Annual Report & Financial Statements

2016

Citadel
insurance

Mission Statement

We focus on the needs of our customers to create confidence, trust and loyalty.

As a composite insurer we are able to achieve this by offering a wide range of products designed around innovative insurance solutions for better security and protection.

Strengthened by our commitment to professional management, we ensure the continued growth and profitability of the Company.

Citadel Insurance p.l.c.
Annual Report & Financial Statements
31st December 2016

Company Registration Number: C 21550

Contents

Directors, Officers and Other Information

Directors:	Mr. Joseph N. Tabone C.P.A. F.I.A., F.C.I.B. (Chairman) Prof. Ian Refalo B.A. LL.D Dip.IL (Cambridge) (Deputy Chairman) Ms. Angela Tabone (Managing Director) Mr. Anthony Paris Mr. Michael Warrington C.P.A. A.C.I.B., B.A.(Hons) Acctcy, F.I.A., M.A. Fin. Servs Mr. Stephen Pandolfino B.A. (Hons) Accty, F.I.A., C.P.A., A.C.I.B. Dr. Joseph J. Vella LL.D. Mr. Christopher Worfolk B.A. (Hons), M.Sc.
Company Secretary:	Dr. Philippa Taylor-East B.A. LL.D.
Registered & Head Office:	"Casa Borgo", 26, Market Street, Floriana FRN 1082, Malta
Company Registration Number:	C 21550
Investment Committee:	Mr. Anthony Paris (Chairman) Mr. Stephen Pandolfino Ms. Angela Tabone Mr. Edward Cachia
Audit Committee:	Mr. Michael Warrington (Chairman) Mr. Joseph N. Tabone Prof. Ian Refalo
Risk Management:	Mr. Christopher Worfolk (Chairman) Ms. Angela Tabone Mr. Alfred Cachia Dr. Philippa Taylor-East Mr. Roberto Apap Bologna

Auditor:	Deloitte Audit Limited
Bankers:	Bank of Valletta p.l.c. HSBC Bank (Malta) p.l.c. APS Bank Limited Banif Bank (Malta) p.l.c.
Principal Legal Advisors:	Refalo & Zammit Pace Advocates GVZH Advocates
Actuaries:	Mr. Paul A.R. Warren F.I.A., A.S.A. Mazars LLP
Customer Services Office:	No.28, St. Anne Street, Floriana FRN 9011
Branch Offices:	**Gżira Branch:** 44, Imsida Road, Gżira GŻR 1400 **Ħaż-Żebbuġ Branch:** Gate Avenue, Ħaż-Żebbuġ ŻBĠ 2079 **Mosta Branch:** 17A, Eucharistic Congress Road, Mosta MST 9030 **Naxxar Branch:** 3, Toni Bajjada Square, Naxxar NXR 2590 **Paola Branch:** 30, Żabbar Road, Paola PLA 1012 **San Ġwann Branch:** 197 Naxxar Road, San Ġwann SĠN 9031 **Victoria Branch:** The Tower, 2nd Floor, Fortunato Mizzi Street, Victoria, Gozo VCT 2571 **Żejtun Branch:** 25th November Avenue, Żejtun ŻTN 2018
Agencies:	**Victoria Insurance Agency Limited** No. 1, Hookham Frere Street, Pietà PTA 1501 **MIB Insurance Agency Limited** 53, 2nd Floor, Mediterranean Building, Abate Rigord Street, Ta' Xbiex MSD 1122

Chairman's Statement

Citadel Insurance p.l.c. (the "Company") offers a broad range of general, life and health insurance products to a wide spectrum of customers. The Group's objective remains to maintain customer confidence, trust and loyalty.

Citadel was founded in 1997 and is one of two composite companies in Malta. This year we celebrate our 20th anniversary, another milestone in its history. Over the years management successfully responded to a challenging environment to grow a loyal client base and a healthy Balance Sheet. Today the Citadel brand is a household name and is one of the leading providers offering customers and corporate clients, tailor-made solutions for life and non-life products to the local market.

During 2016, Citadel continued to gain momentum in positioning itself to improve performance and market penetration in line with its strategy to increase its shareholder value. Management responded proactively to its challenges to meet objectives and Solvency II regulatory requirements. The overall performance has improved and we have experienced a good growth in general business, whilst life business remained constant. The low interest environment and decrease in bond prices experienced throughout the year, affected operating results. The Balance Sheet remains strong and the Solvency II average ratio of the Minimum Capital Requirement (MCR) to the Solvency Capital Requirement (SCR) stood at 185%.

The Group continues to strengthen its Corporate Governance structures by enhancing its policies under the guidance of the Board and its Committees. The composition of the Board of Directors remained unchanged with seven non-executive directors and one executive director, who collectively have the requisite experience and expertise to direct the Company to meet its strategic objectives.

Citadel's resolve is to embed corporate responsibility into the Company's business model. Management believes that in working with its staff, it is able to maintain a good risk governance. It continues to develop sound risk management to preserve its capital base and grow its business prudently.

The Company firmly believes that staff engagement is key to attracting and retaining talent. We continue to invest in talent by providing employees opportunities to grow in their career and provide them with the tools to succeed and meet our objectives.

Citadel's Corporate Social Responsibility organise awareness campaigns and fund raising activities. In line with Citadel's values, initiatives were organised, to give staff the opportunity to work with various philanthropic organisations. We continue to support and encourage these types of special projects to create awareness within the community.

Going forward, we will continue to grow the Company's business with an eye on exploiting niche market opportunities. I am confident in our ability to maintain a sustainable growth with the aim of increasing the value of the Company.

I thank the members of the Board for their guidance and our shareholders for their support and confidence. My gratitude goes out to our members of staff for their positive commitment and last but not least to our customers for their loyalty and trust.

Joseph N Tabone
Chairman

Managing Director / CEO Report

I am pleased to present the report on the 2016 financial year.

At Citadel, we continue to leverage our composite status to focus our energies to diversify our portfolio based on our customer needs to produce a stable performance over all our segments. Citadel Insurance p.l.c. ("the Company") recorded a combined gross written premium of €12,045,889 in 2016 compared to €11,019,607 in 2015, representing an uplift of 9.3%.

General business made good progress in capturing growth opportunities for important areas of its core business. The technical results for the general business portfolio continued to perform at an accelerated rate before adjusting for investment performance. Gross written premium increased by 11.3% to €9,808,693 (2015: €8,814,735) whilst keeping the overall loss ratio at the level below that for 2015. In life insurance, the Company registered good growth in the value of new business for mainly the term and loan protection policies. The Company declared a bonus of 1.5% for single premium bond and for the annual guaranteed policies the minimum of 3.5% or 4.5% per annum still applies.

The global economies have been experiencing downturns in investment returns and Malta has not been immune. The Company's investment portfolio registered decreases in its fair value movements which in turn had a dampening effect on the core results of the Company. The Company and its subsidiary Citadel Health Insurance Agency (In Run-off) Limited (collectively "the Group"), recorded a loss before tax of €403,203 (2015: profit before tax of €341,495). The Company's retained earnings decreased by 19.6% and stood at €2,135,513 at the end of the reporting period (2015: €2,656,008). This reduction is due to two aspects, the first being the payment of an interim dividend of €250,000 (2015: Nil) and the second being loss after tax of €270,495 (2015: profit after tax of €202,335).

In 2016, Citadel commenced offering its customers medical insurance in addition to its extensive product range. This strategy has strengthened the Company's composite customer-centric offering to be an insurer of choice, with a wide range of general, motor, business and health insurance together with life and savings solutions, all encompassed under one brand.

We kept on making good progress in the execution of our strategy to focus on opportunities in order to innovate and manage our business for value. Focusing our abilities to provide enhanced customer service, we continue to retain strong customer retention levels. The overall performance for the year was a result of an effective pricing discipline and prudent risk management principles. I am pleased that management has succeeded to control business-as-usual costs albeit regulatory costs, which have increased due to Solvency II.

Technology plays a very important part in the way we manage our business. We continue to deliver improved digital platforms to engage customers to secure insurance needs using our online services. Embedding innovative technologies into our systems enables us to achieve a competitive edge on system efficiencies to offer improved services to customers and in return enhance shareholder value.

In 2016, we carried on investing in our management and team to enable us to be in a position to meet the stringent deadlines imposed by Solvency II. Our solvency capital ratio is strong and healthy at 257% over the regulatory requirement for a composite insurance company of €7.4 million. The results from our ORSA process demonstrate the Company's ongoing commitment to maintaining a strategy of a balanced quality business model, managing risk appropriately and employing profitable growth for the long term. I am pleased that we have tackled these regulatory challenges with professionalism and we are now able to move forward to a new year with more knowledge and experience to improve Citadel's capital effectiveness.

For the coming year, we believe that Citadel is well equipped to develop and improve its competitive position in the market. We will continue to protect the fundamentals of our business strategy – our customer relationship, talent base, operational quality and financial strength.

Our goal is to consistently improve our stakeholder value to deliver consistent, reliable growth and excel in customer experience and loyalty which is crucial to our success.

I thank our dedicated team for their achievement and service to our customers.

Angela Tabone
Managing Director / CEO

Directors' Report

The Directors are pleased to present their report together with the audited financial statements of Citadel Insurance's Group for the year ended 31 December 2016.

Principal Activities

The principal activities of the Citadel Group consist of the business of insurance. Citadel Insurance p.l.c. (the Company) is licensed to carry on general and long term business in terms of Article 7 of the Insurance Business Act 1998. The Group also operates a Health Insurance Agency under Article 13 of the Insurance Intermediaries Act, 2006, which is currently administering the run-off of its portfolio. The Company's branches are listed on page 5.

Review of Performance

The Company generated combined gross written premiums of €12,045,889 during the year under review compared to €11,019,607 during 2015. This increase in gross written premiums emanates from all classes of business. The General Business grew by 11% when compared to the previous year. Despite this good performance from the core business, the Company generated a loss before taxation amounting to €403,203 (2015: profit of €341,495). The Group's retained earning reduced by €578,056 and closed off at €1,934,850 (2015: €2,512,906), partly due to the Company effecting an interim dividend payment in 2016 of €250,000 (2015: Nil). Performance from the core business has been strong with the net loss ratio improving, when compared to 2015, from 54% to 49%. The main cause of the dampened performance came about due to the down turn in investment returns, a phenomenon experienced both locally and on the international front. Technical result for general business generated a profit of €251,088 compared to €410,962 in 2015, a drop of 39%. Long term business followed the same trend in the investment performance as the General Business with technical results dropping to €187,650 from €629,183. In 2016 the downward trends on bond yields, where the continuing low interest rate environment coupled with persistent low inflation and a relatively weak Euro, had an adverse effect on the Company's investment performance. Due to the Company's prudent investment strategy, which holds more than 50% of its portfolio in bonds, net investment return dropped by 56% to €814,187 in full year (FY) 2016.

Client retention is at the heart of the company and in 2016 this has been at an all-time high. We have experienced an increase in request for more customised products from our Corporate Clients, all focused to cater for their unique protection requirements. As regards our non-Corporate Clients, we have enhanced our on-line channels through which they may renew or take-out new policies, besides having an extensive branch network and intermediaries whose focus is to cater for their protection needs.

Dividends

An interim dividend on ordinary shares in respect of the current year amounting to €250,000 was paid during the year under review. The directors do not recommend the payment of a final dividend.

Outlook

The outlook of the Board of Directors for 2017 is prudently optimistic given that the local economy is performing at a better rate than other EU countries. The Company is expecting to continue to grow its business at an accelerated rate in its gross written premium. On the international front we expect to start seeing a gradual increase in interest rates which will probably lead to a reduction in the market prices for bonds. The outlook for 2017 for investments seems positive for mainly equities due to expected higher earnings by corporates. This in turn would reflect in an improved performance in our investment portfolio.

Principal Risk and Uncertainties

The Group's principal risks and uncertainties are further disclosed in note 5 dealing with the management of Insurance and Financial Risk and note 4 making reference to judgements in applying accounting policies and accounting estimates.

Board of Directors

The Directors of the Company who served during the period under review were Mr Joseph N. Tabone (Chairman), Prof Ian Refalo (Deputy Chairman), Ms Angela Tabone, Mr Stephen Pandolfino, Mr Anthony Paris, Dr Joseph J. Vella, Mr Michael Warrington, and Mr Christopher J. Worfolk. In accordance with paragraph 69 (d) of the Company's articles of association the Directors are to continue in office.

Auditors

A resolution to reappoint Deloitte Audit Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors, authorised for issue on 11 May 2017 and signed on its behalf by:

Joseph N Tabone
Chairman

Ian Refalo
Deputy Chairman

Statement of Compliance

Corporate Governance Guidelines for Public Interest Companies

Citadel Insurance plc (the "Company"), being a large private company, has adopted the "Corporate Governance Guidelines for Public Interest Companies" (the "Guidelines") issued by the Malta Financial Services Authority (the "Authority") in August 2006. The Company has implemented the Guidelines in conjunction with other provisions made by prevalent legislation which regulates the local insurance business market. The Board of Directors (the "Board") firmly believes in pursuing the Guidelines and has endorsed them except in extraordinary circumstances that justify non-adherence thereto.

The Board

In line with the requirements of the Guidelines and the provisions of the Company's Memorandum and Articles of Association, the Board is composed of a Chairman, a Managing Director and six non-executive and independent Directors. All Directors are fit and proper persons and, are, individually and collectively, of sufficient calibre, with the necessary skills and experience to provide leadership, integrity and judgement in directing the Company. Each member of the Board has undergone a satisfactory due diligence process conducted by the Authority prior to his or her appointment.

Responsibilities of the Board

In the best interests of the Company and its shareholders, the Board is responsible for the execution of the basic roles of corporate governance namely: accountability, monitoring, strategy formulation and policy development of the Company. Pursuant to the current nature and demands of the Company's business, the Board meets every quarter unless further meetings are required. It reviews and evaluates corporate strategy, major operational and financial plans, risk management policy, performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations, rules and directives, and codes of best business practice.

The Board has delegated authority and vested accountability for the Company's day-to-day administration of the business to a senior management team headed by the Managing Director. The Board has also established a number of committees at senior managerial level and set out appropriate internal controls and procedures, as required by Chapter 6: System of Governance of the Insurance Rules, particularly to monitor the Company's exposure to risk. Further detail on risk management policies, controls and procedures is provided within the Notes to these Financial Statements.

Board Committees

The Board has set up specific committees to deal with specialist subject matters and responsibilities with tailor made terms of reference.

1. Audit Committee:

The Committee, which fulfils the requirements of Annex II to Chapter 6 of the Insurance Rules, meets at least on a quarterly basis and more frequently if circumstances so require. The Committee is appointed by the Board and currently consists of three non-executive directors. The Managing Director and other officers of the Company, while not forming part of the Committee, may be asked to attend meetings at the discretion of the Committee. The Committee is responsible for reviewing the financial reporting process, the Company's systems of internal controls and risk management systems including computerised information systems controls and security, and external audit processes.

2. Investment Committee:

The members of the Committee are appointed by the Board and for the year under review, the Committee met twelve times. The Committee is composed of two non-executive directors, one of whom chairs the Committee, the Managing Director and an external member. The Committee is responsible for formulating, monitoring and reviewing the Company's investment strategy and policies and investment processes. Other officers of the Company, while not forming part of the Committee, may be invited to attend.

3. Risk Management Committee:

The Committee is required to meet at least on a quarterly basis and its remit is to oversee the Company's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements. The Committee met six times during 2016. The Committee is composed of a non-executive director, who chairs the Committee, the Managing Director, the Head of Corporate, the Compliance Officer and Head of Finance. The members of the Committee are appointed by the Board and other officers of the Company, while not forming part of the Committee, may be required to attend meetings on the request of the Committee.

Internal Structures

The following internal structures have been set up to ensure effective and appropriate internal controls, systems and procedures pursuant to the nature and extent of the operations of the Company:

Statement of Compliance *cont.*

1. Claims Committee:
The Committee meets twice a month and is chaired by the Managing Director. The members consisted of the Chief Operating Officer, the Head of Motor Underwriting and Claims, the Head of General Business Underwriting and the Head of Corporate Services. The Terms of Reference of the Committee include the review of motor and non-motor liability claims, the review of death claims, the review of claims reserves and the appointment of experts. Other officers of the Company, including the Head of Life, may be invited to attend.

2. Senior Management Team:
The Team comprises all heads of department It is responsible for managing the day-to-day operations of the Company, executing the Company's technical and business strategy, identifying, defining and prioritising projects and initiatives, allocating resources and co-ordinating same. Team meets regularly to ensure growth and profitability in all areas and develop the necessary internal structures to meet the Company’s business targets. It is charged with the implementation of Board-approved strategies and plans.

3. Reinsurance Team:
The Team is presently composed of the Managing Director, the Chief Operating Officer, Head of Life and the Head of Corporate Services. The Team is responsible for reviewing current reinsurance programmes and prepare for the treaty renewals. The Team maintains close contact with the appointed international reinsurance brokers.

4. Compliance Team:
The team is headed by the Compliance Officer who is assisted by the Head of Corporate Services. The Team meets on a regular basis and is responsible to ensure that the Company is compliant with all applicable laws, rules and regulations and to prevent and resolve any compliance issues. The Compliance Officer also meets on a regular basis with the Chairman and Managing Director.

Statement of Directors' Responsibilities

The directors are required by the Insurance Business Act (Cap. 403) and the Companies Act (Cap. 386) to prepare financial statements in accordance with generally accepted accounting principles and practice which give a true and fair view of the state of affairs of the Company and its Group at the end of each financial year and of the profit or loss of the Company and its Group for the year then ended. In preparing the financial statements, the directors should:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business as a going concern.

The directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and which enable the directors to ensure that the financial statements comply with the Insurance Business Act (Cap. 403) and the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining 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. The directors are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial Statements:

Income Statements

Year Ended 31 December 2016

Technical Account - General Business

	Note	Group and Company 2016 €	Group and Company 2015 €
Earned premiums, net of reinsurance			
Gross premiums written	*6*	9,808,693	8,814,735
Outward reinsurance premiums		(2,962,988)	(2,506,387)
Net premiums written		6,845,705	6,308,348
Change in gross provision for unearned premiums		(492,565)	(224,247)
Change in provision for unearned premiums, reinsurers' share		248,918	29,664
Change in net provision for unearned premiums		(243,647)	(194,583)
Earned premiums, net of reinsurance		6,602,058	6,113,765
Allocated investments return transferred from the non-technical account	*7*	352,319	1,029,734
Other net technical profit	*6*	244,518	247,427
Total technical income		7,198,895	7,390,926
Claims incurred, net of reinsurance			
Claims paid			
• Gross amount		(5,241,051)	(4,422,242)
• Reinsurers' share		762,581	719,537
		(4,478,470)	(3,702,705)
Change in the provision for claims			
• Gross amount		665,619	(228,477)
• Reinsurers' share		2,562	(52,773)
		668,181	(281,250)
Claims incurred, net of reinsurance		(3,810,289)	(3,983,955)
Net operating expenses	*8*	(3,137,519)	(2,996,009)
Total technical charges		(6,947,808)	(6,979,964)
Balance on technical account for general business		251,088	410,962

The notes on pages 20 through 52 are an integral part of these financial statements.

Technical Account - Long-Term Business

	Note	Group and Company 2016 €	Group and Company 2015 €
Earned premiums, net of reinsurance			
Gross premiums written	*6*	2,237,196	2,204,872
Outward reinsurance premiums		(987,253)	(912,088)
Earned premiums, net of reinsurance		1,249,943	1,292,784
Net income from financial assets	*7*	307,336	275,169
Gain on re-measurement of assets at fair value	*7*	143,359	346,561
Gain on re-measurement of unit-linked assets at fair value	*7*	11,172	229,633
Other income		89,340	83,276
Total technical income		1,801,150	2,227,423
Claims incurred, net of reinsurance			
Claims paid			
• Gross amount		(638,910)	(1,026,863)
• Reinsurers' share		257,439	386,671
		(381,471)	(640,192)
Change in the provision for claims			
• Gross amount		(655,560)	294,700
• Reinsurers' share		533,857	(238,367)
		(121,703)	56,333
		(503,174)	(583,859)
Change in other technical reserves, net of reinsurance			
Long term business provision, net of reinsurance			
• Gross amount		(626,551)	(772,774)
• Reinsurers' share		(69,654)	249,972
		(696,205)	(522,802)
Technical provisions for linked liabilities		205,964	15,408
		(490,241)	(507,394)
Net operating expenses	*8*	(620,085)	(506,987)
Total technical charges		(1,613,500)	(1,598,240)
Balance on technical account for long-term business		187,650	629,183

The notes on pages 20 through 52 are an integral part of these financial statements.

Income Statements *cont.*

Year Ended 31 December 2016

Non-Technical Account

	Note	Group 2016 €	Group 2015 €	Company 2016 €	Company 2015 €
Balance on the general business technical account *(page 14)*		**251,088**	410,962	**251,088**	410,962
Balance on the long-term business technical account *(page 15)*		**187,650**	629,183	**187,650**	629,183
		438,738	1,040,145	**438,738**	1,040,145
Commission income		**25,321**	150,401	**-**	-
Investment income	*7*	**388,542**	1,071,411	**388,541**	1,071,410
Investment expenses and charges	*7*	**(36,222)**	(41,676)	**(36,222)**	(41,676)
Allocated investment return transferred to the general business technical account	*7*	**(352,319)**	(1,029,734)	**(352,319)**	(1,029,734)
Administrative expenses	*8*	**(867,263)**	(849,052)	**(784,380)**	(749,002)
(Loss)/Profit on ordinary activities before tax	*11*	**(403,203)**	341,495	**(345,642)**	291,143
Tax on ordinary activities	*12*	**75,147**	(94,795)	**75,147**	(88,808)
(Loss)/Profit for the financial year		**(328,056)**	246,700	**(270,495)**	202,335

Statements of Comprehensive Income

Year Ended 31 December 2016

	Group 2016 €	Group 2015 €	Company 2016 €	Company 2015 €
(Loss)/Profit for the year	**(328,056)**	246,700	**(270,495)**	202,335
Items that will not be reclassified to profit or loss:				
Revaluation of property, net of deferred tax	**-**	88,083	**-**	88,083
Total comprehensive (loss)/income for the year	**(328,056)**	334,783	**(270,495)**	290,418

The notes on pages 20 through 52 are an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2016

		Group		Company	
		2016	2015	2016	2015
	Note	€	€	€	€
Assets					
Intangible assets	*13*	308,816	297,382	507,133	295,524
Property, plant and equipment	*14*	3,407,721	3,469,070	3,403,558	3,463,643
Investment in subsidiary	*15*	-	-	299,999	299,999
Financial assets at fair value through profit or loss	*16*	14,568,079	14,753,056	14,568,079	14,753,056
Assets held to cover linked liabilities	*16*	1,650,000	1,855,965	1,650,000	1,855,965
Loans and receivables	*16*	1,400,000	1,500,000	1,400,000	1,500,000
Reinsurer's share of technical provisions	*20*	5,595,034	4,879,351	5,595,034	4,879,351
Insurance receivables	*17*	2,536,754	2,142,367	2,525,026	2,080,953
Other receivables	*17*	534,237	484,795	543,796	477,083
Deferred acquisition costs		786,422	822,199	786,422	822,199
Deferred tax assets		187,915	189,853	187,915	189,853
Cash and cash equivalents	*18*	5,054,129	4,123,118	4,919,257	3,940,692
Total assets		36,029,107	34,517,156	36,386,219	34,558,318
Equity and liabilities					
Share capital	*21*	5,000,400	5,000,400	5,000,400	5,000,400
Revaluation reserve		1,006,913	1,006,913	1,006,913	1,006,913
Capital reserve		19,527	19,527	19,527	19,527
Retained earnings		1,934,850	2,512,906	2,135,513	2,656,008
Total equity		7,961,690	8,539,746	8,162,353	8,682,848
Liabilities					
Insurance contract provisions	*20*	18,417,915	17,309,059	18,417,915	17,309,059
Technical provisions for linked liabilities	*20*	1,650,000	1,855,964	1,650,000	1,855,964
Deferred tax liabilities	*19*	446,927	515,930	446,927	515,930
Subordinated loans	*22*	2,880,550	2,998,812	2,880,550	2,998,812
Amounts owed to banks	*18*	1,443,765	1,165,046	1,443,765	1,165,046
Reinsurance payables		1,656,999	1,059,657	1,656,999	1,059,657
Insurance payables	*23*	737,724	562,426	898,772	471,309
Other payables and accruals	*23*	833,537	504,529	828,938	499,693
Current tax payable		-	5,987	-	-
Total liabilities		28,067,417	25,977,410	28,223,866	25,875,470
Total equity and liabilities		36,029,107	34,517,156	36,386,219	34,558,318

The financial statements on pages 14 to 52 were approved by the Board of Directors, authorised for issue on 11 May 2017 and were signed on its behalf by:

Joseph N Tabone
Chairman

Ian Refalo
Deputy Chairman

Statements of Changes in Equity

Year Ended 31 December 2016

Group

	Share Capital	Property Revaluation Reserve	Capital Reserve	Retained Earnings	Total
	€	€	€	€	€
Balance at 1st January 2015	5,000,400	929,902	19,527	2,255,134	8,204,963
Profit for the year	-	-	-	246,700	246,700
Revaluation of properties, net of deferred tax	-	88,083	-	-	88,083
Total comprehensive income for the year	-	88,083	-	246,700	334,783
Difference between historical depreciation and depreciation charge computed on the revalued amount, net of deferred taxation	-	(11,072)	-	11,072	-
Balance at 1st January 2016	5,000,400	1,006,913	19,527	2,512,906	8,539,746
Loss for the year/total Comprehensive income	-	-	-	(328,056)	(328,056)
Dividends paid	-	-	-	(250,000)	(250,000)
Balance at 31st December 2016	5,000,400	1,006,913	19,527	1,934,850	7,961,690

Company

	Share Capital	Property Revaluation Reserve	Capital Reserve	Retained Earnings	Total
	€	€	€	€	€
Balance at 1st January 2015	5,000,400	929,902	19,527	2,442,601	8,392,430
Profit for the year	-	-	-	202,335	202,335
Revaluation of properties, net of deferred tax	-	88,083	-	-	88,083
Total comprehensive income for the year	-	88,083	-	202,335	290,418
Difference between historical depreciation and depreciation charge computed on the revalued amount, net of deferred taxation	-	(11,072)	-	11,072	-
Balance at 1st January 2016	5,000,400	1,006,913	19,527	2,656,008	8,682,848
Loss for the year/total Comprehensive income	-	-	-	(270,495)	(270,495)
Dividends paid	-	-	-	(250,000)	(250,000)
Balance at 31st December 2016	5,000,400	1,006,913	19,527	2,135,513	8,162,353

Statements of Cash Flows

Year Ended 31 December 2016

		Group		Company	
		2016	2015	2016	2015
	Note	€	€	€	€
Cash flows from operating activities					
(Loss)/Profit before tax		(403,203)	341,495	(345,642)	291,143
Adjustments for:					
Depreciation and amortisation		209,739	201,401	207,773	192,990
Unrealised gains on investments		(231,224)	(1,346,375)	(231,224)	(1,346,375)
Movement in:					
Technical provisions		902,892	888,253	902,892	888,253
Reinsurers' share of technical provisions		(715,683)	11,504	(715,683)	11,504
Receivables		(408,052)	297,185	(674,482)	317,504
Payables		1,101,648	121,825	1,354,050	8,256
Cash inflows from operations		456,117	515,288	497,684	363,275
Tax received		2,095	37,234	8,082	37,234
Net cash generated from operations		458,212	552,522	505,766	400,509
Cash flows generated from investing activities					
Payments to acquire property, plant and equipment		(99,990)	(68,956)	(99,990)	(67,505)
Payments to acquire intangible assets		(59,834)	(47,891)	(59,834)	(46,734)
Payments to acquire investments		(678,092)	(1,403,605)	(678,092)	(1,403,605)
Proceeds from disposal of investments		1,300,258	2,269,627	1,300,258	2,269,627
Net cash generated from investing activities		462,342	749,175	462,342	751,783
Cash flows (used in)/generated from financing activities					
Proceeds from loans		100,000	-	100,000	-
Payments to loans		(118,262)	-	(118,262)	-
Dividends paid		(250,000)	-	(250,000)	-
Net cash generated used in investing activities		(268,262)	-	(268,262)	-
Net movement in cash and cash equivalents		652,292	1,301,697	699,846	1,152,292
Cash and cash equivalents at beginning of the year		2,958,072	1,656,375	2,775,646	1,623,354
Cash and cash equivalents at end of the year	*18*	3,610,364	2,958,072	3,475,492	2,775,646

Notes to the Financial Statements

Year Ended 31 December 2016

1. General and Statutory Information

Citadel Insurance p.l.c. (the "Company") is a composite and underwrites long term and general insurance risks located wholly on the Maltese islands. The Company is a public limited company incorporated and domiciled in Malta with registration number C21550

The address of its registered office is "Casa Borgo", 26 Market Street, Floriana, FRN 1082, Malta.

2. Statement of Compliance

The financial statements have been prepared and presented in accordance with the provisions of the Companies Act (Cap 386) (the "Act"), which requires adherence to International Financial Reporting Standards, as adopted by the EU (EU IFRSs), and their interpretations adopted by the International Accounting Standards Board (IASB), and the provisions of the Insurance Business Act (Cap 403).

2.1 Initial application of an International Financial Reporting Standard

In the current year, the Group and the Company have applied the following:

- In the current year, the Company and the Group have applied the Amendments to IAS 1 entitled "Disclosure Initiative". These Amendments are effective for annual periods beginning on or after 1 January 2016. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The application of these Amendments has not resulted in any significant impact to these financial statements.

2.2 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted

Certain new standards and amendments, revisions and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are not mandatory for the current accounting period.

The Group and the Company have not early adopted these new standards or these amendments, revisions and interpretations to existing standards.

- The final version of *IFRS 9 Financial Instruments* brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The Standard supersedes all previous versions of IFRS 9.

  IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single, forward-looking 'expected loss' impairment model that will require more timely recognition of expected credit losses. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.
- The Amendments to IAS 7 are intended to improve information provided to users of financial statements about an entity's financing activities. These Amendments are effective for annual periods beginning on or after 1 January 2017. These amendments have not yet been endorsed by the EU.
- The Amendments to IFRS 4 are intended to address concerns about the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. These amendments have not yet been endorsed by the EU.
- On 19 January 2016, the IASB issued Amendments to IAS 12 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value to address diversity in practice. This amendment is effective for annual periods beginning on or after 1 January 2017. This amendment has not yet been endorsed by the EU.
- The new IFRS 16 Leases standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains substantially unchanged (except for a requirement to provide enhanced disclosures) and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations. IFRS 16 is effective for periods beginning on or after 1 January 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. This Standard has not as yet been endorsed by the EU at the date of authorisation of these financial statements.

Only the amendments that are relevant to the Group and the Company have been disclosed above. The Group and the Company, however, expect no impact from the adoption of the amendments on its financial position or performance.

3. Significant Accounting Policies

3.1 Basis of Preparation

These financial statements are prepared under the historical cost convention except for land and buildings, which are carried at revalued amounts and financial instruments at fair value through profit or loss, which are stated at their fair value, in accordance with EU IFRS.

The preparation of financial statements in conformity with EU IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The financial statements are presented in Euro (€) which is the functional currency of the Company and Group. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies make reference to the "Company" where that policy is only relevant to Citadel Insurance p.l.c., otherwise reference is made to the "Group".

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

3.2 Basis of Consolidation

The group financial statements include the financial statements of the Company and its subsidiary. The results of the subsidiary are included in the group income statement. All material intra-group transactions are eliminated on consolidation. Minority interests in the results and net assets of subsidiary undertakings are disclosed separately.

3.3 Insurance Contracts

3.3.1 Classification

The Company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts under which the Company accepts significant insurance risk from another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary. Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rates, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

3.3.2 Recognition and measurement of contracts

Premiums from general insurance business

General insurance business is accounted for on an annual basis. General business written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods.

The provision for unearned premiums represents that part of gross and reinsurers' share of premiums written which is estimated to be earned in the following or subsequent financial years. The provision is calculated separately for each insurance contract on the 365th basis, where the incidence of risk is the same throughout the contract. Where the incidence of risk varies during the term of the contract, the provision is based on the estimated risk profile of business written.

Premiums from long-term insurance

In respect of long-term business, premiums, policy fees and surrender charges are accounted for on a receivable basis, or in the case of unit-linked business when the liability is recognised, and exclude any taxes and duties based on premiums.

Claims arising from general insurance business

Net claims incurred comprise all claims occurring during the year less amounts recoverable from reinsurance together with related administrative expenses and any adjustments to claims outstanding from previous years. Provision is made for the full estimated cost of claims notified but not settled together with an estimate in respect of claims incurred but not reported at the end of the financial year.

Liabilities for unpaid claims are estimated using the input of assessment for individual cases reported to the Company and statistical analyses for the claims incurred but not reported. The Company does not discount its liabilities for unpaid claims.

Included in the provision is an estimate of the costs of handling the outstanding claims. Provision for claims outstanding is based on information available to the Directors and the eventual outcome may vary from the original assessment. The provisions for outstanding claims are reviewed periodically on a one for one basis to ensure their adequacy.

Provision is made for unexpired risks when it is anticipated, on the basis of information available at year end, that the unearned premiums will be insufficient to meet future claims and related expenses of business in force at the end of the year.

The above method of provisioning satisfies the minimum liability adequacy test as required by International Financial Reporting Standard 4 – Insurance Contracts.

Claims arising from long term insurance business

Long term business claims reflect the cost of all claims during the year, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on the maturity of contracts are accounted for when the claim becomes due for payment and claims payable for death are accounted for on notification.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The provisions for claims outstanding relating to long-term business are determined by using recognised actuarial methods. The liability is based on assumptions as to mortality, persistence, maintenance expenses and investment income that are established at the time the contract is issued.

Material salvage and other recoveries

Estimates of salvage and other recoveries are taken to the income statement when it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured.

Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Outward reinsurance premiums are recognised as a deduction from income in accordance with the pattern of reinsurance service received.

Premiums ceded and benefits reimbursed are presented in the income statement and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Amounts recoverable under reinsurance contracts are assessed for impairment at the end of each reporting period. Such assets are deemed as being impaired if objective evidence exists, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from entering into general insurance contracts. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs, which are stated net of deferred reinsurers' commission, represent those acquisition costs incurred in respect of unearned premiums existing at the end of the reporting period.

Liability measurement

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract of units with the consideration received from the contract holders.

This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

3.4 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 3.3.2.

3.4.1 Fees and commission

Fees and commission income includes fees on investment management services contracts that are recognised as the services that are provided. Annual management charges, surrender charges and policy administration charges are recognised when accrued.

Commission earned on policies sold is taken to the statement of comprehensive income in full, irrespective of the period covered by the policy.

3.4.2 Investment income

Interest income is recognised in the income statement as it accrues. Dividend income is recognised in the income statement on the date the Group's right to receive payment is established which, in the case of quoted securities is usually the ex-dividend date.

Investment return is initially recorded in the non-technical account, except for income attributed to the long term business which is recognised immediately in the long term business technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments deemed to form an integral part of the core business activities.

3.5 Expenses

3.5.1 Employee benefits

The Group contributes towards the state pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Employee benefit costs are recognised as an expense during the year in which these are incurred.

3.5.2 Net financing costs

Net financing costs comprise interest payable on borrowings. These are charged against income without restriction.

3.6 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement with the exception of those items recognised in other comprehensive income or directly in equity, in which case it is dealt with in other comprehensive income or in equity, as appropriate.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.7 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. The Group's and Company's functional and reporting currency is the EURO. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the dates the fair value was determined.

3.8 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

Intangible assets are initially measured at cost. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

The Group assesses whether the useful life of intangible assets is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of intangible assets less any estimated residual value, over their estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

3.8.1 Computer software

In determining the classification of an asset that incorporates both intangible and tangible elements, the Group uses judgement to assess which element is more significant. Computer software that is an integral part of the related hardware is classified as property, plant and equipment and accounted for in accordance with the Group's accounting policy on property, plant and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset and carried at cost less any accumulated amortisation and any accumulated impairment losses. Computer software classified as an intangible asset is amortised on a straight-line basis over five years.

3.8.2 Tenancy rights

The cost of buying the rights to tenancy and the right to lease is recognised as an intangible asset with a finite economic life. The rights are amortised over 15 years.

3.8.3 Policy lists

Policy lists are classified as intangible assets and are recognized upon acquisition. After initial recognition, policy lists are carried at cost less any accumulated amortisation and any accumulated impairment losses. Policy lists are amortised on a straight-line basis over ten years.

3.9 Property, plant and equipment

Owned assets

Land and buildings comprise the offices occupied by the Group.

Following initial recognition at cost, land and buildings are revalued by a professional qualified architect at least on a triennial basis, such that their carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any accumulation at the date of the revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Any surpluses arising on revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to the income statement.

All other property, plant and equipment are stated at historical cost net of accumulated depreciation (see below) and impairment losses (see note 3.11).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

	%
Buildings	2 - 8
Motor vehicles	15
Furniture, fittings and other equipment	10 - 20

The depreciation method and the assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

3.10 Other financial instruments

Financial assets and financial liabilities are recognised on the Group statement of financial position when the Group has become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

The Group evaluates the terms of financial instruments that it issues, the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument to determine whether the financial instruments are financial liabilities or equity instruments or whether they contain both a liability and an equity component, in which case such components are classified separately as financial liabilities and equity instruments.

3.10.1 Receivables

Receivables are classified with assets and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

3.10.2 Investments in subsidiary undertaking

A subsidiary is an entity that is controlled by the company. The company controls an investee when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from the investment are recognised in profit or loss.

3.10.3 Investments

The Group's investments are classified into 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 investments were acquired.

Financial assets at fair value through profit or loss are those that are held for trading purposes or those financial assets that are so designated by the Group upon initial recognition. After initial recognition, financial assets at fair value through profit or loss are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

Dividend income on financial assets at fair value through profit or loss is recognised with investment income, if any, arising on other financial assets. Interest income and fair value gains and losses on financial assets at fair value through profit or loss are disclosed within the line item investment income.

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 are held for trading or are designated upon initial recognition as at fair value through profit or loss or those for which the Group may not recover substantially all of its initial investment other than because of credit deterioration. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

3.10.4 Bank overdraft

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

3.10.5 Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial. Any difference between the proceeds, net of transaction costs, and the settlement or redemption value of other borrowings is recognised in profit or loss over the period of the borrowings.

3.10.6 Payables

Payables are classified with liabilities and are stated at their nominal value unless the effect of discounting is material, in which case payables are measured at amortised cost using the effective interest method.

3.10.7 Shares issued by the Company

Ordinary shares issued by the Company are classified as equity instruments.

3.11 Impairment

The Group assesses at each reporting date whether there is objective evidence that any assets other than those stated at fair value through profit or loss and deferred tax assets, are impaired. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement, unless the asset is carried at a revalued amount.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

For loans and receivables, objective evidence that a financial asset or group of financial assets is impaired included observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the issuer or debtors;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; and
- Observable data indicating there is a measurable decrease in the estimated future cash flows 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 of the Company.

Impairment losses recognised in prior periods are reversed if there are indications that the conditions leading to the original impairment loss no longer exist, or if there has been a change in the estimates used to determine the recoverable amount. Such losses are then reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset.

3.12 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

3.13 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

4. Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with EU IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are continually evaluated and reviewed and are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. As a result, actual results may differ from these estimates.

Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty, at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

4.1 Ultimate liability arising from claims made under insurance contracts - General Business

The Company continually reviews and updates its estimates arising from reported and unreported losses and establishes resulting provisions and adequate amounts recoverable under reinsurance. Adjustments from this review are reflected in the income statement. The process relies on the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for developing expectations of future events that are deemed to be reasonable under the circumstances.

4.2 Ultimate liability arising from claims made under insurance contracts - Long Term Business

The Company makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the Company's own experience. The estimated number of deaths determines the value of the benefit payments and the extent of the valuation premiums. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk.

The Company makes estimates for future deaths, voluntary returns, investment returns and administration expenses at the inception of long-term insurance contracts with fixed and guaranteed terms. These estimates form the assumptions used to calculate the liabilities arising from these contracts and are "locked" in for the duration of the contract. New estimates are then made on an annual basis in order to establish long-term contract liabilities, which reflect best estimate assumptions. If the liabilities are considered adequate the original assumptions are not altered. If they are deemed as not adequate, then the assumptions are "unlocked" and altered to prudently reflect the best estimate assumptions. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognised, while significant enough deterioration in estimates is immediately recognised to make the liabilities adequate.

5. Insurance and Financial Risk Management

5.1.1 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 primary insurance activity carried out by the Company assumes risks that relate to motor, property, engineering, marine, travel, credit, liability, accident, life, financial or other losses that may arise from an insurable event. The Company is therefore exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The Company also has exposure to market risk through its insurance and investment activities.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Company uses relevant methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

5.1.2 Underwriting strategy

Since its establishment, the Company has developed its own underwriting criteria and strategy which have evolved in line with the technical underwriting disciplines of its international treaty reinsurers.

The positive portfolio results over the years have borne out the Company's strategy of pursuing prudent underwriting policies and focusing on risk selection. The Company's consistent pursuit of this strategy is a reflection of the fact that from the outset it has taken a long-term view of the business.

The Company continues to provide risk management guidance to clients with a view to improving the underwriting results of risk exposures associated with diverse sectors of commercial and industrial activity.

5.1.3 Reinsurance strategy

The Company reinsures part of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the Company's net exposure. In addition, the Company buys facultative reinsurance in certain specified circumstances.

Ceded reinsurance contains credit risk, and such reinsurance recoverable is reported after deductions, if any, for known insolvencies and, uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Company utilises a reinsurance agreement with non-affiliated reinsurers to control its exposure to losses resulting from one occurrence and for the accumulation of net property losses arising out of one occurrence.

5.1.4 Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

Nature of risks covered

The following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

General insurance contracts - Motor

The Company writes all classes of motor insurance in Malta providing cover in Malta and statutory cover in the European Union. Motor insurance can cover the policyholder against material own damage and third party liability depending on the level of cover in force.

In Malta there is compulsory motor insurance legislation obliging motorists to have third party liability cover. Prior to May 2004, third party cover was unlimited but was subsequently changed by means of legislative amendments to a limit of €1,164,687. The adoption of the 5th Motor Insurance Directive provided for further increases to the third party liability limit, up to € 5,000,000 for death or bodily injury. With effect from 11 June 2017 the third party liability limited will increase to €6,070,000 for death or bodily injury.

'Own damage' claims are easily quantifiable and settled and are therefore classified as 'short-tailed', meaning that expense deterioration and investment return will be of negligible importance. This contrasts with the 'long-tailed' classes where the ultimate claim cost takes longer to determine, making expenses and investment return considerably more important.

There are numerous components underlying the liability aspect of motor insurance. Most of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within five years), while others can have longer payment patterns. This can give rise to an element of uncertainty about claim reserves.

The insurance risk is managed primarily through pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

General insurance contracts - Property

The Company writes property insurance in Malta and in respect of Maltese interests abroad. Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own material property and business interruption arising from this damage.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as 'short-tailed'.

The key risks associated with this product are underwriting risk, competitive risk and claims experience risk (including the variable incidence of natural causes). The Company is also exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. The risk on any policy will vary according to many factors such as location, safety measures in place and the age of property. For domestic property insurance it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this will not be the case. Many commercial property proposals comprise of a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured may make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a property portfolio.

General insurance contracts - Liability

The Company writes liability insurance in Malta and in respect of Maltese interests abroad. Under these contracts monetary compensation is paid for property damage and bodily injury suffered by employees or members of the public.

General liability is considered a 'long tail' line, as it takes a relatively long period of time to finalise and settle claims for a given accident year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and specific policy provisions. There are numerous components underlying the liability product line. Most of these have relatively moderate payment patterns (with most of the claims for a given accident year closed within five years), while others can have longer payment patterns.

While the majority of liability coverages are written on an "occurrence basis," certain liability coverages (such as those covering professional liability) are generally insured on a "claims-made" basis.

This line is typically the largest source of uncertainty regarding claim provisions.

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk (including the variable incidence of natural disasters). The Company is also exposed to the risk of dishonest actions by policyholders.

As with the liability aspect of motor insurance, the insurance risk is managed primarily through pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Long term life insurance contracts

The Company writes long-term business in Malta. These contracts insure events associated with human life over a long duration.

The most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle resulting in earlier or more claims than expected.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of payments on a portfolio basis.

The Company manages these risks through its underwriting policy and reinsurance arrangements. Medical selection is also included in the Company's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants.

For contracts with fixed and guaranteed benefits and fixed future premiums there are no mitigating terms and conditions that reduce the insurance risk accepted.

For contracts with Discretionary Participation Features (DPF), the participating nature of these contracts results in a portion of the insurance risk being shared with the insured party.

Uncertainty in the estimation of future payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and variability in policyholder behaviour.

Short-duration life insurance contracts

These contracts are issued to employers to insure events associated with the human life of their employees. The risk is affected by the nature of the industry in which the employer operates in addition to the factors noted above.

The Company attempts to manage this risk through its underwriting, claims handling and reinsurance policy.

There is no specific need to estimate mortality rates or morbidity rates for future years because these contracts have a short duration.

5.2 Financial risk

The exposures to risk and the way risks arise, together with the Group's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The Group is exposed to financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. These comprise mainly market risk, credit risk, and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Group manages these risks.

Where possible, the Group aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

Asset/liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the net of taxes, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

The Company establishes target asset portfolios for life and non-life products, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. These strategies include objectives for effective duration, yield curve, liquidity, asset sector concentration and credit quality. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly re-evaluated. Many of these estimates are inherently subjective and could impact the Company's ability to achieve its asset/liability management goals and objectives.

Market risk

Market risk can be described as the risk of change in fair value or future cash flows of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates.

Interest rate risk

The Group is exposed to cash flow interest rate risk on cash deposits and borrowings carrying a floating interest rate and to fair value interest rate risk on debt instruments carrying a fixed interest rate and re-measured at fair value. Investments in equity instruments are not exposed to interest rate risk.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

2016

	Within 1 year	Between 1 and 5 years	Over 5 years	Total
	€	€	€	€
Assets held at variable rates				
Cash and cash equivalents	5,054,129	-	-	5,054,129
Assets held at fixed rates				
Debt securities	1,372,220	2,340,146	3,608,654	7,321,020
Loans and receivables	-	1,400,000	-	1,400,000
Total interest bearing assets	6,426,349	3,740,146	3,608,654	13,775,149
Liabilities issued at variable rates				
Borrowings	(2,843,765)	(900,000)	-	(3,743,765)
Liabilities issued at fixed rates				
Borrowings	(71,673)	(508,877)	-	(580,550)
Net exposure to cash flow interest rate risk at 31 December 2016	**2,210,364**	**(900,000)**	**-**	**1,310,364**
Net exposure to fair value interest rate risk at 31 December 2016	1,300,547	3,231,269	3,608,654	8,140,470

2015

	Within 1 year	Between 1 and 5 years	Over 5 years	Total
	€	€	€	€
Assets held at variable rates				
Cash and cash equivalents	4,123,118	-	-	4,123,118
Assets held at fixed rates				
Debt securities	726,583	2,929,913	4,228,143	7,884,639
Loans and receivables	-	1,500,000	-	1,500,000
Total interest bearing assets	4,849,701	4,429,913	4,228,143	13,507,757
Liabilities issued at variable rates				
Borrowings	(1,165,046)	(2,300,000)	-	(3,465,046)
Liabilities issued at fixed rates				
Borrowings	(189,935)	(508,877)	-	(698,812)
Net exposure to cash flow interest rate risk at 31 December 2015	**2,958,072**	**(2,300,000)**	**-**	**658,072**
Net exposure to fair value interest rate risk at 31 December 2015	536,648	3,921,036	4,228,143	8,685,827

The Company's exposure to market risk for changes in interest rate is concentrated primarily in its investment portfolio, and to a lesser extent, in any debt obligations arising. The Company monitors this exposure through regular reviews of its asset and liability positions. When developing and reviewing investment strategies, the investment committee seeks to mitigate the Company's exposure to interest rate risk by spreading its investment in debt securities over a wide range of maturity dates. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the Company's investment portfolio and insurance liabilities, are modelled and reviewed quarterly. The overall objective of these strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements.

Insurance liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and are contractually non-interest bearing. In those instances, where interest is payable (e.g. in the case of damages awarded by the Courts), interest is included in the claims cost whilst the investment income earned until the claim is settled is credited to profit or loss as it accrues.

The sensitivity 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. The Company's fair value interest rate risk arises primarily on debt securities that carry a fixed rate of interest and are measured at fair value. The net effect of an immediate 50 basis point increase/decrease in yields at the end of 2016 was estimated at €40,702 (2015: €43,429).

Equity price risk

The portfolio of marketable equity securities and certain collective investment schemes has exposure to price risk, which is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed. Holdings are diversified across industries, and concentrations in any one Company or industry are limited by parameters established by the Company's investment committee, as well as by statutory requirements.

The Company's portfolio is analysed by category as follows:

2016

	General business	Life business	Total	Market value
	%	%	%	€
Bank deposits	0.00	9.30	9.30	1,400,000
Corporate bonds (local & foreign)	14.12	7.40	21.52	3,239,532
Government bonds	9.71	17.41	27.12	4,081,488
Quoted equities	31.58	10.48	42.06	6,330,442
	55.41	44.59	100.00	15,051,462

2015

	General business	Life business	Total	Market value
	%	%	%	€
Bank deposits	0.00	9.72	9.72	1,500,000
Corporate bonds (local & foreign)	21.36	1.80	23.16	3,576,553
Government bonds	8.98	18.93	27.91	4,308,086
Quoted equities	26.85	12.36	39.21	6,054,510
	57.19	42.81	100.00	15,439,149

Sensitivity analysis

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 issuer, or factors affecting all similar equity traded in the market. An increase or a decrease of 5% in equity prices, with all other variables held constant, would result in an impact of +/- €316,522 (2015: +/- €302,726) on the Company's results.

Currency risk

Whereas the majority of the Group's financial assets and liabilities are denominated in Euro which is the functional currency, some financial assets are held in other currencies. The Group may therefore be exposed to currency risk as the value of instruments denominated in other currencies may fluctuate due to changes in exchange rates. Any movements in the rates of exchange of those financial assets that are denominated in other foreign currencies are not deemed to have a significant effect on the Group's results.

Significant guarantees

On death or maturity there is an effective guarantee under the conventional "With-Profit" policies. The Company pays the higher of the sum assured plus attaching regular bonuses and the asset share. In current market conditions these guarantees have minimal value.

Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Cash and cash equivalents
- Financial assets at fair value through profit or loss – Debt securities
- Loans and receivables
- Reinsurance assets
- Insurance receivables

The Group's cash is placed with quality financial institutions. The credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuers.

An investment committee was established to manage the Group's credit and market risk arising out of its investment activities. The committee is bound by an investment policy, which establishes maximum exposures to individual counterparties and minimum holdings in securities issued by first class names. The Board of Directors has approved this investment policy and subsequent revisions. At 31 December 2016 56% of the Company's debt securities comprised of Government Bonds (55% in 2015), of which 47% (49% in 2015) are investments in Government Bonds on the Malta Stock Exchange and 8% (6% in 2015) are quoted on equivalent exchanges. The remaining 44% (45% in 2015) represented investments in corporate bonds listed of which 14% (20% in 2015) are listed on the Malta Stock Exchange and 30% (25% in 2015) are listed on equivalent European exchanges.

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, proportional and non-proportional yearly renewable term excess or catastrophe excess of loss basis. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. The Company manages its credit risk arising through its reinsurance arrangements by using mainly "A" rated reinsurers. When selecting a reinsurer the Company considers their relative security. The security of the reinsurer is assessed from public rating information and from internal investigations.

The credit rating of the Company's reinsurers based on rating attributed by Standard & Poor's or equivalent are higher than "A-".

The Group is exposed to contract holders and insurance intermediaries for insurance premium due and customers for premium and commission where it acts as an intermediary. Insurance receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Credit risk with respect to insurance receivables is limited due to credit control procedures in place and the large number of customers comprising the Group's debtor base.

The total financial assets bearing credit risk are the following:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Debt securities	7,321,020	7,884,639	7,321,020	7,884,639
Loans and receivables	1,400,000	1,500,000	1,400,000	1,500,000
Reinsurers' share of technical provisions	5,595,034	4,879,351	5,595,034	4,879,351
Insurance and other receivables	3,070,991	2,627,162	3,068,822	2,558,036
Cash and cash equivalents	5,054,129	4,123,118	4,919,257	3,940,692
	22,441,174	21,014,270	22,304,133	20,762,718

The carrying amounts disclosed above represent the maximum exposure to credit risk.

Within insurance and other receivables are the following receivables that are classified as past due but not impaired, these represent balances over and above the standard credit terms:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Past due for:				
Less than one month	581,828	311,838	581,828	299,231
Between one and six months	1,028,831	366,729	1,028,831	328,089
Over six months	722,563	686,766	721,046	684,039
	2,333,222	1,365,333	2,331,705	1,311,359

Within insurance and other receivables are the following receivables that are classified as impaired and therefore fully provided for:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Specifically provided for receivables	180,686	257,240	180,686	257,240

Balances are determined to be impaired because of significant financial difficulties experienced by the counterparties or pending legal cases.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

Liquidity risk

The Company has to meet daily calls on its cash resources, notably from claims arising on its general and life insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due. The Company manages this risk by setting minimum limits on the proportion of maturing assets that will be available to settle these liabilities. It also holds a number of listed investments that can be readily disposed of should such need arise. Furthermore, the Company has set a minimum level of borrowing facilities that could be utilised to cover claims maturities and surrenders at unusually high levels.

The following maturity analysis shows the expected timing of cash flows arising from the Company's financial liabilities. The analysis includes both interest and principal cash flows.

2016

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
	€ '000	€ '000	€ '000	€ '000
Insurance contract provisions - claims outstanding	1,876	3,349	137	5,362
Subordinated loans	1,400	1,481	-	2,881
Bank borrowings	1,444	-	-	1,444
Reinsurance payables	1,657	-	-	1,657
Insurance and other payables	1,505	-	-	1,505
	7,882	4,830	137	12,849

2015

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
	€ '000	€ '000	€ '000	€ '000
Insurance contract provisions - claims outstanding	2,226	3,456	161	5,843
Subordinated loans	188	2,810	-	2,998
Bank borrowings	1,165	-	-	1,165
Reinsurance payables	1,060	-	-	1,060
Insurance and other payables	947	-	-	947
	5,586	6,266	161	12,013

Fair values

The investments held by the Company as reported under note 16.1 to the financial statements, "Financial Assets at fair value through profit or loss" are stated at their respective market values. These financial assets comprise listed equities, bonds, funds and government bonds whose market value is based on readily available quoted prices.

At 31 December 2016 and 2015, the carrying amounts of other short term instruments approximated their fair values due to the short term maturities of these assets and liabilities. The fair value of long term instruments is not materially different from their carrying amounts.

IFRS 7 requires the disclosure of fair value measurement methodologies in a three level hierarchy, as described in the basis of preparation paragraph in note 3.

All the Company's financial instruments as disclosed in note 16 are measured using Level 1 methodologies.

The Company's land and buildings as disclosed in note 14 are measured using Level 2 methodologies.

Capital risk management

The Group's objectives when managing capital are:

- To comply with the obligations to maintain positive solvency position based on the regulatory requirements of the insurance market where the Group operates;
- To safeguard the Group'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.

The Group's directors manage the Group's capital structure and make adjustments to it, in light of changes in economic conditions. The capital requirement of the Group is maintained in accordance with regulatory solvency and capital requirement of the insurance market in which it operates.

The Group is financed by shareholders' total equity together with subordinated shareholder and bank borrowings. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the Group balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from the prior year.

The Group was compliant with the respective regulatory solvency requirements throughout the financial period.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

6. Segmental Analysis

Company

	Motor (third party liability)	Motor (other classes)	Fire and other damage property	All other classes	Total
	€	€	€	€	€
General Business:					
Year Ended 31 December 2016:					
Gross premiums written	2,662,471	2,590,275	1,551,617	3,004,330	**9,808,693**
Gross premiums earned	2,553,848	2,484,598	1,526,886	2,750,796	**9,316,128**
Gross claims incurred	1,725,213	1,091,951	528,865	1,229,403	**4,575,432**
Other net technical profit	-	163,562	28,583	52,373	**244,518**
Gross operating expenses	1,287,622	1,252,707	750,392	1,577,690	**4,868,411**
Reinsurance outwards	178,298	-	342,748	481,368	**1,002,414**
Year ended 31 December 2015:					
Gross premiums written	2,408,814	2,354,143	1,493,873	2,557,905	**8,814,735**
Gross premiums earned	2,340,030	2,286,920	1,396,224	2,567,314	**8,590,488**
Gross claims incurred	1,761,715	1,418,596	366,002	1,104,405	**4,650,718**
Other net technical profit	-	111,447	28,131	107,850	**247,428**
Gross operating expenses	1,268,755	1,239,960	786,843	1,356,028	**4,651,586**
Reinsurance outwards	277,207	-	361,812	264,365	**903,384**

	2016	2015
	€	€
Long Term Business:		
Individual premiums and premiums under group contracts	**184,986**	94,928
Periodic premiums and single premiums	**1,941,887**	1,980,296
Premiums from participating and non-participating contracts, and those where the investment risk is borne by the policyholders	**110,323**	129,648
	2,237,196	2,204,872

7. Investment Return

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Investment gains:				
Income from financial assets at fair value through profit or loss				
• Dividend and interest income	536,937	502,352	536,937	502,352
• Net fair value gain	231,224	1,346,375	231,224	1,346,375
Income from loans and receivables	82,248	74,047	82,247	74,046
	850,409	1,922,774	850,408	1,922,773
Investment expenses and charges:				
Net investment management and transaction charges	(36,222)	(41,676)	(36,222)	(41,676)
Net investment return	814,187	1,881,098	814,186	1,881,097
Analysed between:				
Allocated investment return transferred to the general business technical account	352,319	1,029,734	352,319	1,029,734
Investment return included in the long term business technical account	461,867	851,363	461,867	851,363
Investment return included in the non technical business account	1	1	-	-
	814,187	1,881,098	814,186	1,881,097

8. Net Operating Expenses

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Acquisition costs	1,494,324	1,480,120	1,494,324	1,480,120
Change in deferred acquisition costs	(37,022)	(16,281)	(37,022)	(16,281)
Administrative expenses	4,276,055	4,064,602	4,193,182	3,964,552
Reinsurance commissions and profit participation	(1,108,501)	(1,176,393)	(1,108,501)	(1,176,393)
	4,624,856	4,352,048	4,541,983	4,251,998
Allocated to:				
General business	3,137,519	2,996,009	3,137,519	2,996,009
Long term business	620,085	506,987	620,085	506,987
Non-technical account	867,252	849,052	784,379	749,002
	4,624,856	4,352,048	4,541,983	4,251,998

Acquisition costs are fully made up of commission payable for the year.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

9. Employee Benefit Expense

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Salaries	1,812,991	1,804,461	1,745,741	1,737,377
Salaries of key management (including directors)	548,226	504,615	548,226	504,375
Social security costs	144,927	142,299	140,370	137,906
	2,506,144	2,451,375	2,434,337	2,379,658

The average number of persons employed by the Group during the year, including directors, was as follows:

	Group		Company	
	2016	2015	2016	2015
	No.	No.	No.	No.
Accounts and administration	29	28	29	28
Insurance business	59	59	57	57
	88	87	86	85

10. Directors' Compensation

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Fees	243,225	228,354	243,465	228,114
Remuneration	176,094	150,614	176,094	150,614
	419,319	378,968	419,559	378,728

11. Profit Before Tax

The profit before tax is stated after charging the following:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Stated after charging:				
Auditors' remuneration				
Annual statutory audit	27,500	25,300	25,500	23,800
Other assurance services	-	2,860	-	2,360
Other non audit services	7,440	3,000	7,440	3,000
Tax advisory and compliance services	4,030	2,460	3,500	2,460
Depreciation and amortisation	209,742	201,395	207,775	192,984
Subordinated loan interest				
Shareholders' subordinated loan interest	27,952	27,952	27,952	27,952
Bank loan interest	126,503	129,857	126,503	128,469

12. Income Tax

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Current tax credit	(6,144)	(5,751)	(6,144)	(11,738)
Deferred tax (credit)/expense	(69,003)	100,546	(69,003)	100,546
	(75,147)	94,795	(75,147)	88,808

The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta are reconciled as follows:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
(Loss)/Profit for the year	(403,203)	341,495	(345,642)	291,143
Tax at the applicable rate of 35%	(141,121)	119,523	(120,975)	101,900
Tax effect of:				
Depreciation charges not deductible by way of capital allowances in determining taxable income	32,982	31,022	32,982	31,022
Dividends at rates other than 35%	1,737	(9,477)	1,737	(9,447)
Unrealised movements reversed on sold investments	750	(32,024)	750	(32,024)
Other movements	30,505	(2,603)	10,359	(2,643)
Other deferred tax adjustments	-	(11,676)	-	-
Tax charge for the year	(75,147)	94,795	(75,147)	88,808

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

13. Intangible Assets

Group

	Tenancy rights	Computer software	Total
	€	€	€
Year ended 31 December 2015			
Opening net book value	264,323	36,078	300,401
Additions	-	47,891	47,891
Amortisation	(20,353)	(30,557)	(50,910)
Closing net book value	**243,970**	**53,412**	**297,382**
Acquisition cost/revalued amount	305,000	1,349,622	1,654,622
Accumulated amortisation	(61,030)	(1,296,210)	(1,357,240)
Closing net book value	**243,970**	**53,412**	**297,382**
Year Ended 31 December 2016			
Opening net book value	243,970	53,412	297,382
Additions	-	59,834	59,834
Amortisation	(20,344)	(28,056)	(48,400)
Closing net book value	**223,626**	**85,190**	**308,816**
Acquisition cost/revalued amount	305,000	1,409,456	1,714,456
Accumulated amortisation	(81,374)	(1,324,266)	(1,405,640)
Closing net book value	**223,626**	**85,190**	**308,816**

Company

	Tenancy rights	Computer software	Policy list	Total
	€	€	€	€
Year ended 31 December 2015				
Opening net book value	264,323	28,836	-	293,159
Additions	-	46,734	-	46,734
Amortisation	(20,353)	(24,016)	-	(44,369)
Closing net book value	**243,970**	**51,554**	**-**	**295,524**
Acquisition cost/revalued amount	305,000	1,316,920	-	1,621,920
Accumulated amortisation	(61,030)	(1,265,366)	-	(1,326,396)
Closing net book value	**243,970**	**51,554**	**-**	**295,524**
Year Ended 31 December 2016				
Opening net book value	243,970	51,554	-	295,524
Additions	-	59,834	199,473	259,307
Amortisation	(20,344)	(27,354)	-	(47,698)
Closing net book value	**223,626**	**84,034**	**199,473**	**507,133**
Acquisition cost/revalued amount	305,000	1,376,754	199,473	1,881,227
Accumulated amortisation	(81,374)	(1,292,720)	-	(1,374,094)
Closing net book value	**223,626**	**84,034**	**199,473**	**507,133**

Tenancy rights relate to the acquired rights to a property, which empowers it to lease the property. The tenancy rights are being amortised over 15 years, being the rent period under the initial lease agreement. The economic useful life for computer software is determined as 5 years.

During the year, the Company acquired the policy list of its subsidiary, Citadel Health Insurance Agency (In Run-Off) Limited. The acquisition was made on terms equivalent to those that prevail in arm's length transaction.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

14. Property, Plant and Equipment

Group

	Land and buildings	Leasehold premises	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€
Year ended 31 December 2015					
Opening net book value	3,168,347	29,821	11,891	290,462	3,500,521
Acquisitions	9,026	-	26,390	33,540	68,956
Revaluation during the year	50,084	-	-	-	50,084
Provision for the year	(64,162)	(4,963)	(10,186)	(71,180)	(150,491)
Closing net book value	**3,163,295**	**24,858**	**28,095**	**252,822**	**3,469,070**
Acquisition cost/revalued amount	3,420,720	74,540	170,035	1,467,214	5,132,509
Accumulated depreciation	(257,425)	(49,682)	(141,940)	(1,214,392)	(1,663,439)
Closing net book value	**3,163,295**	**24,858**	**28,095**	**252,822**	**3,469,070**
Year Ended 31 December 2016					
Opening net book value	3,163,295	24,858	28,095	252,822	3,469,070
Acquisitions	5,551	-	-	94,439	99,990
Provision for the year	(64,278)	(4,971)	(10,186)	(81,904)	(161,339)
Closing net book value	**3,104,568**	**19,887**	**17,909**	**265,357**	**3,407,721**
Acquisition cost/revalued amount	3,426,271	74,540	170,035	1,561,653	5,232,499
Accumulated depreciation	(321,703)	(54,653)	(152,126)	(1,296,296)	(1,824,778)
Closing net book value	**3,104,568**	**19,887**	**17,909**	**265,357**	**3,407,721**

Company

	Land and buildings	Leasehold premises	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€
Year ended 31 December 2015					
Opening net book value	3,168,347	29,821	11,893	284,614	3,494,675
Acquisitions	9,026	-	26,390	32,089	67,505
Revaluation during the year	50,084	-	-	-	50,084
Provision for the year	(64,162)	(4,963)	(10,186)	(69,310)	(148,621)
Closing net book value	**3,163,295**	**24,858**	**28,097**	**247,393**	**3,463,643**
Acquisition cost/revalued amount	3,370,636	74,540	150,747	1,453,539	5,049,462
Accumulated depreciation	(207,341)	(49,682)	(122,650)	(1,206,146)	(1,585,819)
Closing net book value	**3,163,295**	**24,858**	**28,097**	**247,393**	**3,463,643**
Year Ended 31 December 2016					
Opening net book value	3,163,295	24,858	28,097	247,393	3,463,643
Acquisitions	5,551	-	-	94,439	99,990
Provision for the year	(64,278)	(4,971)	(10,186)	(80,640)	(160,075)
Closing net book value	**3,104,568**	**19,887**	**17,911**	**261,192**	**3,403,558**
Acquisition cost/revalued amount	3,376,187	74,540	150,747	1,547,978	5,149,452
Accumulated depreciation	(271,619)	(54,653)	(132,836)	(1,286,786)	(1,745,894)
Closing net book value	**3,104,568**	**19,887**	**17,911**	**261,192**	**3,403,558**

Land and buildings

Land and buildings are revalued by an independent, professionally qualified valuer every three years on an open market value basis. The fair value of land and buildings is computed by multiplying the office space in square metres by the market price per square metre of land and buildings with a similar structure in terms of age, size and location. The last revaluation was carried out during 2015.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

15. Investments in Subsidiaries

	2016	2015
	€	€
Investment held in subsidiary	299,999	299,999

The subsidiary undertaking of the Company at 31 December 2016 is shown below:

Name	Registered Office	Percentage of equity held	
		2016	2015
		%	%
Citadel Health Insurance Agency (In Run-Off) Limited	75, St Francis Street, Floriana, Malta	100	100

	Capital and reserves	
	€	€
Citadel Health Insurance Agency (In Run-Off) Limited	298,811	156,888

	Profit / (loss)	
	€	€
Citadel Health Insurance Agency (In Run-Off) Limited	141,923	44,365

16. Financial Assets

The Group's and Company's investments are summarised by measurement category in the table below:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Fair value through profit or loss	16,218,079	16,609,021	16,218,079	16,609,021
Loans and receivables	1,400,000	1,500,000	1,400,000	1,500,000
	17,618,079	18,109,021	17,618,079	18,109,021

16.1 Investments at fair value through profit and loss

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Designated upon initial recognition				
Equity securities and collective investment schemes:				
Listed shares	6,330,442	6,054,510	6,330,442	6,054,510
Collective investment schemes	916,617	813,907	916,617	813,907
Assets held to cover linked liabilities	1,650,000	1,855,965	1,650,000	1,855,965
	8,897,059	8,724,382	8,897,059	8,724,382
Debt securities - fixed interest rate:				
Government bonds	4,081,488	4,308,086	4,081,488	4,308,086
Listed corporate bonds	3,239,532	3,576,553	3,239,532	3,576,553
	7,321,020	7,884,639	7,321,020	7,884,639
Total investments at fair value through profit or loss	16,218,079	16,609,021	16,218,079	16,609,021

The Company uses this designation as doing so results in more relevant information because a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the documented investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel.

Maturity of fixed income debt securities:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Within 1 year	1,372,220	726,583	1,372,220	726,583
Between 1 and 5 years	2,340,146	2,929,913	2,340,146	2,929,913
Over 5 years	3,608,654	4,228,143	3,608,654	4,228,143
	7,321,020	7,884,639	7,321,020	7,884,639
Weighted average effective interest rate at the reporting date	1.68 %	2.32%	1.68%	2.32%

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

16.2 Loans and receivables

The maturities of the Group's and the Company's loans and receivables are summarised below:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Due in 2017	1,400,000	1,400,000	1,400,000	1,400,000
Due in 2018	-	100,000	-	100,000
	1,400,000	1,500,000	1,400,000	1,500,000
Weighted average effective interest rate at the reporting date	3.5%	3.4%	3.5%	3.4%

All loans and receivables are current in nature. No investments are pledged to third parties at the financial year end. Financial assets are held primarily in the Company's functional currency.

17. Insurance and Other Receivables

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Receivables arising from insurance activities:				
Due from policy holders	681,254	550,162	681,254	550,162
Due from intermediaries	1,855,500	1,592,205	1,843,772	1,530,791
	2,536,754	2,142,367	2,525,026	2,080,953
Other receivables:				
Amounts due from subsidiary	-	-	10,211	-
Accrued interest	339,991	303,457	339,991	303,457
Other prepayments and accrued income	194,246	181,338	193,594	173,626
	534,237	484,795	543,796	477,083
Total receivables	3,070,991	2,627,162	3,068,822	2,558,036

No interest is due on the above receivables.

During the year, bad debts written off amounted to NIL (2015: NIL). Receivables are disclosed net of provision for doubtful debts of €180,686 (2015: €257,240).

18. Cash and Cash Equivalents

Balances of cash and cash equivalents as shown on the statements of financial position are analysed below:

	Group		Company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Cash at bank and in hand	**5,054,129**	4,123,118	**4,919,257**	3,940,692
Bank balance overdrawn	**(1,443,765)**	(1,165,046)	**(1,443,765)**	(1,165,046)
Net balance	**3,610,364**	2,958,072	**3,475,492**	2,775,646

19. Deferred Tax

Deferred tax (assets)/liabilities are attributable to the following:

Group and Company	Balance at beginning of year	Recognised in income	Recognised in other comprehensive income	Balance at end of year
	€	€	€	**€**
Unabsorbed capital allowances	(136,321)	58,150	-	**(78,171)**
Provision for impairment losses	(90,710)	26,790	-	**(63,920)**
Unabsorbed group losses	(2,211)	-	-	**(2,211)**
Unabsorbed tax losses	(222,203)	(239,350)	-	**(461,553)**
Temporary differences on property, plant and equipment	18,322	163	-	**18,485**
Unrealised gains on investments	639,053	85,244	-	**724,297**
Revaluation of property	310,000	-	-	**310,000**
	515,930	(69,003)	-	**446,927**

Deferred tax assets and deferred tax liabilities are offset to the extent that the Group has a legally enforceable right to set off current assets against current liabilities.

At 31 December 2016, the Group had an unrecognised deferred tax asset of €49,837 (2015: €47,970) emanating from unabsorbed capital losses.

At 31 December 2016, the Group also had unabsorbed tax losses at its subsidiary of €55,583 (2015: €585) for which no deferred tax asset is recognised in the statement of financial position. The crystallisation of this asset remains doubtful given the expected pattern of income in the future years and has therefore not been recognised.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

20. Insurance Liabilities And Reinsurance Assets

Company

	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€	€	€	€	€	€
General business						
Provision for unearned premiums	4,704,322	(1,112,092)	3,592,230	4,211,757	(863,174)	3,348,583
Claims outstanding	5,176,742	(1,114,087)	4,062,655	5,842,562	(1,111,525)	4,731,037
	9,881,064	(2,226,179)	7,654,885	10,054,319	(1,974,699)	8,079,620
Long term business						
Claims outstanding	880,851	(735,855)	144,996	225,291	(201,998)	23,293
Technical provisions:						
Non-Linked	7,656,000	(2,633,000)	5,023,000	7,029,449	(2,702,645)	4,326,795
Linked	1,650,000	-	1,650,000	1,855,964	-	1,855,964
	10,186,851	(3,368,855)	6,817,996	9,110,704	(2,904,652)	6,206,052
Total insurance contract provisions	20,067,915	(5,595,034)	14,472,881	19,165,023	(4,879,351)	14,285,672
Split as follows:						
Current	10,761,915	(2,962,034)	7,799,881	10,279,610	(2,176,697)	8,102,913
Non-current	9,306,000	(2,633,000)	6,673,000	8,885,413	(2,702,654)	6,182,759
	20,067,915	(5,595,034)	14,472,881	19,165,023	(4,879,351)	14,285,672
Provision for unearned premiums						
At beginning of year	4,211,757	(863,174)	3,348,583	3,987,509	(833,510)	3,153,999
Premiums written	9,808,693	(2,962,988)	6,845,705	8,814,735	(2,506,387)	6,308,348
Less:						
Premiums earned	(9,316,128)	2,714,070	(6,602,058)	(8,590,487)	2,476,723	(6,113,764)
At end of year	4,704,322	(1,112,092)	3,592,230	4,211,757	(863,174)	3,348,583
General and long-term business						
Movement in provision for claims outstanding						
At beginning of year	6,067,853	(1,313,523)	4,754,330	6,161,214	(1,604,663)	4,556,551
Claims settled during the year	(5,499,698)	834,200	(4,665,498)	(4,913,177)	1,020,034	(3,893,143)
Increase/(decrease) in liabilities:						
• Arising from current year claims	4,044,200	(1,405,564)	2,638,636	3,860,184	(1,045,224)	2,814,959
• Arising from prior year claims	1,445,238	34,945	1,480,183	959,632	316,330	1,275,963
At end of year	6,057,593	(1,849,942)	4,207,651	6,067,853	(1,313,523)	4,754,330

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts included in the above table with respect to expected recoveries is of €1,142,239 (2015: €1,122,791).

Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Company. The tables compare the claims paid on an accident year with the provisions established for these claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The estimate is increased or decreased as losses are paid and more information becomes known with the development of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding as of the end of 2016 is adequate. Although the amounts provided reflect managements' best estimate of the total claims outstanding, the Company's total outlay in relation to such claims becomes final on payment.

	2011	2012	2013	2014	2015	2016	Total
	€	€	€	€	€	€	€
Estimate of the ultimate claims costs:							
At end of accident year	2,994,023	2,661,472	2,310,243	2,159,562	2,154,508	2,222,247	
One year later	3,273,106	3,340,111	2,673,144	2,683,888	2,818,206		
Two years later	3,120,003	3,363,645	2,508,772	2,505,945			
Three years later	3,030,430	3,377,848	2,515,530				
Four years later	3,073,424	3,498,424					
Five years later	3,056,597						
Current estimate of cumulative claims	3,056,597	3,498,424	2,515,530	2,505,945	2,818,206	2,222,247	16,616,949
Current payments to-date	(2,798,642)	(3,044,370)	(2,410,049)	(2,235,158)	(2,254,115)	(947,482)	(13,689,816)
Liability recognised in the statement of financial position	**257,955**	**454,054**	**105,481**	**270,787**	**564,091**	**1,274,765**	**2,927,133**
Liability in respect of prior years							632,769
Liability in respect of classes of business not in the analysis							647,749
Total reserve included in the statement of financial position							4,207,651

Liability in respect of classes of business not in the analysis includes the marine, fire, accident, credit and engineering classes of business as well as the life business and the incurred but not reported liability.

Notes to the Financial Statements *cont.*

Year Ended 31 December 2016

Life business
Analysis of movements in technical provisions - Non Linked:

	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€	€	€	€	€	€
At beginning of year	7,029,449	(2,702,654)	4,326,795	6,256,675	(2,452,682)	3,803,993
Movement in reserves	626,551	69,654	696,205	772,774	(249,972)	522,802
At end of year	7,656,000	(2,633,000)	5,023,000	7,029,449	(2,702,654)	4,326,795

Life business
Analysis of movements in technical provisions - Linked:

	2016	2015
	€	€
At beginning of year	1,855,964	1,871,372
Premiums received in year	158,412	287,916
Liabilities released on payment of deaths, surrenders and terminations during the year	(374,225)	(529,893)
Changes in unit prices	9,849	226,569
At end of year	1,650,000	1,855,964

Unit linked liabilities are not ceded to reinsurers.

21. Share Capital

Company

	2016 and 2015
	€
Authorised:	
7,200,000 ordinary shares of €1.00 each	7,200,000
Issued and fully paid up	
2,570,400 ordinary 'A' shares of €1.00 each	2,570,400
1,008,000 ordinary 'B' shares of €1.00 each	1,008,000
918,000 ordinary 'C' shares of €1.00 each	918,000
504,000 ordinary 'D' shares of €1.00 each	504,000
	5,000,400

The management and administration of the Company is entrusted to a Board of Directors consisting of not less than two (2) and not more than nine (9) directors as appointed by the shareholders in accordance with their appointment rights, whereby the holders of the ordinary 'A' shares can appoint five (5) directors including the Chairman.

Otherwise save as may be expressly provided in the Memorandum and Articles of Association, the ordinary shares of the different classes shall rank pari passu for all intents and purposes of law.

22. Borrowings

Subordinated loans

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Unsecured 4% shareholders' subordinated loans	580,550	698,812	580,550	698,812
Unsecured bank subordinated loans	2,300,000	2,300,000	2,300,000	2,300,000
	2,880,550	2,998,812	2,880,550	2,998,812

The shareholders' subordinated loans amounting to €580,550 are due for repayment in April 2020.

These amounts will be settled in cash. No guarantees have been given or received.

The bank subordinated loans are repayable as follows:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Due in 2017	1,400,000	1,400,000	1,400,000	1,400,000
Due in 2018	900,000	900,000	900,000	900,000
	2,300,000	2,300,000	2,300,000	2,300,000

As at year end the bank subordinated loans bore interest ranging from 5.50% - 5.95% per annum.

23. Insurance Payables, Other Payables and Deferred Income

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Direct insurance contract payables	718,455	540,948	656,316	425,394
Amounts due to related parties	19,269	21,478	242,456	45,915
Insurance payables	737,724	562,426	898,772	471,309
Amounts due to shareholders	250,000	-	250,000	-
Other payables and accrued expenses	583,537	504,529	578,938	499,693
Other payables and accruals	833,537	504,529	828,938	499,693

24. Operating Leases - The Company as Lessee

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Minimum lease payments under operating lease recognised as an expense for the year	115,750	115,750	115,750	115,750

At the end of the reporting period, the company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2016	2015	2016	2015
	€	€	€	€
Within one year	116,837	115,750	116,837	115,750
Between one and five years	288,693	354,403	288,693	354,403
Over five years	190,763	241,889	190,763	241,889
	596,293	712,042	596,293	712,042

Operating lease payments represent rentals payable by the company, following the purchase of tenancy rights as disclosed in note 13, for the lease of a property in Floriana. The tenancy rights give the Company the right to lease for a period of fifteen years, following which the company will also have first preference of reacquiring the lease and the possibility to match any bids made by potential future tenants. Lease rentals shall be adjusted for inflation every five years.

25. Related Party Disclosures

Citadel Insurance p.l.c. is the parent company of Citadel Health Insurance Agency (In Run-off) Limited as disclosed in note 15.

Citadel Insurance p.l.c. is a subsidiary of Citadel Limited, which is registered in Malta. The ultimate parent company of Citadel Insurance p.l.c. is Citadel Holdings Limited (formerly Jayenti Holdings Limited), the registered office of which is Apartment 12, 182/183 Tower Reef Apts., Tower Road, Sliema, Malta. Consolidated financial statements which include the financial results of the company may be obtained from the ultimate parent company's registered office.

The Directors consider the ultimate controlling party to be Joseph N. Tabone.

The terms and conditions of the subordinated loans due to related parties are disclosed in note 22.

Other related party transactions are disclosed in the remaining notes in the financial statements.

Independent Auditor’s Report

to the members of Citadel Insurance p.l.c.

Opinion

We have audited the individual financial statements of Citadel Insurance p.l.c. (the Company) and the consolidated financial statements of the Company and its group (together, the Group), set out on pages 14 to 52, which comprise the statements of financial position as at 31 December 2016, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and its group as at 31 December 2016, and of the Company’s and the Group’s financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386) and the Insurance Business Act (Cap. 403).

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 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 *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* (Maltese Code) that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the Maltese Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and the Auditor’s Report Thereon

The directors are responsible for the other information. The other information comprises the company information on pages 4 and 5, the Chairman’s Statement of page 6, the Managing Director / CEO Report on page 7, the information included in the Directors’ Report on page 8, the corporate governance Statement of Compliance on pages 9 and 10, and the Statement of Directors’ Responsibilities on page 11, but does not include the financial statements and our auditor’s report thereon.

Except for our opinion on the Directors’ report in accordance with the Companies Act (Cap. 386), our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

With respect to the Directors’ report, we also considered whether the Directors’ report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386).

In accordance with the requirements of sub-article 179(3) of the Maltese Companies Act (Cap. 386) in relation to the Directors’ report on page 8, in our opinion, based on the work undertaken in the course of the audit:

- 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 applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors’ report.

Responsibilities of the directors and the Audit Committee for the Financial Statements

As explained more fully in the statement of directors’ responsibilities on page 11, 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 Companies Act (Cap.386), and the Insurance Business Act (Cap. 403), 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 and its group’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 management either intends to liquidate the Company and its group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company’s and the Group’s financial reporting process.

Independent Auditor's Report *cont.*

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 judgment and maintain professional skepticism 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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.

Report on Other Legal and Regulatory Requirements

Under the Companies Act (Cap. 386), we have responsibilities to report to you if in our opinion:

- Proper accounting records have not been kept;
- Proper 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; or
- We have been unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

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

The engagement director on the audit resulting in this independent auditor's report is Ian Coppini.

Ian Coppini as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor
Mriehel, Malta

11 May 2017

"Going forward, we will continue to grow the Company's business with an eye on exploiting niche market opportunities. I am confident in our ability to maintain a sustainable growth with the aim of increasing the value of the Company. "

Joseph N Tabone

Chairman, Citadel Insurance plc

Citadel
insurance

www.citadelplc.com

Citadel insurance

Citadel Insurance plc
Casa Borgo, 26 Market Street, Floriana FRN1082, Malta
Tel: (+356) 2557 9000 Fax: (+356) 2557 9550
Freephone: 8007 2322
E-mail: info@citadelplc.com

www.citadelplc.com