GasanMamo
INSURANCE
we're always there

2019 ANNUAL REPORT AND FINANCIAL STATEMENTS

CONTENTS

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 endevour 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.

OUR CUSTOMERS.

OUR PEOPLE.

OUR CSR.


GasanMamo 20th Anniversary Celebration


GasanMamo 20th Anniversary Celebration


Supporting Foodbank Lifeline Foundation


Supporting Malta Pride Week 2019


Team Building Event


GasanMamo 20th Anniversary Celebration


Social Activity: Arrow Tag Event


Beer Goggle Football Team Building Event


Christmas Staff Party December 2019


Social Activity: Horse Riding


Supporting Parallel Existences Exhibition by Alex Attard


Supporting Mosta FC Tournament 2019

CHAIRMAN'S STATEMENT

It gives me great pleasure to present to you the Annual Report and Financial Statements for the year ending 31st December 2019. 2019 is a particular year in our history since it marks the 20th anniversary since the formation of GasanMamo as we know it today.

As you will go through the forthcoming pages you will see that we have been fortunate enough to mark the anniversary with a set of outstanding numbers. I will claim bragging rights and proudly declare that 2019 has set a new watermark in terms of the company's performance. The company has taken another step forward, confirming its excellent position in Malta's insurance market and achieving results that are deemed excellent in any market or sector. For the first time we have seen our Gross Written Premia (GWP) breach the €50,000,000 mark and our Profit before Tax surpass the €10,000,000 mark, clearly a milestone for any organisation. This has been achieved by unflinchingly sticking to our mantra to drive for profitable growth, while at the same time keeping the customer at the heart of all that we do. We have seen positive developments in all our markets and the achievement of our key strategic objectives. The year under review presented a number of challenges. For example, early in 2019 we were impacted by the financial effects of a severe windstorm in Malta. We also encountered other large claims, as is expected from time to time. GasanMamo Insurance benefitted from maintaining high underwriting standards and careful risk selection, while at the same time keeping the door firmly open for business and taking on risks that pass our rigorous underwriting assessment.

In Malta there have been two parallel universes. On the political front there has been considerable turmoil leading to the resignation of the Prime Minister and many of his close aides leading to the appointment of a new Prime Minister and a top-down cabinet reshuffle. Efforts are underway to restore serenity and repair the reputational fallout that has occurred. In the other universe I referred to, the economy performed outstandingly and while there are fears of a slowdown there was no manifestation of this up until year end . On the international front the markets rebounded from the heavy sell-off and de-risking during the last quarter of 2018. In January 2019 optimism was restored and the economic data remained positive. This was mainly driven by the continued economic growth in the USA which had a positive effect on the global economy. The UK came to terms with the BREXIT reality and markets responded positively to the reduced uncertainty.

It is in the environment described above that the company has achieved what is by all accounts, excellent GWP growth of 17.9%, taking GWP from €44.6M (2018) to €52.6M (2019). GWP grew robustly in Malta and significantly in Greece whilst there was a small and planned contraction in Cyprus. Financial year 2019 was the first full year for the Greek motor portfolio and it is now twenty-one months since the first motor policy was written. The anticipated traction was achieved. We anticipate continued growth will take place in this market as the GMI brand becomes more established. On the investment front, the steady hand of our Investment Managers and the Investment Committee resulted in the recovery of all the losses suffered in 2018 plus additional gains. The investment return for the period was +7.54% (€3.94M) compared to -1.4% - (€701K) in 2018. Performance in foreign equity markets generated a staggering 25% return with other asset classes also performing well.

During Q1 2020, the positive economic narrative, both in Malta and internationally came to an abrupt end as it was replaced by pessimism and uncertainty triggered by the outbreak of COVID-19. The health and economic impacts of COVID-19 are well known and have radically altered plans and expectations of businesses and economies around the world. Despite these developments, GasanMamo Insurance is able to report that it is still in a sound financial position with a Solvency Ratio substantially higher than the minimums required by regulatory bodies. This is the result of the Company's conservative financial approach, taken to ensure resilience over the long term.

Following several years of economic growth, it is expected that there will be a significant economic slowdown, this will most likely result in a contraction of GWP across most lines of business.

The company has carried out various scenario analyses taking the above into account, on the basis of information available to date. While acknowledging that the situation is fluid, the healthy position of the company is sufficient to withstand this turbulence and be well placed to move forward when the economic climate improves.

The combination of a strong technical result and outstanding investment return in 2019 put the company on course to obtain the best result achieved so far. This annual report fills me with pride and conviction that GasanMamo Insurance is a company that has excellent qualities that twenty years ago set it on a quest for prudent profitable growth. We have achieved much, all of which is due to the support and commitment of all stakeholders, not least our many loyal customers, our Tied Insurance Intermediaries, Agents and Brokers, our staff and Management Team, my fellow directors and the shareholders who have supported this project since day one.

We look to the future encouraged by the past, yet very aware that past successes are not guaranteed in the future. We remain determined to achieve success, by building on the excellent and long-standing relationships that have evolved over the years as well as eagerly developing new ones. The world around us changes at breakneck speed and we need to be light on our feet and prepared to seize opportunities that present themselves.

The journey continues. Together with all our staff partners and clients we look forward to the future with enthusiasm and commitment.

Joseph A Gasan
Chairman

"The company has taken another step forward, confirming its excellent position in Malta's insurance market and achieving results that are deemed excellent in any market or sector."

MANAGING DIRECTOR'S REVIEW

The year under review, 2019 was indeed a landmark year in more ways than one. It marks the 20th Anniversary since the merger of two insurance operations into one. It is therefore the year that laid out the vision for a new future. The company has grown and evolved as indeed, has the economy, technology, regulation and the opportunities from Malta joining the EU enabling companies to passport into EU member states. The year under review also happens to be the year that the company has achieved the highest GWP levels and the highest PBT. All in all, a watershed year.

The economic backdrop in Malta remained strong once again with GDP growth exceeding 7% and full employment. The global economy also maintained a positive growth trajectory with the US leading from the front. Concerns of trade wars subsided, and markets pushed forward. The market jitters of Q4 2018 gave way to a more positive sentiment and markets rebounded strongly, particularly in Q1 2019.

This changed in Q1 of 2020, with the outbreak of COVID-19. The spread of the virus has led to unprecedented economic downturns. Investment markets across the globe have plunged, further exacerbating the macro and micro economic effects that lockdown brings. Given the nature of a pandemic is deemed to be temporary, governments have launched assistance packages to mitigate the impact. Despite these developments, we are happy to report that we are financially robust with a Solvency Ratio substantially higher than the minimums required by regulatory bodies. This is the result of the Company's conservative financial approach, taken to ensure resilience over the long term.

As a company we have been committed to seek out profitable growth in our chosen markets by primarily keeping our customers at the heart of all we do, focusing on quality service and products. We continue to invest in our people, building a team of outstanding individuals working towards a common purpose. We invest in systems to ensure that we remain at the forefront of our industry and maintain efficiency levels that are essential in today's environment. The positive economic backdrop in 2019 led to an increase in operational costs as well as an increase in claims costs. To cope with this every effort is made to do things smarter and grow the business profitably at a faster rate than the cost increases. The strong GMI market position and brand loyalty has enabled us to be well placed to achieve this.

I am pleased to report that in Malta the relatively hard Motor market persisted and it was once again possible to introduce the needed rate adjustments to be well placed to cope with large claims and CAT losses that are likely to arise from time to time. Other lines of business registered growth, however due to competitive forces, rate increases could not be introduced, and growth was purely organic. Overall GWP closed at €52.6M up 17.9% compared to €44.6M in 2018. It must be noted that strong growth of 9% was registered in existing markets while significant traction was achieved in Greece where we have completed the first full year of activity underwriting a Motor portfolio spread throughout Greece. At year end this stood at €5.0M. We are very pleased with the way that this business is developing, with our partners in Greece and the reinsurance arrangements that are in place.

During the year under review we have registered a slight deterioration in the Combined Operating Ratio (COR) which closed at 83.8% compared to 80.9% in 2018. It was anticipated that this would increase slightly due to the development of the entire book and the fact that it is evolving, this said it was also impacted by the CAT loss emanating from a severe windstorm that struck Malta and Gozo in February 2019. By all accounts the COR achieved is one that we are proud of and we recognise that this is the factor that determines our true result.

The underwriting exposure to the company emanating from COVID-19 is considerable. A number of large claims have been lodged, this notwithstanding the company is in a good position to meet all its obligations due to the strong balance sheet that it had coming into this situation and the strength of the reinsurance programme that is in place. This will of course have an adverse effect on the company loss ratio during 2020.

Net Investment Returns for 2019 closed at €3.9M representing an annual return rate of 7.54%, compared to a loss of €0.7M in 2018. This improvement is due to the rebound of the markets following the sell off during 2018. I would like to give credit to the Investment Committee and the Investment Managers who have put in place a prudent and robust investment strategy that has delivered the desired result.

In Q1 2020, due to the significant market reaction to the outbreak, international markets have seen very substantial drawdowns. The company has a prudent investment allocation policy in place that has been refined over the years and this provides for the mitigation of the impact of such phenomena, however in spite of this, the balance sheet has suffered mark to market losses of approximately 9% as at the end of March 2020.

The combination of a strong technical result and an excellent investment return in 2019 has put the company ahead of expectations and registered a PBT of €11.39M compared to €7.32M in 2018. By all accounts, this is an outstanding result and a credit to all Staff, Management and the Board. Our commitment is long term, with a primary goal of building the business brick by brick, bringing with us all the long standing and valued stakeholders. We are long termers on a journey, building on old and developing new business relationships with clients, intermediaries and reinsurers.

We are committed to the communities in which we operate taking on our corporate social responsibility eagerly. We identify causes that matter and assist where we can, our focus being youth and sport, culture and heritage and the environment.

I feel privileged to lead such a great company, who has within it such a great team. I have said before that it is excellent to have good luck, but one must not rely on luck. Our track record year on year is testimony to the fact that diligent hard work, deep rooted respect for individuals and relationships, as well as strategic drive that is grounded is a good formula and one that has worked well for us. I would like to give my heartfelt thanks to all our customers, who are the reason we exist. I would also like to thank all stakeholders who are a part of this interesting journey, including clients, intermediaries, brokers and agents, staff and management, the board of directors and all service providers. I look to the future cautiously optimistic in the knowledge that we are well placed to withstand the challenges ahead and seize opportunities that are in line with our goals.

Julian J Mamo
Director

"Our track record year on year is testimony to the fact that diligent hard work, deep rooted respect for individuals and relationships, as well as strategic drive that is grounded is a good formula and one that has worked well for us."

THE BOARD OF DIRECTORS

GasanMamo 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

Joseph A. Gasan is the chairman of Gasan Group Limited, GasanMamo Insurance Limited and several other companies constituting the Gasan group of companies. He is also a director of several other companies including MIDI plc, The Quad Ltd, Embassy Ltd, and Main Street Complex Ltd. Mr. Gasan assumed the running of the family business in 1971 and in the mid-70s initiated and directed an expansion and diversification programme which resulted in the development of the Gasan group of companies to its present level of development. The result has been the creation of a dynamic enterprise with the necessary human and financial resources to continue to seek fresh opportunities at home and abroad.

ALBERT P. MAMO
DEPUTY CHAIRMAN

Albert P. Mamo has been involved in insurance for all his working life of 48 years and served as Managing Director of Galdes & Mamo Ltd. From 1990 to 1999 and Managing Director of GasanMamo Insurance Ltd. from 2000 to 2013 when he retired from his executive role. During this period he steered the business through merger, and subsequently transformation from an Insurance Agency to an 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.

JULIAN J. MAMO
MANAGING DIRECTOR

Julian Mamo, a graduate in Business Management has been in the insurance industry for over 25 years. Having been a Director of Galdes & Mamo Ltd and playing an instrumental role in the development of the Company and has witnessed the insurance industry evolve first hand. Mr. Mamo has been Managing Director of GasanMamo Insurance since 2013 and has led the company on a steady path of profitable growth providing solid stakeholder returns. Mr. Mamo is a Non-Executive Director on several Boards in companies operating in diverse industries.

BAUDOUIN DESCHAMPS
DIRECTOR

Mr. Deschamps has 30 years of insurance experience including almost 25 years with the Aviva Group where he served in Senior Management in various parts of the group including 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.

MARK GASAN
DIRECTOR

Mark Gasan is the CEO of Gasan Group and a director of several other companies. Mr. Gasan assumed the Chief Executive position of the group in 2014 and has led the group on a strong growth path ever since. His leadership has seen the business strengthen its focus on its four key pillars whilst still delivering solid growth across all the sectors that the group operates in. Mr. Gasan brings a distinct area of expertise in leading and developing various group interests in the property, building services solutions, automotive and insurance sectors.

ROBERT ROGERS
DIRECTOR

Robert Rogers has 35 years' experience as a reinsurance underwriter and broker, latterly at Willis Towers Watson where he was Regional Director with particular responsibility for UK and Irish clients. Having advised insurance companies in many geographies and with very different business approaches, he brings a broad experience and understanding of the insurance industry, particularly focused on reinsurance, to the GasanMamo Insurance Board.

MARTIN WONFOR
DIRECTOR (retired 31st December 2019)

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.

NICHOLAS BELL
DIRECTOR

Mr. Bell has a Masters degree in economics and an MBA from INSEAD. He has held a variety of senior roles within investment banking both in Europe and the US spanning fixed income, equities, venture capital and corporate finance. In recent years his focus has been on advising fast growing technology-enabled businesses within the consumer and financial service sectors.

VANESSA PORTELLI
COMPANY SECRETARY

Vanessa Portelli, a lawyer by profession joined GasanMamo Insurance as Legal Officer in 2002. She served as Board Secretary from 2005 and was appointed Company Secretary in 2008. In 2011, Dr Portelli was appointed Compliance Officer of the Company and in 2015 she joined the management team as General Manager responsible for Operations, Legal and Compliance.

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

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.

Three excellent agency appointments are in place: Thomas Smith Insurance Agency Limited in Malta and Prodromou & Makriyiannis Insurance Underwriting Agents & Consultants Limited in Cyprus and ELPA Insurance Brokers in Greece. 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

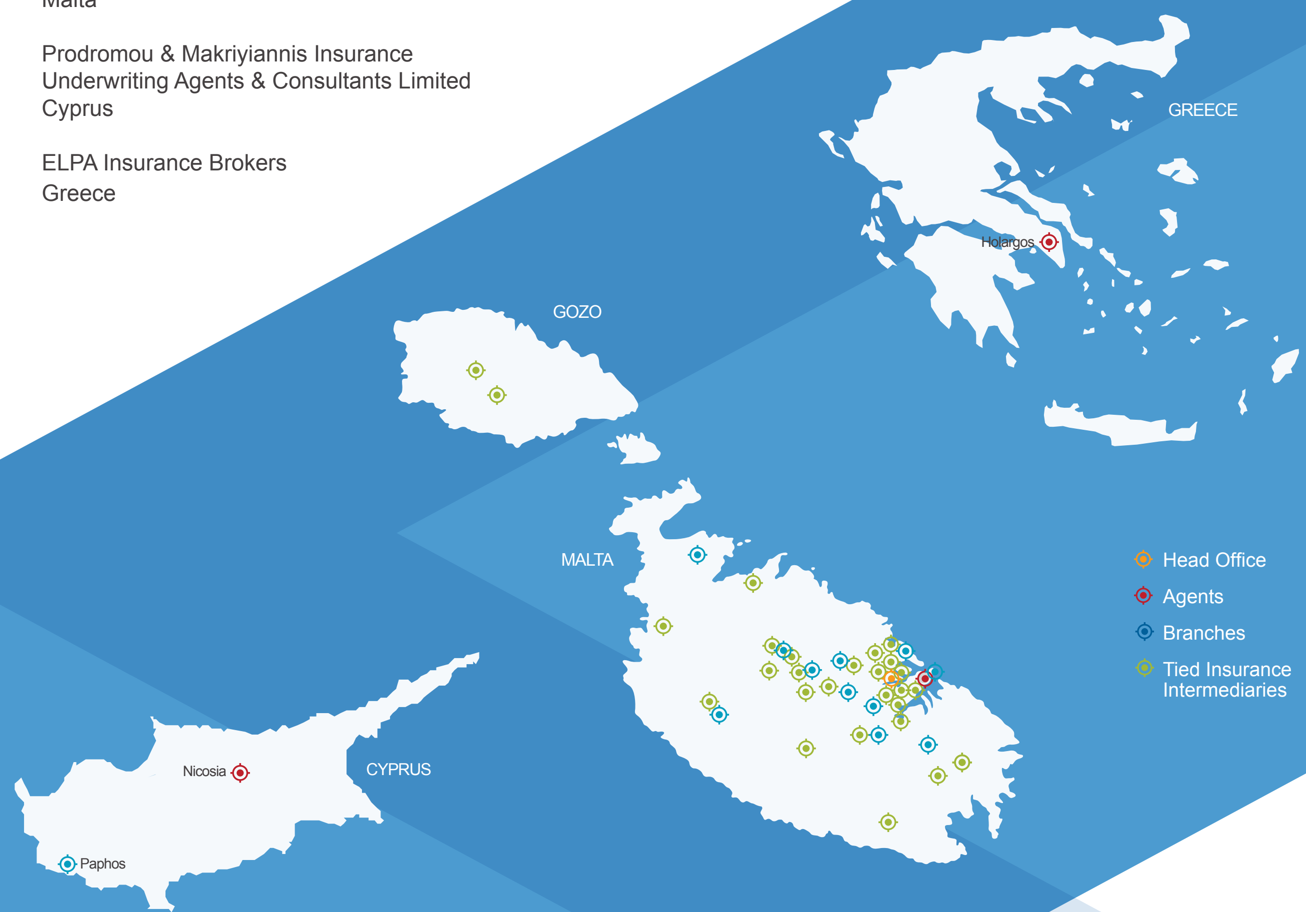
Gżira, Msida Road

AGENTS

Thomas Smith Insurance Agency Limited
Malta

Prodromou & Makriyiannis Insurance
Underwriting Agents & Consultants Limited
Cyprus

ELPA Insurance Brokers
Greece



GASANMAMO INSURANCE LIMITED

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C3143

Directors' report

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

Principal activities

The principal activities of the company 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 the Maltese economy maintained the positive trajectory for growth seen over the recent few years. The economic growth has been spread throughout the main economic sectors. Construction and foreign direct investment continue to be strong drivers. Full employment has had a positive effect on the economy with discretionary income increasing and standard of living improving. The labour force is growing through immigration and 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.

We are pleased to report that the company performed well in this economic environment, registering significant profitable growth with Gross Written Premiums up by 17.9% compared to the previous year (2018: 14.6%). Following global portfolio de-risking in 2018 leading to a significant sell off in markets and an investment loss in 2018 for GMI, markets rebounded in 2019. The rebound was stronger than expected and led to an investment return of 7.54% compared to a loss of -1.38% in 2018. This translated to an investment return of €3,943,000 for the period compared to a loss of €701,000. This combined with a strong technical performance led to the PBT of €11,386,000 compared to €7,322,000 in 2018. The team at GasanMamo Insurance has delivered on its objective to remain focussed on key deliverables positioning itself well for the continued development of the company. Remaining customer centric, managing costs and pricing and driving growth are and will remain at the heart of our mission.

The solvency position of the company remains strong with a Solvency Capital Requirement, ('SCR') of €16,149,335 and Own Funds of €35,415,658, at 31 December 2019, generating an SCR ratio of 219% and a Minimum Capital Requirement ratio of 508%.

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 the Company started operations in Greece under the freedom of services regime and after twenty-one months of activity in the Greek Motor market we are pleased to report that the desired traction has been achieved and GWP stood at €5,000,000 for the period ended 31 December 2019.

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 Board is confident that the RI that is in place coupled with the experience in all areas of operation renders the risk manageable and in line with the risk appetite.

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

The estimation of the IBNR provision 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

Risks and uncertainty - continued

COVID-19

Backdrop
During the Q1 of 2020, the outbreak of COVID-19 in Wuhan China, has had a global impact, the proportions of which have not been witnessed in living memory. The spread of the virus has led to unprecedented economic downturns. Investment markets across the globe have plunged, further exacerbating the macro and micro economic effects that lockdown brings. International travel has been effectively suspended with all related enterprises from airports and airlines to hotels and restaurants and all the connected industries being savaged in the process. Governments around the world have launched assistance packages in an attempt to avert a total economic meltdown, but the jury is out as to whether this is enough or indeed the right assistance. This is the bleak backdrop of operations in Q1 2020. Despite these developments, GasanMamo Insurance is able to report that it is still in a sound financial position with a Solvency Ratio substantially higher than the minimums required by regulatory bodies. This is the result of the Company's conservative financial approach, taken to ensure resilience over the long term.

Underwriting
The underwriting exposure to the company emanating from COVID-19 is considerable and a number of large claims have been lodged. This will of course have an adverse effect on the company loss ratio. Nevertheless, the company is in a good position to meet all its obligations thanks to its strong balance sheet that it had coming into this situation and the strength of the reinsurance programme that is in place.

Investments
Due to the significant market reaction to the outbreak, international markets have seen very substantial drawdowns. The company has a prudent investment allocation policy in place that has been refined over the years and this provides for the mitigation of the impact of such phenomena, however in spite of this, the balance sheet has suffered mark to market losses of approximately 9% during Q1 2020.

Operational
The company has been impacted by the disruptive nature of the Pandemic and while a robust Business Continuity Plan is in place, efficiency will suffer.

Economic
Following several years of economic growth, it is expected that there will be a significant economic slowdown, this will most likely result in a contraction of GWP across most lines of business.

The company has carried out various scenario analyses taking the above into account, on the basis of information available to date. While acknowledging that the situation is fluid, the Directors deem that the healthy position of the company is sufficient to enable it to continue to operate as a going concern.

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 2020, the directors recommended the payment of a final net dividend of €1,500,000 which was paid in February 2020.

There were no other particular important events affecting the company which occurred after the reporting date other than those mentioned elsewhere in the Directors' report.

Directors' report – CONTINUED

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 on pages 17 and 18.

The interim net ordinary dividends of €3,000,000 (2018: €2,500,000) were declared and paid out during the year, €1,000,000 of which were paid in March 2019 as a final dividend based on 2018 financial statements.

Reserves

The directors propose that the balance of retained earnings amounting to €22,341,520 (2018: €17,680,175) be carried forward to the next financial year, and that a final dividend be paid in 2020 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 Deloitte Actuarial Services Ltd (Cyprus).

Directors

Joseph A Gasan - *Chairman*
Albert P Mamo - *Deputy Chairman*
Julian J Mamo - *Managing Director*
Mark Gasan
Baudouin Deschamps
Robert Rogers
Nicholas Bell (appointed 10 April 2019)
Martin Wonfor (retired 31 December 2019)

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 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.

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.

Directors' report – CONTINUED

Statement of Directors' responsibilities for the financial statements - continued

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

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. 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.

Directors' report – CONTINUED

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 - *Chairman*
Robert Rogers - *Director*
Martin Wonfor – *Director (retired on 31 December 2019)*
Nicholas Bell – *Director (appointed on 1 January 2020)*

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
Robert Rogers
Martin Wonfor (retired 31 December 2019)
Nicholas Bell (appointed 1 January 2020)
Michael Farrugia
Vanessa Portelli - *Member & Secretary*

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*

Directors' report - CONTINUED

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, assists the Board to actively promote ethical and responsible decision-making and ensures 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
Marcon Agius

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*

Health & Safety Committee

The Health & Safety Committee is composed of representatives of the company as well as representatives of the staff. This Committee's 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*

Directors' report - CONTINUED

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 - *Chairman*
Leslie Causon
Eliseo Fenech
Mark M Mamo
Steve Bilocca – *Member & Secretary*

Remuneration Committee

This 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
Martin Wonfor (retired 31 December 2019)
Mark Gasan
Robert Rogers (appointed 1 January 2020)

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
GasanMamo Insurance Limited
Msida Road
Gzira GZR 1405
Malta

17 April 2020

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 2019, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; 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

GasanMamo Insurance Limited's financial statements, set out on pages 16 to 67, comprise:

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

Basis for opinion

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

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

Independence

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

Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

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

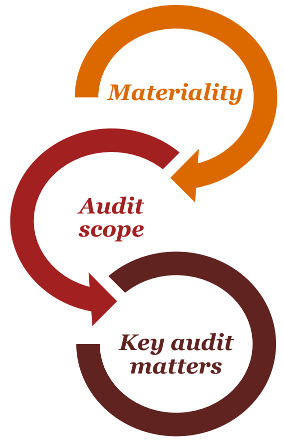
The non-audit services that we have provided to the company in the period from 1 January 2019 to 31 December 2019 are disclosed in note 17 to the financial statements.

Emphasis of matter

We draw attention to Note 30 to these financial statements that refers to the uncertainties associated with COVID-19. This matter is considered to be of fundamental importance to the understanding of the financial statements due to its nature and significance. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



Overall materiality: €481,000, which represents 5% of a 3-year weighted average profit before tax

Valuation and accuracy of claims outstanding and claims incurred but not reported (IBNR)

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.

Independent auditor's report - continued

To the Shareholders of GasanMamo Insurance Limited

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	€481,000
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 2017 to 2019 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 €48,000 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 (IBNR)	
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, which also include an estimated allowance for subrogation or salvage recoveries and supplemented this with IBNR claims provision based on different reserving methodologies applicable to relevant policy portfolios. The Company's net claims outstanding and IBNR provisions are disclosed in note 13 at €16.3m and €1.9m respectively, and favourable variations arising from prior year claims, when also considering the impact of the recovery reserve and IBNR, amounting to €1.4m. Further information on the development of the ultimate cost of claims over the year 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 the 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, including the impact of the recovery reserve and IBNR; • we analysed claim 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 IBNR 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.

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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers, suppliers and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

pwc

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.

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 45 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

Lucienne Pace Ross
Partner

17 April 2020

Statement of financial position

	Notes	2019 €	2018 €
		As at 31 December	
ASSETS			
Property, plant and equipment:			
- land and buildings	4	**5,659,505**	2,751,370
- plant and equipment	4	**601,997**	726,997
Right of use assets	25	**635,006**	-
Investment property	5	**10,551,308**	11,852,673
Other assets	8	**2,955,924**	-
Investments	6	**39,764,244**	34,036,378
Reinsurers' share of technical provisions	13	**5,446,744**	2,867,032
Deferred acquisition costs	7	**4,080,725**	3,764,556
Current taxation		**368,964**	-
Receivables:			
- receivables arising from direct insurance operations	8	**6,895,742**	6,242,743
- other receivables	8	**413,307**	421,020
- prepayments and accrued income	8	**387,281**	481,036
Cash and cash equivalents	10	**12,351,086**	11,123,204
Total assets		**90,111,833**	74,267,009
EQUITY			
Capital and reserves			
Share capital	11	**12,000,000**	12,000,000
Retained earnings	12	**22,341,520**	17,680,175
Revaluation reserve	26	**2,554,226**	-
Total equity		**36,895,746**	29,680,175
LIABILITIES			
Technical provisions	13	**46,326,843**	40,351,312
Payables:			
- payables arising out of direct insurance operations	14	**1,419,755**	710,037
- other payables	14	**1,424,721**	1,253,679
- accruals and deferred income	14	**1,809,748**	1,149,067
Lease liability	25	**640,938**	-
Current taxation		**-**	865,495
Deferred taxation	9	**1,594,082**	257,244
Total liabilities		**53,216,087**	44,586,834
Total equity and liabilities		**90,111,833**	74,267,009

The notes on pages 21 to 67 are an integral part of these financial statements.

The financial statements on pages 16 to 67 were authorised by the Board on 17 April 2020 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 2019 €	2018 €
Earned premiums, net of reinsurance			
Gross premiums written		**52,564,389**	44,604,225
Outward reinsurance premiums		**(8,038,116)**	(3,888,945)
Net premiums written		**44,526,273**	40,715,280
Change in the gross provision for unearned premiums	13	**(1,885,871)**	(1,979,458)
Earned premiums, net of reinsurance		**42,640,402**	38,735,822
Allocated investment return transferred from the non-technical account	16	**2,486,483**	(1,433,716)
Total technical income		**45,126,885**	37,302,106
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**22,815,751**	18,641,347
- reinsurers' share	13	**(2,182,830)**	(520,177)
		20,632,921	18,121,170
Change in the provision for claims			
- gross amount	13	**3,273,163**	2,306,460
- reinsurers' share	13	**(1,763,214)**	(986,827)
		1,509,949	1,319,633
Claims incurred, net of reinsurance		**22,142,870**	19,440,803
Net operating expenses	15,17	**13,044,285**	11,481,604
Total technical charges		**35,187,155**	30,922,407
Balance on the technical account - general business (page 18)		**9,939,730**	6,379,699

Statement of comprehensive income
Non-technical account

	Notes	Year ended 31 December 2019 €	2018 €
Balance on technical account - general business (page 17)		**9,939,730**	6,379,699
Investment income	16	**4,181,655**	(476,241)
Investment expenses and charges	16	**(238,913)**	(224,377)
Allocated investment return transferred to the general business technical account	16	**(2,486,483)**	1,433,716
Other income		**754,119**	615,241
Administration expenses	17	**(547,500)**	(405,692)
Impairment of assets	4	**(216,546)**	-
Profit before income tax		**11,386,063**	7,322,346
Tax expense	19	**(3,724,718)**	(2,607,013)
Profit for the year		**7,661,345**	4,715,333
Earnings per share	21	**0.64**	0.39

Statement of other comprehensive income

	Notes	Year ended 31 December 2019 €	2018 €
Profit for the year		**7,661,345**	4,715,333
Other comprehensive income: items that will not be reclassified to profit or loss			
Revaluation movement on land and buildings	4, 26	**3,193,666**	-
Consequential deferred tax impact	9, 26	**(639,440)**	-
Total other comprehensive income, net of tax		**2,554,226**	-
Total comprehensive income for the year		**10,215,571**	4,715,333

The notes on pages 21 to 67 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Retained earnings €	Revaluation reserve €	Total €
Balance at 1 January 2018		12,000,000	15,464,842	-	27,464,842
Comprehensive income					
Profit for the year - total comprehensive income		-	4,715,333	-	4,715,333
Transactions with owners					
Dividends - total transactions with owners	22	-	(2,500,000)	-	(2,500,000)
Balance at 31 December 2018		**12,000,000**	**17,680,175**	**-**	**29,680,175**
Balance at 1 January 2019		12,000,000	17,680,175	-	29,680,175
Comprehensive income					
Profit for the year - total comprehensive income		-	7,661,345	-	7,661,345
Other comprehensive income					
Revaluation movement on land and buildings, net of deferred tax	26	-	-	2,554.226	2,554.226
Total comprehensive income for the year		**-**	**7,661,345**	**2,554.226**	**10,215,571**
Transactions with owners					
Dividends - total transactions with owners	22	-	(3,000,000)	-	(3,000,000)
Balance at 31 December 2019		**12,000,000**	**22,341,520**	**2,554,226**	**36,895,746**

The notes on pages 21 to 67 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2019 €	2018 €
Cash flows from operating activities			
Cash generated from operations	23	**12,141,116**	11,558,868
Dividends received	16	**289,339**	279,347
Interest received	16	**490,245**	542,489
Rental income	16	**357,730**	350,223
Tax paid		**(4,261,367)**	(2,891,627)
Net cash generated from operating activities		**9,017,063**	9,839,300
Cash flows from investing activities			
Investment in an associate	6	**(375,000)**	-
Purchase of property, plant and equipment	4	**(174,667)**	(404,422)
Proceeds from disposal of property, plant and equipment		**28,000**	1,750
Purchase of investment property	5	**(62,825)**	(622,314)
Proceeds from disposal of investment property - net	5	**1,700,154**	-
Payment of commitment in relation to other assets	8	**(2,955,924)**	-
Purchase of investments - fair value through profit or loss	6	**(14,349,862)**	(17,083,721)
Disposal of investments - fair value through profit or loss	6	**11,501,656**	15,814,567
Collection of loan to group undertaking	6	**1,250,000**	1,738,661
Placement of deposits with banks or financial institutions	6	**(1,200,000)**	(503,971)
Net cash used in investing activities		**(4,638,468)**	(1,059,450)
Cash flows from financing activities			
Lease payments	25	**(150,713)**	-
Dividends paid	22	**(3,000,000)**	(2,500,000)
Net cash used in financing activities		**(3,150,713)**	(2,500,000)
Net movement in cash and cash equivalents		**1,227,882**	6,279,850
Cash and cash equivalents at beginning of year		**11,123,204**	4,843,354
Cash and cash equivalents at end of year	10	**12,351,086**	11,123,204

The notes on pages 21 to 67 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 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), land and buildings 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.

Other standards, interpretations and amendments to published standards effective in 2019

In 2019, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies other than those mentioned in the succeeding notes. Except for the adoption of IFRS 16, the adoption of these standards did not have impact on the company's financial statements.

Adoption of IFRS 16 on Leases

The company had to adopt IFRS 16 on 'Leases' which became effective on 1 January 2019. IFRS 16 has resulted in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is now removed. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. Under the new standard, an asset (i.e., the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company applied IFRS 16 from its mandatory adoption date of 1 January 2019 using modified retrospective approach without restating comparative amounts for the year prior to first adoption. The Company elected to use the transition practical expedient not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company has elected to present right-of-use assets and lease liabilities separately in the statement of financial position. Depreciation of the right-of-use assets is presented under 'Administration expense' in profit or loss. The cash outflows related to the principal portion of the

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

lease liability and the related interest are presented within financing activities in the statement of cash flows.

The impacts of adopting IFRS 16 in the Company's financial statements are disclosed in Note 25.

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 on or after 1 January 2019. 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 there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application, other than as described below.

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

Voluntary change in accounting policy for land and buildings held for own use

Effective 31 December 2019, the company voluntarily changed its accounting policy on land and buildings held for the company's own use (i.e., land and buildings classified under 'Property, plant and equipment').

Prior to 31 December 2019, the company carried its land and buildings held for own use using cost method of accounting accorded by IAS 16 on 'Property, plant and equipment'. Land and buildings held for own use were recorded at historical cost less depreciation and accumulated impairment losses. Historical cost included expenditure directly attributable to the acquisition of the items. Subsequent costs were included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it was probable that future economic benefits associated with the item flowed to the company and the cost of the item could be measured reliably.

Starting 31 December 2019, the company carries its land and buildings held for own use using revaluation model in accordance with IAS 16. Under this model, if fair value can be measured reliably, the company may carry all items of property, plant and equipment of a class at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The company did not change its accounting policy for other classes of property, plant and equipment.

The company transitioned from cost method of accounting to revaluation model in accordance with the transition provisions of IAS 16. As such, an item of land and buildings held for own use is adjusted to the revalued amount at the date of the revaluation by eliminating the accumulated depreciation against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for as 'Revaluation reserve' as part of other comprehensive income (if an asset's carrying amount is increased as a result of a revaluation) or recognized as 'revaluation decrease' under profit or loss (if an asset's carrying amount is decreased as a result of a revaluation). This change in accounting policy did not result in restatement of balances prior to effective date of change (i.e., 31 December 2019).

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

The directors believe that this change in accounting policy results in the financial statements providing reliable and more relevant information about the company's financial position and performance as it allows the valuations of land and buildings at each reporting period to reflect current market prices.

The impact of the above voluntary change in accounting policy in the company's financial statements as at effective date of change (i.e., 31 December 2019) and for the year then ended is as follows:

Statement of financial position	
Increase property, plant and equipment as a result of:	€
Reversal of accumulated depreciation of land and buildings (Note 4)	€958,906
Revaluation increase (Note 4)	2,234,760
Revaluation decrease (Note 4)	(216,546)
Increase in total assets	€2,977,120
Increase in equity and liabilities as a result of:	€
Increase revaluation reserve (Note 4)	2,554,226
Increase in deferred tax liability (Note 9)	639,440
Decrease in retained earnings due to revaluation decrease (Note 4)	(216,546)
Increase in equity and liabilities	2,977,120
Statement of comprehensive income	
Decrease in profit for the year as a result of:	€
Revaluation decrease (Note 4)	€216,546
Decrease in profit for the year	€216,546
Statement of other comprehensive income	
Increase in other comprehensive income for the year as a result of:	€
Reversal of accumulated depreciation (Note 4)	958,906
Revaluation increase (Note 4)	2,234,760
Revaluation reserve before deferred income tax consequence	3,193,666
Deferred income tax consequence (Note 4)	(639,440)
Increase in other comprehensive income for the year	2,554,226

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1. Summary of significant accounting policies - continued

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 (except for land and buildings) are recorded at historical cost less depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Starting 31 December 2019, the company's land and buildings held for own are carried at revalued amount. Revalued amount is the fair value of the assets at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in 'Revaluation reserve' in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

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
Leasehold improvements, 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. The asset's recoverable amount is the higher between its fair value less cost to sell and value-in-use.

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

1.3 Property, plant and equipment - continued

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.

1.4 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

Classification

The company classifies its financial assets as "financial assets at fair value through profit or loss" and "financial assets at amortised cost". The classification depends on the company's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of the company's financial assets at initial recognition.

The company reclassifies these debt instruments when and only when its business model for managing those assets changes.

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

The company classifies the following financial assets at fair value through profit or loss:

- Debt instruments that do not qualify for measurement at either amortised cost or at FVOCI (i.e., financial assets mandatorily required to be measured at fair value),
- Equity investments that are held for trading (i.e., financial assets mandatorily required to be measured at fair value), and
- Equity investments for which the company has not elected to recognise the fair value gains and losses through other comprehensive income.

Financial assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current. The company's financial assets at fair value through profit or loss include debt and equity securities (Note 6).

Financial assets at fair value through profit or loss include financial assets managed on a fair value basis. Derivatives are also categorised as held for trading unless they are designated as hedges. A financial asset is classified in this category on initial recognition if, as a company's business model,

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

1.5 Financial assets - continued

it is part of a portfolio of identified financial instruments that are managed together in the above manner.

(b) Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets in this category are classified as current assets if expected to be settled within twelve months or within normal operating cycle; otherwise, they are classified as non-current.

The company's deposits with banks or financial institutions, loan to group undertaking, other receivables and accrued income on financial assets at amortised cost in the statement of financial position are classified under this category (Notes 6, 8 and 10).

Recognition and measurement

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets at amortised cost 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 and associates are entities over which the company has significant influence 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

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

1.6 Associated companies and joint ventures - continued

(i) Acquisitions - continued

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.

(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

Accounting policies on financial assets within scope of IFRS 9

The company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The company measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, which are measured at 12-month expected credit losses (i.e., resulting from default events that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months):

- Debt instruments that are determined to have low credit risk at the reporting date; and

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

1.7 Impairment of assets - continued

- Debt instruments for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The company considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade' (i.e., typically at least 'BBB-' rating by S&P's or equivalent rating issued by other institutions).

Any impairment is recognised directly in statement of comprehensive income. If in a subsequent period, the amount of expected credit loss decreased, the previously recognised loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in statement of comprehensive income.

The company's financial assets mainly pertain to cash and cash equivalents. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial.

Accounting policies on assets within scope of IFRS 4

The company assesses at the end of each reporting period whether there is objective evidence that an asset or group of assets is impaired. An asset or group of 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 asset or group of assets that can be reliably estimated.

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

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

The company first assesses whether objective evidence of impairment exists individually for assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of 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 assets, the amount of the loss is measured as the difference between the asset's carrying amount and the recoverable value. 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. Deferred income taxes and liabilities are offset when there is a legally enforceable right to set-off under the Malta Income Tax regime.

1.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

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.

<u>Insurance contracts - General business</u>

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.

(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.

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

1.11 Insurance contracts - classification - continued

(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.

<u>Reinsurance contracts held</u>

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.

<u>Receivables and payables related to insurance contracts</u>

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 classified as loans and receivables. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 1.7.

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

1.13 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.

1.14 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). The Company did not have hedging activities in 2019 and 2018.

1.15 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.

1.16 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.

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

1.18 Leases

Company as a lessee

Accounting policy applied starting 1 January 2019
From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of lease payments which include, among other, fixed payments and payments of penalties for terminating the lease, if the lease term reflects the company exercising that option. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee’s incremental borrowing rate is used, being the rate that the company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company uses as a starting point third-party financing rate applicable had the company received financing and makes adjustments specific to the lease such as the lease term.

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

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received (if any), any initial direct costs and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life. Right-of-use assets are depreciated over terms ranging from 3 to 16 years.

While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Accounting policy applied until 31 December 2018
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.

Company as a lessor

The company has entered into property leases on its investment properties. The company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the property, that it retains substantially all the risks and rewards incidental to ownership of this property and accounts for the contracts as operating leases.

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

1.19 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

<u>Underwriting</u>

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.

<u>Reinsurance arrangements</u>

The company has reinsurance protection in place substantially for all classes of business. The reinsurance arrangements consist mainly of a variety of non-proportional programs, with deductibles that are commensurate with the company's financial standing. In certain specific cases, proportional protection is purchased, especially in the case of new areas/ lines of business. This is done to afford increased protection against volatility which can occur in such cases. 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".

<u>Claims handling</u>

The company's Head Office claims handling departments process, oversee and/or 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 two overseas agents, all 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 83% (2018: 88%) of its premium income from risks written in Malta whilst the other 17% (2018: 12%) 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 some 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 longer period and in addition to case estimates, an element of claims provision at year-end 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 in overall terms proven to be sufficient to meet the ultimate cost. In calculating the estimated cost of notified but unpaid claims, the company's estimation techniques include 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 coupled with an estimation of claims recoveries and IBNR. The company's independent actuarial function holder periodically reviews the estimation methodology and reports his observations to management.

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.

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 and 10 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:

	2019	2018
	€	€
Assets at floating interest rates (Notes 6 and 10)	**8,493,657**	11,569,628
Assets at fixed interest rates (Note 6)	**24,302,225**	22,177,499
	32,795,882	33,747,127

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 2019 the company was mainly exposed to fair value interest rate risk on listed fixed interest rate debt securities. If interest rates at that date would have been 50 basis points lower with all other variables held constant, the increase in pre-tax profit for the year would have been €624,785 (2018: €514,459) higher. An increase of 50 basis points, with all other variables held constant, would have resulted in pre-tax profit being €599,467 (2018: €496,025) 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 the ability to meet claim liabilities.

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

	2019	2018
	€	€
Assets subject to equity price risk (Note 6)	**13,917,458**	9,933,671

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 these changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities 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 €1,391,746 (2018: €993,367).

(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 2019, the company's exposure to foreign currency investments, principally comprising a mix of US Dollar and UK Pound, represented 8% of the company's total investments (2018: 6%). 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 by the Company
5. Intercompany/related party borrowings
6. 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 regular basis and ensures that credit is controlled within pre-agreed timed payment schedules on a case-by-case basis. The company experiences an insignificant level of bad debts.

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 on 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 2019

	AAA to AA- €	A+ to A- €	B to BB- €	BBB+ to BBB- €	Unrated €	Total €
Investments						
Fair value through profit or loss	1,391,882	8,152,718	1,160,175	9,289,272	913,144	**20,907,191**
Deposits with banks or financial institutions	-	-	-	1,957,899	2,550,000	**4,507,899**
	1,391,882	8,152,718	1,160,175	11,247,171	3,463,144	**25,415,090**
Loans and receivables						
Receivables and accrued income	-	-	-	-	7,563,208	**7,563,208**
Cash and cash equivalents	-	2,379	1,079,582	3,182,153	8,086,971	**12,351,085**
	-	2,379	1,079,582	3,182,153	15,650,179	**19,914,293**
Total	1,391,882	8,155,097	2,239,757	14,429,324	19,113,323	**45,329,383**
Reinsurers' share of technical provisions						**4,110,799**
Total assets bearing credit risk						**49,440,182**

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

2.2 Financial risk management - continued

(b) Credit risk - continued

As at 31 December 2018

	AAA to AA- €	A+ to A- €	B to BB- €	BBB+ to BBB- €	Unrated €	Total €
Investments						
Fair value through profit or loss	3,202,236	6,526,523	1,610,686	7,163,926	944,121	**19,447,492**
Loans to group undertaking and shareholders	-	-	-	-	1,250,000	**1,250,000**
Deposits with banks or financial institutions	-	-	-	1,757,899	1,550,000	**3,307,899**
	3,202,236	6,526,523	1,610,686	8,921,825	3,744,121	**24,005,391**
Loans and receivables						
Receivables and accrued income	-	-	-	-	6,918,871	**6,918,871**
Cash and cash equivalents	499,032	87,479	195,695	7,452,728	2,888,270	**11,123,204**
	499,032	87,479	195,695	7,452,728	9,807,141	**18,042,075**
Total	3,701,268	6,614,002	1,806,381	16,374,553	13,551,262	**42,047,466**
Reinsurers' share of technical provisions						**2,347,585**
Total assets bearing credit risk						**44,395,051**

(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 reputable 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 and other 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 2019	**Contracted undiscounted cash outflows**				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Trade and other payables	**2,844,476**	**-**	**-**	**-**	**2,844,476**
Accruals and deferred income	**1,809,748**	**-**	**-**	**-**	**1,809,748**
	4,654,224	**-**	**-**	**-**	**4,654,224**

	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	**12,311,564**	**2,224,724**	**2,978,242**	**4,810,305**	**22,324,835**

As at 31 December 2018	**Contracted undiscounted cash outflows**				
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Trade and other payables	1,963,716	-	-	-	1,963,716
Accruals and deferred income	1,149,067	-	-	-	1,149,067
	3,112,783	**-**	**-**	**-**	**3,112,783**

	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	**10,888,022**	**1,790,529**	**2,116,107**	**4,257,013**	**19,051,672**

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 2019, the Company's eligible own funds amounting to €35,415,658 (2018: €29,774,916) 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. At 31 December 2019 and 2018, the carrying amount of the company's other financial assets and liabilities approximate their fair value due to their short-term nature.

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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.

	2019	2018
	€	€
Assets		
Financial assets at fair value through profit or loss:		
Investments - Level 1	**34,824,649**	29,381,163

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.

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 2018					
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**
Year ended 31 December 2018					
Opening net book amount	2,864,615	162,709	386,090	80,200	3,493,614
Additions	10,438	33,081	179,928	180,975	404,422
Disposals	-	-	-	(7,474)	(7,474)
Transfers	(28,320)	-	-	-	(28,320)
Depreciation charge	(101,027)	(51,141)	(174,414)	(70,431)	(397,013)
Depreciation released on disposals and transfers	5,664	-	-	7,474	13,138
Closing net book amount	2,751,370	144,649	391,604	190,744	3,478,367
At 31 December 2018					
Cost	4,327,448	1,705,867	3,095,829	683,954	9,813,098
Accumulated depreciation	(1,576,078)	(1,561,218)	(2,704,225)	(493,210)	(6,334,731)
Net book amount	**2,751,370**	**144,649**	**391,604**	**190,744**	**3,478,367**
Year ended 31 December 2019					
Opening net book amount	2,751,370	144,649	391,604	190,744	3,478,367
Additions	38,154	68,801	67,711	-	174,666
Disposals	-	-	-	(56,325)	(56,325)
Revaluation increase	2,234,760	-	-	-	2,234,760
Revaluation decrease	(216,546)	-	-	-	(216,546)
Depreciation charge	(107,139)	(54,256)	(153,840)	(53,416)	(368,651)
Released on disposal	-	-	-	56,325	56,325
Reversal of accumulated depreciation	958,906	-	-	-	958,906
Transfers	-	-	-	-	-
Released on transfer	-	-	-	-	-
Closing net book amount	5,659,505	159,195	305,475	137,328	6,261,502
At 31 December 2019					
Revalued amount	**6,383,816**	**1,774,669**	**3,163,540**	**627,629**	**11,949,653**
Accumulated depreciation	**(724,311)**	**(1,615,474)**	**(2,858,065)**	**(490,301)**	**(5,688,151)**
Net book amount	**5,659,505**	**159,195**	**305,475**	**137,328**	**6,261,502**

4. Property, plant and equipment - continued

Land and buildings for own use were revalued in December 2019 based on professional independent valuations. The book value of the property was adjusted to the revalued amount and the resultant surplus, net of consequential deferred tax impact was credited to the revaluation reserve (Note 26).

The company is required to disclose fair values by level of the fair value measurement hierarchy. The recurring property fair value measurement at 31 December 2019 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The revaluation increase amounting to €2,234,760 and reversal of accumulated depreciation amounting to €958,906 are accounted for through other comprehensive income. The revaluation decrease amounting to €216,546 was accounted for in the statement of comprehensive income – non-technical account and is presented as 'impairment of assets'. This amounted to €216,546. Had the cost model been used, the carrying amount as at 31st December 2019 would have been as follows:

Historical cost	€4,365,602
Accumulated depreciation	(1,683,217)
	€2,682,385

Valuation processes, valuation techniques and information about fair value measurements using significant unobservable inputs (Level 3)

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

The valuation was determined using the sales comparison approach. Properties valued using this approach take into consideration comparable properties in proximity. These values are adjusted for differences in key attributes such as property size and quality of interior fittings. The most significant input into this valuation is price per square metre. The average price per square metre as at December 2019 ranged circa €1,834 in the case of properties used in operations. An increase in the adjusted sales price per square metre would result in a higher value.

.5. Investment property

	2019	2018
	€	€
Year ended 31 December		
At beginning of year	**11,852,673**	10,515,358
Additions	**62,825**	622,314
Disposal	**(1,420,000)**	-
Fair value gain on revaluation	**55,810**	715,001
At end of year	**10,551,308**	11,852,673
At 31 December		
Cost	**8,590,328**	9,297,039

Fair value of investment property

	Available for rent €
Fair value at 31 December 2019	
At beginning of year	**11,852,673**
Additions	**62,825**
Disposals	**(1,420,000)**
Fair value gain on revaluation	**55,810**
At end of year	**10,551,308**

	Available for rent €
Fair value at 31 December 2018	
At beginning of year	10,515,358
Additions	622,314
Fair value gain on revaluation	715,001
At end of year	**11,852,673**

5. Investment property - continued

In 2019, gain on disposal of investment property amounted to €414,949 and is recognised under investment income in profit or loss (Note 16).

An internal valuation of the company's investment property was performed to determine the fair value as at 31 December 2019. The directors are of the opinion that the carrying amount of the investment property as at 31 December 2019 is not materially different from its fair value. The company is required to disclose fair values by level of the fair value measurement hierarchy as described in note 2.4.

The company's recurring fair value measurements of investment property are categorised as Level 3 as they are based on significant unobservable inputs.

The fair value movement is accounted for in the statement of comprehensive income.

Valuation processes

The valuations of the properties are performed 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)

At 31 December 2019			**Range of significant unobservable inputs**	
Description	**Fair value €**	**Valuation technique**	**Rental value €**	**Capitalisation rate %**
Residential and commercial property	10.6m	Capitalisation of future net income streams	0.4m	3.75 - 5.55

5. **Investment property** - continued

At 31 December 2018

Description	**Fair value €**	**Valuation technique**	**Range of significant unobservable inputs: Rental value €**	**Range of significant unobservable inputs: Capitalisation rate %**
Residential and commercial property	11.9m	Capitalisation of future net income streams	0.4m	3.75 - 5.55

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.

	2019 €	2018 €
Fair value through profit or loss (Note a)	**34,824,649**	29,381,163
Loans and deposits (Note b)	**4,507,899**	4,557,899
Investment in joint venture (Note c)	**431,696**	97,316
	39,764,244	34,036,378

(a) Investment at fair value through profit or loss

	2019 €	2018 €
Equity securities, other variable yield securities and units in collective investment schemes	**13,917,458**	9,933,671
Debt securities - listed fixed interest rate	**19,794,326**	17,619,600
Debt securities - listed floating interest rate	**1,112,865**	1,827,892
	20,907,191	19,447,492
Total investments at fair value through profit or loss	**34,824,649**	29,381,163

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

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6. **Investments** - continued

Maturity of debt securities and treasury bills:

	2019 €	2018 €
Within 1 year	**1,217,365**	311,687
Between 1 and 2 years	**1,297,617**	1,807,629
Between 2 and 5 years	**7,183,857**	9,202,972
Over 5 years	**11,208,352**	8,125,204
	20,907,191	19,447,492

	2019	2018
Weighted average effective interest rate	**2.36%**	2.73%

The movements for the year are summarised as follows:

	2019 €	2018 €
Year ended 31 December		
At beginning of year	**29,381,163**	30,845,687
Additions	**14,349,862**	16,983,721
Disposals (sale and redemptions)	**(11,501,656)**	(15,814,567)
Net unrealised fair value (losses)/gains	**2,595,280**	(2,633,678)
At end of year	**34,824,649**	29,381,163
As at 31 December		
Cost	**33,161,456**	30,757,047
Accumulated net fair value (losses)/gains	**1,663,193**	(1,375,884)
	34,824,649	29,381,163

(b) Loans and deposits

	2019 €	2018 €
At 31 December		
Deposits with banks or financial institutions	**4,507,899**	3,307,899
Loan to group undertaking	**-**	1,250,000
	4,507,899	4,557,899

6. Investments - continued

Maturity of deposits with banks or financial institutions and loans:

	2019 €	2018 €
Within 1 year	**4,307,899**	3,107,899
Between 1 and 2 years	**200,000**	200,000
	4,507,899	3,307,899

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

	2019 €	2018 €
At fixed rates	**4,507,899**	3,307,899

Investments amounting to €2,109,500 (2018: €2,109,500) are pledged with banks or financial institutions against borrowings.

In 2018 the loan to group undertaking was unsecured, bore interest at a weighted average rate of 2.50% and was repayable on demand. In 2019 this loan was repaid by the group undertaking.

(c) Investment in joint venture and associate

	2019 €	2018 €
CCGM Pension Administrators Limited	**56,696**	97,316
Vitae Life Limited	**375,000**	-

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

	2019 €	2018 €
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 company has 50% interest in the equity of CCGM. The investment's carrying value is determined by reference to the company's share of the net asset value of CCGM. In 2018, the net movement of €58,840 was the net result of both a shareholder contribution of €100,000 and an unrealised loss on this investment amounting to €41,160. Unrealised loss on this investment in 2019 amounted to €40,620.

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6. Investments - continued

Vitae Life Limited's share capital is made up as follow:

	2019 €	2018 €
Issued and partly paid up		
7,500,000 Ordinary shares of €1 each	**7,500,000**	-
	7,500,000	-

Shares carry equal voting rights, and rights to dividends and rank pari-passu. The company has 25% interest in the equity of Vitae Life Limited. The investment's carrying value is determined by reference to the company's share of the net asset value of Vitae Life Limited.

7. Deferred acquisition costs

	2019 €	2018 €
Year ended 31 December		
At beginning of year	**3,764,556**	3,401,450
Net amount credited to profit or loss (Note 17)	**316,169**	363,106
At end of year	**4,080,725**	3,764,556
Current portion	**4,080,725**	3,764,556

8. Receivables, prepayments, accrued income and other assets

	2019 €	2018 €
Receivables		
Receivables arising from direct insurance operations:		
- due from policyholders	**1,517,585**	1,180,469
- due from agents, brokers and intermediaries	**5,378,157**	5,062,274
	6,895,742	6,242,743
Other receivables		
- receivables from group undertakings	**387,717**	295,197
- receivables from related parties	**16,706**	12,220
- receivables from directors	**8,884**	3,742
- other receivables	**-**	109,860
	413,307	421,020

8. Receivables, prepayments, accrued income and other assets - continued

	2019 €	2018 €
Prepayments and accrued income		
- prepayments	**133,122**	225,928
- accrued interest	**254,159**	255,108
	387,281	481,036
Other assets	**2,955,924**	-
Total receivables, prepayments, accrued income and other assets	**10,652,254**	7,144,799
Current portion	**10,652,254**	7,144,799

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 €175,144 (2018: €200,695). As at 31 December 2019, receivables amounting to €6,108,098 (2018: €5,634,902) were fully performing, whereas receivables amounting to €1,200,951 (2018: €1,028,861) 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:

	2019 €	2018 €
Less than 3 months	**741,103**	809,700
Less than 6 months but more than 3 months	**202,130**	113,938
Less than 12 months but more than 6 months	**211,009**	68,719
More than 12 months	**46,709**	36,504
	1,200,951	1,028,861

Other assets amounting to €2,955,924, represents a payment on a promise of sale agreement entered into in January 2019 to acquire a new office space at a cost of €14m in a new business development. It is anticipated that the remaining necessary payments and the completion of the property will be done by 2022.

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9. Deferred income tax

	2019 €	2018 €
Year ended 31 December		
At beginning of year	**(257,244)**	(998,660)
(Charged)/credited to profit or loss (Note 19)	**(697,398)**	741,416
Charged to other comprehensive income (Note 26)	**(639,440)**	-
At end of year	**(1,594,082)**	(257,244)

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2018: 35%), with the exception of investment property and freehold and other property, for which deferred income taxes are calculated using a principal tax rate of 8% or 10% of the carrying amount depending on the acquisition date. The directors consider the deferred taxation as at the end of the reporting period to be of a non-current nature.

The balance at 31 December represents temporary differences on:

	2019 €	2018 €
Temporary difference on fixed assets	**(25,162)**	(25,162)
Temporary differences attributable to unrealised foreign exchange differences	**(33,316)**	90,150
Temporary differences on impairment of receivables	**61,445**	70,388
Revaluation on land and buildings	**(639,440)**	-
Temporary differences on investment property	**(645,735)**	(705,559)
Temporary differences on unrealised capital gains	**(311,874)**	312,939
	(1,594,082)	(257,244)

Movements in deferred tax arising on revaluation of land and buildings are accounted for in other comprehensive income. All other temporary differences are accounted for in the profit and loss account. Deferred income tax assets 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:

	2019	2018
	€	€
Cash at bank and in hand	**12,351,086**	11,123,204

Cash at bank and in hand includes amounts held with investment managers amounting to €4,954,164 (2018: €1,353,802).

The deposits held with banks earn interest as follows:

	2019	2018
	€	€
At floating rates	**7,380,792**	9,741,736

11. Share capital

	2019	2018
	€	€
Authorised		
15,000,000 Ordinary shares of €1 each	**15,000,000**	15,000,000
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
	12,000,000	12,000,000

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.

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13. Technical provisions and reinsurance assets

	2019	2018
	€	€
Gross technical provisions		
Claims reported and loss adjustment expenses	**20,439,540**	16,974,113
Claims incurred but not reported	**1,885,292**	2,077,559
Unearned premiums	**24,002,011**	21,299,642
Total technical provisions - Gross	**46,326,843**	40,351,314
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	**4,110,799**	2,347,585
Unearned premium	**1,335,945**	519,447
Total reinsurers' share of technical provisions	**5,446,744**	2,867,032
Net technical provisions		
Claims reported and loss adjustment expenses	**16,328,741**	14,626,528
Claims incurred but not reported	**1,885,292**	2,077,559
Unearned premiums	**22,666,066**	20,780,193
Total technical provisions - Net	**40,880,099**	37,484,282
Current portion	**34,977,630**	31,668,217

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 2019, the provision for claims reported and loss adjustment expenses includes an allowance for subrogation or salvage recoveries amounting to €2,990,004 (2018: €2,531,891).

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. Percentages were updated during the year. 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:

	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	2018 €	2019 €	Total €
At end of reporting year	13,271,686	13,925,721	14,165,946	14,919,844	16,680,060	19,521,393	15,758,540	18,823,566	22,244,950	26,006,094	
- one year later	12,830,586	12,753,049	13,562,717	14,828,377	14,593,910	18,580,047	14,164,549	17,075,810	21,701,974		
- two years later	13,009,746	12,574,462	13,383,321	14,580,222	14,221,883	18,825,596	14,684,713	16,404,444			
- three years later	12,836,570	12,627,392	13,235,431	14,369,068	14,234,696	18,332,484	14,469,250				
- four years later	12,777,630	12,662,183	13,194,822	14,244,658	14,176,098	18,803,557					
- five years later	12,648,134	12,403,455	13,121,787	14,114,118	14,028,506						
- six years later	12,588,867	12,354,460	12,994,125	14,167,682							
- seven years later	12,656,101	12,365,565	12,831,493								
- eight years later	12,664,970	12,339,186									
- nine years later	12,615,904										
Current estimates of :											
Cumulative claims	12,615,904	12,339,186	12,831,493	14,167,682	14,028,506	18,803,557	14,469,250	16,404,444	21,701,974	26,006,094	163,368,091
Cumulative payments to date	(12,475,875)	(12,016,390)	(12,753,613)	(13,731,743)	(13,834,385)	(16,991,084)	(13,598,430)	(15,299,419)	(18,157,862)	(12,739,375)	(141,598,176)
Liability recognised in the statement of financial position	140,029	322,796	77,880	435,939	194,121	1,812,473	870,820	1,105,025	3,544,112	13,266,719	21,769,915
Liability in respect of prior years											554,920
Total liability recognised in the statement of financial position											22,324,835

13. Technical provisions and reinsurance assets - continued

Claims outstanding - Net

Estimate of the ultimate claims costs:

	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	2018 €	2019 €	Total €
At end of reporting year	13,271,686	13,925,721	13,875,114	14,206,396	15,976,787	17,904,856	15,758,540	18,491,566	20,039,335	22,511,412	
- one year later	12,830,586	12,753,049	13,280,100	14,127,162	14,221,788	17,086,976	14,164,549	17,075,810	19,530,721		
- two years later	13,009,746	12,574,462	13,108,062	13,885,349	13,796,256	17,154,951	14,684,713	16,404,444			
- three years later	12,836,570	12,627,392	12,966,166	13,675,346	13,809,068	16,902,151	14,440,807				
- four years later	12,777,630	12,662,183	12,926,133	13,550,935	13,750,470	16,907,743					
- five years later	12,648,134	12,403,455	12,853,098	13,420,395	13,611,085						
- six years later	12,588,867	12,354,460	12,725,436	13,473,959							
- seven years later	12,656,101	12,365,565	12,562,804								
- eight years later	12,664,970	12,339,186									
- nine years later	12,615,904										
Current estimates of :											
Cumulative claims	12,615,904	12,339,186	12,562,804	13,473,959	13,611,085	16,907,743	14,440,807	16,404,444	19,530,721	22,511,412	154,398,066
Cumulative payments to date	(12,475,875)	(12,016,390)	(12,484,924)	(13,038,020)	(13,433,964)	(16,182,566)	(13,598,430)	(15,299,419)	(16,151,922)	(12,046,265)	(136,727,776)
Liability recognised in the statement of financial position	140,029	322,796	77,880	435,939	177,121	725,177	842,377	1,105,025	3,378,799	10,465,147	17,670,290
Liability in respect of prior years											543,743
Total liability recognised in the statement of financial position											18,214,033

13. Technical provisions and reinsurance assets - continued

(a) Claims and loss adjustment expenses

	Year ended 31 December 2019		
	Gross	Reinsurance	**Net**
	€	€	**€**
Notified claims still outstanding	16,974,113	(2,347,585)	14,626,528
Incurred but not reported	2,077,559	-	2,077,559
Total at beginning of year	19,051,672	(2,347,585)	16,704,087
Claims settled during the year	(21,334,064)	2,182,830	(19,151,233)
Increase/(decrease) in liabilities			
- arising from current year claims	26,006,094	(3,494,682)	22,511,412
- arising from prior year claims	(1,398,867)	(451,362)	(1,850,229)
Total at the end of year	**22,324,835**	**(4,110,799)**	**18,214,036**
Notified claims still outstanding	20,439,543	(4,110,799)	16,328,744
Incurred but not reported	1,885,292	-	1,885,292
Total at the end of year	**22,324,835**	**(4,110,799)**	**18,214,036**

	Year ended 31 December 2018		
	Gross	Reinsurance	**Net**
	€	€	**€**
Notified claims still outstanding	14,598,753	(1,360,758)	13,237,995
Incurred but not reported	2,146,458	-	2,146,458
Total at beginning of year	16,745,211	(1,360,758)	15,384,453
Claims settled during the year	(17,362,859)	520,177	(16,842,682)
Increase/(decrease) in liabilities			
- arising from current year claims	22,244,950	(2,205,615)	20,039,335
- arising from prior year claims	(2,575,629)	698,610	(1,877,019)
Total at the end of year	**19,051,672**	**(2,347,585)**	**16,704,087**
Notified claims still outstanding	16,974,113	(2,347,585)	14,626,528
Incurred but not reported	2,077,559	-	2,077,559
Total at the end of year	**19,051,672**	**(2,347,585)**	**16,704,087**

The company registered a gross favourable run-off of €1.40m (2018: €2.58m). After the effect of reinsurance, this amounts to €1.85m (2018: €1.88m).

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 an adequate 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	**Reinsurance**	**Net**
	€	**€**	**€**
Year ended 31 December 2019			
At beginning of year	**21,299,640**	**(519,445)**	**20,780,195**
Net amount (credited)/charged to profit or loss	**2,702,369**	**(816,498)**	**1,885,871**
At end of year	**24,002,011**	**(1,335,945)**	**22,666,066**

	Gross	**Reinsurance**	**Net**
	€	**€**	**€**
Year ended 31 December 2018			
At beginning of year	18,800,737	-	18,800,737
Net amount (credited)/charged to profit or loss	2,498,905	(519,447)	1,979,458
At end of year	**21,299,642**	**(519,447)**	**20,780,195**

14. Other payables, accruals and deferred income

	2019	2018
	€	€
Payables arising out of direct insurance operations	**1,419,755**	710,037
Other payables		
Payables to fellow subsidiaries	**53,633**	18,832
Payables to other related parties	**-**	7,811
Other payables	**382,324**	316,299
Document duty and other tax payables	**988,764**	910,737
	1,424,721	1,253,679
Accruals and deferred income		
Accrued expenses and deferred income	**1,809,748**	1,149,067
Total other payables and accruals and deferred income	**4,654,225**	3,112,783
Current portion	**4,654,225**	3,112,783

15. Net operating expenses

	2019 **€**	2018 €
Acquisition costs	**9,849,225**	8,518,771
Change in deferred acquisition costs (Note 7)	**(316,169)**	(363,106)
Administrative expenses	**3,511,229**	3,325,939
	13,044,285	11.481,604

Total commissions accounted for in the financial period in the company's technical result amounted to €6,252,070 (2018: €5,240,123). Administrative expenses mainly comprise staff costs.

16. Investment return

	2019 **€**	2018 €
Investment income		
Interest receivable from financial assets that are not at fair value through profit or loss	**111,171**	103,093
Income from financial assets at fair value through profit or loss:		
- Dividend income	**289,339**	279,347
- Interest income	**490,245**	542,489
Rental income on investment property	**357,730**	350,223
Exchange differences	**24,961**	18,902
Gains/ (losses) from financial assets at fair value through profit or loss	**2,478,070**	(2,444,136)
Gain on disposal of investment property (Note 5)	**414,949**	-
Gains on revaluation of investment property (Note 5)	**55,810**	715,001
Loss from investment in joint venture (Note 6)	**(40,620)**	(41,160)
	4,181,655	(476,241)
Investment expenses and charges		
Investment management fees and charges	**183,312**	185,820
Other investment expenses	**55,601**	38,557
	238,913	224,377
Total investment return	**3,942,742**	(700,618)
Analysed between:		
Allocated investment return transferred to the general business technical account	**2,486,483**	(1,433,716)
Investment return included in the non-technical account	**1,456,259**	733,098
	3,942,742	(700,618)

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17. Expenses by nature

	2019 **€**	2018 €
Employee benefit expense and directors' fees	**3,876,729**	3,484,710
Commissions (Note 15)	**6,252,070**	5,240,123
Change in deferred acquisition costs (Note 7)	**(316,169)**	(363,106)
Depreciation of property, plant and equipment (Note 4)	**312,326**	383,875
Amortisation of right-of-use asset (Note 25)	**147,920**	-
Decrease in provision for impairment of receivables	**(25,551)**	(70,450)
Operating lease rentals - property	**-**	122,958
Other expenses	**3,344,460**	3,089,186
Total operating expenses and administration expenses	**13,591,785**	11,887,296
Analysed between:		
Included in the general business technical account (Note 15)	**13,044,285**	11,481,604
Included in the non-technical account	**547,500**	405,692
	13,591,785	11,887,296

Auditor's fees

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

	2019 **€**	2018 €
Annual statutory audit	**56,000**	48,692
Other assurance services	**23,624**	22,420
Tax advisory services	**2,183**	2,177

18. Employee benefit expense

	2019 **€**	2018 €
Salaries (including directors' salaries)	**5,052,759**	4,488,003
Social security costs	**312,519**	295,691
	5,365,278	4,783,694

The average number of persons employed during the year was:

	2019 **€**	2018 €
Directors	**1**	1
Direct	**106**	96
Indirect	**47**	46
	154	143

19. Tax expense

	2019	2018
	€	€
Current income tax expense	**3,027,320**	3,348,429
Deferred income tax charge/(credit) (Note 9)	**697,398**	(741,416)
	3,724,718	2,607,013

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

	2019	2018
	€	€
Profit before income tax	**11,386,063**	7,322,346
Tax on profit at 35%	**3,985,122**	2,562,821
Tax effect of:		
Expenses not allowable for tax purposes	**66,302**	394,721
Exempt losses and application of flat rate foreign tax credit	**(87,408)**	(95,326)
Different tax rates applicable to investment property	**(166,183)**	(202,675)
Income charged at lower rates of tax	**(73,115)**	(72,129)
Overstatement of tax in prior year	**-**	19,601
Tax expense	**3,724,718**	2,607,013

20. Directors' emoluments

	2019	2018
	€	€
Directors' fees, salaries and other emoluments	**530,235**	465,000

During the year, no benefits in kind were provided to the directors (2018: €Nil).

21. 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.

	2019	2018
Net profit attributable to shareholders (€)	**7,661,345**	4,715,333
Weighted average number of ordinary shares in issue	**12,000,000**	12,000,000
Earnings per share (€)	**0.64**	0.39

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22. Dividends

	2019	2018
	€	€
Net dividends paid on ordinary shares	**3,000,000**	2,500,000
Dividends per ordinary share	**0.25**	0.21

After the end of the reporting period, the directors recommended the payment of a final dividend in the net amount of €1,500,000 which was paid in February 2020.

23. Cash generated from operations

	2019	2018
	€	€
Profit before tax	**11,386,063**	7,322,346
Adjustments for:		
Depreciation of plant and equipment (Note 4)	**368,651**	397,013
Profit on disposal of plant and equipment (Note 4)	**(28,000)**	(1,750)
Decrease in provision for bad debts (Note 8)	**(25,551)**	(70,450)
Profit on disposal of investment property (Note 5)	**(414,949)**	-
Non-cash movements in plant and equipment (Note 4)	**216,546**	22,656
Non-cash movements in investments (Notes 5 and 6)	**(3,632,554)**	787,780
Non-cash movements in leases (Note 25)	**175,798**	-
Movements in:		
Technical provisions (net)	**3,395,820**	3,299,089
Debtors and prepayments including DAC	**(842,149)**	(1,117,629)
Creditors and accruals	**1,541,441**	919,813
Cash generated from operations	**12,141,116**	11,558,868

24. 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:

	2019	2018
	€	€
Income		
Gross premium income - Parent company	**137,377**	98,121
Gross premium income - Other related parties	**341,769**	243,167
Interest – Parent company	**35,445**	63,460
Interest – Other related parties	**36,904**	-
Expenditure		
Services provided in relation to claims paid	**4,608,922**	4,031,206
Rent	**12.956**	12,215
Administrative and operating expenses	**35.212**	29,721
Capital expenditure		
Fixed asset additions	**20,420**	167,902

24. Related party transactions - continued

Year-end balances owed by or to group undertakings and other related parties are disclosed in notes 6, 8 and 14 to these financial statements respectively.

The key management of the company are considered to be the directors. Directors' remuneration has been disclosed in note 20 to these financial statements.

25. Lease commitments

Lease commitments - where the Company is the lessee

Rights-of-use assets

	2019 €
Recognition of right-of-use assets upon adoption of IFRS 16 on 1 January 2019	**782,926**
Amortisation charge	**(147,920)**
Carrying amount of right-of-use assets as at 31 December 2019	**635,006**

Lease liabilities

	2019 €
Recognition of lease liability upon adoption of IFRS 16 on 1 January 2019	**763,772**
Lease payments	**(150,713)**
Interest expense	**27,878**
Carrying amount of lease liability as at 31 December 2019	**640,937**

The undiscounted maturity analysis of lease liability follows:

	2019 €
Not later than 1 year	**163,640**
Later than 1 year and not later than 5 years	**360,096**
Later than 5 years	**223,705**
	747,441

The right of use asset and the lease liability relate to property being leased for own use. The right-of-use assets are non-current assets. Current portion of lease liability as at 31 December 2019 amounted to €140,245.

Lease commitments - where the Company is the lessor

	2019 €	2018 €
Not later than 1 year	**300,404**	280,004
Later than 1 year and not later than 5 years	**508,976**	262,565
	809,380	542,569

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26. Revaluation surplus

	2019 €	2018 €
At beginning of year	**-**	-
Revaluation movement on land and buildings (Note 4)	**3,193,666**	-
Movement in deferred tax relating to land and buildings (Note 9)	**(639,440)**	-
At end of year	**2,554,226**	-

27. Contingencies

At 31 December 2019 there were contingent liabilities amounting to €23,755 (2018: €124,998) 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.

30. Events after reporting date

During 2020, the directors recommended the payment of a final net dividend of €1,500,000 which was paid in February 2020.

COVID-19

Backdrop
During the Q1 of 2020, the outbreak of COVID-19 in Wuhan China, has had a global impact, the proportions of which have not been witnessed in living memory. The spread of the virus has led to unprecedented economic downturns. Investment markets across the globe have plunged, further exacerbating the macro and micro economic effects that lockdown brings. International travel has been effectively suspended with all related enterprises from airports and airlines to hotels and restaurants and all the connected industries being savaged in the process. Governments around the world have launched assistance packages in an attempt to avert a total economic meltdown, but the jury is out as to whether this is enough or indeed the right assistance. This is the bleak backdrop of operations in Q1 2020. Despite these developments, GasanMamo Insurance is able to report that it is still in a sound financial position with a Solvency Ratio substantially higher than the minimums required by regulatory bodies. This is the result of the Company's conservative financial approach, taken to ensure resilience over the long term.

30. Events after reporting date – continued

Underwriting
The underwriting exposure to the company emanating from COVID-19 is considerable and a number of large claims have been lodged. This will of course have an adverse effect on the company loss ratio. Nevertheless, the company is in a good position to meet all its obligations thanks to its strong balance sheet that it had coming into this situation and the strength of the reinsurance programme that is in place.

Investments
Due to the significant market reaction to the outbreak, international markets have seen very substantial drawdowns. The company has a prudent investment allocation policy in place that has been refined over the years and this provides for the mitigation of the impact of such phenomena, however in spite of this, the balance sheet has suffered mark to market losses of approximately 9% during Q1 2020.

Operational
The company has been impacted by the disruptive nature of the Pandemic and while a robust Business Continuity Plan is in place, efficiency will suffer.

Economic
Following several years of economic growth, it is expected that there will be a significant economic slowdown, this will most likely result in a contraction of GWP across most lines of business.

The company has carried out various scenario analyses taking the above into account, on the basis of information available to date. While acknowledging that the situation is fluid, the Directors deem that the healthy position of the company is sufficient to enable it to continue to operate as a going concern.

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