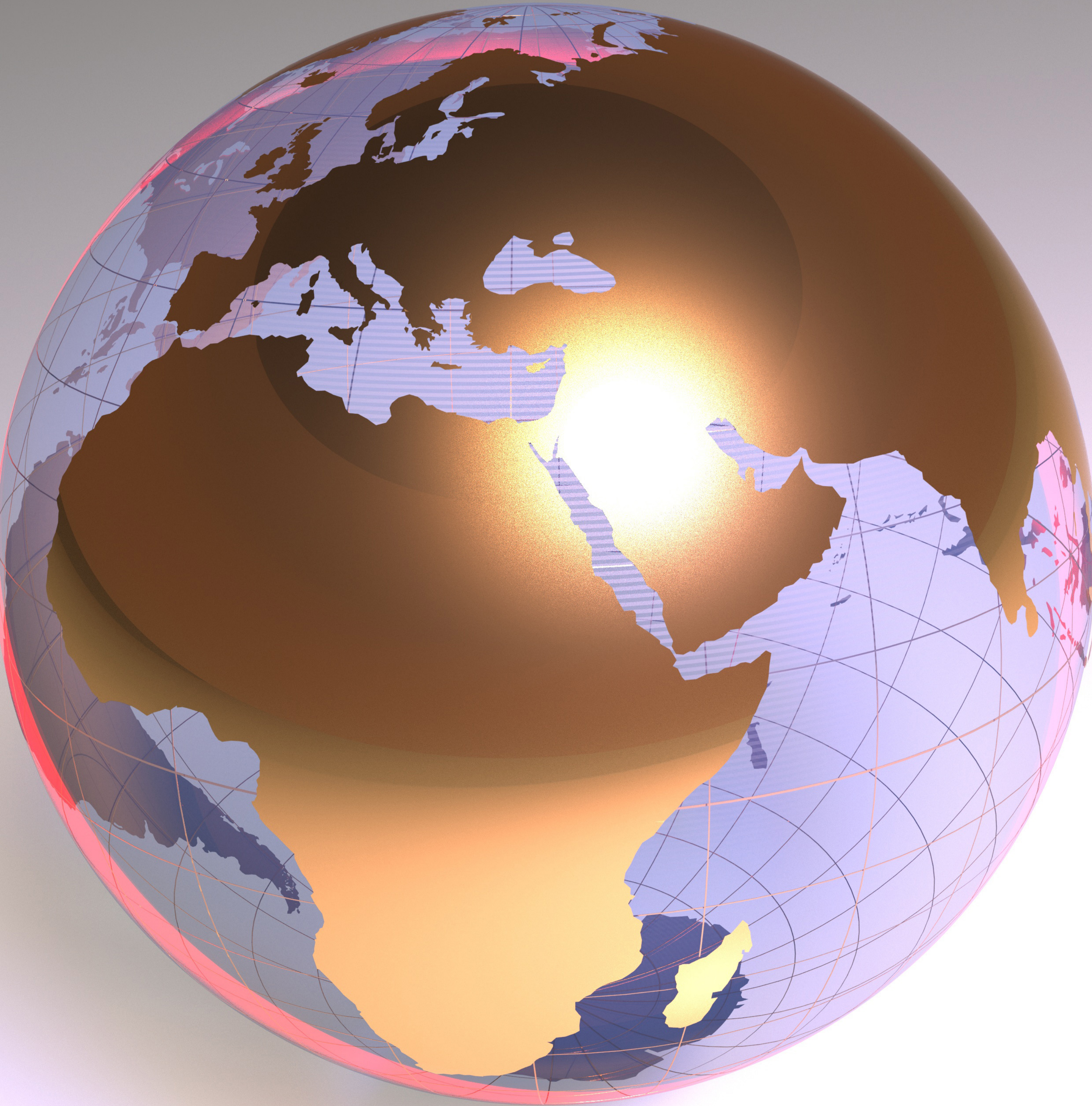
Klapton

Klapton Insurance Company Limited



Annual Report & Accounts 2016

Registered Number L2001

WWW.KLAPTON.COM

Klapton

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Klapton Insurance Company Limited

Annual Report & Financial Statements

31 December 2016

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.

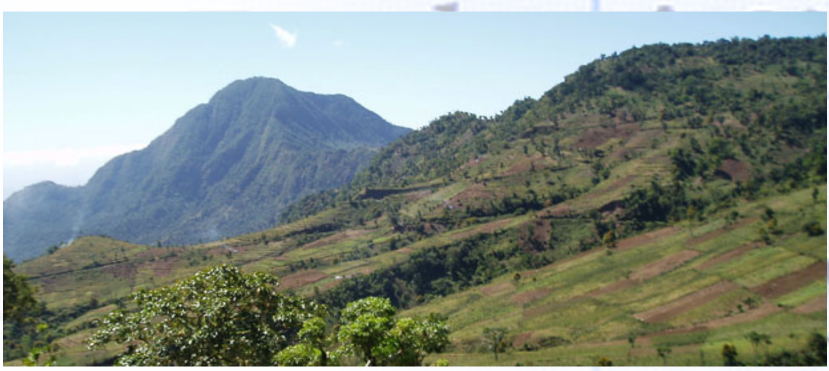
Klapton underwrites a diversified worldwide portfolio, focused on two core lines:

- 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.

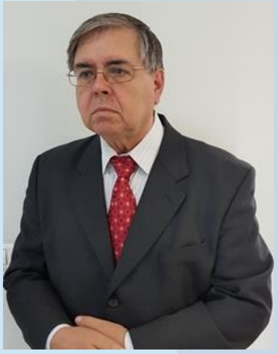
Klapton has focused its risk appetite to more specific niche surety products, where Klapton sees its future growth.

Klapton has assets in excess of €53m as at 31 December 2016.



Klapton

Board of Directors and Key Staff:



Mr Shay Reches
Chairman and CEO

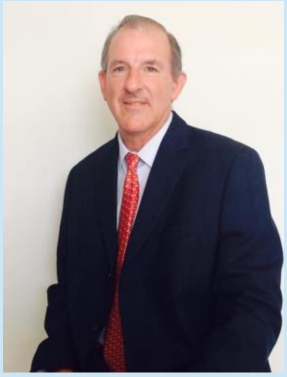
Mr Reches brings 40 years of insurance and reinsurance industry experience. His main focus of activity during that time has been in the African market, both in the insurance and credit industries.

Mr Reches is the majority owner of Klapton.

Mr Rob Bygrave
CFO and Director

Mr 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.



Mr Jerry Pinkus
Reinsurance Director

Mr. 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.

He is also CEO of Rocket Science, an IT consultancy and consultant technologist for Imaginar.

Letter From the Board of Directors

It is our pleasure to present the 2016 Annual Report of the Board of Directors for Klapton Insurance Company Limited and the financial statements for 2016, which includes the statement of financial position at 31 December 2016 and the statement of income for the financial year.

Strategic review of the year

The Board of Directors are pleased to announce a profitable underwriting result for 2016 in spite of continued challenging market conditions and downward pressures on rates.

Gross written premium for 2016 declined significantly from 2015. However this decrease in premium income was as a result of a conscious decision by management to withdraw their support for reinsurance treaty business in 2016. Reinsurance treaty business contributed €6.7m in premiums in 2015 and therefore explains primarily the drop in 2016 as the business focus is now on three main lines, being sureties and bonds, facultative reinsurance, and the relaunch of direct sales liability covers through the online portal.

Gross claims paid during the year amounted to €1.0m compared to €4.7m in 2015. The claims experience for 2016 was benign with no significant claims for catastrophic losses or large losses being received. The Board attributes this fall in claims to be a direct result of the continued tightening in underwriting discipline.

Klapton also kept administrative expenses within budgeted levels and more importantly kept them aligned to the volume of activity, managing a 41% fall in administrative expenses on 2015.

The net loss for the year was a direct result of losses suffered on investment write-downs in 2016. In February 2016, Klapton was made aware that one of its available-for-sale investments had entered administration, so the Board took the decision to write this investment down to zero. Further correspondence from the liquidator has confirmed the expectation that there will be no proceeds distributed to investors. The Board have reviewed the investment portfolio and are confident of the performance of the remaining assets.

As mentioned earlier, the focus of Klapton's strategy is building the three main lines of business, sureties and bonds, direct liability covers and facultative reinsurance. Over the course of 2016, the direct sales liability covers program was relaunched following the redevelopment of the online sales platform and rebranded as KlaptonOnline. Additionally significant IT development work has been carried out on the main website which was completed early in 2017.

Finally, the Board is pleased to announce that Klapton received its first rating in 2016 from the South African agency, Global Credit Rating, part of the Carlyle Group. The credit rating received was B- (stable), international scale.

Letter From the Board of Directors (continued)

Overview of the insurance markets in 2016

There was slower growth in the global demand for non-life insurance in 2016 than in 2015, in both the advanced and emerging markets. Global non-life premiums increased by 2.4% compared to 3.0% in 2015. In the advanced countries, premium growth slowed from 1.7% in 2016 from 2.5% in the previous year due to a combination of pricing pressures and weaker economic growth. In the emerging markets, premiums grew by 5.3% in 2016 which was a slight increase in previous years. In Klaptons key markets, there was strong growth in MENA of around 9% , however SSA suffered from minimal or even negative developments in the larger countries in 2016.

2016 saw a significant rise in the year in the insurance market in terms of natural catastrophic losses. Global insured losses from natural catastrophies and man-made disasters were US$54 billion, a 42% increase on 2015. The natural catastrophies figure was $44bn which is still in line with the 10 year average, whereas man made disasters at $10bn fell from $12bn in 2015.

There were large-scale disaster events across all regions in 2016, including earthquakes in Japan, Ecuador, Tanzania, Italy and New Zealand. In Canada a wildfire turned out to be the country's biggest insurance loss event ever and the second most costly wildfire event on records globally. In addition, Hurricane Matthew, which was the first Category 5 storm to form over the North Atlantic since 2007 caused the largest loss of life from a single event, with over 700 people dying, largely in Haiti.

The non-life reinsurance industry had it’s fifth consecutive year of strong underwriting results. However due to the increase in catastrophe events as outlined above, the expected combined ratio is estimated to be 93-94% which is a small increase from previous years.

The continued low-yield investment environment remains incredibly challenging for both insurers and reinsurers. Across the industry, the annualised investment yield grew slightly to 3.5% for 2016. This is made up from 2.6% from investment income and 0.9% from capital gains. As in previous years, it is underwriting results which remain the primary profit source for non-life insurers. Due to the rise in the combined ratio, RoE for the non-life reinsurance sector is expected to fall from 12% in 2015 to 9% in 2016.

There has been increasing demand in the reinsurance market for non-traditional or customised reinsurance solutions, as insurance companies have been increasing their retention of standard re/insurance risks and seeking more strategically motivated reinsurance solutions. The trend of global insurers to centralise the purchase of reinsurance across lines of business and territories has led to higher limits and retentions. The desire for strategic reinsurance programs has been driven by a combination of factors including insurance company consolidations/mergers, the globalisation of risks, technological innovations and regulatory reforms. The use of strategic reinsurance programs are customised to provide more efficient risk protection and to assist insurers to optimize their capital management.

Letter From the Board of Directors (continued)

Insurance markets outlook for 2017 and 2018

It is the expectation that global premiums in non-life reinsurance will grow in real terms in 2017, largely due to emerging markets. Global non-life premium growth is anticipated to be slightly weaker in 2017 at 2.2% compared to 2.4% in 2016. This growth factor is then thought likely to improve to 3.0% in 2018. The premium growth in emerging markets should grow from 5.3% in 2016 to 5.7% in 2017 and then to 6-7% in 2018. Although the pricing outlook remains challenging due to abundant capital, the momentum of rate softening has slowed. Factors affecting the hardening of rates include the insufficiency of capital reserves as they wear thin from years of releases, stricter capital requirements and solvency regulations and increased volatility in capital markets.

One area which is expected to see high growth over the next decade is cyber insurance. Against a backdrop of a number of high profile attacks, cyber risk is a growing concern for companies, and a significant number expect both the severity and frequency of cyber attacks to increase over the next 10 years. These concerns are no longer simply confined to coping with lost or corrupted data but reputational damage and business interruption. Worldwide cyber premiums have grown by 30-40% per annum since 2010, with the size of the market reaching $2bn in 2015.

In the advanced markets it is expected that growth will be driven from a decline in the rate pressures. Additionally growth is expected to be driven as a result of increasing solvency regulations, for example the changes to Solvency II make reinsurance more attractive to European insurers due to the risk mitigating factors of reinsurance. Across Africa, regulations are being enacted to implement a risk-based capital regime. In particular, South Africa is moving to a Solvency II type regime in early 2017. In Kenya, the Insurance Regulatory Authority launched its Risk Based Framework in June 2016 which will see strengthened risk management systems and better capital management.

Total insurance premiums in emerging markets grew by 5.3% in 2016, with the expectation that these will grow by up to 6-7% in both 2016 and 2017. Emerging Asia is likely to see the strongest annual growth of 8% in 2016 and 9% 2017. As a consequence of the stabilisation of commodities prices, the expectation is that premium growth will return to both Latin America and SSA of up to 4% in 2017. MENA is anticipated to see growth levels of 5% in 2017 and 2018. Factors which affect the growth in emerging markets premiums include the rising middle class, stronger regulatory and economic frameworks, and increasing interest in such products as critical illness covers.

Underwriting profitability in non-life insurance is expected to decline in 2017 and 2018, if the assumption is that natural catastrophe losses remain at historical levels and the reserve releases begins to slow down. Investment income has been weak for a long time and is not expected to recover quickly, however interest rates are expected to start to rise, which will drag up investment income though there will be a lag before this occurs.

Klapton

Letter From the Board of Directors (continued)

The global economy in 2016 and outlook for 2017/18

Global economic growth over the next two years is expected to be moderate. The forecasts of the International Monetary Fund (IMF) is that growth will rise from 3.1% in 2016 to 3.4% in 2017. The World Bank has forecast growth rates of 2.8% in 2017 and 3.0% in 2018. These forecasts are supported by the expected growth in the larger emerging markets of Brazil and Russia, together with the benefits of improving oil and metals prices encouraging growth in the commodity-exporting countries.

In the US the growth rate was just above 2% in 2016, with the expectation that this will increase by 2.2% in 2017. The Trump victory in the US presidential campaign is likely to lead to significant policy changes from the previous administration. However given the uncertainty that exists over the enactment of these policies it is hard to quantify the extent of their impact on the economy and they may not impact until 2018-2019.

The growth in Europe was moderate in 2016 and the Euro zone is forecast to slow from 1.6% to 1.4% in 2017. In particular the UK will be negatively impacted by its exit from the European Union, however the timing of this impact is difficult to forecast. Over this period of uncertainty, employers will relocate jobs from the UK which will hamper growth. On the flip side, the pound has weakened which has benefited exports from the UK. The Bank of England will have to strike a balance between supporting growth and preventing inflation due to the weak pound, but the expectation is that rates are unlikely to rise in the near term.

Japan continues to maintain a low growth rate, with the forecast of between 0.5% and 1.0%. It is expected that the Bank of Japan will deploy further quantitative easing to stimulate lending.

The growth in emerging Asian markets is expected to remain robust in both 2017 and 2018. This is partly reflected in the success of China in stabilising its economy and containing credit risks. China reported economic growth of over 6.0% in 2016 due to strong public investment and solid consumer spending. However there is still high credit risk due to significant corporate leverage, particularly as in 2017 a large number of bonds mature and will have to be redeemed or rolled over.

The performance in Central and Eastern Europe (CEE) was stronger as the performance in Russia improved from a -4% contraction to a -1% contraction, together with other CEE non-EU countries largely due to higher oil prices. There has been slower growth in CEE EU members and the risks have increased due to Brexit as these countries have a significant trade exposure to the UK, together with reduced remittances from CEE citizens working in the UK due to the weak pound.

Letter From the Board of Directors (continued)

Focus on MENA and SSA

MENA countries have had a difficult 2016, the oil importing countries have had low growth, but the low oil prices have impacted the oil exporting countries. Other factors have negatively impacted the region which include a deterioration in the security situation, political uncertainty and rising uncertainty about financial stability after the Brexit vote.

The outlook for MENA is mixed and it is difficult to accurately forecast with any certainty because of the fluctuation in oil prices and the threat of regional conflicts. Structural transformations are needed across the region to raise medium-term prospects and create jobs.

In the UAE the economy will be boosted by the start of large-scale investment projects in the build up to Expo 2020. However both Algeria and Saudi Arabia face a challenge from the prolonged oil price depression which has impacted on government spending and investment, it may ease with a rise in oil prices in 2017. Both of these countries used reserves to fund their current account deficits, while others drew assets from their sovereign wealth funds. Privatisation and structural reforms to increase participation by foreign investors in the region will support capital inflows - for example Saudi Arabia announced it's intention to sell a stake in Aramco to ease access for foreign investors. Turkey faces risks from the geopolitical uncertainty, but this is partly expected to offset by growth from government stimulus.

The overall GDP growth in SSA was the lowest for twenty years at 1.5%, falling from 3.5% in the previous year. As in previous years, the growth patterns in SSA are split between the commodities and non-commodities intensive markets. Non-commodities markets such as Cote d'Ivoire, Ethiopia, Kenya and Senegal continue to deliver solid-to-strong growth as they benefit from lower oil import prices, an improved business environment and continued strong infrastructure investment. In contrast however commodity exporters are under severe economic strain, including the regions three largest countries, South Africa, Nigeria and Angola are growing slowly or are even in recession due to the continued low commodity prices.

In the face of strong financial and political pressures, the policy response in many of the hardest-hit countries has been slow and piecemeal, with stopgap measures such as central bank financing and the accumulation of arrears. Exchange rates have only been adjusted with reluctance which has resulted in strong pressure on deposits and foreign exchange reserves. The delays have deterred investment and stifled new sources of growth.

The prediction for 2017 is a modest recovery in growth to almost 3%, however that is dependent upon prompt action to address large macroeconomic imbalances and policy uncertainty in some of the regions largest economies. Additionally those countries which are performing well must use their high growth to rebuild buffers while times are still comparatively favourable but strike a balance between development spending and debt sustainability.

Letter From the Board of Directors (continued)

Outlook for 2017 for Klapton

Looking forward into 2017, we intend to continue our focus on significantly growing our three main sources of revenue, sureties and bonds, online direct sales and facultative reinsurance in line with our business forecasts. Whilst we accept that this will be difficult to achieve in the challenging environment in which we operate (particularly in light of the MENA and SSA market issues outlined above) we are confident that this can be met. To achieve this we continue to make staff recruitments, both at senior and Board level where we look to increase both our Executive and Non-Executive members throughout 2017.

One of our key focuses in on evolving our Corporate Governance culture to ensure that it matches the required standards in modern international and peer companies. The Corporate Governance committees are being established and further details of this can be found later in this report.

Klapton is also committed to improving the credit rating it received from GCR and is actively working through their recommendations to achieve this change in 2017.

We would like to extend a thank you to all our clients and producers for their continued support throughout 2016. We would also like to thank our employees for their dedication, effort and contribution this year. We look forward to working together in 2017 as we enter the next phase of growth consistent with the philosophy, visions and ambitions of Klapton.

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).

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.

Klapton

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.

Klapton

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.

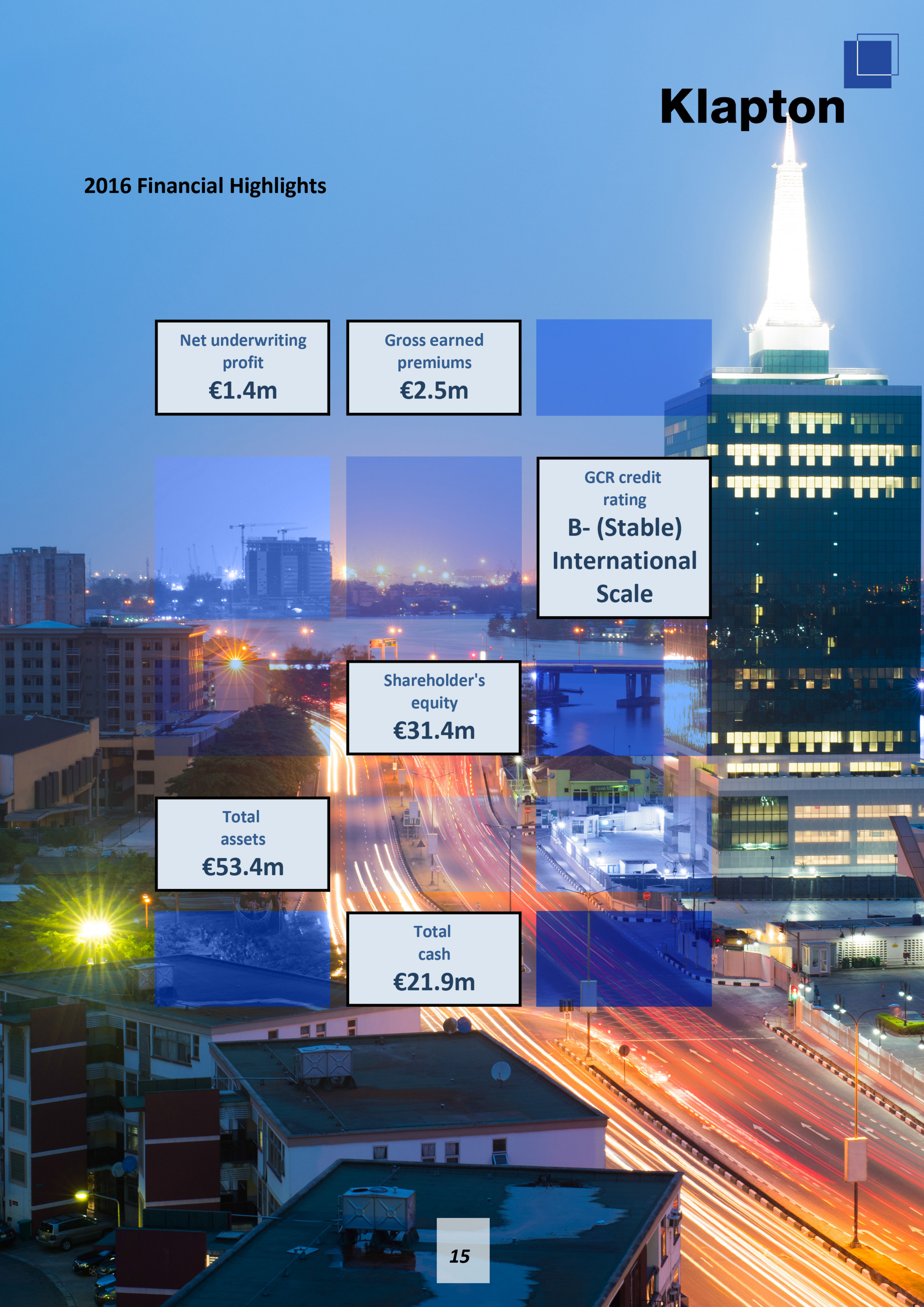
The Directors accept responsibility for preparing the financial statements in accordance with International Financial Reporting Statements and the applicable provisions of the Offshore Finance Authority. They also accept responsibility for such internal controls as the Directors deem necessary to enable 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

Klapton

2016 Financial Highlights



Net underwriting profit
€1.4m

Gross earned premiums
€2.5m

GCR credit rating
B- (Stable) International Scale

Shareholder's equity
€31.4m

Total assets
€53.4m

Total cash
€21.9m

Klapton

ILE AUTONOME D'ANJOUAN

UNION DE COMOROS

Solidarite - Justice - Travail

Klapton Insurance

31st July 2017

Audit Department

To

Members of Klapton Insurance Company Limited:

The Audit Department of the Offshore Finance Authority audited the financial statements of Klapton Insurance Company Limited (The Company") for the year ended 31 December 2016 which comprise the statement of financial position, the statement of income, the statement of cash flows and the related notes numbered 1 to 21.

Director's responsibility for the financial statements

The Company's directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the applicable provisions of the Anjouan Offshore Finance Authority.

Audit Department's responsibility

Our responsibility is to review the financial statements based on our standards and review. WE have conducted our review in accordance with applicable law and standards. Those standards require us to comply with ethical requirements local laws and regulations to obtain reasonable assurance whether the financial statements are free from material misstatement.

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OFFSHORE FINANCE AUTHORITY
ILE AUTONOME D'ANJOUAN
UNION DES COMORES
LE DIRECTOR GENERAL

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its profit and cash flows for the year then ended in accordance with legal and regulatory standards.

Opinion on other matters

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OFFSHORE FINANCE AUTHORITY
ILE AUTONOME D'ANJOUAN
UNION DES COMORES
LE DIRECTOR GENERAL

Head of Audit Department

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Tel: +269 349 1321
Fax: + 269 771 1815

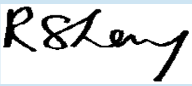
Statement of Financial Position

As at 31 December 2016

Klapton

	Notes	2016 €	2015 €
Assets			
Intangible assets	*4*	365,800	411,518
Investments	*5*	19,982,212	29,690,697
Deferred policy acquisition costs	*6*	53,618	573,690
Insurance receivables		10,656,412	12,736,018
Other assets	*7*	489,943	797,740
Cash and cash equivalents	*8*	21,914,011	21,909,827
Total assets		**53,461,996**	**66,119,490**
Equity and Liabilities			
Equity			
Issued share capital	*9*	18,763,200	18,763,200
Retained earnings		12,667,615	21,289,022
Total equity		**31,430,815**	**40,052,222**
Liabilities			
Technical provisions	*10*	21,123,156	24,706,648
Other liabilities	*11*	908,025	1,360,620
Total liabilities		**22,031,181**	**26,067,268**
Total Equity and Liabilities		**53,461,996**	**66,119,490**

The financial statements were approved by the board of directors and authorised for issue on 31 July 2017 and they were signed on its behalf by:



S J Reches
Director
31 July 2017

The notes on pages 21 to 46 form part of these financial statements.

Statement of Income

For the year ended 31 December 2016

Klapton

	Notes	2016 €	2015 €
Gross written premiums	12	1,034,892	8,201,409
Change in unearned premiums		1,463,550	1,230,503
Gross earned premiums		**2,498,442**	**9,431,912**
Less premiums ceded	12	(21,802)	(1,048,485)
Net earned premiums	12	**2,476,640**	**8,383,427**
Net claims incurred	13	(544,289)	(4,043,148)
Commissions earned	14	143,339	-
Acquisition expenses	6	(664,045)	(2,355,445)
Net underwriting result		**1,411,645**	**1,984,834**
Investment (expense)/income	15	(9,394,251)	378,014
Administrative expenses	16	(1,205,785)	(2,065,242)
Net foreign exchange profit/(loss)		566,984	(263,531)
Profit for the year		**(8,621,407)**	**34,075**

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

Statement of Cash Flows

For the year ended 31 December 2016

Klapton

	Notes	2016 €	2015 €
Net cash inflow/(outflow) from operating activities	17	**116,049**	**(3,555,190)**
Cash outflow from investing activities			
Purchase of intangible fixed assets		(43,997)	-
Proceeds from maturity of held to maturity investments		773,024	5,175,000
Purchase of held to maturity investments		(4,539)	(8,513,146)
Proceeds from sale of available-for-sale investments		17,500	-
Purchase of available-for-sale investments		(675,000)	-
Interest income		359,249	230,947
Net cash inflow/(outflow) from investing activities		**426,237**	**(3,107,199)**
Cash outflow from financing activities			
Repayment of loan financing		(522,243)	(167,555)
Interest expense		(15,859)	(20,902)
Net cash outflow from financing activities		**(538,102)**	**(188,457)**
Net increase/(decrease) in cash and cash equivalents		**4,184**	**(6,850,846)**
Cash and cash equivalents at the beginning of the year		21,909,827	28,760,673
Cash and cash equivalents at the end of the year		**21,914,011**	**21,909,827**

The notes on pages 21 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 2016.

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:

Amendments to IAS 27 and IFRS 1

The IASB issued Equity Method in Separate Financial Statements (Amendments to IAS 27) on 12 August 2014. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

As a consequence of the change to IAS 27, an amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. This amendment allows a first-time adoptor accounting for investments in it's separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

IFRS 7 Financial Instruments: Disclosures: Servicing Contracts

The amendments provides clarification on whether servicing agreements constitute continued involvement in the financial asset, which would then require disclosure on that financial asset in the financial statements.

3 ACCOUNTING POLICIES (continued)

IAS 1 Presentation of Financial Statements - Amendments to IAS 1

These amendments clarify:

- Materiality;

    a) information should not be obscured by aggregation or providing immaterial information;

    b) materiality considerations apply to all parts of the financial statements; and

    c) even when a standard requires a specific disclosure, materiality considerations do apply.

- Statement of financial position and statement of profit or loss and other comprehensive income;

    a) Introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;

    b) Clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will be subsequently reclassified to profit or loss.

- Notes. The amendments add additional examples of possible ways of ordering the notes to clarify the understandability and comparability should be considered when determining the order of notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

IFRS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

This amendment clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits of an intangible asset, apart from two circumstances:

a) The intangible asset is expressed as a measure of revenue; and

b) The revenue and consumption of the intangible asset are highly correlated.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

An asset can be disposed of either through sale (i.e. an Initial Public Offering) or to spin off and then distribute the proceeds as dividends to shareholders. The amendments clarifies that a change between these methods does not constitute a new plan of disposal.

3 ACCOUNTING POLICIES (continued)

IFRS 34 Interim Financial Reporting

The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report". Amendments are proposed to paragraph 16A of IAS 34 to clarify the meaning of disclosure of information "elsewhere in the interim financial report" and require the inclusion of a cross-reference from the interim financial statements to the location of this information.

IFRS 11 Accounting for Acquisitions of Interest in Joint Operations

This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Therefore an joint operator that is an acquirer of such an interest has to;

a) measure most identifiable assets and liabilities at fair value;

b) expense acquisition-related costs (other than debt or equity issuance costs);

c) recognise deferred taxes;

d) recognise any goodwill or bargain purchase gain;

e) perform impairment test for the cash generating units to which goodwill has been allocated;

f) disclose information required relevant for business combinations.

The amendments apply to the acquisition of a interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

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 2016.

Early adoption of standards

The Company did not early-adopt any new or amended standards in 2016. 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.

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 16 Leases

IFRS 15 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)

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 activities are disclosed:

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.

The amendments are effective for annual periods beginning on or after 1 January 2017. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

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.

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.

3 ACCOUNTING POLICIES (continued)

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.

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	
	2016	2015
	€	€
Cost		
As at 1 January	1,080,899	1,053,378
Additions	43,997	27,521
Disposals	-	-
As at 31 December	**1,124,896**	**1,080,899**
Amortisation		
As at 1 January	669,381	473,388
Charge for year	89,715	106,278
Eliminated on disposals	-	-
As at 31 December	**759,096**	**579,666**
Net Book Value	**365,800**	**501,233**

5 INVESTMENTS

	2016	2015
	€	€
Held to maturity		
Fixed rate securities held to maturity*	15,807,212	20,325,697
Available-for-sale		
Unquoted equity investments at cost less impairment losses	4,175,000	9,365,000
	19,982,212	**29,690,697**

* The weighted average effective interest rate on these securities was 1.93% (2015: 1.88%).

6 DEFERRED POLICY ACQUISITION COSTS

	2016	2015
	€	€
As at 1 January	573,690	629,277
Released during the year	(575,689)	(2,355,445)
Deferred during the year	55,617	2,299,858
As at 31 December	**53,618**	**573,690**

7 OTHER ASSETS

	2016	2015
	€	€
Prepayments and accrued income	478,623	756,827
Other assets	11,320	40,913
	489,943	**797,740**

8 CASH AND CASH EQUIVALENTS

	2016	2015
	€	€
Cash and bank balances	10,914,011	10,909,827
Bank deposits	11,000,000	11,000,000
	21,914,011	**21,909,827**

The bank deposits, which are primarily denominated in Euro's are made for varying periods between one month to six months (2015: between one month to one year) depending upon the immediate cash requirements of the Company.

9 ISSUED SHARE CAPITAL

	Authorised, issued and fully paid	
	2016	2015
	€	€
24,000 shares of USD 1,000 each (Euro 782 each)	**18,763,200**	**18,763,200**

10 TECHNICAL PROVISIONS

	2016	2015
	€	€
Provision for reported claims*	20,827,331	22,413,269
Provision for claims incurred but not reported	51,745	407,747
Provisions for claims incurred but not enough reserved	25,872	203,874
	20,904,948	23,024,890
Unearned premiums**	218,208	1,681,758
	21,123,156	**24,706,648**

*Movement in provision for reported claims:

	2016	2015
	€	€
As at 1 January	22,413,269	20,449,074
Claims paid during the year	(948,162)	(3,635,623)
Provision for newly reported claims	1,009,808	4,904,071
Foreign exchange movements	(1,647,584)	695,747
As at 31 December	**20,827,331**	**22,413,269**

**Movement in unearned premiums:

	2016	2015
	€	€
As at 1 January	1,681,758	10,323,168
Premiums written	1,034,892	8,201,409
Premiums earned	(2,498,442)	(9,431,912)
As at 31 December	**218,208**	**9,092,665**

11 OTHER LIABILITIES

	2016	2015
	€	€
Trade creditors	252,223	189,575
Accrued expenses	170,000	163,000
Loans	485,802	1,008,045
	908,025	**1,360,620**

12 PREMIUMS

a) Written and earned premiums

	% change	2016	2015
	%	€	€
Gross written premium	-87%	1,034,892	8,201,409
Gross earned premium	-74%	2,498,442	9,431,912

b) Written premiums - business analysis

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

2015	Gross	Reinsurance	Net
	€	€	€
Inward treaty reinsurance	6,720,658	(22,149)	6,698,509
Inward facultative reinsurance	655,260	-	655,260
Sureties	320,250	-	320,250
Other	505,241	-	505,241
	8,201,409	**(22,149)**	**8,179,260**

12 PREMIUMS (continued)

c) Written premiums - geographical analysis

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**

2015	Gross €	Reinsurance €	Net €
Middle East, North Africa and Asia	7,798,018	(22,149)	7,775,869
Sub Saharan Africa	215,893	-	215,893
Other	187,498	-	187,498
	8,201,409	**(22,149)**	**8,179,260**

13 NET CLAIMS INCURRED

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

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

2015	Gross €	Reinsurance €	Net €
Inward treaty reinsurance	3,092,852	-	3,092,852
Inward facultative reinsurance	1,071,941	(507,920)	564,021
Sureties	-	-	-
Other	386,275	-	386,275
	4,551,068	**(507,920)**	**4,043,148**

14 COMMISSION EARNED

	2016 €	2015 €
Commission	**143,339**	**-**

Commission earned represents set up fees on sureties and fees due on reinsurance ceded.

15 INVESTMENT INCOME/(EXPENSE)

	2016	2015
	€	€
Interest	405,832	378,014
Loss on sale of available-for-sale investments	(9,800,083)	-
	(9,394,251)	**378,014**

16 ADMINISTRATIVE EXPENSES

	2016	2015
	€	€
Commissions payable	188,476	971,650
Staff costs	152,500	270,640
Legal and professional fees	688,675	515,748
Amortisation of intangible assets	89,715	89,715
Computer, telephone and other office expenses	30,663	92,318
Bank charges and other fees	8,582	101,678
Loan interest	15,859	20,902
Other expenses	31,315	2,591
	1,205,785	**2,065,242**

17 NOTE TO THE STATEMENT OF CASH FLOWS

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

	2016	2015
	€	€
(Loss)/profit for the year	(8,621,407)	34,075
Adjustments for:		
Depreciation	89,715	89,715
Interest income	(405,832)	(378,014)
Loss on sale of available-for-sale investments	9,800,083	-
Interest expense	15,859	20,902
Working capital changes:		
Insurance receivables	2,079,606	(4,318,793)
Deferred policy acquisition costs	520,072	55,587
Other assets	151,797	1,294,246
Technical provisions	(3,583,492)	(342,424)
Other liabilities	69,648	(10,484)
Net cash inflow/(outflow) from operations	**116,049**	**(3,555,190)**

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
	€	€	€
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**

	Less than 1 year	More than 1 year	Total
	€	€	€
2015			
Gross outstanding claims	3,403,307	19,621,583	23,024,890
Gross unearned premiums	1,680,520	1,238	1,681,758
Other liabilities	352,575	1,008,045	1,360,620
TOTAL LIABILITIES	**5,436,402**	**20,630,866**	**26,067,268**

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				
ASSETS				
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)

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
	€	€	€	€
2015				
Intangible assets	-	411,518	-	411,518
Investments	-	20,325,697	9,365,000	29,690,697
Deferred policy acquisition costs	573,384	306	-	573,690
Insurance receivables	3,051,400	9,684,618	-	12,736,018
Other assets	413,956	383,784	-	797,740
Cash and cash equivalents	21,909,827	-	-	21,909,827
TOTAL ASSETS	**25,948,567**	**30,805,923**	**9,365,000**	**66,119,490**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	-	-	18,763,200	18,763,200
Retained earnings	-	-	21,289,022	21,289,022
TOTAL EQUITY	**-**	**-**	**40,052,222**	**40,052,222**
LIABILITIES				
Gross outstanding claims	3,403,307	19,621,583	-	23,024,890
Gross unearned premiums	1,680,520	1,238	-	1,681,758
Other liabilities	352,575	1,008,045	-	1,360,620
TOTAL LIABILITIES	**5,436,402**	**20,630,866**	**-**	**26,067,268**
TOTAL EQUITY AND LIABILITIES	**5,436,402**	**20,630,866**	**40,052,222**	**66,119,490**

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 2016 and 2015:

	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**

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 2016 and 2015:

	EUR	GBP	Other	Total
	€	€	€	€
2015				
ASSETS				
Intangible assets	411,518	-	-	411,518
Investments	29,690,697	-	-	29,690,697
Deferred policy acquisition costs	573,690	-	-	573,690
Insurance receivables	4,464,979	7,806,141	464,898	12,736,018
Other assets	797,740		-	797,740
Cash and cash equivalents	21,909,827	-	-	21,909,827
TOTAL ASSETS	**57,848,451**	**7,806,141**	**464,898**	**66,119,490**
LIABILITIES				
Gross outstanding claims	8,009,501	12,693,428	2,321,961	23,024,890
Gross unearned premiums	1,681,758	-	-	1,681,758
Other liabilities	1,352,341	8,279	-	1,360,620
TOTAL LIABILITIES	**11,043,600**	**12,701,707**	**2,321,961**	**26,067,268**
NET POSITION	**46,804,851**	**(4,895,566)**	**(1,857,063)**	**40,052,222**

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 (€)
2016	+50	55,000
	-75	(82,500)
2015	+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 2016, the Company had an outstanding loan due to Klapton Management Limited, a shareholder in the Company, of €485,802 (2015: €1,008,045), which loan expires on 31 December 2020. During 2016, interest of €15,859 (2015: €20,902) was paid in respect of this loan.

During 2016 the Company received management and administrative services from Global Ridgeway Management Limited of €186,377 (2015: €346,784) which is a sister company of Klapton Management Limited. Additionally, management and administrative service fees of €115,890 (2015: €Nil) 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 2016 and the date of this report which are required to be disclosed.