Klapton

Klapton Insurance Company Limited

Annual Report & Accounts 2017

Registered Number L2001

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Klapton

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Klapton Insurance Company Limited

Annual Report & Financial Statements

31 December 2017

Klapton

Company Background :

Formed in 2005, Klapton Insurance Company Limited ("Klapton") is registered in the Autonomous Island of Anjouan, Union of Comoros, with operations in Africa, Middle East and Asia.

Klapton is a Class 2 insurer and reinsurer regulated by the Anjouan Offshore Finance Authority.

Klapton underwrites a diversified worldwide portfolio, focused on two core lines:

- Surety products (guarantees, bonds, hedging covers, investment protection, debentures repayment guarantees)
- Inward Facultative Reinsurance covers (energy, property, engineering, construction)

Klapton's main geographical focus on the Afro-Asian markets.

Klapton has focused its risk appetite to more specific niche surety products, where Klapton sees its future growth.

Klapton has assets in excess of €55m as at 31 December 2017

Klapton

Board of Directors:

Sir Bernard Zissman

Chairman and Non-Executive Director

Sir Bernard Zissman has enjoyed both a busy political career, where he has served as senior member of Birmingham City Council, together with a number of chairman positions including AQC Consulting, Advantage Business Angels and Cerebrum Partners Ltd.

Mr Shay Reches

CEO and Director

Shay Reches brings 40 years of insurance and reinsurance industry experience. His main focus of activity during that time has been in the African market, both in the insurance and credit industries.

Mr Reches is the majority owner of Klapton.

Mr Rob Bygrave

CFO and Director

Rob Bygrave has held a number of senior finance positions in banks, insurance companies and corporate finance houses including Standard Chartered, Deutsche Bank, Altium Capital and Raiffeisen International Bank.

He is also currently Group Finance Director for an investment group.

Board of Directors:

Mr Jerry Pinkus
Reinsurance Director

Jerry Pinkus began his career in broking in 1979, specialising as a broker/producer of International Facultative business. Mr. Pinkus has held several senior positions with leading Lloyds Brokers as an Executive Director, including Lambert Fenchurch International and HSBC Insurance Brokers and has worked at several Insurance Companies in the Middle East.

Mr Justin Tuson
Non-Executive Director
Chairman of IT, Media and PR Committee

With Information Technology experience exceeding 20 years, Mr. Tuson has worked in a wide variety of sectors - Oil and Gas Discovery, Travel Airline booking and Advertising Media. His experience spans Mainframe, Mini and Desktop computing.

Mr Tim Eppel
Non-Executive Director

Tim Eppel is the senior partner at a renowned London law firm, McFaddens and he is experiencd in both corporate law and in commercial litigation.

He qualified as a solicitor in 1975 and commenced his own practice in 1977, providing a range of corporate, property and commercial litigation services.

Klapton

Letter From the Board of Directors

It is our pleasure to present the 2017 Annual Report of the Board of Directors for Klapton Insurance Company Limited and the financial statements for 2017, which includes the statement of financial position at 31 December 2017 and the statement of income for the financial year.

Strategic review of the year

The Board of Directors are pleased to announce that 2017 saw a significant rise in premium levels, largely as a result of the growth in the sureties business line. When married to our continued strong underwriting criteria, this has led to Klapton delivering another excellent underwriting profit for the year.

Gross written premium for 2017 increased dramatically from the premiums written in 2016. This increase can be primarily attributed to the success of the sureties team in building up the business throughout 2016 and into 2017, as a number of the deals concluded in 2017 were those which were long term deals initiated in 2016. The two supplementary business lines, being inward facultative reinsurance and SME covers, also both delivered growth on 2016 levels.

Net claims incurred during the year fell slightly in 2017 from €0.5m to €0.4m. The claims experience for 2017 was benign with no significant claims for catastrophic losses or large unprovided losses being received. The Board attributes this continued consistency in low new claims to be a direct result of the strict underwriting acceptance program.

Klapton continued to keep administrative expenses within budgeted levels, with a 36% fall in administrative expenses on 2016, largely as the expenses for 2016 included the release of deferred commission to the income statement. The expectation is that costs will begin to rise in 2017, both to support the expected growth in business and the continued commitment to corporate governance and Board strengthening.

Klapton has demonstrated it's commitment to corporate governance, the Board and the Audit Committees throughout 2017 and into 2018, with the appointment of a number of key experienced Board and Committee members. It has now reached the objective of the Board having a majority of non-executive members and the Audit Committee's all having a majority of non-executive members/totally independent members.

The Board is also pleased to announce that Klapton recently received an upgrade on its credit rating from the South African agency, Global Credit Rating, part of the Carlyle Group. The credit rating received has now increased to B- (positive), international scale. Klapton has also been awarded in 2018 an A1- (Investment grade) short term rating and a BBB+ (Investment grade) long term rating from Bloomfield Investment Corporation, a leading rating agency in West Africa.

Letter From the Board of Directors (continued)

Overview of the non-life insurance markets in 2017

There was a modest increase in the global demand for non-life insurance in 2017 from 2016, in both the advanced and emerging markets. Based on findings in the Swiss Re institute publication, global non-life premiums increased by 3.0% compared to 2.3% in 2016. In the advanced countries, premium growth grew from 1.5% in 2016 to approximately 2.0% in 2017, this is due to a combination of economic growth and inflationary pressures. In the emerging markets, premiums grew by an estimated 6.0% in 2017 which was a slight increase in previous years. In Klapton's key markets, there was a slowdown in growth in Middle East & North Africa ("MENA") to an estimated 2.7% , largely due to Saudi Arabia, UAE and Iran, but "Sub-Saharan Africa ("SSA") saw a slight recovery.

After five years of relatively benign losses, the second half of 2017 saw a number of natural catastrophic losses which included Hurricanes Harvey, Irma, Maria, earthquakes in Mexico and wildfires in California. The losses from the three hurricanes and the earthquakes is estimated at USD 95 billion, which is expected to significantly impact on the full year underwriting results.

It had been a period of 12 years since the last major hurricane (Cat 3 and above), however on 25th August 2017, Hurricane Harvey hit the Texas coast, causing the displacement of 30,000 people and damage to 200,000 homes and businesses. A few days after that, Hurricane Irma hit the Caribbean, followed on 20th September 2017 with Hurricane Maria which devastated Puerto Rico and Dominica.

The impact of the large losses outlined in the previous paragraphs is that this is expected to lead to a significant hardening in rates in those portfolios affected by these events. The expectation is that these losses will be split fairly equally between primary insurers and reinsurers. As the capital abundance in previous years has been largely eroded, capital injections may be required, which will further the drive for rate hardening.

Global non-life profitability is expected to decline, with the return on equity (ROE) falling from 6% in 2016 to approximately 3% in 2017. This fall is due to a combination of three factors: soft underwriting conditions, low investment yields and the large natural catastrophic losses in the US. Investment yields have stalled and operating cash flows are weak due to the slowing in premium growth and the worsening of underwriting results.

One area of the insurance market which has seen rapid expansion is that of cyber risk. This has been driven be a number of high profile cyber attack incidents with globally recognised companies - such as Equifax. The market is expected to grow from between USD 2.5 billion - USD 3.5 billion in 2016 with further growth in 2017 and an estimate that by 2022 the market could reach USD 22 billion. There are pockets of the market where due to the lack of standardisation in policies, has led to growth in premium rates, for example the implementation of the EU's General Data Protection Regulation (GDPR) is acting as a catalyst for firms to take out cyber insurance.

Letter From the Board of Directors (continued)

Insurance markets outlook for 2018 and 2019

The global economic outlook for 2018 and 2019 is brighter and the expectation is that this will fuel demand for non-life insurance in the next couple of years. The forecast is for global non-life premiums to grow in the region of 3% in both 2018 and 2019. Due to the number of large natural catastrophic events in 2017, this is likely to result in significant price rises in those segments. It is also expected that these losses will be so severe as to cause price rises in other sectors which have been under pressure from sustained low prices, such as motor and commercial. Assuming average nat cat losses, then the expectation is that these price rises will result in a rise in underwriting profitability globally in 2018 and 2019.

In the advanced markets it is expected that growth will driven in the longer term by the demand to provide cover for new and evolving risk exposures such as cyber risk, non-physical business interruption, product recall and reputational risk insurance. As the corporate sector evolves from the traditional model, reliant on physical assets, to one where value is both driven and derived from intangible assets - intellectual property, networks, platforms, data etc, then new solutions must be developed to provide mitigation/protection against the risks borne from these changes in structure. Insurance solutions are also being used to protect earnings and cash flow risks including non-damage business interruption, weather and energy price risks. Firms are also transferring risk through insurance and financial instruments to safeguard cash flow, investment capital, to lower the cost of capital and reduce earnings volatility.

Non-life insurance premiums in emerging markets grew by approximately 6.0% in 2017, up from the 5.3% growth rate in 2016. Emerging Asia yet again produced the strongest annual growth figures which are expected to reach 10% in 2017, from 8.7% a year earlier. This has largely been driven by the acceleration in premiums in China and India, with China due to agro and liability lines and India crop insurance. The expectation is that non-life premiums will see continued growth in 2018 and 2019 from factors such as urbanisation, and increased home and car ownership. Additionally concerns about environmental factors, food safety and underinsurance in property is expected to filter through to stronger demand for associated liability and property covers.

As mentioned above, the promotion of agro and liability insurance in China and the launch of the New Crop Insurance Scheme in India are likely to support robust premium growth in 2018 and 2019. Latin American non-life premiums will continue to recover, led by stronger commercial demand in Brazil. Premium growth in the Middle East is forecast to grow by up to 5% due to the growth in compulsory lines and large infrastructure projects. In Africa, however growth is likely to remain weak due to political uncertainty, high unemployment and rising consumer debt, although SSA is more positive.

Letter From the Board of Directors (continued)

The global economy in 2017 and outlook for 2018/19

Global economic growth in 2017 improved from 3.2% in 2016 to 3.7% in 2017, which is the fastest global growth since 2011. The forecasts of the International Monetary Fund (IMF) is that the growth rate will continue to rise from 3.7% in 2017 to 3.9% in both 2018 and 2019. However, the World Bank has a more pessimistic view of growth at 3.1% in 2018 then a slight fall in the growth rate in subsequent years. These forecasts are supported by the expected growth in emerging and developing Asia of around 6.5% in 2018 and 2019, MENA 3.5% for both years and emerging and developing Europe exceeding 5%.

In the US the growth rate was 2.2% in 2017 which was stronger than forecast due to a combination of higher projected external activity and the macroeconomic impact of tax reforms (such as the reduction in corporate tax rates and the temporary allowance for full expensing of investments). The expectation is that the tax reform program will stimulate growth all the way through to 2020. Therefore the growth forecasts for the US have been revised upwards from 2.3% to 2.7% in 2018 and 1.9% to 2.5% in 2019.

Growth in Europe picked up in 2017 and rose from 1.6% in 2016 to 2.0% in 2017 with the expectation it will remain at 2.0% for 2018, with a slight fall in growth in 2019. Economic performance in the UK is expected to be weaker than others in the Euro zone due to ongoing Brexit related uncertainty which is affecting business investment and the consistently high inflation rate is eroding purchasing power and spending. The Bank of England increased interest rates for the first time in ten years and has indicated that there will be a further two rises in the next three years to meet the inflation target, however this decision would be subject to the Brexit negotiations and the outcome thereof.

The Japanese economy outperformed expectations which was driven mainly by a rise in exports and this should continue in 2018. However in 2019 there is expected to be a slowdown in growth due to a planned sales tax rise. The Bank of Japan is expected to keep interest rates as a level of close to zero over the forecast period.

In the Emerging Asia markets growth remained stable at 6.5% in 2017. This is driven by expansion in China of 6.8% in spite of government attempts to de-risk the financial sector and reduce excess industrial capacity. It is expected that growth will moderate gradually in China in the coming years. In India, growth slowed slightly to 6.6% in 2017, partially due to the government demonetarisation program. The projection is for the growth rate to return to 7% for 2108 and 2019 as the government implements economic reforms in the industrial and manufacturing sectors.

The performance in Central and Eastern Europe (CEE) saw significant growth of 3% in 2017, largely from CEE non-EU member countries, additionally the Russian economy expanded after two years of contraction assisted by recovery in energy prices. Growth is expected in 2018 although it may not be as high as 2017 due to rising inflation, Brexit impact and trade sanctions with Russia.

Letter From the Board of Directors (continued)

Focus on MENA and SSA

MENA countries have had a mixed 2017, with contraction in Saudi Arabia and a slowdown in UAE. Low oil prices together with cuts in output continue to put the economies of oil exporting countries under pressure, however there is a partial offset with inflation pressures being contained with low energy prices and slowing economic demand. North Africa saw a rise in growth of 5.0% compared to 3.3% in 2016 due to a number of factors including sustained domestic demand and better global economic conditions. Stronger than expected growth in Turkey has also partly offset declines elsewhere in the region.

Growth is expected in 2018 and 2019 as oil prices are predicted to rise which will benefit the MENA region. In North Africa, the non-resource-intensive countries are expected to benefit from increased tourist arrivals, trade and direct foreign investment, however the situation in Libya remains unstable.

SSA recorded a growth in 2017 of 2.7% compared to 1.3% in 2016. The rise reflects a modest recovery in Angola, Nigeria and South Africa, the regions largest economies, which is driven by an increase in commodity prices, favourable global financing conditions and slowing inflation which has lifted household demand. Oil producers in the region continue to deal with the effects of the earlier oil price collapse, however growth rebounded modestly in metals-producing countries due to a combination of an increase in mining output and higher metals prices. Non-commodity-intensive markets such as Ethiopia, Kenya and Cote D'Ivoire continue to deliver solid/strong growth supported by infrastructure investment and crop production.

Although fiscal deficits narrowed slightly in 2017, primarily as a result of large spending cuts in some oil exporters, government debt levels continue to rise across the region due to rapid increased in investments in infrastructure. These rising levels must be monitored as they could impact future growth plans and threaten fiscal stability.

The prediction for 2018 is for growth to continue to rise to 3.2% and then 3.5% in 2019. This is due to the firming of commodity prices and strengthening domestic demand. Although South Africa emerged from a technical recession in 2017, as the agricultural sector rebounded from a severe drought and the mining sector benefitted from rising commodity prices, the outlook is still unclear due to policy uncertainty affecting the implementation of structural reforms. Nigeria forecast is positive due to expected rising oil prices and reforms lifting non-oil sector growth. Similarly government reforms are expecting to drive up growth in Angola. Solid growth is expected in the non-resource-intensive countries, due to robust investment growth, with growth in Cote D'Ivoire 7.2% in 2018, Senegal 6.9%, Ethiopia 8.2%, Tanzania 6.8% and Kenya 5.5%.

Letter From the Board of Directors (continued)

Outlook for 2018 for Klapton

Looking forward into 2018, we have a clear focus on driving improved performance for this year and beyond. We are aware of the significant market challenges we face, together with pricing constraints, however the forthcoming year is focused on delivering our strategy and plans. To help us achieve this, we have a structured recruitment plan in place to increase both sales and back office teams and extend both our geographic and product coverage.

We continue our focus on maintaining our strong Corporate Governance culture to ensure that it meets the required standards in modern international and peer companies. Our Risk Committees are constantly evaluated to ensure they are providing a valuable contribution to the Corporate Governance of the company, We also actively seek to strengthen our Board should suitable candidates become available.

Klapton is also committed to improving the credit ratings it has received from GCR and Bloomfield and is actively working through their recommendations to achieve this change in 2018 and also are evaluating other credit agencies.

We would like to extend a thank you to all of our clients, brokers and introducers for their continued support and the confidence they have placed with Klapton in 2017. We would also like to thank our employees and claim managers for their dedication, effort and contribution this year and look forward to working together as a team to ensure we achieve our plans.

Board of Directors

Corporate Governance Statement

The Company is fully committed to high standards of corporate governance. The Directors of Klapton are ultimately accountable to the shareholders for ensuring that the Company's business is conducted in accordance with those high standards.

The Board

The Board directs the Companys' risk assessment, resource management, strategic planning financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met. Certain functions are delegated to committees as detailed within this section.

The Board meets monthly, and additionally when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and in succession planning.

The Board consists of both executive and non-executive Directors. The Board of Directors maintains an appropriate balance of skills, experience, independence and knowledge of the Company and it's business to enable them to discharge their respective duties and responsibilities effectively as well as be diverse on nationality, age and race. The Board also maintains a transparent procedure for appointment and induction of new Board members.

All Directors receive regular and timely information about the Company prior to Board Meetings. They also have access to the Company Secretary for any further information they may require. If any of the non-executive directors has any concerns with the running of the Company, they would first discuss their concerns one of the executive directors, the Company Secretary or the CEO. If these concerns cannot be resolved, then their concerns are recorded in the Board minutes. No such concerns arose during the year or up to the date of this report.

Board Committees

The Board has four specific committees: Audit, Finance, and Investment (AFI), Reinsurance,Underwriting and Claims (RUC), IT, Systems and PR (ISP)and Ethics, Nominations and Remuneration (ENR).

Klapton

Corporate Governance Statement (continued)

Audit, Finance and Investment Committee (AFI)

This committee reviews the company’s financial policies and plans, ensures there are adequate systems to monitor and manage risk, ensures implementation of the requirements of International Financial Reporting Standards, review and monitor compliance with investment strategy, policy and statutory requirements.

The AFI committee also monitors and provides effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. The Committee received reports from reviewers such as regulators, auditors and rating agencies, and also monitors implementation of these bodies recommendations, on behalf of the Board.

The committee also undertakes regular reviews of the Company's investment portfolio and ensures these are in line with the Company strategy, standards and investment criteria.

Reinsurance, Underwriting and Claims Committee (RUC)

This committee undertakes reviews of the Company's core insurance written, the development of new business lines, underwriting policies, procedures and standards.

The RUC committee also reviews the Company's reinsurance treaties and the development of inward and outward facultative covers in line with policy. Additionally it will consider the criteria for participating reinsurers on the Company's treaties as well as on facultative covers and review the Company's protection treaties.

Finally the committee reviews the Company's claims - outstanding, paid, declined and approved to ensure these comply with both Company and industry best practice. It will also pass comment on claims handling policies, claim management standards and also consider underwriting policies.

Corporate Governance Statement (continued)

IT, Systems and PR Committee (ISP)

This committee reviews the Company's IT infrastructure polices and process including the ongoing systems operation and back up, compliance with client data confidentiality requirements and that the IT infrastructure and corporate data is protected against attack in line with company and industry practice. It also reviews and recommends to the Board future developments in IT systems and analytical and management tools which are proposed by the IT department.

The ISP committee also reviews the online presence of the company on search engines and social media in line with the Company's strategy and expectations and will report to the Board in respect of this. It also monitors the impact of PR activity on the Company to ensure it is in line with policy.

Ethics, Nominations and Remuneration (ENR)

This Committee is responsible for compliance with applicable laws, regulations and business ethics and conflicts of interest, including the Company's continuous disclosure requirements, It reviews and monitors related party transactions and transactions with cedants, intermediaries, retrocessionaires, employees and other stakeholders to ensure that they are conducted at arms length, with integrity and transparency.

The ENR makes recommendations to the Board, on remuneration, recruitment and appointment, termination and removal, competencies, skills, knowledge, experience, incentive policies and procedures. The committee is also responsible for the development of a process of evaluation of the performance of the Board, its Committees and Directors and succession planning.

Statement of Directors' Responsibilities

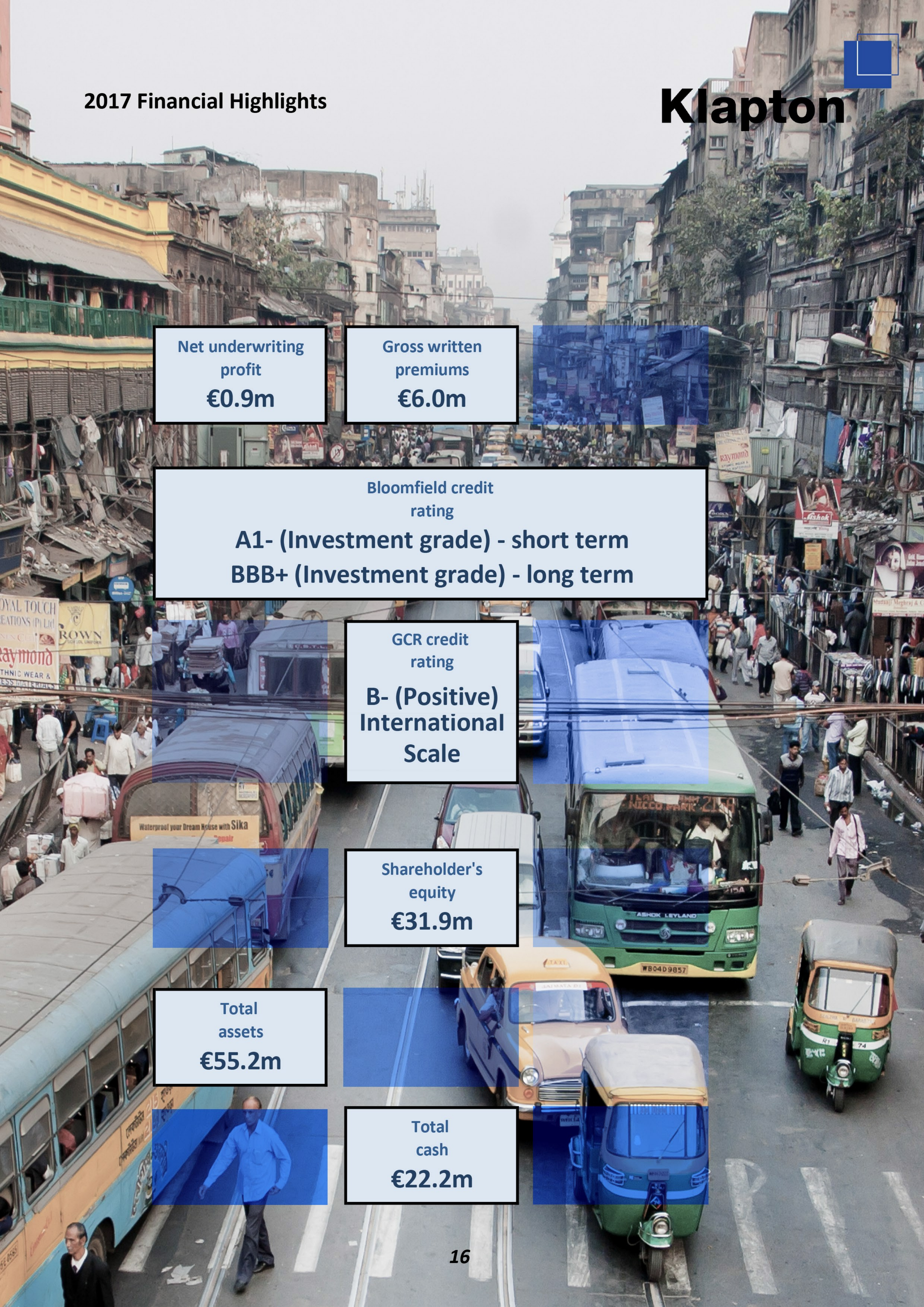
The Directors are responsible for the preparation, integrity and true and fair presentation of its financial statements and other information contained within this Annual Report.

The financial statements have been audited by an independent audit firm which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and the Committees of the Board. The Directors believe that all representations made to the independent auditors during the audit were valid and appropriate statements.

The Directors accept responsibility for preparing the financial statements in accordance with International Financial Reporting Statements and the applicable provisions of the Offshore Finance Authority. They also accept responsibility for such internal controls as the Directors deem 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 assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The audit of the financial statements does not relieve the directors of this responsibilities.

Board of Directors



Net underwriting profit

€0.9m

Gross written premiums

€6.0m

Bloomfield credit rating

A1- (Investment grade) - short term

BBB+ (Investment grade) - long term

GCR credit rating

B- (Positive) International Scale

Shareholder's equity

€31.9m

Total assets

€55.2m

Total cash

€22.2m

SOCIETE D'EXPERTISE COMPTABLE ET DE CONSEILS
01 BP 8168 ABIDJAN 01
TEL (225) 22-42-68-84
FAX (225) 22-42-68-83

Independent Auditors' Report for the ended as at December 31st 2017

Klapton Insurance Company Limited
Suite 2001, BP303, Mutsamudu, Autonomous Isle of Anjouan,
Union of Comoros

KLAPTON Ltd

Ladies and Gentlemen Shareholders,

We have audited the accompanying financial statements of the Company KLAPTON Ltd, which comprise the statement of financial position as at December 31st, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31st, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comments

We have not become aware of any significant matters relating to the financial information of KLAPTON Ltd that we should report to you.

Abidjan, July 27th, 2018

SOCIETE D'EXPERTISE COMPTABLE & DE CONSEILS

AKO Amaffé Roger

Managing Partner
Legal Auditor

Statement of Financial Position

As at 31 December 2017

Klapton

	Notes	2017 €	2016 €
Assets			
Intangible assets	*4*	270,586	365,800
Investments	*5*	18,936,001	19,982,212
Deferred policy acquisition costs	*6*	1,413,293	53,618
Insurance receivables		10,962,338	10,656,412
Other assets	*7*	1,379,735	489,943
Cash and cash equivalents	*8*	22,248,523	21,914,011
Total assets		**55,210,476**	**53,461,996**
Equity and Liabilities			
Equity			
Issued share capital	*9*	18,763,200	18,763,200
Retained earnings		13,159,908	12,667,615
Total equity		**31,923,108**	**31,430,815**
Liabilities			
Technical provisions	*10*	21,937,993	21,123,156
Other liabilities	*11*	1,349,375	908,025
Total liabilities		**23,287,368**	**22,031,181**
Total Equity and Liabilities		**55,210,476**	**53,461,996**

The financial statements were approved by the board of directors and authorised for issue on 27 July 2018 and they were signed on its behalf by:

S J Reches
Director
27 July 2018

The notes on pages 22 to 46 form part of these financial statements.

Statement of Income

For the year ended 31 December 2017

Klapton

	Notes	2017 €	2016 €
Gross written premiums	12	5,968,802	1,034,892
Change in unearned premiums		(4,768,115)	1,463,550
Gross earned premiums		**1,200,687**	**2,498,442**
Less premiums ceded	12	(110,708)	(21,802)
Net earned premiums	12	**1,089,979**	**2,476,640**
Net claims incurred	13	(439,940)	(544,289)
Commissions earned	14	772,467	143,339
Acquisition expenses	6	(536,825)	(664,045)
Net underwriting result		**885,681**	**1,411,645**
Investment (expense)/income	15	352,797	(9,394,251)
Administrative expenses	16	(768,545)	(1,205,785)
Net foreign exchange profit/(loss)		22,360	566,984
Profit for the year		**492,293**	**(8,621,407)**

There are no additional recognised gains of losses other than those stated above.

Statement of Cash Flows

For the year ended 31 December 2017

Klapton

	Notes	2017 €	2016 €
Net cash inflow/(outflow) from operating activities	17	**(1,028,168)**	**(3,555,190)**
Cash outflow from investing activities			
Purchase of intangible fixed assets		-	-
Proceeds from maturity of held to maturity investments		471,211	5,175,000
Purchase of held to maturity investments		-	(8,513,146)
Proceeds from sale of available-for-sale investments		600,000	-
Purchase of available-for-sale investments		-	-
Interest income		677,247	230,947
Net cash inflow/(outflow) from investing activities		**1,748,458**	**(3,107,199)**
Cash outflow from financing activities			
Repayment of loan financing		(381,789)	(167,555)
Interest expense		(3,989)	(20,902)
Net cash outflow from financing activities		**(385,778)**	**(188,457)**
Net increase/(decrease) in cash and cash equivalents		**334,512**	**(6,850,846)**
Cash and cash equivalents at the beginning of the year		21,914,011	28,760,673
Cash and cash equivalents at the end of the year		**22,248,523**	**21,909,827**

The notes on pages 22 to 46 form part of these financial statements.

1 ACTIVITIES

Klapton Insurance Company Limited ("the Company") was incorporated in the Autonomous Island of Anjouan, Union of Comoros in 2005. It is a Class 2 insurer and reinsurer, regulated by the Anjouan Offshore Finance Authority. The Company's registered office is POB 69, ACS, Mutsamudu, Anjouan, Union of Comoros.

The Company operates primarily in the Middle East, Africa and Asia.

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") together with the applicable requirements of the Anjouan Offshore Finance Authority.

The financial statements have been presented in Euro "€" being the Company's functional currency.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of financial assets held-for-sale and financial assets held for trading.

3 ACCOUNTING POLICIES

Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended standards and interpretations effective as of 1 January 2017.

The following new and revised IFRSs were effective in the current year but had no material impact on the amounts reported in these financial statements, but may impact the accounting for future transactions or arrangements:

IAS 7 Disclosure Initiatives - Amendments to IAS 7

The amendments in Disclosure Initiatives (Amendments to IAS7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective the IASB requires that the following changes in liabilities arising from financing

a) Changes from financing cash flows;

b) Changes from obtaining or losing control of subsidiaries or other businesses;

c) The effect of changes in foreign exchange rates;

d) Change in fair values; and

e) Other changes.

3 ACCOUNTING POLICIES (continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

a) Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expect to recover the carrying amount of the debt by sale of by use.

b) The carrying amount of an asset does not limit the estimation of probably future taxable profits.

c) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

d) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Implementation of the new amendments

The implementation of the new amendments did not have impact on the Company's financial position or performance and became effective for annual periods which started from 1 January 2017.

Early adoption of standards

The Company did not early-adopt any new or amended standards in 2017. The Company will adopt these standards, if applicable, when they become effective:

IAS 40 Transfer of Investment Property - Amendments to IAS 40

The amendments have provided clarification that an entity should transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intention for the use of property does not constitute evidence of a change in use.

The amendments are effective from 1 January 2018.

IFRS 16 Leases

IFRS 16 specifics how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, which requires lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value.

Upon lease commencement a lessee recognises the right-of-use asset and a lease liability.

The objective of the disclosure is for information to provided in the notes that, together with information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives the basis for the users to assess the effect that leases have.

This standard is effective from 1 January 2019.

3 ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments

In 2014, the IASB issued the final version of IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement and supersede all previous versions of IFRS 9. This standard introduces new requirements for classification, measurement, impairment and hedge accounting and is effective from 1 January 2018.

If a financial asset is a simple debt instrument and the objective of the entity's business model is to collect its contractual cash flows, then the financial asset is measured at amortised cost. If the asset is held in a business model which has the objective of collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value and amortised cost information is provided through profit and loss. If it is neither of these, then it is fair valued in both profit and loss and balance sheet.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and features a contract-based five-step analysis of transactions in order to determine whether, how much and when revenue is recognised. This new standard will supersede all current revenue recognition requirements under IFRS, namely IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter of Transactions involving Advertising Services.

The core principle of IFRS is delivered in the five-step model framework:

a) Identify the contract with the customer;

b) Identify the performance obligation in the contract;

c) Determine the transaction price;

d) Allocate the transaction price to the performance obligations in the contract; and

e) Recognise revenue when (or as) the entity satisfies a performance obligation.

This standard is effective from 1 January 2018.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The amendments to IFRS 2 Share-based Payments are to eliminate diversity in three main areas:

a) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;

b) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and

c) The accounting where a modification of the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

This amendment is effective from 1 January 2018.

3 ACCOUNTING POLICIES (continued)

IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 - Amendments to IFRS 4

The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

a) An option that permits entities to reclassify, from profit or loss or other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach");

b) An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 ("the deferral approach").

The application of both approaches is optional and an entity is permitted to stop applying them before a new insurance contracts standard is applied.

IFRS 17 - Insurance Contracts

IFRS 17 was issued in May 2017 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The standard applies to all types of insurance contracts (life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them. It also applies to certain guarantees and financial instruments with discretionary participation features.

The objective of the standard is to ensure that an entity provides relevant information that faithfully represents their insurance contracts. This information gives a basis for users of financial information to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

IFRS17 requires entities to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together.

IFRS 17 is effective from 1 January 2021.

IFRIC 22 - Foreign Currency Transactions and Advance Considerations

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when the entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. The Interpretation need not be applied to income taxes, issuance contracts or reinsurance contracts.

The date of the transaction, for the purpose of determining the exchange rate, is the date of the initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance a date of transaction is established for each payment or receipt.

IFRIC 22 is effective from 1 January 2018.

3 ACCOUNTING POLICIES (continued)

IFRIC 23 - Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for uncertainties in income taxes and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

An entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

An entity has to consider whether it is probable that the relevant taxation authority will accept each tax treatment, or group of tax treatments, that it is used or plans to use in its tax filing. If it believes it is probable that a particular tax treatment is accepted then it must determine taxable profits (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. if it is not probable then an entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profits (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

IFRIC 23 is effective from 1 January 2019.

Use of estimates in preparation of financial statements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. A significant degree of judgement has been used in the determination of the adequacy of provision for outstanding claims and claims incurred but not reported at the reporting date. In addition, the income statement includes estimates for premiums, claims and charges data that were not received from ceding companies at the date of the financial statements.

These estimates are based upon historical information, the directors' best knowledge of current events and actions, industry expert reports and other analytical techniques. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis to take account of new and available information. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Definition of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the ceding company or cedant) by agreeing to compensate the cedant or other beneficiary if a specific uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

3 ACCOUNTING POLICIES (continued)

Gross written premiums

Gross written premium comprises the total premiums receivable for the whole period of cover for contracts entered into during the year, regardless of whether they relate in whole or in part due to a later accounting period. Premiums includes adjustments arising in the accounting period to premiums written in prior accounting periods and also includes an estimate for pipeline premiums. Pipeline premiums are those which are due on business written but not yet notified. The Company generally estimates pipeline premium based upon management's expertise and prior experience.

Premiums relating to the expired risk period are taken as earned and recognised as revenue for the period, while the premium relating to the unexpired risk period is treated as a provision for unearned premium. For proportional treaty business, the unearned premium provision is calculated on a treaty by treaty basis at the reporting date. For non-proportional and facultative business, the unearned premium provision is calculated on a pro-rata basis. For any cases where the underlying business and risk do not justify the above methods, the unearned premium provision is calculated on bases relevant to the risk profile of the insurance contract.

Outward reinsurance premiums

Outward reinsurance premiums relating to earned premiums are recognised as expense in accordance with the insurance services provided. Unearned reinsurance premiums are those proportion of premiums written in a year that relate to periods of risk after the reporting date and are deferred over the term of the reinsurance contract.

Commission income

Insurance policyholders are charged for policy administration services, surrenders and other contract fees. Other fees include reinsurance commissions earned and fronting fees. All fees are recognised as revenue over the period in which the related services are provided. Any fees which relate to services provided in future periods are deferred and recognised in those future periods.

Claims

Claims is comprised of amounts payable to policyholders and related loss adjustment expenses, net of salvage and other recoveries and is charged to the statement of income as incurred. In addition, claims reflect the movements in the provision for outstanding claims, claims incurred but not reported (IBNR), claims incurred but not enough reserved (IBNER) and other claims reserves.

Outstanding claims comprises the provision for the Company's estimated ultimate cost of settling all claims incurred (and related claims handling costs) but unpaid at the reporting date, whether or not these had been reported. These are provided for at their face value.

Provision are also made for claims incurred but not reported at the reporting date based upon the management's judgement and the Company's prior experience.

3 ACCOUNTING POLICIES (continued)

Policy acquisition costs
Policy acquisition costs represent commissions paid to intermediaries and other direct costs incurred in relation to the acquisition and renewal of insurance contracts which are deferred and expensed over the terms of the insurance contracts as to which they relate as premiums are earned.

Interest income
Interest income is included within investment income and is recognised as the interest accrues using the effective interest method. Under this method, the rate used discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend income
Dividend income is included within investment income and is recognised when the right to receive the payment is established.

Intangible assets - computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life of the software.

External costs that are directly associated with the production of identifiable software products which are owned by the Company, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets amortised using the straight-line method over their useful lives.

Financial assets
Financial assets and liabilities are recognised when the Company becomes a party to the contractual provision of the instrument.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. The subsequent measurement of financial assets depends on their classification as follows:

a) Held-to-maturity investments
Held-to-maturity investments are those with fixed or determinable payments with fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold the investment to maturity.

After initial measurement at cost, held-to-maturity investments are subsequently remeasured to amortised cost using the effective interest method, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of held-to-maturity investments are recognised in the profit or loss.

3 ACCOUNTING POLICIES (continued)

Financial assets (continued)

b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. These include assets acquired for generating a profit from short-term fluctuations or securities included in a portfolio in which a pattern of short-term profit-taking exists.

Investments classified as fair value through profit of loss are initially recognised at cost and then are subsequently remeasured to fair value based upon quoted bid prices or dealer price quotations, without any deductions for transaction costs.

All related realised and unrealised gains and losses are included in the profit or loss. Interest earned whilst holding held for trading investments is reported as investment income.

c) Available-for-sale financial investments

Investment securities, be they equity or debt, which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rate, exchange rates or equity prices are classified as available-for-sale and are initially recognised at cost.

Available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and accumulated in the fair value reserve. When the investment is realised or it is deemed to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to the profit or loss.

Impairment of financial assets

An assessment is made of financial assets for objective evidence of impairment at the end of each accounting period. If a financial asset is deemed to have been impaired, the loss is recognised in the profit or loss for the year. Any subsequent recovery of amounts previously written off are credits to profit or loss for the year.

In respect of receivables, objective evidence of impairment arises where there is significant financial difficulty of the counterparty, when there is a default or delay in the interest or principal payments. The impairment calculation is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

For other assets the Company would evaluate other factors, such as normal volatility in share prices for quoted equities and the future cash flows and discount factors for unquoted equities.

3 ACCOUNTING POLICIES (continued)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the asset, the Company retains its retained interest in the asset and an associated liability for amounts it may have to pay.

Insurance receivables

All amounts receivable are initially recognised at fair value. These amounts are assessed for impairment losses at the reporting date. Such assets are deemed as impaired if there is objective evidence, as a result that occurred after the 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 its debtors. The carrying amounts of the assets are reduced by the impairment losses and the impairment losses recognised in the profit or loss for the year.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents, comprise short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Fair values

For financial instruments which are actively traded in organised financial markets, the fair value is determined by the quoted bid price for assets and the offer price for liabilities, at close of business on the financial statements reporting date. If quoted prices are not available then a broker or dealer price quotation can be used.

For financial instruments where there is not an active market, fair value can be determined by using valuation techniques. Such techniques include using recent arm's length transactions, current market value of a another financial instrument which is substantially the same or discounted cash flow analysis. For the discounted cash flow technique, estimated cash flows are based upon management's best estimates and the discount rate used is a market related rate for a similar instrument.

If fair value cannot be measured reliably, the financial instrument should be measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All direct transaction costs directly attributable to the acquisition are also included in the cost of the investment.

3 ACCOUNTING POLICIES (continued)

Financial liabilities
Financial liabilities are classified as other financial liabilities either at fair value through profit or loss "FVTPL" or as other financial liabilities.

Financial liabilities at FVTPL
The Company does not have any financial liabilities classified at FVTPL.

Other financial liabilities
Other financial liabilities includes creditors arising out of reinsurance arrangements, borrowings and other amounts payable. These are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities
The Company derecognises financial liabilities only when the Company's obligations are discharged, cancelled or expire. The condition is met when the liability is settled by paying the creditors, or when the Company is released from the primary responsibility for the financial liability either by process of law or by the creditor.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation.

Functional and presentational foreign currencies
The Company’s financial statements are presented in Euros, which is also the functional currency of the Company. Although the Company conducts its operations in several currencies, in line with IAS 21 revised, the Company has selected the Euro as the common currency.

Translation of foreign currencies
Transactions in foreign currencies are initially translated into the functional currency at the respective exchange rate prevailing at the date of the transaction. Foreign exchange gains or losses on the settlement of those transactions and from the translation at the year end exchange rate of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary assets and liabilities which are measured in terms of historical cost in a foreign currency are translated to the functional currency at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

3 ACCOUNTING POLICIES (continued)

Taxation
The Company is not subject to taxation in its country of tax domicile and receives an annual tax exemption certificate in respect of this.

Dividends
Dividends payable are recognised as a liability in the period in which they are approved by the shareholders.

Comparatives
Where necessary comparatives have been adjusted to conform with changes in presentation in the current year.

Going concern
The Company's forecasts and projections provide the directors with reasonable expectations that the Company has adequate resources to continue in operational existence for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast doubt on the Company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4 INTANGIBLE ASSETS

	Computer software/licences	
	2017	2016
	€	€
Cost		
As at 1 January	1,124,896	1,080,899
Additions	-	43,997
Disposals	-	-
As at 31 December	**1,124,896**	**1,124,896**
Amortisation		
As at 1 January	759,096	669,381
Charge for year	95,214	89,715
Eliminated on disposals	-	-
As at 31 December	**854,310**	**759,096**
Net Book Value	**270,586**	**365,800**

5 INVESTMENTS

	2017	2016
	€	€
Held to maturity		
Fixed rate securities held to maturity*	15,336,001	15,807,212
Available-for-sale		
Unquoted equity investments at cost less impairment losses	3,600,000	4,175,000
	18,936,001	**19,982,212**

* The weighted average effective interest rate on these securities was 1.94% (2016: 1.93%).

6 DEFERRED POLICY ACQUISITION COSTS

	2017	2016
	€	€
As at 1 January	53,618	573,690
Released during the year	(536,825)	(575,689)
Deferred during the year	1,896,500	55,617
As at 31 December	**1,413,293**	**53,618**

7 OTHER ASSETS

	2017	2016
	€	€
Prepayments and accrued income	484,553	478,623
Other assets	895,182	11,320
	1,379,735	**489,943**

8 CASH AND CASH EQUIVALENTS

	2017	2016
	€	€
Cash and bank balances	11,248,523	10,914,011
Bank deposits	11,000,000	11,000,000
	22,248,523	**21,914,011**

The bank deposits, which are primarily denominated in Euro's are made for varying periods between one month to six months (2016: between one month to six months) depending upon the immediate cash requirements of the Company.

9 ISSUED SHARE CAPITAL

	Authorised, issued and fully paid 2017 €	2016 €
24,000 shares of USD 1,000 each (Euro 782 each)	**18,763,200**	**18,763,200**

10 TECHNICAL PROVISIONS

	2017 €	2016 €
Provision for reported claims*	16,903,114	20,827,331
Provision for claims incurred but not reported	32,371	51,745
Provisions for claims incurred but not enough reserved	16,185	25,872
	16,951,670	20,904,948
Unearned premiums**	4,986,323	218,208
	21,937,993	**21,123,156**

*Movement in provision for reported claims:

	2017 €	2016 €
As at 1 January	20,827,331	22,413,269
Claims paid during the year	(3,594,013)	(948,162)
Provision for newly reported claims/adjustments to prior year claims	15,852	1,009,808
Foreign exchange movements	(346,056)	(1,647,584)
As at 31 December	**16,903,114**	**20,827,331**

**Movement in unearned premiums:

	2017 €	2016 €
As at 1 January	218,208	1,681,758
Premiums written	5,968,802	1,034,892
Premiums earned	(1,200,687)	(2,498,442)
As at 31 December	**4,986,323**	**218,208**

11 OTHER LIABILITIES

	2017	2016
	€	€
Trade creditors	1,052,362	252,223
Accrued expenses	193,000	170,000
Loans	104,013	485,802
	1,349,375	**908,025**

12 PREMIUMS

a) Written and earned premiums

	% change	2017	2016
	%	€	€
Gross written premium	477%	5,968,802	1,034,892
Gross earned premium	-52%	1,200,687	2,498,442

b) Written premiums - business analysis

2017	Gross	Reinsurance	Net
	€	€	€
Inward facultative reinsurance	654,288	(41,600)	612,688
Sureties	4,746,165	(69,108)	4,677,057
SME	568,349	-	568,349
	5,968,802	**(110,708)**	**5,858,094**

2016	Gross	Reinsurance	Net
	€	€	€
Inward facultative reinsurance	305,778	-	305,778
Sureties	200,251	(21,802)	178,449
SME	528,863	-	528,863
	1,034,892	**(21,802)**	**1,013,090**

12 PREMIUMS (continued)

c) Written premiums - geographical analysis

2017	Gross	Reinsurance	Net
	€	€	€
Middle East, North Africa and Asia	563,276	(18,774)	544,502
Sub Saharan Africa	3,898,999	(91,934)	3,807,065
Other	1,506,527	-	1,506,527
	5,968,802	**(110,708)**	**5,858,094**

2016	Gross	Reinsurance	Net
	€	€	€
Middle East, North Africa and Asia	250,375	-	250,375
Sub Saharan Africa	294,490	(21,802)	272,688
Other	490,027	-	490,027
	1,034,892	**(21,802)**	**1,013,090**

13 NET CLAIMS INCURRED

The net claims incurred by the Company is analysed into the main classes of business as shown below:

2017	Gross	Reinsurance	Net
	€	€	€
Inward facultative reinsurance	47,920	-	47,920
Sureties	-	-	-
SME	392,020	-	392,020
	439,940	**-**	**439,940**

2016	Gross	Reinsurance	Net
	€	€	€
Inward facultative reinsurance	150,000	-	150,000
Sureties	-	-	-
SME	394,289	-	394,289
	544,289	**-**	**544,289**

14 COMMISSION EARNED

	2017	2016
	€	€
Commission	**772,467**	**143,339**

Commission earned represents set up fees on sureties and administration and other fees charged on sureties, SME and reinsurance ceded.

15 INVESTMENT INCOME/(EXPENSE)

	2017	2016
	€	€
Interest	327,797	405,832
Profit/(loss) on sale of available-for-sale investments	25,000	(9,800,083)
	352,797	**(9,394,251)**

16 ADMINISTRATIVE EXPENSES

	2017	2016
	€	€
Commissions payable	1,066	188,476
Staff costs	150,669	152,500
Legal and professional fees	426,008	688,675
Amortisation of intangible assets	95,214	89,715
Computer, telephone and other office expenses	48,422	30,663
Bank charges and other fees	15,817	8,582
Loan interest	3,989	15,859
Other expenses	27,360	31,315
	768,545	**1,205,785**

17 NOTE TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit/(loss) for the year to net cash (outflow)/inflow from operations:

	2017	2016
	€	€
Profit/(loss) for the year	492,293	(8,621,407)
Adjustments for:		
Depreciation	95,214	89,715
Interest income	(327,797)	(405,832)
Loss on sale of available-for-sale investments	(25,000)	9,800,083
Interest expense	3,989	15,859
Working capital changes:		
Insurance receivables	(305,926)	2,079,606
Deferred policy acquisition costs	(1,359,675)	520,072
Other assets	(1,239,242)	151,797
Technical provisions	814,837	(3,583,492)
Other liabilities	823,139	69,648
Net cash (outflow)/inflow from operations	**(1,028,168)**	**116,049**

18 RISK MANAGEMENT

The risks faced by the Company and the way these are mitigated by management are summarised below:

Insurance risk

Insurance risk includes the risk of inappropriate underwriting, ineffective management of underwriting, inadequate controls over exposure management in relation to catastrophic events and insufficient reserves for claims incurred but not reported.

The Company has developed a detailed underwriting manual covering risk acceptance criteria, pricing, authority levels, and reinsurance protection amongst others. It guides the underwriters in their acceptances, on the principals of prudence and professionalism within the overall objective of diversifying the types of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The priority is to ensure adherence to the criteria for risk selection by maintaining high levels of experience and expertise among the underwriting staff.

Loss reserve estimates are inherently uncertain. Reserves for unpaid losses are the largest single component of the liabilities of the Company. Actual losses that differ from the provisions, or revisions in the estimates, can have a material impact on future earnings and the statement of financial position. The Company ensures that the provision is constantly reviewed and monitored in conjunction with the underwriting and claims teams to ensure it is adjusted to reflect changes in exposure and loss experience.

In order to diversify risks and mitigate the risk of catastrophic loss, the Company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. This allows the Company to control exposure to potential losses from large risks, provides for greater diversification of business and provides additional capacity for growth. Prior to renewing any annual reinsurance business, the Company carries out a detailed review of the financial stability of the reinsurer. Therefore the Company ensures that reinsurance is placed only with a select group of financially secure and experienced companies in the industry.

18 RISK MANAGEMENT (continued)

Financial risk

In the normal course of business, the Company uses primary financial instruments such as cash and cash equivalents, bonds, equities and receivables.

The Company does not enter into derivative contracts.

As a result of the financial instruments held by the Company, it is subject to various market risks including interest rate risk, foreign currency risk, credit risk, market price risk and liquidity risk. The Company maintains detailed guidelines within the accounting and administrative procedures manuals. These guidelines provide the framework for the investing activities and set specific limits and benchmarks for the acceptable levels of counterparty exposure, concentration, credit risk, currency risk, liquidity risk and interest rate risk, among others.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to credit risk primarily from unpaid insurance receivables and fixed income investments.

Credit risk relating to unpaid insurance receivables is mitigated by the large number of cedants and their wide geographical dispersal. The Company has in place credit appraisal policies and procedures in respect of these receivables and monitors them on a regular basis to restrict the Company's exposure to bad debts. Credit terms are also strictly monitored to keep balances as current as possible.

The Company's portfolio of fixed income investments is managed in accordance with prescribed credit rating and counterparty exposure guidelines.

Reinsurance and fixed income investments are monitored for the occurrence of a downgrade or other changes that might cause them to fall below the Company's security standards. If this occurs, management takes appropriate action to mitigate any loss to the Company.

The Company's bank balances are maintained with a range of international and local banks in accordance with the limits set by the board of directors.

18 RISK MANAGEMENT (continued)

Financial risk (continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with insurance contracts and other financial liabilities as and when they fall due.

The Company's investment guidelines prescribe minimum levels of financial assets to be held in cash and cash instruments. These are continually monitored to ensure that the Company can meet its liquidity requirements.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments:

	Less than 1 year	More than 1 year	Total
	€	€	€
2017			
Gross outstanding claims	2,834,746	14,116,924	16,951,670
Gross unearned premiums	1,388,967	3,597,356	4,986,323
Other liabilities	1,349,375	-	1,349,375
TOTAL LIABILITIES	**5,573,088**	**17,714,280**	**23,287,368**

	Less than 1 year	More than 1 year	Total
	€	€	€
2016			
Gross outstanding claims	4,241,191	16,663,757	20,904,948
Gross unearned premiums	143,420	74,788	218,208
Other liabilities	422,223	485,802	908,025
TOTAL LIABILITIES	**4,806,834**	**17,224,347**	**22,031,181**

18 RISK MANAGEMENT (continued)

Financial risk (continued)

b) Liquidity risk (continued)

Maturity analysis of assets and liabilities

The table below shows analysis of assets and liabilities according to when they are expected to be recovered or settled:

	Less than 1 year €	More than 1 year €	No term €	Total €
2017				
ASSETS				
Intangible assets	-	270,586	-	270,586
Investments	-	15,336,001	3,600,000	18,936,001
Deferred policy acquisition costs	273,062	1,140,231	-	1,413,293
Insurance receivables	6,397,125	4,565,213	-	10,962,338
Other assets	702,495	677,240	-	1,379,735
Cash and cash equivalents	22,248,523	-	-	22,248,523
TOTAL ASSETS	**29,621,205**	**21,989,271**	**3,600,000**	**55,210,476**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	-	-	18,763,200	18,763,200
Retained earnings	-	-	13,159,908	13,159,908
TOTAL EQUITY	**-**	**-**	**31,923,108**	**31,923,108**
LIABILITIES				
Gross outstanding claims	2,834,746	14,116,924	-	16,951,670
Gross unearned premiums	1,388,967	3,597,356	-	4,986,323
Other liabilities	1,349,375	-	-	1,349,375
TOTAL LIABILITIES	**5,573,088**	**17,714,280**	**-**	**23,287,368**
TOTAL EQUITY AND LIABILITIES	**5,573,088**	**17,714,280**	**31,923,108**	**55,210,476**

18 RISK MANAGEMENT (continued)

Financial risk (continued)

b) Liquidity risk (continued)

Maturity analysis of assets and liabilities

The table below shows analysis of assets and liabilities according to when they are expected to be recovered or settled:

	Less than 1 year	More than 1 year	No term	Total
	€	€	€	€
2016				
Intangible assets	-	365,800	-	365,800
Investments	-	15,807,212	4,175,000	19,982,212
Deferred policy acquisition costs	37,516	16,102	-	53,618
Insurance receivables	3,155,575	7,500,837	-	10,656,412
Other assets	143,585	346,358	-	489,943
Cash and cash equivalents	21,914,011	-	-	21,914,011
TOTAL ASSETS	**25,250,687**	**24,036,309**	**4,175,000**	**53,461,996**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	-	-	18,763,200	18,763,200
Retained earnings	-	-	12,667,615	12,667,615
TOTAL EQUITY	**-**	**-**	**31,430,815**	**31,430,815**
LIABILITIES				
Gross outstanding claims	4,241,191	16,663,757	-	20,904,948
Gross unearned premiums	143,420	74,788	-	218,208
Other liabilities	422,223	485,802	-	908,025
TOTAL LIABILITIES	**4,806,834**	**17,224,347**	**-**	**22,031,181**
TOTAL EQUITY AND LIABILITIES	**4,806,834**	**17,224,347**	**31,430,815**	**53,461,996**

18 RISK MANAGEMENT (continued)

Financial risk (continued)

c) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company holds both assets and liabilities in different currencies and therefore is exposed to the risk of exchange rate movements associated with assets and liabilities matching. Although the Company does not apply hedging techniques to mitigate its currency risk, it does ensure that the net exposure to this risk is mitigated by constantly monitoring the net exposure to this risk is within acceptable levels.

The tables below show the various currencies in which the Company's assets and liabilities were denominated at 31 December 2017 and 2016:

	EUR	GBP	Other	Total
	€	€	€	€
2017				
ASSETS				
Intangible assets	270,586	-	-	270,586
Investments	18,936,001	-	-	18,936,001
Deferred policy acquisition costs	1,413,293	-	-	1,413,293
Insurance receivables	3,643,997	4,620,131	2,698,210	10,962,338
Other assets	1,379,735	-	-	1,379,735
Cash and cash equivalents	21,323,999	10,283	914,241	22,248,523
TOTAL ASSETS	**46,967,611**	**4,630,414**	**3,612,451**	**55,210,476**
LIABILITIES				
Gross outstanding claims	206,872	15,466,546	1,278,252	16,951,670
Gross unearned premiums	4,986,323	-	-	4,986,323
Other liabilities	566,638		782,737	1,349,375
TOTAL LIABILITIES	**5,759,833**	**15,466,546**	**2,060,989**	**23,287,368**
NET POSITION	**41,207,778**	**(10,836,132)**	**1,551,462**	**31,923,108**

18 RISK MANAGEMENT (continued)

Financial risk (continued)

c) Foreign currency risk (continued)

The tables below show the various currencies in which the Company's assets and liabilities were denominated at 31 December 2017 and 2016:

	EUR	GBP	Other	Total
	€	€	€	€
2016				
ASSETS				
Intangible assets	365,800	-	-	365,800
Investments	19,982,212	-	-	19,982,212
Deferred policy acquisition costs	53,618	-	-	53,618
Insurance receivables	3,470,131	6,720,866	465,415	10,656,412
Other assets	489,943	-	-	489,943
Cash and cash equivalents	21,912,290	1,581	140	21,914,011
TOTAL ASSETS	**46,273,994**	**6,722,447**	**465,555**	**53,461,996**
LIABILITIES				
Gross outstanding claims	7,446,971	11,387,346	2,070,631	20,904,948
Gross unearned premiums	218,208	-	-	218,208
Other liabilities	902,157	4,712	1,156	908,025
TOTAL LIABILITIES	**8,567,336**	**11,392,058**	**2,071,787**	**22,031,181**
NET POSITION	**37,706,658**	**(4,669,611)**	**(1,606,232)**	**31,430,815**

Key to currency abbreviations:
EUR - Euro; GBP - United Kingdom Pounds; Other includes United States Dollars, Israeli Shekels and other currencies.

18 RISK MANAGEMENT (continued)

Financial risk (continued)

d) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or fair values of financial instruments.

The Company is exposed to this risk on its fixed income portfolio and cash and cash equivalents. The Company limits this risk by monitoring changes in interest rates in the currencies in which the fixed income portfolio and cash and cash equivalents are denominated. Additionally to mitigate the effect of price volatility is actively manages the duration of the portfolio.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Company's profit for the year, based on the floating rate financial assets and liabilities held at 31 December:

	Increase/ decrease in basis points	Effect on profit for the year (€)
2017	+50	55,000
	-75	(82,500)
2016	+50	55,000
	-75	(82,500)

e) Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Company does not apply hedging techniques to minimise this risk but has in place investment guidelines on the limits of stocks, industry and sectors and actively monitors developments in the equity markets and the potential impact on the portfolio.

19 RELATED PARTY TRANSACTIONS

The Chairman and CEO, Mr Shay Reches, holds the majority of the share capital (approximately 65%) and therefore controlling interest in the Company. Except for his contractually due remuneration for the services provided as a Director and expenses reimbursed in line with Company policy, Mr Reches received no other benefit from the Company.

As at 31 December 2017, the Company had an outstanding loan due to Klapton Management Limited, a shareholder in the Company, of €104,013 (2016: €485,802), which loan expires on 31 December 2020. During 2017, interest of €3,989 (2016: €15,859) was paid in respect of this loan.

During 2017 the Company received management and administrative services from Global Ridgeway Management Limited of €Nil (2016: €186,377) which is a sister company of Klapton Management Limited. Additionally, management and administrative service fees of €274,324 (2016: €115,890) were paid to Klapton Management Limited.

20 CONTINGENT LIABILITIES

There are no material contingent liabilities in respect of pending litigations involving the Company for which no provision have been made in these financial statements.

21 POST BALANCE SHEET EVENTS

There have been no material events between 31 December 2017 and the date of this report which are required to be disclosed.