

ELMO INSURANCE LIMITED

Annual Report and Financial Statements
31 December 2019

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Directors' report

The directors present their report and 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 in terms of Section 7 of the Insurance Business Act, 1998 by the Malta Financial Services Authority ("MFSA") to write general business in Malta.

On 1 October 2019, the MFSA granted authorisation to Elmo Insurance Limited to carry on business of reinsurance in Class 8 – Fire and natural forces, Class 9 – Other damage to property and Class 16 – Miscellaneous financial loss of general business.

Review of the business

During the year under review the company registered a profit before tax of €6,220,384 compared to €1,320,668 in 2018. The increase in profitability is attributable to an exceptional improvement in the company's investment portfolio which registered a favourable return of €3,442,918, a considerable increase on the negative return of €1,231,965 in the previous year. Excluding investment income, the core insurance operations generated €2,777,466 of profits net of operating expenses, a slight improvement on the €2,552,633 reported in 2018.

The charge to taxation amounted to €1,930,544 compared to €334,875 in 2018.

Shareholders' funds amounted to €25,131,635 at 31 December 2019. At the end of 2018, shareholders' funds totalled €18,625,670. The substantial increase recorded is accounted for by a retention of net profits after dividend distributions amounting to €2,489,840 and a net surplus on revaluation of land and buildings of €4,016,125.

Our Solvency II Capital Requirement ratio as at 31 December 2019 strengthened and stands at 277% compared to 242% as at the end of 2018, reflecting principally the improvement in shareholders' funds.

Insurance operations

Malta's economy continued to power ahead, reflected by GDP growth estimated to be 4.4% over the year. This in turn is reflected in our own gross premium figures. Gross written premiums in respect of risks situated in Malta increased from €20,085,492 in 2018 to €22,777,947 in 2019, an increase of 13.4%, achieved after registering a 11.7% increase in 2018. During the first quarter of 2020, the positive trend in premiums experienced in recent years understandably slowed down in view of the impact of the Covid-19 pandemic.

The company is authorised by the MFSA to carry on business of insurance under the EU's provisions of freedom of services in several states forming part of the EU and EEA for Class 1 - Accident and Class 2 - Sickness. In 2018, premium amounting to €4,150,733 was transacted and this was increased to €7,886,507 in 2019, an increase of 90%. As a result, the company's total gross written premium for the year increased by 26.5% from €24,236,225 in 2018 to €30,664,454 in 2019.

Our overall net loss ratio decreased from 66.4% in 2018 to 62.1% in 2019.

The company's net operating expenses increased from €2,774,525 in 2018, to €3,232,363 in 2019, this increase corresponds to the growth in business volumes and reflects increased acquisition expenses. The company's combined operating ratio remained static at 81% for both 2018 and 2019.

Directors' report – continued

Over recent years we have restructured the company to ensure that we are able to cope with added requirements placed on the company through the introduction of Solvency II, General Data Protection Regulations and the Insurance Distribution Directive. We have employed additional human resources having the appropriate skills to cope with these requirements. IFRS 17 which is due to be introduced on 1st January 2023 presents additional challenges and we will no doubt have to allocate considerable resources to ensure that we are able to capture data in a format which will enable us to conform with its far-reaching requirements.

Just before the end of the year, we reallocated some of our staff to premises situated adjacent to our head office that was acquired two years ago. This has helped to free valuable space in our main office. We are also about to start developing a site immediately opposite our head office. This development has, unfortunately, been repeatedly delayed due to the added regulatory demands placed on such developments. We hope to be able to occupy this property before the end of 2021.

Investment portfolio

Whilst 2018 proved to be one of the worst years on record in terms of investment returns, 2019 in contrast was one of the best, the S&P 500 was up 28%, FTSE 100 up 12%, CAC 40 up 26%, DAX up 25% and MSE was up 4.4%.

Elmo Insurance Limited registered an average positive return on its investment portfolio of 14.2% in 2019 compared to a 5.5% loss in 2018.

Associate company

Late in 2018 it was announced that our previous partner in 2RS Elmo Insurance Managers Limited, formerly known as JLT Insurance Management Malta Limited, Jardine Lloyd Thompson Group plc, was acquired by Marsh & McLennan Companies, Inc. The other shareholders in 2RS Elmo Insurance Managers Limited acquired the shareholding of Jardine Lloyd Thompson Group plc in December 2019. Elmo Insurance Limited now owns 49.5% in 2RS Elmo Insurance Managers Limited. Additional information on the acquisition of shares relating to the investment in the associated undertaking is set out in note 13 to the financial statements.

Results and dividend

The profit and loss account is set out on pages 13 and 14 within. During the year under review the company distributed a net dividend of €1,800,000 (2018: €500,000). The directors do not recommend the payment of a final dividend.

Events after the reporting date

The first cases of the Covid-19 pandemic were reported in Malta in March 2020. At the time of writing this report, the extent of its impact on the global economy remain uncertain and we are closely monitoring the developments as the situation evolves. The company has in place a contingency plan which includes various measures to safeguard the well-being of both employees and clients and to minimise the impact on operations, results and capital.

The company's aim from the onset of this pandemic was to continue with its operations with the least disruption possible whilst safeguarding the health and wellbeing of staff and clients alike. The company, including all branch offices, are operating behind closed doors. Additionally, most of the staff complement, are working remotely and clients are also being encouraged to make use of online facilities. Whilst these measures impacted on the way the company operates, the commitment of staff during these last weeks was commendable and has ensured that the level of service being offered to clients remained unchanged.

Directors' report – continued

Events after the reporting date - continued

Additionally, following the completion of a preliminary assessment on the basis of the current outlook, we are confident that the Covid-19 pandemic will not have a material adverse impact on the company's capital and solvency margin. The company is strongly capitalised, with a Solvency Capital Requirement ratio of 277% as at 31 December 2019, which equates to surplus capital of €16,820,483 above the regulatory requirement of €9,506,328. In addition, the company has in place a comprehensive reinsurance programme placed with leading international reinsurers, the majority of which are rated 'AA', and which significantly mitigates the potential exposure on Covid-19 risks. Further information about the impact of the pandemic is set out in note 27 to the financial statements.

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

Principal risks and uncertainties

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

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

Directors

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

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

Statement of directors' responsibilities for the financial statements

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

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

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

Directors' report – continued

Statement of directors' responsibilities for the financial statements- continued

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

The financial statements of Elmo Insurance Limited for the year ended 31 December 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.

Auditors

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

By order of the Board



William Harding
Chairman

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



David Bartoli
Managing Director

21 April 2020



Independent auditor's report

To the Shareholders of Elmo Insurance Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Elmo Insurance Limited's financial statements give a true and fair view of the company's financial position as at 31 December 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 Board of Directors.

What we have audited

Elmo Insurance Limited's financial statements, set out on pages 13 to 61 comprise:

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

Basis for opinion

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

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



Independent auditor's report- continued

To the Shareholders of Elmo Insurance Limited

Independence

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

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

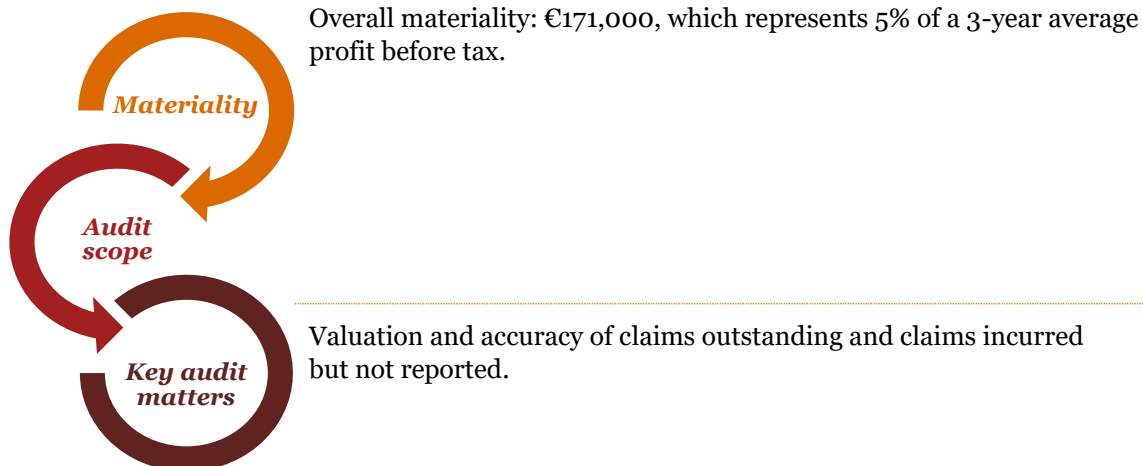
The non-audit services that we have provided to the company, in the period from 01 January 2019 to 31 December 2019 are disclosed in note 6 to the financial statements.

Emphasis of matter

We draw attention to note 27 to these financial statements that refers to the uncertainties associated with the COVID-19 pandemic. This matter is considered to be of fundamental importance to the users' 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





Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

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

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

Materiality

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

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

<i>Overall materiality</i>	€171,000
<i>How we determined it</i>	5% of a 3-year average profit before tax
<i>Rationale for the materiality benchmark applied</i>	We chose a 3-year average profit before tax as reflected in the Profit and Loss Accounts 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. We have applied a 3-year average to reflect the fluctuations in results in recent years. We selected 5% based on our professional judgement, noting that it is also within the range of commonly accepted profit-related benchmarks.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above €8,500 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 Elmo 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
<p><i>Valuation and accuracy of claims outstanding and claims incurred but not reported</i></p> <p>Valuation of insurance provisions is judgemental, and requires a number of assumptions to be made that have estimation underlying estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported (or enough reported) to the Company as some claims can take some time to emerge or develop. The determination of the value of these insurance reserves requires judgement, <i>inter alia</i>, in the selection of key assumptions and methodologies.</p> <p>The company has estimated claims outstanding on case-by-case basis, and management has further applied a judgmental provision in respect of claims incurred but not reported (IBNR).</p> <p>The Company's net claims outstanding and IBNR provision are disclosed in note 15 at €10m and €0.7m respectively, and net favourable variations arising from prior year claims amounted to €0.95m. Further information on the development of the ultimate cost of claims over the years is disclosed in note 15.</p> <p>We focused on this area due to its inherent subjectivity and complexity (refer to note 2, 3.1, and 15).</p>	<p>Our audit procedures addressing the valuation of the Company's claims outstanding and incurred but not reported provision, included the following procedures:</p> <ul style="list-style-type: none">• we understood the policies and methodologies used by the Company to account for claims outstanding and IBNR, and where applicable, validated the controls put in place by management;• we have performed detailed claims analysis to understand any unusual trends and patterns;• based on our risk assessment, we tested a number of case estimates (including releases of reserves during the year) to supporting documentation to ensure that the basis of the reserve (or release) was reasonable, and in-line with the information available to the company;• we applied our industry knowledge and experience in understanding and evaluating the IBNR reserving methodology, models and assumptions used and considered whether these were consistently applied during the years;• we also independently tested the IBNR projections and compared our results to management's estimates;• we considered the quality of historical reserving by reviewing variations arising from prior year technical provisions; and• we considered the extent of related disclosures to the financial statements. <p>Based on the work performed, we found the claims outstanding and claims incurred but not reported provisions to be consistent with the explanations and evidence obtained.</p>



Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

Other information

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

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

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

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

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

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

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



Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, 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 assets and liabilities, 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 the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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



Independent auditor's report - continued

To the Shareholders of Elmo Insurance Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

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

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

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

Appointment

We were first appointed as auditors of the Company on 30 August 1976, for the year ended 31 December 1977. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 43 years. The company became licensed as an insurance undertaking in terms of the Maltese Insurance Business Act (Cap. 403) on 29 April 2004.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Simon Flynn', with a horizontal line underneath.

Simon Flynn
Partner

21 April 2020

Profit and loss account
Technical account – general business

		Year ended 31 December	
		2019	2018
Notes		€	€
Earned premiums, net of reinsurance			
	Gross premiums written	30,664,454	24,236,225
	Outward reinsurance premiums	(15,292,635)	(10,287,295)
	Net premiums written	15,371,819	13,948,930
	Change in the gross provision for unearned premiums	(1,159,481)	(1,649,958)
	Change in the provision for unearned premiums, reinsurers' share	473,360	962,950
		(686,121)	(687,008)
	Earned premiums, net of reinsurance	14,685,698	13,261,922
	Allocated investment return transferred from the non-technical account (page 14)	1,858,194	(733,003)
	Other technical income	449,029	865,170
	Total technical income	16,992,921	13,394,089
Claims incurred, net of reinsurance			
	Claims paid		
	- gross amount	16,842,277	10,703,590
	- reinsurers' share	(7,789,900)	(2,843,744)
		9,052,377	7,859,846
	Change in the provision for claims		
	- gross amount	1,201,290	507,081
	- reinsurers' share	(1,128,769)	433,007
		72,521	940,088
	Claims incurred, net of reinsurance	9,124,898	8,799,934
	Net operating expenses	3,064,720	2,624,500
	Total technical charges	12,189,618	11,424,434
	Balance on the technical account for general business (page 14)	4,803,303	1,969,655

Profit and loss account
Non-technical account

		Year ended 31 December	
		2019	2018
		€	€
	Notes		
Balance on the technical account for general business (page 13)		4,803,303	1,969,655
Administration expenses	4	(167,643)	(150,025)
Investment income	5	3,549,275	(1,151,676)
Investment expenses and charges	5	(106,357)	(80,289)
Allocated investment return transferred to the general business technical account (page 13)	5	(1,858,194)	733,003
Profit before tax		6,220,384	1,320,668
Tax expense	8	(1,930,544)	(334,875)
Profit for the year		4,289,840	985,793

The notes on pages 18 to 61 are an integral part of these financial statements.

Balance sheet

		As at 31 December	
		2019	2018
		€	€
	Notes		
ASSETS			
Intangible assets	10	232,140	41,745
Tangible assets			
- land and buildings	11	12,756,500	7,975,130
- plant and equipment	11	374,950	114,257
Investments:			
- investment in associated undertaking	13	150,541	76,338
- investment property	12	1,615,000	1,187,500
- other investments	14	18,859,130	15,665,619
Subordinated loan	25	200,000	200,000
Deferred taxation	20	217,363	585,987
Reinsurers' share of technical provisions	15	7,550,733	5,948,604
Deferred acquisition costs	16	1,632,821	1,451,375
Debtors:			
- arising out of direct insurance operations	17	6,968,969	7,197,279
- other debtors	17	218,476	313,685
Prepayments and accrued income	17	159,292	81,082
Cash at bank and in hand	24	6,369,689	7,288,666
Total assets		57,305,604	48,127,267
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	18	5,000,000	5,000,000
Revaluation reserve	19	7,051,811	3,035,686
Profit and loss account		13,079,824	10,589,984
Total equity		25,131,635	18,625,670
LIABILITIES			
Technical provisions	15	26,064,127	23,703,356
Deferred taxation	20	1,687,168	627,000
Current taxation		86,223	315,321
Creditors:			
- interest-bearing borrowings	24	370,432	184,727
- creditors arising out of direct insurance operations	22	1,681,360	2,921,650
- accruals, deferred income and other liabilities	22	2,284,659	1,749,543
Total liabilities		32,173,969	29,501,597
Total equity and liabilities		57,305,604	48,127,267

The notes on pages 18 to 61 are an integral part of these financial statements.

The financial statements on pages 13 to 61 were authorised for issue by the Board on 21 April 2020 and were signed on its behalf by:

William Harding
Chairman

David Bartoli
Managing Director

Statement of comprehensive income

	Year ended 31 December	
	2019 €	2018 €
Profit for the year	4,289,840	985,793
Net surplus arising on revaluation of land and buildings	4,016,125	-
Total comprehensive income	8,305,965	985,793

Statement of changes in equity

	Notes	Share capital €	Revaluation reserve €	Profit and loss account €	Total €
Balance at 1 January 2018		5,000,000	3,035,686	10,104,191	18,139,877
Comprehensive income					
Profit for the year		-	-	985,793	985,793
Total comprehensive income		-	-	985,793	985,793
Transactions with owners					
Dividends - ordinary shares - total transactions with owners	9	-	-	(500,000)	(500,000)
Balance at 31 December 2018		5,000,000	3,035,686	10,589,984	18,625,670
Balance at 1 January 2019		5,000,000	3,035,686	10,589,984	18,625,670
Comprehensive income					
Profit for the year		-	-	4,289,840	4,289,840
Net surplus arising on revaluation of land and buildings		-	4,016,125	-	4,016,125
Total comprehensive income		-	4,016,125	4,289,840	8,305,965
Transactions with owners					
Dividends - ordinary shares - total transactions with owners	9	-	-	(1,800,000)	(1,800,000)
Balance at 31 December 2019		5,000,000	7,051,811	13,079,824	25,131,635

The notes on pages 18 to 61 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December	
		2019	2018
		€	€
Notes			
Cash flows from operating activities			
	Cash generated from operations	2,736,030	2,568,937
	Dividends received	431,720	409,480
	Net interest received	198,468	99,057
	Rental income	72,163	28,125
5	Net tax paid	(1,388,450)	(893,057)
Net cash generated from operating activities		2,049,931	2,212,542
Cash flows from investing activities			
	Purchase of intangible assets	(63,313)	(15,348)
	Purchase of immoveable property	(136,500)	(1,470,000)
	Purchase of plant and equipment	(94,725)	(39,899)
	Purchase of investments – fair value through profit or loss	(4,978,290)	(3,070,125)
	Purchase of additional shares in investment in associate	(218,382)	-
	Disposal of investments – fair value through profit or loss	4,181,017	3,537,424
	Proceeds from disposal of tangible assets	7,500	80
14	Net cash flows from investments in term deposits	(17)	(19)
Net cash used in investing activities		(1,302,710)	(1,057,887)
Cash flows from financing activities			
	Dividends paid	(1,800,000)	(500,000)
	Principal elements of lease payments	(51,903)	-
Net cash used in financing activities		(1,851,903)	(500,000)
Increase in cash and cash equivalents		(1,104,682)	654,655
Movement in cash and cash equivalents			
	At beginning of year	7,103,939	6,449,284
	Net cash (outflow)/inflow	(1,104,682)	654,655
	At end of year	5,999,257	7,103,939

The notes on pages 18 to 61 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

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

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

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

Standards, interpretations and amendments to published standards effective in 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.

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 lease liabilities in 'accruals, deferred income and other liabilities' and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The associated right-of-use (ROU) assets were recognised and included with 'plant and equipment' on the face of the statements of financial position and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 31 December 2018. Depreciation of the ROU assets are presented under 'administration expense' in the profit and loss account. The cash outflows related to the principal portion of the lease liability and the related interest are presented within financing activities in the statement of cash flows.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. The Company is considering the implications of the below standards on the Company's financial results and position, and the timing of their adoption.

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

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

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

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

The amendment of IFRS 4 Insurance Contracts requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interest ("SPPI") and other financial assets separately. Such disclosure is not required since the Company invests in debt instruments held at FVTPL and are of a trading nature, not recognised as SPPI. IFRS 17 'Insurance Contracts' 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 starting to assess the impact IFRS 17. Industry practice and interpretation of the standard are still developing.

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

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

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

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

1.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

1.3 Revenue recognition

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

(a) Rendering of services

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

(b) Interest income

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

(c) Dividend income

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

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

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

1. Summary of significant accounting policies - continued

1.4. Investment return

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

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

1.5 Property, plant and equipment

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

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

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

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

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

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

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

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

1. Summary of significant accounting policies - continued

1.6 Investment property

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

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value,

representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

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

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

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

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

1.7 Intangible assets

1.7.1 Computer software

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

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

1. Summary of significant accounting policies - continued

1.7 Intangible assets- continued

1.7.2 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1.8. Investment in associated undertakings

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

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

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

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

1.9 Financial assets

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

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

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

(b) Loans and receivables

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

1. Summary of significant accounting policies - continued

1.9 Financial assets- continued

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

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

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

1.10 Impairment of assets

(a) Impairment of financial assets carried at amortised cost

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

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

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

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

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

1. Summary of significant accounting policies - continued

1.10 Impairment of assets - continued

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

(b) Impairment of other non-financial assets

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

1.11 Cash and cash equivalents

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

1.12 Share capital

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

1.13 Dividends

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

1.14 Current and deferred tax

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

Deferred tax is recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

1. Summary of significant accounting policies - continued

1.15 Borrowings

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

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

1.16 Leases

Applicable as from 1 January 2019

The company recognises lease liabilities in relation to leases within 'accruals and deferred income'. The lease liability is measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.35%. The associated ROU assets are recognised and included within 'plant and equipment' and are measured at the amount equal to the lease liability.

The Company applies the following practical expedients:

- a single discount rate is applied to a portfolio of leases with reasonable similar characteristics;
- an assessment is performed on whether leases are onerous; and
- hindsight is used in determining the lease term where the contract contains options to extend or terminate the lease.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term.

The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis. The leases with a remaining lease term of less than 12 months are accounted as short-term operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

There were no differences recognised in retained earnings on the date of initial application as the Company adopted the approach whereby the ROU assets are initially measured equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019.

1. Summary of significant accounting policies - continued

1.16 Leases - continued

The following table represents the initial recognition of right-of-use assets and lease liabilities:

	Premises	Total
	€	€
Right-of-use assets at 1 January 2019	294,632	294,632
Lease liabilities at 1 January 2019	294,632	294,632

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication of such impairment.

1.17 Insurance contracts - classification

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

Insurance contracts - General business

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

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

1. Summary of significant accounting policies - continued

1.17 Insurance contracts – classification – continued

Insurance contracts - General business – continued

the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the company and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions). The company does not discount its liabilities for unpaid claims.

- (vi) Provision in the form of an unexpired risk provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.
- (vii) The above method of provisioning satisfies the minimum liability adequacy that is required by IFRS 4.

Reinsurance contracts held

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

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

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

Receivables and payables related to insurance contracts

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

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

2. Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

3. Management of insurance and financial risk

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

3.1 Insurance risk

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

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

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

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

(a) Frequency and severity of claims

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

3. Management of insurance and financial risk - continued

3.1 Insurance risk - continued

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

Underwriting risk

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

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

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

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

(a) Frequency and severity of claims - continued

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

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

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

Reinsurance arrangements are in place as further described below.

Reinsurance risk

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

3. Management of insurance and financial risk - continued

3.1 Insurance risk – continued

one individual claim or event. Monthly reviews of aggregates are carried out to ensure that adequate reinsurance is in place.

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

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

Concentration of insurance risk

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

Claims handling

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

Sources of uncertainty in the estimation of future claim payments

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

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

In calculating the estimated cost of unpaid claims, the company uses a combination of estimation techniques, based partly on known information and partly on statistical analyses of a historical experience. Reserves are analysed by line of business. Case reserves are established on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which claims data (e.g. paid claims and case reserves) emerge over a long period of

3. Management of insurance and financial risk - continued

3.1 Insurance risk - continued

time are referred to as long tail lines of business. Lines of business for which claims data emerge more quickly are referred to as short tail lines of business. Risks underwritten by the company are typically short tail, although certain lines of business may take longer to develop, including, for example, personal accident and employers' liability.

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

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

3.2 Financial risk

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

Market risk

(a) Interest rate risk

In general, the company is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets issued at variable rates expose the company to cash flow interest rate risk. Assets issued at fixed rates expose the company to fair value interest rate risk. 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. 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 14 and 24 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 as follows:

	2019 €	2018 €
Assets at floating interest rates	6,425,087	7,344,096
Assets at fixed interest rates	5,667,634	2,823,614
	12,092,721	10,167,710
Liabilities at floating interest rates	370,432	184,727

3. Management of insurance and financial risk - continued

3.2 Financial risk - continued

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

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

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

i) Sensitivity analysis - interest rate risk

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

At 31 December 2019, if interest rates at that date would have been 50 basis points (2018: 50 basis points) lower with all other variables held constant, pre-tax profit for the year would have been €196,493, (2018: €86,981) higher. An increase of 50 basis points (2018: 50 basis points), with all other variables held constant, would have resulted in pre-tax profits being €189,043 (2018: €83,593) lower.

(b) Price risk

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

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

	2019	2018
	€	€
Assets subject to equity price risk (Note 14)	13,329,484	12,980,010

3. Management of insurance and financial risk - continued

3.2 Financial risk - continued

i) Sensitivity analysis – equity price risk

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The sensitivity for equity price risk is based on global equity returns, assuming that currency exposures are hedged. Given the investment strategy and asset mix of the company, a 15% (2018: 15%) positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes.

An increase and a decrease of 15% (2018: 15%) in equity prices, with all other variables held constant, would result in an impact on the pre-tax profit for the year of €1,999,423 (2018: €1,947,002).

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

(c) Currency risk

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

i) Sensitivity analysis - currency risk

As at 31 December 2019, the company's exposure to foreign currency investments, represented 24% (2018: 26%) of the company's total investments. The company's exposure to foreign currency as at 31 December 2019, mainly arose in respect to USD and GBP. The strengthening or weakening of the functional currency by 10% (2018: 10%) against the other currencies with all other variables held constant, would result in an impact on pre-tax profit for the year of €461,055 (2018: €410,368).

(d) Credit risk

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

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

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

The company structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparty. Limits on the level of credit risk are approved by

3. Management of insurance and financial risk - continued

3.2 Financial risk - continued

(d) Credit risk- continued

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

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

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

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

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

	As at 31 December 2019				
	AAA to AA €	A to A- €	BBB to BB €	Unrated €	Total €
Debt securities at fair value through profit or loss	196,911	191,718	429,400	4,649,605	5,467,634
Loans and receivables					
Deposits with banks or credit institutions	-	-	62,012	-	62,012
Insurance and other receivables	4,890	4,548	2,539	7,258,172	7,270,149
Subordinated loan	-	-	-	200,000	200,000
Cash and cash equivalents	-	-	4,115,297	2,254,392	6,369,689
	4,890	4,548	4,179,848	9,712,564	13,901,850
Reinsurers' share of technical provisions (see note above)	3,418,630	716,474	-	-	4,135,104
Total assets bearing credit risk	3,620,431	912,740	4,609,248	14,362,169	23,504,588

3. Management of insurance and financial risk - continued

3.2 Financial risk – continued

(d) Credit risk- continued

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

(e) Liquidity risk

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

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

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

3. Management of insurance and financial risk - continued

3.2 Financial risk - continued

(e) Liquidity risk - continued

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 €
Bank overdraft	370,432	-	-	-	370,432
Lease liabilities	70,612	70,612	141,224	-	282,447
Insurance and other payables	3,723,290	-	-	-	3,723,290
	4,163,884	70,612	141,224	-	4,376,169

Expected undiscounted cash outflows

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Technical provisions - Claims outstanding	6,776,262	1,993,662	4,088,137	2,052,758	14,910,819

As at 31 December 2018

Contracted undiscounted cash outflows

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €
Bank overdraft	184,727	-	-	-	184,727
Insurance and other payables	4,671,193	-	-	-	4,671,193
	4,855,920	-	-	-	4,855,920

Expected undiscounted cash outflows

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

3. Management of insurance and financial risk - continued

3.3 Capital risk management

The company's objectives when managing capital are:

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

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

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

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

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

The Company was in full compliance with its regulatory capital requirements throughout the financial year and at 31 December 2019, the Company's eligible own funds amounting to €26,326,811 (2018: €19,286,901) were in excess of the required SCR.

3.4 Fair value estimate

The fair value of publicly traded investments is based on quoted market prices at the balance sheet date. At 31 December 2019 and 31 December 2018, the carrying amount of the company's other financial assets and liabilities approximated their fair values.

The following table presents the company's assets that are measured at fair value at 31 December 2019, by level of the following fair value measurement hierarchy:

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

3. Management of insurance and financial risk – continued

3.4 Fair value estimate – continued

	2019 Level 1 €	2018 Level 1 €
Assets		
Fair value through profit or loss		
- Equity securities, other variable yield securities and units in unit trusts – listed	13,329,484	12,980,010
- Debt securities	5,467,634	2,623,614
Total assets	18,797,118	15,603,624

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

4. Net operating expenses

	2019 €	2018 €
Acquisition costs	7,106,584	5,215,672
Change in deferred acquisition costs, net of reinsurance	1,908	(5,505)
Administrative expenses	1,434,031	1,403,136
Reinsurance commissions and profit participation	(5,310,160)	(3,838,778)
	3,232,363	2,774,525
Allocated to:		
Technical profit and loss account	3,064,720	2,624,500
Non-technical account	167,643	150,025
	3,232,363	2,774,525

Total commissions for direct business accounted for in the financial year amounted to €4,454,071 (2018: €2,815,644). Further detail on expenses by nature is provided in Note 6 to the financial statements.

5. Investment return

	2019 €	2018 €
Dividends received from investments at fair value through profit or loss	364,705	348,557
Net gains/(losses) from financial investments at fair value through profit or loss	2,578,535	(1,595,899)
Interest receivable in relation to other loans and receivables	16,154	(3,612)
Share of gains of associated undertaking	90,218	71,153
Rental income from investment property	72,163	28,125
Net surplus arising on revaluation of investment property	427,500	-
	3,549,275	(1,151,676)
Investment expenses and charges		
Investment expenses and charges	(87,648)	(80,289)
Interest and finance charges paid for lease liabilities	(18,709)	-
	(106,357)	(80,289)
Total investment return	3,442,918	(1,231,965)
Allocated as follows:		
Technical profit and loss account	1,858,194	(733,003)
Non-technical account	1,584,724	(498,962)
	3,442,918	(1,231,965)

6. Expenses by Nature

	2019 €	2018 €
Staff costs (Note 7)	3,095,281	2,900,489
Directors' remuneration	25,544	25,400
Amortisation of intangible assets (Note 10)	40,300	22,279
Depreciation of property, plant and equipment (Note 11)	149,517	77,926
Professional indemnity insurance	44,914	46,190
Increase/ in debtors' impairment provision (Note 17)	71,154	134,688
Legal and professional fees	345,467	299,537
Advertising	117,003	128,677
Amounts receivable written off	26,604	-
Other expenses	1,460,726	1,389,060
Total administrative expenses	5,376,510	5,024,246
Allocated to:		
Technical profit and loss account	5,208,867	4,874,221
Non-technical account	167,643	150,025
	5,376,510	5,024,246

6. Expenses by Nature - continued

During the year ending 31 December 2019, debtors amounting to €26,604 were written-off (2018: € nil).

Fees charged by the auditor for services rendered during the financial period ended 31 December 2019 and 2018 amounted to:

	2019 €	2018 €
Annual statutory audit	44,605	42,480
Other assurance services	24,190	23,600
Tax compliance and advisory services	1,298	1,215
	70,093	67,295

7. Staff Costs

	2019 €	2018 €
Salaries	2,957,064	2,767,102
Social security costs	163,761	158,787
	3,120,825	2,925,889

The average number of persons employed during the year was:

	2019	2018
Managerial	18	18
Technical	76	68
Administrative	6	7
	100	93

Staff costs amounting to €36,874 (2018: €29,675) were reimbursed by related undertakings.

8. Tax expenses

	2019	2018
	€	€
Current tax expense	1,159,352	1,031,035
Deferred tax charge/(credit) (Note 20)	771,192	(696,160)
	<hr/>	<hr/>
Tax expense	1,930,544	334,875
	<hr/>	<hr/>

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 tax	6,220,384	1,320,668
	<hr/>	<hr/>
Tax on profit at 35%	2,177,134	462,234
Adjusted for tax effect of:		
Income subject to reduced rates of tax	(225,538)	(50,600)
Expenses not deductible for tax purposes	32,966	10,250
Net gains not subject to tax	(54,018)	(58,122)
Under provision of deferred tax	-	(28,887)
	<hr/>	<hr/>
Tax expense	1,930,544	334,875
	<hr/>	<hr/>

9. Dividends

The directors declared a net interim dividend of €1,800,000 during 2019 equivalent to 36 cents per share. The directors do not propose the payment of a final dividend in respect of 2018. The net dividend declared in respect of 2018 was €500,000 (10 cents per share).

10. Intangible assets

	Goodwill €	Computer software €	Total €
At 31 December 2017			
Cost	-	864,921	864,921
Accumulated amortisation	-	(816,245)	(816,245)
Net book amount	-	48,676	48,676
Year ended 31 December 2018			
Opening net book amount	-	48,676	48,676
Additions	-	15,348	15,348
Amortisation charge	-	(22,279)	(22,279)
Closing net book amount	-	41,745	41,745
At 31 December 2018			
Cost	-	880,269	880,269
Accumulated amortisation	-	(838,524)	(838,524)
Net book amount	-	41,745	41,745
Year ended 31 December 2019			
Opening net book amount	-	41,745	41,745
Additions	167,382	63,313	230,695
Amortisation charge	-	(40,300)	(40,300)
Closing net book amount	167,382	64,758	232,140
At 31 December 2019			
Cost	167,382	943,582	1,110,964
Accumulated amortisation	-	(878,824)	(878,824)
Net book amount	167,382	64,758	232,140

Amortisation of €40,300 (2018: €22,279) is included in net operating expenses in the technical account. Detail on the recognition of goodwill is disclosed in note 13 to these financial statements.

11. Tangible assets

	Land and buildings €	ROU assets €	Office furniture & equipment €	Motor vehicles €	Total €
At 31 December 2017					
Cost or valuation	6,562,838	-	1,796,935	190,593	8,550,366
Accumulated depreciation	(28,854)	-	(1,688,605)	(175,233)	(1,892,692)
Net book amount	6,533,984	-	108,330	15,360	6,657,674
Year ended 31 December 2018					
Opening net book amount	6,533,984	-	108,330	15,360	6,657,674
Additions	1,470,000	-	23,899	16,000	1,509,899
Disposal	-	-	-	(650)	(650)
Depreciation charge	(28,854)	-	(41,122)	(7,950)	(77,926)
Depreciation released upon disposal	-	-	-	390	390
Closing net book amount	7,975,130	-	91,107	23,150	8,089,387
At 31 December 2018					
Cost or valuation	8,032,838	-	1,820,834	205,943	10,059,615
Accumulated depreciation	(57,708)	-	(1,729,727)	(182,793)	(1,970,228)
Net book amount	7,975,130	-	91,107	23,150	8,089,387
Year ended 31 December 2019					
Opening net book amount	7,975,130	-	91,107	23,150	8,089,387
Additions	136,500	294,632	28,275	66,450	525,857
Disposal	-	-	-	(32,129)	(32,129)
Depreciation charge	(28,854)	(58,926)	(42,947)	(18,790)	(149,517)
Depreciation released upon disposal	-	-	-	24,128	24,128
Surplus arising from revaluation	4,673,724	-	-	-	4,673,724
Closing net book amount	12,756,500	235,706	76,435	62,809	13,131,450
At 31 December 2019					
Cost or valuation	12,756,500	294,632	1,849,109	240,264	15,140,505
Accumulated depreciation	-	(58,926)	(1,772,674)	(177,455)	(2,009,055)
Net book amount	12,756,500	235,706	76,435	62,809	13,131,450

11. Tangible assets - continued

11.1 Fair value of land and buildings and investment property

The company's office building was revalued on 31 December 2019 by independent professionally qualified valuers. The valuation was conducted by a firm of architects. The book value of the property was adjusted to the revaluation and the resultant surplus, was credited to the revaluation reserve (refer to Note 19).

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

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

The recurring property fair value measurement at 31 December 2019 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2019.

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

11.2 Valuation processes

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

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

11. Tangible assets - continued

11.3 Valuation techniques

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

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

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

Description	Fair value at 31 December 2019 €	Valuation technique	Significant unobservable inputs
			Value per square metre €
Office building	14.4 million	Equivalent value per square metre	4,600

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

11.4 Historical cost of land and buildings

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

	2019 €	2018 €
Cost	4,920,988	4,784,488
Accumulated depreciation	(300,072)	(278,683)
Net book amount	4,620,916	4,505,805

11.5 Leases

The company leases a number of branches. Rental contracts are typically made for fixed periods but may have extension options. Extension and termination options are included in a number of property leases across the company. These are used to maximise operational flexibility in terms of managing the assets used in the company's operations. The majority of extension and termination options held are exercisable only by the company and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

11. Tangible assets - continued

11.5 Leases – continued

	Premises	Total
	€	€
Right-of-use assets		
Impact of application of IFRS 16 on 1 January 2019	294,632	294,632
Depreciation for the year	(58,926)	(58,926)
At 31 December 2019	235,706	235,706
Lease liabilities		
At 31 December 2019		
Current	55,198	55,198
Non-current	187,531	187,531
	242,729	242,729
The profit and loss account reflects the following amounts relating to leases:		
Depreciation charge of right-of-use asset		58,926
Interest expense		18,709
		77,635

The total cash payments for leases in 2019 was €70,612. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2019 are analysed in Note 3.2.

12. Investment property

	2019	2018
	€	€
Year ended 31 December		
At beginning and end of year	1,615,000	1,187,500
At end of year	1,615,000	1,187,500
At 31 December		
Cost	703,500	703,500
Fair value gains	911,500	484,000
Closing cost and net book amount	1,615,000	1,187,500

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

12. Investment property

The property was fair valued as at 31 December 2019, by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Fair values are determined on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential and the availability of similar properties in the area.

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

13. Investment in associated undertaking

	2019 €	2018 €
Year ended 31 December		
At beginning of year	76,338	66,108
Net identifiable assets acquired	51,000	-
Share of results of associate	90,218	71,153
Dividend received	(67,015)	(60,923)
	150,541	76,338
At 31 December		
Cost	75,750	24,750
Share of results	74,791	51,588
	150,541	76,338
Closing cost and net book amount	150,541	76,338

The associated undertaking is shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held	
			2019	2018
2RS Elmo Insurance Managers Limited (formerly JLT Insurance Management Malta Limited)	Abate Rigord Street, Ta' Xbiex	Ordinary Shares	49.5%	33%

On 23 December 2019, Elmo Insurance Limited acquired a further 16.5% of the issued share capital of 2RS Elmo Insurance Managers Limited (formerly JLT Insurance Management Malta Limited). Therefore the acquisition was due to a restructuring in the Company's shareholdings. The goodwill is attributable to the profitability of the acquired business. The fair value of the associate's net asset acquired at the date of acquisition is equivalent to their carrying amounts. 2RS Elmo Insurance Managers reported revenues of €606,183 and a net profit after tax of €202,312 for the period from 1 January to 31 December 2019 of which the Company's share on the net profit was €74,791.

13. Investment in associated undertaking - continued

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	€
Cash paid	218,382
Net identifiable assets acquired	51,000
Goodwill (Note 10)	167,382
Net assets acquired	218,382

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

	Assets €	Liabilities €	Profit for the year €
2019	515,966	206,874	202,312
2018	626,374	387,596	150,901

14. Investments

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

	2019 €	2018 €
Fair value through profit or loss	18,797,118	15,603,624
Loans and receivables	62,012	61,995
	18,859,130	15,665,619

(a) *Investments at fair value through profit or loss*

	2019 €	2018 €
Equity securities, other variable yield securities and units in unit trusts - listed	13,329,484	12,980,010
Debt securities	5,467,634	2,623,614
Total investments at fair value through profit or loss	18,797,118	15,603,624

14. Investments - continued

Maturity of fixed income debt securities:

	2019 €	2018 €
Within one year	100,000	226,045
Between 1 and 2 years	-	100,800
Between 2 and 5 years	2,203,429	800,115
Over 5 years	3,164,205	1,496,654
	5,467,634	2,623,614

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

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

	2019 €	2018 €
Year ended 31 December		
At beginning of year	15,603,624	17,769,491
Additions	4,978,290	3,070,125
Disposals (sale and redemptions)	(3,882,707)	(3,752,922)
Net fair value gains	2,097,911	(1,483,070)
	18,797,118	15,603,624
As at 31 December		
Cost	16,857,199	15,761,616
Accumulated net fair value gains	1,939,919	(157,992)
	18,797,118	15,603,624

(b) Loans and receivables

	2019 €	2018 €
Deposits with banks or credit institutions	62,012	61,995
	62,012	61,995

Maturity of deposits with banks or credit institutions:

	2019 €	2018 €
Within 3 months	62,012	61,995
	62,012	61,995

The above deposits earn interest as follows:

	2019 €	2018 €
At fixed rates	62,012	61,995
	62,012	61,995

15. Insurance liabilities and reinsurance assets

	2019 €	2018 €
Gross technical provisions		
Claims reported and loss adjustment expenses	13,788,350	12,812,300
Claims incurred but not reported	1,122,470	897,230
Provision for unearned premiums	11,153,307	9,993,826
	26,064,127	23,703,356
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	3,750,697	2,777,337
Claims incurred but not reported	384,407	228,998
Provision for unearned premiums	3,415,629	2,942,269
	7,550,733	5,948,604
Net technical provisions		
Claims reported and loss adjustment expenses	10,037,653	10,034,963
Claims incurred but not reported	738,063	668,232
Provision for unearned premiums	7,737,678	7,051,557
	18,513,394	17,754,752

Technical provisions are considered to be substantially current in nature.

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2019 and 2018 are not material.

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

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

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

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

15. Insurance liabilities and reinsurance assets - continued

The development table is presented gross of reinsurance.

	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	2018 €	2019 €	Total €
Estimate of the ultimate claims costs:											
- at end of accident year	8,315,985	7,296,007	8,246,855	7,554,026	7,234,988	7,996,319	7,423,855	9,626,225	10,679,360	16,125,919	
- one year later	8,153,733	7,708,363	8,816,335	8,024,544	7,606,833	8,815,540	7,974,397	10,268,634	12,749,021		
- two years later	7,524,363	7,153,288	8,712,883	7,298,588	7,075,169	8,512,506	7,508,183	9,093,872			
- three years later	7,418,006	7,088,950	8,424,037	7,155,432	6,965,657	8,594,942	7,195,352				
- four years later	7,381,186	6,923,937	8,847,794	7,105,643	6,898,117	8,694,995					
- five years later	7,229,821	6,742,541	8,819,789	7,064,167	6,817,562						
- six years later	7,167,308	6,652,231	9,538,574	7,105,168							
- seven years later	7,095,280	6,487,083	9,317,125								
- eight years later	6,925,561	6,645,530									
- nine years later	6,977,089										
Current estimates of cumulative claims	6,977,089	6,645,530	9,317,125	7,105,168	6,817,562	8,694,995	7,195,352	9,093,872	12,749,021	16,125,919	90,721,633
Cumulative payments to date	(6,949,095)	(6,462,910)	(8,896,423)	(6,906,042)	(6,565,058)	(8,256,127)	(6,878,155)	(7,907,232)	(9,746,630)	(7,648,897)	(76,216,569)
Liability recognised in the balance sheet	27,994	182,620	420,702	199,126	252,504	438,868	317,197	1,186,640	3,002,391	8,477,022	14,505,064
Liability in respect of prior years											405,756
Total reserve included in the balance sheet											14,910,820

15. Insurance liabilities and reinsurance assets - continued

The development table is presented net of reinsurance.

	2010 €	2011 €	2012 €	2013 €	2014 €	2015 €	2016 €	2017 €	2018 €	2019 €	Total €
Estimate of the ultimate claims costs:											
- at end of accident year	7,075,696	6,289,248	6,597,468	6,831,259	6,445,459	7,083,572	6,638,396	8,638,046	9,005,686	10,075,485	
- one year later	7,095,991	6,693,322	6,977,506	7,123,331	6,726,839	7,572,414	6,884,491	9,078,095	9,239,032		
- two years later	6,523,900	6,276,517	6,762,043	6,486,279	6,185,276	6,930,480	6,370,993	8,157,090			
- three years later	6,428,492	6,158,821	6,540,702	6,375,754	6,059,799	6,998,412	6,194,568				
- four years later	6,392,427	6,111,298	6,482,975	6,331,201	5,989,971	6,908,556					
- five years later	6,262,386	6,055,444	6,424,214	6,306,456	5,933,352						
- six years later	6,214,917	5,973,897	6,635,843	6,356,795							
- seven years later	6,100,945	5,808,124	6,476,269								
- eight years later	5,964,836	5,970,574									
- nine years later	6,101,093										
Current estimates of cumulative claims	6,101,093	5,970,574	6,476,269	6,356,795	5,933,352	6,908,556	6,194,568	8,157,090	9,239,032	10,075,485	71,412,814
Cumulative payments to date	(6,076,456)	(5,805,356)	(6,160,548)	(6,164,868)	(5,696,264)	(6,489,216)	(5,903,366)	(7,137,000)	(6,857,695)	(4,702,874)	(60,993,643)
Liability recognised in the balance sheet	24,637	165,218	315,721	191,927	237,088	419,340	291,202	1,020,090	2,381,337	5,372,611	10,419,171
Liability in respect of prior years											356,545
Total reserve included in the balance sheet											10,775,716

15. Insurance liabilities and reinsurance assets - continued

Movements in insurance liabilities and reinsurance assets

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

	Year ended 2019		
	Gross €	Reinsurance €	Net €
Total at beginning of year	13,709,530	(3,006,335)	10,703,195
Claims settled during the year	(16,842,277)	7,789,900	(9,052,377)
Increase/(decrease) in liabilities			
- arising from current year claims	16,125,919	(6,050,434)	10,075,485
- arising from prior year claims	1,917,648	(2,868,235)	(950,587)
Total at year end	14,910,820	(4,135,104)	10,775,716
	Year ended 2018		
	Gross €	Reinsurance €	Net €
Total at beginning of year	13,202,449	(3,439,342)	9,763,107
Claims settled during the year	(10,703,590)	2,843,744	(7,859,846)
Increase/(decrease) in liabilities			
- arising from current year claims	10,679,360	(1,673,675)	9,005,685
- arising from prior year claims	531,311	(737,062)	(205,751)
Total at year end	13,709,530	(3,006,335)	10,703,195

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

15. Insurance liabilities and reinsurance assets - continued

(b) Provision for unearned premiums

The movements for the year are summarised as follows:

	Year ended 2019		
	Gross €	Reinsurance €	Net €
At beginning of year	9,993,826	(2,942,269)	7,051,557
Net charge/(credit) to profit and loss	1,159,481	(473,360)	686,121
At end of year	11,153,307	(3,415,629)	7,737,678
	Year ended 2018		
	Gross €	Reinsurance €	Net €
At beginning of year	8,343,868	(1,979,319)	6,364,549
Net charge/(credit) to profit and loss	1,649,958	(962,950)	687,008
At end of year	9,993,826	(2,942,269)	7,051,557

16. Deferred acquisition costs

	2019 €	2018 €
Year ended 31 December		
At beginning of year	1,451,375	1,047,627
Net credit to profit and loss	181,446	403,748
At end of year	1,632,821	1,451,375

Deferred acquisition costs are classified as current assets.

17. Debtors and prepayments and accrued income

	2019 €	2018 €
Debtors		
Debtors arising out of direct insurance operations		
- due from policyholders	4,599,581	4,201,442
- due from intermediaries	2,369,388	2,995,837
Amount due from related parties (Note 25)	125,360	101,236
Other debtors	93,116	212,449
	7,187,445	7,510,964
 Prepayments and accrued income		
Accrued interest	82,702	36,177
Prepayments	76,590	44,905
	159,292	81,082

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

Debtors are presented net of an allowance for impairment of €486,193 (2018: €415,039). As at 31 December 2019, debtors amounting to €4,542,259 (2018: €4,411,284) were fully performing, whereas debtors amounting to €2,426,710 (2018: €2,785,996) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of significant default. The ageing analysis of the trade receivables which were past due but not impaired at year end is as follows:

	2019 €	2018 €
Within credit terms	1,373,632	1,813,804
Not more than 3 months overdue	706,143	639,899
More than 3 months overdue	346,935	332,293
	2,426,710	2,785,996

18. Share capital

	2019 €	2018 €
Authorised		
2,488,350 ordinary "A" shares of €1 each	2,488,350	2,488,350
2,488,350 ordinary "B" shares of €1 each	2,488,350	2,488,350
23,300 ordinary "C" shares of €1 each	23,300	23,300
	5,000,000	5,000,000
Issued and fully paid		
2,488,350 ordinary "A" shares of €1 each	2,488,350	2,488,350
2,488,350 ordinary "B" shares of €1 each	2,488,350	2,488,350
23,300 ordinary "C" shares of €1 each	23,300	23,300
	5,000,000	5,000,000

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

19. Revaluation reserve

	2019 €	2018 €
At 1 January	3,035,686	3,035,686
Revaluation surplus, net of deferred taxation	4,016,125	-
At 31 December	7,051,811	3,035,686

The balance at 31 December is made up as follows:

	2018 €	2017 €
Revaluation reserve arising on land and buildings	7,051,811	3,035,686

This reserve is not a distributable reserve.

20. Deferred taxation

	2019 €	2018 €
Balance at 1 January	41,013	737,173
Movements during the year recognised in:		
Profit and loss account (Note 8)	771,192	(696,160)
Other comprehensive income (Note 19)	657,600	-
Balance at 31 December - net	1,469,805	41,013

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2018: 35%) except for temporary differences on Land and Investment Property that are calculated under the liability method using the principal tax rates of either 8% or 10% of the revalued amount.

The year-end balance comprises:

	2019 €	2018 €
Temporary differences attributable to depreciation of fixed assets	(58,609)	(86,966)
Temporary differences attributable to fair value adjustments - investments	368,369	(365,171)
Temporary differences attributable to revaluation of land and buildings	1,189,600	532,000
Temporary differences attributable to revaluation of investment property	129,200	95,000
Temporary differences attributable to provision for impairment of doubtful debtors	(158,755)	(133,850)
Balance at 31 December - net	1,469,805	41,013

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

	2019 €	2018 €
Deferred tax asset	(217,363)	(585,987)
Deferred tax liability	1,687,168	627,000
	1,469,805	41,013

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

21. Interest-bearing borrowings

	2019 €	2018 €
Bank overdraft (Note 24)	370,432	184,727

The bank overdraft bears an interest rate of 4.60% (2018: 4.60%) is secured by a hypothec on the company's property.

22. Creditors

	2019 €	2018 €
Other creditors		
Creditors arising out of direct insurance operations	1,645,190	2,908,449
Amounts due to related parties (Note 25)	36,170	13,201
	1,681,360	2,921,650
Accruals, deferred income and other liabilities		
Accrued expenses	529,444	420,411
Deferred income	1,512,486	1,329,132
Lease liabilities (Note 11)	242,729	-
	2,284,659	1,749,543

The above creditors are considered to be current in nature. The lease liabilities have been split into current and non-current as disclosed in note 11.

23. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2019 €	2018 €
Profit before tax	6,220,384	1,320,668
Adjustments for:		
Finance income - net (Note 5)	(3,530,566)	1,151,676
Amortisation (Note 10)	40,300	22,279
Depreciation (Note 11)	149,517	77,926
Loss on disposal of property, plant and equipment	500	180
Impairment of debtors (Note 17)	71,154	134,688
Movements in:		
Technical provisions (net)	758,642	1,627,096
Debtors and prepayments, including DAC	(7,289)	(2,155,442)
Creditors and accruals	(966,612)	389,866
Cash generated from operations	2,736,030	2,568,937

24. 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	6,369,689	7,288,666
Bank overdraft (Note 21)	(370,432)	(184,727)
	5,999,257	7,103,939
Interest bearing:		
- at floating rates	3,370,236	4,544,594

25. Related party transactions

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

	2019	2018
	€	€
(a) Entities with significant influence over the entity (including related entities and close family of shareholders)		
Gross premium receivable, net of claims paid	106,665	98,924
Reimbursement of expenses for back-office support	39,477	32,568
Net rent payable	(16,631)	(27,413)
Commission payable	(251,572)	(181,692)
Interest charged	10,000	10,000

(b) Other related parties

Fees payable	90,872	90,786
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Year end balances arising from the above transactions:

	2019	2018
	€	€
Entities with significant influence over the entity (including related entities and close family of shareholders) (Note 17 and Note 22)		
Amounts due by (includes subordinated loan)	325,360	301,236
Amounts due to	36,170	13,201

The above balances are unsecured, interest free and repayable on demand, except for the subordinated loan of €200,000 (2018: €200,000) which bears an interest rate of 5% p.a (2018: 5% p.a.).

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

26. Statutory information

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

27. Events after the reporting period

27.1 Declaration of interim dividend

The Company paid a dividend totaling to €400,000 during February 2020. There were no other events after the reporting date to be considered.

27.2 Evolving situation due to Covid-19 pandemic

Following the outbreak of the Covid-19 pandemic in Malta in March 2020, the Directors are continuously monitoring the developments as the situation evolves. The company has in place a contingency plan which includes various measures to safeguard the wellbeing of both employees and clients and to minimise the impact on operations, results and capital.

Although it might be premature to draw a conclusion on the impact of Covid-19 and there are many uncertainties, the company has carried out a preliminary assessment on the basis of the current outlook, across six key dimensions: insurance risk, credit and liquidity risk, reinsurers' financial standing, market risk, operational risk and solvency position.

The Directors are confident that the Covid-19 pandemic will not have a material adverse impact on the company's capital and solvency margin. The company is strongly capitalised, with a Solvency Capital Requirement ratio of 277% as at 31 December 2019, which equates to surplus capital of €16,820,483 above the regulatory requirement of €9,506,328. In addition, the company has in place a comprehensive reinsurance programme placed with leading international reinsurers, the majority of which are rated 'AA', and which significantly mitigates the potential exposure on Covid-19 risks.

Up to the date of signing of these financial statements, the main impact was on the company's portfolio of listed investments which declined by 11% in value. International and local investment markets are expected to improve once the crisis starts to ease. The effects of the pandemic on the core insurance operations is more complex to project. Premium income is forecasted to decrease in line with the reduction in economic activity, but the impact on the company's overall net loss ratio is anticipated to be neutral. In conclusion, after taking cognisance of all developments after the end of the reporting period, the directors consider that the going concern assumption should continue to be adopted.

The Company's policies and practices employed to manage the insurance and financial risk are illustrated in Note 3 to these financial statements.