Elmo
INSURANCE

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2016

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DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2016.

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 €3,328,294 compared to €2,905,871 in 2015.

The charge to taxation amounted to €941,434 compared to €507,162 in 2015.

These results were achieved despite difficult market conditions encountered within international financial markets that are subjected to a low interest environment.

The company's financial position further strengthened during the year. Shareholders' funds amounted to €17,498,587 at 31 December 2016. At the end of 2015, shareholders' funds totaled €14,740,354.

Our Solvency II Capital Requirement ratio as at 31 December 2016 stood at 290% compared to 294% at the end of 2015.

INSURANCE OPERATIONS

The insurance market appears to have regained stability after several years of near tepid growth. In more recent years we experienced added pressures due to severe competition resulting in aggressive rate cutting. Our overall gross written premium increased from €14,488,253 in 2015 to €15,693,009 in 2016, an increase of 8%. This positive trend has continued over the first four months of 2017.

Our overall net loss ratio improved from 66% in 2015 to 62% in 2016. This result was achieved despite operating within a very challenging motor insurance market.

The company's operating expenses increased from €2,368,933 in 2015 to €2,540,986 in 2016 mainly due to higher acquisition costs and increased investment in IT related services. Elmo's combined operating ratio improved by 3% from 86% in 2015 to 83% in 2016 in the main due to improved underwriting results.

Solvency II came into force on 1st January 2016. Whilst we were well prepared for all that it entails, we have had to invest a considerable amount of management time and resources to ensure that we are compliant with all that is required.

We are pleased to note that the handover of the company's general management function from that which existed two years ago, to a younger team has been successfully executed. The result being that in turn this has emboldened our senior management team to successfully face the many challenges that we encounter in this market.

The company is acutely aware of the importance of maintaining the quality of its human resources and it continues to invest heavily in training of its staff, which now number in excess of a 100 persons on a "group" basis including associate insurance undertakings. To cope with anticipated increased numbers, towards the end of 2016 we acquired an additional property adjacent to our head office. We plan to have this property demolished and rebuilt by the end of 2018, with the scope of using it as office space.

INVESTMENT PORTFOLIO

Despite operating within a very low interest environment we managed to register an average gross return on our investment portfolio of 7.1% in 2016 compared to 7.6% in 2015.

RESULTS AND DIVIDEND

The profit and loss account is set out on pages 7 and 8 within. During the year under review the company distributed a net dividend of €1,100,000 (2015: €1,050,000). The directors do not recommend the payment of a final dividend.

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, 1995 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.

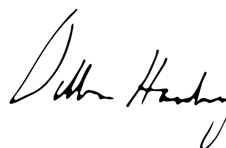
The directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act, 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 2016 are included in the Annual Report 2016, 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.

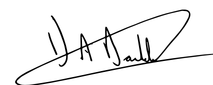
AUDITORS

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

9 May 2017

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 2016, 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).

What we have audited

Elmo Insurance Limited's financial statements, set out on pages 7-46 comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and 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 the IESBA Code.

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).

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.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

To the Shareholders of Elmo Insurance Limited

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

INDEPENDENT AUDITOR'S REPORT - CONTINUED

To the Shareholders of Elmo Insurance Limited

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.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Romina Soler
Partner

9 May 2017

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

	Notes	Year ended 31 December 2016 €	2015 €
Earned premiums, net of reinsurance			
Gross premiums written		**15,693,009**	14,488,253
Outward reinsurance premiums		**(4,861,156)**	(4,695,043)
Net premiums written		**10,831,853**	9,793,210
Change in the gross provision for unearned premiums	15	**(754,328)**	(446,107)
Change in the provision for unearned premiums, reinsurers' share	15	**122,713**	139,853
		(631,615)	(306,254)
Earned premiums, net of reinsurance		**10,200,238**	9,486,956
Allocated investment return transferred from the non-technical account (page 8)	5	**774,503**	860,345
Other technical income		**418,867**	494,521
Total technical income		**11,393,608**	10,841,822
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	15	**7,587,864**	7,027,885
- reinsurers' share	15	**(1,046,030)**	(777,107)
		6,541,834	6,250,778
Change in the provision for claims			
- gross amount	15	**221,707**	14,445
- reinsurers' share	15	**(468,745)**	9,932
		(247,038)	24,377
Claims incurred, net of reinsurance		**6,294,796**	6,275,155
Net operating expenses	4	**2,418,724**	2,259,151
Total technical charges		**8,713,520**	8,534,306
Balance on the technical account for general business (page 8)		**2,680,088**	2,307,516

PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

	Notes	Year ended 31 December 2016 €	2015 €
Balance on the technical account for general business (page 7)		**2,680,088**	2,307,516
Administration expenses	4	**(122,262)**	(109,782)
Investment income	5	**1,624,800**	1,645,140
Investment expenses and charges	5	**(79,829)**	(76,658)
Allocated investment return transferred to the general business technical account (page 7)	5	**(774,503)**	(860,345)
Profit before tax		**3,328,294**	2,905,871
Tax expense	8	**(941,434)**	(507,162)
Profit for the year		**2,386,860**	2,398,709

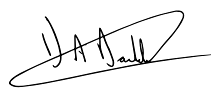
The notes on pages 13 to 46 are an integral part of these financial statements.

BALANCE SHEET

	Notes	As at 31 December 2016 €	2015 €
ASSETS			
Intangible assets – computer software	10	**42,807**	21,597
Tangible assets			
- land and buildings	11	**6,562,838**	3,728,319
- plant and equipment	11	**226,757**	318,624
Investments:			
- investment in associated undertaking	13	**64,744**	79,679
- investment property	12	**1,187,500**	890,000
- other investments	14	**16,307,304**	18,171,614
Subordinated loan		**200,000**	100,000
Deferred taxation	20	**204,628**	297,697
Reinsurers' share of technical provisions	15	**4,562,329**	3,970,871
Deferred acquisition costs	16	**944,223**	877,848
Debtors:			
- arising out of direct insurance operations	17	**5,431,795**	4,315,864
- other debtors	17	**90,323**	82,268
Prepaymen ts and accrued income	17	**136,584**	110,072
Current taxation		**-**	-
Cash at bank and in hand	24	**5,107,891**	3,660,690
Total assets		**41,069,723**	36,625,143
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	18	**5,000,000**	5,000,000
Revaluation reserve	19	**3,035,686**	1,564,313
Profit and loss account		**9,462,901**	8,176,041
Total equity		**17,498,587**	14,740,354
LIABILITIES			
Technical provisions	15	**19,135,894**	18,159,859
Deferred taxation	20	**627,000**	471,198
Current taxation		**482,468**	276,834
Creditors:			
- interest-bearing borrowings	21	**304,218**	299,091
- creditors arising out of direct insurance operations	22	**1,854,752**	1,584,831
- accruals and deferred income	22	**1,166,804**	1,092,976
Total liabilities		**23,571,136**	21,884,789
Total equity and liabilities		**41,069,723**	36,625,143

The notes on pages 13 to 46 are an integral part of these financial statements. The financial statements on pages 7 to 46 were authorised for issue by the Board on 9 May 2017 and were signed on its behalf by:

William Harding
Chairman



David Bartoli
Managing Director

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
		€	€
Profit for the year		**2,386,860**	2,398,709
Adjustment to deferred tax liability arising on changes in legislation on taxation of immoveable property	19	**-**	80,000
Net surplus arising on revaluation of land and buildings	19	**1,471,373**	-
Total comprehensive income		**3,858,233**	2,478,709

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital €	Revaluation reserve €	Profit and loss account €	Total €
Balance at 1 January 2015		5,000,000	1,484,313	6,827,332	13,311,645
Comprehensive income					
Profit for the year		-	-	2,398,709	2,398,709
Adjustment to deferred tax liability arising on changes in legislation on taxation of immoveable property	19	-	80,000	-	80,000
Total comprehensive income		-	80,000	2,398,709	2,478,709
Transactions with owners					
Dividends - ordinary shares - total transactions with owners	9	-	-	(1,050,000)	(1,050,000)
Balance at 31 December 2015		**5,000,000**	**1,564,313**	**8,176,041**	**14,740,354**
Balance at 1 January 2016		5,000,000	1,564,313	8,176,041	14,740,354
Comprehensive income					
Profit for the year		-	-	2,386,860	2,386,860
Net surplus arising on revaluation of land and buildings	19	-	1,471,373	-	1,471,373
Total comprehensive income		-	1,471,373	2,386,860	3,858,233
Transactions with owners					
Dividends - ordinary shares - total transactions with owners	9	-	-	(1,100,000)	(1,100,000)
Balance at 31 December 2016		**5,000,000**	**3,035,686**	**9,462,901**	**17,498,587**

The notes on pages 13 to 46 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016 €	2015 €
Cash flows from operating activities			
Cash generated from operations	23	**1,363,924**	1,204,982
Dividends received	5	**254,759**	236,778
Net interest received		**205,006**	299,110
Net tax refunded/(paid)		**(618,929)**	25,132
Net cash generated from operating activities		**1,204,760**	1,766,002
Cash flows from investing activities			
Purchase of intangible assets	10	**(44,139)**	(4,130)
Purchase of immoveable property	11	**(1,260,000)**	-
Purchase of plant and equipment	11	**(105,326)**	(11,873)
Disposal of tangible assets	11	**-**	14,000
Purchase of investments – fair value through profit or loss	14	**(5,056,151)**	(5,625,822)
Disposal of investments – fair value through profit or loss	14	**4,970,630**	9,081,541
Net movement in investments – loans and receivables	14	**2,832,300**	(2,360,808)
Reduction in share capital of associated undertakings	13	**-**	49,500
Net cash generated from investing activities		**1,337,314**	1,142,408
Cash flows from financing activities			
Dividends paid	9	**(1,100,000)**	(1,050,000)
Net cash used in financing activities		**(1,100,000)**	(1,050,000)
Increase in cash and cash equivalents		**1,442,074**	1,858,410
Movement in cash and cash equivalents			
At beginning of year		**3,361,599**	1,503,189
Net cash inflow		**1,442,074**	1,858,410
At end of year	24	**4,803,673**	3,361,599

The notes on pages 13 to 46 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, 1995. 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).

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 2016

In 2016, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2016. These standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the company.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the company's accounting periods beginning after 1 January 2016. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. The standard is effective for accounting periods beginning on or after 1 January 2018 subject to EU endorsement. The company is yet to assess the implications of this standard 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 judgments 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 are 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. The type 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:

	2016	2015
	€	€
Assets at floating interest rates	**10,411,236**	11,439,674
Assets at fixed interest rates	**3,009,373**	3,073,274
	13,420,609	14,512,948
Liabilities at floating interest rates	**304,128**	299,091

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 2016, if interest rates at that date would have been 50 basis points (2015: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €56,989 (2015: €58,291) higher. An increase of 50 basis points (2015: 50 basis points), with all other variables held constant, would have resulted in pre-tax profits being €54,229 (2015: €55,540) 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:

	2016	2015
	€	€
Assets subject to equity price risk	**8,187,807**	7,407,464

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% (2015: 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% (2015: 15%) in equity prices, with all other variables held constant, would result in an impact on the pre-tax profit for the year of €1,228,171 (2015: €1,111,120).

(c) Currency risk

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. 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 2016, the company's exposure to foreign currency investments, represented 49% (2015: 48%) of the company's total investments. The company's exposure to foreign currency as at 31 December 2016, mainly arose in respect to USD and GBP. The strengthening or weakening of the functional currency by 10% (2015: 15%) against the other currencies with all other variables held constant, would result in an impact on pre-tax profit for the year of €806,825 (2015: €1,316,274).

(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.

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.

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

	As at 31 December 2016				
	AAA to AA €	A to A- €	BBB to BB €	Unrated €	Total €
Debt securities at fair value through profit or loss	1,716,194	2,551,853	2,092,337	593,290	6,953,674
Loans and receivables					
Deposits with banks or credit institutions	-	-	1,165,823	-	1,165,823
Insurance and other receivables	3,493	13,908	29,582	5,540,560	5,587,543
Subordinated loan	-	-	-	200,000	200,000
Cash and cash equivalents	-	-	1,631,687	3,476,204	5,107,891
	3,493	13,908	2,827,092	9,216,764	12,061,257
Reinsurers' share of technical provisions (see note above)	2,105,927	649,703	-	-	2,755,630
Total assets bearing credit risk	**3,825,614**	**3,215,464**	**4,919,429**	**9,810,054**	**21,770,561**

	As at 31 December 2015				
	AAA to AA €	A to A- €	BBB to BB €	Unrated €	Total €
Debt securities at fair value through profit or loss	2,573,967	2,452,094	1,512,433	204,628	6,743,122
Loans and receivables					
Deposits with banks or credit institutions	-	-	1,867,274	2,153,754	4,021,028
Insurance and other receivables	5,000	17,416	26,279	4,501,953	4,550,648
Subordinated loan	-	-	-	100,000	100,000
Cash and cash equivalents	-	-	1,559,081	2,101,609	3,660,690
	5,000	17,416	3,452,634	8,857,316	12,332,366
Reinsurers' share of technical provisions (see note above)	1,680,564	606,321	-	-	2,286,885
Total assets bearing credit risk	**4,259,531**	**3,075,831**	**4,965,067**	**9,061,944**	**21,362,373**

(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 2016	**Contracted undiscounted cash outflows**				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Bank overdraft	304,218	-	-	-	304,218
Insurance and other payables	3,021,556	-	-	-	3,021,556
	3,325,774	**-**	**-**	**-**	**3,325,774**

	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	**5,248,016**	**1,775,161**	**3,299,435**	**1,491,392**	**11,814,004**

As at 31 December 2015	Contracted undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Bank overdraft	299,091	-	-	-	299,091
Insurance and other payables	2,677,807	-	-	-	2,677,807
	2,976,898	**-**	**-**	**-**	**2,976,898**

	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	**5,326,450**	**1,650,361**	**3,219,051**	**1,396,435**	**11,592,297**

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 at 31 December 2015 the company was in full compliance with Solvency I requirements, having capital in excess of the required minimum set by the Regulator.

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

The company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the company's risk profile. At 31 December 2016, the company's eligible own funds adequately covered the required SCR amounting to €6,144,726 and had an SCR ratio of 290% (unaudited).

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

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 2016 and 31 December 2015, 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 2016, 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).

	2016 Level 1 €	2015 Level 1 €
Assets		
Fair value through profit or loss		
- Equity securities, other variable yield securities and units in unit trusts – listed	**8,187,807**	7,407,464
- Debt securities	**6,953,674**	6,743,122
Total assets	**15,141,481**	14,150,586

The company's investments are quoted in active markets and accordingly are classified as level 1.

4. NET OPERATING EXPENSES

	2016 €	2015 €
Acquisition costs	**3,237,138**	3,138,330
Change in deferred acquisition costs, net of reinsurance	**(4,653)**	27,126
Administrative expenses	**1,166,258**	1,023,168
Reinsurance commissions and profit participation	**(1,857,757)**	(1,819,691)
	2,540,986	2,368,933
Allocated to:		
Technical profit and loss account	**2,418,724**	2,259,151
Non-technical account	**122,262**	109,782
	2,540,986	2,368,933

Total commissions for direct business accounted for in the financial year amounted to €953,236 (2015: €808,178). Further detail on expenses by nature is provided in Note 6 to the financial statements.

5. INVESTMENT RETURN

	2016 €	2015 €
Dividends received from investments at fair value through profit or loss	**178,605**	236,778
Net gains from financial investments at fair value through profit or loss	**1,101,978**	1,273,551
Interest receivable in relation to other loans and receivables	**(14,502)**	92,753
Share of gains of associated undertaking	**61,219**	42,058
Gains arising on revaluation of investment property	**297,500**	-
	1,624,800	1,645,140
Investment expenses and charges		
Investment expenses and charges	**(79,829)**	(76,658)
Total investment return	**1,544,971**	1,568,482
Allocated as follows:		
Technical profit and loss account	**774,503**	860,345
Non-technical account	**770,468**	708,137
	1,544,971	1,568,482

6. EXPENSES BY NATURE

	2016 €	2015 €
Staff costs (Note 7)	**2,496,471**	2,460,312
Directors' remuneration (Note 7)	**23,000**	14,016
Amortisation of intangible assets (Note 10)	**22,929**	57,167
Depreciation of property, plant and equipment (Note 11)	**226,047**	249,583
Professional indemnity insurance	**66,453**	55,218
Increase/ (decrease) in debtors impairment provision (Note 17)	**84,891**	(89,268)
Legal and professional fees	**230,689**	171,021
Advertising	**138,718**	140,047
Other expenses	**1,251,194**	1,303,213
Total administrative expenses	**4,540,392**	4,361,309
Allocated to:		
Technical profit and loss account	**4,418,130**	4,251,527
Non-technical account	**122,262**	109,782
	4,540,392	4,361,309

During the year ending 31 December 2016, debtors amounting to €624 (2015: €61,178) were written-off.

Fees charged by the auditor for services rendered during the financial period ended 31 December 2016 and 2015 amounted to:

	2016	2015
	€	€
Annual statutory audit	**39,800**	37,800
Other assurance services	**-**	2,950
Tax compliance and advisory services	**1,000**	1,000
	40,800	41,750

7. STAFF COSTS

	2016	2015
	€	€
Salaries	**2,383,999**	2,338,914
Social security costs	**135,472**	135,414
	2,519,471	2,474,328

The average number of persons employed during the year was:

	2016	2015
Managerial	**17**	16
Technical	**63**	62
Administrative	**5**	5
	85	83

Staff costs amounting to €6,951 (2015: €5,034) were reimbursed by related undertakings (Note 25).

8. TAX EXPENSE

	2016 €	2015 €
Current tax expense	**824,563**	571,368
Deferred tax charge/(credit) (Note 20)	**116,871**	(64,206)
Tax expense	**941,434**	507,162

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

	2016 €	2015 €
Profit before tax	**3,328,294**	2,905,871
Tax on profit at 35%	**1,164,903**	1,017,055
Adjusted for tax effect of:		
Income subject to reduced rates of tax	**(179,792)**	(76,803)
Expenses not deductible for tax purposes	**19,230**	22,880
Gains not subject to tax	**(62,907)**	(444,717)
Other differences	**-**	(17,178)
Adjustments to taxation arising upon transfers of immovable property	**-**	5,925
Tax expense	**941,434**	507,162

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.

The 2015 Budget measures proposed that, with effect from 1 January 2015, the final tax on transfers of immovable property acquired after 1 January 2004 would be reduced to 8% of the transfer value while the rate in respect of transfers of property acquired before 1 January 2004 would be 10%. As at 31 December 2014 this was not considered to have the substantive effect of an actual enactment. Accordingly, tax rates used for the measurement of deferred taxation as at 31 December 2014 were those applicable prior to the measures announced in the Budget Speech for the financial year 2015, which are disclosed above. During 2015 the deferred taxation on property, plant and equipment and investment property were adjusted to reflect the new legislation (Note 20).

9. DIVIDENDS

The directors declared a net interim dividend of €1,100,000 during 2016 equivalent to 22 cents per share. The directors do not propose the payment of a final dividend in respect of 2016. The net dividend declared in respect of 2015 was €1,050,000 (21 cents per share).

10. INTANGIBLE ASSETS

	Computer software €
At 31 December 2014	
Cost	778,254
Accumulated amortisation	(703,620)
Net book amount	**74,634**
Year ended 31 December 2015	
Opening net book amount	74,634
Additions	4,130
Amortisation charge	(57,167)
Closing net book amount	**21,597**
At 31 December 2015	
Cost	782,384
Accumulated amortisation	(760,787)
Net book amount	**21,597**
Year ended 31 December 2016	
Opening net book amount	21,597
Additions	44,139
Amortisation charge	(22,929)
Closing net book amount	**42,807**
At 31 December 2016	
Cost	826,523
Accumulated amortisation	(783,716)
Net book amount	**42,807**

Amortisation of €22,929 (2015: €57,167) 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 2014				
Cost or valuation	3,792,198	1,634,365	201,443	5,628,006
Accumulated depreciation	(35,025)	(1,158,495)	(134,833)	(1,328,353)
Net book amount	**3,757,173**	**475,870**	**66,610**	**4,299,653**
Year ended 31 December 2015				
Opening net book amount	3,757,173	475,870	66,610	4,299,653
Additions	-	11,223	650	11,873
Disposals	-	-	(25,000)	(25,000)
Depreciation charge	(28,854)	(203,929)	(16,800)	(249,583)
Depreciation released on disposal	-	-	10,000	10,000
Closing net book amount	3,728,319	283,164	35,460	4,046,943
At 31 December 2015				
Cost or valuation	3,792,198	1,645,588	177,093	5,614,879
Accumulated depreciation	(63,879)	(1,362,424)	(141,633)	(1,567,936)
Net book amount	**3,728,319**	**283,164**	**35,460**	**4,046,943**
Year ended 31 December 2016				
Opening net book amount	3,728,319	283,164	35,460	4,046,943
Additions	1,260,000	105,326	-	1,365,326
Surplus arising from revaluation	1,603,373	-	-	1,603,373
Depreciation charge	(28,854)	(180,393)	(16,800)	(226,047)
Closing net book amount	6,562,838	208,097	18,660	6,789,595
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**

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).

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 2016 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 2016.

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 Audit Committee 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 Audit Committee. The Audit Committee 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)

Description	Fair value at 31 December 2016 €	Valuation technique	Significant unobservable inputs 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:

	2016 **€**	2015 €
Cost	**3,314,437**	2,054,487
Accumulated depreciation	**(235,906)**	(214,517)
Net book amount	**3,078,581**	1,839,970

12. INVESTMENT PROPERTY

	2016 **€**	2015 €
Year ended 31 December		
At beginning and end of year	**890,000**	890,000
Gains from changes in fair value	**297,500**	-
At end of year	**1,187,500**	890,000
At 31 December		
Cost	**703,500**	703,500
Fair value gains	**484,000**	186,500
Closing cost and net book amount	**1,187,500**	890,000

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

	2016	2015
	€	€
Year ended 31 December		
At beginning of year	**79,679**	87,121
Reduction in share capital	**-**	(49,500)
Share of results of associate	**61,219**	42,058
Dividend received	**(76,154)**	-
At end of year	**64,744**	79,679
At 31 December		
Cost	**24,750**	24,750
Share of results	**39,994**	54,929
Closing cost and net book amount	**64,744**	79,679

The associated undertaking is shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held **2016**	2015
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 €
2016	**437,226**	**233,484**	**104,744**
2015	481,442	232,444	127,457

14. INVESTMENTS

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

	2016	2015
	€	€
Fair value through profit or loss	**15,141,481**	14,150,586
Loans and receivables	**1,165,823**	4,021,028
	16,307,304	18,171,614

(a) Investments at fair value through profit or loss

	2016	2015
	€	€
Equity securities, other variable yield securities and units in unit trusts		
- listed	**8,187,807**	7,407,464
Debt securities	**6,953,674**	6,743,122
Total investments at fair value through profit or loss	**15,141,481**	14,150,586

Maturity of fixed income debt securities:

	2016	2015
	€	€
Within one year	**-**	367,686
Between 1 and 2 years	**2,507,631**	884,194
Between 2 and 5 years	**2,598,981**	4,153,315
Over 5 years	**1,847,062**	1,337,927
	6,953,674	6,743,122

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:

	2016	2015
	€	€
Year ended 31 December		
At beginning of year	**14,150,586**	16,539,110
Additions	**5,056,151**	5,625,822
Disposals (sale and redemptions)	**(4,586,540)**	(7,973,138)
Net fair value gains/(losses)	**521,284**	(41,208)
At end of year	**15,141,481**	14,150,586
As at 31 December		
Cost	**14,493,860**	14,024,249
Accumulated net fair value gains	**647,621**	126,337
Net book amount	**15,141,481**	14,150,586

(b) Loans and receivables

	2016	2015
	€	€
Deposits with banks or credit institutions	**1,165,823**	4,021,028

Maturity of deposits with banks or credit institutions:

	2016	2015
	€	€
Within 3 months	**1,165,823**	4,021,028

The above deposits earn interest as follows:

	2016	2015
	€	€
At fixed rates	**1,165,823**	4,021,028

15. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2016 €	2015 €
Gross technical provisions		
Claims reported and loss adjustment expenses	**11,160,926**	10,982,092
Claims incurred but not reported	**653,078**	610,205
Provision for unearned premiums	**7,321,890**	6,567,562
	19,135,894	18,159,859
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	**2,631,879**	2,170,938
Claims incurred but no t reported	**123,751**	115,947
Provision for unearned premiums	**1,806,699**	1,683,986
	4,562,329	3,970,871
Net technical provisions		
Claims reported and loss adjustment expenses	**8,529,047**	8,811,154
Claims incurred but not reported	**529,327**	494,258
Provision for unearned premiums	**5,515,191**	4,883,576
	14,573,565	14,188,988

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 2016 and 2015 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 net of reinsurance. Development trends extracted in gross terms were found to be similar.

	2007 €	2008 €	2009 €	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	Total €
Estimate of the ultimate claims costs:											
- at end of accident year	7,102,909	5,856,088	6,241,244	7,075,696	6,289,248	6,597,468	6,831,259	6,445,459	7,083,572	6,638,396	
- one year later	7,245,191	5,911,092	6,187,689	7,095,991	6,693,322	6,977,506	7,123,331	6,726,839	7,572,414		
- two years later	6,623,762	5,351,647	5,771,012	6,523,900	6,276,517	6,762,043	6,486,279	6,185,276			
- three years later	6,477,992	5,247,338	5,657,712	6,428,492	6,158,821	6,540,702	6,375,754				
- four years later	6,394,278	5,178,062	5,513,816	6,392,427	6,111,298	6,482,975					
- five years later	6,337,331	5,146,885	5,520,955	6,262,386	6,055,444						
- six years later	6,362,588	5,129,950	5,526,885	6,214,917							
- seven years later	6,371,091	5,110,581	5,515,000								
- eight years later	6,367,439	5,122,574									
- nine years later	6,353,853										
Current estimates of cumulative claims	6,353,853	5,122,574	5,515,000	6,214,917	6,055,444	6,482,975	6,375,754	6,185,276	7,572,414	6,638,396	62,516,603
Cumulative payments to date	(6,189,541)	(5,060,979)	(5,261,511)	(5,794,075)	(5,493,860)	(5,837,879)	(5,959,714)	(5,496,068)	(5,463,795)	(3,396,703)	(53,954,130)
Liability recognised in the balance sheet	164,307	61,595	253,089	420,842	561,504	645,096	416,040	689,208	2,108,619	3,241,693	8,562,473
Liability in respect of prior years											495,901
Total reserve included in the balance sheet											9,058,374

Movements in insurance liabilities and reinsurance assets

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

	Year ended 2016		
	Gross €	Reinsurance €	Net €
Total at beginning of year	11,592,297	(2,286,885)	9,305,412
Claims settled during the year	(7,587,864)	1,046,030	(6,541,884)
Increase/(decrease) in liabilities			
- arising from current year claims	7,423,855	(785,459)	6,638,396
- arising from prior year claims	385,716	(729,316)	(343,600)
Total at year end	**11,814,004**	**(2,755,630)**	**9,058,374**

	Year ended 2015		
	Gross €	Reinsurance €	Net €
Total at beginning of year	11,577,852	(2,296,817)	9,281,035
Claims settled during the year	(7,027,885)	777,107	(6,250,778)
Increase/(decrease) in liabilities			
- arising from current year claims	7,996,319	(912,747)	7,083,572
- arising from prior year claims	(953,989)	145,572	(808,417)
Total at year end	**11,592,297**	**(2,286,885)**	**9,305,412**

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 2016		
	Gross €	Reinsurance €	Net €
At beginning of year	6,567,562	(1,683,986)	4,883,576
Net charge /(credit) to profit and loss	754,328	(122,713)	631,615
At end of year	**7,321,890**	**(1,806,699)**	**5,515,191**

	Year ended 2015		
	Gross €	Reinsurance €	Net €
At beginning of year	6,121,455	(1,544,133)	4,577,322
Net charge/(credit) to profit and loss	446,107	(139,853)	306,254
At end of year	**6,567,562**	**(1,683,986)**	**4,883,576**

16. DEFERRED ACQUISITION COSTS

	2016 €	2015 €
Year ended 31 December		
At beginning of year	**877,848**	801,679
Net credit to profit and loss	**66,375**	76,169
At end of year	**944,223**	877,848

Deferred acquisition costs are classified as current assets.

17. DEBTORS AND PREPAYMENTS AND ACCRUED INCOME

	2016 €	2015 €
Debtors		
Debtors arising out of direct insurance operations		
- due from policyholders	**4,108,704**	3,158,456
- due from intermediaries	**1,323,091**	1,157,408
Amount due from related parties (Note 25)	**82,595**	59,544
Other debtors	**7,728**	22,724
	5,522,118	4,398,132
Prepayments and accrued income		
Accrued interest	**65,425**	53,764
Prepayments	**71,159**	56,308
	136,584	110,072

Amounts due from related parties are unsecured, interest-free and repayable on demand. Amounts due from other debtors bear an interest rate of 3% p.a.

Debtors are presented net of an allowance for impairment of €291,693 (2015: €206,802). As at 31 December 2016, debtors amounting to €3,678,425 (2015: €2,985,647) were fully performing, whereas debtors amounting to €1,753,371 (2015: €1,330,218) 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 aging analysis of the trade receivables which were past due but not impaired at year end is as follows:

	2016 €	2015 €
Within credit terms	**826,196**	617,744
Not more than 3 months overdue	**623,628**	532,709
More than 3 months overdue	**303,547**	179,765
	1,753,371	1,330,218

18. SHARE CAPITAL

	2016	2015
	€	€
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

	2016	2015
	€	€
At 1 January	**1,564,313**	1,484,313
Revaluation surplus, net of deferred taxation	**1,471,373**	-
Adjustment to deferred tax liability arising upon changes in taxation of immovable property (Note 20)	**-**	80,000
At 31 December	**3,035,686**	1,564,313

The balance at 31 December is made up as follows:

	2016	2015
	€	€
Revaluation reserve arising on land and buildings	**3,035,686**	1,564,313

This reserve is not a distributable reserve.

20. DEFERRED TAXATION

	2016 €	2015 €
Balance at 1 January	**173,501**	317,707
Movements during the year recognised in :		
Profit and loss account (Note 8)	**116,871**	(64,206)
Other comprehensive income (Note 19)	**132,000**	-
Revaluation reserve (Note 19)	**-**	(80,000)
Balance at 31 December - net	**422,372**	173,501

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2015: 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:

	2016 €	2015 €
Temporary differences attributable to depreciation of fixed assets	**(102,370)**	(99,763)
Temporary differences attributable to fair value adjustments - investments	**(11,579)**	(136,967)
Temporary differences attributable to revaluation of land and buildings	**532,000**	400,000
Temporary differences attributable to revaluation of investment property	**95,000**	71,198
Temporary differences attributable to provision for impairment of doubtful debtors	**(90,679)**	(60,967)
Balance at 31 December - net	**422,372**	173,501

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:

	2016 €	2015 €
Deferred tax asset	**(204,628)**	(297,697)
Deferred tax liability	**627,000**	471,198
	422,372	173,501

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

21. INTEREST-BEARING BORROWINGS

	2016	2015
	€	€
Bank overdraft (Note 24)	**304,218**	299,091

The bank overdraft bears an interest rate of 4.60% (2015: 4.75%) is secured by a hypothec on the company's property.

22. CREDITORS

	2016	2015
	€	€
Other creditors		
Creditors arising out of direct insurance operations	**1,824,501**	1,579,679
Amounts due to related parties (Note 25)	**30,251**	5,152
	1,854,752	1,584,831
Accruals and deferred income		
Accrued expenses	**323,213**	311,108
Deferred income	**843,591**	781,868
	1,166,804	1,092,976

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:

	2016	2015
	€	€
Profit before tax	**3,328,294**	2,905,871
Adjustments for:		
Investment income (Note 5)	**(1,624,799)**	(1,645,141)
Amortisation (Note 10)	**22,929**	57,167
Depreciation (Note 11)	**226,047**	249,583
Profit/(loss) on disposal of property, plant and equipment	**-**	1,000
Impairment of debtors (Note 17)	**84,891**	(89,268)
Movements in:		
Technical provisions (net)	**384,577**	330,631
Debtors and prepayments, including DAC	**(1,401,764)**	(516,636)
Creditors and accruals	**343,749**	(88,225)
Cash generated from operations	**1,363,924**	1,204,982

24. CASH AND CASH EQUIVALENTS

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

	2016	2015
	€	€
Cash at bank and in hand	**5,107,891**	3,660,690
Bank overdraft (Note 21)	**(304,218)**	(299,091)
	4,803,673	3,361,599
Interest bearing:		
- at floating rates	**3,313,477**	2,296,259

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:

	2016	2015
	€	€
(a) Entities with significant influence over the entity (including related entities and close family of shareholders)		
Gross premium receivable, net of claims paid	**74,143**	117,606
Reimbursement of expenses for back-office support	**9,037**	8,308
Net rent payable	**(30,907)**	(32,245)
Commission payable	**(181,692)**	(183,565)
(b) Other related parties		
Fees payable	**96,597**	103,872

Year end balances arising from the above transactions:

	2016	2015
	€	€
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)	**282,595**	159,544
Amounts due to	**30,251**	5,152

The above balances are unsecured, interest free and repayable on demand, except for the subordinated loan of €200,000 (2015: €100,000) which bears an interest rate of 5% p.a.

Fees payable to directors are disclosed in Note 7.

26. STATUTORY INFORMATION

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

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Elmo Insurance Limited (C-3500) is authorised to carry on general insurance business and is regulated by the Malta Financial Services Authority.