



Group Solvency & Financial Condition Report 2019

Atlas Holdings Limited

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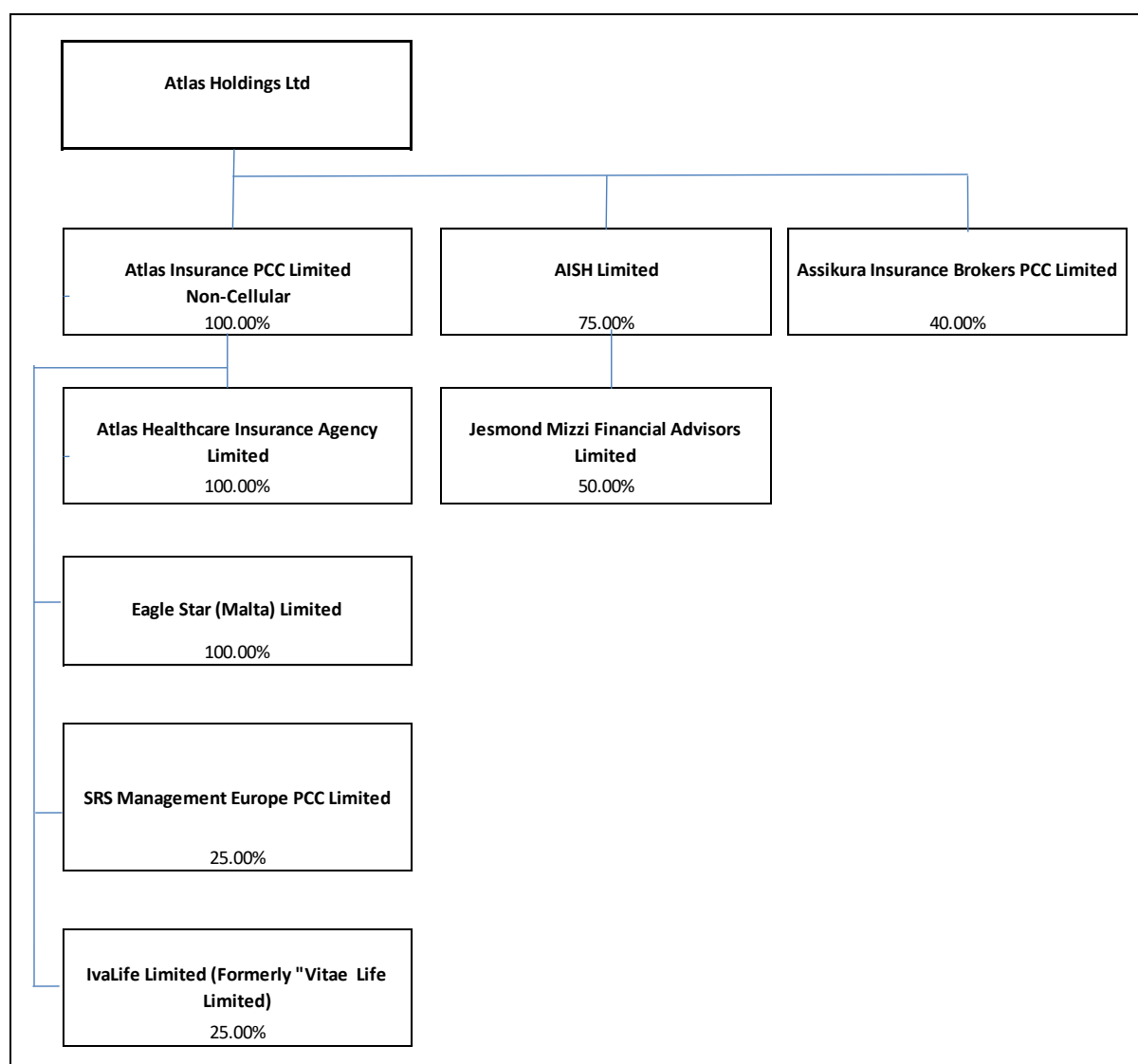
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1. Executive summary

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

Atlas Holdings Limited (the Atlas Group, the Group) is principally engaged in the holding of investments with a particular interest in insurance. The Atlas Group has been captured for Group Supervision under the Solvency II Directive which came in to force as on the 1 January 2016. As such this report is intended to satisfy compliance with Group Supervisory requirements under such regulation while also reporting on the Protected Cell Company's non-cellular results for the year under review. For the purposes of this report the non-cellular assets are referred to as "Core" assets.

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



During the year under review Atlas Insurance PCC Limited (the PCC, the Solo Undertaking), a wholly owned subsidiary invested a 25% equity share in a company currently applying for authorisation to act as a life insurance undertaking, IvaLife Limited (formerly "Vitae Life Limited").

In view that Atlas Holdings Limited or its subsidiaries do not hold a controlling interest in SRS Management Europe PCC Limited, Assikura Insurance Brokers Limited, Jesmond Mizzi Financial Services Limited and IvaLife Limited, the equity held for these companies is recognised in these results as being those of an Associate.

Atlas Holdings Limited

Atlas Holdings Limited receives dividend income from its equity investment in its controlled subsidiaries or from its associate companies. During the year under review the Company received dividends before taxation totalling €2,273,077 (2018: €2,272,309). The Company reports a profit before tax of €2,224,957 (2018: €2,263,767).

The Board of Directors implements a Group wide dividend policy to ensure that dividend distribution does not compromise the Group's strength in matching its Solvency Margin under Solvency II regulation. As on 31 December 2019 the Company reports shareholder funds totalling €12,801,941 (2018: €12,852,561).

Atlas Group and its subsidiaries

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

Throughout this report the quantitative tables being reproduced also include results being reported separately for the Cells attaching to the PCC. Cells that have recourse to the PCC's Core Own Funds, under consolidation Solvency II principles, have recourse to the consolidated Own Funds Reserves of the Group.

The regulated Quantitative Reporting Templates (QRT's) being reproduced in this report will only state positions for the Group and for the PCC's Aggregate Position.

The Group reports a profit before tax of €9,267,887 (2018: €4,520,860) of which profit after tax of €6,098,874 (2018: €2,907,960) is attributable to the owners of the Holding Company.

Atlas Insurance PCC Limited (the PCC, the Solo Undertaking) is the flagship company within a group of companies specialising in insurance underwriting and insurance services. As such it plays a pivotal role within the group offering its own resources to its sister and subsidiary companies, on a cost sharing basis. These resources include its expert human resources, finance, office premises and IT infrastructure. The Solo Undertaking was authorised on the 29 April 2004 by the Malta Financial Services Authority (MFSA) to carry on business in the following Insurance Classes of Business:

- Class 1 – Accident,
- Class 2 – Sickness,
- Class 3 – Land Vehicles,
- Class 6 – Ships,
- Class 7 – Goods in Transit,
- Class 8 – Fire and Natural Forces,
- Class 9 – Other Damage to Property,
- Class 10 – Motor Vehicle Liability,

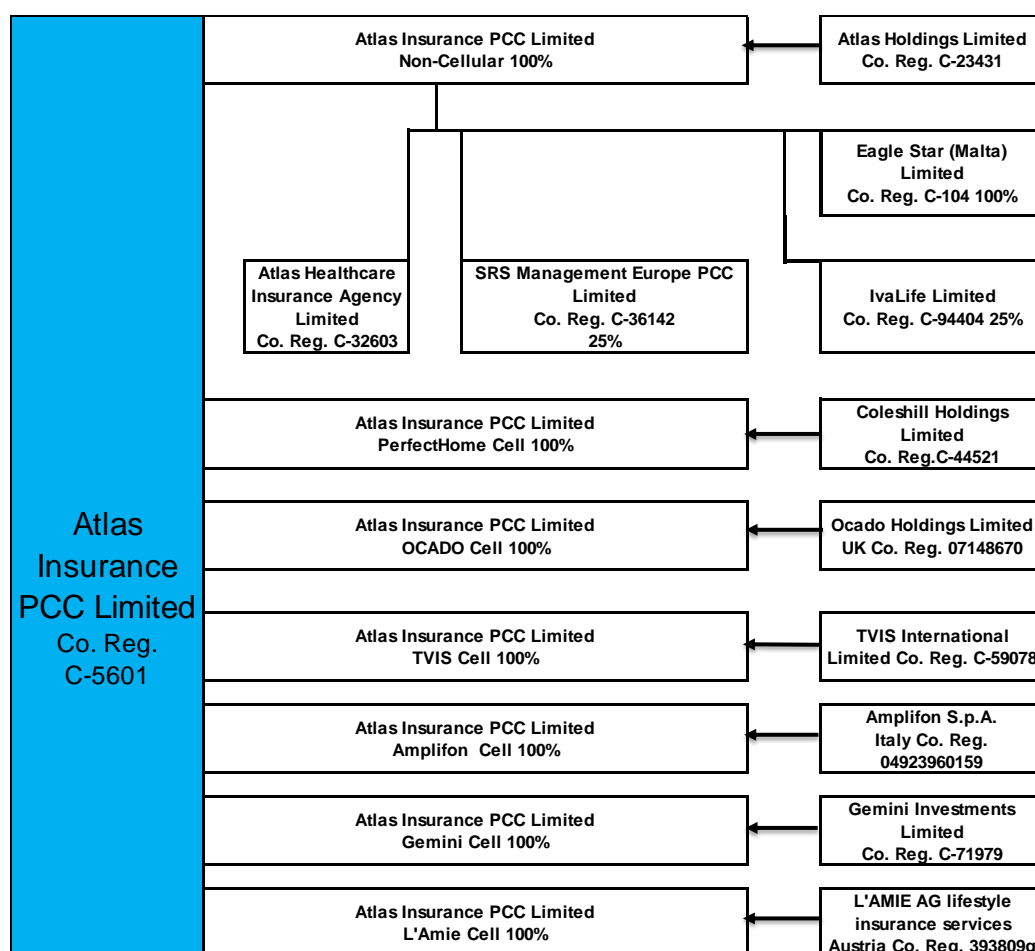
Class 12 – Liability for Ships,
 Class 13 – General Liability,
 Class 16 – Miscellaneous Financial Loss,
 Class 17 – Legal Expenses, and
 Class 18 – Assistance.

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

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

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

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



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

Premium Written by Geographical Area	Northern Europe		Western Europe		Southern Europe		Total	
	Euro 2019	Euro 2018	Euro 2019	Euro 2018	Euro 2019	Euro 2018	Euro 2019	Euro 2018
Core	-	-	-	-	40,573,438	26,689,044	40,573,438	26,689,044
Amplifon Cell	-	90,863	-	1,357,296	-	-	-	1,448,159
Other Cells	4,324,545	6,595,108	19,497,612	10,552,713	-	-	23,822,157	17,147,821
Total	4,324,545	6,685,971	19,497,612	11,910,010	40,573,438	26,689,044	64,395,595	45,285,024
Percentage Share of Total Premium	7%	14%	30%	25%	63%	57%	100%	100%

Core Results

The PCC through its Core underwrites a balanced general insurance business portfolio as a leading insurer of Maltese insurance risk. During 2019 the Core continued to register substantial growth in premium income, together with positive technical results arising from the prudence applied in its underwriting and reinsurance operations.

Premium Written	Motor	Non-Motor	Total	Motor Share	Non-Motor Share	
	Euro	Euro	Euro			
	2019	12,756,723	27,816,715	40,573,438	31%	69%
	2018	12,050,710	14,638,334	26,689,044	45%	55%
Percentage Growth for 2019	6%	90%	52%			

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

During 2019 the Core 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. 2019 has continued to register good pure technical results. Managing the Motor Class remains key to the overall technical results and the underwriting team continue to monitor challenging claims expenses on the rise. While third party bodily injury and fatality claims are unpredictable, 2019 did not register any such major claims. The Property Class 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. Notwithstanding this, continued technical profits work positively toward the PCC reserving funds in the interest of the stakeholders.

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

Gross Claims Loss Ratio	Motor		Non-Motor		Total	
	Euro 2019	Euro 2018	Euro 2019	Euro 2018	Euro 2019	Euro 2018
Premium Earned	12,376,934	11,715,660	23,815,121	14,485,397	36,192,055	26,201,057
Claims Incurred	6,066,584	5,927,191	15,703,900	5,590,788	21,770,484	11,517,979
Gross Ratio	49%	51%	66%	39%	60%	44%

The Core reinsures the insurance business risk it underwrites with a pool of "A" credit rated reinsurers of international repute.

For the reasons mentioned, during 2019 the Core registered a Gross Claims Loss Ratio of 60% decreasing to 52% after reinsurance costs. The increase in gross claims registered during the year is being reported to have grown from €11,517,979 for 2018 to that of €21,770,484 for 2019. This increase in claims incurred results in a position of higher incidence for reinsurance recovery of such claims. Logically this causes a position where the proportionate level of retention for 2019 compared to that of 2018 is higher, resulting in a marginally higher net retained loss ratio compared to the prior year.

This slight increase in the net position reports an overall net claims incurred for 2019 of €9,500,708, increasing from that of 2018 of €7,938,210. This increase in net claims costs is more than adequately offset by the increases in net premium earned. In the below table the net claims position retained by the Core is being noted.

Net Claims Loss Ratio	Total	
	Euro 2019	Euro 2018
Net Premium Earned	18,425,616	15,611,096
Net Claims Incurred	9,500,708	7,938,210
Net Ratio	52%	51%

Substantial recovery from the closing positions of 2018 was experienced during 2019 in both the local and international stock exchange market places. Notwithstanding market wide results, the Board remains committed to its ongoing prudence applied in the management of the portfolio. As such the Board of Directors continues to apply an investment policy which allows for reasonable return on investment while safeguarding through prudence, by causing appropriate spread in its allocation, and largely placing investments in high grade securities.

The investment portfolio held in the balance sheet at year end 2019 totalled €46,421,383, 2018 - €41,752,086. This increase is attributable to excellent results achieved for the market value gains registered together with further cash injections from profit reserves into the portfolio.

Realised income contributed well toward the PCC's strategy of reinvestment for the return on the investment portfolio. The combined positive results for both the technical and investment operations results in a 2019 profit before tax of €9,674,992 compared to a prior year profit before tax of €4,362,052, increasing the total equity of the Core to €35,358,374 at year end from €27,762,409 at the beginning of the year under review.

The PCC owns 25% in an associate company, SRS Management Europe PCC Limited (SRS). During the year under review it also invested a 25% equity share in a company currently applying for authorisation to act as a life insurance undertaking, Ivalife Limited. Both these companies are not considered to be subsidiaries and as such in view that the PCC does not hold a controlling interest in the equity held, the results are recognised as being those of an Associate for dividend income received from the entities.

The results for the two daughter companies, Atlas Healthcare Insurance Agency Limited and Eagle Star (Malta) Limited, are not consolidated in the Company's accounts and are recognised in Atlas' Financial Statements and Solvency II Balance Sheet as equity investments held. These two companies' results are then consolidated in the Group Consolidation of the ultimate parent, Atlas Holdings Limited. Associate company results are also recognised as equity investment but only reported on for any dividend income received from the associate then having IFRS principles applied to the Group consolidation as stated above.

Atlas Healthcare Insurance Agency Limited (the Agency)

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

The Agency is an enrolled agent authorised by the MFSA in accordance with the Insurance Distribution Act (Cap 487). Its agency representation focuses on health insurance products as its mainstream product line and operated in 2019 as an insurance agent of Atlas Insurance PCC Limited for the Health Class. During 2019 the Agency also sought MFSA approval for it to invest 100% equity in a Cell incorporated within Assikura Insurance Brokers Limited with the business objective of intermediating both Health and Life Insurance. MFSA gave its authorization in December 2019.

The Agency's net asset value totaled €1,185,448 as on 31 December 2019 (31 December 2018 - €1,077,440), which result is in excess over regulated financial resources requirements under the Insurance Distribution Act (Cap 487).

Eagle Star (Malta) Limited

ESL's source of income is that of a structured remuneration in the form of a fee for the intermediation of the run-off for Long Term business. ESL does not introduce new business to its principal, Zurich Assurance Limited.

This subsidiary manages its financial resources for the smooth running of the portfolio run-off. The net asset value of ESL is reported as on 31 December 2019 at €182,828 (31 December 2018 at €107,222).

Cells

The PCC had six Cells incorporated within its structure as on 31 December 2019; the PerfectHome Cell, the Ocado Cell, the TVIS Cell, the Amplifon Cell, the Gemini Cell and the L'Amie Cell.

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

During 2019 the **PerfectHome Cell** stopped writing new business and renewals. The Cell carried on to run off and service existing policies and arising claims therefrom. It is expected that during 2020 due notice will be given to the MFSA for the winding up of the Cell, which process the Board has approved.

This Cell had been incorporated within the PCC during 2008. Its operating functional currency is British Pound.

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

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

The Cell's operating functional currency is British Pound.

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

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

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

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

The Cell's operating functional currency is Euro

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

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

The Cell's operating functional currency is Euro.

Aggregate Cell Results

Premium written in aggregate for the Cells sees material increases in turn over and remains perfectly reflective of the their individual business objectives.

Two Cells in particular have seen important growth for premium income through their expansion of insurance products and penetration of Pan European markets.

The total premium written by the Cells for 2019 is reported in aggregate in the below table, highlighting the Amplifon Cell results separately which is ring fenced to the extent of not having recourse to the Core capital.

Premium Written	Amplifon Cell	Other Cells	Aggregate
	Euro	Euro	Euro
2019	-	23,822,157	23,822,157
2018	1,448,159	17,147,821	18,595,980
Percentage Growth/-Diminution for 2019	-100%	39%	28%

The Amplifon Cell did not write any new reinsurance premium written during 2019. The reason behind this is that, effective 1 April 2018, the Cell had stopped writing new business in line with the new business objectives of Amplifon SPA, the immediate parent. The Cell carries on its operations in servicing the existing reinsurance risk taken on by the Cell up to 31 March 2018.

The Cells' gross claims loss ratio for 2019 does not cause concern to management for any threats to the Core capital in view that all Cells have registered reasonably good net loss ratios.

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

Gross Claims Loss Ratio	Amplifon		Other Cells		Aggregate	
	Euro	Euro	Euro	Euro	Euro	Euro
	2019	2018	2019	2018	2019	2018
Premium Earned	1,821,599	2,419,803	16,883,160	12,382,328	18,704,759	14,802,131
Claims Incurred	1,331,334	1,606,398	7,921,053	2,491,828	9,252,387	4,098,226
Gross Ratio	73%	66%	47%	20%	49%	28%

Net Claims Loss Ratio	Amplifon		Other Cells		Aggregate	
	Euro	Euro	Euro	Euro	Euro	Euro
	2019	2018	2019	2018	2019	2018
Premium Earned	1,821,599	2,419,803	9,151,477	10,667,298	10,973,076	13,087,101
Claims Incurred	1,331,334	1,606,398	5,001,124	5,611,000	6,332,458	7,217,398
Gross Ratio	73%	66%	55%	53%	58%	55%

1.2 System of Governance

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

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

- the Investment Committee;
- the Audit Committee;
- the Remuneration and Nominations Committee;
- the Risk and Compliance Committee, and
- the Information Technology Committee (constituted during March 2018).

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

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

The Group defines the following risk categories:

Risk Category	Definition
Operational	Potential losses resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk includes risks of internal and external fraud, as well as legal risks.
Underwriting	Risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. This is only applicable to Atlas PCC.
Credit	Risk of a financial loss if another party fails to perform its obligations or fails to perform them in a timely manner. Key counterparties include reinsurers, financial institutions, intermediaries, ceding companies & insureds.
Market	Risk that arises from fluctuations in values of, or income from, assets or interest or exchange rates. Credit risk associated with bonds is captured under this category, as is market concentration risks associated with equity, bonds and property.
Liquidity	Risk that the Group is unable to realise investments and other assets in order to settle financial obligations when they fall due
Strategic	Risk of the current and prospective impact on earnings or capital arising from wrong business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Reputational	Risk of a potential loss through the deterioration of the Group's reputation or standing due to a negative perception of the Group's image among policyholders, counterparties, shareholders and/or supervisory authorities.
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The categorisation follows best practice and current regulations.

The Group's Risk Management Policy defines the framework, strategy and guiding principles for risk management. In the implementation at the operational level, the Atlas Group adopts a three lines of defence approach, which is considered as best practice.

1.3 Risk Profile

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

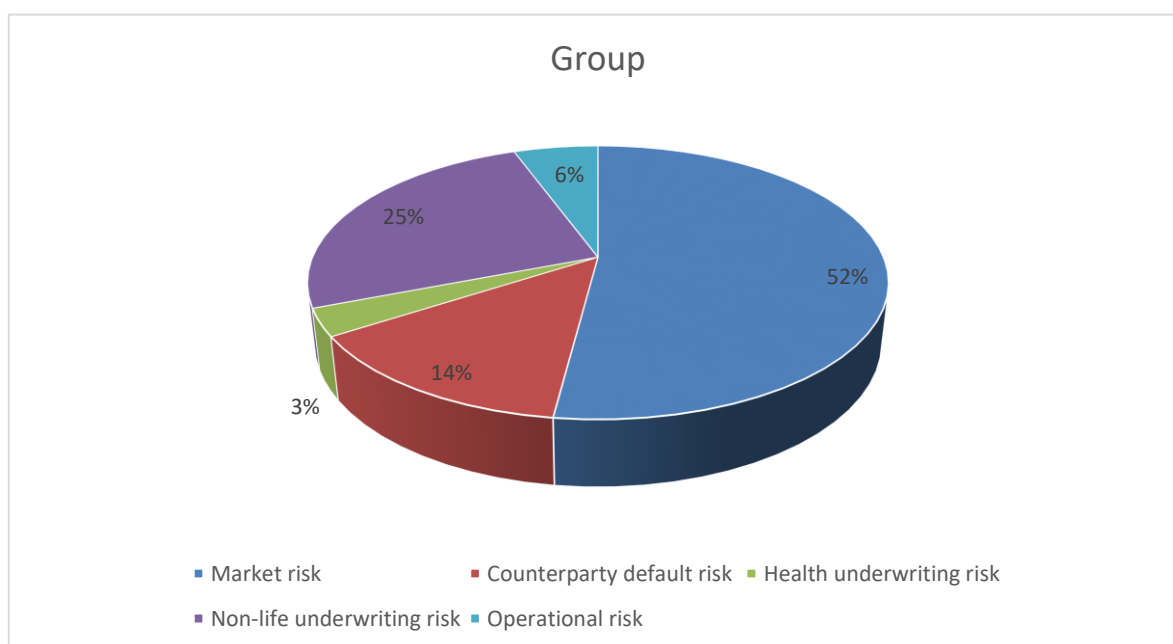
Atlas Group's objectives include achieving target performance and maximising shareholder value, preserving a level of solvency that would support the Group in challenging environments, maintaining adequate liquidity to satisfy obligations as they come due, and protecting all aspects of the Group's value,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

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

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

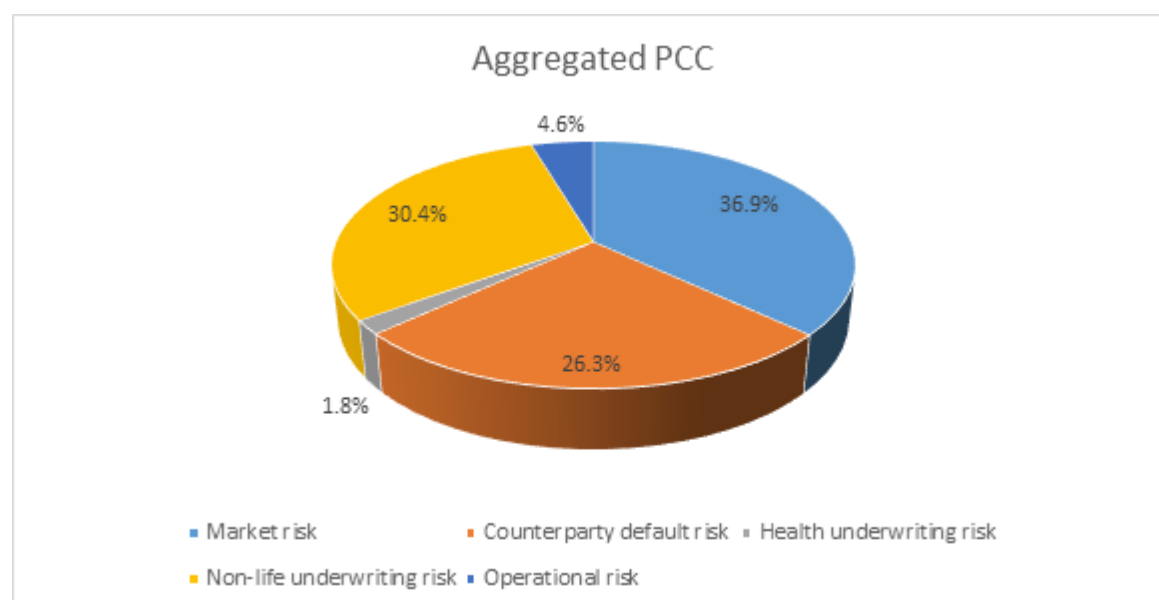
Regulation requires all Cells to determine their individual notional Solvency Capital Requirement (nSCR) under "ring fenced funds" Solvency II rules. The PCC's Core Capital surplus over its own nSCR may also be utilised to cover any shortfall in each Cell's equity in matching their own individual nSCR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

The Atlas Group's risk profile is simply reproduced and expressed in percentages of that calculated as on end 2019 solvency capital requirement (SCR) of €11,798,715 as follows:



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

Same as for the Group above, the PCC's aggregated risk profile inclusive of Cells is also being reproduced as calculated at year end 2019 and the solvency capital requirement (SCR) of €22,139,755 is split between risk components as follows:



Solvency II regulation requires that the Group is to match its SCR with an equal amount or more of Own Funds (Equity). It also defines Equity in three tiers, with Tier 1 ranking to its full capacity and Tiers 2 and 3 allowed to apply for up to 50% of the nSCR. The Atlas Group matches its SCR with 100% Tier 1 Own Funds which total €36,263,378 as on 31 December 2018 (2018: €30,418,247).

Furthermore Solvency II regulations require a Group to ensure that it matches appropriate own funds to the Minimum Consolidated Group Solvency Capital Requirement at all times and may not fall below a 100% ratio of this threshold.

The Minimum Consolidated Group Solvency Capital Requirement for the Group is the result of the Solo's Minimum Capital Requirement (MCR) calculation for its Core. The regulations apply the principle of an Absolute Minimum Capital Requirement (AMCR) which is currently set at €3,700,000. The Group would be required to hold sufficient own funds in excess of the Core's MCR or AMCR whichever is the highest. As such the Group's MCR for 2019 is being reported at €3,700,000.

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

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

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

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

Insurance risk

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

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

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

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

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

Financial Risk

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

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

Solvency II values

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

The value of assets represented in the Solvency II balance sheet totalling €83 million differ from the total of the assets as represented under IFRS for the Group of €91 million (the Solo Undertaking – €104 million for Solvency II, IFRS - €135 million). The differences between the Solvency II values and those of IFRS arise due to different criteria of valuation for deferred acquisition costs, deferred taxation and reinsurance recoverables.

The Technical Provisions have been calculated as the sum of a best estimate plus a risk margin in accordance with the Solvency II Directive and associated texts. The claims provision is the discounted best estimate of cash flows relating to past claim events that occurred before the valuation date, whether reported or not. The cash flows include: future cash flows resulting from past claims events (including salvage and subrogation) and cash flows arising from allocated and unallocated expenses in respect of past claims events. The methodology used to determine the best estimate and risk margin for technical provisions may be found under Section 5.3. This different approach results in the value of liabilities represented in the Solvency II balance sheet totalling €46 million having reduced from the total of the liabilities as represented under IFRS of €55 million (the Solo Undertaking – €55 million for Solvency II, IFRS - €88 million).

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

COVID-19 Pandemic

The Group's investment asset portfolio is likely to be significantly impacted as a result of the potential global recession due to COVID-19. Atlas Group has in the past carried out stress and scenario testing on its investments and other assets, and assessed the impact this will have on its financial projections. Assumptions used for the stress testing exercises are in line with what the current impact of COVID-19 is likely to have on the investment markets and its subsidiary operations.

Whilst as at 30 April 2020, the PCC reports a 6% diminution in the value of its investments assets, it is also the Group's understanding that this situation is currently fluid and expects that markets will recover once the current situation ameliorates, with asset values rebounding. The Group has furthermore tested the Balance Sheet for similar stress scenarios on its consolidated asset value and are satisfied that the Group's operations are robust enough to sustain such shocks.

Preliminary assessments indicate that the impact on liabilities is not likely to be significant due to offsetting movements in the liability portfolios.

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

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

As on 31 December 2019 the Atlas Group's eligible own funds in matching the Group's SCR stood at a Solvency ratio of 307% of the required margin and this positioning is perfectly reflective of the prudence applied by the Atlas Group in ensuring sufficient reserves under own funds which totaled €36,263,378. This position also factors in any Cells' shortfall in matching their individual SCR within the PCC.

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

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

COVID-19 Pandemic

As part of its annual Own Risk and Solvency Assessment (ORSA) exercise, the Group has tested resilience of its capital adequacy under various stress scenarios. As indicated under Section 1.4 above, the most significant impact of COVID-19 on own funds is likely to be on the asset side as a result of the impact on investment assets. On the other hand, the impact on the SCR is not likely to be significant, as previous calculations of the SCR for stressed projections have shown offsetting results for reduced business volumes and reduced asset exposures.

2. Business and Performance

2.1 Business

2.1.1 Corporate form, Regulatory Supervision and Beneficial Owners

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

Supervision of the Group

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

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

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

External Auditors

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

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

The Group is immediately owned by:

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

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

- Mr Matthew von Brockdorff – 15.48% as shareholder of Brockland Holdings Limited
- Mrs Michelle Lundquist – 11.49% as shareholder of Brockland Holdings Limited
- Mr Robert and Mrs Elizabeth von Brockdorff – 26.97% in virtue of their controlling interest in Brockland Holdings Limited
- Mr Walter and Mrs Patricia Camilleri – 19.05% in virtue of their controlling interest in Walter Camilleri Management Limited
- Mr Albert Formosa – 19.85%
- Mr John Formosa – 14.33%

2.1.2 Review of the Business

Atlas Group reports for its controlling interests in its subsidiaries and for its associate companies a consolidated profit before tax for the financial year ended 31 December 2019 of €9,267,887 (2018: €4,520,860).

The Group reports increased profitability over the previous year with all its subsidiaries and associate companies returning good profits. Financial markets recovered strongly during the year under review from the material downturn experienced during 2018.

All operations within the Group performed well during the year under review. The Solo Undertaking's robust technical results and investment return, the Agency's increase in profit over the previous year and the recognition of Associate Companies' results combine well in registering consolidated profitability for the Group. This is considered by the board of directors to be yet another good year working toward strengthening the Atlas Group's Balance Sheet and reserves.

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

Profit before Taxation	2019	2018
	€	€
Atlas Holdings Limited	2,224,957	2,263,767
Atlas Insurance PCC Limited - Core	9,674,992	4,362,052
Atlas Healthcare Insurance Agency Limited	830,123	737,004
AISH Limited	93,713	4,162
Share in Associate Companies' Results	234,552	139,062
Atlas Insurance PCC Limited - Aggregated Cells	688,107	1,643,472

As reported in the Executive Summary, 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 led to the Core growing its non-motor premium portfolio substantially over the prior year.

The Atlas Group also reports material growth in all other non-health classes of insurance business for premium income. The total premium underwritten by the PCC grew for its PCC Core operation which is being reported at €40,573,438, an increase of 52% over the previous year which had been reported at €26,689,044.

The PCC Core has registered continued good profits for the year. The Motor Class has materially contributed in aggregating with traditionally positive results produced for other classes of business for the technical result. This resulted in a combined loss ratio of 80% (2018: 82%) across the Core's full portfolio.

The Agency also saw its premium written grow for the year under review by 9% from €11,054,329 for 2018 to €11,998,911 for the year ended 31 December 2019. This increase in premium results in increased agency commission earned for the year under review.

2.1.3 Atlas Group Income Statement

The below statement, an extract from the Group's audited accounts, summarises the results for the Group after taxation and reports a consolidated profit of €6,098,875 accruing to the Atlas Holdings Limited shareholders for the year ended 31 December 2019.

Consolidated Income Statements

	Group as at December	
	Group	
	2019	2018
	€	€
Balance on the general business of insurance technical account (page 15)	8,626,487	4,603,149
Revenue from non-insurance operations	451,684	2,598,273
Direct expenses	(412,653)	(353,309)
Gross profit	8,665,518	6,848,113
Other income		
Administrative expenses	(1,642,518)	(1,775,082)
Operating profit	7,023,000	5,073,031
Investment income/(expense)	2,024,933	(681,533)
Net interest expense	(14,598)	(9,700)
Share of results of associates	234,552	139,062
Profit before tax	9,267,887	4,520,860
Tax expense	(3,133,191)	(1,605,332)
Profit for the year	6,134,696	2,915,528
Attributable to:		
Owners of the Company	6,098,875	2,907,960
Non-controlling interests	35,821	7,568
	6,134,696	2,915,528

The Atlas Group underwrites insurance risk through its protected cell company, Atlas Insurance PCC Limited. As such the Group is also required to report on the Solo Undertaking and its incorporated Cells and in the below extract from the financial statements the Group is reproducing the PCC's aggregated results for the year ended 31 December 2019. Furthermore the Group is also required to report on the technical results of the PCC for its Core and Cells separately.

The PCC reports an aggregated profit before tax for the financial year ended 31 December 2018 of €6,005,524 (2017: €7,522,707).

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

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

	Core		Cells		Total	
	2019	2018	2019	2018	2019	2018
	Eur	Eur	Eur	Eur	Eur	Eur
Balance on the technical account for general business	7,155,139	4,603,149	749,664	1,668,986	7,904,803	6,272,135
Investment income	5,434,477	253,652	40,933	25,263	5,475,410	278,915
Investment expenses and charges	-239,217	-209,456	-4,167	-22,839	-243,384	-232,295
Allocated (investment return)/expenses and charges transferred to the general business technical account	-2,449,337	-23,739	-19,731	5,210	-2,469,068	-18,529
Administrative expenses	-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
Income tax expense	-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

The Core has registered excellent profit for the year under review which results from prudent underwriting which combines well with strong return on investments. The Core registered a profit before tax of €9,674,992 compared to that of 2018 of €4,362,052.

The PCC's pool of Cells have also performed well. There has however been a reduction in aggregate profit due to specific cells reorganising their operations.

The PCC's pool of Cells have also performed well. The aggregate results for the cells do report a reduction in aggregate profit due to a cell's reorganisation of its operations and two cells having interrupted their writing of new business.

The Amplifon Cell registers a combined loss ratio of 89% (2018: 77%). The Amplifon Cell continues to run-off reinsurance business risk which extends up to early 2022. The run-off positioning for the Cell is expected to continue to generate profits in supporting the attaching reinsurance risk.

Other Cells also performed well registering an aggregate combined loss ratio of 97% (2018: 91%).

The PCC's aggregate premium income registers material increases over the previous year. The result is reported for 2019 at €64,395,595 (2018: €45,285,024). Besides Core growth, the PCC's aggregate growth largely relates to two specific Cells which underwrite hand set insurance risk extending beyond one year.

The aggregated Cells' premium underwritten by the PCC increased from €23,822,157 in 2019 to €18,595,980 in 2018.

The PCC continues to entertain interest from prospective cell shareholders. This augurs well for the Company to grow its cellular network in the coming years. The PCC's executive have positively

addressed any threat to the Company's continued operation that the now concluded exit of the UK from the EU for its existing and new cellular operations in the United Kingdom. The Company's application to carry out business in the UK under the Temporary Permission's regime had been accepted by the UK FCA/PRA during 2019, and the Company will be furthermore seeking authorisation to operate the UK business as a branch regulated by the FCA.

The following two tables illustrate summarily the technical results for the PCC for both insurance and reinsurance operations.

Atlas Insurance PCC Limited - PCC Aggregate in Euro '000						
	Premium Written			Net Premium Earned	Net Claims Incurred	Net Claims Loss Ratio before other costs
	Gross	Reinsurer	Net			
Medical Expense Insurance	11,933,625	9,247,031	2,686,593	1,661,070	1,415,080	0.00%
Income Protection Insurance	611,188	5,112	606,076	532,076	188,256	-35.38%
Motor Vehicle Liability Insurance	7,063,659	646,038	6,417,621	6,259,644	3,305,207	52.80%
Other Motor Insurance	5,693,063	-	5,693,063	5,491,904	2,993,283	54.50%
Marine, Aviation and Transport Insurance	1,574,136	936,145	637,992	624,387	214,609	34.37%
Fire and Other Damage to property Insurance	33,354,184	20,877,118	12,477,066	12,402,185	7,444,643	60.03%
General Liability Insurance	3,039,572	517,409	2,522,163	2,431,285	702,482	28.89%
Miscellaneous Financial Loss Insurance	1,126,167	1,027,105	99,062	3,860	53,883	1395.84%
Total	64,395,595	33,255,957	31,139,638	29,398,692	15,833,166	53.86%

Atlas Insurance PCC Limited - Core in Euro '000						
	Premium Written			Net Premium Earned	Net Claims Incurred	Net Claims Loss Ratio before other costs
	Gross	Reinsurer	Net			
Medical Expense Insurance	11,933,625	9,247,031	2,686,593	1,661,070	1,415,080	0.00%
Income Protection Insurance	611,188	5,112	606,076	532,076	188,256	-35.38%
Motor Vehicle Liability Insurance	7,063,659	646,038	6,417,621	6,259,644	3,244,210	51.83%
Other Motor Insurance	5,693,063	-	5,693,063	5,491,904	2,797,590	50.94%
Marine, Aviation and Transport Insurance	1,574,136	936,145	637,992	624,387	214,609	34.37%
Fire and Other Damage to property Insurance	9,852,771	8,359,391	1,493,380	1,448,474	1,391,412	96.06%
General Liability Insurance	2,996,327	514,906	2,481,421	2,388,294	650,119	27.22%
Miscellaneous Financial Loss Insurance	848,668	828,269	20,399	19,767	24,057	-121.70%
Total	40,573,438	20,536,891	20,036,547	18,425,616	9,500,708	51.56%

At year end 2019 the PCC's Core registered an overall net claims loss ratio before other expenses of 52%, whereas the PCC registered an aggregated claims loss ratio before other expenses of 54%.

Solvency II rules require that quantitative information is reported under prescribed templates. Below, the Group is reproducing the Quantitative Reporting Templates (QRT) as required under regulation for the Group and the PCC's Aggregate.

QRT Table 1 – Atlas Group in Euro '000

G.05.01.02.01

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							Total	
		Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	
		C0010	C0020	C0040	C0050	C0060	C0070	C0080	C0120	C0200
Premiums written										
Gross - Direct Business	R0110	11,934	611	7,064	5,693	1,574	9,853	2,996	849	40,573
Gross- Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	9,247	5	646	-	936	8,283	515	905	20,537
Net	R0200	2,687	606	6,418	5,693	638	1,570	2,481	- 56	20,037
Premiums earned										
Gross - Direct Business	R0210	7,807	537	6,885	5,492	1,540	10,151	2,928	852	36,192
Gross- Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	6,146	5	625	-	915	8,621	542	911	17,766
Net	R0300	1,661	532	6,260	5,492	624	1,529	2,386	- 59	18,426
Claims incurred										
Gross - Direct Business	R0310	5,754	- 188	3,209	2,834	479	9,225	1,045	- 588	21,770
Gross- Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	4,338	- 0	25	-	263	7,811	396	- 563	12,270
Net	R0400	1,416	- 187	3,184	2,834	215	1,414	648	- 25	9,501
Expenses incurred	R0550	1,241	64	735	592	164	1,025	312	88	4,219
Other expenses	R1200									-
Total expenses	R1300									4,219

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

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)									Total
		Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	
		C0010	C0020	C0040	C0050	C0060	C0070	C0080	C0110	C0120	
Premiums written											
Gross - Direct Business	R0110	11,937	611	7,064	5,693	1,574	32,491	3,040	2	1,126	63,537
Gross - Proportional reinsurance accepted	R0120						858				858
Gross - Non-proportional reinsurance accepted	R0130										
Reinsurers' share	R0140	9,250	5	646		936	20,794	517	2	1,105	33,256
Net	R0200	2,687	606	6,418	5,693	638	12,555	2,522	0	21	31,140
Premiums earned											
Gross - Direct Business	R0210	7,811	537	6,885	5,492	1,540	26,049	2,971	2	1,058	52,344
Gross - Proportional reinsurance accepted	R0220						2,552				2,552
Gross - Non-proportional reinsurance accepted	R0230										
Reinsurers' share	R0240	6,149	5	625		915	16,116	545	2	1,141	25,498
Net	R0300	1,661	532	6,260	5,492	624	12,485	2,426	0	-82	29,399
Claims incurred											
Gross - Direct Business	R0310	5,754	-188	3,227	3,030	479	16,732	1,071	0	-584	29,520
Gross - Proportional reinsurance accepted	R0320						1,502				1,502
Gross - Non-proportional reinsurance accepted	R0330										
Reinsurers' share	R0340	4,338	0	-19		263	10,767	370	0	-529	15,190
Net	R0400	1,416	-187	3,245	3,030	215	7,467	701	0	-55	15,833
Expenses incurred	R0550	1,241	64	735	592	163	4,569	312	0	176	7,851
Other expenses	R1200										259
Total expenses	R1300										8,110

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

Top 5 Countries other than Malta

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	40,573	930	12,108	2	4,829		58,442
Reinsurers' share	R0140	20,537						20,537
Net	R0200	20,037	930	12,108	2	4,829		37,905
Premiums earned								
Gross - Direct Business	R0210	36,192	815	6,718	0	3,559		47,283
Gross - Proportional reinsurance accepted	R0220						233	233
Reinsurers' share	R0240	17,766						17,766
Net	R0300	18,426	815	6,718	0	3,559	233	29,750
Claims incurred								
Gross - Direct Business	R0310	21,770	276	2,838		1,584		26,469
Gross - Proportional reinsurance accepted	R0320						140	140
Reinsurers' share	R0340	12,270						12,270
Net	R0400	9,501	276	2,838		1,584	140	14,339
Changes in other technical provisions								
Gross - Direct Business	R0410					202		202
Net	R0500					202		202
Expenses incurred	R0550	4,219		4,116			14	8,349
Other expenses	R1200							
Total expenses	R1300							8,349

2.2 Investment Performance

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

The Atlas Group reports a total investment income net of investment expenses for the year ended 31 December 2019 of €4,474,270 (2018 – Loss €663,496).

The PCC Core registered total investment income net of investment expenses for the year ended 31 December 2019 of €5,195,260 (2018: €44,196) which includes substantial recovery over the closing values for the investment portfolio as on end 2018 recognised as fair value gains within the Profit and Loss Account for the Company.

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

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

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

Atlas Group	Group		PCC Core	
Investment Performance in Euro	2019	2018	2019	2018
Interest receivable from financial assets that are not held at fair value through profit or loss	32,498	5,702	34,781.00	0
Net gains from financial assets held at fair value through profit or loss				
- dividend income	214,636	159,811	724,106	453,385
- net fair value gains	3,333,471	(883,990)	2,803,309	(1,177,564)
Dividend from subsidiary undertaking		-	725,000	707,692
Fair value gains on investment property	519,050	0	519,050	0
Gain on disposal of investment property	264,532	0	264,532	0
Exchange differences	-	-	54,020	0
Rental income from investment property	349,300	270,139	349,300	270,139
Investment expenses	(239,217)	(209,456)	(242,072)	(209,456)
Total	4,474,270	(663,496)	5,232,026	44,196
Percentage Return as on 31 December	9.88%	-1.85%	11.36%	0.12%

Atlas Group	Group		PCC Core	
Investment Portfolio held in Euro	2019	2018	2019	2018
- land and buildings	11,220,883	5,746,210	11,220,883	5,746,210
- investment in subsidiaries	-	-	748,058	748,058
- other financial investments	34,073,942	30,065,075	34,073,942	30,065,075
Total	45,294,825	35,811,285	46,042,883	36,559,343

The Company's Board of Directors' direction in applying across the Group prudence in its investment strategy for protecting the stakeholders' interest continues to pay off with in an excellent return. The principle of prudence applied here is elaborated on under sections 3 and 4 of this report.

2.3 Performance of other activities

The Group reports other income totalling €451,684 for the year ended 31 December 2019 (2018: €2,598,273). As from 2019 the Group consolidated accounts do not recognise commissions earned by the Agency from the PCC due to the fact that IFRS consolidation rules require the offsetting of intra-group company transacting. In view that during the year under review the larger amount of commissions earned by the Agency are recognised for its agency appointment with the PCC, such commissions recognised as other income are reported substantially less than the prior year where, during that year, the commissions earned by the Agency resulted from its representation of AXA PPP health Insurance Limited. The additional revenue reported is distinct from its Solo Undertaking technical results and as such is reported from its various subsidiaries on consolidation. The below table defines the components making up such results.

Other Income in Euro	Atlas Group	
	2019	2018
Commissions	363,628	2,547,964
Survey and other Fees	88,056	50,309
Total	451,684	2,598,273

The Group receives commissions for its agency representation of AXA PPP healthcare Limited and Atlas Insurance PCC Limited for the underwriting of Health Insurance.

The PCC Core receives Cell facility, insurance management and oversight fees for the hosting and management of the Cells, while also recognising income derived from its expert surveying resources. These are classified as Survey and Other Fees for the purpose of the above table.

3. System of Governance

3.1 General Information on the system of governance

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

The Group's system of governance is best reported on by addressing the whole structure and organisation put in place for the Group as a whole. Such system of governance addresses all companies within the Atlas Group but also extending to all cells included in the PCC.

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

Relations with Policy Holders

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

The Group adheres to a strict complaints procedure as directed by Chapter 12 of the Insurance Rule Book under the Insurance Business Act and operates for its Complaints Management Policy through Complaints Management Function.

Relations with Shareholders

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

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

Lawrence Zammit MA (Econ) -Chairman

Michael Gatt - resigned position of Managing Director on 31 March 2020

Matthew von Brockdorff FCII – appointed as Managing Director on 1 April 2020

Robert von Brockdorff

Walter Camilleri - resigned on 27 June 2019

Catherine Calleja BA (Hons), ACII

Albert Formosa

John Formosa

Brian Valenzia

Jackie Attard Montalto – appointed on 27 June 2019

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

Atlas Group Systems of Governance

It has been reported earlier that Atlas Holdings Limited is captured as an insurance holding company under the SII directive and within its corporate structure owns 100% of the Core of Atlas Insurance PCC Limited. The PCC adopts the MFSA Corporate Governance Guidelines for Public Interest Companies, a public interest company. 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 its Annual Report. For this reason the PCC's Board ensures that the Group also adopts the MFSA's principles of good corporate governance for Public Interest Companies. Additionally the Group also adheres to various rules issued under the Insurance Business Act (Cap 403) and is guided by the EIOPA Guidelines on Systems of Governance and other international models of best practice.

3.2 Responsibilities, reporting lines and allocation of functions

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

There is a clear division of responsibilities at the Solo Undertaking between the running of the board and the executive responsibility for the running of the business. The separation of the Chair and Chief Executive Officer roles increases the board's independence from management and leads to better monitoring and oversight and, ultimately, to board independence. The primary role of the Chairman of the board is to focus the board on the ongoing development and determination of the Group's strategy and direction. The Chairman creates and maintains the right conditions for constructive discussion and the participation of all directors to enable each director to play a full and constructive role in the affairs of the Group.

The Board of Directors establishes committees with delegated authority and clear reporting lines as described in sub-section 1.2 above and further elaborated under sub-section 3.2.1 below.

3.2.1 Responsibilities and reporting lines

The PCC's Board of Directors

The PCC's 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 Group and the PCC.

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 Managing Director and Chief Executive and Mr Matthew von Brockdorff, previously the Deputy Managing Director, assumed this role from April. Mr Michael Gatt remains on the board as a non-executive director.

The current board members appointed by Atlas Holdings Limited are:

Lawrence Zammit M.A. (Econ.) – Chairman

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

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

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

Michael Gatt

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

Matthew von Brockdorff F.C.I.I. – Managing Director and Chief Executive Officer

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

Board and board committee meetings are scheduled at the start of the year. During 2019 the board met routinely but also including ad-hoc meetings set for specific agenda items of discussion, such as the Own Risk and Solvency Assessment report, proposed reinsurance programmes and the assessment of the annual actuarial report.

Executive Committee (EXCO)

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 PCC 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.

Other Board Committees

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

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

COVID-19 Pandemic

In terms of the impact of COVID-19 on operations, the Group 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. The Group's readiness in terms of business continuity meant that disruptions to the daily operations were kept to a minimum. The Atlas Group is also looking at the longer term impact on its risk management & internal control systems, as the risks that the various subsidiaries face are likely to change in the light of the unfolding economic crisis.

In its oversight of the cells the PCC has also been in ongoing communication with the various cell owners to understand the mitigating measures undertaken to reduce disruptions to the daily operations of the cells. Adequate measures are being put in place in this regard.

3.2.2 Group structure and allocation of responsibilities

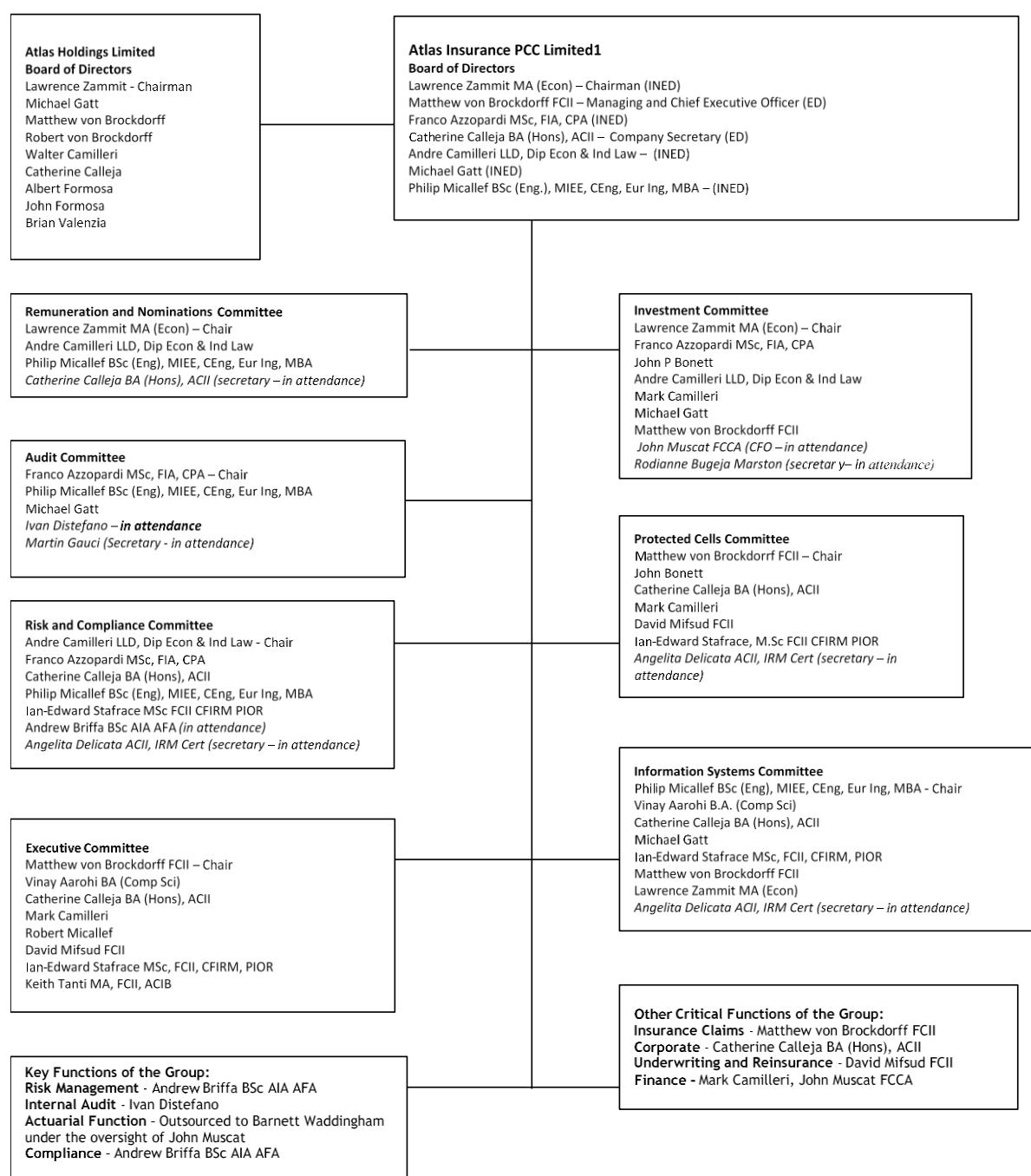
The Board of Directors of the PCC have identified key function areas of responsibilities as defined in Chapter 6 under Malta's insurance regulations. These key function areas of responsibility are those identified as the:

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

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

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

Atlas Group Governance Structure



Key INED: Independent Non-Executive Director, **ED:** Executive Director

3.2.3 Board committees

As provided for in the PCC's 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 Investments 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. 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.

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 Group'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 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, 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 Group'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, TII's 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.

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 will joined this committee from 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 Investments 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 Goup'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 Chief Information Officer. 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 the Group 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 PCC. 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 or the Group. 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 PCC'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.

Individual Cell Committees

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

The 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

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

3.3 Fit and proper requirements

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

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

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

3.3.1 Applicability

The Policy applies to:

- a) Persons who effectively run the Atlas Group i.e. Directors (Executive and Non-Executive, including directors responsible for distribution activities), Controllers or Chief Executive Officers;
- b) Persons responsible for the key functions or overseeing key functions where the function is outsourced ('key function holders');
- c) Qualifying shareholders of the Atlas Group, including Cell Owners in the case of the PCC;
- d) persons registered in the Agents or Managers register and carrying out insurance distribution activities
- e) Managers and Individuals who are responsible for the effective management of Atlas Group's Branches;
- f) MLRO;
- g) Atlas Group's Tied Insurance Intermediaries and Ancillary Insurance Intermediaries;
- h) Members of Atlas Group's various Board Committees;
- i) Persons within the management structure designed to be responsible for the distribution of insurance products ('relevant persons') in terms of Chapter 6 of the Insurance Distribution Rules;
- j) Investment advisors.

3.3.2 Requirement of fitness and properness and implementation

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

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

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

so as to enable such persons to carry out their duties and perform the key function effectively and to enable sound and prudent management of the relevant Companies.

Prior to the appointment of any person mentioned above, the Group conducts due diligence procedures in order to ensure they are fit and proper by conducting checks on:

- Integrity and reputation
- Identity verification
- Ability to work in Malta from a regulatory perspective
- Reliability based on past working experience
- Financial stability
- Conflict of interest

Furthermore, Atlas Group ensures that the persons proposed/performing a key function are in possession of relevant qualifications.

Key function	Qualification
Risk Management function	<ul style="list-style-type: none">- Risk Management qualification from a reputable professional or tertiary education institution; or- Financial services qualification from a reputable professional or tertiary education institution; or- Engineering/Scientific qualification from a reputable professional or tertiary education institution.
Compliance function	<ul style="list-style-type: none">- Legal qualification from a reputable professional or tertiary education institution; or- Financial services compliance qualification from a reputable professional or tertiary education institution; or- Other financial services qualification from a reputable professional or tertiary education institution.

Internal Audit function	<ul style="list-style-type: none"> - Internal/Quality auditing qualification from a reputable professional or tertiary education institution; or - Financial services (including accounting) qualification from a reputable professional or tertiary education institution; or - Scientific qualification from a reputable professional or tertiary education institution.
Actuarial function, where the insurance undertaking carries on life insurance business (not writing with-profits business and/or life insurance business with guarantees) and/or non-life companies	<ul style="list-style-type: none"> - Fellow of the Institute and Faculty of Actuaries (UK) or actuarial qualifications of similar standing from a reputable institute - Certified Actuarial Analyst (CAA) offered by the Institute and Faculty of Actuaries (UK) or actuarial qualifications of similar standing from a reputable institute

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

Implementation and Controls

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

- The Company Secretary is responsible for correspondence with MFSA in matters relating to appointment of new individuals listed above and their ongoing monitoring, where required,
- The responsibility for the notification to the MFSA that any such person has ceased to hold such a position or changed also rests with the said Company Secretary.
- Any person who no longer meets any of the Fitness and Propriety criteria will need to be referred to the Remuneration, Nomination and Related Parties Committee for discussion as to their future position within the company.

Furthermore the Group also has a performance management system whereby roles and responsibilities of all persons holding positions of responsibility including board members and management are clearly defined and regularly assessed.

The Group also carries out certain procedures which are specific to the relevant position. In this regard, when it comes to **persons holding a key function** position, the Group ensures that they hold recognised qualifications by obtaining a copy of the certificate/transcript/ records evidencing the qualifications. The Group also monitors compliance with ongoing continuing professional development (CPD) requirements.

- a) If the Key Function Holder is required to be registered with a professional body, it is the duty of the Group to require and maintain a copy of the person's licence or certificate to practice and where

licence/ certificate is renewed on an annual basis (or more or less frequent) basis, Atlas Group would require a copy of the most recent renewal;

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

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

In this regard a "Fitness and Properness Questionnaire" is requested by the Group to be filled in by the persons involved on an annual basis and the questionnaire is submitted to the Group's Company Secretary who, together with the Group Chief Risk and Compliance Officer, carries out the assessment. Regular related checks on involvement in litigation, creditworthiness and listing in sanctions lists and conflicts of interest are also carried out.

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

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

3.4.1 Governance framework

The PCC's Board of Directors follows a Group wide Risk Management Policy and this Section outlines key elements of the Risk Management Framework adopted by Atlas Group.

For the purposes of regulatory compliance with Solvency II regulations and guidelines, the Risk Management Policy addresses the requirements to have in place strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis, the risks, both at an individual and at an aggregated level, to which Atlas Group is or could be exposed.

This policy covers internal controls, operational Risk Management (RM), strategic RM, reputational RM as well as the Own Risk and Solvency Assessment (ORSA) process. The ORSA process itself is a key element towards the Enterprise Risk Management (ERM) approach adopted by Atlas.

This policy is reviewed on a yearly basis and should reflect any regulatory, organisational and risk environment changes. It is also the RM Function's objective to regularly review the risk management processes and procedures, as well as risk management practices, tools and methodologies.

Related policies, charters (terms of reference) and other documents that also contribute to having in place an effective RM system are:

Governance & Strategy

- Board Governance
- Business Planning Cycle and Rolling Strategic Plan
- Risk & Compliance Committee Charter
- Audit Committee Charter
- Internal Audit Accountability Profile
- Remuneration and Nominations Committee Charter
- Investments Committee Charter
- Actuarial Governance Policy and Terms of Reference
- IT Committee Charter

General

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

Risk Specific

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

Protected Cells (Atlas PCC)

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

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

Risk Strategy and Guiding Principles

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

The risk strategy defines the extent to which the Group is prepared to incur risks. The risk strategy describes the extent to which a risk is desirable and, consequently, whether it is acceptable or must

be mitigated through risk limits or budgets, risk controls or risk transfer. The risk strategy is therefore determined by the risk appetite, which in turn is defined by a series of risk criteria.

Atlas Group's approach to RM is guided by a number of principles. These include risk transparency, proportionality, management accountability, independent oversight, fit and proper as well as risk awareness and culture. Risk management is embedded into the culture of the organisation with all staff playing an active role in the management of risk as defined within their accountability profiles.

The implementation of risk management at the operational level includes the identification, evaluation and assessment of risks, and the resulting risk response and monitoring. This broad four-stage RM Process is emphasised with all the Group's staff in training and workshops that is to be also applied in decision-making, objective setting and project management with the aim of ensuring such is embedded into the Group's risk culture:



1. The **risk identification** process produces a comprehensive list of risks that are organised by risk category and sub-category within the Risk Register. The quantitative component of risks is identified by means of appropriate systems and indicators, and these are supplemented by expert judgment and assessments by the Risk Manager and the Risk Committee to further assess the qualitative component.

2. The **risk assessment** process has the purpose of determining how big the risks are, both individually and collectively, in order to focus management's attention on the most important threats and opportunities, and to lay the ground work for risk response. Risk assessment is all about measuring and prioritizing risks so that risk levels are managed within the defined tolerance thresholds.

3. The **risk response** process involves determining how to respond to the assessed relevant risks. Responses include risk avoidance, reduction, sharing, and acceptance. In considering the type of response, an assessment of the effect on risk likelihood and impact as well as on costs and benefits need to be carried out, selecting a response that brings residual risk within the desired risk tolerance limits.

As with assessing inherent risk, residual risk may be assessed qualitatively or quantitatively. Generally, the same measures used in assessing inherent risk are used in assessing residual risk.

4. The **monitoring** process involves reviewing the entirety of the risk management processes and procedures and to make modifications where necessary. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

Some risks are dynamic and require continual ongoing monitoring and assessment. Other risks are more static and require reassessment on a periodic basis with ongoing monitoring triggering an alert to reassess sooner should circumstances change.

A key consideration in the above processes is the availability of information. Information is needed in all functions and in all processes to identify, assess, and respond to risks. In this respect, internal communication is fundamental to create the right internal environment and have adequate information flows.

Roles and Responsibilities

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



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

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

3.4.2 Risk register

The central active risk management document used by the Group is the Risk Register, which comprehensively captures the risks the organisation is exposed to under all Risk Categories, and for each risk identified it establishes:

- The Risk Category and detailed risk description;
- The Risk Owner (and assistants to the risk owner where applicable) responsible for the risk as part of the Group's first line of defence;
- The Atlas Group companies in scope if not Group wide
- Evaluation of risk's inherent and residual likelihood and severity together with its ranking in relation to other risks;
- Risk Appetite and Key Risk Indicators (qualitative &/or quantitative);
- The associated internal controls;
- Any planned future controls of the risk.

The risk register is in constant evolution, due to the ongoing processes of identification of new risks, changes to existing risks, changes to risk owners, formalisation or improvement of risk controls and internal audit exercises.

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

3.4.3 Risk evaluation

The Group defines the following risk categories:

Risk Category	Definition
Operational	Potential losses resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk includes risks of internal and external fraud, as well as legal risks.
Underwriting	Risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. This is only applicable to Atlas PCC.
Credit	Risk of a financial loss if another party fails to perform its obligations or fails to perform them in a timely manner. Key counterparties include reinsurers, financial institutions, intermediaries, ceding companies & insureds.
Market	Risk that arises from fluctuations in values of, or income from, assets or interest or exchange rates. Credit risk associated with bonds is captured under this category, as is market concentration risks associated with equity, bonds and property.
Liquidity	Risk that the Group is unable to realise investments and other assets in order to settle financial obligations when they fall due
Strategic	Risk of the current and prospective impact on earnings or capital arising from wrong business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.
Reputational	Risk of a potential loss through the deterioration of the Group's reputation or standing due to a negative perception of the Group's image among policyholders, counterparties, shareholders and/or supervisory authorities.

The categorisation follows best practice and current regulations.

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

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

3.4.4 Risk appetite

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

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

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

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

3.4.5 Reporting processes for the risk management system

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

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

- Risk appetite status updates
- Periodic status updates on risk and compliance objectives and initiatives
- Updates on the risk and control reporting given by the Risk Owners
- Escalation of risk notifications from staff and management
- Updates on other risk events and near misses logged on the Risk Events Register
- Matters related to risks listed in the Risk Register and potential new risks being identified
- Matters related to the ORSA process
- The Own Risk and Solvency Assessment (ORSA) which is prescribed under regulation forms an integral part of the Group's reporting procedures on Risk Management Systems. The process is detailed under section 3.4.6 of this report.

3.4.6 Own Risk and Solvency Assessment

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

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

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

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

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

- a) Qualitative and quantitative results of the ORSA and the conclusions drawn from those results
- b) Methods and assumptions used
- c) Comparison between the overall solvency needs, the regulatory capital requirements and Atlas' own funds
- d) The capital requirements positions under stressed scenarios, as defined and chosen yearly by the Board for the specific ORSA process under review
- e) Sensitivity testing to identify potential vulnerabilities

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

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

3.4.7 Risk management strategies, objectives and processes

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

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

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

3.5 Internal control system

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

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

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

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

The Board of Directors sets the strategy for all the Group Companies and controls its implementation. The strategy is detailed in objectives, which are clear and measurable.

Additional internal control activities and monitoring mechanism include:

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

Compliance Function

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

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

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

3.6 Internal audit function

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

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

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

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

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

3.7 Actuarial Function

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

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

The Group is required to have an Actuarial Function. The PCC's Board of Directors oversees that the Actuarial Function policy in place is adhered to. The policy is also extended to apply across the Group.

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

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

The Group's Actuarial Function is currently outsourced under an agreement with Strategic Risk Solutions Insurance Management Services Europe PCC Limited (SRS).

As Actuarial Function Holder, SRS are responsible to prepare the annual Actuarial Function Report, and to ensure that the results contained therein are accurate. The Certified Actuary remains Cherry Chan from Barnett Waddingham, UK, who is also supported by senior actuaries who run the valuation processes for the Group. Andrew Briffa has been appointed within Atlas to oversee the outsourced actuarial function.

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

3.8 Outsourcing

Atlas Group oversees services provided to Group Companies by third parties on a continuous basis, which would otherwise be performed by the Atlas Group. The Group follows the Board approved Outsourcing policy.

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

Due Diligence

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

The due diligence process should assess:

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

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

Approval and Monitoring

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

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

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

Control

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

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

3.9 Any other information

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

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

4. Risk profile

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

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

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

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

COVID-19 Pandemic

Whilst still early to assess, there is likely to be increased exposures to market, credit and liquidity risks as a result of the pandemic. Investment markets are likely to be hard hit by the potential global recession and likewise the economic outlook is likely to create supply chain issues as a result of liquidity constraints. The impact on business and performance as a result of possible reduced consumption could also impact underwriting risk. However, in the latter, exposures are likely to be offsetting across different LoBs and the impact is not expected to be significant. Similarly all other Group operations may be impacted for the same reason. Operational risk is likely to increase as a result of the effects of employees working remotely, however the Group’s response team is monitoring key processes on a daily basis to ensure controls are in place to mitigate against potential operational and cyber risk as a result working remotely for a prolonged period of time.

In respect of the cells, it is expected that the impact on business and performance due to possible reduced business volumes would impact the level of underwriting risk. Only Amplifon and Perfecthome cells have investment assets which may be hit by the impact of the potential global recession on investment markets which may impact the Group’s capital base. All the cells however could face liquidity constraints due to supply chain issues. As is being done for the core, mitigating factors to reduce the impact of liquidity risk are being identified and put in place.

4.1 Underwriting risk

The Group through its PCC issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the PCC defines as significant insurance risk

the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

4.1.1 Insurance contracts - general business

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

- (i) Premiums earned relate to business incepted during the year together with any differences between the booked premiums for prior years and thus previously accrued, less cancellations.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.
- (iii) Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and are shown as deferred acquisition costs ("DAC") in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.
- (iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provision for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (v) Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the PCC. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The PCC takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the PCC and statistical analyses for the claims incurred but not reported. The PCC does not discount its liabilities for unpaid claims.

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

- (vi) Provision in the form of an unexpired risk provision will be made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment

return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

4.1.2 Reinsurance contracts held

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

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

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

4.1.3 Receivables and payables

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

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

4.1.4 Management of insurance risk

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

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

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

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

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

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

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

During the year the PCC did not license any new cells but Gemini Cell, L'Amie Cell, PerfectHome Cell, 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.

Frequency and severity of claims

Motor and liability

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

- (i) the long lifetime which motor and other liability claims tend to have and which can lead to negative effects of inflation on claim amounts;
- (ii) changes in traffic management and density and the increased presence of more vulnerable road users;

- (iii) increased court awards arising from increased sensitivity of courts to the plight of accident victims spurred also by EU directives and “pro-victim” court/legislative tendencies in other EU jurisdictions; and
- (iv) increased responsibilities of employers and business owners in the light of health and safety and consumer legislation; and
- (v) the latent effect of disease claims on the employers liability and products liability portfolio
- (vi) the effect of inflation on motor repair costs
- (vii) the effect of natural hazards affecting comprehensive motor results.

The PCC’s 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 PCC and managed under this class of business did not materially impact the results of the PCC and the risk profiles do not pose any threat to the Group’s core capital.

Health

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

The PCC manages all the above via:

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

Underwriting strategy

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

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

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

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

Malta's storm and flood exposure is localised in particular areas of flash flood exposure. With the PCC's pre-risk survey strategy and with the added knowledge of flood-prone areas, the PCC filters the incoming new business portfolio or alternatively manages the risk of storm. The PCC is also conscious of the susceptibility of certain locations to windstorm and endeavours to limit shoreline exposures.

The PCC, as a standard, applies limits on all motor and liability policies. The only area of unlimited liability is that of Motor EU use (in line with legislation in certain EU countries). The PCC's internal underwriting authority limits mean that authority to bind is delegated in a controlled manner. The PCC's branches likewise follow and are subject to specific underwriting limitations beyond which they must seek head office approval.

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

(b) Reinsurance

The PCC places its reinsurance programme with overseas reinsurers who all meet the financial approval of the local regulator. It is generally the PCC'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 PCC.

The PCC's decision on the type of reinsurance obtained, the level of retention and the width of cover are recommended by the PCC'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 PCC has worked towards reducing the impact of net retained losses for the year by the PCC.

(c) Claims techniques

Reported claims are handled and reserved on a claim-by-claim basis. The PCC 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 PCC's quest for sound and equitable claim handling.

The PCC 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 PCC as an underwriter and the PCC in fact tracks claims which were incurred in years during which the PCC formerly acted as an agent for overseas principals.

The PCC actively pursues early settlement of all claims to reduce exposure to unpredictable developments and equally the PCC maintains a proactive system that ensures that timely action is taken on all claims and reviews are carried out when required. This is particularly important in the context of motor and liability claims. In the context of reserving active use is made of a panel of legal advisors and full acquaintance is made with courtroom developments by our specialist claims team headed by the claims director.

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 PCC looks at:

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

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

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

to the above provisions for known reported claims, the PCC adds an IBNR provision.

The PCC 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 PCC also notes current trends.

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

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

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

4.2 Financial risk

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

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

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

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

4.2.1 Market risk

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

Interest Rate risk

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

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

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

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

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

At 31 December 2019 the Group was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities.

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

Equity risk

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

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

Property Risk

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

The Group's property used in operations and investment property was revalued during 2019 based on professional independent valuations.

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

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

Currency risk

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

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

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

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

4.2.2 Credit risk

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

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

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

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

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

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

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

The Investment Committee takes account of the credit risk inherent in the Group's investment portfolio by adopting similar cautious practices in identifying investment opportunities and monitoring portfolio performance. The investment instruments acquired are highly rated by the internationally-renowned credit rating agencies like Moody's and Standard and Poor's.

The policy adopted by the investment committee is that of directing most of the funds available for investment to A-rated securities and deposits. There are certain instances whereby the committee may opt for placing these funds in B-rated securities only once the circumstances of such an opportunity are fully assessed and are beneficial to the performance of the investment portfolio.

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

4.2.3 Liquidity risk

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

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

4.3 Operational risk

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

- **Strategic Risk - Market Environment** - includes possible recession in Maltese or world economy, more aggressive competition and other changes in the insurance business environment including new entrants, changing distribution models or loss of intermediaries
- **Strategic Risk - Lack of Innovation** - Failure to positively and effectively change in a way that adds value, leading to missed opportunities, loss of market share and/or higher costs than necessary.
- **Compliance** - Failure to comply with or changes to legislation and regulations.
- **Reputation** - Whilst reputational risk is associated with events in one or more of the other risk categories, the Atlas group risk register seeks to call this risk out as a separate category. This risk is the result of operational shortcomings or bad conduct, and therefore a reputational loss is looked at as a multiplier that makes other risk events much more costly than they otherwise would be. Atlas seeks to identify and implement distinct controls addressing the underlying problem and also addressing any reputational consequences.
- **Key infrastructure** - Failure or loss of key infrastructure other than IT, Telecommunication or Power outage. Includes losses of infrastructure due to earthquake, storm, fire or construction/property related accidents
- **BCP Failure** - Failure of Disaster Recovery Plan or Business Continuity Plan whether due to a narrow scope, lack of testing or otherwise ineffectiveness
- **Data Quality** - Inaccurate, incomplete or inappropriate data in data collection, processing or reporting.
- **Loss of Physical Data** - includes both loss of individual files or archive boxes and larger losses of physical files due to events such as fire, flooding, damp, vermin or malicious damage
- **Loss of Electronic Data** - loss of live database or backups whether due to internal error, program error, sabotage or viruses
- **Cyber Risk** – Data theft, breaches or leakages due to external attacks and increased exposures from global connectivity and increasing use of cloud services.
- **External Financial Fraud** - Primarily includes claim fraud but also other types of external financial fraud that could arise through the use of third party suppliers.
- **Internal Financial Fraud** - Includes misappropriation of cash
- **IT/Communication Outage** - Unavailability of IT systems
- **Loss of Electronic Power**
- **Management of Cells** – This allows for the risks associated with incorrect risk assessment of cells at engagement level and resource allocation costs at pre engagement stage. Also covers higher than expected resource allocation costs as a result of incorrect pricing of cell fees. Operational risk associated with the operations of the cells themselves are covered by the operational risk assessments at cell level.
- **Loss of staff** - Loss of key staff following accident, catastrophe, competitive poaching, lack of motivation, etc. This includes risks related to succession planning, inappropriate allocation of responsibilities, failure to appropriately develop people and inappropriate reward structure. In respect of cells this includes outsourced staff.
- **Distribution Network (TILs, Branches, Front line Staff)** – Whilst negligence or breach of instructions by staff remains a sub-risk of compliance, a separate operational risk category for the distribution network was introduced in the 2019 annual review and a new risk owner responsible for the distribution as assigned.

- **Outsourcing** – Primarily agreement breaches or inability to continue providing the outsourced service.
- **Theft, H&S** - Health and safety of employees and risks of theft or holdup.

Operational Risk can be challenging to quantify. EIOPA recognises this and the standard formula in effect assesses Operational Risk as a function of premium and technical provisions and therefore is not particularly risk sensitive. For the purposes of determining the operational risk charge under the Economic Capital Requirement, Atlas bases the assessment on the Risk Register. The approach that Atlas adopts is to determine worst case costs for each of the risk categories defined above, through reference of own experience of operational risk events and/or the application of expert judgement on possible loss scenarios.

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

Cellular Solvency Capital Deficit Risk

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

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

4.5 Any other information

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

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

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

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

5. Valuation of assets and liabilities for solvency purposes

The financial statements of Atlas Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the requirements of the Companies Act (Cap. 386) and the requirements of the Insurance Business Act (Cap. 403). As such they are prepared under the historical cost convention as modified by the fair valuation of Investment property, Land and buildings – property, plant and equipment, and financial assets are recognised at fair value through profit or loss.

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

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

COVID-19 Pandemic

As stated in the previous section, the Group's investment asset portfolio is likely to be significantly impacted as a result of the potential global recession due to COVID-19.

Atlas Group has in the past carried out stress and scenario testing on its investments and assessed the impact this will have on its financial projections. Similar stress and scenario testing is carried out for the Group's other assets.

When considering such testing carried out as part of the Atlas Group's ORSA (Own Risk Solvency Assessment) process on its market and capital positions, the directors consider that Group is able to withstand a potential longer term adverse impact on its assets. Whilst as at 30 April 2020, the Group reports a 6% diminution in the value of its investment assets, it is also the Group's understanding that this situation is currently fluid and expects that markets will recover once the current situation ameliorates, with asset values rebounding.

This assessment also captures the estimated impact on underlying insurance underwriting 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 Group further considers that the current high grade quality of its reinsurance panel protects the PCC from material exposure in this regard, although downgrading of reinsurers cannot be excluded.

Furthermore the Group notes that the operations of its other subsidiaries and associate companies have not registered any material deterioration in results as at 30 April 2020.

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 without impacting the results of the Core.

5.1 Assets

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

Atlas Group in Euro '000		2019		2018
Assets	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Deferred acquisition costs	899	-899	0	0
Intangible assets	125	-125	0	0
Property, plant & equipment held for own use	8,660	0	8,660	6,123
Investments (other than assets held for index-linked and unit-Property (other than for own use)	11,221	0	11,221	5,746
Holdings in related undertakings, including participations	1,516	0	1,516	995
Equities				
Equities - listed	4,846	4,850	9,696	11,906
Equities - unlisted	0	3,094	3,094	0
Bonds				
Government Bonds	343	3,267	3,610	2,790
Corporate Bonds	8,107	8,760	16,866	15,287
Collective Investments Undertakings	19,731	-19,731	0	0
Deposits other than cash equivalents	369	1	370	370
Loans and mortgages				
Other loans and mortgages	778	0	778	0
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	23,098	-7,806	15,292	10,679
Health similar to non-life	2	2,976	2,978	60
Insurance and intermediaries receivables	4,411	-1,717	2,693	2,607
Reinsurance receivables	255	-255	0	18
Receivables (trade, not insurance)	2,094	-241	1,853	1,599
Cash and cash equivalents	4,315	0	4,315	5,880
Total assets	90,769	-7,826	82,943	64,062

You will note that adjustments are carried to IFRS values in arriving at Solvency II Balance Sheet values. The following are the explanations for the movements arising therefrom which result in a reduction in total assets held for the Group of €7.826 million (€7.801 million for 2018).

Atlas Group in Euro '000		2019		2018
Deferred acquisition costs and intangible assets	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Deferred acquisition costs	899	-899	0	0
Intangible assets	125	-125	0	0
	1,024	-1,024	0	0

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

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

Atlas Group in Euro '000		2019		2018
Fixed income securities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Bonds				
Government Bonds	343	3,267	3,610	2,790
Corporate Bonds	8,106	8,761	16,866	15,287
Collective Investments Undertakings	19,731	-19,731	0	0
	28,180	-7,704	20,476	18,078

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

Collective investment undertakings (funds) are reported in the IFRS balance sheet at fair value to profit and loss. Solvency II regulations allow for a “look through” procedure where the funds’ securities are identified and reclassified according to their nature and valued accordingly.

Atlas Group in Euro '000		2019		2018
Reinsurance recoverables	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	23,098	-7,806	15,292	10,679
Health similar to non-life	2	2,976	2,978	60
	23,100	-4,829	18,271	10,740

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

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

Atlas Group in Euro '000		2019		2018
Insurance receivables and other trade receivables	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Insurance and intermediaries receivables	4,411	-1,717	2,693	2,607
Receivables (trade, not insurance)	2,094	-241	1,853	1,599
	6,505	-1,958	4,546	4,205

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

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

As stated earlier, the Group will also report on the Solo Undertaking's results and for this purpose below you will find tables showing the PCC's IFRS Balance Sheet movements to Solvency II Balance Sheet values. These are reproduced as an extract from the Solo Undertaking's Solvency and Financial Condition Report.

PCC Core in Euro '000				
Assets	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Deferred acquisition costs	1,714	-1,714	0	0
Intangible assets	1	-1	0	0
Property, plant & equipment held for own use	8,641	0	8,641	6,100
Investments (other than assets held for index-linked and unit-linked				
Property (other than for own use)	11,221	0	11,221	5,746
Holdings in related undertakings, including participations	1,127	0	1,127	752
Equities				
Equities - listed	4,846	4,843	9,689	11,865
Equities - unlisted	0	2,635	2,635	0
Bonds				
Government Bonds	343	3,266	3,609	2,790
Corporate Bonds	8,072	9,161	17,233	15,186
Collective Investments Undertakings	19,665	-19,665	0	0
Deposits other than cash equivalents	369	2	371	371
Loans and mortgages				
Other loans and mortgages	778	0	778	0
Reinsurance recoverables from:				
Non-life and health similar to non-life				
Non-life excluding health	23,098	-7,806	15,292	10,679
Health similar to non-life	2	2,976	2,978	60
Insurance and intermediaries receivables	4,411	-1,718	2,693	2,607
Re-Insurance receivables	255	-255	0	18
Receivables (trade, not insurance)	810	-240	570	644
Cash and cash equivalents	3,108	0	3,108	4,575
Total assets	88,462	-8,517	79,945	61,394

Amplifon Cell Euro '000				
Assets	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Deferred acquisition costs	49	-49	0	0
Collective Investments Undertakings	3,642	0	3,642	3,663
Deposits to cedants	125	0	125	364
Insurance and intermediaries receivables	127	0	127	0
Cash and cash equivalents	1,376	0	1,376	5,167
Total assets	5,319	-49	5,270	9,194

Other Cells Euro '000				
Assets	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Deferred acquisition costs	554	-554	0	0
Deferred tax assets	0	179	179	222
Investments (other than assets held for index-linked and unit-linked				
contracts)				
Collective Investments Undertakings	1,616	0	1,616	1,526
Reinsurance Recoverables - Non-life excluding health	10,416	-9,101	1,315	-1,574
Insurance and intermediaries receivables	15,649	-13,682	1,967	1,729
Receivables (trade, not insurance)	3,734	0	3,733	3,545
Cash and cash equivalents	9,686	0	9,686	10,035
Total assets	41,654	-23,157	18,496	15,484

For Deferred Tax Assets please see note under subsection 5.2.2 "Deferred Tax Liabilities".

5.2 Total liabilities

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

Atlas Group in Euro '000		2019		2018
Liabilities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	43,551	-43,551	0	0
Best Estimate	0	30,367	30,367	23,946
Risk margin	0	797	797	847
Technical provisions - health (similar to non-life)	363	-363	0	0
Best Estimate	0	4,299	4,299	543
Risk margin	0	44	44	36
Deferred tax liabilities	2,662	330	2,991	2,275
Debts owed to credit institutions	344	0	344	9
Insurance & intermediaries payables	1,137	-260	877	652
Reinsurance payables	304	-97	206	558
Payables (trade, not insurance)	6,756	0	6,756	4,662
Total liabilities	55,116	-8,435	46,681	33,528

The following Liabilities Tables represents the aggregated total liabilities for the PCC as a whole and its individual components as an extract from the PCC's Solvency and Financial Condition Report.

PCC Aggregate in Euro '000		2019		2018
Liabilities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	63,881	-63,881	0	0
Best Estimate	0	30,731	30,731	27,720
Risk margin	0	1,379	1,379	1,510
Technical provisions - health (similar to non-life)	363	-363	0	0
Best Estimate	0	4,299	4,299	543
Risk margin	0	43	43	36
Provisions other than Technical Provisions	436	-436	0	0
Deferred tax liabilities	2,460	1,080	3,540	2,989
Debts owed to credit institutions	344	0	344	0
Insurance & intermediaries payables	3,496	-1,179	2,315	3,804
Reinsurance payables	10,643	-4,383	6,259	1,669
Payables (trade, not insurance)	6,797	0	6,797	5,862
Total liabilities	88,419	-32,712	55,708	44,131

PCC Core in Euro '000		2019		2018
Liabilities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	43,551	-43,551	0	0
Best Estimate	0	30,367	30,367	23,946
Risk margin	0	785	785	834
Technical provisions - health (similar to non-life)	363	-363	0	0
Best Estimate	0	4,299	4,299	543
Risk margin	0	43	43	36
Deferred tax liabilities	2,460	91	2,551	2,121
Debts owed to credit institutions	344	0	344	0
Insurance & intermediaries payables	1,137	-261	877	652
Reinsurance payables	304	-97	206	558
Payables (trade, not insurance)	5,481	0	5,481	3,461
Total liabilities	53,639	-8,686	44,952	32,151

Amplifon Cell Euro '000				
Liabilities	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	3,103	-3,103	0	0
Best Estimate	0	2,412	2,412	2,579
Risk margin	0	84	84	135
Deferred tax liabilities	0	196	196	372
Insurance & intermediaries payables	367	0	367	3,019
Payables (trade, not insurance)	309	0	309	999
Total liabilities	3,779	-412	3,367	7,104

Other Cells Euro '000				
Liabilities	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	17,226	-17,226	0	0
Best Estimate	0	-2,049	-2,049	1,194
Risk margin	0	511	511	542
Provisions other than technical liabilities	436	-436	0	0
Deferred tax liabilities	0	794	794	495
Insurance & intermediaries payables	1,991	-920	1,071	132
Reinsurance payables	10,340	-4,287	6,053	1,110
Payables (trade, not insurance)	1,007	1	1,009	1,402
Total liabilities	31,001	-23,612	7,388	4,875

5.2.1 Technical provisions

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

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

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

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

Claims Provision adjustment

- Best estimate of claims reserves have been calculated using standard actuarial techniques including: Paid & incurred Chain Ladder or Link Ratio Method, Bornhuetter Ferguson Method and Bootstrap Method.
- Future allocated expenses are implicitly allowed for in the technical provisions. An explicit allowance has been made for unallocated loss adjustment expenses which include projected investment management expenses, administration expenses and other overhead expenses.
- An explicit allowance has been made for Events Not in Data (ENIDs).

Premium Provision

- Cash flows resulting from future claims events have been estimated by applying assumed loss ratios to year-end unearned premium reserves. The loss ratio assumption is based on historic loss ratio experience arising from the claims provision analysis.

- b) An allowance for ENIDs is included in the claims cash flows.
- c) Expenses associated with servicing of in force policies has been made.
- d) Future premium cash flows have been included.

Discounting

Both claims and premium provisions cash flows were modelled using payment patterns derived from historic experience. These were discounted by the year end 2018 yield curves as published by EIOPA.

Risk Margin

The risk margin was calculated by approximating the future SCRs to be projected in line with the projected cashflows of the best estimate technical provisions. This was then discounted using the year end 2018 yield curve and a 6% cost of capital was applied.

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

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

Valuation principles

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

Segmentation

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

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

Contract boundaries

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

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

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

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

Atlas Group in Euro '000				
Technical provisions	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	43,551	-43,551	0	0
Best Estimate	0	30,367	30,367	23,946
Risk margin	0	797	797	847
Technical provisions - health (similar to non-life)	363	-363	0	0
Best Estimate	0	4,299	4,299	543
Risk margin	0	44	44	36
	43,914	-8,407	35,506	25,372

In line with the requirements for Group Solvency II Balance Sheet value movements put forward above, below you will find the various tables attaching to the PCC.

PCC Aggregate in Euro '000				
Technical provisions	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	63,881	-63,881	0	0
Best Estimate	0	30,731	30,731	27,720
Risk margin	0	1,379	1,379	1,510
Technical provisions - health (similar to non-life)	363	-363	0	0
Best Estimate	0	4,299	4,299	36
Risk margin	0	43	43	543
	64,244	-27,791	36,452	29,808

PCC Core in Euro '000				
Technical provisions	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	43,551	█ -43,551	0	0
Best Estimate	0	█ 30,367	30,367	23,946
Risk margin	0	█ 785	785	834
Technical provisions - health (similar to non-life)	363	█ -363	0	0
Best Estimate	0	4,299	4,299	543
Risk margin	0	43	43	36
	43,914	-8,420	35,494	25,358

Amplifon Cell Euro '000				
Technical provisions	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	3,103	-3,103	0	0
Best Estimate	0	2,412	2,412	2,579
Risk margin	0	84	84	135
	3,103	-607	2,496	2,714

Other Cells Euro '000				
Technical provisions	IFRS	2019 Solvency II Adjustment	Solvency II value	2018 Solvency II value
Technical provisions – non-life				
Technical provisions – non-life (excluding health)	17,226	-17,226	0	0
Best Estimate	0	-2,049	-2,049	1,194
Risk margin	0	511	511	542
	17,226	-18,764	-1,538	1,736

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation for the Group and the PCC's Aggregate.

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

S.17.01.02

Non-life Technical Provisions

		Direct business and accepted proportional reinsurance							Total Non-Life obligation	
		Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance		Miscellaneous financial loss
		C0020	C0030	C0050	C0060	C0070	C0080	C0090		C0130
Technical provisions calculated as a whole	R0010									
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross	R0060	3,265	-2	1,831	1,434	99	-3,286	229	-167	3,403
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	2,313	0	173	-17	70	2,385	4	182	5,109
Net Best Estimate of Premium Provisions	R0150	952	-2	1,658	1,451	29	-5,671	224	-348	-1,706
Claims provisions										
Gross	R0160	903	132	8,344	1,143	269	15,481	4,379	976	31,627
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	666	0	537	0	141	11,475	772	887	14,477
Net Best Estimate of Claims Provisions	R0250	237	132	7,807	1,143	128	4,006	3,606	89	17,150
Total Best estimate - gross	R0260	4,168	131	10,175	2,577	368	12,195	4,607	809	35,030
Total Best estimate - net	R0270	1,190	131	9,465	2,594	157	-1,665	3,831	-259	15,444
Risk margin	R0280	38	5	522	87	5	565	192	7	1,422
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	R0290									
Best estimate	R0300									
Risk margin	R0310									
Technical provisions - total										
Technical provisions - total	R0320	4,206	136	10,697	2,665	373	12,760	4,799	816	36,452
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	2,979	0	710	-17	210	13,860	777	1,068	19,586
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	1,228	136	9,988	2,681	163	-1,100	4,023	-252	16,866

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

S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	Z0020	Accident year [AY]
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Gross Claims Paid (non-cumulative)

(absolute amount)

Year	Development year										In Current year	Sum of years (cumulative)
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0170	C0180
Prior	R0100										R0100	
2010	R0160	401	122	13	0	-4	9	0	-3	4	0	542
2011	R0170	537	156	27	13	25	-24	0	2			735
2012	R0180	622	243	36	55	-11	3	12	-1			960
2013	R0190	1,103	348	424	1,222	1,227	20,718	82				25,124
2014	R0200	1,933	841	205	154	30	22					3,186
2015	R0210	2,890	875	214	67	42						4,088
2016	R0220	3,601	1,272	326	429							5,629
2017	R0230	3,841	1,118	216								5,175
2018	R0240	3,337	1,779									5,115
2019	R0250	6,848										6,848
Total											R0260	9,418

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Development year												Year end (discounted data)	
Year	1	2	3	4	5	6	7	8	9	10 & +			
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Prior	R0100										27	R0100	23
2010	R0160	188	49	12	6	3	1	11	0	0		R0160	0
2011	R0170	271	76	34	3	2	1	2	0			R0170	0
2012	R0180	515	126	44	22	17	14	14				R0180	13
2013	R0190	288	86	48	27	24,251	83	21				R0190	20
2014	R0200	752	92	14	186	52	17					R0200	0
2015	R0210	351	125	138	89	40						R0210	27
2016	R0220	444	1,547	288	196							R0220	15
2017	R0230	1,396	622	311								R0230	26
2018	R0240	2,186	1,240									R0240	97
2019	R0250	296										R0250	3,699
Total												R0260	3,919

5.2.2 Other liabilities

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

Atlas Group in Euro '000		2019		2018
Other liabilities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Deferred tax liabilities	2,662	330	2,991	2,275
Insurance & intermediaries payables	1,137	-260	877	652
Reinsurance payables	304	-97	207	558
Total liabilities	4,103	-28	4,076	3,487

PCC Aggregate in Euro '000		2019		2018
Other liabilities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Deferred tax liabilities	2,460	1,080	3,540	2,989
Provisions other than Technical Provisions	436	-436	0	0
Insurance & intermediaries payables	3,496	-1,179	2,315	3,804
Reinsurance payables	10,643	-4,383	6,259	1,669
Payables (trade, not insurance)	6,797	0	6,797	5,862
	23,832	-4,919	18,912	14,323

Deferred tax liabilities

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

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

Insurance and intermediaries payables and reinsurance payables

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

The following tables report on the PCC components arriving at the PCC's aggregate Other Liabilities.

PCC Core in Euro '000		2019		2018
Other liabilities	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Deferred tax liabilities	2,460	91	2,551	2,121
Insurance & intermediaries payables	1,137	-262	877	652
Reinsurance payables	304	-97	206	558
Payables (trade, not insurance)	5,481	0	5,481	3,461
	9,382	-267	9,115	6,793

Amplifon Cell Euro '000				2018
Other liabilities	IFRS	2019 Solvency II Adjustment	Solvency II value	Solvency II value
Deferred tax liabilities	0	196	196	372
	0	196	196	372

Other Cells Euro '000				2018
Other liabilities	IFRS	2019 Solvency II Adjustment	Solvency II value	Solvency II value
Insurance & intermediaries payables	1,991	-920	1,071	132
	1,991	-920	1,071	132

5.3 Alternative methods for valuation

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

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

QRT Table 6 – Atlas Group in Euro '000

G.02.01.02

Balance Sheet

Assets

Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Deposits other than cash equivalents
Loans and mortgages
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Insurance and intermediaries receivables
Receivables (trade, not insurance)
Cash and cash equivalents

Total assets

Liabilities

Technical provisions – non-life
Technical provisions – non-life (excluding health)
Best Estimate
Risk margin
Technical provisions - health (similar to non-life)
Best Estimate
Risk margin
Deferred tax liabilities
Debts owed to credit institutions
Insurance & intermediaries payables
Reinsurance payables
Payables (trade, not insurance)

Total liabilities

Excess of assets over liabilities

	Solvency II value
	C0010
R0060	8,660
R0070	46,374
R0080	11,221
R0090	1,516
R0100	12,790
R0110	9,696
R0120	3,094
R0130	20,476
R0140	3,610
R0150	16,866
R0200	371
R0230	778
R0260	778
R0270	18,271
R0280	18,271
R0290	15,292
R0300	2,978
R0360	2,693
R0380	1,853
R0410	4,315
R0500	82,943
	Solvency II value
	C0010
R0510	35,506
R0520	31,164
R0540	30,367
R0550	797
R0560	4,342
R0580	4,299
R0590	44
R0780	2,990
R0800	344
R0820	877
R0830	206
R0840	6,756
R0900	46,680
R1000	36,263

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

S.02.01.02

Balance sheet

Assets

Deferred tax assets
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Collective Investments Undertakings
Deposits other than cash equivalents
Loans and mortgages
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Cash and cash equivalents

Total assets

Liabilities

Technical provisions – non-life
Technical provisions – non-life (excluding health)
Best Estimate
Risk margin
Technical provisions - health (similar to non-life)
Best Estimate
Risk margin
Deferred tax liabilities
Debts owed to credit institutions
Insurance & intermediaries payables
Reinsurance payables
Payables (trade, not insurance)

Total liabilities

Excess of assets over liabilities

	Solvency II value
	C0010
R0040	179
R0060	8,641
R0070	51,141
R0080	11,221
R0090	1,127
R0100	12,324
R0110	9,689
R0120	2,635
R0130	20,841
R0140	3,609
R0150	17,233
R0180	5,258
R0200	371
R0230	778
R0260	778
R0270	19,586
R0280	19,586
R0290	16,608
R0300	2,979
R0350	125
R0360	4,786
R0370	0
R0380	4,304
R0410	14,171
R0500	103,712
	Solvency II value
	C0010
R0510	36,452
R0520	32,110
R0540	30,731
R0550	1,379
R0560	4,342
R0580	4,299
R0590	43
R0780	3,540
R0800	344
R0820	2,315
R0830	6,259
R0840	6,797
R0900	55,708
R1000	48,004

6. Capital management

The value of own funds are generally known to reduce under Solvency II valuation rules due to the changes in values for assets which exceed changes in values for liabilities. Any changes for value in assets has been offset during 2019 for the increase in profitability during the year which results in increases for assets as accounted for under IFRS. Liabilities accounted for under IFRS have not registered material increases for the year under review. The differences between the financial statements balance sheet and the solvency II balance sheet have been reported under Section 5 of this report.

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

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

Covid-19 Pandemic

As part of its annual ORSA exercise, the Group has tested resilience of its capital adequacy under various stress scenarios. As indicated under Section 5, the most significant impact of COVID-19 on own funds is likely to be on the asset side as a result of the impact on investment assets. On the other hand, the impact on the SCR is not likely to be significant, as previous calculations of the SCR for stressed projections have shown offsetting results for reduced business volumes and reduced asset exposures. This means that the main driver impacting the solvency cover is the possible reduction in own funds mentioned earlier and above.

With a cover of 307% resulting in surplus eligible own funds of €25 million over the SCR the Group considers that it is sufficiently capitalized to withstand the shock on its investment portfolio, and still retain an adequate solvency cover, and on this basis does not consider the going concern basis to be uncertain. The Group is committed to monitor its capital adequacy positions on an ongoing basis. At the same time, the Directors acknowledge that the global and local economic environment remain uncertain.

The Directors' assessment has primarily focused on the Group's business in light of the nature of the Solo's and its fellow subsidiaries' operations and assets.

6.1 Own Funds

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

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

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

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

The total own funds for the Atlas Group in matching the Solvency Capital Requirement as on 31 December 2019 is equal to €36.263 million (2018: €30.418 million). The Group does not consider any ancillary own funds.

The aggregate own funds for all components of the PCC in matching the Company's Solvency Capital Requirement total €44,106,187 as on 31 December 2019 (€38,202,253 as on 31 December 2018). This is inclusive of available unpaid capital for ancillary own funds of €1.84 million, and eligible under Solvency II regulation up to €0.95 million in matching the Minimum Capital Requirement.

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

Atlas Group in Euro '000		2019		2018
Own funds	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Paid up ordinary shares	5,325	0	5,325	5,325
Revaluation reserves	4,833	-4,833	0	0
Other reserves	-624	624	0	0
Retained earnings	26,259	-26,259	0	0
Non-controlling interests in equity	-140	140	0	0
Adjustment for restricted own funds	0	0	0	-116
Reconciliation reserve	0	30,938	30,938	25,209
	35,653	610	36,263	30,418

PCC Aggregate in Euro '000		2019		2018
Own funds	IFRS	Solvency II Adjustment	Solvency II value	Solvency II value
Paid up ordinary shares	20,507	0	20,507	20,507
Capital Contribution	556	0	556	500
Other reserves	3,884	-3,884	0	0
Retained earnings	22,069	-22,069	0	0
Reconciliation reserve	0	22,097	22,097	15,807
Ancillary own funds - issued capital unpaid	0	946	946	1,388
	47,016	-2,910	44,106	38,202

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

All the Group and PCC's Core own funds are classified under Solvency II as Tier 1 capital since they are considered to be of high quality. In the case of two Cells within the PCC an element of unpaid capital totalling €1.84 million is also considered for the purposes of Solvency II own funds, but is recognised as Tier 2 capital and classified as ancillary own funds. Such capital undergoes ongoing due process for MFSA authorisation for its applicability.

Application and review of own funds.

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

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

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

Medium-Term Capital Management Plan

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

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

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

- Counterparty default risk;
- Currency risk;
- Market risk;
- Liquidity risk;
- Concentration risk

Below we are reproducing the Quantitative Reporting Templates (QRT) as required under regulation for the Group and the PCC's Aggregate.

QRT Table 8 – Atlas Group in Euro '000

G.23.01.22

Own Funds

		Total	Tier 1 - unrestricted
		C0010	C0020
Basic own funds before deduction for participations in other financial sector			
Ordinary share capital (gross of own shares)	R0010	5,325	5,325
Reconciliation reserve	R0130	30,938	30,938
Total basic own funds after deductions	R0290	36,263	36,263
Own funds when using the D&A, exclusively or in combination of method 1			
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	36,263	36,263
Total available own funds to meet the minimum consolidated group SCR	R0530	36,263	36,263
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	36,263	36,263
Total eligible own funds to meet the minimum consolidated group SCR	R0570	36,263	36,263
Minimum consolidated Group SCR	R0610	3,700	
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	988%	
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	36,263	36,263
Group SCR	R0680	11,799	
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	307%	
Reconciliation reserve		C0060	
Excess of assets over liabilities	R0700	36,263	
Other basic own fund items	R0730	5,325	
Reconciliation reserve before deduction for participations	R0760	30,938	

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

S.23.01.01

Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

Ordinary share capital (gross of own shares)

Reconciliation reserve

Other own fund items approved by the supervisory authority as basic own funds not specified above

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Total ancillary own funds

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

Excess of assets over liabilities

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

	Total	Tier 1 - unrestricted	Tier 2
	C0010	C0020	C0040
R0010	20,507	20,507	
R0130	22,097	22,097	
R0180	556	556	
R0290	43,160	43,160	
R0300	1,844		1,844
R0400	1,844		1,844
R0500	45,004	43,160	1,844
R0510	43,160	43,160	
R0540	44,106	43,160	946
R0550	43,160	43,160	
R0580	22,140		
R0600	5,535		
R0620	199.22%		
R0640	779.78%		

	C0060
R0700	48,004
R0720	1,000
R0730	21,063
R0740	3,844
R0760	22,097

6.2 Solvency capital requirement and minimum capital requirement

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

Individual cells are not obliged to hold the absolute minimum capital requirement (AMCR of €3.70 million) as this is an obligation imposed on the PCC's Core, nor is an individual cell obliged under regulation to match its own nSCR with its own funds for as long as that Cell has financial recourse to the Core's own funds. Under the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, the PCC may impose non-recourse for cells authorised to carry on Captive insurance business and/or Reinsurance business. Under such circumstances these cells would have to match their own nSCR with its own funds. The PCC has the Amplifon Cell which is authorised to carry on the business of reinsurance where non-recourse is in place and on that basis matches its own funds to its nSCR with a solvency ratio of 161%.

The following table illustrates in Euro '000 the various risk components making up the SCR requirements for both the Group and the PCC.

2019

Solvency Capital Requirement	Group Euro '000	Core Euro '000	Amplifon Euro '000	Other Cells Euro '000	Aggregate Euro '000
Market risk	11,416	11,148	126	2,227	13,500
Counterparty default risk	3,033	2,841	308	5,006	8,155
Health underwriting risk	709	709	0	0	710
Non-life underwriting risk	5,547	5,547	884	3,688	10,119
Operational risk	1,228	1,228	72	754	2,055
Diversification	(5,158)	(5,044)	(205)	(1,880)	(7,128)
LACDT	(4,977)	(4,404)	0	(867)	(5,271)
Total SCR	11,799	12,026	1,185	8,928	22,140

2018

Solvency Capital Requirement	Group Euro '000	Core Euro '000	Amplifon Euro '000	Other Cells Euro '000	Aggregate Euro '000
Market risk	8,848	8,774	297	2,301	11,373
Counterparty default risk	3,274	3,013	1,113	5,394	9,520
Health underwriting risk	603	603	0	37	640
Non-life underwriting risk	5,308	5,308	1,077	4,848	11,233
Operational risk	786	786	77	443	1,306
Diversification	(4,746)	(4,635)	(484)	(3,600)	(8,720)
LACDT	(4,004)	(3,929)	(510)	(1,916)	(6,355)
Total SCR	10,069	9,921	1,570	7,506	18,997

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

The Minimum Consolidated Group Solvency Capital Requirement for the Group is the result of the Solo's Minimum Capital Requirement (MCR) calculation for its Core. The regulations apply the principle of an Absolute Minimum Capital Requirement (AMCR) which is currently set at €3.70 million. The Group would be required to hold sufficient own funds in excess of the Core's MCR or AMCR whichever is the highest. As such the Group's Minimum Consolidated Group Solvency Capital Requirement for 2019 is being reported at €3.70 million.

The PCC's aggregate MCR calculation results in a requirement of €5.34 million. In both cases the own funds reported for Solvency II comfortably exceed the above MCR requirements.

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

QRT Table 10 – Atlas Group in Euro '000

G25.01.022

Solvency Capital Requirements - for undertakings on Standard Formula

		Gross solvency capital requirement
		C0110
Market risk	R0010	11,416
Counterparty default risk	R0020	3,033
Health underwriting risk	R0040	709
Non-life underwriting risk	R0050	5,547
Diversification	R0060	- 5,158
Basic Solvency Capital Requirement	R0100	15,548

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	1,228
Loss-absorbing capacity of deferred taxes	R0150	- 4,977
Solvency capital requirement excluding capital add-on	R0300	11,799
Solvency capital requirement	R0320	11,799
Minimum consolidated group solvency capital requirement	R0470	3,700
Solvency capital requirement	R0570	11,799

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

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement
		C0110
Market risk	R0010	14,398
Counterparty default risk	R0020	8,698
Health underwriting risk	R0040	757
Non-life underwriting risk	R0050	10,792
Diversification	R0060	-9,289
Basic Solvency Capital Requirement	R0100	25,356
Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	2,055
Loss-absorbing capacity of deferred taxes	R0150	-5,271
Solvency capital requirement excluding capital add-on	R0200	22,140
Solvency capital requirement	R0220	22,140
Other information on SCR		
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	12,026
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	10,113
		Yes/No
Approach to tax rate		C0109
Approach based on average tax rate	R0590	2 - No
		LAC DT
Calculation of loss absorbing capacity of deferred taxes		C0130
LAC DT	R0640	-5,271
LAC DT justified by reversion of deferred tax liabilities	R0650	-525
LAC DT justified by carry back, future years	R0680	-4,746

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

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR _{NL} Result	R0010	4,055
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole
		C0020
		Net (of reinsurance) written premiums in the last 12 months
		C0030
Medical expense insurance and proportional reinsurance	R0020	1,190
Income protection insurance and proportional reinsurance	R0030	131
Motor vehicle liability insurance and proportional reinsurance	R0050	9,465
Other motor insurance and proportional reinsurance	R0060	2,594
Marine, aviation and transport insurance and proportional reinsurance	R0070	157
Fire and other damage to property insurance and proportional reinsurance	R0080	12,555
General liability insurance and proportional reinsurance	R0090	3,831
Miscellaneous financial loss insurance and proportional reinsurance	R0130	21
Overall MCR calculation		C0070
Linear MCR	R0300	4,055
SCR	R0310	22,140
MCR cap	R0320	9,963
MCR floor	R0330	5,535
Combined MCR	R0340	5,535
Absolute floor of the MCR	R0350	3,700
		C0070
Minimum Capital Requirement	R0400	5,535

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

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

6.4 Differences between the Standard Model and any Internal Model used

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

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

As on 31 December 2019 the Group reports a Solvency Ratio of 307% for Solvency II Own Funds over the Solvency Capital Requirement. As such there is no non-compliance issue to report.

The same is reported for the PCC which reports an aggregated Solvency Ratio of 199% for Solvency II Own Funds over the Solvency Capital Requirement. In calculating this ratio all surplus own Funds arising from cells is discarded. The surplus Own Funds that have been discarded in arriving to full compliance of this rule for the Cells totals €3,843,631.

6.6 Any other information

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

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

QRT Table 13 – Atlas Group

S.32.01.22

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	Criteria of influence						Inclusion in the scope of group supervision	Group solvency calculation
								% capital share	% used for the establishment of consolidated accounts	% voting rights	Level of influence	Proportional share used for group solvency calculation	YES/NO	Method used and under method 1, treatment of the undertaking	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0220	C0230	C0240	C0260	
MT	5299009OC7HGHKVM2254	LEI	Atlas Holdings Limited	5	Limited liability company	2	MFSA						1	1	
MT	529900F52D5B51ONO136	LEI	Atlas Insurance PCC Limited	2	Limited liability company	2	MFSA	100.00%	1	100.00%	1	100.00%	1	1	
MT	529900ETP4ZUO613S537	LEI	AISH Limited	99	Limited liability company	2	MFSA	75.00%	1	75.00%	1	75.00%	1	1	
MT	529900N7YYVZLTVTZ734	LEI	Jesmond Mizzi Financial Advisors Limited	99	Limited liability company	2	MFSA	37.50%		37.50%	2	37.50%	1	1	
MT	529900FSDRG7F53V7G49	LEI	Ark Insurance Management PCC Limited	99	Limited liability company	2	MFSA	100.00%	1	100.00%	1	100.00%	1	1	
MT	529900QZNMH0YY2B9Z44	LEI	Atlas Healthcare Insurance Agency Limited	99	Limited liability company	2	MFSA	100.00%	1	100.00%	1	100.00%	1	1	
MT	C35771	SC	Stuart Property Development Limited	99	Limited liability company	2	MFSA	25.00%		25.00%	1	25.00%	1	1	
MT	C28074	SC	Assikura Insurance Brokers Limited	99	Limited liability company	2	MFSA	40.00%	0	40.00%	1	40.00%	1	1	
MT	C104	SC	Eagle Star (Malta) Limited	99	Limited liability company	2	MFSA	100.00%	1	100.00%	1	100.00%	1	1	

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