DARAG Group Limited

Annual Report and Consolidated Financial Statements
31 December 2016

Company Registration Number C 58595

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Directors and Group Management report

The directors present their report and consolidated financial statements of DARAG Group Limited for the year ended 31 December 2016.

Directors

The directors of the Company who held office during the reporting year were:

Claus Stenbaek - Chairman (appointed on 4 October 2016)
Sarah Emelia Van De Water (appointed on 4 October 2016)
Simon Minshall
Patrick Thourot (appointed on 4 October 2016)
Richard Cachia Caruana (appointed on 4 October 2016)
Arndt Gossmann (resigned on 1 March 2017)
Zsolt Szalkai (resigned on 4 October 2016)

Principal activities and business model

DARAG is a specialist insurer in the assumption of insurance companies' legacy risks and is a recognised leader focused on Continental Europe in this space. DARAG's business model is technical finality for non-life insurance delivered by three alternative transaction instruments: the acquisition of insurance portfolios, the acquisition of companies and structured reinsurance solutions.

Domiciled in Germany, Malta and now also in Italy, DARAG Group has operations across Europe. The Italian insurance subsidiary was wholly acquired in 2016. The holding company of the Group is incorporated in Malta. Further details about the Group and its subsidiaries are disclosed in Note 1 to the financial statements. The Group continues to be regulated by a college of Supervisors, led by the Malta Financial Services Authority (MFSA), to accommodate its pan-European character and the market's current cross-border environment. DARAG is licensed to transact direct insurance and reinsurance business in virtually all non-life segments of the industry.

More specifically, DARAG Group, through its various licensed subsidiaries, is authorised for the following classes of non-life insurance business: 1) Accident, 2) Health 3) Land vehicles, 4) Railway rolling stock, 5) Aircraft, 6) Ships, 7) Goods in transit, 8) Fire and natural forces, 9) Other damage to property, 10) Motor vehicle liability, 11) Aircraft liability, 12) Liability for ships, 13) General liability, 16) Miscellaneous financial loss, 17) Legal expenses and 18) Assistance.

Business review and economic position 2016

Insurance market

In 2016, the European insurance industry, continued to face low investment returns and a soft insurance market. New challenges and opportunities are also emerging as a result of Brexit, possibly with a period of economic uncertainty as negotiations unfold.

Specifically to DARAG, the non-life European legacy insurance market has experienced a year of unprecedented growth in 2016, both in the number of transactions and volume. For 2016, DARAG had predicted a transaction volume of over EUR4 billion in total. Notably, the industry witnessed non-life run-off deals worth approximately EUR4.4 billion, excluding those for which the value was undisclosed. The industry witnessed the first EUR1 billion single run-off transaction, followed by others close to such amounts. As shown in the most recent PwC study from September 2016 (PwC

Directors and Group Management report (continued)

Business review and economic position 2016 (continued)

Insurance market (continued)

2016, Unlocking value in run-off, 10th edition / September 2016), the size of the legacy market potential was EUR247 billion, driven by a sharper focus on capital efficiency and effective legacy management, leading to more Continental European (re) insurers to re-classify business as run-off. Increases in legacy business in Eastern Europe and Germany have been offset by a decrease in the UK, where soft market conditions have limited the growth of run-off in the London market. We anticipate that Brexit will reverse this trend in the UK and create further opportunities.

Financial Position and Performance

Overall, management believes that 2016 was a favourable one for the Group achieving the acquisition of our largest deal to date and positioning the Group well to take advantage of the growing market in Europe. DARAG Group's equity increased to EUR91,611,118, an increase of 36.96% over the previous year. The consolidated statement of financial position is set out on pages 14 and 15.

Total assets increased by 88.72% in the current year from EUR210,270,076 to EUR396,812,119. This increase is mainly attributable to an increase in available-for-sale investments arising on acquisition of the Italian subsidiary and insurance and other receivables, partially offset by a decrease in cash and cash equivalents. The focus of DARAG's investments are fixed-income securities issued by governments, financial institutions and corporate institutions with investment-grade ratings. Details on available-for-sale investments are set out in Note 7 to the financial statements. During the current year, cash and cash equivalents were utilised to acquire additional available-for-sale debt securities and for acquisition of subsidiaries. Gross technical provisions increased by 116.82% from EUR108,629,570 to EUR235,529,245 in 2016, mainly due to the acquisition of the Italian subsidiary. Further details on technical provisions, including information by line of business and related maturities, are set out in Notes 3.1, 3.2 and 13 to the financial statements.

The consolidated statement of cash flows is set out on page 18 to the financial statements. Cash flow from operating activities results primarily from movements in technical reserves, operating and administrative expenses. Cash flow from investing activities results mainly from acquisitions and disposals of investments together with income thereon and acquisition of subsidiaries. In 2016, a subsidiary holding company entered into a third party loan agreement for the receipt of a term loan facility of EUR22,500,000 to part finance an acquisition. Further details on the Group's borrowings are disclosed in Note 17 to the financial statements.

The Group registered a profit before tax of EUR2,407,296 (2015: EUR1,493,444) and a total comprehensive income of EUR3,150,385 (2015: EUR120,406), as set out on pages 16 to 17. The Group acquired control over a new subsidiary towards the end of 2016 and therefore consequently, the consolidated income statement does not reflect the financial performance of the 2016 acquisition.

Net gains on acquisitions amounted to EUR14,871,918 during the current year (2015: nil) and the run-off result on the favourable development of technical provisions assumed from prior years, amounted to EUR2,595,840 (2015: EUR12,168,250). In accordance with its current business model, the Group did not generate regular income from premiums on assumed loss portfolios. Gross premiums written amounting to EUR3,060,180 (2015: EUR106,715) in the current year relate to a retrospective reinsurance contract.

Directors and Group Management report (continued)

Business review and economic position 2016 (continued)

Financial Position and Performance (continued)

For direct insurance business, the gross run-off of prior-year claims relating to direct insurance business generated a profit of EUR3,178,082 (2015: EUR11,556,216). The positive run-off in 2016, net of reinsurers' share, resulted in a loss of EUR91,603 (2015:Gain EUR5,339,724). In addition, inward reinsurance business generated a positive net run-off result from the provisions for the prior year claims of EUR2,687,443 (2015: EUR8,007,225). Net operating expenses for the year amounted to EUR1,864,809 (2015: EUR3,996,515) split into EUR1,158,635 for direct business and EUR706,175 for inward reinsurance business. The net underwriting result from the direct insurance business and inward reinsurance business amounted to a loss of EUR1,340,672 (2015: Gain EUR2,600,756) and a gain of EUR2,892,535 (2015: EUR6,306,587) respectively.

Investment income amounted to EUR1,873,042 (2015: EUR1,695,514) in the current year, EUR1,504,655 (2015: EUR1,127,918) of which represents interest income on available-for-sale investments. Net foreign exchange losses for the year amounted to EUR895,665 (2015: Gain EUR294,293). Additional detail on finance income and finance costs is disclosed in Note 19 to the financial statements. Administrative expenses for the year amounted to EUR13,792,844 (2015: EUR8,173,851). These include employee benefit expenses, professional, travelling and other expenses. Further details are disclosed in Note 20.2 to the financial statements.

Financial key performance indicators

The directors consider the following as key financial indicators for the Group:

	2016	2015
	%	%
Run-off result in % of previous year's net reserves	**3.58**	18.39
Average gross investment return*	**2.67**	2.45
Average comprehensive income return on equity	**3.98**	0.2
	EUR	EUR
Gross technical provisions	**235,529,245**	108,629,570
Net asset value	**91,611,118**	66,890,147

* Average gross investment return excludes investment return on investments acquired through the Italian subsidiary since the Group acquired control towards the end of 2016.

Non-financial key performance indicators

The directors also consider non-financial operating performance indicators as drivers for our key financial figures. The Group employed an average of 47 employees during the year under review, representing a 14.6% increase over the prior year. 64% of the total employees at year-end held university degrees, which reflects the particular demands of our business and our clients. Due to the fact that the Italian subsidiary was acquired towards the end of 2016, its employees are not included in the average number of employees for the year. The DARAG teams comprise individuals with varying professions and experience profiles. This diversity, and the employees' expertise, sense of responsibility and enthusiasm are amongst the key factors contributing to DARAG's success.

Directors and Group Management report (continued)

Risk report – principal risks and uncertainties

DARAG's business activities primarily revolve around the assumption of risks. Dealing with and assessing the risks inherent to DARAG's specialised insurance business are an integral part of risk and business management. Risk management systematically incorporates all the processes and measures aimed at identifying, evaluating and managing risks. The main objectives of the risk management processes are to maintain a robust environment whereby the availability and liquidity of capital are assured in order to protect the interests of policyholders and shareholders and to safeguard the Group's long-term existence. Therefore the tolerance level for reputational risk is extremely low. The risk management processes make it possible to identify at an early stage risks that could jeopardise the continued existence of the Group and other negative developments that could materially affect the net assets, financial position and results of operations and to initiate countermeasures. Therefore, the Group's risk function is an integral part of the acquisition analysis undertaken for each portfolio. In this respect, the risk management function makes use of tools aimed at implementing an appropriate internal control system, spreading the risk culture and ensuring the monitoring of the Group's business inherent risks, as follows.

Risk strategy and risk management process

DARAG's risk strategy, which is derived from the corporate strategy, forms the basis for the risk management process, which is documented in the risk management handbook with detailed information on methods and responsibilities. A fundamental principle of risk management is the separation of risk taking and risk monitoring. This is duly taken into account within the structural and operational organisation of the Group companies. Wherever the size of the company allows officers to exercise dual functions, additional measures are taken in order to avoid conflicts of interest. All major risks, the overall risk profile, and compliance with solvency regulations, are regularly monitored and made transparent Group-wide by means of targeted reporting.

Risk management is carried out by the respective risk officers and the risk management function directed by policies approved by the Group. Moreover, the internal audit department performs additional process-independent monitoring with the assistance of external audit specialists.

In the first year after the introduction of the new Solvency II regulatory framework, DARAG adapted to the new requirements in a targeted and efficient manner, particularly focussing on the specifics of the DARAG business model. At Group level, assessment of the impact of Solvency II primarily focussed on potential transactions and on requirements at individual company level. The Group has conducted a single ORSA Report subject of assessment by the college of Supervisors. The Report includes the assessment of the own risk profile of the two Maltese and the one German entity only, based on the latest business plan approved by the Board of Directors of DARAG Group Limited. All the significant risks or the risks the Group is exposed to, are evaluated on the basis of "expert judgment" in terms of probability and impact through "heatmaps" defined in the internal Risk Management procedures. Furthermore, for the risks covered by the Standard Formula, the results of the sub-modules are used in general, as a support for the risk assessment.

The Group accomplished an acquisition in December 2016 with the approval of the Italian Insurance Supervisory Authority. Any possible impact on the risk profile of the Group deriving from the acquisition of this company was assessed and evaluated during the due diligence process and led to the decision of the Board to proceed with this acquisition.

The Solvency II ratio results have always been in a green level by quarter end and the Group shows no additional capital need for the current level of business.

Directors and Group Management report (continued)

Risk report – principal risks and uncertainties (continued)

Presentation of key risks

Underwriting risks

Due to its business model, DARAG is primarily exposed to reserving risk – that is, the risk of created or assumed technical provisions being insufficient to cover losses incurred. Further information about underwriting risks and how the Group manages them, is set out in Note 3.1 to the financial statements.

Financial risks

DARAG counters financial risks by giving adequate consideration to the security, liquidity, mix and spread of assets as its main investment principles. The main criterion guiding the investment strategy is the preservation of capital. The Group assesses credit risk, including the risk of default on insurance receivables. Further details about financial risks and how the Group manages them, are disclosed in Note 3.2 to the financial statements.

Operating risks

Every business activity involves potential losses resulting from inadequate or failed internal processes, technical failure, human error, or external events. DARAG mitigates these risks by means of its internal control system. DARAG has a flat and functional management hierarchy with clear roles, competences and responsibilities, which shape the risk culture. Appropriate emergency and stand-in rules ensure the functionality of all operational divisions. The Group's lean and efficient structural and operational organisation is geared towards minimising process risks. Areas for improvement identified by external and internal auditors are analysed and rectified in a timely manner.

Other risks

Other risks include strategic risks and reputational risks. Specialising in the run-off business and the inherent dependence on the Group's financial strength represents the biggest strategic risk for DARAG. The Group's business prospects are monitored through ongoing market observation, while at the same time raising the necessary funding to eventuate important and suited opportunities as they arise. A solid market reputation is vitally important to DARAG as an insurance partner. The Group's priority is therefore to present itself to business partners as a competent, reliable and reputable specialist insurer. Established business principles, defined internal communication channels and professional public relations play a vital role in risk management. DARAG sees the proper management and settlement of claims in consultation with the ceding insurers as a key element in enhancing its own reputation and that of its contractual partners. In the event of a claim, policyholders' interests are properly protected and unwarranted claims by third parties are identified at an early stage.

In addition to the executive team, which has a particular duty to monitor such risks, the Group's staff are sensitised to this issue by their direct involvement in the relevant business activities.

Overall assessment of the risk situation

Overall, DARAG is exposed to varied risks as a run-off insurer and takes measures in controlling and monitoring them. The Group's underwriting risk is managed through the review, assessment and management of claims provisions and settlements. DARAG also seeks third party expertise to achieve best estimates on risks assumed. Furthermore, DARAG mitigates operational risks through the selection and training of its staff, reinforcing know-how, professionalism and integrity. On the whole, strategic and reputational risks remain DARAG's priority for continued sustainable growth.

Directors and Group Management report (continued)

Capital management

As an essential factor for the success of DARAG´s business model we attach high importance to effective and efficient capital management. The Group's equity, as disclosed in the statement of financial position, constitutes its capital and is all tier 1 from a solvency perspective. The Group maintains the level of capital by reference to its financial obligations, commitments arising from operational requirements as well as the capital requirements of its regulated insurance subsidiaries. In view of the nature of the Group's activities and the extent of borrowings or debt, the capital level as at the end of the reporting period is deemed adequate by the directors. Further information about DARAG's capital management processes is disclosed in Note 3.3 to the financial statements.

Opportunities and forecast

Market volume increased in 2016, according to the run-off market survey of PwC, due to the continued developing interest in the transfer of legacy risks in the non-life insurance industry. The mandatory application of Solvency II from 1 January 2016 is a key main driver. Transferring legacy business is no longer just a priority for strategic reasons; it is also a highly effective instrument for managing capital and relieving pressure on equity. Proactive management of equity will remain very important and the reputation that DARAG continues to gain from the sustainable management of risk is a key success factor.

The PwC 2016 Study indicates that 81% of respondents think there will be more than 10 disposals in Europe over the next two years, while 21% consider this number to be more than 30. 70% of respondents believe that the most commonly disposed portfolio size will be in the range of EUR10,000,000 to EUR 100,000,000. A most interesting finding is that 77% of respondents consider (highly) likely that themselves or their clients will engage into a restructuring or exit activity in the next three years.

Overall business outlook

DARAG has readied itself for the expected significant growth in run-off opportunities by investing in the team establishing the new Group structure and by acquiring or establishing new strategic risk carriers. Annual growth of between EUR100,000,000 to EUR300,000,000 in gross technical provisions is planned (actual growth for 2016: EUR126,899,675) depending on the availability of profitable transactions. DARAG is targeting return on capital over the medium term (5 years) of 8 -10%. Low interest rates and the relatively low risk premiums on fixed-income securities will again have a restrictive effect on investments and will not allow income from fixed-income investments to increase substantially above 2016 levels. At the same time, DARAG has chosen not to expand its investment portfolio with investments with lower credit ratings. We anticipate moderate increases in investment results.

DARAG expects to continue to contribute to the overall development of the run-off sector due to its prominent market position. As a pioneer, DARAG benefits from a strong track record of 24 signed transactions in 13 countries. DARAG is very well positioned and represented in Continental Europe. This puts DARAG into the pole position in the now broadly emerging market.

Dividends and reserves

The movement in reserves is set out in the consolidated statement of changes in equity on page 19. No final dividends are being recommended and the directors propose that the balance of EUR18,646,137 in retained earnings is carried forward to the next financial year.

Directors and Group Management report (continued)

Events after the reporting date

On 27 February 2017, it was announced that the discount rate for British bodily injured claims will be reduced from 2.5% to -0.75% (Ogden Table), with such change effective on 20 March 2017. Management has assessed the effect of the change and does not expect a net impact on the Group since the relevant claims are reinsured.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

Statement of directors' responsibilities for the financial statements

The Directors are required by the Maltese Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the Group as at the end of each reporting period, and of the profit or loss for that period. In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU (as modified by Article 173 of the Maltese Companies Act, 1995);
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going-concern basis unless it is inappropriate to presume that the Group will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Group's website is available in other countries and jurisdictions where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Approved by the Board of Directors on 27 April 2017 and signed on its behalf by:

Richard Cachia Caruana
Director

Simon Minshall
Director

Registered office
Whitehall Mansions,
Ta' Xbiex Seafront,
Ta' Xbiex XBX1026,
Malta

Independent auditor's report

To the Shareholders of DARAG Group Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- DARAG Group Limited's Group financial statements (the "financial statements") give a true and fair view of the Group's financial position as at 31 December 2016, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

DARAG Group Limited's financial statements, set out on pages 13 to 63 comprise:

- the Consolidated statement of financial position as at 31 December 2016;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the Consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the directors' report.
In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).
Based on the work we have performed, in our opinion:

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

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

Responsibilities of the directors and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report - continued

To the Shareholders of DARAG Group Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

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

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

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

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Romina Soler
Partner

27 April 2017

Consolidated financial statements and notes

Consolidated statement of financial position

		As at 31 December	
Assets	Notes	**2016 EUR**	2015 EUR
Intangible assets	4	**1,706,038**	1,529,761
Property plant and equipment	5	**800,282**	799,732
Investment property	6	**2,500,000**	2,500,000
Available-for-sale investments	7	**259,223,787**	58,017,187
Deferred acquisition costs	8	**8,091,357**	-
Deferred tax assets	22	**5,661,146**	1,513,379
Loans and receivables - investments	9	**4,031,567**	-
Reinsurer's share of technical provisions	13	**40,985,367**	36,152,436
Insurance and other receivables	10	**29,124,498**	3,662,623
Current tax receivable		**2,470,733**	1,222,942
Cash and cash equivalents	11	**42,217,344**	104,872,016
Total assets		**396,812,119**	210,270,076

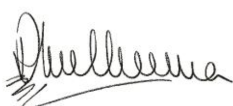
The notes on pages 19 to 63 are an integral part of these financial statements.

Consolidated statement of financial position (continued)

	Notes	As at 31 December	
		2016	2015
		EUR	EUR
Equity			
Share capital	12	**1,200**	1,200
Capital contribution	12	**72,779,659**	51,209,073
Other reserves	12	**184,122**	(115,652)
Retained earnings	12	**18,646,137**	15,795,526
Total equity		**91,611,118**	66,890,147
Liabilities			
Technical provisions	13	**235,529,245**	108,629,570
Provision for post-employment benefits	14	**8,912,103**	8,661,896
Deferred tax liabilities	22	**242,562**	59,472
Other provisions	15	**18,238,848**	-
Insurance and other liabilities	16	**19,924,058**	4,285,356
Borrowings	17	**22,079,833**	21,500,000
Current tax liabilities		**274,352**	243,635
Total liabilities		**305,201,001**	143,379,929
Total equity and liabilities		**396,812,119**	210,270,076

The notes on pages 19 to 63 are an integral part of these financial statements.

The financial statements on pages 13 to 63 were approved and authorised for issue by the Board on 27 April 2017 and signed on its behalf by:



Richard Cachia Caruana
Director

Simon Minshall
Director

Consolidated income statement

	Notes	**2016 EUR**	2015 EUR
Earned premiums - net amount			
Gross written premiums		**3,060,180**	106,715
Change in the gross provision for unearned premiums		**(2,266,556)**	3,647
		793,624	110,362
Outward reinsurance premiums		**(18,443)**	-
		775,181	110,362
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**(17,547,061)**	(26,454,418)
- reinsurers' share		**5,462,904**	4,572,332
		(12,084,157)	(21,882,086)
Change in the provision for claims			
- gross amount		**23,330,770**	45,203,230
- reinsurers' share		**(8,650,773)**	(11,152,894)
		14,679,997	34,050,336
Claims incurred, net of reinsurance		**2,595,840**	12,168,250
Change in other technical provisions		**45,651**	80,568
Net operating expenses	18	**(1,864,809)**	(3,996,515)
Technical result		**1,551,863**	8,362,665
Gain on acquisition, net of transaction costs		**14,871,918**	-
Finance income	19	**2,177,781**	2,112,567
Finance costs	19	**(2,732,377)**	(1,246,324)
Other income	20	**330,955**	438,387
Administrative expenses	20	**(13,792,844)**	(8,173,851)
Profit before tax		**2,407,296**	1,493,444
Income tax credit/(expense)	22	**443,315**	(1,552,955)
Profit/(Loss) after tax		**2,850,611**	(59,511)

The notes on pages 19 to 63 are an integral part of these financial statements

Consolidated statement of other comprehensive income

	Notes	Year ended 31 December 2016 EUR	Year ended 31 December 2015 EUR
Profit/Loss after tax		**2,850,611**	(59,511)
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale investments	22	**665,794**	(184,515)
Other changes		**-**	(43)
		665,794	(184,558)
Items that will not be reclassified to profit or loss			
Remeasurement actuarial gain on provisions for post-employment benefits	22	**(366,020)**	364,475
		(366,020)	364,475
Total other comprehensive income, net of tax		**299,774**	179,917
Total comprehensive income		**3,150,385**	120,406

The notes on pages 19 to 63 are an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 December	
		2016	2015
		EUR	EUR
Cash flows from operating activities			
Profit/(Loss) after tax		**2,850,611**	(59,511)
Adjustments for:			
Gain on acquisition, net of transaction costs		**(14,871,918)**	-
Income tax (credit)/expense	22	**(443,315)**	211,751
Loss on disposals		**-**	87,489
Depreciation and amortisation	21	**316,467**	-
Net finance income		**(926,348)**	-
Unrealised losses on investments		**2,359,073**	-
Other		**-**	(478,938)
		(10,715,430)	(239,209)
Changes in:			
Insurance and other receivables		**(5,535,278)**	(548,934)
Technical provisions, net		**(13,488,535)**	6,304,960
Deferred acquisition costs		**(166,660)**	-
Insurance and other liabilities		**(1,017,748)**	112,065
Non-technical provisions		**(642,147)**	-
Other		**-**	752,452
		(31,565,798)	6,381,334
Interest paid		**(1,170,429)**	-
Income taxes received		**262,571**	460,484
Reclassification to financing or investing activities		**-**	(1,372,496)
Net cash (used in)/from operating activities		**(32,473,656)**	5,469,323
Cash flows from investing activities			
Interest and dividends received		**1,827,440**	1,530,296
Acquisition of subsidiaries, net of cash acquired		**(40,887,798)**	-
Proceeds from sale of property, plant and equipment		**2,959**	-
Proceeds from sale of investments		**32,334,495**	71,711,021
Acquisition of property, plant and equipment	5	**(101,855)**	(110,103)
Acquisition of intangible assets	4	**(18,018)**	(108,352)
Acquisition of investments		**(45,983,565)**	(49,808,572)
Net cash (used in)/from investing activities		**(52,826,342)**	23,214,290
Cash flows from financing activities			
Proceeds from capital contributions	12	**70,586**	26,750,000
Net proceeds from loans and borrowings	17	**22,500,000**	21,342,200
Dividends paid		**-**	(12,251,200)
Net cash from financing activities		**22,570,586**	35,841,000
Net (decrease)/increase in cash and cash equivalents		**(62,729,412)**	64,524,613
Effect on movements in exchange rates on cash held		**74,740**	(10,961)
Cash and cash equivalents at 1 January		**104,872,016**	40,358,364
Cash and cash equivalents at 31 December	11	**42,217,344**	104,872,016

The notes on pages 19 to 63 are an integral part of these financial statements.

Consolidated statement of changes in equity

	Share Capital	Capital Contribution	Other Reserves: Available-for-sale fair value reserve	Other Reserves: Post-employment Benefits reserve	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance at 1 January 2015	15,974,449	8,484,624	1,277,746	(1,573,359)	28,106,280	52,269,740
Total comprehensive income:						
Loss after tax	-	-	-	-	(59,511)	(59,511)
Other comprehensive income:						
Change in fair value of available-for-sale investments	-	-	(184,514)	-	-	(184,514)
Remeasurement of actuarial gain on provisions for post-employment benefits	-	-	-	364,475	-	364,475
Other movements	-	-	-	-	(43)	(43)
	-	-	(184,514)	364,475	(43)	179,918
Total comprehensive income	-	-	(184,514)	364,475	(59,554)	120,407
Transactions with owners						
Contributions and distributions						
Capital contribution	-	26,751,200	-	-	-	26,751,200
Dividends	-	-	-	-	(12,251,200)	(12,251,200)
Effects from Group reorganisation	(15,973,249)	15,973,249	-	-	-	-
Total transactions with owners	(15,973,249)	42,724,449	-	-	(12,251,200)	14,500,000
Balance at 31 December 2015	1,200	51,209,073	1,093,232	(1,208,884)	15,795,526	66,890,147
Balance at 1 January 2016	1,200	51,209,073	1,093,232	(1,208,884)	15,795,526	66,890,147
Total comprehensive income						
Profit after tax	-	-	-	-	2,850,611	2,850,611
Other comprehensive income						
Change in fair value of available-for-sale investments	-	-	665,794	-	-	665,794
Remeasurement of actuarial gain on provisions for post-employment benefits	-	-	-	(366,020)	-	(366,020)
Total comprehensive income	-	-	665,794	(366,020)	-	299,774
Transactions with owners						
Contributions and distributions						
Capital contribution	-	21,570,586	-	-	-	21,570,586
	-	21,570,586	-	-	-	21,570,586
Balance at 31 December 2016	**1,200**	**72,779,659**	**1,759,026**	**(1,574,904)**	**18,646,137**	**91,611,118**

The notes on pages 19 to 63 are an integral part of these financial statements.

1. Summary of significant accounting policies

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

During the comparative year, DARAG was a first-time adopter of IFRS with the date of transition of 1 January 2014. The change in accounting method occurred as a result of a reorganisation of the Group in December 2015, with DARAG Group Limited as the parent holding of DARAG Group of companies.

The financial statements are for the group consisting of DARAG Group Limited and its subsidiaries (together referred to as 'DARAG Group', 'Group' or 'DARAG'). All subsidiaries within DARAG Group are wholly owned and operate in the non-life insurance market. The principal subsidiaries are:

- DARAG Malta Insurance and Reinsurance PCC Limited registered at Whitehall Mansions, Ta' Xbiex seafront, Ta' Xbiex, Malta.
- DARAG Deutsche Versicherungs- und Rückversicherungs-AG registered at Hafenstraße 32, 22880 Wedel, Germany.
- DARAG Vermögens- und Verwaltungs AG ("DVV") registered at Hafenstrasse 32, 22880 Wedel, Germany.
- Osakeyhtiö IngoNord i.L. ("IngoNord") registered at Salamonkatu 5 C, 00101 Helsinki, Finland
- DARAG Italia S.p.A. was acquired in the current financial year and registered at Via Pampuri, 13, 20141 Milan, Italy.

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, with the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and available-for-sale financial assets.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', in the absence of an IFRS that specifically applies to the measurement of Insurance Contract Liabilities, management has used its judgement in developing and applying an accounting policy based on the most recent pronouncements of another standard-setting body that uses a similar conceptual framework to develop accounting standards as that used by the IASB. Management has accordingly developed an accounting policy pertaining to Insurance Contract Liabilities based on the guidance within United States Generally Accepted Accounting Principles (US GAAP).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

The statement of financial position is organised in increasing order of liquidity, with additional disclosures on the current or non-current nature of the Group's assets and liabilities provided within the notes to the financial statements. All amounts in the notes are shown in euros, rounded, unless otherwise stated.

1.1 Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in 2016:

In 2016, the Group adopted new amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2016. The Group has not early adopted these revisions to the requirements of IFRSs.

The Group is considering the implications of the standards which are expected to have the most material impact on the Group's financial statements and monitoring the timing of their adoption, taking cognisance of the endorsement process by the European Commission. Full impact analysis in respect of these standards is expected to be completed at least 12 months prior to the effective date of each standard. A brief overview of these standards is provided below:

- The new IFRS standard for insurance contract accounting (previously referred to as IFRS 4 Phase II, now expected to be IFRS 17) is expected to apply for annual periods beginning on or after January 2021, assuming IFRS 17 is issued in the first half of 2017. IFRS 17 will include some fundamental differences to current accounting in both liability measurement and profit recognition.

- IFRS 9, *Finance Instruments,* is generally effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018. Insurers have been granted some relief from applying IFRS 9 to their investment portfolios prior to adopting the new insurance contracts standard. It is expected that most insurers will be able to apply the temporary exemption from IFRS 9 adoption to bring the two standards into line.

- IFRS 15, *Revenue from Contracts with Customers*, establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Revenue from insurance contracts is outside the scope of IFRS 15 however the Group will need to apply IFRS 15 to non-insurance contracts (or components of insurance contracts). Furthermore, the Group may have to apply the new standard to non-insurance components of contracts traditionally considered to be insurance contracts.

1.2 Consolidation

(a) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The fair values of each of the acquired insurance assets and liabilities are derived from probability-weighted ranges of the associated projected cash flows, based on the actuary's workings and the Company's run-off strategy.

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

1.2 Consolidation (continued)

(a) Business combinations (continued)

Conversely, any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(c) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets as at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(d) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and any other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(e) Transactions eliminated on consolidation

Upon consolidation, inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated unless they are determined as being immaterial. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The annual financial statements of the consolidated subsidiaries are subject to uniform accounting policies.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the functional currency of the parent company.

(b) Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of the Group companies at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss. However, when a gain or loss on a non-monetary item is recognised in other comprehensive income (such as available-for-sale equity instruments), any exchange component of that gain or loss is recognised in other comprehensive income.

1.4 Insurance and reinsurance contracts

1.4.1. Classification

Insurance contracts

The essence of DARAG's business model is technical finality for non-life insurance and this is delivered by three alternative transaction methods: 1) acquisition of an insurance entity, 2) portfolio transfer of insurance contracts; and 3) retroactive reinsurance.

These methods are designed to be used only on inactive business (run-off), i.e. discontinued insurance portfolios which normally are no longer generating premiums. Each transaction is assessed individually to determine whether it qualifies for a business combination (see accounting policy 1.2). The Group provides services to direct property and casualty insurance and reinsurance companies in Europe. Consequently, the Group has contracts that transfer significant insurance risk which are classified as insurance contracts. As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

1.4.2 Recognition and measurement

(a) Premium written

Premiums written result from active insurance contracts in subsidiaries and transferred portfolios that expire during a short-term period or are already expired. In some classes of insurance, the settlement of premiums occurs after the insured period, which is reflected in written premiums.

(b) Retroactive reinsurance

Under retroactive reinsurance, the Group assumes liabilities incurred as a result of past insurable events. A reinsurance liability is established equal to any loss reserves assumed. Consideration received in excess of estimated liabilities assumed is recognised as deferred income at inception of such contracts. Deferred income is subsequently amortised using the effective interest method over the estimated remaining claims settlement periods. Subsequent changes to the estimated timing and amount of loss payments are applied retrospectively and reflected in profit or loss in the year in which the changes are made. Where the consideration received is less than the estimated liabilities assumed, the difference is charged to profit or loss.

(c) Unearned premium

Unearned premiums are accrued premiums already written for future risk periods. These premiums are calculated separately for each insurance policy pro rata temporis; for reinsurance, nominal percentages are used in some cases where the data for a calculation pro rata temporis is not available. Unearned premium is reversed in line with the reduction in risk over the duration of the contracts.

(d) Acquisition costs

Commissions and other external acquisition costs that vary with and are related to securing new contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the statement of financial position. DAC are amortised over the term of the contracts as the premium is earned. All other costs are recognised as expenses when incurred.

(e) Claims incurred

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. They include direct and indirect claims settlement costs arising from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group.

Claims incurred include claims expenses paid during the financial year as well as changes in the provision for outstanding claims.

1.4 Insurance and reinsurance contracts (continued)

1.4.2 Recognition and measurement (continued)

(e) Claims incurred (continued)

The provision for outstanding claims includes obligations arising from insurance and reinsurance contracts where the size of the claim and/or the timing of the payment is still uncertain. The provision pertains to:

- known claims for which the provision is based on individually determined case estimates;
- claims whose occurrence is not yet known (e.g. they have been incurred but not yet been reported or have not yet manifested themselves); and
- claims which are known but whose extent may turn out to be greater than originally foreseen (incurred but not enough reported).

Provisions include expenses for internal and external loss adjustments. The provision for outstanding claims is based on estimates and the actual payments may be higher or lower. The amounts recognised are the realistically estimated future amounts to be paid. They are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological factors). Future payment obligations are generally not discounted, with the exception of provisions for annuities, which are discounted at 2.25% (2.25% 2015). For determining the provision for outstanding claims, DARAG uses a range of actuarial projection methods, including the chain ladder and other accepted methods. The standard actuarial methods used are applied both to the run-off triangles for the payments and to the run-off triangles for the reported claims, so that a range of estimates for the ultimate loss is attained. The realistic estimated value for the ultimate loss is determined from within this range.

The above are recognised, both gross and net (i.e. after taking reinsurance into account). Net foreign currency differences are recognised separately under finance income and expenses (see Note 1.3).

All technical provisions are regularly subjected to a liability adequacy test in accordance with IFRS 4. If current experience shows that the provisions posted on the basis of the original assumptions are inadequate to cover the expected claim-related costs, net of investment income, such shortfall is recorded as an unexpired risk provision and adjusted in profit or loss. Expected claim-related costs include expected claim costs and claim adjustment expenses, deferred acquisition costs and maintenance costs. Maintenance costs are defined as costs associated with maintaining records relating to insurance contracts and with the processing of premium collections and commissions and exclude non-directly attributable administrative expenses.

(f) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due from and to insurance policyholders (including inward reinsurance) and intermediaries. If there is objective evidence that an insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method. These processes are described in Note 1.11.

(g) Ceded reinsurance contracts

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

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

1.4 Insurance and reinsurance contracts (continued)

1.4.2 Recognition and measurement (continued)

(g) Ceded reinsurance contracts (continued)

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 1.11.

(h) Salvage and subrogation reimbursements
Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Salvage property is recognised when recoverability is confirmed and the respective liability is settled.

1.5 Net finance income

Finance income

Finance income primarily consists of interest income on debt securities, loans and receivables, dividend income on equity securities, rental income from investment property, gains from changes in fair value of investment property, other fair value gains and net foreign exchange gains. Interest income from investments not measured at fair value through profit or loss is recognised using the effective interest method. Rental income from investment property is recognised on a straight-line basis over the lease term.

Finance expenses
Finance expenses consist of costs relating to investment management services, losses on disposal of investments, impairment of investments, operating expenses for investment property, other fair value losses and net foreign exchange losses. These expenses are recognised on an accrual basis.

1.6 Operating leases

Leases in which a significant portion of the risks and rewards are not transferred to the Group as lessee are classified as operating leases. Payments under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

1.7 Intangible assets

The intangible assets mainly comprise software. The software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis at a rate of 10–33% over its useful life of three to ten years.

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

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

1.7 Intangible assets (continued)

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.8 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost and subsequently carried at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives ranging between one to ten years.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.11).

Gains and losses on disposals of plant and equipment are determined by comparing the proceeds with carrying amount and are recognised within profit or loss.

1.9 Investment property

Property held for long-term rental yields that is not occupied by the companies in the Group is classified as investment property. Investment property comprises freehold buildings. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed every three years by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

1.10. Financial instruments

1.10.1. Classification

The Group classifies its financial assets into the following categories: available-for-sale financial assets and loans and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments are acquired.

The Group classifies its financial liabilities into other liabilities.

Available-for-sale financial assets

Available-for-sale investments are financial assets that 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 rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Shares in related companies that are not consolidated are accounted for as available-for-sale investments using the net asset value (see note 3.4).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or available-for-sale. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise loans and receivables, reinsurance assets, insurance and other receivables and cash and cash equivalents in the statement of financial position.

Other liabilities

Other liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current liabilities. The Group's other liabilities comprise insurance and other liabilities and borrowings in the statement of financial position.

1.10.2. Financial assets - recognition and measurement

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any differences between the initial and maturity amounts using the effective interest method.

Gains or losses arising from changes in the fair value are recognised as follows:

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

1.10. Financial instruments (continued)

1.10.2. Financial assets - recognition and measurement (continued)

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss. On disposal, the difference between the net disposal proceeds and the carrying amount is included in profit or loss.

1.10.3. Financial liabilities - recognition and measurement

All financial liabilities are initially recognised on the trade date when the entity becomes party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Borrowings are initially measured at fair value of the proceeds less any directly attributable transactions costs. These transaction costs are subsequently amortised using the effective interest method.

1.10.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.10.5 Cash and cash equivalents

Cash and cash equivalents are stated at face value and include deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

1.11 Impairment

1.11.1 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets (other than goodwill) that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.11.2 Impairment of financial assets

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, the groups' internal guidelines assume that a significant decline in fair value of the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months.

1.11 Impairment (continued)

1.11.2 Impairment of financial assets (continued)

In the case of fixed-interest securities and loans and receivables, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer. Available-for-sale unquoted equity investments are recognised at their NAV. Therefore, when the NAV declines, an impairment loss is recognised.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

1.12 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group entities operate and generate taxable income. The individual tax rates of the Group's subsidiaries lie between 20–35%. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

1.12 Current and deferred taxation (continued)

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

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

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

1.13 Equity

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Equity consists of subscribed capital, capital contribution, retained earnings and other reserves. Subscribed capital and capital contribution contain the amounts paid in by shareholders of DARAG Group Limited.

Other reserves consist of unrealised gains and losses from changes in the fair value of available-for-sale financial assets and remeasurements of post-employment benefits.

1.14 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the financial statements in the period in which an obligation to pay a dividend is established.

1.15 Non-technical provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

1.16 Post-employment benefits

The Group companies operate defined benefit plans, which define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the financial reporting period. The Group's defined benefit pension plan are not funded by the plan assets. The defined benefit obligation is calculated annually by independent actuaries. The interest cost is calculated by applying the discount rate to the balance of the defined benefit obligations. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in other reserves in the statement of changes in equity. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be adjusted due to estimates and assumptions turning out to be materially different when compared to actual results. In the opinion of the directors, the only accounting estimates and judgement made in the course of preparing these financial statements which are difficult, subjective or complex to a degree that would warrant their description as critical in terms of IAS 1 are the estimates of the ultimate liability arising from claims made under insurance contracts and post-employment benefit obligations.

Ultimate liability of claims
The Company has applied conventional statistical models in order to determine the ultimate liability of claims as further described in note 3.1 and note 13. Details of key assumptions and sensitivity for this liability are provided in note 3.1 to these financial statements. The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. Within the context of the insurance group, the use of estimates for measuring technical provisions is of substantial significance given that measurement is invariably based on models and the development of future cash flows from insurance contracts cannot be accurately predicted. More specifically, the estimation of the provisions for the ultimate cost of claims for asbestos, pollution and health hazard (APH) is subject to a range of uncertainties that are generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of APH insurance with the same degree of reliability as with other types of claims. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon. The Group employs further techniques which utilise, where practical, the exposure to these losses by contract to determine the claims provisions. Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors. Internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take account of new knowledge.

2. Critical accounting estimates and judgements in applying accounting policies (continued)

As part of the acquisition of the Italian subsidiary, which accounts for a significant portion of the Group's technical provisions as at 31 December 2016, the Group undertook a financial due diligence which involved independent actuaries. An additional actuarial report commissioned as at 31 December 2016, as well as consideration of other internal actuarial assessments, indicate that the current estimate fits within a reasonable range, which is inherently subject to variation. A separate estimate is made for the reinsurers' share of technical provisions based upon the gross provisions and having due regard to collectability.

Post-employment benefits

The present value of the defined benefit obligations is determined by independent actuaries by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Further information is disclosed in more detail in note 14.

3. Management of insurance and financial risk

DARAG's business activities reflect the assumption of risks, being mainly insurance and financial risks. This section summarises the significant risks and the way the Group manages them.

3.1 Insurance risk

Insurance risk refers to the risks spanning many aspects of the Group operations, including underwriting risk (i.e. risk pertaining to acquisitions/portfolio transfers) and risk associated with reserving assumptions (reserving risk). This note contains information pertaining to: the frequency and severity of claims; sources of uncertainty in the estimation of future claim payments; management's processes in managing uncertainty and the sensitivity to changes in assumptions.

Due to its business model, DARAG is primarily exposed to reserving risk – that is, the risk of created or assumed technical provisions being insufficient to cover the actual claims and benefit payments. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits may vary from the estimate established using statistical techniques. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. However since the acquisition of the Italian subsidiary there is exposure to Unexpired Reserve Risk. This is subject to a Liability Adequacy Test and an ongoing process of risk reduction and expenses management. The focus on the transfer and settlement of claims, therefore, means that the risk strategy needs to concentrate on the review, assessment and management of claims provisions and settlements. The underwriting strategy ensures that the risks underwritten are well diversified geographically even if the business model is such that longer duration liabilities are more readily acquirable. Furthermore, DARAG underwrites non-life business only. The Group has reinsurance protection in place covering specific elements of assumed lines of business. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group. The Group is liable for all insured events that occurred during the term of the contract that was part of a portfolio transfer, even if the loss is discovered after the end of the contract term. Certain classes of business, most notably those exposed to liability, can take several years to develop. Therefore, the latter is subject to a greater degree of uncertainty than other classes of business that are typically settled in a shorter period of time.

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. DARAG also seeks third party expertise during due diligence processes in determining best estimates of business assumed. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

The determination of technical provisions follows a best estimate approach, which entails the projection of future cash flows expected to materialise upon the final settlement of all further obligations. They depend on future developments and are uncertain in several aspects. In particular, any future unforeseen changes in legal or regulatory frameworks cannot be predicted from previous data. To assess the uncertainty in the models and methods used for calculating the best estimate, the Group uses several different techniques (depending on the type of risk):

- Consideration of the impact of using different reserving methods based on triangulated data, such as using paid or incurred data and applying different tail assumptions; and/or
- Comparison of the actual cash flows against the previously estimated cash flows.

Furthermore, in relation to specific classes of business, the Group assesses uncertainty as follows:

- For annuities the Group stresses reserves by applying different interest rates;
- For individual claims assessment, different scenario assessment; or
- For APH / Protection and Indemnity (P&I) clubs: scenario analysis is developed.

The Group's methods for managing uncertainty include:

- Individual claims reviews, leading to a better understanding of underlying risk and current development;
- Intense exchanges with the claims department, resulting in detailed knowledge on individual claims in the actuarial department; and
- Regular financial reporting, which highlights significant developments in a timely manner.

The following table shows the distribution of the loss reserves by line of business on both a gross and a net basis:

2016	Gross EUR	Reinsurance EUR	Net EUR
Technical provisions for open claims			
Direct insurance contracts			
Accident insurance	8,529,822	256,201	8,273,621
Liability insurance	23,987,656	14,168,372	9,819,284
Motor insurance	134,169,649	25,010,243	109,159,406
Transport and aviation insurance	5,077,921	930,633	4,147,288
Other lines of business	10,475,042	794,216	9,680,826
	182,240,090	41,159,665	141,080,425
Reinsurance contracts assumed	23,829,579	-	23,829,579
Total	**206,069,669**	**41,159,665**	**164,910,004**

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

2015	Gross EUR	Reinsurance EUR	Net EUR
Technical provisions for open claims			
Direct insurance contracts			
Accident insurance	3,753,198	132,676	3,620,523
Liability insurance	6,627,524	2,927,352	3,700,172
Motor insurance	66,107,482	32,136,876	33,970,606
Transport and aviation insurance	4,931,658	991,169	3,940,489
Other lines of business	897,421	238,353	659,068
	82,317,283	36,426,426	45,890,858
Reinsurance contracts assumed	26,198,225	-	26,198,225
Total	108,515,508	36,426,426	72,089,083

Note 13 presents further information on the development of the estimate of ultimate claim cost for claims pertaining to portfolios closed in a given year.

In order to stress the net result for the reporting year two types of up/down scenarios were developed at Group level. For the first one, the net technical provisions (excluding 'Other technical provisions') were increased/decreased by 2.5% (2015: 2.5%). For the second one, the Survival Ratio (S/R) was increased/decreased by 10% (2015: 10%) – that is an increase/decrease in the net technical reserves by 0.1, multiplied by the net claims payment. The table below discloses changes in the net Group result and the resulting S/R. The Group uses one year average payments to measure the S/R while the common practice is to measure the S/R using an average payment over a number of years, typically three to five years. Management considers that the approach applied by the Group better reflects payments going forward, given the portfolio acquisition business model of the Group, under which actual future payments could deviate significantly depending on the business acquired. For DARAG Italia S.p.A, we have additionally stressed the combined ratio on in-force contracts by +/- 5%. Such movements would be reflected through a change in deferred acquisition costs.

Sensitivity of changes to Loss and Survival Ratios (S/R) and Combined Ratios (CR)

	2016		2015	
	Change in profit or loss (pre-tax) - EUR	**S/R and CR after change**	Change in profit or loss (pre-tax) - EUR	S/R and CR after change
Reserves +2.5%	**(4,122,684)**	**4.09**	(1,809,078)	3.39
S/R +0.1 years	**(4,129,181)**	**4.09**	(2,188,210)	3.41
CR +5% (URR calculation)	**(492,766)**	**4.01**	-	-
Reserves -2.5%	**4,122,684**	**3.89**	1,809,075	3.22
S/R -0.1 years	**4,129,181**	**3.89**	2,188,207	3.21
CR -5% (URR calculation)	**78,572**	**3.99**	-	-

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

A particular sensitivity to reserving risks exists in the case of contracts with long run-off periods. In particular, elements of the general liability business containing indirect US APH risks. Claims under such contracts are typically characterised by a run-off pattern that clearly differs from other liability claims. For such claims, a run-off period of several decades has to be assumed as well as a loss adjustment expense that generally exceeds the compensation benefit as a consequence of the long duration. Therefore, these risks are valued independently in a separate homogeneous risk group using a survival ratio approach with benchmarks from the latest market studies. The provisions for APH claims totalled EUR11,307,975 (2015: EUR12,088,332) and are from inward reinsurance and direct business which are not subsequently reinsured. For the major part of the APH exposure DARAG used a survival ratio of 13.5 for Direct business and 16.5 for Assumed business (2015: 17.5 for both). The change over 2015 reflects a year's further run-off and the results of re-classifying a number of contracts as Direct business. Apart from using historical data, market data is also used to estimate the expected future payment patterns as the APH reserves contain typical shares with average APH risk profile.

3.2 Financial risk

DARAG is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to manage and control risk exposures within acceptable parameters, while optimising the investment return. Risk management is carried out by the respective risk officers and the risk management function under policies approved by the Group. Moreover, the internal audit department performs additional independent process monitoring with the assistance of external audit specialists.

3.2.1 Market risk

The key elements of market risk for DARAG are interest rate and foreign currency risks. The sensitivity analysis for both risks illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates and foreign currency translation rates at the reporting date.

(i) Currency risk

Some risks assumed by DARAG are denominated in currencies other than Euros and as such the Group is required to settle claims in foreign currencies potentially giving rise to foreign currency risk. The object of DARAG's asset liability management is to match liabilities and assets within the same currency as closely as possible and to minimise excess or insufficient cover of assets/liabilities in foreign currencies within the Group. The official closing and 12-month average rate of exchange applicable between foreign currencies for which DARAG has the most significant exposure and the Euro issued by the European Central Bank are presented below:

	31 December 2016	31 December 2015	**Average 2016**	Average 2015
USD	**1.05410**	1.09270	**1.10690**	1.1179
GBP	**0.85618**	0.73811	**0.81948**	0.7294
SEK	**9.55250**	9.19380	**9.46890**	9.3530
CHF	**1.07390**	1.08155	**1.09020**	1.0738
TRY	**3.70720**	-	**3.34330**	-

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.1 Market risk (continued)

(i) Currency risk (continued)

Exposure

The Group's net exposure to foreign currency risk at the end of the reporting period, expressed in EUR, was as follows:

2016

Expressed in Euro

	GBP	**USD**	**SEK**	**CHF**	**TRY**
Available-for-sale investments	7,480,669	23,717,133	1,106,895	5,733,328	-
Insurance and other receivables	3,693,353	1,664,506	138,885	-	2,835,135
Cash and cash equivalents	911,109	2,823,578	1,515,742	267,367	-
Technical provisions	(9,700,488)	(23,940,485)	(1,278,534)	-	(2,222,133)
Insurance and other payables	(61,777)	(1,038,785)	(8,756)	-	-
Net currency exposure	**2,322,866**	**3,225,947**	**1,474,232**	**6,000,695**	**613,002**

2015

Expressed in Euro

	GBP	**USD**	**SEK**	**Other**
Available-for-sale investments	-	18,013,000	-	1,030,000
Technical provisions	(17,745,000)	(24,631,000)	(3,071,000)	(56,000)
Net currency exposure	(17,745,000)	(6,618,000)	(3,071,000)	974,000

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in GBP, USD and CHF. The sensitivity of profit or loss and equity to changes in the exchange rates of these currencies to Euro is analysed below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Expressed in Euro	**Impact on post-tax profit and equity**	
	2016	2015
	EUR	EUR
GBP - increase 10%	**(149,656)**	(111,800)
GBP - decrease 10%	**182,913**	136,600
USD - increase 10%	**(207,839)**	(521,200)
USD - decrease 10%	**254,025**	637,000
CHF - decrease 10%	**(386,608)**	-
CHF - decrease 10%	**472,521**	-

(ii) Cash flow and fair value interest rate risk

Financial instruments carrying variable rates expose the Group to cash flow interest rate risk. Financial instruments carrying fixed rates expose the Group to fair value interest rate risk. The Group manages this risk by implementing detailed investment guidelines and through the investment committees of the operating subsidiaries, monitored by the Group board. The interest-rate profile of the Group's interest-bearing financial instruments is as follows:

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.1 Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

	2016 **EUR**
Fixed-rate instruments	
Available-for-sale investments	**222,318,620**
Loans and receivables - promissory notes	**3,983,903**
Loans and receivables - other	**47,664**
Deposits retained on assumed reinsurance	**542,091**
	226,892,278
Variable-rate instruments	
Available-for-sale investments	**29,831,794**
Cash and cash equivalents	**10,332,522**
Borrowings	**(22,079,833)**
	18,084,483

	2015 EUR
Fixed-rate instruments	
Available-for-sale investments	51,927,029
Deposits retained on assumed reinsurance	540,656
	52,467,685

During the comparative period, the Group considered its exposure to cash flow interest rate risk arising on its cash and cash equivalents, to be insignificant. The Group's main interest rate risk arises from fixed-income available-for-sale financial assets, which expose the Group to fair value interest rate risk. The Group outsources its investment management function to external investment managers. The latter are involved in the evaluation of risks linked to those investments and report on these to DARAG on regular basis. DARAG receives and monitors quarterly stress tests from the asset managers. In addition, DARAG is exposed to reinvestment risk whereby the continued low interest rate environment leads to the risk of maturing investments, and cash received from assumed portfolios being (re)invested at lower yields, which can lead to the risk of declining investment returns.

Fixed-rate investments subject to fair value interest rate risk and their maturities are analysed below:

	2016 **EUR**	2015 EUR
Fixed-rate investments		
Due within one year	**52,378,451**	11,397,877
More than one year, up to two years	**67,282,417**	10,587,545
More than two years, up to three years	**64,190,964**	8,111,332
More than three years, up to four years	**6,605,518**	7,550,261
More than four years, up to five years	**7,698,751**	649,501
More than five years, up to ten years	**22,593,498**	11,562,310
More than ten years	**5,552,924**	2,068,202
Total	**226,302,523**	51,927,029

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.1 Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss. A change of 25 basis points in interest rates would have increased or decreased equity by EUR567,112 (2015: EUR129,818). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Cash flow sensitivity analysis for variable-rate instruments

The Group's exposure to variable-rate instruments is not deemed to be significant at the reporting date.

(iii) Price risk

Exposure

The Group's exposure to equity securities price risk arises from equity investments held by the Group, excluding the unconsolidated subsidiary, amounting to EUR980,919 (2015: EUR52,804) at the reporting date.

Sensitivity

The sensitivity for equity price risk illustrates how changes in fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market. The Group's exposure to price risk is not deemed to be significant at the reporting date.

3.2.2 Credit risk

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

- Available-for-sale investments
- Loans and receivables - investments
- Reinsurers' share of technical provisions
- Insurance and other receivables
- Cash and cash equivalents

The Group's policy is to maintain a broad mix and spread of assets in order to minimise concentration risk. Concentration risk is limited by a system of limits and thresholds and by the Group's investment guidelines which are continuously monitored.

For DARAG, default risks from insurance contracts relate mainly to receivables from reinsurers and from insured parties. The latter are assumed by DARAG in the course of portfolio transfers and largely concern recourse claims that are typical in other countries. The collection process is monitored closely in order to mitigate this risk.

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.2 Credit risk (continued)

When entering into reinsurance contracts in the course of portfolio or company takeovers, the credit rating of the reinsurer is analysed as part of due diligence. Where appropriate or meaningful from a risk or business perspective, targeted loss adjustments are made or additional reinsurance cover is purchased from companies with good credit ratings.

Reinsurance is used to manage insurance risk. DARAG's policy is to place outwards reinsurance with listed multinational reinsurance companies with high credit ratings (not less than 'A-').

Group management also monitor issuer risk, that is, the risk of a decline in the credit rating or the default of an issuer of securities and/or credit institutions. In addition to mixing and diversifying its investments, DARAG minimises default risk by investing in securities rated investment grade or higher and by means of a risk-appropriate selection of issuers.

DARAG has a target average minimum rating of 'A–' for its portfolio of tied assets. Risks are monitored in the course of investment management.

Exposure

Maximum exposure to credit risk:

	2016 **EUR**	2015 EUR
Available-for-sale investments - debt securities and bond funds	**252,150,414**	51,927,029
Loans and receivables - investments	**4,031,567**	-
Reinsurers' share of technical provisions - claims outstanding	**40,889,666**	36,152,436
Insurance and other receivables	**23,355,936**	3,127,703
Cash and cash equivalents	**42,217,344**	104,872,016
Total assets bearing credit risk	**362,644,927**	196,079,184

The maximum exposure to credit risk at the reporting period in respect of the financial assets mentioned above is equivalent to the gross carrying amount. These assets are analysed in the table below using Fitch's credit ratings or equivalent:

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.2 Credit risk (continued)

	2016
	EUR
Available-for-sale investments	
AAA	**79,996,436**
AA	**48,271,573**
A	**57,660,385**
BBB	**62,531,403**
BB	**3,690,617**
	252,150,414
Loans and receivables - investments	
AAA	**1,215,742**
AA	**2,768,161**
Not rated	**47,664**
	4,031,567
Reinsurers' share of technical provisions	
AA	**24,780,140**
A	**14,256,240**
BBB	**14,860**
Not rated	**1,838,426**
	40,889,666
Insurance and other receivables	
AA	**1,930,936**
A	**5,443,147**
Not rated	**18,150,435**
	25,524,518
Cash and cash equivalents	
A	**20,781,275**
BBB	**21,436,069**
	42,217,344

	2015
	EUR
Available-for-sale investments	
AAA	15,159,456
AA	4,256,687
A	7,935,475
BBB	19,238,375
BB	4,574,996
CCC	92,040
D	670,000
Not rated	-
	51,927,029

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.2 Credit risk (continued)

Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Impairment of financial assets

The ageing of insurance and other receivables is analysed as follows:

	Carrying amounts 2016 EUR
Past due but not impaired	
Up to 12 months	**3,748,860**
Over 12 months	**500,000**
	4,248,860

	Carrying amounts 2015 EUR
Past due but not impaired	
Up to 12 months	1,939,653
Over 12 months	647,394
	2,587,047

Amounts above are shown net of impairment allowance on insurance and other receivables at the reporting date amounting to EUR4,080,838. An average default rate of 2% on all accounts receivable was applied in the comparative year. All amounts past due but not impaired receivables are expected to be recovered in the normal course of business.

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which principally comprise technical provisions, insurance and other payables and borrowings.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations when due. Given the nature of its business model, DARAG, in contrast to conventional insurers, does not receive a continuous supply of liquidity from regular premium income. Therefore, particular attention is paid to liquidity. In general, DARAG manages the liquidity risk by means of a liquidity plan on a rolling basis. The weighting of all immediately tradeable investments in relation to the overall portfolio is also regularly monitored. The necessary liquidity is assured by means of a balanced maturity profile for investments.

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

3.2.3 Liquidity risk

There are three main ways to generate liquidity for DARAG Group: capital increase, covering assets of new portfolio transfers and selling/maturity of existing investments. The maturity structure of DARAG's financial assets is short term. DARAG needs liquidity to meet costs and to settle claims. Liquidity is also a major requirement of transferring new portfolios or acquiring whole companies. The Group uses ongoing integrated liquidity planning to ensure that all claims and costs are covered at all times and to reach the goals in growth by acquiring new portfolios.

The following table shows the expected maturity of the Group's technical provisions:

	2016	2015
Up to one year	**23.2%**	21.0%
Over one year and up to five years	**33.2%**	39.1%
Over five years and up to ten years	**26.5%**	18.7%
Over ten years and up to fifteen years	**10.8%**	9.2%
Over fifteen years	**6.3%**	12.0%

The expected timing of payments from the provisions for outstanding claims may involve considerable uncertainty.

All other liabilities included in the statement of financial position mature within one year, unless otherwise stated (see notes 17 and 18).

3.3 Capital management

As from 1 January 2016, the Group was subject to the requirements of the EU Solvency II directive.

The Group's objectives when managing capital are to comply with the insurance capital requirements applicable at the level of a Group in terms of the Solvency II directive; safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders; and to maintain an optimal capital structure to reduce the cost of capital. The Group's capital structure is monitored with appropriate reference to its subsidiaries financial condition and prospects. Three of the subsidiaries are (re)insurance companies subject to external capital requirements in line with the regulations issued by their respective Regulators in Malta, Germany and Italy.
In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group maintains the level of capital by reference to its financial obligations, commitments arising from operational requirements as well as the requirements to hold regulatory capital for its insurance business in compliance with the rules issued by the Malta Financial Services Authority (MFSA). In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders or issue new shares. The minimum capital requirement (MCR) must be maintained at all times throughout the year. The Group monitors its capital level on a regular basis, by ensuring that sufficient assets are maintained to match insurance liabilities and to provide solvency cover.

3. Management of insurance and financial risk (continued)

3.3 Capital management (continued)

The Group defines capital as the excess of assets over liabilities as valued in accordance with the respective regulatory requirements. The Group's capital level as at the end of the reporting period is deemed adequate by the directors.

Any transactions that may affect the Group's solvency position are immediately reported to the directors and shareholders for resolution, prior to notifying the Regulator. Any potential shortfall in capital requirements necessitates the development of a recovery plan with a list of possible actions.

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

The solvency capital requirement at the level of the Group is calculated on the basis of consolidated data as outlined in Article 230 of the Solvency II Directive and adopts the standard formula in a manner consistent with the approach adopted by the insurance subsidiaries. As at 31 December 2016, the Group's own funds eligible for solvency under Solvency II amounted to EUR80,911,195 (unaudited). As at 31 December 2016, the solvency ratio of the eligible own funds to the required own funds was 152.18% (unaudited).

The Group was compliant with its regulatory capital requirements throughout the financial year.

3.4 Fair value hierarchy

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If inputs from different levels are used to measure an instrument, the lowest level input that is significant to the measurement is used to categorise the fair value measurement in its entirety. Allocation to the fair-value hierarchy levels is reviewed at a minimum at the end of each reporting period. Transfers are shown as if they had taken place at the beginning of the financial year.

There are no financial liabilities measured at fair value.

3. Management of insurance and financial risk (continued)

3.4 Fair value hierarchy (continued)

In the case of Level 1, a market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. The financial instruments allocated to this level mainly comprise equities and equity funds for which either a stock market price is available or prices are provided by a price quoter on the basis of actual market transactions.

In the case of Level 2, the inputs used for valuation of financial instruments with a fixed-contract period must be observable during the full period of such contracts. Furthermore, the investments for which prices are provided by price quoters, but for which there is no proof that these are based on actual market transactions, are also allocated to this level.

In the case of Level 3, the inputs used reflect DARAG's assumptions regarding the factors that market players would consider in their pricing. These investments are mainly measured using valuation models and techniques. The financial instruments allocated to this level of the fair-value hierarchy comprise investment property, investments in private equity and in non-consolidated subsidiary.

The following table shows the carrying amounts and fair values of financial assets and their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Carrying amount EUR
2016				
Investments measured at fair value				
Available-for-sale investments				
Fixed-income securities	169,180,364	66,883,098	-	236,063,462
Variable-yield securities	54,145	16,090,346	7,015,834	23,160,325
Investment property	-	-	2,500,000	2,500,000
	169,234,509	**82,973,444**	**9,515,834**	**261,723,787**
Portfolio composition	65%	32%	4%	100%

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Carrying amount EUR
2015				
Investments measured at fair value				
Available-for-sale investments				
Fixed-income securities	7,108,374	44,818,654	-	51,927,029
Variable-yield securities	52,805	-	6,037,354	6,090,159
Investment property	-	-	2,500,000	2,500,000
	7,161,179	44,818,654	8,537,354	60,517,187
Portfolio composition	12%	74%	14%	100%

3. Management of insurance and financial risk (continued)

3.4 Fair value hierarchy (continued)

Most of the securities classified as Level 2 are bonds where the source for fair value is not prices quoted directly in active markets but prices sourced from Bloomberg using interest rate curves.

The following table shows a reconciliation of the assets included within Level 3 of the fair value hierarchy:

	Available-for-sale investments EUR	Investment property EUR	Total EUR
Balance at 1 January 2015	6,169,070	2,400,000	8,569,070
Income and expenses			
recognised in other comprehensive income	(727,994)	-	(727,994)
Change in fair value recognised in profit or loss	-	100,000	100,000
Additions (purchases)	27,000	-	27,000
Exchange rate changes	569,277	-	569,277
Balance at 31 Devember 2015	6,037,354	2,500,000	8,537,354
Balance at 1 January 2016	6,037,354	2,500,000	8,537,354
Income and expenses			
recognised in profit or loss	(38,167)	-	(38,167)
recognised in other comprehensive income	19,776	-	19,776
Additions (purchases)	32,250	-	32,250
Arising on acquisition	923,380	-	923,380
Exchange rate changes	41,241	-	41,241
Balance at 31 Devember 2016	**7,015,834**	**2,500,000**	**9,515,834**

The Group generally measures Level 3 available-for-sale investments using the net asset value method since it is deemed to be a close approximation of fair value. This amount includes investments in an investment fund amounting to EUR359,126 (2015: EUR345,267), an unconsolidated company in liquidation amounting to EUR5,733,328 (2015: EUR5,692,087) as further described in note 7 and EUR923,380 arising on acquisition. The investment fund is unquoted and the valuation reflects the net asset value of the shares in the fund based on the inputs from the issuer of the fund. The 100% share of the audited net asset value of the non-consolidated company, which is net of the costs of liquidation, is the most appropriate indicator of fair value. No significant changes in the net asset value are expected. The amount arising on acquisition represents an investment in a privately held consortium of entities and represents its cost, which is deemed to be a close approximation of fair value.

Investment property is also included within Level 3 and further information is included within Note 6. The valuation model considers the present value of net cash flows to be generated from the property discounted using risk-adjusted discount rates of 6.25% (6.25% in 2015). The directors have determined that the valuation of the investment property, which is based on the properties' highest and best use, is not materially sensitive to changes in unobservable inputs and accordingly, sensitivity analysis is not being disclosed.

4. Intangible assets

	2016	2015
	EUR	EUR
Computer software		
At 1 January		
Cost	**1,679,974**	1,770,186
Accumulated amortisation	**(150,213)**	(198,564)
Opening carrying amount	**1,529,761**	1,571,622
Year ended		
Opening carrying amount	**1,529,761**	1,571,622
Arising on acquisition	**268,910**	-
Additions	**18,018**	108,352
Amortisation	**(110,651)**	(106,868)
Impairment loss	**-**	(43,345)
Closing carrying amount	**1,706,038**	1,529,761
At 31 December		
Cost	**5,961,235**	1,679,974
Accumulated amortisation	**(4,255,197)**	(150,213)
Net carrying amount	**1,706,038**	1,529,761

Intangible assets include computer software with a carrying amount of EUR877,499 (2015: EUR877,499) which enables the handling of claims and could be used as a reporting tool. The software is not yet in use and thus amortisation has not yet commenced. The software will have a definite useful life which will be determined by the Group once the software starts to be used. The software was developed in anticipation of the Group's acquisition of an entity incorporated in Greece, however, with minor changes the software can be also used for other projects and markets. Upon assessment the directors concluded that the asset is not impaired.

Intangible assets are non-current in nature.

5. Property, plant and equipment

	2016 EUR	2015 EUR
Office equipment		
At 1 January		
Cost	**1,752,625**	1,642,522
Accumulated depreciation	**(952,893)**	(728,055)
Opening carrying amount	**799,732**	914,467
Year ended 31 December		
Opening carrying amount	**799,732**	914,467
Arising on acquisition	**107,470**	-
Additions	**101,855**	110,103
Disposals	**(2,959)**	-
Depreciation	**(205,816)**	(224,838)
Closing carrying amount	**800,282**	799,732
At 31 December		
Cost	**3,060,178**	1,752,625
Accumulated depreciation	**(2,259,896)**	(952,893)
Net carrying amount	**800,282**	799,732

Office equipment is non-current in nature.

6. Investment property

Reconciliation of carrying amount

	2016 EUR	2015 EUR
Balance at 1 January	**2,500,000**	2,400,000
Change in fair value	-	100,000
Balance at 31 December	**2,500,000**	2,500,000

Investment property comprises a building in Finland, which is leased to third parties and held for long-term rental yields. Rental income for the reporting year amounted to EUR198,985 (2015: EUR292,875). The operating costs related to the investment property amounted to EUR76,312 (2015: EUR83,000).

Investment property is non-current in nature.

7. Available-for-sale financial assets

	2016	2015
	EUR	EUR
Debt securities		
Government debt securities	**97,030,468**	12,255,000
Quasi-governmental debt secutities	**8,351,388**	670,000
Corporate debt securities	**72,221,797**	15,270,665
Bonds issued by financial institutions	**44,714,967**	16,622,990
	222,318,620	44,818,655
Bond funds	**29,831,794**	-
Other investment funds	**359,126**	345,267
Equity securities	**6,714,247**	5,744,891
Time deposits	**-**	7,108,374
	259,223,787	58,017,187

Equity securities include a non-consolidated subsidiary with a carrying value amounting to EUR5,733,328 (2015: EUR5,692,000). The subsidiary is not consolidated due to the fact that it is currently under liquidation and therefore, under control of the local regulatory authorities.

DARAG Germany has a commitment to pay an additional EUR1,000,000 (2015: EUR1,000,000) in case of a capital call of an investment fund. This scenario is not probable as the fund's investing period ended in June 2014 due to the diversification requirement not being fulfilled. The management of the fund is currently disinvesting the remaining assets.

Available-for-sale investments are principally non-current in nature.

8. Deferred acquisition costs

	2016	2015
	EUR	EUR
Balance at 1 January	**-**	-
Arising on acquisition	**7,924,697**	-
Movement for the year	**166,660**	-
Balance at 31 December	**8,091,357**	-

Deferred acquisition costs are current in nature.

9. Loans and receivables - investments

	2016	2015
	EUR	EUR
Promissory notes	**3,983,903**	-
Other	**47,664**	-
	4,031,567	-

Loans and receivables - investments are principally non-current in nature.

10. Insurance and other receivables

	2016	2015
	EUR	EUR
Receivables arising from insurance operations:		
Due from policyholders	**8,697,687**	26,420
Due from insurance intermediaries	**4,012,570**	44,205
Receivables arising from inward and outward reinsurance	**10,103,588**	2,516,422
Deposits retained on assumed reinsurance	**542,091**	540,656
Accrued tax recoverable	**111,268**	-
Other receivables	**2,168,582**	
Prepayments and accrued income	**3,488,712**	534,920
	29,124,498	3,662,623

Insurance and other receivables are current in nature.

Deposits retained on assumed reinsurance represent deposits recognised at face value which become payable upon the final conclusion of the underlying risks. Amounts are reported to the Group from the individual reinsures and are linked to the terms and conditions of the individual reinsurance contracts.

Accrued tax recoverable represents accrued tax refunds on undistributed profits of the subsidiary under-taking on consolidation.

All insurance and other receivables are unsecured, interest free and repayable as described in Note 3.2.2.

11. Cash and cash equivalents

The year-end cash and cash equivalents comprise cash at bank amounting to EUR42,217,344 (2015: EUR104,872,016), of which EUR7,012,202 represent cash at bank arising on acquisition.

Cash and cash equivalents are current in nature.

12. Capital and reserves

12.1 Share capital

	2016	2015
	EUR	EUR
Authorised and issued share capital		
1,199 Ordinary 'A' shares of EUR1 each	**1,199**	1,199
1 Ordinary 'B' share of EUR1	**1**	1
Fully paid-up	**1,200**	1,200

Holders of Ordinary ‘A’ shares are entitled to receive dividends, participate in the profits of the Company and are entitled to one vote per share at general meetings of the Company. The holder of the ordinary ‘B’ share does not have the right to receive dividends, participate in the profits of the Company or vote on ordinary resolutions.

12. Capital and reserves (continued)

12.1 Share capital (continued)

If in a winding up, the assets available for distribution among the shareholders shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the holder of the Ordinary 'B' share shall nevertheless be entitled to receive no more than the amount which at the commencement of the winding up has been paid up on the Ordinary 'B' share held in the Company. The holders of the Ordinary 'A' shares and the holder of the ordinary 'B' share rank pari passu in all other respects.

12.2 Capital contribution

The capital contribution is distributable subject to approval from the Malta Financial Services Authority, should such distribution not negatively impinge on the solvency requirements of the Group. During the current year, DARAG Group Limited and its ultimate shareholders agreed to the conversion of EUR21,500,000 of a short-term loan into a capital contribution to the Group's equity reserves. The remaining EUR70,586 represents a cash contribution.

12.3 Other reserves

12.3.1 Available-for-sale fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

12.3.2 Post-employment benefits reserve

The post-employments benefits reserve comprises actuarial gains and losses upon re-measurement at the reporting date.

12.4 Retained earnings

	2016	2015
	EUR	EUR
Profit carried forward	**7,785,156**	4,994,057
Reserve required by law for DARAG Germany	**8,235,981**	8,235,981
Reserve required by statute for DARAG Germany	**2,625,000**	2,625,000
Total	**18,646,137**	15,855,037

The retained earnings include a reserve required by statute for DARAG Germany and a reserve required by law (German Public Companies Act §150) that are not distributable.

13. Technical provisions

13.1 Technical provisions are analysed as follows:

	2016			2015		
	Gross EUR	**Reinsurance EUR**	**Net EUR**	Gross EUR	Reinsurance EUR	Net EUR
Unearned premium reserve	**29,384,812**	**95,701**	**29,289,111**	-	-	-
Provision for outstanding claims	**206,069,670**	**41,159,666**	**164,910,004**	108,515,508	36,426,436	72,089,073
Other technical provisions	**74,763**	**(270,000)**	**344,763**	114,062	(274,000)	388,062
Balance at 31 December	**235,529,245**	**40,985,367**	**194,543,878**	108,629,570	36,152,436	72,477,135

Technical provisions, net of reinsurers' share, include amounts that are both current and non-current in nature. The expected maturity is disclosed in liquidity risk management in note 3.2.3.

As further disclosed in Note 27, following the announcement of a change to the Ogden rate in 2017, the Group has estimated the impact on technical provisions to be EUR15,600,000 on a gross basis. There is no impact on net technical provisions or profit or loss given that the related claims are fully reinsured and consequently the financial statements have not been adjusted to reflect this matter.

13.2 Unearned premium reserve

	2016			2015		
	Gross EUR	**Reinsurance EUR**	**Net EUR**	Gross EUR	Reinsurance EUR	Net EUR
Balance at 1 January	**-**	**-**	**-**	3,647	-	3,647
Arising on acquisition	**27,162,679**	**95,701**	**27,066,978**	-	-	-
Premiums written	**3,060,180**	**-**	**3,060,180**	106,715	-	106,715
Earned premiums	**(793,624)**	**-**	**(793,624)**	(110,362)	-	(110,362)
Exchange rate changes	**(44,423)**	**-**	**(44,423)**	-	-	-
Balance at 31 December	**29,384,812**	**95,701**	**29,289,111**	-	-	-

The major part of the unearned premium reserve amounting to EUR27,066,978 (net) is in respect of the ongoing business of the subsidiary in Italy. The remaining EUR 2,222,133 (gross and net) is in respect of a retrospective reinsurance contract with written premium of EUR 3.1m earned over four years.

13.3 Provision for outstanding claims

For direct insurance business, the gross run-off of prior-year claims relating to direct insurance business generated a profit of EUR3,178,082 (2015: EUR11,556,216). The positive run-off in 2016, net of reinsurers' share, resulted in a loss of EUR91,603 (2015:Gain EUR5,339,724). In addition, inward reinsurance business generated a positive net run-off result from the provisions for the prior year claims of EUR2,687,443 (2015: EUR8,007,225).

13. Technical provisions (continued)

13.3 Provision for outstanding claims (continued)

	2016			2015		
	Gross EUR	**Reinsurance EUR**	**Net EUR**	Gross EUR	Reinsurance EUR	Net EUR
Balance at 1 January	**108,515,508**	**36,426,436**	**72,089,072**	81,279,412	15,540,618	65,738,794
Arising on acquisition	**124,979,787**	**16,491,486**	**108,488,301**	-	-	-
Portfolio entries/withdrawals	**-**	**-**	**-**	69,510,922	32,887,555	36,623,367
Plus claims and claims expenses incurred	**(5,783,709)**	**(3,187,869)**	**(2,595,840)**	(19,293,491)	(6,580,563)	(12,712,928)
Less claims and claims expenses paid (net)	**17,547,061**	**5,462,904**	**12,084,157**	26,454,419	4,572,331	21,882,088
Other changes	**160,759**	**-**	**160,759**	141,984	-	141,984
Exchange rate changes	**(4,255,614)**	**(3,107,483)**	**(1,148,131)**	3,331,100	(848,843)	4,179,943
Balance at 31 December	**206,069,670**	**41,159,666**	**164,910,004**	108,515,508	36,426,436	72,089,072

Outstanding claims are analysed as follows:

	EUR	**EUR**	**EUR**	EUR	EUR	EUR
Annuity claims reserve	**8,119,640**	**3,882,294**	**4,237,346**	6,740,643	4,312,796	2,427,847
Case reserve	**177,726,981**	**36,982,374**	**140,744,607**	88,489,370	31,945,618	56,543,752
IBNR reserve	**20,223,049**	**294,998**	**19,928,051**	13,285,495	168,022	13,117,473
Balance at 31 December	**206,069,670**	**41,159,666**	**164,910,004**	108,515,508	36,426,436	72,089,072

The provision for annuity claims involves annuities for disability cases and is usually due in the long term. This provision refers to provisions for annuities in MTPL and general liability insurance. The biometric actuarial assumptions are selected using appropriate actuarial principles. Provisions for annuity claims are calculated as the present value of the expected future payments. The discount rate used is 2.25% (2015: 2.25%). Note 3.1 contains further information in this respect.

The case reserve reflects the amount expected to settle individual known claims that have already been reported at the reporting date. The major part of this provision is measured at face value. The IBNR reserve is calculated using actuarial methods on the basis of historical claims development data and taking into account foreseeable future trends. Implicit within the IBNR is IBNER (Incurred But Not Enough Reserved) which may have both positive and negative values. This is effectively an adjustment to the individual case reserves at an aggregate level. While on an individual basis case reserves reflect expected future settlements, it is likely that in practice some claims will settle for less and others for more and the IBNER is the expected sum of the deviations based on past development.

Expenses arise throughout the claims cycle, both in settling and adjusting the estimates for future payments. The provisions set up for claims from previous years are regularly updated using best estimates based on exposure and claims information and past claims experience.

13. Technical provisions (continued)

13.4 Run-off results

Gross	Portfolios closed by the Group up until 2012 EUR	Portfolios closed by the Group during 2013 EUR	Portfolios closed by the Group during 2014 EUR	Portfolios closed by the Group during 2015 EUR	Portfolios closed by the Group during 2016 EUR	Total EUR
Gross claim at 31 December	52,342,490	17,099,231	29,037,183	44,373,702	124,979,787	267,832,393
First year movement	(12,863,571)	(2,425,030)	(7,590,889)	(17,352,299)	-	(40,231,789)
Second year movement	(14,990,168)	(1,855,485)	(4,010,645)	-	-	(20,856,298)
Third year movement	(2,324,375)	(795,217)	-	-	-	(3,119,592)
Gross provision at 31 December 2016	22,164,376	12,023,498	17,435,649	27,021,404	124,979,787	**203,624,714**
Gross claim at 31 December	52,342,490	17,099,231	29,037,183	44,373,702	-	142,852,606
Exchange adjustments	-	(3,619,232)	(376,033)	2,966,455	-	(1,028,810)
Payments 2014 – 2016	(11,503,435)	(2,552,960)	(8,816,121)	(10,718,236)	-	(33,590,752)
Gross provision at 31 December 2016	(22,164,376)	(12,023,498)	(17,435,649)	(27,021,404)	-	(78,644,927)
Surplus/(deficit) to date	18,674,679	(1,096,460)	2,409,380	9,600,518	-	29,588,117

Net	Portfolios closed by the Group up until 2012 EUR	Portfolios closed by the Group during 2013 EUR	Portfolios closed by the Group during 2014 EUR	Portfolios closed by the Group during 2015 EUR	Portfolios closed by the Group during 2016 EUR	Total EUR
Net claim at 31 December	40,198,632	17,099,231	23,664,678	20,594,704	108,488,301	210,045,546
First year movement	(10,857,559)	(2,425,030)	(6,140,384)	(8,879,775)	-	(28,302,748)
Second year movement	(11,266,870)	(1,855,485)	(5,069,559)	-	-	(18,191,914)
Third year movement	(293,255)	(795,217)	-	-	-	(1,088,472)
Net provision at 31 December 2016	17,780,948	12,023,498	12,454,735	11,714,929	108,488,301	**162,462,412**
Net claim at 31 December	40,198,632	17,099,231	23,664,678	20,594,704	-	101,557,245
Exchange adjustments	-	(3,619,232)	(375,878)	1,895,760	-	(2,099,350)
Payments 2014 – 2016	(8,075,448)	(2,552,960)	(8,051,858)	(6,491,645)	-	(25,171,911)
Net provision at 31 December 2016	(17,780,948)	(12,023,498)	(12,454,735)	(11,714,929)	-	(53,974,110)
Surplus/(deficit) to date	14,342,236	(1,096,459)	2,782,207	4,283,890	-	20,311,874

In the table above, year of closure refers to the year in which the portfolio was acquired by the Group. Given that the Group adopted IFRS on 1st January 2014 (effective date of transition), development tables are being presented from that date onwards in line with the requirements of IFRS 4 *Insurance Contracts* . Any portfolios closed before 2012 are presented as if they were closed in 2012 for the purposes of the table above. Furthermore, the starting point for portfolios closed up until 2012 and during 2013 is 31 December 2013 (i.e. the effective date of transition to IFRS.

	2016 EUR Gross	Net
Analysed as follows:		
Provision as at 31 December 2016 as above	203,624,714	162,462,412
Unallocated loss adjustment expense	2,444,956	2,447,592
Provision for outstanding claims	**206,069,670**	**164,910,004**

13. Technical provisions (continued)

13.4 Run-off results (continued)

The ultimate loss of a portfolio post-acquisition, comprises all payments made up to the reporting date, plus the claims reserve at the reporting date. Given complete information regarding all losses incurred up to the reporting date, the ultimate loss status for each reporting period would remain the same. In practice however, the ultimate-loss status (based on estimates) is exposed to fluctuations that reflect the growth in knowledge about the claims cases. For younger portfolios with more recent exposure new late reported claims will emerge in reporting periods post-acquisition.

13.5 Unexpired risks provision

The unearned premium reserve was analysed in relation to expected claim costs, deferred acquisition costs, maintenance costs and investment income on a line-by-line basis, resulting in a shortfall of EUR78,572 at the reporting date.

14. Post-employment benefits

Post-employment benefits represent two pension schemes held by two subsidiaries within the Group. EUR8,385,789 (2015: EUR8,661,896) relates a defined benefit pension plan of past employees and members of management. These recipients are currently not active employees or active members of the management of the DARAG Group and have mainly retired. In general, the pensions are thus in or close to the paying-out phase. In addition, the Group acquired another defined benefit pension plan in the current year through the acquisition of the Italian subsidiary, amounting to EUR526,334 at the reporting date. This mainly relates to State obligations for current employees until they retire or resign. The plans are not funded by plan assets and the subsidiaries meet the benefit payment obligations as they fall due.

14.1 The movement in the defined benefit liability over the year is as follows:

	2016 EUR	2015 EUR
Balance at 1 January	**8,661,896**	9,534,704
Arising on acquisition	**526,334**	-
Changes recognised in profit or loss		
Net interest expense	**169,504**	148,047
	169,504	148,047
Changes recognised in other comprehensive income		
Remeasurements		
Losses/(Gains) from changes in financial assumptions	**547,045**	(439,293)
Gains from experience adjustments	**(415,857)**	(9,470)
	131,188	(448,763)
Other changes		
Benefits paid during the year	**(576,819)**	(572,092)
	(576,819)	(572,092)
Balance at 31 December	**8,912,103**	8,661,896

14. Post-employment benefits (continued)

14.2 Defined benefit obligations were measured on the basis of the following significant actuarial assumptions:

	2016	2015
	%	%
Discount rate	**1.39**	2.06
Pension growth rate	**1.99**	1.99

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics in the respective jurisdictions. These assumptions translate into an average life expectancy in years for a pensioner retiring at ages between 60 and 65. The remaining duration of the defined benefit plan amounting to EUR8,385,769 (2015: EUR8,661,896) as at the end of the reporting year is 9.6 years (10.6 years 2015).

14.3 Sensitivity analysis

A reasonable increase or decrease in key actuarial assumptions would have the following effect on the present value of the defined benefit obligation as at 31 December:

	Change in value of defined benefit obligations if parameter increase		**Change in value of defined benefit obligations if parameter decrease**	
	2016	2015	**2016**	2015
Discount rate (+/- 0.5%)	**-5.08%**	-5.06%	**5.55%**	5.53%
Mortality rate (+/- 10%)	**-5.82%**	-5.20%	**5.85%**	5.17%
Pension growth rate (+/- 0.5%)	**4.54%**	5.27%	**-4.13%**	-4.88%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period, except for the post-employment benefits arising on acquisition.

15. Provisions

At the reporting date, provisions amounting to EUR18,238,848 (2015: nil), mainly relate to those arising on acquisition. These primarily represent estimated amounts for restructuring and reorganisation expenses, which arise in the normal course of the Group's business, and are expected to be payable within one year. The provisions are expected to be incurred based on the assumption of business mix improvement, improved combined ratios, reduction in administrative expenses and other synergies arising in the acquisition of subsidiaries.

16. Insurance and other liabilities

	2016 EUR	2015 EUR
Payables arising from insurance operations	**642,353**	61,180
Payables arising from reinsurance business	**612,143**	640,246
Value-added tax payable	**1,267,449**	-
Deposits from passive reinsurance business	**110,410**	-
Payroll and other tax liabilities	**129,244**	19,721
Accruals and other payables	**17,162,459**	3,564,209
	19,924,058	4,285,356

All insurance and other liabilities are unsecured, interest-free and payable on demand, except for an amount of EUR546,654 (2015: nil) which is payable after more than one year.

17. Borrowings

In June 2016, DARAG Group Limited concluded the conversion of EUR21,500,000 of the loan from its shareholder into a capital contribution to the equity reserves, releasing the company from the repayment commitment.

Furthermore, a subsidiary company entered into a loan agreement in the current year with a carrying amount at the reporting date of EUR22,079,833. The nominal amount of the loan is EUR22,500,000 and loan set-up fees amounting to EUR429,876 have been capitalised over the contractual period of the loan. EUR9,709 have been charged to profit or loss in the current financial year. The total related contractual undiscounted cash flows, including interest, amount to EUR25,092,187, 96.5% of which are payable between one year to five years. Shares in this subsidiary are pledged as a security for the obligations arising from this loan agreement.

18. Net operating expenses

	2016			2015		
	Gross EUR	**Reinsurance EUR**	**Net EUR**	Gross EUR	Reinsurance EUR	Net EUR
Acquisition costs	**1,305,095**	**-**	**1,305,095**	2,774,659	-	2,774,659
Administration expenses	**320,369**	**-**	**320,369**	556,216	-	556,216
Reinsurance commission	**234,790**	**(4,555)**	**239,345**	893,972	228,332	665,640
Total	**1,860,254**	**(4,555)**	**1,864,809**	4,224,847	228,332	3,996,515

19. Finance income and finance costs

	2016	2015
	EUR	EUR
Interest income on:		
Available-for-sale investments	**1,504,655**	1,127,918
Loans and receivables	**24,165**	255,283
Other	**91,040**	19,438
Dividend income on available-for-sale investments	**54,197**	-
Rent receivable from investment property	**198,985**	292,875
Investment income	**1,873,042**	1,695,514
Gains from change in fair value of investment property	**-**	100,000
Realised gains on disposal of investments	**-**	22,760
Net foreign exchange gain	**-**	294,293
Other	**304,739**	-
Finance income	**2,177,781**	2,112,567
Net foreign exchange loss	**(895,665)**	-
Realised losses on disposal of investments	**(576,861)**	(421,710)
Investment management expenses	**(384,317)**	(541,454)
Interest on loans	**(654,777)**	-
Other interest expenses	**(177,382)**	(283,160)
Other expenses	**(43,375)**	-
Finance costs	**(2,732,377)**	(1,246,324)

20. Income and expenses

20.1 Other income

	2016	2015
	EUR	EUR
Recoveries on receivables previously written off	**174,865**	16,154
Gain on sale of property, plant and equipment	**-**	1,300
Income from the reversal of other non-technical provisions	**117,245**	62,134
Other income	**38,845**	358,799
	330,955	438,387

20.2 Expenses by nature

	2016	2015
	EUR	EUR
The profit before tax is stated after charging:		
Depreciation and amortistion	**(316,467)**	(422,712)
Professional, travelling and other expenses	**(6,266,398)**	(1,059,055)
Employee benefit expenses allocated to administrative expenses	**(5,152,891)**	(2,446,725)
Expenses for services and commissions	**(1,066,797)**	(3,218,272)
Other expenses	**(990,291)**	(1,027,087)
Total	**(13,792,844)**	(8,173,851)

20. Income and expenses (continued)

Fees charged by the auditor, exclusive of VAT, for services rendered during the financial year ended 31 December 2016 are shown in the table below:

	2016 EUR Group Auditors	**2016 EUR Other Component Auditors**	2015 EUR Group Auditors
Annual statutory audit	**235,000**	**139,500**	252,290
Tax services	**-**	**64,486**	-
Assurance and other services	**144,493**	**61,763**	147,317
	379,493	**265,749**	399,607

21. Employee benefit expenses

	2016 EUR	2015 EUR
Wages and salaries	**5,885,146**	3,879,279
Social security contributions	**447,914**	378,749
Other costs	**16,635**	35,755
Total	**6,349,695**	4,293,783

During 2016, directors' fees and emoluments for the Group amounted to EUR1,230,000 (2015: EUR873,000).

The average number of employees employed during the year was:

	2016 No.
Executives	4
Managerial	10
Non-managerial	33
Average number of employees	**47**

Total average number of employees in the comparative period amounted to 41, with 13 of these employees in management positions.

Due to the fact that the Italian subsidiary was acquired towards the end of 2016, its employees are not included in the average number of employees for the year.

22. Income taxes

22.1 Amounts recognised in profit or loss

	2016 EUR	2015 EUR
Current tax expense		
Current year	**123,679**	216,770
Changes in estimates related to prior periods	**(17,103)**	(5,019)
	106,576	211,752
Adjustment for tax refund	**(111,268)**	-
Deferred tax expense		
Origination and reversal of temporary differences	**(438,623)**	1,341,203
Tax (credit)/expense	**(443,315)**	1,552,955

22.2 Amounts recognised in OCI

	2016			2015		
	Before tax EUR	**Tax expense EUR**	**Net EUR**	Before tax EUR	Tax (expense) /income EUR	Net EUR
Available-for-sale financial assets	**961,101**	**(295,307)**	**665,794**	(367,836)	183,321	(184,515)
Other changes	**-**	**-**	**-**	(43)	-	(43)
Remeasurement of defined benefit liability	**(131,188)**	**(234,832)**	**(366,020)**	448,763	(84,288)	364,475
	829,913	**(530,139)**	**299,774**	80,884	99,033	179,917

22.3 Reconciliation of effective tax rate

	2016 EUR	2015 EUR
Profit before tax	**2,407,296**	1,493,444
Tax using the Company's domestic tax rate of 35% (2015:35%)	**842,554**	522,706
Effect of tax rates in foreign jurisdictions	**179,034**	(301,780)
Tax effect of:		
Non-deductible expenses	**4,500,818**	124,011
Tax-exempt income	**(5,926,760)**	-
Unrecognised deferred tax	**265,101**	1,242,456
Trading losses utilised	**(37,356)**	-
Other	**(155,438)**	(29,420)
Changes in estimates relating to prior periods	**-**	(5,019)
Adjustment for tax refund	**(111,268)**	-
	(443,315)	1,552,955

22. Income taxes (continued)

22.4 Movement in deferred tax balances

	Net balance at 1 January 2016 EUR	Recognised in profit or loss EUR	Recognised in other comprehensive income EUR	Arising on acquisition EUR	Net balance at 31 December 2016 EUR	Deferred tax assets at 31 December 2016 EUR	Deferred tax liabilities at 31 December 2016 EUR
Property, plant and equipment	-	-	-	1,976	1,976	1,976	
Available-for-sale investments	52,745	-	(295,307)	(1,019,993)	(1,262,555)	-	(1,262,555)
Deferred acquisition costs	-	-	-	(2,442,392)	(2,442,392)	-	(2,442,392)
Insurance and other receivables	-	-	-	4,844,833	4,844,833	4,844,833	-
Provisions for outstanding claims	129,011	438,623	-	(2,107,473)	(1,539,839)	-	(1,539,839)
Provision for post employment benefits	1,272,151	-	(234,832)	-	1,037,319	1,037,319	-
Other provisions				4,157,098	4,157,098	4,157,098	
Insurance and other liabilities	-	-	-	622,144	622,144	622,144	
Net tax assets (liabilities)	1,453,907	438,623	(530,139)	4,056,193	5,418,584	10,663,370	(5,244,786)

	Net balance at 1 January 2015 EUR	Recognised in profit or loss EUR	Recognised in other comprehensive income EUR	Net balance at 31 December 2015 EUR	Deferred tax assets at 31 December 2015 EUR	Deferred tax liabilities at 31 December 2015 EUR
Available-for-sale investments	(109,745)	(20,000)	182,491	52,745	112,217	(59,472)
Provisions for outstanding claims	1,245,841	(1,116,830)	-	129,011	129,011	-
Provision for post employment benefits	1,356,439	-	(84,288)	1,272,151	1,272,151	-
Tax losses carried forward	204,373	(204,373)	-	-	-	-
Tax assets (liabilites)	2,696,907	(1,341,203)	98,203	1,453,907	1,513,379	(59,472)

DARAG defines the realisation period for the deferred tax assets and deferred tax liabilities in the same way as for the statement of financial positon items on which they arise. Provision for post-employment benefits and provision for outstanding claims have a duration period of more than 12 months, available-for-sale investments and tax losses carried forward are mainly recovered within one year. In general, the Group considers deferred tax balances to be substantially non-current in nature.

22.5 Unrecognised deferred tax assets

The Group did not recognise deferred tax assets relating to unutilised tax losses amounting to EUR5,237,776 (2015: EUR4,972,674) at the reporting date.

23. Operating leases

At 31 December, the future minimum lease payments under non-cancellable operating leases are as follows:

	2016 EUR	2015 EUR
Less than one year	**296,789**	264,955
Between one and five years	**879,880**	1,478,033
More than five years	**612,053**	-
	1,788,722	1,742,988

24. Acquisitions

In its normal course of non-life insurance business and in accordance with its predefined risk appetite, DARAG acquires insurance subsidiaries and has an ongoing acquisition pipeline. An Italian insurance subsidiary, DARAG Italia S.p.A. (previously ERGO Assicurazioni S.p.A.), was wholly acquired towards the end of the current financial year. As a result of such acquisition, the major classes of assets acquired and liabilities assumed include available-for-sale investments amounting to EUR192,923,193 and net technical provisions amounting to EUR135,555,279. Disclosure of revenue and profit or loss of the acquired subsidiary as of the beginning of the annual reporting period is deemed to be impracticable in view of differences in accounting policies prior to the acquisition. Further information on assets acquired and liabilities assumed are disclosed in the notes to these financial statements.

After the reporting date, the Group has entered into an agreement to acquire all shares of Stockholm-based Swedish insurance company Ikano Försäkring, a part of Ikano Group. This is in line with the Group's strategy and the transaction is at the initial phase.

25. Related party transactions

Related parties include parent entities, unconsolidated subsidiaries, associates, legal entities under the influence of management, and the management of the Group itself.

The parent company of DARAG Group is European Legacy Holdings Ltd., London, UK, which holds all shares of DARAG Group Limited. The ultimate controlling party is considered to be Keyhaven Growth Capital Partners Ltd., London, UK, indirectly holding all shares of DARAG Group Limited, Malta, through its private business partnerships Keyhaven Growth Partners I L.P, Edinburgh, UK (38.2%), and Keyhaven Growth Partners II L.P. (61.8%), Edinburgh, UK.

Transactions between DARAG Group Limited and its subsidiaries, including structured entities, are eliminated in the course of consolidation and hence are not disclosed in the notes.

Veritas, an indirect subsidiary of DARAG Group Limited through its 100%-owned subsidiary, DARAG Germany, is also considered as related party. No significant transactions occurred between Veritas and DARAG Group entities during the years ended 31 December 2016 and 2015. DARAG does not consolidate Veritas in accordance with IFRS 10.

Non-consolidated subsidiary:

Name	**Country of incorporation**	**Percentage of ownership and voting rights held by the Group, %**		**Net loss for the year, EUR '000**		**Equity, EUR '000**	
		2016	2015	**2016**	2015	**2016**	2015
Veritas Rückversicherungs-AG i.L. ("Veritas")	Switzerland	**100%**	100%	**41**	(852)	**5,733**	5,692

The disclosures above relate to the annual reporting years ended as at 31 December 2016 and 2015. The directors have determined that they do not control Veritas even though the Group owns 100% of the issued capital of this entity. Veritas is in liquidation and was brought under the control of the local regulatory authority FINMA via a regulatory appointed liquidator. As DARAG is not exposed, and has no right, to variable returns

25. Related party transactions (continued)

from Veritas and is not able to use its power over the entity to affect those returns, it is not consolidated and the investment in this subsidiary has been classified as available-for-sale financial asset.

A person or a close member of that person's family is related to the reporting entity if that person has control or joint control of the reporting entity, has significant influence over the reporting entity, or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. Key management personnel are the members of the Board of Directors of DARAG Group entities.

25.1 Transactions with related parties

In connection with operating activities, contractual relationships between related parties and Group companies during the current year are as follows:

Related party	Object of service	2016 EUR
67Rockwell GmbH, Cologne	Consulting services for IT and operating business model	742,144
Elbwort Agentur für Marketing, Hamburg	Marketing and PR services – ceased in the current year	484,623
Martin Böge Mikkelsen	Consulting services	24,087
Isabella Szalkai	HR and recruiting consultant – ceased in the current year	1,902
Shareholder	Loan interest	423,565

During the year ended 31 December 2015, total expenses for services provided by the above related parties amounted to EUR799,000. As at 31 December 2016, none of this amount (2015: EUR48,000) was outstanding. The amounts due to related parties are interest free and payable on demand.

25.2 Key management personnel remuneration

Directors' fees and emoluments for the Group are disclosed in Note 21.

Except for cash advances in relation to travelling, the members of the Board of Directors did not receive any cash advances or loans neither in the year under review, nor in prior years. There were no significant notifiable transactions between Board members and DARAG Group companies.

26. Commitments and contingencies

26.1 Legal proceedings and regulatory investigations

The Group might face court and/or regulatory proceedings in its normal course of business. Depending on the probability of any resulting outflow of resources, a provision is recognised. If an outflow of resources is likely and the amount can be estimated reliably, the Group recognises a provision. The Group uses a number of assessment criteria to estimate the amount and probability of any outflow of resources. These include the type of dispute concerned, the status of the proceedings, assessments by legal advisors, decisions by the courts or by arbitrators, expert opinions and the Group's experience.

26. Commitments and contingencies (continued)

26.1 Legal proceedings and regulatory investigations (continued)

With the exception of proceedings in the course of our standard insurance and reinsurance business, there was no litigation essentially impacting the Group's net assets, financial position and results of operations in the current and comparative year.

26.2 Commitments and contingencies

The Group has provided contractual commitments and financial guarantees to external parties. These arrangements include commitments under certain conditions to make liquidity advances to cover default principal and interest payments, make capital contributions or provide equity financing.

At the reporting date, the contingencies and commitments attributable to contracts and memberships that the Group entities had entered into, are as follows:

	2016 EUR	2015 EUR
Sureties in the form of letters of credit provided by various credit institutions as security for technical liabilities	**19,543,026**	19,733,223
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants	**6,597,553**	6,601,506
Outstanding capital commitments with respect to existing investment exposures	**1,006,500**	997,500
Total	**27,147,079**	27,332,229

The amounts disclosed in the table above are stated at nominal amounts.

Guarantees and letters of credit

DARAG Germany is exposed to commitments as part of its regular business activities. A number of reinsurance contracts between Group companies and external third parties contains letters of comfort, guarantees or novation agreements under which, if certain circumstances occur, DARAG Germany will guarantee the liabilities of the relevant subsidiary or assume its rights and obligations under the contracts.

Pledged assets and blocked accounts

	2016 EUR	2015 EUR
Letters of credit:		
Available-for-sale investments	**17,125,571**	15,284,000
Cash at bank	**2,417,455**	11,120,000
Blocked accounts		
Cash at bank	**6,597,553**	6,601,506
	26,140,579	33,005,506

Commitments under investment contracts

The Group has committed to contribute capital to third parties that engage in making investments in private equity funds. Commitments may be called by the counterparty over the term of the investment and must be funded by the Group on a timely basis.

26. Commitments and contingencies (continued)

26.2 Commitments and contingencies (continued)

Other contingent liabilities

A group company is a member of the pharmaceutical risk reinsurance pool, the German nuclear reactor insurance pool and the traffic accident pool Verkehrsopferhilfe e.V. In the event of one of the other pool members failing to meet its liabilities, the companies are obliged to assume the other members' shares in line with their proportionate interest.

The application of tax laws and regulations may be unresolved when tax items are accounted for. In calculating tax refund claims and tax liabilities, we have adopted the application that we believe to be most probable. The tax authorities, however, may arrive at different views, which could give rise to additional tax liabilities in the future.

27. Subsequent events

On 27 February 2017, it was announced that the discount rate for British bodily injured claims will be reduced from 2.5% to -0.75% (Ogden Table), with such change effective on 20 March 2017. Management has assessed the effect of the change and does not expect a net impact on the Group since the relevant claims are reinsured.