




GasanMamo
INSURANCE
We're always there



CONTENTS

IV

MISSION
STATEMENT

VIII

CHAIRMAN'S
STATEMENT

X

MANAGING
DIRECTOR'S REVIEW

XII

THE BOARD
OF DIRECTORS

XIV

THE SENIOR
MANAGEMENT TEAM

XV

HEAD OFFICE &
BRANCH NETWORK

MISSION STATEMENT

OUR CUSTOMERS

We will consistently work towards meeting customers' expectations. We will always advertise in a truthful positive and educational manner. We will only make promises we can keep.

OUR PEOPLE

We will endeavour to provide job satisfaction, career growth prospects and competitive working conditions. We will consistently provide a safe and healthy working environment. We will support and expect total honesty and integrity by all employees. We will foster quality throughout our operations. We will as an employer, act in a humane and ethical manner. We will actively encourage the development of employees' professional skills, knowledge and qualifications.

OUR CORPORATE SOCIAL RESPONSIBILITY

We will contribute to relevant philanthropic and social causes. We will fulfill a social role as a leading corporate citizen and will support the development of the Maltese economy. We will seek to adopt environmentally friendly policies and further the cause of the protection of our natural environment.

PINK
OCTOBER



**OUR CUSTOMERS.
OUR PEOPLE.
OUR CSR.**

VALLETTA
CONCOURS
D'ELEGANCE



URSULINE SISTERS
IN HAŻ-ŻABBAR



SUPPORTING
BJORN FORMOSA
& ALS MALTA



GMI DAY

SPORTS
DAY



SUPPORTING
MOSTA FOOTBALL
CLUB NURSERY



CHAIRMAN'S STATEMENT

As Chairman, I am privileged once again to present to you the Financial Statements for the year ended 31st December 2017. In the recent years I have made reference to the analogy of the "collective Journey of all GasanMamo Insurance stakeholders". I feel that this is an excellent way to describe the exciting prospects that we face as we move ahead. In my tenure as Chairman, I have seen many changes in the company and the environment within which we operate. I continue to be excited and invigorated by both the challenges and opportunities that develop with the passage of time. We have a track record to be proud of and a future that is filled with confidence. The Financial Statements set out ahead are indeed another important milestone in this journey and I trust that like me, you will see that GasanMamo Insurance is a company that excellently positioned for further growth for the benefit of all stakeholders.

During the year under review, the global economy was showing true signs of recovery, in particular Europe that has been in the doldrums for almost a decade. Green shoots were clearly visible as sustained vital economic data improved. The economic fundamentals were good, inflation was controlled while unemployment numbers declined and balance sheets strengthened. In Malta, we have continued to see very strong economic activity, with steady investment driving up GDP growth to a staggering 7.2%. The strong economic trend has been sustained year on year (2016 5%) and the trickle-down effects spread throughout the economy. The positive economic sentiment has led to organic growth in the insurance market as increased discretionary income is used to acquire assets and services, travel or make investments.

With the economic backdrop referred to above, we have seen top line growth across all classes of business. Gross Written Premium stands at €38,938,000 which reflects 13.6% growth (2016 €34,282,000). One of the great challenges that is encountered by insurers is to achieve strong growth while maintaining good underwriting results. Our philosophy, seeking profitable growth has rarely been more clearly manifest than in 2017, where we have seen double digit GWP growth and an excellent technical result as well. Profit Before Tax was further bolstered by the improved investment rate of return which closed at 6.10% compared to 2.77% in 2016. The company closed the period under review with a Profit Before Tax €9,018,000 compared to €6,609,000 in 2016.

While this financial performance explained above and in more detail in the pages ahead is encouraging, we are mindful of the headwinds

that lie ahead and will prepare for them. One of the main challenges is the increases being seen in operational costs as well as the cost of average claims, both are bi-products of the economic success that is being seen in Malta. GasanMamo Insurance has a great team and retaining and engaging new talent is becoming more difficult and costly. Innovative solutions should be found that ensure optimum results. Management have a good control of costs and are open to new developments that will assist drive the business forward.

The Company is keen to seek profitable growth organically as well as seeking out new markets that meet clearly defined strategic objectives. The Company has recently passported into the Greek market and will be writing Greek Motor business that is in line with the strategic objectives. We are confident that we have partnered with excellent local expertise as well as a strong panel of international RI experts. And we look forward to this project developing further and contributing to our success.

Seeing ourselves as constrictive part of the communities in which we operate, remains high on our agenda and we bear our Corporate Social Responsibility enthusiastically. In 2017 we have continued to support initiatives around Sports, Culture, Heritage and the Environment.

I would like to thank clients for placing their trust in GasanMamo giving us the very reason for our existence. I would also like to thank our business partners, in particular Tied Insurance Intermediaries, Agents and Brokers, our excellent relationship based on mutual respect is certain to be crucial as we continue this journey together. Last, I would like to thank my fellow Board members for their support and advice as we review the past and plan the future.

At risk of being repetitive, the future for GasanMamo Insurance is bright, but we will seek a balanced approach weighing both risk and reward with equal scrutiny.


Joseph A Gasan
Chairman



“I continue to be excited and invigorated by both the challenges and opportunities that develop with the passage of time. We have a track record to be proud of and a future that is filled with confidence.”

MANAGING DIRECTOR'S REVIEW

It is my pleasure to present to you the Financial statements for GasanMamo Insurance Ltd for the year ending 31st December 2017.

The twelve months under review have been characterised by a global economic recovery after around a decade of uninspiring performance. Several significant geopolitical developments have been taking shape, while economies with an apparent life of their own, have been moving confidently forward as the recovery takes root. In recent months we have seen signs of hesitation as the possibility of a trade war looms large and Brexit's D-day draws ever closer.

On the local front in Malta, the economic record books continue to be written. We have seen strong economic growth across the board, leading to record GDP growth of 7.2%, thus maintaining the positive trajectory of the last few years. The bustling economic activity is easy to spot with new highs being achieved month on month in the tourism sector. Financial services are now firmly established as a pillar of the economy and there has been a strong performance in manufacturing and construction.

The insurance sector has been a beneficiary of the positive economic environment and I am delighted to report that the Financial Statements set out in the following pages are a testament to a well-run insurance undertaking that is aware of the risks to which it is exposed while at the same time, willing to grasp opportunities that present themselves. The hardened motor market that was seen in 2016 has indeed been maintained and the motor sector was able to alter its course as it drove precariously close to the edge of the abyss in 2015. Motor rates were increased in line with the increased costs and exposures and other classes of business also performed well registering top line growth and benefiting from a benign claims experience.

The focus of the Board, Management and the Team has provided the backdrop to remain grounded in our quest to provide the best possible service and value for the benefit of all stake holders. The Gross Written Premium for the year was €38,938,000 marking an increase of 13.6% on the 2016 figure of €34,282,000. This growth has been driven mainly by the Malta Motor book of business 15.3%, as well as a significant growth in our operation in Cyprus. The General Business book also performed very robustly with strong organic growth being registered at 9%. The Technical result achieved was also very positive with a strong showing across the board and a Combined Operating Ratio of 83% (2016 83.26%). Investment returns were also significantly improved at 6.10% compared to 2.77% in 2016. The profit before tax in the period under review amounted to €9,018,000 compared to €6,609,000

in 2016. The Balance sheet has also been strengthened with Total Assets of €67,407,000 compared to €60,582,000 in 2016 and Capital and Reserves amounting to €27,465,000, €24,477,000 in 2016. The solvency position of the company remains strong closing the year with a Minimum Capital Requirement (MCR) of €5,307,000 and Own Funds of €27,623,000 thus having an MCR of 521% and Solvency Capital Ratio (SCR) of 234%.

Understandably, I am delighted with this performance and would like to thank all stakeholders, our Tied Insurance Intermediaries, Brokers and Agents, our dedicated Management team and all staff, who collectively have brought about this good result. Last but by no means least, I would also like to thank all our customers, for the trust that they have placed in our company giving us the strength and determination to continue this journey. We continue to strive for improvement in all that we do, from the method and frequency of communication to the technical skills of our staff. We will continue to invest in our distribution channels, training and software to ensure that we are well placed for the challenges ahead.

We remain committed to the markets in which we operate but also remain open to new opportunities and markets that are in line with our strategic objectives and parameters. In 2018 we look forward to entering the Greek motor market and we are confident that we have aligned with partners on the ground with whom we will develop a long lasting and mutually beneficial relationship. The structure that is in place is in line with our prudent outlook, maintaining high levels of control and limiting exposure.

We are certain that GasanMamo Insurance has a bright future ahead, determined to keep the customer at the heart of all that we do and ensuring that we are focused on value added through operations and for all stakeholders.



Julian J Mamo
Director



“We are certain that GasanMamo Insurance has a bright future ahead, determined to keep the customer at the heart of all that we do and ensuring that we are focused on value added through operations and for all stakeholders.”

THE BOARD OF DIRECTORS

Gasamamo Insurance Limited has a Board of Directors whose members have a wealth of experience in the world of business, insurance and financial services both locally and abroad.

Joseph A. Gasan Chairman

Mr. Gasan is the Chairman of the Gasan Group of Companies. Gasamamo Insurance Limited forms part of this Group. Through this Group, Mr. Gasan has a wide background in numerous sectors both in Malta and abroad.

The group's interests include Automotive, Property Development, Financial Services, Telecommunications, Engineering and others.

Julian J. Mamo Managing Director

Mr. Mamo, a graduate in Business Management, has been in the insurance business for 25 years having taken on the Managing Director's role in 2013.

Mr. Mamo is a member of several company boards. He is President of the Malta Insurance Association and past Council member of the Malta Chamber of Commerce, Enterprise and Industry and MIMA.

Mark Gasan Director

Mr. Gasan, a graduate in Economics and Politics, has been in key executive roles across a wide range of sectors.

He currently serves as CEO of the Gasan Group and is involved operationally in all of the Group subsidiaries including Automotive and Marine, Real Estate and Engineering.

Martin Wonfor Director

Mr. Wonfor is an economics graduate and a chartered accountant by profession.

He has spent most of his career in the financial services field and was a partner of Cazenove & Co. from 1989 to 2000 and subsequently a main board director from 2000 to 2003 when this company changed from a partnership to a private limited company.

Albert P. Mamo Deputy Chairman

Mr. Mamo has been involved in insurance for over 45 years and steered insurance operations through merger and transformation from Agency to an indigenous insurance company.

Mr. Mamo has had considerable input into the evolution of Malta's insurance market, having served on the Council of the Malta Insurance Association for 22 years, 6 years of which as President.

Baudouin Deschamps Director

Mr. Deschamps has 30 years of insurance experience including almost 25 years with the Aviva Group for which as CEO. His involvement with Malta started in 2001 when he was Director Europe for Aviva.

Today he is an independent consultant in Risk Management and Governance and sits on several boards in the finance and consultancy sectors.

Paul G. Matthews Director

Mr. Matthews has been actively involved in insurance business since 1973 holding several key positions both in the UK and the Caribbean with Royal & SunAlliance.

His expertise extends into the reinsurance aspect of the business.

Vanessa Portelli Company Secretary

A lawyer by profession, Dr. Portelli joined Gasamamo Insurance as Legal Officer in 2002.

She served as Board Secretary from 2005 and was appointed Company Secretary with effect from 1 December 2008.



Joseph A. Gasan



Albert P. Mamo



Julian J. Mamo



Baudouin Deschamps



Mark Gasan



Paul G. Matthews



Martin Wonfor



Vanessa Portelli

THE SENIOR MANAGEMENT TEAM



Julian J. Mamo

Managing Director



Leslie Causon

General Manager
Personal &
Commercial,
Reinsurance and
Overseas Markets



Michael Farrugia

Financial Controller



Mark Mamo

General Manager
Network, Health & IT



Vanessa Portelli

General Manager
Operations, Legal &
Compliance



Francis Valletta

General Manager
Motor

HEAD OFFICE & BRANCH NETWORK

At GasanMamo Insurance we feel that clients should choose how they wish to deal with us. To cater for this, a strategy has been developed that ensures that we are accessible to all clients.

GasanMamo Insurance has a distribution network that is unparalleled in Malta with a large centrally located Head Office and strategically located branches. In General Insurance, GasanMamo has Malta's largest network of Tied Insurance Intermediaries. These are located throughout Malta and Gozo and provide a very personalised level of service to their customers. Brokers are seen as an essential source of business and GasanMamo Insurance has excellent relationships with all leading brokers and provides market-leading support.

Two excellent agency appointments are in place; Thomas Smith Insurance Agency Limited in Malta and Prodromou & Makriyiannis Insurance Underwriting Agents & Consultants Limited in Cyprus. The company is pleased with their performance and confident of their continued growth.

◆ **Branch Offices:**

Birkirkara • Ħal Qormi • Ħamrun
Mellieħa • Mosta • Mrieħel
Naxxar • Paola • Rabat
Tas-Sliema • Valletta

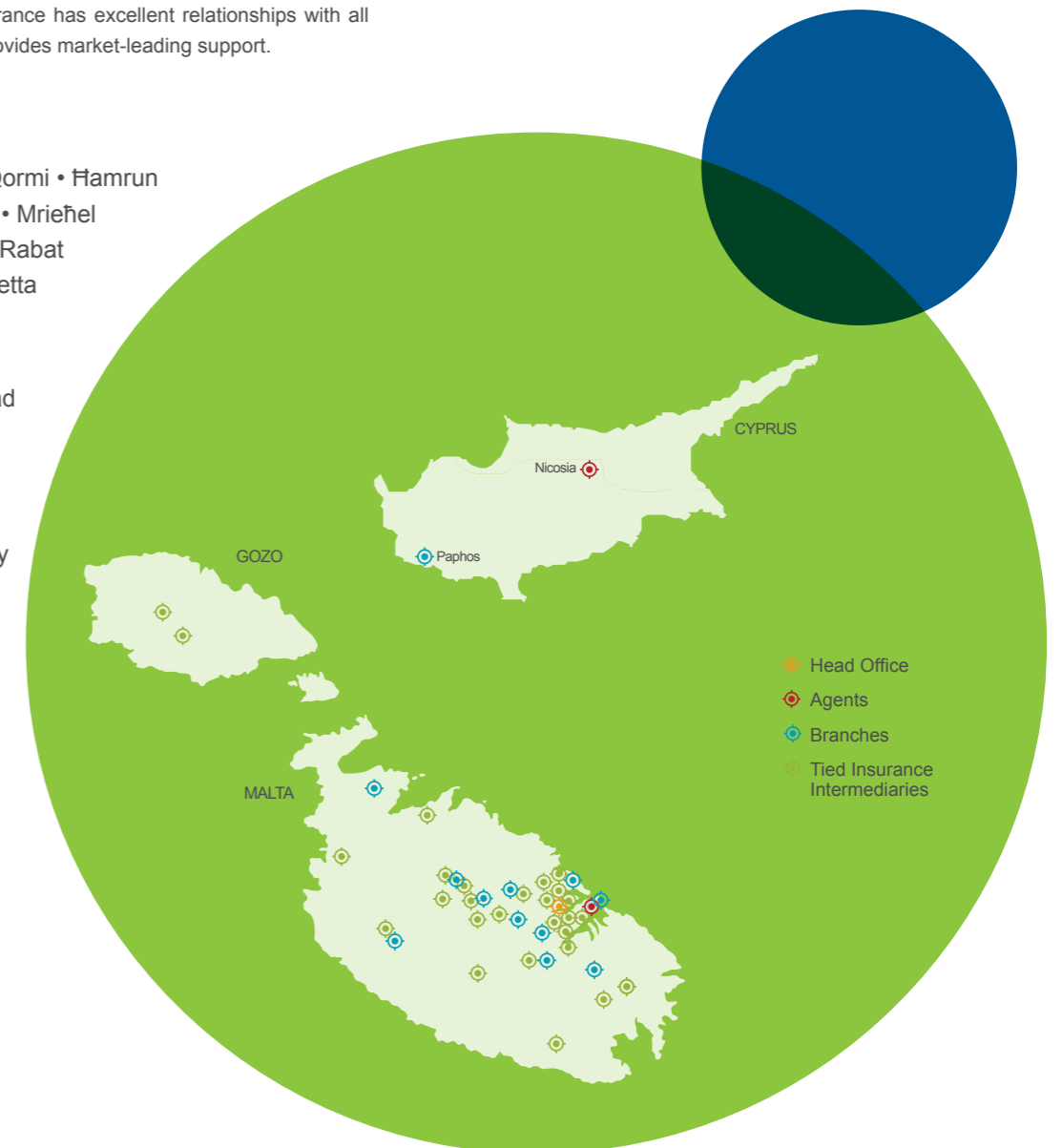
◆ **Head Office:**

Gżira, Msida Road

◆ **Agents:**

Thomas Smith
Insurance Agency
Limited, Valletta

Prodromou &
Makriyiannis
Insurance
Underwriting
Agents &
Consultants
Limited (Cyprus)
Nicosia • Paphos



GASANMAMO INSURANCE LIMITED

Annual Report and Financial Statements
31 December 2017

	Pages
Directors' report	1 - 7
Independent auditor's report	8 - 15
Statement of financial position	16
Statement of comprehensive income	
Technical account - General business	17
Non-technical account	18
Statement of changes in equity	19
Statement of cash flows	20
Notes to the financial statements	21 - 60

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Principal activities

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

Review of the Business

During the year under review we have continued to witness strong economic performance in all areas locally. This has translated into a GDP growth of 7.2% and an improvement of Malta's credit rating. The economic growth has been spread throughout the main economic sectors with tourism leading the charge setting new records month on month. Construction and foreign direct investment continue to be strong. The demographic in Malta is rapidly changing as more foreign nationals choose Malta as a place to work and live, and the trickle-down effect on the economy is self-evident.

Activity in Cyprus has continued to develop well with significant top line growth being registered, while at the same time maintaining a positive technical result. Cyprus accounts for 5.9% of total GWP and remains an important area which we feel has potential for continued profitable growth.

The team at GasanMamo has remained focussed on the key deliverables, providing excellent service to customers and mindful of all stakeholders' needs. Adequate pricing in a challenging environment in terms of both claims and operational costs has been an area of particular attention. We are pleased to report that the company has performed well in the economic environment, registering significant profitable growth with Gross Written Premiums up by 13.6% (2016: 10.3%) compared to the previous year. Investment returns were also significantly improved at 6.1% (2016: 2.77%). The profit before tax shows a marked improvement on 2016 which was also considered to be a particularly good year. The 2017 profit before tax stood at €9,018,270 compared to €6,608,908 in 2016.

The solvency position of the company remains strong with a Solvency Capital Requirement, ('SCR') of €11,793,191 (unaudited) and Own Funds of €27,622,830 (unaudited), at 31 December 2017, thus having an SCR ratio of 234% and a Minimum Capital Requirement ratio of 521%.

The company is well positioned to proceed on its journey seeking out profitable growth in line with its strategy. In addition to organic growth in markets where it currently operates, prudent growth that is in line with predetermined objectives is being sought in other EU jurisdictions. During 2018 GMI will be developing a new motor portfolio in Greece. This is in partnership with local expertise and on the ground management. This will be a standalone operation being written on a quota share basis with the company retaining a share that is in line with its prudent ethos.

Risks and uncertainty

The main risk that affects an insurance company is 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 company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The estimation of the IBNR is also generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is available. Management makes use of statistical models to help assess the company's levels of IBNR and claims reserves and ensure they are appropriate.

DIRECTORS' REPORT - CONTINUED

Financial risk management

Information pertaining to the company's insurance and financial risk management is included in Notes 2.1 and 2.2 of these financial statements.

Events after reporting date

During 2018, the directors recommended the payment of a final net dividend of €1,000,000 which was paid in March 2018.

There were no other particular important events affecting the company which occurred after the reporting date.

Future developments

The directors intend to continue to operate in line with the company's current business plan.

Results and dividends

The statement of comprehensive income is set out in pages 17 and 18.

The interim net ordinary dividends of €3,250,000 (2016: €1,750,000) were declared and paid out during the year, €750,000 of which were paid in February 2017 as a final dividend based on 2016 financial statements.

Reserves

The directors propose that the balance of retained earnings amounting to €15,464,842 (2016: €12,476,900) be carried forward to the next financial year, and that a final dividend be paid in 2018 as described above.

External actuarial function holder

The company's external actuarial function holder is Mr Dimitris Dimitrou, fellow of the Institute of Actuaries, partner of LUX Actuaries & Consultants.

Directors

Joseph A Gasan - *Chairman*
Alpert P Mamo - *Deputy Chairman*
Julian J mamo - *Managing Director*
Mark Gasan
Baudouin Deschamps
Paul G Matthews
Martin Wonfor

The company's Articles of Association do not require any of the directors to retire.

Statement of Directors' responsibilities for the financial statements

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

DIRECTORS' REPORT - CONTINUED

Statement of Directors' responsibilities for the financial statements - continued

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

- ensuring that the financial statements have been drawn up in accordance with the 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 as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of GasanMamo Insurance Limited for the year ended 31 December 2017 are included in the Annual Report 2017, 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.

Company Secretary

Vanessa Portelli B.A., LL.D., Dip.CII

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their reappointment will be proposed.

Corporate Governance

The company continues to make endeavours to ensure that it complies with the requirements of the Malta Financial Services Authority guidelines and to exceed these where it deems necessary so as to ensure that high standards are met in this area.

Corporate Social Responsibility

The company acknowledges its responsibility as a corporate citizen and hence its obligations toward society at large. It complies with the applicable laws of the country as befits a good corporate citizen company. Furthermore, the company supports various entities in the sphere of national heritage, culture, sport as well as initiatives of a social nature that benefit the country as well as overseas.

The Board of Directors

The Board meets regularly, at least on a quarterly basis to review the performance to date and to assess the position of the company at that time. The members are a mix of appointees of the shareholders, together with independent members who bring with them international experience in various areas of the business. During the quarterly meetings senior officials of the company make detailed presentations to the board members for their evaluation and assessment of performance and progress.

DIRECTORS' REPORT - CONTINUED

The Board of Directors - continued

The Board also meets once a year for a separate and specific meeting to discuss strategy and set strategic direction for the company.

An Executive Committee of the Board consisting of all local directors together with five senior members of management meets on a monthly basis to review the management accounts of the previous month. All members of the Board are circulated with the same level of management information including detailed monthly financial performance reports, investment reports, as well as other key performance indicators, together with the minutes of meetings.

Board and Executive Committees

The following committees are appointed by and report to the Board of Directors.

Audit Committee

The committee meets regularly to review processes connected with internal controls, to review reports prepared by the internal auditor, to coordinate the work of the external auditors and the internal auditor, and to make any recommendations that it deems necessary for the better performance and governance of the company.

The audit committee is made up of:

Baudouin Deschamps - *Director - (Chairman)*
Paul G Matthews - *Director*
Martin Wonfor - *Director*

The following are normally invited to attend these meetings:

Julian J Mamo - *Managing Director*
Vanessa Portelli - *Company Secretary*
Michael Farrugia - *Financial Controller*
KPMG as the company's internal auditor

Investment Committee

The Committee has the function to consider and propose to the Board the asset allocation policy of the company and to monitor the performance of the portfolio managers.

The Investment Committee is made up of:

Joseph A Gasan - *Chairman*
Albert P Mamo
Julian J Mamo
Mark Gasan
Baudouin Deschamps
Paul G Matthews
Martin Wonfor
Michael Farrugia
Vanessa Portelli - *Member & Secretary*

DIRECTORS' REPORT - CONTINUED

Property Investment Committee

The investment committee has appointed this sub-committee to consider and propose investment in immovable property and to subsequently manage any rental property the company may own.

The Property Investment Committee is made up of:

Julian J Mamo - *Chairman*
Mark M Mamo
Mark Gasan
Eliseo Fenech
Vanessa Portelli - *Member & Secretary*

Other Committees

Governance, Risk and Compliance Committee

This committee is responsible for defining and revising the corporate governance as well as overseeing arrangements of the company in order to ensure the sound and prudent management of the business. The committee, as an advisory committee to the Board, assist the Board to actively promote ethical and responsible decision-making and ensure that the company recognises legal and other obligations to all legitimate stakeholders.

Moreover the committee contributes in the formulation of the company's overall risk strategies and polices for managing significant business risks, and is responsible for designing and implementing the company's Risk Management Framework. Finally, it ensures that the company's overall system of internal control operates effectively, monitors risk exposures and breaches.

The Governance, Risk and Compliance Committee is made up of:

Julian J Mamo - *Chairman*
Albert P Mamo
Vanessa Portelli
Leslie Causon
Francis Valletta
Michael Farrugia
Mark M Mamo

Reinsurance Committee

This committee is representative of the various areas of operation of the company and meets regularly towards the end of the year to assess and propose to the Board any changes that may be considered for the reinsurance programme of the company for the following year. It also meets as and when required during the course of the year to consider particular issues that affect the reinsurance programme and which may require ad-hoc solutions.

The Reinsurance Committee is made up of:

Julian J Mamo - *Chairman*
Leslie Causon
Francis Valletta
Vanessa Portelli
Mark M Mamo
Shawn O'Dea - *Member & Secretary*

DIRECTORS' REPORT - CONTINUED

Health & Safety Committee

The Health & Safety Committee is composed of representatives of the company as well as representatives of the staff. Their role is to ensure that the premises and work environment in general complies with legal requirements and is of an acceptable level, as well as to make any related recommendations in this regard.

The Health & Safety Committee is made up of:

Vanessa Portelli - *Chairperson*
Mario Farrugia
Marcel Bonaci
Petra Satariano - *Staff Representative*
Kurt Caruana - *Staff Representative*

Debtors Review Committee

The committee meets on a monthly basis, to oversee the management of the debtors of the company. It also takes cognisance of debtors and any related action required, legal or otherwise, and recommends any required bad debt write-offs. The company recognises that it manages to retain a very positive time-frame for debt collection through the collective efforts of this committee.

The Debtors Review Committee is made up of:

Julian J Mamo - *Chairperson*
Leslie Causon
Eliseo Fenech
Mark M Mamo
Steve Bilocca
Ritianne Zammit - *Secretary*

Remuneration Committee

The committee, as an advisory committee to the Board of Directors, assists with the formulation of GasanMamo's overall remuneration policy for defining remuneration practices. In addition, the committee ensures that these policies promote an effective system of internal control and makes recommendations to the Board of Directors for Improvements. The committee is made up of Non-Executive Directors and invites the Managing Director to attend the meetings as required. Meetings are held at least annually and are minuted.

The Remuneration Committee is made up of:


Albert P Mamo - *Chairman*
Joseph A Gasan - *member*
Martin Wonfor - *member*
Mark Gasan - *member*

DIRECTORS' REPORT - CONTINUED

Going Concern

The directors are satisfied that taking into account the financial position of the company it is reasonable to assume that there are adequate resources to enable the company to continue its operations in the foreseeable future. Therefore the directors have adopted this position as a basis for the preparation of these accounts.

On behalf of the Board



Joseph A Gasan
Chairman



Julian J Mamo
Director

Registered office
Gasamamo Insurance Limited
Msida Road
Gzira GZR 1405
Malta

19 April 2018



Independent auditor's report

To the Shareholders of GasanMamo Insurance Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- GasanMamo Insurance Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2017, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

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

What we have audited

Gasamamo Insurance Limited's financial statements, set out on pages 16 to 60, comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

Independence

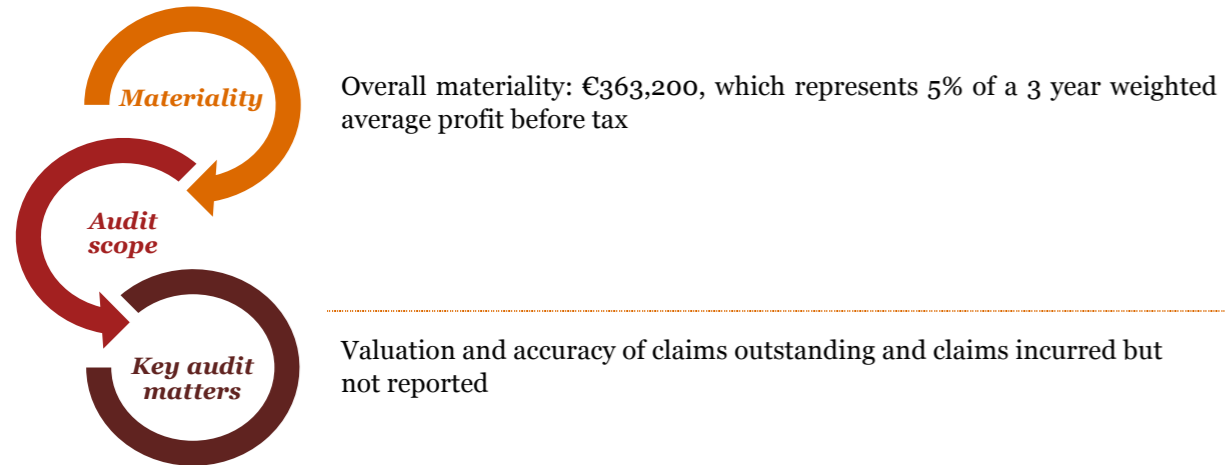
We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of 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.

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

The non-audit services that we have provided to the company, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 18 to the financial statements.

Our audit approach

Overview



Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

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

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

Materiality

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

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

Overall materiality	€363,200
How we determined it	5% of a 3 year weighted average profit before tax
Rationale for the materiality benchmark applied	We chose a 3 year weighted average profit before tax as reflected in the statement of comprehensive income of 2015 to 2017 as the benchmark because, in our view, profit is a key financial statement metric used in assessing the performance of the company, and considering that profit tends to fluctuate year on year. We selected 5% based on our professional judgement, noting that it is also within the range of commonly accepted profit-related benchmarks.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €36,300 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
------------------	--

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

Valuation of insurance provisions is judgemental, and requires a number of assumptions to be made that have estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Company as some claims can take time to emerge or develop. The determination of the value of these insurance reserves requires judgement, inter alia, in the selection of key assumptions and methodologies.

The company has estimated claims outstanding on a case by case basis, and supplemented this with an Incurred but Not Reported (IBNR) claims provision based on different reserving methodologies applicable to the relevant policy portfolios.

The Company's net claims outstanding and IBNR provisions are disclosed in note 13 at €13.2m and €2.1m respectively, and favourable variations arising from prior year claims amounted to €2m. Further information on the development of the ultimate cost of claims over the years is disclosed in note 13.

We focused on this area due to its inherent subjectivity and complexity (refer to notes 2.1, 3, and 13).

Our audit procedures addressing the valuation of the Company's claims outstanding and incurred but not reported claims provision included the following procedures:

- we applied our industry knowledge and experience in understanding and evaluating the IBNR reserving methodology, models and assumptions used;
- we also performed our own independent IBNR projections, and compared the results to management's estimates;
- we considered whether the claims outstanding and IBNR reserving methodology was applied consistently across the years;
- we considered the quality of historical reserving by reviewing variations arising from prior year technical provisions;
- we analysed claims patterns and sample tested case estimates; and
- we considered the extent of related disclosures to the financial statements.

Based on the work performed, we found the claims outstanding and claims incurred but not reported to be consistent with the explanations and evidence obtained.



Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the managing director's review and the chairman's statement (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 GasanMamo 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.



Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

- 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.

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

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

Independent auditor's report - continued

To the Shareholders of GasanMamo 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.

Appointment

We were first appointed as auditors of the Company on 25 August 1975. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 43 years. The company became licensed as an insurance undertaking in terms of the Maltese Insurance Business Act (Cap. 403) on 11 April 2003.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta



David Valenzia
Partner

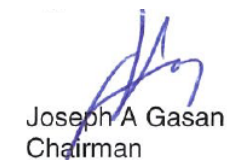
19 April 2018

STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2017 €	2016 €
ASSETS			
Property, plant and equipment:			
- land and buildings	4	2,864,615	2,934,203
- plant and equipment	4	628,999	519,297
Investment property	5	10,515,358	7,813,455
Investments	6	36,676,752	29,576,108
Reinsurers' share of technical provisions	13	1,360,758	1,096,616
Deferred acquisition costs	7	3,401,450	3,072,804
Receivables:			
- receivables arising from direct insurance operations	8	5,492,900	5,171,940
- other receivables	8	323,443	434,896
- prepayments and accrued income	8	503,484	522,200
Cash and cash equivalents	10	5,639,335	9,440,092
Total assets		67,407,094	60,581,611
EQUITY			
Capital and reserves			
Share capital	11	12,000,000	12,000,000
Retained earnings	12	15,464,842	12,476,900
Total equity		27,464,842	24,476,900
LIABILITIES			
Technical provisions	13	35,545,949	31,356,103
Payables:			
- interest bearing borrowings	14	795,981	514,856
- payables arising out of direct insurance operations	15	323,737	391,114
- other payables	15	1,157,758	1,293,577
- accruals and deferred income	15	711,473	574,017
Current taxation		408,694	1,314,656
Deferred taxation	9	998,660	660,388
Total liabilities		39,942,252	36,104,711
Total equity and liabilities		67,407,094	60,581,611

The notes on pages 21 to 60 are an integral part of these financial statements.

The financial statements on pages 16 to 60 were authorised by the Board on 19 April 2018 and were signed on its behalf by:



Joseph A Gasan
Chairman



Julian J Mamo
Director

STATEMENT OF COMPREHENSIVE INCOME
Technical account - General business

	Notes	Year ended 31 December	
		2017 €	2016 €
Earned premiums, net of reinsurance			
Gross premiums written		38,938,317	34,281,642
Outward reinsurance premiums		(2,913,365)	(2,888,752)
Net premiums written		36,024,952	31,392,890
Change in the gross provision for unearned premiums	13	(2,222,632)	(1,546,665)
Earned premiums, net of reinsurance		33,802,320	29,846,225
Allocated investment return transferred from the non-technical account	17	986,953	743,097
Total technical income		34,789,273	30,589,322
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		16,213,770	16,356,046
- reinsurers' share	13	(245,432)	(738,272)
		15,968,338	15,617,774
Change in the provision for claims			
- gross amount	13	1,967,214	(1,124,481)
- reinsurers' share	13	(264,142)	806,127
		1,703,072	(318,354)
Claims incurred, net of reinsurance		17,671,410	15,299,420
Net operating expenses	16,18	9,995,353	9,193,474
Total technical charges		27,666,763	24,492,894
Balance on the technical account - general business (page 18)		7,122,510	6,096,428

STATEMENT OF COMPREHENSIVE INCOME
Non-technical account

	Notes	Year ended 31 December	
		2017 €	2016 €
Balance on technical account - general business (page 17)		7,122,510	6,096,428
Investment income	17	2,982,623	1,319,740
Investment expenses and charges	17	(287,812)	(230,072)
Allocated investment return transferred to the general business technical account	17	(986,953)	(743,097)
Other income		581,460	521,270
Administration expenses	18	(393,558)	(355,361)
Profit before income tax		9,018,270	6,608,908
Tax expense	20	(2,780,328)	(2,475,374)
Profit for the year		6,237,942	4,133,534
Earnings per share	22	0.52	0.34

The notes on pages 21 to 60 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital €	Retained earnings €	Total €
Balance at 1 January 2016		12,000,000	10,093,366	22,093,366
Comprehensive income				
Profit for the year - total comprehensive income		-	4,133,534	4,133,534
Transactions with owners				
Dividends - total transactions with owners	23	-	(1,750,000)	(1,750,000)
Balance at 31 December 2016		12,000,000	12,476,900	24,476,900
Balance at 1 January 2017		12,000,000	12,476,900	24,476,900
Comprehensive income				
Profit for the year - total comprehensive income		-	6,237,942	6,237,942
Transactions with owners				
Dividends - total transactions with owners	23	-	(3,250,000)	(3,250,000)
Balance at 31 December 2017		12,000,000	15,464,842	27,464,842

The notes on pages 21 to 60 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December	
		2017 €	2016 €
Cash flows from operating activities			
Cash generated from operations	24	9,710,201	5,970,660
Dividends received		262,489	185,483
Interest received		503,037	607,937
Rental income		321,114	173,513
Tax (paid)/refunded		(3,348,018)	395,978
Net cash generated from operating activities		7,448,823	7,333,571
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(431,675)	(268,935)
Disposal of property, plant and equipment		-	7,800
Purchase of investment property	5	(1,575,897)	(3,229,470)
Disposal of investment property		125,000	72,785
Purchase of investments - fair value through profit or loss	6	(9,849,918)	(9,834,163)
Disposal of investments - fair value through profit or loss	6	5,180,713	8,190,514
Increase in investments - loans and receivables	6	(1,728,928)	(500,000)
Net cash used in investing activities		(8,280,705)	(5,561,469)
Cash flows from financing activities			
Dividends paid	23	(3,250,000)	(1,750,000)
Net cash used in financing activities		(3,250,000)	(1,750,000)
Net movement in cash and cash equivalents		(4,081,882)	22,102
Cash and cash equivalents at beginning of year		8,925,236	8,903,134
Cash and cash equivalents at end of year	10	4,843,354	8,925,236

The notes on pages 21 to 60 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

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

1.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, (Cap. 386).

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets at fair value through profit or loss (including all derivative financial instruments) and investment properties.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The statement of financial position 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 2017

In 2017, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

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 2017. 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', and IFRS 17, 'Insurance Contracts', 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 IFRS 9's full impact.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

IFRS 17, 'Insurance Contracts' is effective for annual reporting periods beginning on or after 1 January 2021 but is not yet endorsed by the EU, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Once effective, IFRS 17 will replace IFRS 4, 'Insurance Contracts'. The Standard measures insurance contracts either under the general model or a simplified version of this called the Premium Allocation Approach. Management is considering the implications of this standard as well as IFRS 9 and their impact on the Company's financial results and position.

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The euro 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 or valuation where items are re-measured. 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 profit or loss.

All foreign exchange gains and losses are presented in profit or loss.

1.3 Property, plant and equipment

Property, plant and equipment are recorded at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Buildings	2
Office furniture and equipment	10 - 20
Computer equipment	20
Motor vehicles	20 - 25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.4 Investment property

Property held for long term rental yields or for capital appreciation or both and which is not occupied by the company is classified as investment property. Investment property comprises land and buildings and is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed bi-annually by the directors. Investment property being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. 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.

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

Changes in fair values are recorded in profit or loss.

1.5 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 initial recognition.

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

Financial assets at fair value through profit or loss comprise all securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or investment instrument prices, if so designated by the directors. These financial assets are managed and their performance is evaluated and reported annually 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, receivables, 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. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has also transferred substantially all risks and rewards of ownership.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

(b) Loans and receivables - continued

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

The fair values of quoted investments and units in collective investment schemes are based on quoted market prices at the end of the reporting period. If the market for an investment is not active, the company establishes fair value by using valuation techniques. Equity securities for which the fair value cannot be measured reliably are recognised at cost less impairment. On disposal, the difference between the net disposal proceeds and the carrying amount is included in the net profit or loss for the period.

1.6 Associated companies and joint ventures

Joint ventures are entities over which the company has joint control as a result of contractual arrangements, and rights to the net assets of the entities. Investments in associated companies and joint ventures are accounted for in the financial statements using the equity method of accounting less impairment losses, if any.

(i) Acquisitions

Acquisitions of investments in associated companies and joint ventures are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on associated companies and joint ventures represents the excess of the cost of acquisition of the associated company or joint venture over the company's share of the fair value of the identifiable net assets of the associated company or joint venture and is included in the carrying amount of the investments.

(ii) Equity method

Investments are initially recognised at cost and adjusted thereafter to recognise company's share of its associated companies' or joint ventures' post-acquisition profits or losses of the investee in profit or loss and its share of movements in other comprehensive income of the investee's other comprehensive income. Dividends received or receivable from the associated companies or joint ventures are recognised as a reduction of the carrying amount of the investments. When the company's share of losses in an associated company or joint venture equals to or exceeds its interest in the associated company or joint venture, the company does not recognise further losses, unless it has legal or constructive obligations to make, or has made, payments on behalf of the associated company or joint venture. If the associated company or joint venture subsequently reports profits, the company resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(iii) Unrealised gains

Unrealised gains on transactions between the company and its associated companies or joint ventures are eliminated to the extent of the company's interest in the associated companies or joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the assets transferred. The accounting policies of associated companies or joint ventures are changed where necessary to ensure consistency with the accounting policies adopted by the company.

1. Summary of significant accounting policies - continued

1.6 Associated companies and joint ventures - continued

(iv) Disposals

Investments in associated companies or joint ventures are derecognised when the company loses significant influence or joint control. If the retained equity interest in the former associated company or joint venture is a financial asset, the retained equity interest is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when significant influence or joint control is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

1.7 Impairment of assets

Impairment of financial assets carried at amortised cost.

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

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

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

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

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 profit or loss.

1. Summary of significant accounting policies - continued

1.8 Current and deferred tax

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

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively 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 it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within interest bearing borrowings in current liabilities in the statement of financial position.

1.10 Share capital

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

1.11 Insurance contracts - classification

The company issues contracts that transfer significant insurance risk to the company 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 general 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 incepted 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 end of each reporting period, 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 apportioned over the period in which the related premiums are earned. These are capitalised and are shown as deferred acquisition costs ("DAC") in the statement of financial position. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

1. Summary of significant accounting policies - continued

1.11 Insurance contracts - classification - continued

Insurance contracts - General business - continued

- (iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provision for outstanding claims, including provisions for claims incurred but not reported ("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 end of each reporting period, 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. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the company and statistical analyses for the claims incurred but not reported. The company does not discount its liabilities for unpaid claims. The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available.
- (vi) Provision in the form of an unexpired risk provision will be made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the end of the reporting period.

The above method of provisioning satisfies the minimum liability adequacy 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 receivables), as well as longer term receivables (classified within reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Receivables and payables related to insurance contracts

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

The company assesses its reinsurance assets and its receivables related to insurance contracts for impairment on a regular basis. If there is objective evidence that the reinsurance asset or the insurance receivable is impaired, the company will reduce the carrying amount to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The company gathers the objective evidence that a reinsurance asset or insurance receivable 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 1.7.

1. Summary of significant accounting policies - continued

1.12 Borrowings

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

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

1.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

1.15 Derivative financial instruments and hedging activity

Derivative financial instruments are initially recognised in the statement of financial position at cost and subsequently are remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the company designates certain derivatives as either (1) hedge of the fair value of a recognised asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the statement of comprehensive income, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

The company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedged to specific assets and liabilities or to specific firm commitments or forecast transactions. The company also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The company does not use derivative instruments for speculative purposes.

The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the end of each reporting period.

1. Summary of significant accounting policies - continued

1.16 Offsetting financial instruments

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

1.17 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 1.11 dealing with insurance contracts.
- (b) *Interest income*
Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method. When an insurance 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) *Rental income*
Rent receivable from investment property is accounted for on an accruals basis in accordance with the substance of the relative lease agreements.

1.18 Investment return

Investment return comprises investment income including fair value movements, interest income, dividends, rental income, and is net of investment expenses, charges and interest.

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

1.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

1.20 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

2. Management of insurance and financial risk

The company is exposed to insurance risk and financial risk. This section summarises these risks and the way the company manages them.

2.1 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 basis for the determination of the company's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property 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 of claims may 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 the 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 writes business in a number of classes and assesses its exposure at individual class level but it places more emphasis on assessing class groups. The company's underwriting strategy is to diversify the type of insurance risks accepted and within each of these categories 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 and the concentration in the portfolio on a few large risks.

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors, but primarily by the types of risks that the company accepts to insure. Risk can be significantly affected by a single event such as a severe storm or a drastic change in the methods of compensation awarded by courts.

The company writes only annual policies (with the exceptions of Contractors All Risks contract term cover, Travel and Marine Cargo short term policies), and therefore has the ability to rate risks individually and to impose conditions in accordance with the risk under consideration. For property insurance contracts there is no distinct seasonality in claims patterns except storm-related claims to which the Maltese islands are susceptible at periodic intervals in certain months of the year. The company purchases adequate Catastrophe reinsurance cover to protect against this eventuality.

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

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

(a) Frequency and severity of claims - continued

Underwriting

The underwriting strategy attempts to ensure that the underwritten risks limit the company's exposure to large commercial and industrial risks and to risks with a high probability of causing a severe claim. Internal underwriting guidelines and limits are in place to enforce appropriate risk selection criteria and are reinforced by the proper IT driven controls. Thus intermediaries and branches are unable to give quotations unless these are within their underwriting limits or through direct computer links. Head Office underwriters handle all referrals on risks exceeding such limits. Insurance risks are contracted on the basis of the legal principle of "utmost good faith" and thus the company is able to refuse to settle claims where it can prove that there was non-disclosure or misrepresentation of a material fact at underwriting stage with the aim of circumventing such limits. The company also has systems in place that ensure that certain risks are reviewed prior to renewal terms being offered. As a licensed motor insurer the company is obliged to observe the terms, conditions and limitations of compulsory motor insurance legislation currently in force.

The risks underwritten by the company may also be in the form of reinsurance contracts issued on a one-off facultative basis with other direct re-insurers whereby it assumes a portion of the risk which such insurers undertake with their direct clients.

Reinsurance arrangements

The company has reinsurance protection in place substantially for all classes of business. The reinsurance arrangements consist of a variety of non-proportional programs, with deductibles that are commensurate with the company's financial standing. The company purchases adequate reinsurance cover to protect against the eventuality of a single event such as a storm.

The company's policy is to only utilise reinsurers with a minimum Standard & Poor's rating (or equivalent when not available) of "A minus".

Claims handling

The company's Head Office claims handling departments process and investigate as necessary all claims. Reserves are set in accordance with the company's reserving policy and these are reviewed individually on a regular basis. These limits vary in accordance with the individual's experience and seniority in a manner that ensures that the potentially serious claims are handled by senior and experienced personnel.

The company limits its delegation of claims handling authority to one agent in Malta and to one overseas agent, both of which are monitored by appropriate auditing processes carried out by Head Office personnel. Authority limits in relation to the handling and the settlement of claims are in place.

The company aims to achieve as short a settlement period as possible that allows it to achieve a higher degree of certainty with regard to the estimated cost of claims.

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

(a) Frequency and severity of claims - continued

Concentration of insurance risk

The company derives 90% (2016: 91%) of its premium income from risks written in Malta whilst the other 10% (2016: 9%) is derived from risks written in Cyprus, France and Greece.

Property risks underwritten by the company are mainly geographically situated on the Maltese Islands with exposure in Cyprus, and limited exposure in Greece. The nature of some policies underwritten by the company in Malta, such as Motor Third Party Liability, Marine Cargo, Travel Insurance and Liability expose the company to claims relating to incidents occurring outside the Maltese Islands, in spite of the fact that the risks are based within them.

In the company's portfolio there is no undue concentration of risk or of policy holders or of business sectors, with a healthy balance between Personal Lines risks and Commercial risks.

(b) Sources of uncertainty in the estimation of future claim payments

The most significant risks are changes in the pattern of awards for bodily injury and fatality claims, and inflationary trends. Claims on casualty contracts are payable 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 period. Some liability claims tend to be settled over a period of time and an element of claims provision relates to incurred but not reported claims. Statistical analyses are carried out annually to ascertain that the provision for IBNR is adequate. The compensation paid on these contracts is the monetary award granted for bodily injury suffered. Such awards are lump sum payments that are calculated as the present value of the lost earnings and actual related costs incurred that the injured party suffers as a result of the accident. For fatalities the amount of compensation is also a monetary amount paid as a lump sum to heirs relating to the lost future earnings of the deceased plus actual costs incurred as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of expected subrogation value and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. An initial reserve based on average claims cost is attributed to each reported incident where insufficient information is available at that time. Analysis of the development of past claims has shown that reserves have proven to be sufficient to meet the ultimate cost. In calculating the estimated cost of notified but unpaid claims, the company's estimation technique is a combination of past experience, medical assessments, legal precedent and current trends in compensation awards. All the company's claims reserves are an accumulation of individual case estimates.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is available. Claims IBNR may often not be apparent to the insured until several years after the event giving rise to the claims would have happened. The company estimates IBNR as a fixed percentage of gross written premiums in order to reflect the consequence of changes in portfolio size. Adequacy tests are carried out annually. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcome because of the greater degree of difficulty in estimating these reserves.

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

(b) Sources of uncertainty in the estimation of future claim payments - continued

Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

Note 13 presents the development of the estimate of ultimate claims costs for claims notified in a given year. This gives an indication of the accuracy of the company's estimation techniques for claims payments.

During 2017 the claims pattern was as forecast, and no unusual "event" was recorded during the period.

2.2 Financial risk management

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 market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity positions, 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.

(a) Market risk

(i) 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 company holds investments mostly in equity and debt securities. Debt securities are subject to interest rate risk.

Fair value interest rate risk is the risk that the relative value of a security will worsen due to an interest rate increase. Interest rate risk is mitigated through the distribution of fixed interest investments over a range of maturity dates. Moreover, the company's asset allocation policy limits the amount of investment in any one asset or towards any one counterparty. The exposure to interest rate risk in respect of borrowings is not material considering the short term nature of the company's external borrowings. Notes 6, 8, 10 and 14 incorporate interest rate and maturity information with respect to the company's assets and liabilities.

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

	2017 €	2016 €
Assets at floating interest rates (Note 6 and 10)	4,945,746	6,645,064
Assets at fixed interest rates (Note 6)	22,126,018	18,683,914
	<u>27,071,764</u>	<u>25,328,978</u>
Liabilities at floating interest rates (Note 14)	<u>795,981</u>	<u>514,856</u>

2. Management of insurance and financial risk - continued

2.2 Financial risk management - continued

(a) Market risk - continued

(i) Interest rate risk - continued

Up to the end of the reporting period 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.

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 end of the reporting period.

At 31 December 2017 the company was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities. If interest rates at that date would have been 50 basis points lower with all other variables held constant, the increase in pre-tax profit for the year would have been €502,954 (2016: €609,432) higher. An increase of 50 basis points, with all other variables held constant, would have resulted in pre-tax profit being €490,794 (2016: €581,460) lower.

At 31 December 2017, the company was also exposed to cash flow interest rate risk on floating interest rate investments. If interest rates at that date would have been 50 basis points (2016: 50 basis points) higher/lower with all other variables held constant, pre-tax profit for the year would have been €24,729 (2016: €33,225) higher/lower.

(ii) Price risk

The company is exposed to market price risk on its financial assets, particularly on its equity investments. These investments are subject to stock market volatility and the value can decline significantly in response to adverse political, market or economic developments.

The company reduces this risk by diversifying its investments in different countries and in different sectors. The company also operates a number of investment portfolios in order to spread risk. These investment portfolios are administered by different investment managers.

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

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

	2017 €	2016 €
Assets subject to equity price risk	<u>12,744,567</u>	<u>8,826,381</u>

2. Management of insurance and financial risk - continued

2.2 Financial risk management - continued

(a) Market risk - continued

(ii) Price risk - continued

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The sensitivity for equity price risk is derived based on global equity returns, assuming that currency exposures are hedged.

Given the investment strategy of the company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. A 10% increase/decrease in equity prices, with all other variables held constant, would result in an impact on the pre-tax profit for the year of €1,274,457 (2016: €882,638).

(iii) 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. On the other hand, 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.

As at 31 December 2017, the company's exposure to foreign currency investments, principally comprising a mix of US Dollar and UK Pound, represented 9% of the company's total investments (2016: 13%). The directors do not consider the company's exposure to exchange risk to be significant.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company's exposure to credit risk can arise mainly from the following sources:

1. Amounts due from insurance intermediaries
2. Amounts due from insurance contract holders
3. Reinsurers' share of insurance liabilities
4. Amounts due from reinsurers for amounts already paid
5. Investments and cash and cash equivalents

As a general rule the company transacts its business on a cash basis. The company has in place internal control structures to assess and monitor credit exposures and risk thresholds. Normal credit terms provided by the Company range from 1 to 3 months. Credit risk with respect to debts is limited due to the large number of customers comprising the company's debtor base.

2. Management of insurance and financial risk - continued

2.2 Financial risk management - continued

(b) Credit risk - continued

For the first two categories the company manages its credit risks through the work of its Debtors Review Committee. This committee meets on a monthly basis and ensures that credit is controlled within pre-agreed timed payment schedules on a case-by-case basis. The company experiences a low level of bad debts and for the year under review this amounts to less than 1% of gross written premiums for the year.

In view of the nature of the company's activities, its receivables comprise amounts due from group and related undertakings. The company's management monitors credit exposures with related parties at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The company assesses the credit quality of these related parties taking into account financial position, performance and other factors. The company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

Reinsurance is used to manage insurance risks. 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 considered on an annual basis by the company's Reinsurance Committee that reviews their financial strength in accordance with MFSA guidelines prior to finalisation of any contract. The company's policy is to only contract Reinsurers with a minimum Standard & Poor's rating (or equivalent when not available) of "A minus".

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. The company has no significant exposure to credit risk with respect to investments since such assets exposing the company to credit risk mainly consist of investments in government bonds and corporate bonds quoted on a reputable stock exchange. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuers.

The following table illustrates the assets that expose the company to credit risk as at the end of the reporting period and includes the Standard & Poor's composite rating (or equivalent), when available. Unrated financial assets principally comprise locally traded bonds on the Malta Stock Exchange, receivables and certain deposits with local bank institutions for which no recognised rating is available.

2. Management of insurance and financial risk - continued

2.2 Financial risk management - continued

(b) Credit risk - continued

Financial assets bearing credit risk at the end of the reporting period are analysed as follows:

As at 31 December 2017						
	AAA to AA- €	A+ to A- €	BB to BB- €	BBB+ to BBB- €	Unrated €	Total €
Investments						
Fair value through profit or loss	3,677,442	6,484,753	568,231	6,387,322	983,372	18,101,120
Loans to group undertaking and shareholders	-	-	-	-	2,988,661	2,988,661
Deposits with banks or financial institutions	-	-	-	1,803,928	1,000,000	2,803,928
	3,677,442	6,484,753	568,231	8,191,250	4,972,033	23,893,709
Loans and receivables						
Receivables and accrued income	-	-	-	-	6,083,984	6,083,984
Cash and cash equivalents	42,836	680,809	-	465,390	4,450,300	5,639,335
	42,836	680,809	-	465,390	10,534,284	11,723,319
Total	3,720,278	7,165,562	568,231	8,656,640	15,506,317	35,617,028
Reinsurers' share of technical provisions						1,360,758
Total assets bearing credit risk						36,977,786

2. Management of insurance and financial risk - continued

2.2 Financial risk management - continued

(b) Credit risk - continued

As at 31 December 2016						
	AAA to AA- €	A+ to A- €	BB to BB- €	BBB+ to BBB- €	Unrated €	Total €
Investments						
Fair value through profit or loss	3,338,852	7,027,951	265,659	5,996,247	634,169	17,262,878
Loans to group undertaking and shareholders	-	-	-	-	1,588,661	1,588,661
Deposits with banks or financial institutions	-	-	-	1,725,000	750,000	2,475,000
	3,338,852	7,027,951	265,659	7,721,247	2,972,830	21,326,539
Loans and receivables						
Receivables and accrued income	-	-	-	-	5,881,837	5,881,837
Cash and cash equivalents	-	534,001	-	2,934,597	5,971,494	9,440,092
	-	534,001	-	2,934,597	11,853,331	15,321,929
Total	3,338,852	7,561,952	265,659	10,655,844	14,826,161	36,648,468
Reinsurers' share of technical provisions						1,906,616
Total assets bearing credit risk						38,555,084

(c) Liquidity risk

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

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

2. Management of insurance and financial risk - continued

2.2 Financial risk management - continued

(c) Liquidity risk - continued

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

As at 31 December 2017	Contracted undiscounted cash outflows				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Bank overdraft	795,981	-	-	-	795,981
Trade and other payables	1,481,495	-	-	-	1,481,495
Accruals and deferred income	711,473	-	-	-	711,473
	2,988,949	-	-	-	2,988,949

As at 31 December 2016	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 and IBNR	9,925,812	1,641,383	2,657,467	2,520,549	16,745,211

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	514,856	-	-	-	514,856
Trade and other payables	1,684,691	-	-	-	1,684,691
Accruals and deferred income	574,017	-	-	-	574,017
	2,773,564	-	-	-	2,773,564

As at 31 December 2016	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 and IBNR	7,949,974	1,642,466	2,898,393	2,287,164	14,777,997

2. Management of insurance and financial risk - continued

2.3 Capital risk management

The company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Malta Financial Services Authority ("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 MFSA. The minimum capital requirement (defined as 'the required minimum margin') must be maintained at all times throughout the year. The company monitors its capital level on a regular basis at least once a month through detailed reports compiled with the management accounts. Such reports are circulated to the Board and senior management. Any transactions that may potentially affect the company's solvency position are immediately reported to the directors and shareholders for resolution prior to notifying the MFSA.

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

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

The Company was in full compliance with its regulatory capital requirements throughout the financial year and at 31 December 2017, the Company's eligible own funds amounting to €27,622,830 (unaudited) were in excess of the required SCR.

2.4 Fair value estimation

The fair value of publicly traded investments classified as financial assets at fair value through profit or loss is based on quoted market prices at the end of the reporting period. The fair value of unquoted equities is established by a directors' valuation. At 31 December 2017 and 2016, the carrying amount of the company's other financial assets and liabilities approximate their fair value due to their short-term nature.

2. Management of insurance and financial risk - continued

2.4 Fair value estimation - continued

IFRS 13 requires disclosure for fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value:

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

The following table presents the company's assets and liabilities that are measured at fair value at 31 December.

	2017	2016
	€	€
Assets		
Financial assets at fair value through profit or loss:		
Investments - Level 1	30,844,923	25,388,247
Investments - Level 2	764	24,200

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The investments classified as level 2 were fair valued using the net asset value of the investment, as reported by the respective portfolio manager. Management believes the portfolio manager could have redeemed its investments at the net asset value per share at the balance sheet date. Information pertaining to investment property is included in Note 5.

3. Critical accounting estimates and judgements in applying accounting policies

Estimates and judgements 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. The estimate and assumptions that have a significant risk of affecting the reported amount of assets and liabilities within the next financial year are discussed below.

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of liability that the company will ultimately pay for such claims. As disclosed in note 2.1 the estimated cost of unpaid claims, both reported and not, is calculated on a case by case basis using a combination of past experience, medical assessments, legal precedent and current trends in compensation awards. The company believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end. Further detail about the development of claims is provided in note 13 to these financial statements.

4. Property, plant and equipment

	Land and buildings including leasehold improvements €	Office furniture and equipment €	Computer equipment €	Motor vehicles €	Total €
At 1 January 2016					
Cost	4,241,565	1,587,072	2,490,875	484,064	8,803,576
Accumulated depreciation	(1,271,216)	(1,406,443)	(2,213,135)	(380,332)	(5,271,126)
Net book amount	2,970,349	180,629	277,740	103,732	3,532,450
Year ended 31 December 2016					
Opening net book amount	2,970,349	180,629	277,740	103,732	3,532,450
Additions	68,750	37,351	133,334	29,500	268,935
Disposals	-	-	-	(59,716)	(59,716)
Depreciation charge	(104,896)	(51,670)	(142,161)	(49,158)	(347,885)
Depreciation released on disposals	-	-	-	59,716	59,716
Closing net book amount	2,934,203	166,310	268,913	84,074	3,453,500
At 31 December 2016					
Cost	4,310,315	1,624,423	2,624,209	453,848	9,012,795
Accumulated depreciation	(1,376,112)	(1,458,113)	(2,355,296)	(369,774)	(5,559,295)
Net book amount	2,934,203	166,310	268,913	84,074	3,453,500
Year ended 31 December 2017					
Opening net book amount	2,934,203	166,310	268,913	84,074	3,453,500
Additions	35,015	48,363	291,692	56,605	431,675
Depreciation charge	(104,603)	(51,964)	(174,515)	(60,479)	(391,561)
Closing net book amount	2,864,615	162,709	386,090	80,200	3,493,614
At 31 December 2017					
Cost	4,345,330	1,672,786	2,915,901	510,453	9,444,470
Accumulated depreciation	(1,480,715)	(1,510,077)	(2,529,811)	(430,253)	(5,950,856)
Net book amount	2,864,615	162,709	386,090	80,200	3,493,614

5. Investment property

	2017 €	2016 €
Year ended 31 December		
At beginning of year	7,813,455	4,656,770
Transfer to Property, plant and equipment	-	(72,785)
Additions	1,575,897	3,229,470
Disposal	(87,132)	-
Fair value gain on revaluation	1,213,138	-
At end of year	10,515,358	7,813,455
At 31 December		
Cost	8,674,725	7,185,960

Fair value of Investment property

	Available for rent €	Under development €	Total €
Fair value at 31 December 2017			
At beginning of year	7,813,455	-	7,813,455
Additions	1,575,897	-	1,575,897
Disposal	(87,132)	-	(87,132)
Fair value gain on revaluation	1,213,138	-	1,213,138
At end of year	10,515,358	-	10,515,358
Fair value at 31 December 2016			
At beginning of year	3,756,770	900,000	4,656,770
Transfer to Property, plant and equipment	(72,785)	-	(72,785)
Transfer to available for rent	900,000	(900,000)	-
Additions	3,229,470	-	3,229,470
At end of year	7,813,455	-	7,813,455

An independent valuation of the company's investment property was performed to determine the fair value as at 31 December 2017. The directors are of the opinion that the carrying amount of the investment property as at 31 December 2017 is not materially different from its fair value. The company is required to disclose fair values by level of the following fair value measurement hierarchy for non-financial assets carried at fair value:

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

The company's recurring fair value measurements are categorised as level 3 as they are based on significant unobservable inputs.

5. Investment property - continued

Valuation processes

The valuations of the properties are performed bi-annually by the directors on the basis of information such as current rents, terms and conditions of lease agreements, capital expenditure, etc. The information used to value the properties and the valuation models used - are reviewed by the Property Investment Committee. This includes a review of fair value movements over the period.

The Property Investment Committee is a sub-committee of the Investment Committee and when the Investment Committee 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 technique

The valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

Future rental cash inflows	based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties;
Capitalisation rates	based on actual location, size and quality of the properties and taking into account market data at the valuation date.

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

Description	Fair value €	Valuation technique	Range of significant unobservable inputs	
			Rental value €	Capitalisation rate %
Residential and commercial property	10.5m	Capitalisation of future net income streams	0.3m	3.75 - 6

For each valuation for which rental value and capitalisation rate have been determined to be the significant unobservable inputs, the higher the rental value 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.

6. Investments

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

	2017 €	2016 €
Fair value through profit or loss (Note a)	30,845,687	25,412,447
Loans and receivables (Note b)	5,792,589	4,063,661
Investment in joint ventures (Note c)	38,476	100,000
	36,676,752	29,576,108

6. Investments - continued

(a) Investment at fair value through profit or loss

	2017 €	2016 €
Equity securities, other variable yield securities and units in collective investment schemes	12,744,567	8,826,381
Debt securities - listed fixed interest rate	16,333,429	15,120,253
Debt securities - listed floating interest rate	1,767,691	1,465,813
	<u>18,101,120</u>	<u>16,586,066</u>
Total investments at fair value through profit or loss	30,845,687	25,412,447

Equity securities, other variable yield securities and units in collective investment schemes are classified as non-current.

Maturity of debt securities and treasury bills:

	2017 €	2016 €
Within 1 year	1,241,621	735,521
Between 1 and 2 years	1,662,262	1,401,820
Between 2 and 5 years	8,146,136	6,129,421
Over 5 years	7,051,101	8,319,303
	<u>18,101,120</u>	<u>16,586,065</u>

	2017	2016
Weighted average effective interest rate	<u>3.88%</u>	<u>3.21%</u>

The movements for the year are summarised as follows:

	2017 €	2016 €
Year ended 31 December		
At beginning of year	25,412,447	23,440,172
Additions	9,849,918	9,734,158
Disposals (sale and redemptions)	(5,180,713)	(8,190,517)
Net fair value gains	764,035	428,634
	<u>30,845,687</u>	<u>25,412,447</u>
As at 31 December		
Cost	28,997,625	24,505,390
Accumulated net fair value gains	1,848,062	907,057
	<u>30,845,687</u>	<u>25,412,447</u>

6. Investments - continued

(b) Loans and receivables

	2017 €	2016 €
At 31 December		
Deposits with banks or financial institutions	2,803,928	2,475,000
Loan to group undertaking	2,900,000	1,500,000
Loan to shareholder	88,661	88,661
	<u>5,792,589</u>	<u>4,063,661</u>

Maturity of deposits with banks or financial institutions and loans:

	2017 €	2016 €
Within 1 year	2,053,928	2,475,000
Between 1 and 2 years	750,000	-
	<u>2,803,928</u>	<u>2,475,000</u>

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

	2017 €	2016 €
At fixed rates	<u>2,803,928</u>	<u>2,475,000</u>

Investments amounting to €2,109,500 (2016: €2,109,500) are pledged with banks or financial institutions against borrowings (Note 14).

The loan to group undertaking and loan to shareholder are unsecured, bear interest at a weighted average rate of 3% (2016: 3.1%) and are repayable on demand.

(c) Investment in joint ventures

	2017 €	2016 €
CCGM Pension Administrators Limited	<u>38,476</u>	100,000

On 31 August 2016, the company signed a memorandum of association with Calamatta Cuschieri Group Plc for the creation of the company CCGM Pension Administrators Limited. The company is registered as a private liability company and its main object is to act as a retirement scheme administrator for the purposes of the Retirement Pensions Act.

6. Investments - continued

(c) Investment in joint ventures - continued

CCGM Pension Administrators Limited's share capital is made up as follow:

	2017 €	2016 €
Authorised, issued and fully paid up		
100,000 Ordinary 'A' shares of €1 each	100,000	100,000
100,000 Ordinary 'B' shares of €1 each	100,000	100,000
	200,000	200,000

Shares carry equal voting rights, and rights to dividends and rank pari-passu. The investment's carrying value is determined by reference to the Company's share of net asset value of CCGM. The movement of €61,524 represents an unrealised loss on this investment.

7. Deferred acquisition costs

	2017 €	2016 €
Year ended 31 December		
At beginning of year	3,072,804	2,895,533
Net amount credited to profit or loss (Note 16)	328,646	177,271
At end of year	3,401,450	3,072,804
Current portion	3,401,450	3,072,804

8. Receivables, prepayments and accrued income

	2017 €	2016 €
Receivables		
Receivables arising from direct insurance operations:		
- due from policyholders	1,135,293	1,722,261
- due from agents, brokers and intermediaries	4,357,607	3,449,679
	5,492,900	5,171,940
Other receivables		
- receivables from group undertakings	292,940	196,064
- receivables from related parties	28,041	19,930
- receivables from directors	2,462	3,409
- other receivables	-	215,493
	323,443	434,896

8. Receivables, prepayments and accrued income - continued

	2017 €	2016 €
Prepayments and accrued income		
- prepayments	235,843	247,199
- accrued interest	267,641	275,001
	503,484	522,200
Total receivables, prepayments and accrued income	6,319,827	6,129,036
Current portion	6,319,827	6,129,036

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

Receivables are presented net of an allowance for impairment of €271,145 (2016: €307,678). As at 31 December 2017, receivables amounting to €4,990,771 (2016: €4,834,374) were fully performing, whereas receivables amounting to €825,572 (2016: €772,462) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of significant default. The ageing analysis of the past due but not impaired receivables is as follows:

	2017 €	2016 €
Less than 3 months	565,461	441,919
Less than 6 months but more than 3 months	128,714	170,173
Less than 12 months but more than 6 months	118,584	113,030
More than 12 months	12,813	47,340
	825,572	772,462

9. Deferred income tax

	2017 €	2016 €
Year ended 31 December		
At beginning of year	(660,388)	(309,825)
Charged to profit or loss (Note 20)	(338,272)	(350,563)
At end of year	(998,660)	(660,388)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2016: 35%), with the exception of investment property, for which deferred income taxes are calculated using a principal tax rate of 8%. The directors consider the deferred taxation as at the end of the reporting period to be of a non-current nature.

9. Deferred income tax - continued

The balance at 31 December represents temporary differences on:

	2017 €	2016 €
Temporary difference on fixed assets	(25,162)	(25,162)
Temporary differences attributable to unrealised foreign exchange differences	56,107	(33,535)
Impairment of receivables	94,901	107,687
Temporary differences on investment property	(657,984)	(562,580)
Temporary differences on unrealised capital gains	(466,522)	(146,798)
	<u>(998,660)</u>	<u>(660,388)</u>

Deferred income taxes and liabilities are offset when there is a legally enforceable right to set-off under the Malta Income Tax regime.

10. Cash and cash equivalents

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

	2017 €	2016 €
Cash at bank and in hand	5,639,335	9,440,092
Bank overdrafts (Note 14)	(795,981)	(514,856)
	<u>4,843,354</u>	<u>8,925,236</u>

Cash at bank and in hand includes amounts held with investment managers amounting to €4,419,864 (2016: €5,258,781).

The deposits held with banks earn interest as follows:

	2017 €	2016 €
At floating rates	<u>3,178,055</u>	<u>5,179,251</u>

11. Share capital

	2017 €	2016 €
Authorised		
15,000,000 Ordinary shares of €1 each	<u>15,000,000</u>	<u>15,000,000</u>
Issued and fully paid up		
6,750,000 Ordinary 'A' shares of €1 each	6,750,000	6,750,000
5,250,000 Ordinary 'B' shares of €1 each	5,250,000	5,250,000
	<u>12,000,000</u>	<u>12,000,000</u>

The 'A' and 'B' ordinary shares rank pari passu in all respects except for the appointment of the directors. The holders of the 'A' and 'B' ordinary shares are entitled to appoint an equal number of persons as directors of the company.

12. Retained earnings

The retained earnings balance represents the amount available for dividend distribution to the ordinary shareholders except for any amount that is not distributable in terms of the solvency capital requirements which the Company is required to adhere to in terms of the Insurance Business Act (Cap. 403) and any amount that is not distributable under the Maltese Companies Act, (Cap. 386), to the extent that it represents unrealised profits.

13. Technical provisions and reinsurance assets

	2017 €	2016 €
Gross technical provisions		
Claims reported and loss adjustment expenses	14,598,753	13,213,302
Claims incurred but not reported	2,146,458	1,564,695
Unearned premiums	18,800,738	16,578,106
	<u>35,545,949</u>	<u>31,356,103</u>
Total technical provisions - Gross		
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	1,360,758	1,096,616
	<u>1,360,758</u>	<u>1,096,616</u>
Total reinsurers' share of technical provisions		
Net technical provisions		
Claims reported and loss adjustment expenses	13,237,995	12,116,686
Claims incurred but not reported	2,146,458	1,564,695
Unearned premiums	18,800,738	16,578,106
	<u>34,185,191</u>	<u>30,259,487</u>
Current portion	<u>27,964,829</u>	<u>23,888,487</u>

Claims reserves are calculated utilising a combination of internal and market data and are made up of the sum of individual case estimates. In the case of property damage claims estimates are based on expert reports, while those for injury or fatality claims are calculated using formulas established by jurisprudence to which legal costs are added on. Based on this process, no key variable has been identified for which a change would have a material impact on the profit or loss for the year. Such an assessment and the relative materiality of the key variables may change in the future.

Statistical analyses on the adequacy of claims reserves are regularly carried out and these consistently show that the reserves are reliable and adequate. As at 31 December 2017, the provision for claims reported and loss adjustment expenses includes an allowance for subrogation or salvage recoveries amounting to €2,264,877 (2016: €2,075,349).

The company's policy with regards to IBNR reserves is to calculate this as a percentage of gross written premium based on statistical analysis of late reported claims were updated. This did not have a significant impact.

The risk and claim profile of the company does not indicate any conditions or variables that are likely to impact significantly upon the company's cash flow. During the year the assumptions used to estimate the ultimate cost of claims were updated. This did not have a significant impact.

13. Technical provisions and reinsurance assets - continued

The development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The top half of each table below 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 statement of financial position. The accident-year basis is considered to be the most appropriate for the business written by the company. Liability in respect of prior years includes claims handled by the company as agents and attorneys of the Aviva Group and which were subject to a portfolio transfer to the company with effect from 1 January 2003.

Claims outstanding - Gross

Estimate of the ultimate claims costs:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	€	€	€	€	€	€	€	€	€	€	€
At end of reporting year	10,969,369	12,259,523	13,271,686	13,925,721	14,165,946	14,919,844	16,680,060	19,521,393	15,758,540	18,823,566	
- one year later	10,717,117	11,832,395	12,830,586	12,753,049	13,562,717	14,828,377	14,593,910	18,580,047	14,164,549		
- two years later	10,260,485	11,084,438	13,009,746	12,574,462	13,383,321	14,580,222	14,221,883	18,825,596			
- three years later	9,999,354	11,213,234	12,836,570	12,627,392	13,235,431	14,369,068	14,234,696				
- four years later	9,793,189	11,073,744	12,777,630	12,662,183	13,194,822	14,244,658					
- five years later	9,774,896	10,903,889	12,648,134	12,403,455	13,121,787						
- six years later	9,720,333	10,829,321	12,588,867	12,354,460							
- seven years later	9,711,134	11,014,456	12,656,101								
- eight years later	9,696,028	10,858,917									
- nine years later	9,702,056										
- ten years later											
Current estimates of : Cumulative claims	9,702,056	10,858,917	12,656,101	12,354,460	13,121,787	14,244,658	14,234,696	18,825,596	14,164,549	18,823,566	138,986,386
Cumulative payments to date	(9,596,932)	(10,659,862)	(12,494,638)	(11,980,432)	(12,688,951)	(13,735,071)	(13,405,326)	(16,473,494)	(12,525,964)	(9,665,164)	(123,225,834)

Liability recognised in the

statement of financial position
Liability in respect of prior years

	105,124	199,055	161,463	374,028	432,836	509,588	829,370	2,352,102	1,638,585	9,158,402	15,760,552
											984,659

Total liability recognised in the
statement of financial position

16,745,211

13. Technical provisions and reinsurance assets - continued

Claims outstanding - Net

Estimate of the ultimate claims costs:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	€	€	€	€	€	€	€	€	€	€	€
At end of reporting year	10,945,287	12,259,523	13,271,686	13,925,721	13,875,114	14,206,396	15,976,787	17,904,856	15,758,540	18,491,566	
- one year later	9,592,442	11,832,395	12,830,586	12,753,049	13,280,100	14,127,162	14,221,788	17,086,976	14,164,549		
- two years later	10,198,291	11,084,438	13,009,746	12,574,462	13,108,062	13,885,349	13,796,256	17,154,951			
- three years later	9,937,160	11,213,235	12,836,570	12,627,392	12,966,166	13,675,346	13,809,068				
- four years later	9,730,995	11,073,744	12,777,630	12,662,183	12,926,133	13,550,935					
- five years later	9,712,702	10,903,889	12,648,134	12,403,455	12,853,098						
- six years later	9,658,139	10,829,321	12,588,867	12,354,460							
- seven years later	9,648,940	11,014,456	12,656,101								
- eight years later	9,633,834	10,858,917									
- nine years later	9,639,862										
- ten years later											
Current estimates of : Cumulative claims	9,639,862	10,858,917	12,656,101	12,354,460	12,853,098	13,550,935	13,809,068	17,154,951	14,164,549	18,491,566	135,533,507
Cumulative payments to date	(9,534,738)	(10,659,862)	(12,494,638)	(11,980,432)	(12,420,262)	(13,041,348)	(13,004,905)	(15,668,925)	(12,525,964)	(9,665,164)	(120,996,238)

Liability recognised in the

statement of financial position
Liability in respect of prior years

	105,124	199,055	161,463	374,028	432,836	509,588	804,163	1,486,025	1,638,585	8,826,402	14,537,269
											847,184

Total liability recognised in the
statement of financial position

15,384,453

13. Technical provisions and reinsurance assets - continued

(a) Claims and loss adjustment expenses

	Year ended 31 December 2017		
	Gross €	Reinsurance €	Net €
Notified claims still outstanding	13,213,303	(1,096,616)	12,116,687
Incurring but not reported	1,564,695	-	1,564,695
Total at beginning of year	14,777,998	(1,096,616)	13,681,382
Claims settled during the year	(15,036,284)	245,432	(14,790,852)
Increase/(decrease) in liabilities			
- arising from current year claims	18,823,566	(332,000)	18,491,566
- arising from prior year claims	(1,820,069)	(177,574)	(1,997,643)
Total at the end of year	16,745,211	(1,360,758)	15,384,453
Notified claims still outstanding	14,598,753	(1,360,758)	13,237,995
Incurring but not reported	2,146,458	-	2,146,458
Total at the end of year	16,745,211	(1,360,758)	15,384,453
	Year ended 31 December 2016		
	Gross €	Reinsurance €	Net €
Notified claims still outstanding	14,614,505	(1,902,743)	12,711,762
Incurring but not reported	1,287,973	-	1,287,973
Total at beginning of year	15,902,478	(1,902,743)	13,999,735
Claims settled during the year	(15,235,883)	738,272	(14,497,611)
Increase/(decrease) in liabilities			
- arising from current year claims	15,758,540	-	15,758,540
- arising from prior year claims	(1,647,138)	67,855	(1,579,283)
Total at the end of year	14,777,997	(1,096,616)	13,681,381
Notified claims still outstanding	13,213,302	(1,096,616)	12,116,686
Incurring but not reported	1,564,695	-	1,564,695
Total at the end of year	14,777,997	(1,096,616)	13,681,381

The company registered a gross favourable run-off of €1.82m (2016: €1.65m). After the effect of reinsurance, this amounts to €1.2m (2016: €1.58m).

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.

13. Technical provisions and reinsurance assets - continued

(b) Unearned premiums

The movements for the year are summarised as follows:

	Gross and net €
Year ended 31 December 2017	
At beginning of year	16,578,106
Net amount charged to profit or loss	2,222,632
At end of year	18,800,738
	Gross and net €
Year ended 31 December 2016	
At beginning of year	15,031,441
Net amount charged to profit or loss	1,546,665
At end of year	16,578,106

14. Borrowings

	2017 €	2016 €
Overdrawn bank balances	795,981	514,856

The bank borrowings are secured by a pledge on investments amounting to €2,109,500 (2016: €2,109,500). The available facility as at year end amounted to €2,232,940 (2016: €2,232,940).

The interest rate exposure of the company was as follows:

	2017 €	2016 €
At floating rates	795,981	514,856

Weighted average effective interest rate:

	2017	2016
Bank overdrafts	4.13%	4.70%

15. Other payables, accruals and deferred income

	2017 €	2016 €
Payables arising out of direct insurance operations	323,737	391,114
Other payables		
Payables to fellow subsidiaries	52,616	2,346
Payables to other related parties	57,050	57,362
Other payables	216,432	485,429
Document duty and other tax payables	831,660	748,440
	1,157,758	1,293,577
Accruals and deferred income		
Accrued expenses and deferred income	711,473	574,017
	2,192,968	2,258,708
Total other payables and accruals and deferred income	2,192,968	2,258,708
Current portion	2,192,968	2,258,708

16. Net operating expenses

	2017 €	2016 €
Acquisition costs	7,103,867	6,416,705
Change in deferred acquisition costs (Note 7)	(328,646)	(177,271)
Administrative expenses	3,220,132	2,954,040
	9,995,353	9,193,474

Total commissions accounted for in the financial period in the company's technical result amounted to €4,076,870 (2016: €3,565,669). Administrative expenses mainly comprise staff costs.

17. Investment return

	2017 €	2016 €
Investment income		
Interest receivable from financial assets that are not at fair value through profit or loss	111,884	100,868
Income from financial assets at fair value through profit or loss:		
- Dividend income	262,489	185,483
- Interest income	503,037	499,748
Rental income on investment property	321,114	172,654
Exchange differences	(364,684)	(93,227)
Gains from financial assets at fair value through profit or loss	997,169	454,214
Gains on revaluation of investment property	1,213,138	-
Loss from investment in joint venture	(61,524)	-
	2,982,623	1,319,740
Investment expenses and charges		
Investment management fees and charges	211,778	188,946
Other investment expenses	76,034	41,126
	287,812	230,072
	2,694,811	1,089,668
Analysed between:		
Allocated investment return transferred to the general business technical account	986,953	743,097
Investment return included in the non-technical account	1,707,858	346,571
	2,694,811	1,089,668

18. Expenses by nature

	2017 €	2016 €
Employee benefit expense and directors' fees	3,247,327	2,907,346
Commissions (Note 16)	4,076,870	3,565,669
Change in deferred acquisition costs (Note 7)	(328,646)	(177,271)
Depreciation of property, plant and equipment (Note 4)	391,561	347,885
Operating lease rentals - property	114,652	115,088
Decrease in provision for impairment of receivables	(36,533)	(45,893)
Other expenses	2,923,680	2,836,011
	10,388,911	9,548,835
Analysed between:		
Included in the general business technical account (Note 16)	9,995,353	9,193,474
Included in the non-technical account	393,558	355,361
	10,388,911	9,548,835

18. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial period relate to the following:

	2017 €	2016 €
Annual statutory audit	46,020	46,111
Other assurance services	22,420	-
Tax advisory services	3,882	1,829
Other non-audit services	-	2,360
	<u>72,322</u>	<u>50,300</u>

19. Employee benefit expense

	2017 €	2016 €
Salaries (including directors' salaries)	4,172,719	3,784,446
Social security costs	260,421	244,593
	<u>4,433,140</u>	<u>4,029,039</u>

The average number of persons employed during the year was:

	2017 €	2016 €
Directors	1	1
Direct	92	88
Indirect	44	45
	<u>137</u>	<u>134</u>

20. Tax expense

	2017 €	2016 €
Current income tax expense	2,442,056	2,124,811
Deferred income tax charge (Note 9)	338,272	350,563
	<u>2,780,328</u>	<u>2,475,374</u>

20. Tax expense - continued

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

	2017 €	2016 €
Profit before income tax	9,018,270	6,608,908
Tax on profit at 35%	3,156,395	2,313,118
Tax effect of:		
Expenses not allowable for tax purposes	150,367	85,621
Exempt losses and application of flat rate foreign tax credit	(100,818)	(30,042)
Movement in unrecognised deferred tax asset	-	19,676
Different tax rates applicable to investment property	(329,194)	148,021
Tax credits	(3,143)	(26,489)
Income charged at lower rates of tax	(74,156)	(34,531)
Overstatement of tax in prior year	(19,123)	-
Tax expense	<u>2,780,328</u>	<u>2,475,374</u>

21. Directors' emoluments

	2017 €	2016 €
Directors' fees, salaries and other emoluments	458,000	407,720

During the year, no benefits in kind were provided to the directors (2016: €Nil).

22. Earnings per share

Earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Net profit attributable to shareholders (€)	6,237,942	4,133,534
Weighted average number of ordinary shares in issue	12,000,000	12,000,000
Earnings per share (€)	<u>0.52</u>	<u>0.34</u>

23. Dividends

	2017 €	2016 €
Net dividends paid on ordinary shares	3,250,000	1,750,000
Dividends per ordinary share	<u>0.27</u>	<u>0.15</u>

The directors have recommended the payment of a final dividend in the net amount of €1,000,000, which was paid on 7 March 2018.

24. Cash generated from operations

	2017	2016
	€	€
Profit before tax	9,018,270	6,608,908
Adjustments for:		
Depreciation of plant and equipment (Note 4)	391,561	347,885
Profit on disposal of plant and equipment (Note 4)	-	(7,800)
Decrease in provision for bad debts	(36,533)	(45,893)
Profit on disposal of investment property	(37,868)	-
Non-cash movements in investments	(3,002,289)	(1,395,567)
Movements in:		
Technical provisions (net)	3,925,704	1,228,308
Debtors and prepayments including DAC	(482,904)	(1,267,953)
Creditors and accruals	(65,740)	502,772
Cash generated from operations	<u>9,710,201</u>	<u>5,970,660</u>

25. Related party transactions

Due to common ultimate shareholders, all companies forming part of the Gasan Group of Companies and the Galdes & Mamo Group are considered by the directors to be related parties.

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

	2017	2016
	€	€
Income		
Gross premium income - Parent company	83,553	83,299
Gross premium income - Other related parties	233,525	267,908
Interest	77,633	59,645
Expenditure		
Services provided in relation to claims paid	4,135,954	3,796,549
Rent	11,976	11,799
Administrative and operating expenses	58,636	25,505
Capital expenditure		
Fixed asset additions	<u>93,378</u>	<u>65,919</u>

Year-end balances owed by or to group undertakings and other related parties are disclosed in notes 6, 8 and 15 to these financial statements respectively.

The key management of the company are considered to be the directors. Directors' remuneration, has been disclosed in note 21 to these financial statements.

26. Commitments

Commitments for purchase of property, plant and equipment and investment property not provided for in these financial statements are as follows:

	2017	2016
	€	€
Contracted but not provided for	-	787,500
Operating lease commitments - where the Company is the lessor		
	2017	2016
	€	€
Not later than 1 year	281,056	237,318
Later than 1 year and not later than 5 years	233,587	275,975
Later than 5 years	16,701	33,969
	<u>531,344</u>	<u>547,262</u>

27. Contingencies

At 31 December 2017 there were contingent liabilities amounting to €108,970 (2016: €87,347) in respect of guarantees in favour of third parties.

28. Statutory information

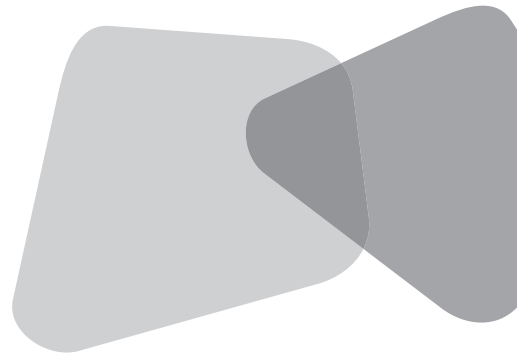
GasanMamo Insurance Limited is a limited liability company and is incorporated in Malta.

The parent company of GasanMamo Insurance Limited is Gasan Group Limited, a company registered in Malta, with its registered address at Gasan Centre, Mriehel By-Pass, Mriehel. Gasan Group Limited is the undertaking that draws up the consolidated financial statements of the smallest body of undertakings of which GasanMamo Insurance Limited forms part as a subsidiary company.

The ultimate parent company of GasanMamo Insurance Limited is J.A.G. Limited, a company registered in Malta, with its registered address at Gasan Centre, Mriehel By-Pass, Mriehel. The ultimate controlling party of GasanMamo Insurance Limited and J.A.G. Limited is Mr J. A. Gasan. The financial statements of GasanMamo Insurance Limited are included in the consolidated financial statements prepared by J.A.G. Limited.

29. Comparative information

Where necessary, comparative figures have been adjusted to conform with the current year's disclosure for the purpose of fairer presentation.



gasamamo.com

Gasamamo Insurance Limited

Msida Road, Gzira GZR 1405, Malta