 | 4,782,231 | 13,581,260 |
| | - | 11,332 | 1,897,905 | 6,086,099 | 6,280,101 | 24,200,085 | 38,475,522 |
| Reinsurers' share of technical provisions | 19,840,926 | 3,197,854 | - | 61,217 | 10,417,273 | - | 33,517,270 |
| Total assets bearing credit risk | 20,011,940 | 5,544,281 | 2,892,926 | 11,552,534 | 16,697,374 | 24,200,085 | 80,777,140 |

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

### 3.2 Financial risk management - continued

#### 3.2.2 Credit risk - continued

| | As at 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA to AA Core € | A to A- Core € | BBB to B Core € | Not rated Core € | BBB to B Cells € | Not rated Cells € | Total € |
| **Investments** | | | | | | | |
| Debt securities - listed fixed interest rate | 87,406 | 1,729,017 | 1,030,130 | 5,553,136 | - | - | 8,399,689 |
| Deposits with banks or financial institutions | - | - | 369,747 | - | - | - | 369,747 |
| | 87,406 | 1,729,017 | 1,399,877 | 5,553,136 | - | - | 8,769,436 |
| **Loans and receivables** | | | | | | | |
| Discounted securities to cell owners | - | - | - | - | - | - | - |
| Debtors and prepayments and accrued income | - | - | - | 5,465,037 | - | 14,635,527 | 20,100,564 |
| Cash equivalents | - | 10,818 | 2,069,945 | 2,284,843 | 4,970,975 | 10,230,271 | 19,566,852 |
| | - | 10,818 | 2,069,945 | 7,749,880 | 4,970,975 | 24,865,798 | 39,667,416 |
| Reinsurers' share of technical provisions | 11,539,230 | 3,908,627 | - | 59,216 | 5,398,479 | - | 20,905,552 |
| Total assets bearing credit risk | 11,626,636 | 5,648,462 | 3,469,822 | 13,362,232 | 10,369,454 | 24,865,798 | 69,342,404 |

#### 3.2.3 Liquidity risk

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

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

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

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

### 3.2 Financial risk management - continued

### 3.2.3 Liquidity risk - continued

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

| As at 31 December 2019 | Contracted undiscounted cash outflows | | | | |
|---|---|---|---|---|---|
| | Less than one year € | Between one and two years € | Between two and five years € | Over five years € | Total € |
| **Core** | | | | | |
| Trade and other creditors | 1,633,701 | - | - | - | 1,633,701 |
| Accruals and deferred income | 4,380,967 | - | - | - | 4,380,967 |
| **Cells** | | | | | |
| Trade and other creditors | 13,091,813 | - | - | - | 13,091,813 |
| Accruals and deferred income | 131,686 | - | - | - | 131,686 |
| | 19,238,167 | - | - | - | 19,238,167 |

| As at 31 December 2019 | Expected undiscounted cash outflows | | | | |
|---|---|---|---|---|---|
| | Less than one year € | Between one and two years € | Between two and five years € | Over five years € | Total € |
| **Core** | | | | | |
| Technical provisions | | | | | |
| - Claims outstanding | 14,310,802 | 9,913,178 | 2,798,109 | 913,482 | 27,935,571 |
| **Cells** | | | | | |
| Technical provisions | | | | | |
| - Claims outstanding | 1,453,120 | 3,387,703 | 547,483 | - | 5,388,305 |
| | 15,763,922 | 13,300,881 | 3,345,592 | 913,482 | 33,323,876 |

| As at 31 December 2018 | Contracted undiscounted cash outflows | | | | |
|---|---|---|---|---|---|
| | Less than one year € | Between one and two years € | Between two and five years € | Over five years € | Total € |
| **Core** | | | | | |
| Trade and other creditors | 2,192,129 | - | - | - | 2,192,129 |
| Accruals and deferred income | 2,205,836 | - | - | - | 2,205,836 |
| **Cells** | | | | | |
| Trade and other creditors | 11,850,735 | - | - | - | 11,850,735 |
| Accruals and deferred income | 175,351 | - | - | - | 175,351 |
| | 16,424,051 | - | - | - | 16,424,051 |

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

### 3.2 Financial risk management - continued

### 3.2.3 Liquidity risk - continued

| **As at 31 December 2018** | **Expected undiscounted cash outflows** | | | | |
|---|---|---|---|---|---|
| **Core** | Less than one year € | Between one and two years € | Between two and five years € | Over five years € | Total € |
| Technical provisions | | | | | |
| - Claims outstanding | 13,775,025 | 5,250,793 | 2,749,304 | 1,143,229 | 22,918,350 |
| **Cells** | | | | | |
| Technical provisions | | | | | |
| - Claims outstanding | 2,085,610 | 2,517,015 | 372,450 | - | 4,975,075 |
| | 15,860,635 | 7,767,808 | 3,121,754 | 1,143,229 | 27,893,425 |

### 3.3 Fair value estimation

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

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

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2019 and 2018:

| | **Core** | | **Cells** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | Level 1 | | Level 1 | | Level 1 | |
| | **€** | € | **€** | € | **€** | € |
| **Assets** | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | |
| - Equity securities and units in unit trusts | **24,511,246** | 21,295,639 | **5,257,786** | 5,189,243 | **29,769,032** | 26,484,882 |
| - Debt securities | **8,415,161** | 8,399,689 | **-** | - | **8,415,161** | 8,399,689 |
| **Total assets** | **32,926,407** | 29,695,328 | **5,257,786** | 5,189,243 | **38,184,193** | 34,884,571 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. At 31 December 2019 and 2018, the carrying amount of the Company's other financial assets and liabilities approximate their fair value in view of their short-term maturity.

## 4. Net operating expenses

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Acquisition costs | **6,583,736** | 3,932,909 | **7,177,164** | 4,330,010 | **13,760,900** | 8,262,919 |
| Change in deferred acquisition costs (Note 17) | **(856,813)** | (8,603) | **389,468** | (517,663) | **(467,345)** | (526,266) |
| Administrative expenses | **4,662,171** | 3,449,852 | **608,299** | 573,915 | **5,270,470** | 4,023,767 |
| Reinsurance commission earned | **(5,645,398)** | (3,768,404) | **(4,570,768)** | (540,094) | **(10,216,166)** | (4,308,498) |
| Other net technical (income)/expense | **(524,590)** | (512,278) | **306,522** | 349,339 | **(218,068)** | (162,939) |
| | **4,219,106** | 3,093,476 | **3,910,685** | 4,195,507 | **8,129,791** | 7,288,983 |

Total commissions included in acquisition costs and accounted for in the financial period amounted to €4,707,801 in respect of the core operations (2018: €2,164,577) and €6,211,963 in respect of the cell operations (2018: €3,331,869).

## 5. Investment return

**Investment income**

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Interest receivable from financial assets that are not at fair value through profit or loss | **21,911** | - | **12,870** | 10,217 | **34,781** | 10,217 |
| Net gains from financial assets at fair value through profit or loss: | | | | | | |
| - dividend income | **214,636** | 159,811 | **-** | - | **163,943** | 159,811 |
| - net fair value gains | **509,470** | 293,574 | - | - | **560,163** | 293,574 |
| Other fair value gains/(losses) on financial assets at FVTPL | **2,824,001** | (1,177,564) | **(20,692)** | (19,314) | **2,803,309** | (1,196,878) |
| Dividend from subsidiary undertaking | **725,000** | 707,692 | - | - | **725,000** | 707,692 |
| Gain on disposal on investment property | **264,532** | - | - | | **264,532** | - |
| Other fair value gains on investment property | **519,050** | - | - | - | **519,050** | - |
| Exchange differences | **6,577** | - | **48,755** | 15,046 | **55,332** | 15,046 |
| Rental income from investment property | **349,300** | 270,139 | **-** | - | **349,300** | 270,139 |
| | **5,434,477** | 253,652 | **40,933** | 5,949 | **5,475,410** | 259,601 |

## 5. Investment return - continued

| **Investment expenses and Charges** | **Core** | | **Cells** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Interest expense and charges for financial liabilities that are not at fair value through profit or loss | **121,405** | 91,464 | **2,855** | 2,519 | **124,260** | 93,983 |
| Investment expenses | **117,812** | 117,992 | | - | **117,812** | 117,992 |
| Exchange differences | **-** | - | **1,312** | 1,006 | **1,312** | 1,006 |
| | **239,217** | 209,456 | **4,167** | 3,525 | **243,384** | 212,981 |
| Total investment return | **5,195,260** | 44,196 | **36,766** | 2,424 | **5,232,026** | 46,620 |
| Allocated investment return transferred to: | | | | | | |
| general business technical account | **2,449,337** | 23,739 | **19,731** | (5,210) | **2,469,068** | 18,529 |
| non-technical account | **2,745,923** | 20,457 | **17,035** | 7,634 | **2,762,958** | 28,091 |

## 6. Expenses by nature

| | **Core** | | **Cells** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Employee benefit expense and directors' fees | **3,539,925** | 3,273,707 | **-** | - | **3,539,925** | 3,273,707 |
| Commissions payable | **4,707,801** | 2,164,577 | **7,177,164** | 4,330,010 | **11,884,965** | 6,494,587 |
| Change in deferred acquisition costs | **(856,813)** | (8,603) | **389,468** | (517,663) | **(467,345)** | (526,266) |
| Reinsurance commissions earned | **(5,645,398)** | (3,768,404) | **(4,570,768)** | (540,094) | **(10,216,166)** | (4,308,498) |
| Amortisation of intangible assets (Note 11) | **3,612** | 15,357 | **-** | - | **3,612** | 15,357 |
| Depreciation of property, plant and equipment (Note 12) | **475,677** | 465,171 | **-** | - | **475,677** | 465,171 |
| Auditor's fees | **78,780** | 92,300 | **70,350** | 61,290 | **149,130** | 153,590 |
| Other expenses | **2,141,592** | 1,120,925 | **923,063** | 895,112 | **3,064,655** | 2,016,037 |
| **Total operating and administrative expenses** | **4,445,176** | 3,355,030 | **3,989,277** | 4,228,655 | **8,434,453** | 7,583,685 |
| **Allocated to:** | | | | | | |
| Technical account | **4,219,106** | 3,093,476 | **3,910,685** | 4,195,507 | **8,129,791** | 7,288,983 |
| Non-technical account | **226,070** | 261,554 | **78,592** | 33,148 | **304,662** | 294,702 |

## 6. Expenses by nature - continued

***Auditor's fees***

Fees charged by the auditor for services rendered during the financial years ended 31 December 2019 and 2018 relate to the following:

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Annual statutory audit | **69,500** | 69,500 |
| Other assurance services | **39,500** | 39,500 |
| Tax advisory and compliance services | **25,920** | 14,290 |
| Other non-audit services | **14,210** | 30,300 |
| | **149,130** | 153,590 |

## 7. Employee benefit expense

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Salaries and related costs (including directors' salaries) | **4,527,126** | 4,160,198 |
| Social security costs | **277,737** | 259,865 |
| | **4,804,863** | 4,420,063 |
| Inter-company payroll charge | **(327,932)** | (381,732) |
| | **4,476,931** | 4,038,331 |

The average number of persons employed during the year was:

| | **2019** | 2018 |
|---|---|---|
| Directors | **7** | 7 |
| Managerial | **17** | 16 |
| Clerical | **113** | 118 |
| | **137** | 141 |

## 8. Tax expense

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Current tax expense | **2,147,733** | 1,925,756 | **403,828** | 658,100 | **2,551,561** | 2,583,856 |
| Deferred tax charge/(credit) (Note 16) | **914,942** | (338,741) | **-** | - | **914,942** | (338,741) |
| Under provision in previous years | **31,604** | 29,204 | **-** | - | **31,604** | 29,204 |
| | **3,094,279** | 1,616,219 | **403,828** | 658,100 | **3,498,107** | 2,274,319 |

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Profit before tax | **10,363,099** | 6,005,524 |
| Tax on profit at 35% | **3,627,085** | 2,101,933 |
| Tax effect of: | | |
| Differences due to the application of Flat Rate Foreign Tax Credit | **(36,708)** | (31,401) |
| Income subject to reduced rates of tax | **(281,427)** | (55,305) |
| Expenses not deductible for tax purposes | **45,571** | - |
| Under provision in previous years | **37,797** | 29,204 |
| Unrecognised temporary differences | **148,307** | 39,624 |
| Other movements | **(42,518)** | 190,264 |
| Tax charge in the accounts | **3,498,107** | 2,274,319 |

## 9. Directors' emoluments

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Salaries and other emoluments (including directors' fees) | **500,283** | 480,979 |

During the year, benefits in kind valued at €16,438 (2018: €23,194) were provided to the directors.

## 10. Dividends declared

| | 2019 € | 2018 € |
|---|---|---|
| **To the ordinary shareholders:** | | |
| Net | **1,400,000** | 1,377,000 |
| Dividends per ordinary share | **0.29** | 0.29 |
| **To the cell shareholders:** | | |
| Cell 7 | **60,000** | 120,222 |
| Cell 8 | **-** | 500,000 |
| Cell 9 | **56,419** | - |
| Net | **116,419** | 620,222 |
| Dividends per preference share | | |
| Cell 7 | **0.11** | 0.30 |
| Cell 8 | **-** | 0.56 |
| Cell 9 | **0.17** | - |
| **Total dividends** | **1,516,419** | 1,997,222 |

On 30 January 2019, the Board approved the payment of a net interim dividend of €700,000 to the non-cellular shareholders. A further amount of €700,000 was approved on 30 May 2019.

On 29 January 2020, the Board approved the payment of a net interim dividend of €1,000,000 to the non-cellular shareholders.

## 11. Intangible assets

| | Customer relationships € | Computer Software € | Total € |
|---|---|---|---|
| **At 1 January 2018** | | | |
| Cost | 194,735 | 530,932 | 725,667 |
| Accumulated amortisation and impairment | (194,735) | (513,507) | (708,242) |
| Net book amount | **-** | **17,425** | **17,425** |
| **Year ended 31 December 2018** | | | |
| Opening net book amount | - | 17,425 | 17,425 |
| Additions | - | 2,316 | 2,316 |
| Amortisation charge | - | (15,357) | (15,357) |
| Closing net book amount | **-** | **4,384** | **4,384** |
| **At 31 December 2018** | | | |
| Cost | 194,735 | 533,248 | 727,983 |
| Accumulated amortisation and impairment | (194,735) | (528,864) | (723,599) |
| Net book amount | **-** | **4,384** | **4,384** |
| **Year ended 31 December 2019** | | | |
| Opening net book amount | - | 4,384 | 4,384 |
| Additions | - | 472 | 472 |
| Amortisation charge | - | (3,612) | (3,612) |
| Closing net book amount | **-** | **1,244** | **1,244** |
| **At 31 December 2019** | | | |
| Cost | 194,735 | 533,720 | 728,455 |
| Accumulated amortisation and impairment | (194,735) | (533,720) | (727,211) |
| Net book amount | **-** | **-** | **1,244** |

## 12. Property, plant and equipment

| | Land and buildings € | Improvements to leasehold premises € | Furniture, equipment and motor vehicles € | Total € |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| Cost or revaluation | 4,552,769 | 1,778,293 | 3,667,111 | 9,998,173 |
| Accumulated depreciation | (91,054) | (1,065,744) | (2,925,017) | (4,081,815) |
| Net book amount | **4,461,715** | **712,549** | **742,094** | **5,916,358** |
| **Year ended 31 December 2018** | | | | |
| Opening net book amount | 4,461,715 | 712,549 | 742,094 | 5,916,358 |
| Additions | - | 228,613 | 420,111 | 648,724 |
| Disposals | - | - | (99,375) | (99,375) |
| Depreciation charge | (45,528) | (153,187) | (266,456) | (465,171) |
| Depreciation released on disposal | - | - | 99,375 | 99,375 |
| Closing net book amount | **4,416,187** | **787,975** | **895,749** | **6,099,911** |
| **At 31 December 2018** | | | | |
| Cost or revaluation | 4,552,769 | 2,006,906 | 3,987,847 | 10,547,522 |
| Accumulated depreciation | (136,582) | (1,218,931) | (3,092,098) | (4,447,611) |
| Net book amount | **4,416,187** | **787,975** | **895,749** | **6,099,911** |
| **Year ended 31 December 2019** | | | | |
| Opening net book amount | 4,416,187 | 787,975 | 895,749 | 6,099,911 |
| Additions | 177,573 | 134,523 | 234,045 | 546,141 |
| Revaluation surplus | 2,101,360 | | | 2,101,360 |
| Disposals | - | - | (61,519) | (61,519) |
| Depreciation charge | (68,317) | (145,810) | (261,550) | (475,677) |
| Depreciation released on disposal | - | - | 61,519 | 61,519 |
| Closing net book amount | **6,626,803** | **776,688** | **868,244** | **8,271,735** |
| **At 31 December 2019** | | | | |
| Cost or revaluation | 6,626,803 | 2,141,429 | 4,160,373 | 12,928,605 |
| Accumulated depreciation | - | (1,364,741) | (3,292,129) | (4,656,870) |
| Net book amount | **6,626,803** | **776,688** | **868,244** | **8,271,735** |

**12. Property, plant and equipment** - continued

**Fair value of Property**

The Company’s property used in operations and investment property were revalued during 2019 based on professional independent valuations dated 26 October 2019.

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

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

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

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

**Valuation process and techniques**

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

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

The valuation was determined using the sales comparison approach. Properties valued using this approach take into consideration comparable properties in close proximity. These values are adjusted for differences in key attributes such as property size and quality of interior fittings. The most significant input into this valuation approach is price per square metre. The average price per square metre as at 31 December ranged circa €2,665 in the case of property used in operations. The weighted average price per square metre as at 31 December was €3,223 in the case of investment properties. An increase in the adjusted sales prices per square metre would result in a higher fair value.

## 12. Property, plant and equipment - continued

**Valuation process and techniques** - continued

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Cost | **5,151,109** | 4,973,536 |
| Accumulated depreciation | **(447,370)** | (379,053) |
| Net book amount | **4,703,739** | 4,594,483 |

**Leases – where Company is a lessee**

**(i) Amounts recognised in the balance sheet**

The balance sheet shows the following amounts relating to leases:

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Right-of-use assets** | | |
| Buildings | **369,149** | - |
| | **369,149** | - |
| **Lease liabilities** | | |
| Current | **64,711** | - |
| Non-current | **305,779** | - |
| | **370,492** | - |

No lease assets and lease liabilities were recognised in the previous year as the Company accounted for operating leases under IAS 17. There were no additions to the right-of-use assets during 2019.

**(ii) Amounts recognised in the profit and loss account**

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Interest expense (included in Administrative expenses) | **58,607** | - |

The right-of-use assets were not depreciated during the year. The total cash outflow for leases in 2019 was €77,056. No depreciation was charged on right-of-use assets during 2019.

## 13. Land and buildings - investment property

| | 2019 € | 2018 € |
|---|---|---|
| **Year ended 31 December** | | |
| At beginning of year | **5,746,210** | 3,549,950 |
| Disposals | **(1,640,000)** | - |
| Reclassification from property, plant and equipment | **-** | (16,000) |
| Fair value increase | **519,050** | - |
| Additions | **6,595,623** | 2,212,260 |
| At end of year | **11,220,883** | 5,746,210 |
| **At 31 December** | | |
| Carrying amount | **11,220,883** | 5,762,210 |

The valuation process and techniques are included under Note 12. After the year-end, Investment property with a carrying amount of €950,000 was sold to a third party. In addition, the Company entered in a promise of sale agreement in relation to another property. If the investment property was stated on the historical cost basis, the amounts would be as follows:

| | 2019 € | 2018 € |
|---|---|---|
| Cost | **10,685,921** | 5,473,485 |
| Accumulated depreciation | **(217,289)** | (217,289) |
| Net book amount | **10,468,632** | 5,256,196 |

(i) Amounts recognised in profit or loss for investment properties

| | 2019 € | 2018 € |
|---|---|---|
| Rental income from operating leases | **349,300** | 270,139 |
| Fair value gain recognised in profit and loss account | **519,050** | - |

(ii) Leasing arrangements - Minimum lease payments receivables on leases of investment properties are as follows:

| | 2019 € | 2018 € |
|---|---|---|
| Within 1 year | **548,077** | 145,385 |
| Between 1 and 5 years | **2,260,686** | 553,181 |
| Later than 5 years | **609,036** | 132,932 |
| | **3,417,799** | 831,498 |

## 14. Investment in subsidiaries and associates

| Subsidiaries | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Year ended 31 December** | | |
| At beginning and end of year | **748,058** | 698,000 |
| Acquisition of Eagle Star Malta Limited | **-** | 64,058 |
| Disposal of shares in Ark Insurance Management | **-** | (10,500) |
| Transfer of cost of equity to Associate Undertaking | - | (3,500) |
| | **748,058** | 748,058 |

The subsidiaries and associates at 31 December 2019 and 2018 are shown below:

| **Name of subsidiary** | **Registered office** | **Class of shares** | **Percentage of shares held** **2019** | 2018 |
|---|---|---|---|---|
| Atlas Healthcare Insurance Agency Ltd | 47-50, Ta' Xbiex Seafront Ta' Xbiex | Ordinary 'A' shares | **100%** | 100% |
| Eagle Star (Malta) Ltd | 47-50, Ta' Xbiex Seafront Ta' Xbiex | Ordinary 'A' shares | **100%** | 100% |
| Stuart Property Development Ltd | 48-50, Ta' Xbiex Seafront Ta' Xbiex | Ordinary 'A' shares Ordinary 'B' shares | **45.8%** | 45.8% |

| **Associates** | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Year ended 31 December** | | |
| At beginning and end of year | **3,500** | - |
| Transfer of cost of equity from subsidiaries | **-** | 3,500 |
| Additions | **375,000** | - |
| | **378,500** | 3,500 |

| **Name of associates** | **Registered office** | **Class of shares** | **Percentage of shares held** **2019** | 2018 |
|---|---|---|---|---|
| Strategic Risk Solutions Insurance Management Services Europe PCC Limited | 47-50, Ta' Xbiex Seafront Ta' Xbiex | Ordinary Core 'B' shares | **25%** | 25% |
| Vitae Life Ltd | 171, Old Bakery Street, Valletta | Ordinary shares 20% paid up | **25%** | - |

The investment of Atlas Insurance PCC Limited in Stuart Property Development Limited represents 45.8% of the shares issued, and 50% of the voting shares. In terms of the Memorandum of Association, Atlas Insurance PCC Limited is entitled to appoint two directors out of a board of four directors. As an ordinary 'A' shareholder, Atlas Insurance PCC Limited is entitled to elect the Chairman of the Board. The Chairman has a casting vote both in the case of a tie during board meetings, as well as in case of a tie during general meetings. Accordingly, such investment is being considered as a subsidiary since Atlas Insurance PCC Limited has the power over the investee; and rights to variable returns from its involvement with the investee as well as the ability to use its power over the investee to affect the amount of the shareholders' returns.

**14. Investment in subsidiaries and associates** - continued

During 2018 Atlas Insurance PCC Limited fully acquired the shares in Eagle Star (Malta) Limited.. Also 75% of the shares in Ark Insurance Management Ltd were disposed of. The company was renamed Strategic Risk Solutions Insurance Management Services Europe PCC Ltd (SRS) which isconsidered an associate entity with a carrying amount of €3,500. Atlas Insurance PCC Limited appoints two directors on the SRS board out of three however it has lost its significant influence and majority of voting rights.

**15. Investments**

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Fair value through profit or loss | **38,184,193** | 34,884,571 |
| Loans and receivables | **1,147,535** | 369,747 |
| | **39,331,28** | 35,254,318 |

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

| | **Core** | | **Cells** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| **At 31 December** | | | | | | |
| Equity securities and units in unit trusts | **24,511,246** | 21,295,639 | **5,257,786** | 5,189,243 | **29,769,032** | 26,484,882 |
| Debt securities – listed fixed interest rate | **8,415,161** | 8,399,689 | **-** | - | **8,415,161** | 8,399,689 |
| Total investments at fair value through profit or loss | **32,926,407** | 29,695,328 | **5,257,786** | 5,189,243 | **38,184,193** | 34,884,571 |

Equity securities and units in unit trusts are classified as non-current.

Maturity of fixed income debt securities:

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Within 1 year | **164,802** | 326,724 |
| Between 1 and 2 years | **650,484** | 372,959 |
| Between 2 and 5 years | **3,239,594** | 2,166,742 |
| Over 5 years | **4,360,281** | 5,533,264 |
| | **8,415,161** | 8,399,689 |
| Weighted average effective interest rate | **4.10%** | 4.30% |

**15. Investments** - continued

The movements for the year are summarised as follows:

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| **Year ended 31 December** | | | | | | |
| At beginning of year | **29,695,328** | 30,366,527 | **5,189,243** | 5,213,726 | **34,884,571** | 35,580,253 |
| Additions | **3,895,323** | 3,591,402 | **-** | - | **3,895,323** | 3,591,402 |
| Disposals | **(3,488,244)** | (3,085,037) | **-** | - | **(3,488,244)** | (3,085,037) |
| Fair value gains/(losses) | **2,824,001** | (1,177,564) | **68,543** | (19,341) | **2,892,544** | (1,196,905) |
| Other movements | **-** | - | **-** | (5,142) | **-** | (5,142) |
| At end of year | **32,926,407** | 29,695,328 | **5,257,786** | 5,189,243 | **38,184,193** | 34,884,571 |
| **As at 31 December** | | | | | | |
| Cost | **27,769,908** | 27,416,325 | **5,293,345** | 5,293,345 | **33,063,253** | 32,709,670 |
| Accumulated net fair value gains | **5,156,499** | 2,279,003 | **(35,559)** | (104,102) | **5,120,940** | 2,174,901 |
| | **32,926,407** | 29,695,328 | **5,257,786** | 5,189,243 | **38,184,193** | 34,884,571 |

*(b) Loans and receivables*

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **At 31 December** | | |
| Deposits with banks or financial institutions (i) | **369,187** | 369,747 |
| Loan to related party (ii) | **778,348** | - |
| | **1,147,535** | 369,747 |

*(i) Deposits with banks or financial institutions*

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Within 3 months | **369,187** | 369,747 | - | - | **369,187** | 369,747 |

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| At fixed rates | **369,187** | 369,747 |
| Weighted average effective interest rate | **0.1%** | 0.1% |

**15. Investments** - continued

*(ii) Loan to related party*

The loan to the related party is subject to interest of 4.75%, secured by special hypothec and special privilege on commercial property and is repayable by not later than 15 May 2034.

## 16. Deferred taxation

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Year ended 31 December** | | |
| At beginning of year | **(1,323,898)** | (1,667,192) |
| Charged to other comprehensive income (Note 20) | **(221,062)** | 4,553 |
| Charged to profit and loss account (Note 8) | **(914,942)** | 338,741 |
| At end of year | **(2,459,902)** | (1,323,898) |

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

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2018: 35%) with the exception of investment property and freehold and other property, for which deferred taxes are calculated using a tax rate of 8% or 10% of the carrying amount (2018: 8% or 10%) depending on acquisition dates.

The balance at 31 December represents temporary differences on:

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Revaluation of property, plant and equipment - land and buildings | **(460,025)** | (238,963) |
| Revaluation of investment property | **(200,040)** | (287,795) |
| Temporary differences on: | | |
| - Financial investments at fair value through profit or loss | **(1,789,434)** | (779,215) |
| - Fixed assets | **(34,861)** | (42,383) |
| - Provisions | **24,458** | 24,458 |
| | **(2,459,902)** | (1,323,898) |

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

## 17. Deferred acquisition costs

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| **Year ended 31 December** | | | | | | |
| At beginning of year | **856,929** | 848,326 | **987,735** | 470,882 | **1,844,664** | 1,319,208 |
| Net amount credited to profit and loss account (Note 4) | **856,813** | 8,603 | **(389,468)** | 517,663 | **467,345** | 526,266 |
| Exchange differences resulting from translation to presentation currency | **-** | - | **4,211** | (810) | **4,211** | (810) |
| At end of year | **1,713,742** | 856,929 | **602,478** | 987,735 | **2,316,220** | 1,844,664 |
| Current portion | **1,713,742** | 856,929 | **602,478** | 987,735 | **2,316,220** | 1,844,664 |

## 18. Debtors and prepayments and accrued income

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| **Debtors arising from direct Insurance operations** | | | | | | |
| Due from policyholders | **1,907,915** | 1,933,879 | **-** | - | **1,907,915** | 1,933,879 |
| Due from agents, brokers and intermediaries | **2,503,049** | 2,722,664 | **-** | - | **2,503,049** | 2,722,664 |
| Due from reinsurers | **255,018** | 18,331 | **-** | - | **255,018** | 18,331 |
| | **4,665,982** | 4,674,874 | **-** | - | **4,665,982** | 4,674,874 |
| **Other debtors** | | | | | | |
| Receivable from parent | **23,684** | 15,050 | **-** | - | **23,684** | 15,050 |
| Receivable from subsidiaries | **79,716** | 214,627 | **-** | - | **79,716** | 214,627 |
| Receivable from related parties | **157,677** | 47,767 | **19,197,278** | 11,498,139 | **19,354,955** | 11,545,906 |
| Other debtors | **216,334** | 326,589 | **-** | 1,622,838 | **216,334** | 1,949,427 |
| | **477,411** | 604,033 | **19,197,278** | 13,120,977 | **19,674,689** | 13,725,010 |
| **Prepayments and accrued Income** | | | | | | |
| Prepayments | **55,234** | 73,343 | **220,576** | 203,460 | **275,810** | 276,803 |
| Accrued interest | **277,781** | 112,787 | **-** | - | **277,781** | 112,787 |
| | **333,015** | 186,130 | **220,576** | 203,460 | **553,591** | 389,590 |
| **Total debtors and prepayments and accrued income** | **5,476,408** | 5,465,037 | **19,417,854** | 13,324,437 | **24,894,262** | 18,787,474 |
| Current portion | **5,476,408** | 5,465,037 | **19,417,854** | 13,324,437 | **24,894,262** | 18,787,474 |

Core debtors are presented net of an allowance for impairment of €69,881 (2018: €69,881). As at 31 December 2019, total debtors amounting to €3,721,745 (2018: €4,120,092) were fully performing, whereas debtors amounting to €1,421,648 (2018: €1,158,815) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of significant default. The ageing analysis of amounts past due but not impaired is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Up to 3 months | **1,056,341** | 889,982 |
| 3 to 9 months | **317,924** | 227,518 |
| More than 9 months | **47,383** | 41,315 |
| | **1,421,648** | 1,158,815 |

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

## 19. Share capital

| | 2019 | 2018 |
|---|---|---|
| | **€** | € |
| Authorised share capital: | | |
| 4,997,000 'A' ordinary voting shares of €2.50 each | **12,492,500** | 12,492,500 |
| 3,000 'B' cumulative preference shares of €2.50 each | **7,500** | 7,500 |
| 6,000,000 cell shares of €2.50 each | **15,000,000** | 15,000,000 |
| | **27,500,000** | 27,500,000 |
| **Core** | | |
| Issued and fully paid up share capital: | | |
| 4,797,000 'A' ordinary voting shares of €2.50 each | **11,992,500** | 11,992,500 |
| 3,000 'B' cumulative preference shares of €2.50 each | **7,500** | 7,500 |
| | **12,000,000** | 12,000,000 |
| **Cells** | | |
| *Cell 1* | | |
| Issued and 100% paid up share capital: 1,466,240 cell shares | **3,665,600** | 3,665,600 |
| *Cell 2* | | |
| Issued and 80% paid up share capital: 155,000 cell shares | **-** | - |
| *Cell 4* | | |
| Issued and 50% paid up share capital: 1,309,377 cell shares | **1,871,721** | 1,871,721 |
| *Cell 7* | | |
| Issued and 67.5% paid up share capital: 544,215 cell shares | **918,363** | 918,363 |
| *Cell 8* | | |
| Issued and 44.5% paid up share capital: 900,000 cell shares | **1,000,125** | 1,000,125 |
| *Cell 9* | | |
| Issued and 55% paid up share capital:369,032 (2018: 328,000) cell shares | **507,419** | 451,000 |
| *Cell 10* | | |
| Issued and 100% paid up share capital: 240,000 cell shares | **600,000** | 600,000 |
| | **8,563,228** | 8,506,809 |
| **Total share capital** | **20,506,809** | 20,506,809 |

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

Following the closure and winding up of Cell 2 in terms of an extraordinary resolution dated 26 September 2018, the issued share capital was reduced by the cancellation of 124,000 cell shares of €2.50 each, fully paid up. Such cancellation became effective on 28 December 2018. In terms of an agreement between shareholders of cell 2 and the company ,all assets and liabilities were transferred to the company.

## 20. Reserves

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Revaluation reserve | **4,133,361** | 2,253,063 | **-** | - | **4,133,361** | 2,253,063 |
| Functional currency exchange reserve | **-** | - | **(450,423)** | (919,539) | **(450,423)** | (919,539) |
| General reserve | **201,542** | 201,542 | **-** | - | **201,542** | 201,542 |
| **Total other reserves** | **4,334,903** | 2,454,605 | **(450,423)** | (919,539) | **3,884,480** | 1,535,066 |

### Revaluation reserve

| | Core | |
|---|---|---|
| | **2019** | 2018 |
| | **€** | € |
| **Year ended 31 December** | | |
| At beginning of year | **2,253,063** | 2,249,510 |
| Property, plant and equipment – land and buildings: | | |
| Revaluation release on disposal (Note 12) | **-** | (1,000) |
| Revaluation increase (Note 13) | **2,101,360** | - |
| Movement in deferred tax (Note 16) | **(221,062)** | 4,553 |
| At end of year | **4,133,361** | 2,253,063 |

### Functional currency exchange reserve

| | Cells | |
|---|---|---|
| | **2019** | 2018 |
| | **€** | € |
| **Year ended 31 December** | | |
| At beginning of year | **(919,539)** | (858,089) |
| Exchange differences resulting from translation to presentation currency | **469,116** | (61,450) |
| At end of year | **(450,423)** | (919,539) |

**20. Reserves** - continued

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

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

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

The directors consider other reserves to be non-distributable.

**Profit and loss account**

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Core** | **18,488,517** | 13,307,804 |
| **Cells** | | |
| Cell 1 | **2,340,827** | 2,371,413 |
| Cell 4 | **(94,921)** | 350,323 |
| Cell 7 | **459,996** | 337,987 |
| Cell 8 | **539,061** | 397,596 |
| Cell 9 | **526,706** | 198,582 |
| Cell 10 | **(191,212)** | (243,305) |
| | **3,580,457** | 3,412,596 |
| **Total profit and loss account** | **22,068,974** | 16,720,400 |

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

## 21. Technical provisions and reinsurance assets

| Gross technical provisions | Core 2019 € | Core 2018 € | Cells 2019 € | Cells 2018 € | Total 2019 € | Total 2018 € |
|---|---|---|---|---|---|---|
| Claims reported and loss adjustment expenses | **24,790,456** | 20,986,403 | **2,683,730** | 3,324,011 | **27,474,186** | 24,310,414 |
| Claims incurred but not reported | **3,145,115** | 1,931,947 | **2,704,576** | 1,651,064 | **5,849,691** | 3,583,011 |
| Unearned premiums | **15,977,933** | 11,596,550 | **14,896,550** | 11,207,134 | **30,874,483** | 22,803,684 |
| **Total insurance liabilities, gross** | **43,913,504** | 34,514,900 | **20,284,856** | 16,182,209 | **64,198,360** | 50,697,109 |
| **Reinsurers' share of technical provisions** | | | | | | |
| Claims reported and loss adjustment expenses | **13,782,235** | 10,010,262 | **641,340** | 610,097 | **14,423,575** | 10,620,359 |
| Claims incurred but not reported | **2,008,725** | 958,227 | **-** | - | **2,008,725** | 958,227 |
| Unearned premiums | **7,309,036** | 4,538,584 | **9,775,933** | 4,788,382 | **17,084,969** | 9,326,966 |
| **Total reinsurers' share of insurance liabilities** | **23,099,996** | 15,507,073 | **10,417,273** | 5,398,479 | **33,517,269** | 20,905,552 |
| **Net technical provisions** | | | | | | |
| Claims reported and loss adjustment expenses | **11,008,221** | 10,976,141 | **2,042,390** | 2,713,914 | **13,050,611** | 13,690,055 |
| Claims incurred but not reported | **1,136,390** | 973,720 | **2,704,576** | 1,651,064 | **3,840,966** | 2,624,784 |
| Unearned premiums | **8,668,897** | 7,057,966 | **5,120,617** | 6,418,752 | **13,789,514** | 13,476,718 |
| | **20,813,508** | 19,007,827 | **9,867,583** | 10,783,730 | **30,681,091** | 29,791,557 |

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

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

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

The Company uses various techniques in estimating liabilities arising from claims. A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until several years after the event. In calculating the estimated cost of unpaid claims the Company uses statistical analyses of historical experience in order to identify the IBNR component to be added to its known claims reserves. The basic assumption that the development pattern of the current claims will be consistent with past experience is also complemented with allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

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

Unearned premium reserves are formulated on a 365$^{ths}$ time apportionment basis of calculation. This method of calculation proves to be the most accurate in determining this provision as at the balance sheet date. These liabilities are reflective of that amount of premium remaining unearned on an individual policy basis, aggregated to determine the Company’s total liability at any point in time.

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

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

Favourable variations arising on prior year claims are indicative of a prudent reserving methodology.

## 21. Technical provisions and reinsurance assets - continued

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

Estimate of the ultimate Gross claims costs for the Core:

| | 2010 € | 2011 € | 2012 € | 2013 € | 2014 € | 2015 € | 2016 € | 2017 € | 2018 € | 2019 € | Total € |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - at end of reporting year | 10,031,590 | 8,302,389 | 9,790,944 | 10,344,366 | 11,283,117 | 15,231,792 | 14,400,164 | 19,016,753 | 16,389,345 | 25,132,054 | |
| - one year later | 9,005,458 | 7,276,342 | 8,583,139 | 9,373,332 | 9,022,726 | 13,446,678 | 13,173,332 | 15,576,521 | 15,123,712 | | |
| - two years later | 8,345,563 | 6,581,449 | 8,062,640 | 8,761,064 | 8,015,028 | 12,337,696 | 12,351,302 | 14,143,021 | | | |
| - three years later | 7,882,614 | 6,138,583 | 7,686,076 | 8,553,785 | 7,802,011 | 11,838,299 | 12,157,822 | | | | |
| - four years later | 8,018,995 | 6,014,570 | 7,585,657 | 8,405,629 | 7,625,992 | 11,666,675 | | | | | |
| - five years later | 7,923,623 | 5,938,102 | 7,444,976 | 8,346,294 | 7,486,864 | | | | | | |
| - six years later | 7,884,434 | 5,913,793 | 7,428,855 | 8,331,443 | | | | | | | |
| - seven years later | 7,932,012 | 5,899,550 | 7,436,463 | | | | | | | | |
| - eight years later | 7,929,807 | 5,890,541 | | | | | | | | | |
| - nine years later | 7,931,575 | | | | | | | | | | |
| Current estimates of : | | | | | | | | | | | |
| Cumulative claims | 7,931,575 | 5,890,541 | 7,436,463 | 8,331,443 | 7,486,864 | 11,666,675 | 12,157,822 | 14,143,021 | 15,123,712 | 25,132,054 | 115,300,170 |
| Cumulative payments to date | (7,866,693) | (5,872,434) | (7,363,490) | (8,141,697) | (7,449,297) | (11,037,226) | (9,989,162) | (8,427,259) | (10,926,295) | (10,821,252) | (87,894,806) |
| Liability recognised in the balance sheet | 64,882 | 18,107 | 72,973 | 189,747 | 37,567 | 629,449 | 2,168,660 | 5,715,761 | 4,197,417 | 14,310,802 | 27,405,364 |
| Reserve in respect of prior years | | | | | | | | | | | 530,207 |
| Total reserve included in the balance sheet | | | | | | | | | | | 27,935,571 |

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

Estimate of the ultimate Net claims costs for the Core:

| | 2010 € | 2011 € | 2012 € | 2013 € | 2014 € | 2015 € | 2016 € | 2017 € | 2018 € | 2019 € | Total € |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - at end of reporting year | 6,736,170 | 6,822,148 | 7,278,905 | 8,039,367 | 7,768,761 | 9,431,033 | 10,106,850 | 9,212,017 | 9,983,389 | 10,845,598 | |
| - one year later | 5,993,703 | 5,964,826 | 6,476,750 | 7,258,996 | 6,881,159 | 8,675,037 | 9,465,006 | 8,502,035 | 9,266,810 | | |
| - two years later | 5,678,373 | 5,494,456 | 6,056,331 | 6,642,433 | 6,357,253 | 7,697,462 | 8,589,373 | 7,553,094 | | | |
| - three years later | 5,328,498 | 5,088,202 | 5,808,076 | 6,470,996 | 6,170,581 | 7,267,099 | 8,430,599 | | | | |
| - four years later | 5,470,410 | 4,971,888 | 5,736,542 | 6,362,895 | 6,044,203 | 7,115,980 | | | | | |
| - five years later | 5,378,238 | 4,892,818 | 5,640,427 | 6,315,891 | 5,905,075 | | | | | | |
| - six years later | 5,340,697 | 4,871,086 | 5,623,081 | 6,304,381 | | | | | | | |
| - seven years later | 5,392,202 | 4,864,482 | 5,630,403 | | | | | | | | |
| - eight years later | 5,389,953 | 4,856.088 | | | | | | | | | |
| - nine years later | 5,391,721 | | | | | | | | | | |
| Current estimates of : | | | | | | | | | | | |
| Cumulative claims | 5,391,721 | 4,856.088 | 5,630,403 | 6,304,381 | 5,905,075 | 7,115,980 | 8,430,599 | 7,553,094 | 9,266,810 | 10,845,598 | 71,299,748 |
| Cumulative payments to date | (5,326,817) | (4,837,943) | (5,559,430) | (6,123,053) | (5,867,704) | (6,634,892) | (6,906,937) | (6,262,153) | (6,474,402) | (5,653,345) | (59,646,675) |
| Liability recognised in the balance sheet | 64,905 | 18,145 | 70,972 | 181,328 | 37,370 | 481,088 | 1,523,662 | 1,290,942 | 2,792,409 | 5,192,252 | 11,653,073 |
| Reserve in respect of prior Years | | | | | | | | | | | 491,538 |
| Total reserve included in the balance sheet | | | | | | | | | | | 12.144.611 |

## 21. Technical provisions and reinsurance assets - continued

Estimate of the ultimate Gross claims costs for the Cells:

| **Cells** | 2010 € | 2011 € | 2012 € | 2013 € | 2014 € | 2015 € | 2016 € | 2017 € | 2018 € | 2019 € | Total € |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - at end of reporting year | 750,960 | 2,097,027 | 2,128,125 | 10,125,682 | 4,535,651 | 6,724,620 | 8,735,822 | 6,127,242 | 7,712,128 | 7,983,912 | |
| - one year later | 876,294 | 1,921,989 | 1,929,797 | 10,664,268 | 4,479,656 | 6,742,010 | 8,252,379 | 7,035,776 | 8,484,048 | | |
| - two years later | 655,087 | 1,640,648 | 1,938,163 | 18,018,955 | 4,427,930 | 6,296,589 | 6,934,553 | 7,614,027 | | | |
| - three years later | 676,499 | 1,681,901 | 1,747,566 | 15,834,488 | 4,404,344 | 6,028,773 | 7,029,526 | | | | |
| - four years later | 675,860 | 1,636,471 | 1,653,096 | 31,496,234 | 4,266,199 | 5,880,288 | | | | | |
| - five years later | 635,644 | 1,612,358 | 1,593,776 | 28,402,615 | 4,134,131 | | | | | | |
| - six years later | 613,987 | 1,525,953 | 1,620,465 | 28,377,046 | | | | | | | |
| - seven years later | 619,816 | 1,527,312 | 1,615,303 | | | | | | | | |
| - eight years later | 612,714 | 1,527,312 | | | | | | | | | |
| - nine years later | 612,714 | | | | | | | | | | |
| Current estimates of: | | | | | | | | | | | |
| Cumulative claims | 612,714 | 1,527,312 | 1,615,303 | 28,377,046 | 4,134,131 | 5,880,288 | 7,029,526 | 7,614,027 | 8,484,048 | 7,983,912 | 73,258,307 |
| Cumulative payments to date | (651,133) | (1,648,204) | (1,656,080) | (29,953,192) | (4,051,195) | (5,410,721) | (6,578,096) | (5,638,705) | (6,767,306) | (7,026,231) | (69,380,863) |
| Other movements | 38,419 | 120,892 | 40,777 | 1,576,146 | (21,520) | (456,750) | 21,820 | (312,811) | 8,450 | 495,439 | 1,510.862 |
| Liability recognised in the balance sheet | - | - | - | - | 61,416 | 12,817 | 473,250 | 1,662,510 | 1,725,192 | 1,453,120 | 5,388,306 |

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

Estimate of the ultimate Net claims costs for the Cells:

| Cells | 2010 € | 2011 € | 2012 € | 2013 € | 2014 € | 2015 € | 2016 € | 2017 € | 2018 € | 2019 € | Total € |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - at end of reporting year | 750,960 | 2,097,027 | 2,128,125 | 2,895,624 | 4,535,651 | 6,724,620 | 7,334,247 | 6,080,980 | 7,479,885 | 5,504,942 | |
| - one year later | 876,294 | 1,921,989 | 1,929,797 | 2,886,026 | 4,479,656 | 6,681,076 | 7,315,606 | 7,035,889 | 7,666,768 | | |
| - two years later | 655,087 | 1,640,648 | 1,938,163 | 2,911,341 | 4,427,930 | 6,296,589 | 6,526,799 | 7,660,515 | | | |
| - three years later | 676,499 | 1,681,901 | 1,747,566 | 2,592,339 | 4,352,572 | 6,080,852 | 7,150,790 | | | | |
| - four years later | 675,860 | 1,636,471 | 1,653,096 | 2,330,649 | 4,214,427 | 5,984,265 | | | | | |
| - five years later | 635,644 | 1,612,358 | 1,593,776 | 2,377,846 | 4,082,359 | | | | | | |
| - six years later | 613,987 | 1,525,953 | 1,620,465 | 2,112,504 | | | | | | | |
| - seven years later | 619,816 | 1,527,312 | 1,615,303 | | | | | | | | |
| - eight years later | 612,714 | 1,527,312 | | | | | | | | | |
| - nine years later | 612,714 | | | | | | | | | | |
| Current estimates of: | | | | | | | | | | | |
| Cumulative claims | 612,714 | 1,527,312 | 1,615,303 | 2,112,504 | 4,214,427 | 5,984,265 | 7,150,790 | 7,660,515 | 7,666,768 | 5,504,942 | 43,917,471 |
| Cumulative payments to date | (651,133) | (1,648,204) | (1,656,080) | (3,949,630) | (4,051,195) | (5,364,961) | (6,578,096) | (5,592,821) | (6,726,223) | (4,414,364) | (40,632,707) |
| Other movements | 38,419 | 120,892 | 40,777 | 1,749,860 | 52,203 | (601,908) | (604,431) | (297,514) | 1,190,440 | (226,536) | 1,462,202 |
| Liability recognised in the balance sheet | - | - | - | (87,266) | 83,367 | 17,396 | (31,737) | 1,770,179 | 2,130,984 | 864,042 | 4,746,966 |

The cells' claims progression table includes developments on an underwriting basis, and therefore movements on a gross and net basis for 2017 and 2018 include developments relating to premium earned in 2019.

## 21. Technical provisions and reinsurance assets - continued

### (a) Claims and loss adjustment expenses - Core

| | **Year ended 31 December 2019** | | | Year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **€** | **€** | **€** | € | € | € |
| Notified claims still outstanding | **20,986,403** | **(10,010,262)** | **10,976,141** | 19,887,405 | (8,949,411) | 10,937,994 |
| Incurred but not reported | **1,931,947** | **(958,227)** | **973,720** | 1,794,917 | (866,284) | 928,633 |
| Total at beginning of year | **22,918,350** | **(10,968,489)** | **11,949,861** | 21,682,322 | (9,815,695) | 11,866,627 |
| Increase in liabilities: | | | | | | |
| - arising from current year claims | **25,132,054** | **(14,286,456)** | **10,845,598** | 16,389,345 | (6,405,957) | 9,983,388 |
| - arising from prior year claims | **(4,306,042)** | **2,016,680** | **(2,289,362)** | (5,719,859) | 2,826,188 | (2,893,671) |
| Claims settled during the year | **(15,808,791)** | **7,447,305** | **(8,361,486)** | (9,433,458) | 2,426,975 | (7,006,483) |
| **Total at end of year** | **27,935,571** | **(15,790,960)** | **12,144,611** | 22,918,350 | (10,968,489) | 11,949,861 |
| Notified claims still outstanding | **24,790,456** | **(13,782,235)** | **11,008,221** | 20,986,403 | (10,010,262) | 10,976,141 |
| Incurred but not reported | **3,145,115** | **(2,008,725)** | **1,136,390** | 1,931,947 | (958,227) | 973,720 |
| **Total at end of year** | **27,935,571** | **(15,790,960)** | **12,144,611** | 22,918,350 | (10,968,489) | 11,949,861 |

### (a) Claims and loss adjustment expenses - Cells

| | **Year ended 31 December 2019** | | | Year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **€** | **€** | **€** | € | € | € |
| Notified claims still outstanding | **3,188,398** | **(514,688)** | **2,673,710** | 29,488,668 | (27,221,578) | 2,267,090 |
| Incurred but not reported | **1,651,064** | **-** | **1,651,064** | 2,305,720 | - | 2,305,720 |
| Total at beginning of year | **4,839,462** | **(514,688)** | **4,324,774** | 31,794,388 | (27,221,578) | 4,572,810 |
| Increase in liabilities: | **9,252,387** | **(2,919,930)** | **6,332,457** | 4,098,225 | 3,119,172 | 7,217,397 |
| Claims settled during the year | **(8,909,471)** | **2,894,188** | **(6,015,283)** | (30,652,335) | 23,255,186 | (7,397,149) |
| Other movements | **205,928** | **(100,910)** | **105,018** | (265,203) | 237,122 | (28,081) |
| **Total at end of year** | **5,388,306** | **(641,340)** | **4,746,966** | 4,975,075 | (610,098) | 4,364,977 |
| Notified claims still outstanding | **2,683,730** | **(641,340)** | **2,042,390** | 3,324,011 | (610,098) | 2,713,913 |
| Incurred but not reported | **2,704,576** | **-** | **2,704,576** | 1,651,064 | - | 1,651,064 |
| **Total at end of year** | **5,388,306** | **(641,340)** | **4,746,966** | 4,975,075 | (610,098) | 4,364,977 |

In the opinion of the directors, there is no requirement to separate the movements between current year and prior year as on a net basis the amount is not material.

## 21. Technical provisions and reinsurance assets - continued

### (b) Gross and Net unearned premiums - Core

| | **Year ended 31 December 2019** | | | Year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **€** | **€** | **€** | € | € | € |
| At beginning of year | **11,596,550** | **(4,538,584)** | **7,057,966** | 11,108,563 | (4,568,243) | 6,540,320 |
| Net charge/(credit) to profit and loss | **4,381,383** | **(2,770,452)** | **1,610,931** | 487,987 | 29,659 | 517,646 |
| **At end of year** | **15,977,933** | **(7,309,036)** | **8,668,897** | 11,596,550 | (4,538,584) | 7,057,966 |

### (c) Gross and Net unearned premiums - Cells

| | **Year ended 31 December 2019** | | | Year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **€** | **€** | **€** | € | € | € |
| At beginning of year | **11,209,577** | **(4,805,691)** | **6,403,886** | 7,415,730 | (918,729) | 6,497,001 |
| Net charge/(credit) to profit and loss | **5,117,400** | **(4,987,386)** | **130,014** | 3,793,847 | (3,869,651) | (75,804) |
| Other movements | **(1,430,427)** | **(17,144)** | **(1,413,383)** | - | (17,311) | (17,311) |
| **At end of year** | **14,896,550** | **(9,810,221)** | **5,120,617** | 11,209,577 | (4,805,691) | 6,403,886 |

## 22. Borrowings

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| Bank balance overdrawn (Note 25) | **343,644** | - |

## 23. Creditors and accruals and deferred income

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| **Creditors arising out of direct insurance operations** | | | | | | |
| Trade creditors | **1,137,414** | 1,088,774 | **1,908,373** | 1,600,599 | **3,045,787** | 2,689,373 |
| Payable to reinsurers | **303,655** | 920,150 | **10,618,282** | 5,284,050 | **10,921,937** | 6,204,200 |
| | **1,441,069** | 2,008,924 | **12,526,655** | 6,884,649 | **13,967,724** | 8,893,573 |
| **Other creditors** | | | | | | |
| Payable to related parties | **-** | - | **565,158** | 3,731,519 | **565,158** | 3,731,519 |
| Payable to group undertakings | **63,400** | - | **-** | - | **63,400** | - |
| Other creditors | **129,232** | 183,205 | **-** | - | **129,632** | 183,205 |
| | **192,632** | 183,205 | **565,158** | 3,731,519 | **757,790** | 3,914,724 |
| **Accruals and deferred income** | **4,380,967** | 2,205,836 | **131,686** | 175,351 | **4,512,653** | 2,381,187 |
| **Total creditors and accruals and deferred income** | **6,014,668** | 4,397,965 | **13,223,499** | 10,791,519 | **19,238,167** | 15,189,484 |
| Current portion | **6,014,668** | 4,397,965 | **13,223,499** | 10,791,519 | **19,238,167** | 15,189,484 |

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

## 24. Cash generated from operations

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Insurance premiums received | **40,819,017** | 26,469,691 | **23,822,157** | 18,595,980 | **64,641,174** | 45,065,671 |
| Reinsurance premiums paid | **(21,341,433)** | (10,424,904) | **(12,719,066)** | (5,584,682) | **(34,060,499)** | (16,009,586) |
| Claims paid | **(16,753,263)** | (10,281,951) | **(8,909,471)** | (30,652,335) | **(25,662,734)** | (40,934,286) |
| Reinsurance claims received | **7,447,305** | 2,426,975 | **2,894,188** | 23,255,186 | **10,341,493** | 25,682,161 |
| Commission and other income | **7,820,529** | 3,773,540 | **(43,665)** | 10,681 | **7,776,864** | 3,784,221 |
| Cash paid to employees, related parties and other suppliers for services and goods | **(10,621,639)** | (7,233,896) | **(7,247,626)** | 963,648 | **(17,869,263)** | (6,270,248) |
| Interest received/(paid) | **366,387** | 287,018 | **(10,677)** | (11,616) | **355,710** | 275,402 |
| Dividends received | **685,886** | 619,811 | **-** | - | **685,886** | 619,811 |
| Rental Income | **349,300** | 270,139 | **-** | - | **349,300** | 270,139 |
| Net (purchase)/disposal of operating assets: | | | | | | |
| - loans and receivables | **(777,788)** | 139,141 | **(68,543)** | 24,483 | **(846,331)** | 163,624 |
| - financial assets at fair value through profit or loss | **(407,078)** | (506,365) | **-** | - | **(407,078)** | (506,365) |
| Cash generated from/ (used in) operations | **7,587,223** | 5,539,199 | **(2,282,703)** | 6,601,345 | **5,304,520** | 12,140,544 |

## 25. Cash and cash equivalents

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

| | Core | | Cells | | Total | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **€** | € | **€** | € | **€** | € |
| Cash at bank and in Hand | **1,567,098** | 3,612,737 | **11,062,332** | 15,201,246 | **12,629,430** | 18,813,983 |
| Held with investment Managers | **1,541,388** | 962,340 | **-** | - | **1,541,388** | 962,340 |
| | **3,108,486** | 4,575,077 | **11,062,332** | 15,201,246 | **14,170,818** | 19,776,323 |
| Bank balance overdrawn | **(343,644)** | - | **-** | - | **(343,644)** | - |
| At end of year | **2,764,842** | 4,575,077 | **11,062,332** | 15,201,246 | **13,827,174** | 19,776,323 |

The weighted average interest rate on interest bearing bank balances as at year-end was 0.04% p.a. (2018: 0.04% p.a.).

## 26. Related party transactions

All companies forming part of the Atlas Group of Companies are considered by the directors to be related parties since these companies are ultimately owned and controlled by Atlas Holdings Limited. The Company has interests in other entities that are not wholly owned by the parent company and these are also considered as related parties. Related parties also comprise the Company's key management personnel who have the ability to control or exercise a significant influence in financial and operating decisions.

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Income** | | |
| Subsidiaries: | | |
| Payroll costs charged | **292,314** | 349,869 |
| Other related entities: | | |
| Payroll costs charged | **35,618** | 31,863 |
| Interest income | **21,911** | - |
| **Expenses** | | - |
| Subsidiaries: | | |
| Commission payable | **2,286,168** | 28,054 |

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**26. Related party transactions** - continued

During the financial year ended 31 December 2019, the Core assumed the underwriting for health insurance risk intermediated by its subsidiary, Atlas Healthcare Insurance Agency Limited. Dividend receivable from subsidiary is disclosed Note 5. Dividends payable to the parent company are disclosed in Note 10.

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

Year end balances owed by or to group undertakings and other related parties are disclosed in Notes 15 (b)(ii), 18 and 23 to these financial statements respectively.

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

As at 31 December 2019, the Company had a commitment in relation to uncalled share capital of an associate amounting to €1,500,000.

**27. Capital management**

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

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

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

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

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

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

## 27. Capital management - continued

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

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2019, the Company's eligible own funds amounting to €44.1m (unaudited) (2018: €43.1m (unaudited)) adequately covered the required SCR.

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

**Liabilities arising from cell operations**

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

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

The Company has taken the following safeguards in this respect:

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

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

## 28. Non-cancellable operating lease commitments

The Company leases a number of branches in different locations under non-cancellable operating leases.

As from 1 January 2019, the Company has recognised right-of-use assets for these leases.

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

| | **2019** | 2018 |
|---|---|---|
| | **€** | € |
| **Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:** | | |
| Not later than 1 year | **-** | 9,018 |
| Later than 1 year and not later than 5 years | **-** | 5,110 |
| | **-** | 14,128 |

During the year ended 31 December 2018, operating lease payments in respect of cancellable and non-cancellable leases amounting to €105,641 were recognised as an operating expense in profit or loss.

## 29. Events after the reporting period - – COVID-19 Pandemic

The spread of Covid-19 across the globe from the beginning of the financial year 2020 is having a significant economic impact bothhworld-wide and locally. The virus was first detected in Malta in the beginning of March 2020. Whilst events pertaining to the COVID-19 pandemic occurred after the balance sheet date, and are hence deemed to be non-adjusting events, Atlas has been closely and constantly monitoring developments as these unfold in order to assess the effects which this pandemic could have on the Company. Due consideration has been given to the impact this may have on the Company's prospects, financial performance, asset values, operations and capital adequacy going forward.

In terms of operations, Atlas rolled out its business continuity contingency plans as soon as developments started to emerge. A dedicated COVID-19 response team was set up in order to monitor developments on a daily basis. Atlas' readiness in terms of business continuity meant that disruptions to the daily operations were kept to a minimum.

The Company has stressed its cash flow projections, and other financial indicators such as asset values, and in view of its capital position as at 31 December 2019, does not envisage that the potential financial impact challenges the going concern basis of preparation of the financial statements, or entails major action. The short term impact will be mitigated, where and when necessary, through certain measures such as access to short term liquidity facilities. Whilst as at 31 March 2020 the Company reports a 9% diminution in the value of its financial assets, it is also the Company's understanding that this situation is currently fluid and expects that markets will recover once the current situation ameliorates, with asset values rebounding. When considering stress and scenario testing carried out as part of the Company's ORSA (Own Risk Solvency Assessment) process on its market and capital positions, the directors consider that Atlas is able to withstand a potential longer term adverse impact on its assets. This assessment also captures the estimated impact on underlying insurance operations by line of business, including the potential for reduced premium or increased claims exposure for certain lines of business at the same time contemplating offsetting factors, such as likely reduced claims frequency in other lines of business.

**29. Events after the reporting period – COVID-19 Pandemic** – continued

Atlas further considers that the current high grade quality of its reinsurance panel protects the Company from material exposure in this regard, although downgrading of reinsurers cannot be excluded. The Directors' assessment has primarily focused on the Core's business in light of the nature of the cells' operations and assets, which are expected to be less affected.

Given the current economic outlook at the time of writing, Atlas remains confident that it will continue to adequately cover its regulatory capital requirements. At the same time, the Directors acknowledge that the global and local economic environment remains uncertain.

**30. Statutory information**

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

**31. Comparative information**

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

**ATLAS INSURANCE PCC LIMITED**

**REGISTERED OFFICE**

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