Elmo INSURANCE

Annual Report & Financial Statements

31 December 2018

2018

elmoinsurance.com

CONTENTS

DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activities of the company are that of an insurance company licensed in terms of Section 7 of the Insurance Business Act, 1998 by the Malta Financial Services Authority to write general business in Malta.

Review of the business

During the year under review the company registered a profit before tax of €1,320,668 compared to €2,719,695 in 2017. The decline in profitability is attributable solely to an exceptional deterioration in the company's investment portfolio which registered a negative return of €1,231,965, a considerable drop on the favourable return of €1,091,727 in the previous year. Excluding investment income, the core insurance operations generated €2,552,633 of profits net of operating expenses, a significant improvement on the €1,627,968 reported in 2017.

The charge to taxation amounted to €334,875 compared to €978,405 in 2017.

Shareholders' funds amounted to €18,625,670 at 31 December 2018. At the end of 2017, shareholders' funds totalled €18,139,877.

Our Solvency II Capital Requirement ratio as at 31 December 2018 strengthened and stands at 242% compared to 220% as at the end of 2017. This was achieved despite the continued rapid growth recorded in premium income. It is the result of a reduced exposure to equities and an increased allocation to cash within our investment portfolio.

Insurance operations

Malta's vibrant economy, reflected by GDP growth estimated to be 5.4% for 2018, is having a significant bearing on the local insurance market and has had a positive impact on the company's premium base. Gross premiums written in respect of risks situated in Malta rose from €17,981,594 in 2017 to €20,085,492 in 2018, an increase of 11.7%, achieved after registering a growth of 15% in 2017. The positive trend has continued in the first three months of 2019.

In December 2017, the company submitted notice to the MFSA of its intention to carry on business of insurance under the provisions of freedom to provide services in 23 states forming part of the EU and EEA for Class 1 - Accident and Class 2 - Sickness. On 29 December 2017, the MFSA issued its authorisation to the company to carry on business of insurance under the provisions of freedom to provide services in terms of the company's notice.

As a consequence, in 2018 an additional €4,150,733 of premium was generated through this development, which contributed to boost our combined local and wider EU business premiums to €24,236,225.

Our overall net loss ratio increased marginally from 65% in 2017 to 66% in 2018.

The company's net operating expenses decreased from €2,848,267 in 2017 to €2,774,525 in 2018, mainly due to additional income arising from the unwinding of certain reinsurance arrangements. The company's combined operating ratio decreased to 81% from the previous year's 86%, which reflects the improved underwriting results.

Despite the tremendous additional pressures created over the past years originating from the continued implications of Solvency II, the introduction of General Data Protection Regulations and the Insurance Distribution Directive which came into effect in October 2018, we have made good progress in building an organisational infrastructure which has enabled us to cope with all the additional demands placed on the company by the introduction of these burdensome regulations.

Our plans to develop additional office space adjacent to our head office are finally coming to fruition. Securing clearance from the relevant authorities proved far more challenging than initially anticipated. However, we secured final planning permission to develop the site at the beginning of 2019 and construction works are due to commence imminently. The company continued to increase its property holdings with the addition of another property bordering our main offices, acquired for €1.5m during the year.

Investment portfolio

2018 was one of the worst years on record for investment returns, the S&P 500 was down 6.2%, FTSE 100 down 12.5 %, CAC 40 down 11.0%, Dax down 18.3%, MSE was up 0.1%.

Elmo Insurance Limited registered an average net negative return on its investment portfolio of 5.5% in 2018 compared to a 4.8% gain in 2017. The loss was almost solely attributable to foreign equities, and was cushioned to some extent by substantial gains made in local equites and local bonds, which at year end make up 22% of the company's investment portfolio.

Despite the tremendous volatility experienced within the financial markets, we are pleased to confirm that during the first quarter of 2019, we recovered all our 2018 investment loss.

Results and dividend

The profit and loss account is set out on pages 10 and 11 within. During the year under review the company distributed a net dividend of €500,000 (2017: €1,100,000). The directors do not recommend the payment of a final dividend.

Events after the reporting date

No significant events have occurred after the reporting date and up to the date of this report which would require adjustment to or disclosure in these financial statements, other than those noted in note 27 of the financial statements.

Principal risks and uncertainties

The company's principal risks and how these are identified and addressed are set out in Note 3 to the financial statements dealing with the management of insurance and financial risk.

The directors' opinion on the inherent uncertainties surrounding the preparation of the financial statements is set out in Note 2 to the financial statements relating to critical accounting estimates and judgments.

Directors

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

William Harding - Chairman
David Bartoli - Managing Director
Alan Bartoli
Roger Bellamy
John Cooper
Godfrey Leone Ganado

Statement of directors' responsibilities for the financial statements

The directors are required by the Insurance Business Act, 1998 and the Maltese Companies Act, (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial period and of the profit or loss for that period.

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

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

The directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act, 1998 and the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Elmo Insurance Limited for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and may be made available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

William Harding
Chairman

David Bartoli
Managing Director

"Elmo", Abate Rigord Street, Ta'Xbiex. XBX 1111, Malta

22 April 2019

Independent auditor's report

To the Shareholders of Elmo Insurance Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Elmo Insurance Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2018, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Board of Directors.

What we have audited

Elmo Insurance Limited's financial statements, set out on pages 10 to 48, comprise:

- the profit and loss account for the year ended 31 December 2018;
- the balance sheet as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

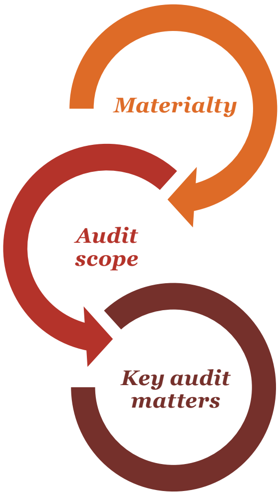
The non-audit services that we have provided to the company, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 6 to the financial statements.

Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

Our audit approach

Overview



Overall materiality: €122,800, which represents 5% of a 3-year average profit before tax

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

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

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

Materiality

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

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

Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

Overall materiality	€122,800 (2017: €149,000)
How we determined it	5% of a 3-year average profit before tax
Rationale for the materiality benchmark applied	We chose a 3-year average profit before tax as reflected in the Profit and Loss Accounts of 2016 to 2018 as the benchmark because, in our view, profit is a key financial statement metric used in assessing the performance of the company. We have applied a 3-year average to reflect the fluctuations in results in recent years. We selected 5% based on our professional judgement, noting that it is also within the range of commonly accepted profit-related benchmarks.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €6,140 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

Key audit matter	How our audit addressed the Key audit matter
Valuation and accuracy of claims outstanding and claims incurred but not reported Valuation of insurance provisions is judgemental, and requires management to apply a number of assumptions to be made that have underlying estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Company as some claims can take time to emerge or develop. The determination of the value of these insurance reserves requires judgement, *inter alia*, in the selection of key assumptions and methodologies. The company has estimated claims outstanding on a case-by-case basis, and management has further applied a judgemental provision in respect of claims incurred but not reported (IBNR). The Company's net claims outstanding and IBNR provisions are disclosed in note 15 at €10m and €0.7m respectively, and net favourable variations arising from prior year claims amounted to €0.2m. Further information on the development of the ultimate cost of claims over the years is disclosed in note 15. We focused on this area due to its inherent subjectivity and complexity (refer to notes 2, 3, and 15).	Our audit procedures addressing the valuation of the Company's claims outstanding and incurred but not reported claims provision, included the following procedures: • we understood the policies and methodologies used by the Company to account for claims outstanding and IBNR, and where applicable, validated the controls put in place by management; • we have performed detailed claims analysis to understand any unusual trends and patterns; • based on our risk assessment, we tested a number of case estimates (including releases of reserves during the year) to supporting documentation to ensure that the basis of the reserve (or release) was reasonable, and in-line with the information available to the company; • we applied our industry knowledge and experience in understanding and evaluating the IBNR reserving methodology, models and assumptions used and considered whether these were consistently applied during the years; • we also independently tested the IBNR projections and compared our results to management's estimates; • we considered the quality of historical reserving by reviewing variations arising from prior year technical provisions; and • we considered the extent of related disclosures to the financial statements. Based on the work performed, we found the claims outstanding and claims incurred but not reported provisions to be consistent with the explanations and evidence obtained.

Other information

The directors are responsible for the other information. The other information comprises the directors' report (but does not include the financial statements and our auditor's report thereon).

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

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

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

Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

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

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

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

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

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

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

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

Appointment

We were first appointed as auditors of the Company on 30 August 1976, for the year ended 31 December 1977. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 42 years. The company became licensed as an insurance undertaking in terms of the Maltese Insurance Business Act (Cap. 403) on 29 April 2004.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

David Valenzia
Partner

22 April 2019

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

	Notes	Year ended 31 December 2018 €	2017 €
Earned premiums, net of reinsurance			
Gross premiums written		**24,236,225**	17,981,594
Outward reinsurance premiums		**(10,287,295)**	(5,471,104)
Net premiums written		**13,948,930**	12,510,490
Change in the gross provision for unearned premiums	15	**(1,649,958)**	(1,021,978)
Change in the provision for unearned premiums, reinsurers' share	15	**962,950**	172,620
		(687,008)	(849,358)
Earned premiums, net of reinsurance		**13,261,922**	11,661,132
Allocated investment return transferred from the non-technical account (page 11)	5	**(733,003)**	542,359
Other technical income		**865,170**	381,918
Total technical income		**13,394,089**	12,585,409
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	15	**10,703,590**	7,629,999
- reinsurers' share	15	**(2,843,744)**	(767,917)
		7,859,846	6,862,082
Change in the provision for claims			
- gross amount	15	**507,081**	1,388,445
- reinsurers' share	15	**433,007**	(683,712)
		940,088	704,733
Claims incurred, net of reinsurance		**8,799,934**	7,566,815
Net operating expenses	4	**2,624,500**	2,725,909
Total technical charges		**11,424,434**	10,292,724
Balance on the technical account for general business (page 11)		**1,969,655**	2,292,685

PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

		Year ended 31 December	
		2018	2017
	Notes	€	€
Balance on the technical account for general business (page 10)		**1,969,655**	2,292,685
Administration expenses	4	**(150,025)**	(122,358)
Investment income	5	**(1,151,676)**	1,172,571
Investment expenses and charges	5	**(80,289)**	(80,844)
Allocated investment return transferred to the general business technical account (page 10)	5	**733,003**	(542,359)
Profit before tax		**1,320,668**	2,719,695
Tax expense	8	**(334,875)**	(978,405)
Profit for the year		**985,793**	1,741,290

The notes on pages 15 to 48 are an integral part of these financial statements.

BALANCE SHEET

	Notes	As at 31 December 2018 €	2017 €
ASSETS			
Intangible assets – computer software	10	**41,745**	48,676
Tangible assets			
- land and buildings	11	**7,975,130**	6,533,984
- plant and equipment	11	**114,257**	123,690
Investments:			
- investment in associated undertaking	13	**76,338**	66,108
investment property	12	**1,187,500**	1,187,500
- other investments	14	**15,665,619**	17,831,467
Subordinated loan	25	**200,000**	200,000
Deferred taxation	20	**585,987**	194,468
Reinsurers' share of technical provisions	15	**5,948,604**	5,418,661
Deferred acquisition costs	16	**1,451,375**	1,047,627
Debtors:			
- arising out of direct insurance operations	17	**7,197,279**	5,701,767
- other debtors	17	**313,685**	185,404
Prepayments and accrued income	17	**81,082**	87,869
Cash at bank and in hand	24	**7,288,666**	6,967,281
Total assets		**48,127,267**	45,594,502
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	18	**5,000,000**	5,000,000
Revaluation reserve	19	**3,035,686**	3,035,686
Profit and loss account		**10,589,984**	10,104,191
Total equity		**18,625,670**	18,139,877
LIABILITIES			
Technical provisions	15	**23,703,356**	21,546,317
Deferred taxation	20	**627,000**	931,641
Current taxation		**315,321**	177,343
Creditors:			
- interest-bearing borrowings	24	**184,727**	517,997
- creditors arising out of direct insurance operations	22	**2,921,650**	3,031,542
- accruals and deferred income	22	**1,749,543**	1,249,785
Total liabilities		**29,501,597**	27,454,625
Total equity and liabilities		**48,127,267**	45,594,502

The notes on pages 15 to 48 are an integral part of these financial statements.

The financial statements on pages 10 to 48 were authorised for issue by the Board on 22 April 2019 and were signed on its behalf by:

William Harding
Chairman

David Bartoli
Managing Director

STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	€	€
Profit for the year	**985,793**	1,741,290
Total comprehensive income	**985,793**	1,741,290

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital €	Revaluation reserve €	Profit and loss account €	Total €
Balance at 1 January 2017		5,000,000	3,035,686	9,462,901	17,498,587
Comprehensive income					
Profit for the year		-	-	1,741,290	1,741,290
Total comprehensive income		-	-	1,741,290	1,741,290
Transactions with owners					
Dividends - ordinary shares - total transactions with owners	9	-	-	(1,100,000)	(1,100,000)
Balance at 31 December 2017		5,000,000	3,035,686	10,104,191	18,139,877
Balance at 1 January 2018		**5,000,000**	**3,035,686**	**10,104,191**	**18,139,877**
Comprehensive income					
Profit for the year		**-**	**-**	**985,793**	**985,793**
Total comprehensive income		**-**	**-**	**985,793**	**985,793**
Transactions with owners					
Dividends - ordinary shares - total transactions with owners	9	**-**	**-**	**(500,000)**	**(500,000)**
Balance at 31 December 2018		**5,000,000**	**3,035,686**	**10,589,984**	**18,625,670**

The notes on pages 15 to 48 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 €	2017 €
Cash flows from operating activities			
Cash generated from operations	23	**2,568,937**	4,165,215
Dividends received		**409,480**	284,589
Net interest received		**99,057**	161,041
Rental income	5	**28,125**	-
Net tax paid		**(893,057)**	(968,729)
Net cash generated from operating activities		**2,212,542**	3,642,116
Cash flows from investing activities			
Purchase of intangible assets	10	**(15,348)**	(38,398)
Purchase of immoveable property	11	**(1,470,000)**	-
Purchase of plant and equipment	11	**(39,899)**	(59,521)
Purchase of investments – fair value through profit or loss	14	**(3,070,125)**	(5,469,867)
Disposal of investments – fair value through profit or loss		**3,537,424**	3,567,434
Proceeds from disposal of tangible assets		**80**	-
Net movement in investments – loans and receivables	14	**(19)**	1,103,847
Net cash used in investing activities		**(1,057,887)**	(896,505)
Cash flows from financing activities			
Dividends paid	9	**(500,000)**	(1,100,000)
Net cash used in financing activities		**(500,000)**	(1,100,000)
Increase in cash and cash equivalents		**654,655**	1,645,611
Movement in cash and cash equivalents			
At beginning of year		**6,449,284**	4,803,673
Net cash inflow		**654,655**	1,645,611
At end of year	24	**7,103,939**	6,449,284

The notes on pages 15 to 48 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the Insurance Business Act, 1998 and the Maltese Companies Act, (Cap. 386). The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets at fair value through profit or loss and the revaluation of land and buildings.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the company's accounting policies (see Note 2 - Critical accounting estimates and judgements in applying accounting policies).

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

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2018. These standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2018 are not material to the company.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements. The Company is considering the implications of the below standards on the Company's financial results and position, and the timing of their adoption.

IFRS 9, 'Financial Instruments', became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

IFRS 9 addresses a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9, the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

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

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

a. The Company has not previously applied any version of IFRS 9.
b. The total carrying amount of liabilities arising from contracts within the scope of IFRS 4 for the year ended 31 December 2015 represents over 90% of total liabilities, which is considered significant.

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

The amendment of IFRS 4 Insurance Contracts requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interest ("SPPI") and other financial assets separately. Such disclosure is not required since the Company invests in debt instruments that are managed and whose performance is evaluated on a fair value basis.

IFRS 17 was issued in May 2017 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is considering delaying the mandatory implementation date by one year and may make additional changes to the standard. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to it, therefore the likely impact of its implementation remains uncertain.

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

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in euro (€), which is the company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within 'administrative expenses'.

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

(a) Rendering of services

Premium recognition is described in accounting policy 1.16 dealing with insurance contracts.

(b) Interest income

Interest income from financial assets not classified as fair value through profit or loss is recognised on a time proportionate basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

(c) Dividend income

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

(d) Other net fair value gains or losses from financial assets at fair value through profit or loss

Other gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the profit and loss account within 'Net fair value gains or losses on financial assets at fair value through profit or loss' in the period in which they arise.

1.4. Investment return
Investment return includes dividend income, other net fair value movements on financial assets at fair value through profit or loss (including interest income from financial assets, classified as fair value through profit and loss), interest income from financial assets not classified as fair value through profit or loss and is net of investment expenses, charges and interest.

The investment return is allocated between the technical and non-technical profit and loss accounts on a basis which takes into account that technical provisions are fully backed by investments.

1.5 Property, plant and equipment
Tangible assets comprising land and buildings, office furniture and equipment and motor vehicles are initially recorded at cost. Property is subsequently shown at market value, based on valuations by external independent valuers, less subsequent depreciation. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the reporting date. All other plant and equipment are subsequently stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement.

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

	%
Buildings	2
Improvement to buildings	10
Office furniture and equipment	20
Motor vehicles	20

The assets' residual values and useful lives are reviewed and adjusted as appropriate at each reporting date.

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

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

1.6 Investment property

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

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

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

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

1.7 Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of 4 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

1.8. Investment in associated undertakings

Associated undertakings are all entities over which the company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost.

Equity accounting involves recognising in the profit and loss account, the company's share of the associate's profit or loss for the year and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

The company's investment in associated undertaking is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill (net of any accumulated impairment loss) on acquisition. Equity accounting is discontinued when the carrying amount of an investment in an associated undertaking reaches zero, unless the company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

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

1.9 Financial assets

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

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

Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the company's key management personnel in accordance with a documented investment strategy.

(b) Loans and receivables

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

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

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

The fair value of quoted investments is based on quoted market prices at the reporting date. If the market for an investment is not active, the company establishes fair value by using valuation techniques.

1.10 Impairment of assets

(a) Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

(b) Impairment of other non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

1.11 Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks which are held for operational purposes, net of bank overdrafts.

1.12 Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets.

1.13 Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are declared.

1.14 Current and deferred tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Deferred tax is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax 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, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.15 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

Interest costs are charged against income without restriction. No borrowing costs have been capitalised.

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

Insurance contracts - General business

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

i. Premiums written relate to business underwritten during the year together with any differences between the booked premiums for prior years and those 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 reporting date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and

a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the company and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions). The company does not discount its liabilities for unpaid claims.

vi. Provision in the form of an unexpired risk provision is 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 reporting date.

vii. The above method of provisioning satisfies the minimum liability adequacy that is required by IFRS 4.

Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within debtors), 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 a liability when due and expensed over the period of cover.

The company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 1.10.

Receivables and payables related to insurance contracts

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

If there is objective evidence that an insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account. The company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 1.10.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, other than the estimate of the ultimate liability arising from claims made under insurance contracts.

There are several sources of uncertainty that need to be considered in the estimate of liabilities that the company will ultimately pay for insurance claims. In particular, insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

The company applies conventional statistical models in order to determine the ultimate liability of claims as further described in Note 3.1. The directors believe that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end. Further detail is provided in Note 15 to these financial statements.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The company issues contracts that transfer insurance risk. The company is also exposed to financial risk. This section summarises these risks and the way the company manages them.

3.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The terms and conditions of the contracts set out the bases for the determination of the company's liability should the insured event occur. The risks underwritten include accident, motor (including third party liability), marine and transport, fire and other damage to property, engineering, and liability.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each category of business to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risks include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors including increasing levels of court awards and the risks of a single event that can affect a number of individual risks insured by the company, such as flood or an earthquake.

The company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Underwriting risk

The directors manage exposure to insurance risk through an Underwriting Committee (U.C.) that considers aggregation of risk, and establishes risk retention levels.

The underwriting strategy attempts to ensure that the risks underwritten are well diversified in terms of type and amount of risk and industry. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the company's success.

The goal is for underwriters to be in a position to:

- Understand and assess each risk,
- Make appropriate decisions within their area of competence and authority limits,
- Differentiate between risks,
- Apply suitable terms and conditions in order to manage the portfolio,
- Control exposure,
- Improve the predictability of the loss experience and make appropriate use of the company's technical capacity.

Each of the company's underwriters has a specific license that sets clear parameters for the business that they can underwrite, based on the competence of the individual underwriter. The U.C. looks at company underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate, and limits on the overall retention of risk that the company carries. The company's management of the underwriting and claims risks restricts underwriting of specific high risk classes of business to underwriters with appropriate technical competence and includes reviewing the performance and management of selected individual insurance portfolios throughout the company.

Pricing is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and trended forward. While claims remain the company's principal cost, allowance is also made in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance, and for a profit loading that adequately covers the cost of the capital exposed to risk.

The company has the right not to renew individual policies or to reprice on renewal, it can impose deductibles and it has the right to reject the payment of a fraudulent claim.

Reinsurance arrangements are in place as further described below.

Reinsurance risk

The company reinsures a portion of the risks underwritten to control exposure to losses, to reduce volatility, and to protect capital. During 2018, following the launch of the new business introduced through a broker, the Company entered into a new reinsurance agreement whereby it transfers all the risk back to the reinsurers. The types of reinsurance cover, and the level of retention, are based on the company's internal risk management assessment, which takes into account the risk being covered and the sums assured. The reinsurance strategy and programme are set and agreed by the Reinsurance Committee on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional cover, which limit the liability of the company to any one individual claim or event. Monthly reviews of aggregates are carried out to ensure that adequate reinsurance is in place.

Periodical meetings are held with the company's reinsurance brokers, the purpose of which is to systematically agree the renewal process of the company's reinsurance requirements, and to ensure a formalised means of communication between Elmo and its reinsurance brokers. Good "*ad hoc*" contact with reinsurance brokers is maintained during the year when dealing with risks that are not catered for by standard reinsurance treaties.

The company monitors the financial condition of reinsurers on an ongoing basis, and reviews its reinsurance arrangements regularly to ensure that its counterparty exposure to individual reinsurance groups is within the parameters set by the U.C., and the Malta Financial Services Authority. The company does not place reinsurance with reinsurers having a credit rating lower than 'A-'.

Concentration of insurance risk

All risks underwritten by the company are based in Malta. The directors consider that the insurance portfolio is not unduly concentrated, also taking into account the nature and extent of reinsurance protection acquired by the company.

Claims handling

Risks surrounding known claims are mitigated through the company's inhouse teams of skilled claims technicians who apply their experience and knowledge to the circumstances of individual claims. These teams are responsible for investigating and adjusting claims, together with specialist independent loss adjustors that might be engaged depending on exigencies. Claim estimates are reviewed periodically and adjusted on the basis of information that becomes available specific to the claim as well as changes in external factors such as judicial decisions and legislation. The company generally pursues early settlement of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on contracts are accounted for on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, the estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company. Certain classes of business can take several years to develop, in particular claims involving casualty, and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR and a provision for reported claims not yet paid at the balance sheet date (see Note 15).

In calculating the estimated cost of unpaid claims, the company uses a combination of estimation techniques, based partly on known information and partly on statistical analyses of a historical experience.

Reserves are analysed by line of business. Case reserves are established on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which claims data (e.g. paid claims and case reserves) emerge over a long period of time are referred to as long tail lines of business. Lines of business for which claims data emerge more quickly are referred to as short tail lines of business. Risks underwritten by the company are typically short tail, although certain lines of business may take longer to develop, including, for example, personal accident and employers' liability.

The company's claims managers regularly review reserves for both current and prior accident years using the most recent claims data. These reserve reviews incorporate a variety of judgments, and involve extensive analysis. The ultimate cost of outstanding claims, including claims incurred but not reported, is subsequently estimated through statistical analyses of historical claims trends, which are projected forward giving greater weighting to recent years. Additional qualitative judgment is applied to assess the extent to which past trends may not apply in the future.

Note 15 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the company's estimation techniques for claims payable.

3.2 Financial risk

The company is exposed to financial risk through its financial assets, financial liabilities, and insurance and reinsurance assets and liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance risk. The most important components of this financial risk are the interest rate risk, equity price risk, currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk management policies employed by the company to manage these risks are discussed below.

Market risk

(a) Interest rate risk

In general, the company is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets issued at variable rates expose the company to cash flow interest rate risk. Assets issued at fixed rates expose the company to fair value interest rate risk.

The total assets and liabilities subject to interest rate risk are as follows:

	2018	2017
	€	€
Assets at floating interest rates	**7,344,096**	9,029,025
Assets at fixed interest rates	**2,823,614**	2,605,638
	10,167,710	11,634,663
Liabilities at floating interest rates	**184,727**	517,997

Interest rate risk is principally managed through the investment in debt securities having a wide range of maturity dates. Moreover, investment parameters exist to limit exposure to any one particular issuer and any one particular security. Note 14 incorporates maturity information with respect to the company's assets. The exposure to interest rate risk in respect of borrowings is not considered to be significant.

Insurance liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest bearing. The impact of interest rates on insurance liabilities (e.g. in the case of damages awarded by the courts) is considered within the company's reserving policy and is mitigated by interest accruing on investments.

Up to the balance sheet date the company did not have any hedging policy with respect to interest rate risk as exposure to such risks was not deemed to be significant by the directors.

i) Sensitivity analysis - interest rate risk

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

At 31 December 2018, if interest rates at that date would have been 50 basis points (2017: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €86,981, (2017: €59,695) higher. An increase of 50 basis points (2017: 50 basis points), with all other variables held constant, would have resulted in pre-tax profits being €83,593 (2017: €57,031) lower.

(b) Price risk

The company's financial assets are also susceptible to the risk of changes in value due to changes in the prices of equities in respect of investments held and classified on the balance sheet as fair value through profit or loss. The directors manage this risk of price volatility by entering into a diverse range of investments including equities and collective investment schemes. The company has an active Investment Committee that has established a set of investment guidelines that is also approved by the Board of Directors. These guidelines provide parameters for investment management, including contracts with external portfolio managers. The directors review market value fluctuations arising on the company's investments on a regular basis. Investment parameters and diversification procedures also consider solvency restrictions imposed by the relevant Insurance Regulations.

The total assets subject to equity price risk are as follows:

	2018	2017
	€	€
Assets subject to equity price risk (Note 14)	**12,980,010**	13,357,343

i) Sensitivity analysis – equity price risk

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The sensitivity for equity price risk is based on global equity returns, assuming that currency exposures are hedged. Given the investment strategy and asset mix of the company, a 15% (2017: 15%) positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes.

An increase and a decrease of 15% (2017: 15%) in equity prices, with all other variables held constant, would result in an impact on the pre-tax profit for the year of €1,947,002 (2017: €2,003,601).

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact on the amounts that are paid to settle liabilities and on the amounts that are realised from the company's assets. Most of the company's liabilities are in local currency and are therefore not subject to currency risk. The company's exposure to foreign exchange risk arises primarily from investments that are denominated in currencies other than the euro.

(c) Currency risk

The company's Investment Committee establishes allowable thresholds with regards to the company's exposure to foreign exchange risk. Currency exposure is also regulated by the Regulations underlying the Maltese Insurance Business Act, 1998.

i) Sensitivity analysis - currency risk

As at 31 December 2018, the company's exposure to foreign currency investments, represented 26% (2017: 36%) of the company's total investments. The company's exposure to foreign currency as at 31 December 2018, mainly arose in respect to USD and GBP. The strengthening or weakening of the functional currency by 10% (2017: 10%) against the other currencies with all other variables held constant, would result in an impact on pre-tax profit for the year of €410,368 (2017: €638,535).

(d) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- Investments and cash and cash equivalents;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from policy holders and insurance intermediaries;
- Subordinated loan.

The company places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy of the company considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.

The company structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparty. Limits on the level of credit risk are approved by the directors, and the credit terms allowed depend on the distribution channel through which business is secured. Frequent meetings are held, attended by directors, in order to monitor the overall credit situation, and to take remedial measures as appropriate. Debtors are stated net of a provision for impairment (Note 17). The directors consider that the company is not exposed to material concentration of credit risk in respect of trade debtors due to the large number of customers comprising the company's debtor base.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on an annual basis by reviewing their financial strength prior to finalisation of any contract. The company's policy is to only contract reinsurers with a minimum rating of A-.

The company is also exposed to credit risk for its cash at bank and investments. The company's cash is placed with quality financial institutions.

In view of the related party relationship with the entity to whom the subordinated loan has been granted, the Directors consider that no credit risk arises on such exposure.

Assets bearing credit risk at the balance sheet date are analysed as follows:

	As at 31 December 2018				
	AAA to AA	A to A-	BBB to BB	Unrated	Total
	€	€	€	€	€
Debt securities at fair value through profit or loss	-	390,805	646,660	1,586,149	2,623,614
Loans and receivables					
Deposits with banks or credit institutions	-	-	61,995	-	61,995
Insurance and other receivables	-	9,451	3,442	7,534,248	7,547,141
Subordinated loan	-	-	-	200,000	200,000
Cash and cash equivalents	-	-	2,876,793	4,411,873	7,288,666
	-	9,451	2,942,230	12,146,121	15,097,802
Reinsurers' share of technical provisions (see note above)	2,265,615	740,720	-	-	3,006,335
Total assets bearing credit risk	**2,265,615**	**1,140,976**	**3,588,890**	**13,732,270**	**20,727,751**

	As at 31 December 2017				
	AAA to AA	A to A-	BBB to BB	Unrated	Total
	€	€	€	€	€
Debt securities at fair value through profit or loss	334,945	1,717,616	1,455,800	903,787	4,412,148
Loans and receivables					
Deposits with banks or credit institutions	-	-	61,976	-	61,976
Insurance and other receivables	-	12,850	30,128	5,902,802	5,945,780
Subordinated loan	-	-	-	200,000	200,000
Cash and cash equivalents	-	-	2,321,519	4,645,762	6,967,281
	-	12,850	2,413,623	10,748,564	13,175,037
Reinsurers' share of technical provisions (see note above)	2,648,978	790,364	-	-	3,439,342
Total assets bearing credit risk	**2,983,923**	**2,520,830**	**3,869,423**	**11,652,351**	**21,026,527**

(e) Liquidity risk

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

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

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the expected timing cash flows arising from the company's liabilities.

As at 31 December 2018	**Contracted undiscounted cash outflows**				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Bank overdraft	184,727	-	-	-	184,727
Insurance and other payables	4,671,193	-	-	-	4,671,193
	4,855,920	**-**	**-**	**-**	**4,855,920**

	Expected undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions					
- Claims outstanding	**6,227,313**	**1,746,274**	**3,929,381**	**1,806,562**	**13,709,530**

As at 31 December 2017	Contracted undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Bank overdraft	517,997	-	-	-	517,997
Insurance and other payables	4,281,327	-	-	-	4,281,327
	4,799,324	**-**	**-**	**-**	**4,799,324**

	Expected undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions					
- Claims outstanding	**6,017,275**	**2,283,650**	**3,529,828**	**1,371,696**	**13,202,449**

3.3 Capital risk management

The company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Maltese insurance regulator ("MFSA");
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and,
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

In order to maintain or adjust the capital structure, the company may issue new shares or capitalise contributions received from its shareholders.

The company is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Malta Financial Services Authority (MFSA). The minimum capital requirement must be maintained at all times throughout the year. The company monitors its capital level on a regular basis, by ensuring that sufficient assets are maintained to match insurance liabilities and to provide solvency cover. Any transactions that may potentially affect the company's solvency position are immediately reported to the directors and shareholders for resolution prior to notifying the MFSA.

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

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile.

The Company was in full compliance with its regulatory capital requirements throughout the financial year and at 31 December 2018, the Company's eligible own funds amounting to €19,286,901 (audited) were in excess of the required SCR (2017: €18,573,664 audited).

3.4 Fair value estimate

The fair value of publicly traded investments is based on quoted market prices at the balance sheet date. At 31 December 2018 and 31 December 2017, the carrying amount of the company's other financial assets and liabilities approximated their fair values.

The following table presents the company's assets that are measured at fair value at 31 December 2018, by level of the following fair value measurement hierarchy:

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

	2018	2017
	Level 1	Level 1
	€	€
Assets		
Fair value through profit or loss		
- Equity securities, other variable yield securities and units in unit trusts – listed	**12,980,010**	13,357,343
- Debt securities	**2,623,614**	4,412,148
Total assets	**15,603,624**	17,769,491

The company's investments are quoted in active markets and accordingly are classified as level.

4. NET OPERATING EXPENSES

	2018	2017
	€	€
Acquisition costs	**5,215,672**	3,465,638
Change in deferred acquisition costs, net of reinsurance	**(5,505)**	(16,105)
Administrative expenses	**1,403,136**	1,258,620
Reinsurance commissions and profit participation	**(3,838,778)**	(1,859,886)
	2,774,525	2,848,267
Allocated to:		
Technical profit and loss account	**2,624,500**	2,725,909
Non-technical account	**150,025**	122,358
	2,774,525	2,848,267

Total commissions for direct business accounted for in the financial year amounted to € 2,815,644 (2017: €1,108,793). Further detail on expenses by nature is provided in Note 6 to the financial statements.

5. INVESTMENT RETURN

	2018 €	2017 €
Dividends received from investments at fair value through profit or loss	**348,557**	223,666
Net gains from financial investments at fair value through profit or loss	**(1,595,899)**	886,002
Interest receivable in relation to other loans and receivables	**(3,612)**	616
Share of gains of associated undertaking	**71,153**	62,287
Income from investment property	**28,125**	-
	(1,151,676)	1,172,571
Investment expenses and charges		
Investment expenses and charges	**(80,289)**	(80,844)
Total investment return	**(1,231,965)**	1,091,727
Allocated as follows:		
Technical profit and loss account	**(733,003)**	542,359
Non-technical account	**(498,962)**	549,368
	(1,231,965)	1,091,727

6. EXPENSES BY NATURE

	2018 €	2017 €
Staff costs (Note 7)	**2,900,489**	2,654,604
Directors' remuneration	**25,400**	23,000
Amortisation of intangible assets (Note 10)	**22,279**	32,529
Depreciation of property, plant and equipment (Note 11)	**77,926**	191,442
Professional indemnity insurance	**46,190**	55,927
Increase/(decrease) in debtors' impairment provision (Note 17)	**134,688**	(11,342)
Legal and professional fees	**262,767**	232,556
Advertising	**128,677**	176,542
Other expenses	**1,425,830**	1,301,878
Total administrative expenses	**5,024,246**	4,657,136
Allocated to:		
Technical profit and loss account	**4,874,221**	4,534,778
Non-technical account	**150,025**	122,358
	5,024,246	4,657,136

No debtors were written off during the year (2017: € nil).

Fees charged by the auditor for services rendered during the financial period ended 31 December 2018 and 2017 amounted to:

	2018	2017
	€	€
Annual statutory audit	42,480	40,710
Other assurance services	23,600	22,420
Tax compliance and advisory services	1,215	1,180
	67,295	64,310

7. STAFF COSTS

	2018	2017
	€	€
Salaries	2,767,102	2,534,629
Social security costs	158,787	142,975
	2,925,889	2,677,604

The average number of persons employed during the year was:

	2018	2017
Managerial	18	18
Technical	68	67
Administrative	7	6
	93	91

Staff costs amounting to €39,675 (2017: (€27,291) were reimbursed by/(to) related undertakings.

8. TAX EXPENSE

	2018	2017
	€	€
Current tax expense	1,031,035	663,604
Deferred tax charge (Note 20)	(696,160)	314,801
Tax expense	334,875	978,405

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

	2018	2017
	€	€
Profit before tax	**1,320,668**	2,719,695
Tax on profit at 35%	**462,234**	951,893
Adjusted for tax effect of:		
Income subject to reduced rates of tax	**(50,600)**	(45,918)
Expenses not deductible for tax purposes	**10,250**	10,660
Net (gains)/losses not subject to tax	**(58,122)**	2,505
Under provision of deferred tax	**(28,887)**	59,265
Tax expense	**334,875**	978,405

9. DIVIDENDS

The directors declared a net interim dividend of €500,000 during 2018 equivalent to 10 cents per share. The directors do not propose the payment of a final dividend in respect of 2018. The net dividend declared in respect of 2017 was €1,100,000 (22 cents per share).

10. INTANGIBLE ASSETS

	Computer software €
At 31 December 2016	
Cost	826,523
Accumulated amortisation	(783,716)
Net book amount	**42,807**
Year ended 31 December 2017	
Opening net book amount	42,807
Additions	38,398
Amortisation charge	(32,529)
Closing net book amount	**48,676**
At 31 December 2017	
Cost	864,921
Accumulated amortisation	(816,245)
Net book amount	**48,676**
Year ended 31 December 2018	
Opening net book amount	48,676
Additions	15,348
Amortisation charge	(22,279)
Closing net book amount	**41,745**
At 31 December 2018	
Cost	880,269
Accumulated amortisation	(838,524)
Net book amount	**41,745**

Amortisation of €22,279 (2017: €32,529) is included in net operating expenses in the technical account.

11. TANGIBLE ASSETS

	Land and buildings €	Office furniture & equipment €	Motor vehicles €	Total €
At 31 December 2016				
Cost or valuation	6,562,838	1,750,914	177,093	8,490,845
Accumulated depreciation	-	(1,542,817)	(158,433)	(1,701,250)
Net book amount	**6,562,838**	**208,097**	**18,660**	**6,789,595**
Year ended 31 December 2017				
Opening net book amount	6,562,838	208,097	18,660	6,789,595
Additions	-	46,021	13,500	59,521
Depreciation charge	(28,854)	(145,788)	(16,800)	(191,442)
Closing net book amount	**6,533,984**	**108,330**	**15,360**	**6,657,674**
At 31 December 2017				
Cost or valuation	6,562,838	1,796,935	190,593	8,550,366
Accumulated depreciation	(28,854)	(1,688,605)	(175,233)	(1,892,692)
Net book amount	**6,533,984**	**108,330**	**15,360**	**6,657,674**
Year ended 31 December 2018				
Opening net book amount	6,533,984	108,330	15,360	6,657,674
Additions	1,470,000	23,899	16,000	1,509,899
Disposal	-	-	(650)	(650)
Depreciation charge	(28,854)	(41,122)	(7,950)	(77,926)
Depreciation released upon disposal	-	-	390	390
Closing net book amount	**7,975,130**	**91,107**	**23,150**	**8,089,387**
At 31 December 2018				
Cost or valuation	8,032,838	1,820,834	205,943	10,059,615
Accumulated depreciation	(57,708)	(1,729,727)	(182,793)	(1,970,228)
Net book amount	**7,975,130**	**91,107**	**23,150**	**8,089,387**

Fair value of land and buildings and investment property

The company's office building was revalued on 31 December 2016 by independent professionally qualified valuers. The valuation was conducted by a firm of architects. The book value of the property was adjusted to the revaluation and the resultant surplus, was credited to the revaluation reserve (refer to Note 19). As at 31 December 2018, the directors consider that the fair value of the property has not changed materially since 31 December 2016, when the valuation was performed.

The company is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

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

The recurring property fair value measurement at 31 December 2018 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2018.

A reconciliation from the opening balance to the closing balance of non-financial assets for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above and in the notes to the financial statements.

Valuation processes

The valuation of the property is performed regularly on the basis of valuation reports prepared by independent and qualified valuers. At the end of every reporting period, the Financial Controller (CFO) assesses whether any significant changes in the major inputs have been experienced since the last external valuation. The CFO reports to the Board on the outcome of this assessment.

When an external valuation report is prepared, the information provided to the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the CFO. This includes a review of fair value movements over the period. When the CFO considers that the valuation report is appropriate, the valuation report is recommended to the Board. The Board considers the valuation report as part of its overall responsibilities.

Valuation techniques

The Level 3 fair valuation of the company's land and buildings and investment property was determined by using a comparative approach whereby the current selling prices and rental values of similar developments were compared in order to obtain an equitable value of the property. The significant unobservable inputs in the valuation include:

Equivalent rental values based on the actual location, type and quality of property supported by current market rents for similar properties.

Information about fair value measurements using significant unobservable inputs (level 3)

			Significant unobservable inputs
Description	**Fair value at 31 December 2018 €**	**Valuation technique**	**Value per square metre €**
Office building	7.7 million	Equivalent value per square metre	3,000

The higher the rental yield and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value.

Historical cost of land and buildings

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

	2018 €	2017 €
Cost	**4,784,488**	3,314,437
Accumulated depreciation	**(278,683)**	(257,295)
Net book amount	**4,505,805**	3,057,142

12. INVESTMENT PROPERTY

	2018 €	2017 €
Year ended 31 December		
At beginning and end of year	**1,187,500**	1,187,500
At end of year	**1,187,500**	1,187,500
At 31 December		
Cost	**703,500**	703,500
Fair value gains	**484,000**	484,000
Closing cost and net book amount	**1,187,500**	1,187,500

Investment property comprises an office building acquired during 2013 which is earmarked to be leased out to third parties.

The property was fair valued as at 31 December 2016, by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Fair values are determined on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential and the availability of similar properties in the area.

Disclosures required in terms of IFRS 13 in relation to fair value measurements attributable to investment property are presented in Note 11.

13. INVESTMENT IN ASSOCIATED UNDERTAKING

	2018	2017
	€	€
Year ended 31 December		
At beginning of year	**66,108**	64,744
Share of results of associate	**71,153**	62,287
Dividend received	**(60,923)**	(60,923)
At end of year	**76,338**	66,108
At 31 December		
Cost	**24,750**	24,750
Share of results	**51,588**	41,358
Closing cost and net book amount	**76,338**	66,108

The associated undertaking is shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held	
			2018	2017
JLT Insurance Management Malta Limited	Abate Rigord Street, Ta' Xbiex	Ordinary Shares	**33%**	33%

The following financial information available to the company relates to the investment that is classified as an associate as at the balance sheet date.

	Assets	Liabilities	Profit for the year
	€	€	€
2018	**626,374**	**387,596**	**150,901**
2017	482,653	274,776	124,135

14. INVESTMENTS

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

	2018	2017
	€	€
Fair value through profit or loss	**15,603,624**	17,769,491
Loans and receivables	**61,995**	61,976
	15,665,619	17,831,467

(a) Investments at fair value through profit or loss

	2018	2017
	€	€
Equity securities, other variable yield securities and units in unit trusts		
- listed	**12,980,010**	13,357,343
Debt securities	**2,623,614**	4,412,148
Total investments at fair value through profit or loss	**15,603,624**	17,769,491

Maturity of fixed income debt securities:

	2018	2017
	€	€
Within one year	**226,045**	821,705
Between 1 and 2 years	**100,800**	1,004,606
Between 2 and 5 years	**800,115**	1,690,964
Over 5 years	**1,496,654**	894,873
	2,623,614	4,412,148

All other securities classified as fair value through profit or loss are non-current in nature.

The movements in investments classified as fair value through profit or loss are summarised as follows:

	2018	2017
	€	€
Year ended 31 December		
At beginning of year	**17,769,491**	15,141,481
Additions	**3,070,125**	5,469,867
Disposals (sale and redemptions)	**(3,752,922)**	(3,519,313)
Net fair value gains	**(1,483,070)**	677,456
At end of year	**15,603,624**	17,769,491
As at 31 December		
Cost	**15,761,616**	16,444,413
Accumulated net fair value gains	**(157,992)**	1,325,078
Net book amount	**15,603,624**	17,769,491

(b) Loans and receivables

	2018	2017
	€	€
Deposits with banks or credit institutions	**61,995**	61,976

Maturity of deposits with banks or credit institutions:

	2018	2017
	€	€
Within 3 months	**61,995**	61,976

The above deposits earn interest as follows:

	2018	2017
	€	€
At fixed rates	**61,995**	61,976

15. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2018	2017
	€	€
Gross technical provisions		
Claims reported and loss adjustment expenses	**12,812,300**	12,456,590
Claims incurred but not reported	**897,230**	745,859
Provision for unearned premiums	**9,993,826**	8,343,868
	23,703,356	21,546,317
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	**2,777,337**	3,308,075
Claims incurred but not reported	**228,998**	131,267
Provision for unearned premiums	**2,942,269**	1,979,319
	5,948,604	5,418,661
Net technical provisions		
Claims reported and loss adjustment expenses	**10,034,963**	9,148,515
Claims incurred but not reported	**668,232**	614,592
Provision for unearned premiums	**7,051,557**	6,364,549
	17,754,752	16,127,656

Technical provisions are considered to be substantially current in nature.

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2018 and 2017 are not material.

Technical provisions are established to cover the expected ultimate liability for claims and loss adjustment expenses in respect of all claims that have occurred at the balance sheet date. The provisions established cover reported claims and associated loss adjustment expenses, as well as claims incurred but not yet reported to the company and are based on undiscounted estimates of future claim payments.

Outstanding claims provisions for reported claims are based primarily on individual case estimates by reference to known facts at the date of estimation. The ultimate cost of outstanding claims, including incurred but not reported claims, is estimated through statistical analysis of historical claims trends as further described in note 3.1 to these financial statements. The main assumption underlying this analysis is that past claims development experience can be used to project future claims development, and hence ultimate claims costs. Additional qualitative judgement is applied to assess the extent to which past trends may not apply in the future. Based on this process, no key variable has been identified for which a change could have a material impact on the profit or loss for the year.

The development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The top half of the table in the next page illustrates how the company's estimate of total claims incurred for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. The accident-year basis is considered to be the most appropriate for the business written by the company.

The development of insurance liabilities is presented for accident years to date during which the company has been operating as insurance principal.

The development table is presented gross of reinsurance.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	€	€	€	€	€	€	€	€	€	€	€
Estimate of the ultimate claims costs:											
- at end of accident year	7,779,172	8,315,985	7,296,007	8,246,855	7,554,026	7,234,988	7,996,319	7,423,855	9,626,225	10,679,360	
- one year later	7,779,459	8,153,733	7,708,363	8,816,335	8,024,544	7,606,833	8,815,540	7,974,397	10,268,634		
- two years later	7,414,647	7,524,363	7,153,288	8,712,883	7,298,588	7,075,169	8,512,506	7,508,183			
- three years later	7,294,795	7,418,006	7,088,950	8,424,037	7,155,432	6,965,657	8,594,942				
- four years later	6,947,210	7,381,186	6,923,937	8,847,794	7,105,643	6,898,117					
- five years later	6,953,756	7,229,821	6,742,541	8,819,789	7,064,167						
- six years later	6,965,924	7,167,308	6,652,231	9,538,574							
- seven years later	6,958,273	7,095,280	6,487,083								
- eight years later	6,615,483	6,925,561									
- nine years later	6,608,118										
Current estimates of cumulative claims	6,608,118	6,925,561	6,487,083	9,538,574	7,064,167	6,898,117	8,594,942	7,508,183	10,268,634	10,679,360	80,572,739
Cumulative payments to date	(6,164,889)	(6,668,081)	(6,430,905)	(8,912,341)	(6,770,623)	(6,511,965)	(7,222,730)	(6,715,304)	(7,221,897)	(4,795,188)	(67,413,923)
Liability recognised in the balance sheet	443,229	257,480	56,178	626,233	293,544	386,152	1,372,212	792,879	3,046,737	5,884,172	13,158,816
Liability in respect of prior years											550,714
Total reserve included in the balance sheet											13,709,530

The development table is presented net of reinsurance.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	€	€	€	€	€	€	€	€	€	€	€
Estimate of the ultimate claims costs:											
- at end of accident year	6,241,244	7,075,696	6,289,248	6,597,468	6,831,259	6,445,459	7,083,572	6,638,396	8,638.046	9,005,686	
- one year later	6,187,689	7,095,991	6,693,322	6,977,506	7,123,331	6,726,839	7,572,414	6,884,491	9,078,095		
- two years later	5,771,012	6,523,900	6,276,517	6,762,043	6,486,279	6,185,276	6,930,480	6,370,993			
- three years later	5,657,712	6,428,492	6,158,821	6,540,702	6,375,754	6,059,799	6,998,412				
- four years later	5,513,816	6,392,427	6,111,298	6,482,975	6,331,201	5,989,971					
- five years later	5,520,955	6,262,386	6,055,444	6,424,214	6,306,456						
- six years later	5,526,885	6,214,917	5,973,897	6,635,843							
- seven years later	5,515,000	6,100,945	5,808,124								
- eight years later	5,431,927	5,964,836									
- nine years later	5,430,339										
Current estimates of cumulative claims	5,430,339	5,964,836	5,808,124	6,635,843	6,306,456	5,989,971	6,998,412	6,370,993	9,078,095	9,005,686	67,588,755
Cumulative payments to date	(5,285,431)	(5,817,014)	(5,777,448)	(6,176,466)	(6,029,449)	(5,642,942)	(6,197,092)	(5,688,479)	(6,582,556)	(4,119,199)	(57,316,076)
Liability recognised in the balance sheet	144,908	147,822	30,676	459,377	277,007	347,030	801,320	682,514	2,495,539	4,886,487	10,272,679
Liability in respect of prior years											430,516
Total reserve included in the balance sheet											10,703,195

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses (including IBNR)

	Year ended 2018		
	Gross	Reinsurance	Net
	€	€	€
Total at beginning of year	13,202,449	(3,439,342)	9,763,107
Claims settled during the year	(10,703,590)	2,843,744	(7,859,846)
Increase/(decrease) in liabilities			
- arising from current year claims	10,679,360	(1,673,675)	9,005,685
- arising from prior year claims	531,311	(737,062)	(205,751)
Total at year end	**13,709,530**	**(3,006,335)**	**10,703,195**

	Year ended 2017		
	Gross	Reinsurance	Net
	€	€	€
Total at beginning of year	11,814,004	(2,755,630)	9,058,374
Claims settled during the year	(7,629,999)	767,917	(6,862,082)
Increase/(decrease) in liabilities			
- arising from current year claims	9,626,226	(988,180)	8,638,046
- arising from prior year claims	(607,782)	(463,449)	(1,071,231)
Total at year end	**13,202,449**	**(3,439,342)**	**9,763,107**

Variations occur when compared to prior year claims estimates due to a combination of factors including claims being settled for different amounts than estimated, and changes made to reserve estimates as more information becomes available. Favourable movements are indicative of a prudent reserving methodology in prior years.

(b) Provision for unearned premiums

The movements for the year are summarised as follows:

	Year ended 2018		
	Gross €	Reinsurance €	Net €
At beginning of year	8,343,868	(1,979,319)	6,364,549
Net charge/(credit) to profit and loss	1,649,958	(962,950)	687,008
At end of year	**9,993,826**	**(2,942,269)**	**7,051,557**

	Year ended 2017		
	Gross €	Reinsurance €	Net €
At beginning of year	7,321,890	(1,806,699)	5,515,191
Net charge/(credit) to profit and loss	1,021,978	(172,620)	849,358
At end of year	**8,343,868**	**(1,979,319)**	**6,364,549**

16. DEFERRED ACQUISITION COSTS

	2018 €	2017 €
Year ended 31 December		
At beginning of year	**1,047,627**	944,223
Net credit to profit and loss	**403,748**	103,404
At end of year	**1,451,375**	1,047,627

Deferred acquisition costs are classified as current assets.

17. DEBTORS AND PREPAYMENTS AND ACCRUED INCOME

	2018 €	2017 €
Debtors		
Debtors arising out of direct insurance operations		
- due from policyholders	**4,201,442**	4,059,211
- due from intermediaries	**2,995,837**	1,642,556
Amount due from related parties (Note 25)	**101,236**	98,857
Other debtors	**212,449**	86,547
	7,510,964	5,887,171
Prepayments and accrued income		
Accrued interest	**36,177**	58,609
Prepayments	**44,905**	29,260
	81,082	87,869

Amounts due from related parties are unsecured, interest-free and repayable on demand.

Debtors are presented net of an allowance for impairment of €415,039 (2017: €280,351). As at 31 December 2018, debtors amounting to €4,224,291 (2017: €3,466,286) were fully performing, whereas debtors amounting to €2,785,996 (2017: €2,235,481) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of significant default. The ageing analysis of the trade receivables which were past due but not impaired at year end is as follows:

	2018 €	2017 €
Within credit terms	**1,813,804**	1,144,269
Not more than 3 months overdue	**639,899**	730,152
More than 3 months overdue	**332,293**	361,060
	2,785,996	2,235,481

18. SHARE CAPITAL

	2018 €	2017 €
Authorised		
2,488,350 ordinary "A" shares of €1 each	**2,488,350**	2,488,350
2,488,350 ordinary "B" shares of €1 each	**2,488,350**	2,488,350
23,300 ordinary "C" shares of €1 each	**23,300**	23,300
	5,000,000	5,000,000
Issued and fully paid		
2,488,350 ordinary "A" shares of €1 each	**2,488,350**	2,488,350
2,488,350 ordinary "B" shares of €1 each	**2,488,350**	2,488,350
23,300 ordinary "C" shares of €1 each	**23,300**	23,300
	5,000,000	5,000,000

"A", "B" and "C" ordinary shares rank pari passu in all respects except for the appointment of directors. The holders of ordinary "A" and ordinary "B" shares have the right to appoint one director for every ten percent of the share capital held by reference to the nominal value of shares. The holders of ordinary "C" shares have the right to appoint one director.

19. REVALUATION RESERVE

	2018	2017
	€	€
At 1 January	**3,035,686**	3,035,686
At 31 December	**3,035,686**	3,035,686

The balance at 31 December is made up as follows:

	2018	2017
	€	€
Revaluation reserve arising on land and buildings	**3,035,686**	3,035,686

This reserve is not a distributable reserve.

20. DEFERRED TAXATION

	2018	2017
	€	€
Balance at 1 January	**737,173**	422,372
Movements during the year recognised in: Profit and loss account (Note 8)	**(696,160)**	314,801
Balance at 31 December - net	**41,013**	737,173

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2017: 35%) except for temporary differences on Property, Plant and Equipment and Investment Property that are calculated under the liability method using the principal tax rates of 10% and 8% respectively of the carrying amount.

The year-end balance comprises:

	2018	2017
	€	€
Temporary differences attributable to depreciation of fixed assets	**(86,966)**	(107,759)
Temporary differences attributable to fair value adjustments - investments	**(365,171)**	304,641
Temporary differences attributable to revaluation of land and buildings	**532,000**	532,000
Temporary differences attributable to revaluation of investment property	**95,000**	95,000
Temporary differences attributable to provision for impairment of doubtful debtors	**(133,850)**	(86,709)
Balance at 31 December - net	**41,013**	737,173

Deferred income tax assets are recognised for losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable gains is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a current asset against a current tax liability. The following amounts determined after appropriate offsetting are shown in the balance sheet:

	2018	2017
	€	€
Deferred tax asset	**(585,987)**	(194,468)
Deferred tax liability	**627,000**	931,641
	41,013	737,173

The above temporary differences are considered to be substantially non-current in nature.

21. INTEREST-BEARING BORROWINGS

	2018	2017
	€	€
Bank overdraft (Note 24)	**184,727**	517,997

The bank overdraft bears an interest rate of 4.60% (2017: 4.60%) is secured by a hypothec on the company's property.

22. CREDITORS

	2018	2017
	€	€
Other creditors		
Creditors arising out of direct insurance operations	**2,908,449**	2,956,041
Amounts due to related parties (Note 25)	**13,201**	75,501
	2,921,650	3,031,542
Accruals and deferred income		
Accrued expenses	**420,411**	318,896
Deferred income	**1,329,132**	930,889
	1,749,543	1,249,785

The above creditors are considered to be current in nature.

23. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2018	2017
	€	€
Profit before tax	**1,320,668**	2,719,695
Adjustments for:		
Investment income (Note 5)	**1,151,676**	(1,172,571)
Amortisation (Note 10)	**22,279**	32,529
Depreciation (Note 11)	**77,926**	191,442
Loss on disposal of property, plant and equipment	**180**	-
Impairment of debtors (Note 17)	**134,688**	(11,342)
Movements in:		
Technical provisions (net)	**1,627,096**	1,554,091
Debtors and prepayments, including DAC	**(2,155,442)**	(408,400)
Creditors and accruals	**389,866**	1,259,771
Cash generated from operations	**2,568,937**	4,165,215

24. CASH AND CASH EQUIVALENTS

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

	2018	2017
	€	€
Cash at bank and in hand	**7,288,666**	6,967,281
Bank overdraft (Note 21)	**(184,727)**	(517,997)
	7,103,939	6,449,284
Interest bearing:		
- at floating rates	**4,544,594**	4,100,151

25. RELATED PARTY TRANSACTIONS

Due to common ultimate shareholders, the directors consider the Cassar and Cooper Group and the C & H Bartoli Group to be related parties (including related entities and close family of shareholders). Trading transactions with related parties during the year were as follows:

	2018	2017
	€	€
(a) Entities with significant influence over the entity (including related entities and close family of shareholders)		
Gross premium receivable, net of claims paid	**98,924**	126,315
Recharges/reimbursement of expenses for back-office support	**32,568**	(38,593)
Net rent payable	**(27,413)**	(30,106)
Commission payable	**(181,692)**	(181,692)
Interest charged	**10,000**	10,000
(b) Other related parties		
Fees payable	**90,786**	86,291

Year end balances arising from the above transactions:

	2018	2017
	€	€
Entities with significant influence over the entity (including related entities and close family of shareholders) (Note 17 and Note 22)		
Amounts due by (includes subordinated loan)	**301,236**	298,857
Amounts due to	**13,201**	75,501

The above balances are unsecured, interest free and repayable on demand, except for the subordinated loan of €200,000 (2017: €200,000) which bears an interest rate of 5% p.a (2017: 5% p.a.).

Fees payable to directors are disclosed in Note 7, while dividend received from investment in associated undertaking are disclosed in Note 13.

26. STATUTORY INFORMATION

Elmo Insurance Limited is a limited liability company and is incorporated in Malta.

27. EVENTS AFTER THE REPORTING PERIOD

The Company paid a dividend totaling to €400,000 during January 2019. There were no other events after the reporting date to be considered.

ANNUAL REPORT AND
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31 December 2018

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