GLOBALCAPITAL P.L.C.

Annual Report
and
Financial Statements

31 December 2017

Company Registration Number: C 19526

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

Principal activities

GlobalCapital p.l.c. (the "Company") together with its subsidiaries (the "Subsidiaries" and together with the Company the "Group") is involved in:

- the carrying on of long term business of insurance under the Insurance Business Act (Cap. 403 of the Laws of Malta);
- acting as an agent for sickness and accident insurance in terms of the Insurance Intermediaries Act (Cap. 487 of the Laws of Malta);
- the provision of investment services and advice in terms of the Investment Services Act (Cap. 370 of the Laws of Malta);
- money broking and trading in foreign exchange in terms of the Financial Institutions Act (Cap. 376 of the Laws of Malta); and
- the provision on behalf of Group undertakings of property management and consultancy services, including property acquisitions, disposals and development projects.

Review of business

Consolidated results

GlobalCapital p.l.c.'s consolidated results registered pre-tax earnings for the year amounting to €4.6M compared to €2.8M in 2016.

The Group recognised an increase in the fair value gains on investment property through the income statement. In 2017 the fair value gain amounted to €2.1M compared to €1.6M in 2016. Realised gains offset fair value losses on the financial investments portfolio. The net gain recognised in the income statement in 2017 amounted to €1.05M compared to a loss of €53K recorded in 2016.

Group assets increased by 12.3% from €113.1M at 31 December 2016 to €127.1M as at 31 December 2017 whereas shareholder funds also increased by 20.7%. The Group's net asset value at end of the year stood at €18.2M (2016: €15.1M).

GlobalCapital p.l.c.

During the financial year 2017, the Board of Directors continued in consolidating the Company's position in the local market. The positive results reported over the past reporting periods led to a significant improvement in the Group's debt to equity ratio which reduced from 64% as at end December 2016 to 54% as at end of the current reporting period.

Directors' Report (continued)

Review of business (continued)

GlobalCapital Life Insurance Limited

GlobalCapital Life Insurance Limited ("GCLI") registered a profit before taxation for the year ended 31 December 2017 of €4.4M compared to €3.5M in the prior year. GCLI's total comprehensive income for the year closed at €4.5M in 2017 compared to €6.9M at end 2016.

The net assets of GCLI increased by 16.4% from €24.6M as at the end of 2016 to €28.7M as at the end of the current reporting period.

The life insurance company continued registering significant growth in all lines of business, mainly protection and unit linked. Gross written premium for the year amounted to €12.6M compared to €10.7M at the end of the comparative period, an increase of 17% year on year. Claims incurred net of reinsurance decreased to €7.9M compared to €9.3M at the end of the comparative period, a decrease of 15.2% year on year. GCLI has also intensified its efforts to recapture an amount of maturing business, which it completed successfully.

An important part of our business involves managing the treasury function, investing policyholder and shareholder funds across a wide range of financial investments, including equities, fixed income securities and to a lesser extent properties. GCLI results are sensitive to the volatility in the market value of these investments, either directly because the company bears the investment risk, or indirectly because the company earn management fees for investments managed on behalf of policyholders. Throughout 2017, investment conditions remained quite challenging with the persisting low interest rate environment.

GCLI continued to undertake restructuring and transformation activity to align the business operations with the Board-approved strategy. Relentless efforts to differentiate ourselves from the market started during the course of the year and will continue, with a stronger emphasis in 2018. The enhancements made to our product suite helped facilitate improved competitiveness and marketability, thus generating positive results.

Total assets increased by 13.4% from €109.9M at 31 December 2016 to €124.7M as at the end of the current reporting period. Technical provisions increased by 11.4% from €78.9M to €88M. GCLI's Solvency II ratio was a healthy one during the year.

GCLI's value of in-force business for 2017 registered an increase of €1.3M, in aggregate amounting to €8.1M at end of the current year (2016: €6.9M) - this represents the discounted projected future shareholder profits expected from the insurance policies in force as at year end, adjusted for taxation.

The Board of Directors approved a 2017 bonus declaration of 3.1% (2016: 2.5%) for the Guaranteed Savings Bond, 3.5% (2016: 2.5%) for Money Plus and 3.1% (2016: 3%) for all other interest sensitive products. GCLI also announced a bonus rate of 0.75% (2016: 0.75%) for paid up policies and committed to a terminal bonus for policies maturing during the course of 2017.

GlobalCapital Health Insurance Agency Limited

GlobalCapital Health Insurance Agency Limited registered a profit before tax of €0.7M compared to a prior period profit of €1.1M. The decrease was driven by a decrease in revenue from €1.99M as at 31 December 2016 to €1.7M as at end of current reporting period together with a marginal increase in operating costs.

Net assets decreased from €1.04M as at end 2016 to €912K at end 2017, following a net dividend distribution of €0.65M (2016: €3M) to its immediate parent.

Directors' Report (continued)

Review of business (continued)

GlobalCapital Financial Management Limited

GCFM registered a loss before tax of €88K compared to €615K in the prior period. The significant drop in loss before tax was mainly attributable to a release in provisions of €13K whereas in 2016 there was a one-off increase in provisions of €520K. Revenue increased by 15% from €667K during 2016 to €764K during the current reporting period, primarily driven by an increase in trailer fees. Moreover, GCFM's costs increased marginally, which was expected, following the decision to retain this line of business.

GCFM's net assets as at end of the current reporting period amounted to €683K (2016: €772K).

Other subsidiaries

The remaining subsidiaries within the Group, other than GlobalCapital Holdings Limited which is an investment holding company, are property holding companies carrying no operating activities. Brammer Limited is in the process of being liquidated following the sale of the properties it owned in Bulgaria. The Company expects this process to be complete during the course of 2018.

Future outlook

As announced on the 23 March 2018, the Company has submitted an application to the Listing Authority in April 2018 requesting the admissibility to listing of new ordinary shares pursuant to a rights issue (the "Rights Issue"). If subscribed in full the proposed Rights Issue will raise a total amount of approximately €6M. The Company is seeking to raise additional equity through the proposed Rights Issue to provide additional working capital to support the Company's business strategy and to settle some intercompany balances. The Board considers the additional equity to be raised through the proposed Rights Issue to be appropriate to strengthen the capital levels of the Company in the context of the evolving business and regulatory environment

Compliance with new European Directives

There has been an increased focus in the EU on the fair treatment of customers, in particular on the way in which the insurance industry or fund management industry sells and administers insurance policies or other products. In particular, as from 1 October 2018, GCLI and GCHIA are required to comply with the provisions of Directive (EU) 2016/97 of the European Parliament and Council of 20 January 2016, on insurance distribution (recast) ("IDD"), which introduces enhanced information and conduct of business requirements. 2018 will also see the introduction of the Markets in Financial Instruments Directive ("MiFID II") and the new General Data Protection Regulation ("GDPR"). The Board remains fully committed to not only complying with legislation but ensuring that the Group maintains best practice in all respects.

Principal risks and uncertainties

The Group's and Company's principal risks and uncertainties are further disclosed in Note 1 Critical accounting estimates and judgements, Note 2 Management of insurance and financial risk, Note 11 Intangible assets covering details on the Group's goodwill and value of in-force business, Note 14 Investment property disclosing the significant observable inputs and Note 17 Technical provisions which include the valuation assumptions.

Directors' Report (continued)

Financial risk management

Note 2 to the financial statements provides details in connection with the Group's use of financial instruments, its financial risk management objectives and policies and the financial risks to which it is exposed.

Results and dividends

The statements of comprehensive income are set out on pages 13 and 14. The Directors do not recommend the declaration of a dividend (2016: nil) as the Company did not have any distributable reserves at 31 December 2017.

Events after the financial reporting date

There were no important events or transactions which took place after the financial reporting date which would require disclosure or adjustment to this annual report and financial statements.

Going concern

The Directors, as required by Listing Rule 5.62 have considered the Group's and Company's operational performance, the statements of financial position as at year end as well as the business plans for the coming year, and declare that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, the Company is in a position to continue operating as a going concern for the foreseeable future.

Directors

The Directors of the Company who held office during the period were:

Paolo Catalfamo (Chairman)	
Joseph C. Schembri	
Joseph Del Raso	
Andrea Gemma	
Jacopo Di Stefano	
Luca Galli	
Gregory Eugene McGowan	- Appointed 23 June 2017
Reuben Zammit	- Resigned 08 January 2018

The Directors are required in terms of the Company's Articles of Association to retire at the forthcoming Annual General Meeting and may offer themselves for re-appointment or re-election.

Auditors

Ernst & Young Malta Limited have intimated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Directors' Report (continued)

Information pursuant to Listing Rule 5.64

The Company has an authorised share capital of €58,234,400 divided into 200,000,000 ordinary shares with a nominal value of €0.291172 each. The issued share capital of the Company is €8,735,160 divided into 30,000,000 ordinary shares of €0.291172 each. The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached. The shares carry equal right to participate in any distribution of dividends declared by the Company. Each share shall be entitled to one vote at the meetings of the shareholders. The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange applicable from time to time.

The Directors confirm that, as at 31 December 2017, Investar plc (53.60%), BAI Co. (Mtius) Ltd (21.33%) and Rizzo Farrugia & Co (Stockbrokers) Ltd - clients' accounts (9.99%) held a shareholding in excess of 5% of the total issued share capital.

The remuneration committee of the Board of Directors, consisting mainly of Non-Executive Directors, has the responsibility for the operation of the long term incentive share plan and it may grant options to key executives under the plan subject to performance conditions as it may think fit to attain the Group's goals and to mitigate against the risk of key Executives taking excessive risks to benefit from the plan. The decision of the committee on all disputes concerning share options is final.

The rules governing the appointment and replacement of the Company's Directors are contained in Articles 73 to 81 of the Company's Articles of Association.

The Directors can only issue shares following an extraordinary resolution passed in the General Meeting. This and other powers vested in the Company's Directors are confirmed in Articles 82 to 99 of the Company's Articles of Association.

It is hereby declared that, as at 31 December 2017, information required under Listing Rules 5.64.4, 5.64.6, 5.64.7, 5.64.10 and 5.64.11 is not applicable to the Company.

Information pursuant to Listing Rule 5.70

There were no material contracts in relation to which a Director of the Company was directly or indirectly interested.

Information pursuant to Listing Rule 5.70.2

The Company Secretary is Clinton Calleja and the registered office is GlobalCapital, Testaferrata Street, Ta' Xbiex, Malta.

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

Prof. Paolo Catalfamo Chairman	Joseph C. Schembri Director

Testaferrata Street
Ta' Xbiex
Malta

26 April 2018

Corporate Governance – statement of compliance

In accordance with the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority (the "MFSA"), GlobalCapital p.l.c. (the "Company") reports on the extent of its adoption of the Code of Principles of Good Corporate Governance (the "Principles"), and the relevant measures undertaken.

1. Adoption of the principles

The responsibility for ensuring good corporate governance vests in the Board of Directors. The Board of Directors of GlobalCapital p.l.c. remains committed to the adoption of the Principles and best practices established by international codes on corporate governance. The Board of Directors also believes strongly in the importance of appropriate disclosures to ensure transparency and protection of the Company's stakeholders.

2. Board of Directors

During the financial year ended 31 December 2017, the Board of Directors consisted of seven non-executive directors and one executive director, who bring to the Company a wide range of expertise. Directors are elected on an individual basis by ordinary resolution of the Company in General Meeting in accordance with the Company's Memorandum & Articles of Association. Details of the attendance of Board Members will be available for inspection at the forthcoming Annual General Meeting.

The Board of Directors meets in accordance with a regular schedule of meetings and reviews and evaluates the Group's strategy, major operational and financial plans, as well as new material initiatives to be undertaken by the Group. The Board of Directors also meets and discusses from time to time, as often as is required. The Board of Directors meets formally at least once every quarter and at other times on an 'as and when' required basis. During the period under review the Board of Directors met four (4) times.

Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows between the Board and its committees and between senior management and the Directors as well as ensuring that the Board's procedures are followed. In addition, the Directors may also seek external professional advice on their duties and responsibilities, at the Company's expense. The Company's Articles of Association also provide for adequate controls and procedures in so far as the treatment of conflicts of interest during Board Meetings are concerned.

3. Committees

3.1 Board Committees

The Board of Directors delegates a number of specific duties to the following Board Committees:
- Audit Committee
- Nominations Committee
- Remuneration Committee
- Investment Committee
- Ethics Committee
- Risk Committee

Corporate Governance – statement of compliance (continued)

3. Committees (continued)

3.1 Board Committees (continued)

3.1.1. Audit Committee

The Audit Committee is composed entirely of non-executive directors and assists the Board in monitoring and reviewing the Group's financial statements, accounting policies and internal control mechanisms in accordance with the Committee's terms of reference. The responsibilities of the Audit Committee also include the review and approval of related party transactions in accordance with the Listing Rules.

The Audit Committee also approves and reviews the Group's Compliance Plan and Internal Audit Plan prior to the commencement of every financial year and monitors the implementation of these plans. During the financial year under review, the Audit Committee met four (4) times. The Audit Committee was composed of Joseph Schembri, Joseph Del Raso and Luca Galli. Throughout 2017 Joseph Schembri chaired the Audit Committee. Joseph Schembri is a non-executive director, whom the Board considers as independent and having the necessary competence in financial and accounting matters for the purposes of the Listing Rules.

The Group's Internal Auditors, the Company's External Auditors and members from management are invited to attend Audit Committee Meetings on a regular basis, as deemed appropriate.

3.1.2. Nominations Committee

The Nominations Committee is responsible for recommending Directors for election by shareholders at the Annual General Meeting, for planning the structure, size, performance and composition of the Group's subsidiary boards, for the appointment of senior executives and management and for the development of a succession plan for senior executives and management. It monitors, reviews and advises on the Group's remuneration policy as well as approves the remuneration packages of senior executives and management. The Nominations Committee has since been merged into the Remuneration Committee.

3.1.3. Remuneration Committee

At the end of every financial year, the Remuneration Committee draws up a report which is included in the Group's Annual Report. A performance management system has been implemented across the Group. This system is intended to:

(a) enhance the existing systems used to define key performance indicators; and

(b) improve the assessment of performance for all the Group's employees including senior management and members of the Executive Committee.

During the financial year under review, the Remuneration Committee met two (2) times and was composed of Joseph Schembri, Joseph Del Raso and Paolo Catalfamo. Prof. Catalfamo has since stepped off the Remuneration Committee. As highlighted in 3.1.2 above, the Nominations Committee was merged into the Remuneration Committee and now meets as a Nominations and Remuneration Committee.

3.1.4. Investment Committee

The Investment Committee meets at the life insurance subsidiary level, GlobalCapital Life Insurance Limited. The Investment Committee of the life insurance company met five (5) times during the year under review. At the start of the year under review the committee was composed of Prof. Paolo Catalfamo, Reuben Zammit and Guido Mizzi. Gregory Eugene McGowan and Nicholas Calamatta joined the committee during the year under review. Presently, the Investment Committee is composed of Gregory Eugene McGowan and Guido Mizzi.

Corporate Governance – statement of compliance (continued)

3. Committees (continued)

3.1.5. Risk Committee

The Risk Committee also meets at life insurance subsidiary level. The Risk Committee's function is to oversee policies, practices, procedures and controls related to risk identification, capital structure, liquidity management, regulatory compliance and monitoring the capital plan. The committee was composed of Paolo Catalfamo, Reuben Zammit and Jacopo Di Stefano during the year under review. The risk committee is currently composed of Mario Galea, Guido Mizzi and Joseph Schembri.

3.2 Executive Committee

The Executive Management Committee manages the Group's day-to-day business and the implementation of the strategy established by the Board of Directors. The Executive Management Committee as at 31 December 2017 was composed of the following members:

Reuben Zammit	-	Chief Executive Officer	- Resigned 08 January 2018
Shawn Bezzina	-	Chief Financial Officer	- Resigned 28 March 2018
Paul Said	-	Chief Operations Officer	- Resigned 12 February 2018
Jonathan Camilleri	-	Life Operations Manager	

This Committee was presided by Reuben Zammit, Chief Executive Officer. The Board is expected to appoint, during the financial year 31 December 2018, new members to this Committee, whilst ensuring a smooth transition.

4. Directors' dealings

The Directors are informed of their obligations on dealing in GlobalCapital p.l.c. shares in accordance with the parameters, procedures and reporting requirements established in terms of applicable law and the Group's Dealing Rules.

No material transactions in the Company's shares were effected in which any director had a beneficial or non-beneficial interest.

5. Internal controls

GlobalCapital p.l.c. encompasses different licensed activities regulated by the Malta Financial Services Authority. These activities include investment services business under the Investment Services Act, business of insurance under the Insurance Business Act and insurance intermediaries` activities under the Insurance Intermediaries Act, as well as business of a financial institution under the Financial Institutions Act. The Board of Directors has continued to ensure that effective internal controls and processes are maintained to support sound operations.

The Internal Audit department monitors and reviews the Group's compliance with policies, standards and best practice in accordance with an internal audit plan approved by the Audit Committee. KPMG fulfil the functions of internal auditors of the Company.

Corporate Governance – statement of compliance (continued)

6. Annual General Meeting and communication with Shareholders

Business at the Company's Annual General Meeting, to be held in July 2018, will cover the approval of the Annual Report and Audited Financial Statements for the year ended 31 December 2017, the election/re-election of Directors, the determination of the maximum aggregate emoluments that may be paid to Directors, the appointment of auditors and the authorisation of the Directors to set the auditors` remuneration.

Apart from the Annual General Meeting, the Group communicates with its shareholders through the Annual Report and Financial Statements, the publication of preliminary statements of interim and annual results, updates and articles on the Group's website, the publication of Group announcements and press releases.

7. Corporate social responsibility

During the financial year under review, the Group pursued its corporate social responsibility by supporting and contributing to a number of charitable causes.

Approved by the Board of Directors on 26 April 2018 and signed on its behalf by:

Prof. Paolo Catalfamo Chairman	Joseph C. Schembri Director

Remuneration Committee Report

The composition and terms of reference of the GlobalCapital p.l.c. Remuneration Committee are in accordance with the recommendations set out in the Malta Financial Services Authority Listing Rules.

During the financial year under review the Remuneration Committee met two (2) times.

The attendance at the meetings was at follows:

Remuneration Committee Member	Committee meetings attended
Joseph Schembri	2
Joseph Del Raso	1
Paolo Catalfamo	1

The main activities of the Remuneration Committee include devising of appropriate policies and remuneration packages to attract, retain and motivate Directors and senior management of a high caliber in order to well position the Group within the financial services market and its areas of business.

Remuneration Statement

Senior management remuneration packages consist of basic salary and benefits.

In accordance with the Company's Articles of Association, the total emoluments payable to Directors, whether as fees and/or salaries by virtue of holding employment with the Company, shall be subject to Shareholder approval in General Meetings. The following is the total of the Directors` emoluments for the financial year under review (2017):

Fees	**249,802**
Remuneration	**102,683**
	352,485

Directors` remuneration and fees are disclosed in aggregate.

Statement of Directors' responsibilities

The Directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Company and the Group at the end of each financial year and of the profit or loss of the Company and the Group for the year then ended. In preparing the financial statements, the Directors should:

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

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable the Directors to ensure that the financial statements comply with the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of the Directors pursuant to Listing Rule 5.68

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU and in accordance with the requirements of the Companies Act (Cap. 386), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. the Directors' report includes a fair review of the performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors on 26 April 2018 and signed on its behalf by:

Prof. Paolo Catalfamo
Chairman

Joseph C. Schembri
Director

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Notes	**2017**	2016	**2017**	2016
		€	€	**€**	€
Commission and fees receivable	*3*	**2,472,496**	2,704,144	**-**	-
Commission payable and direct marketing costs	*4*	**(101,447)**	(154,797)	**-**	-
Balance on the long term business of insurance technical account before tax (page 14)		**(840,622)**	(2,359,112)	**-**	-
Increment in the value of in-force business		**1,941,211**	2,821,660	**-**	-
Staff costs	*4*	**(1,320,010)**	(994,611)	**-**	-
Other expenses	*4*	**(1,156,771)**	(1,218,904)	**(372,614)**	(334,503)
Investment income, net of allocation to the insurance technical account	*6*	**3,062,812**	2,133,463	**-**	1,084
Investment expenses, net of allocation to the insurance technical account	*6*	**(356,295)**	(241,906)	**-**	(22,543)
Finance costs, net of allocation to the insurance technical account	*6*	**(557,279)**	(651,179)	**(557,279)**	(675,498)
Profit/(loss) for the year before impairment charges and fair value movements on investment properties		**3,144,095**	2,038,758	**(929,893)**	(1,031,460)
Net gains on investment property, net of allocation to the insurance technical account	*6*	**1,487,138**	1,260,469	**-**	-
Other provisions	*4*	**12,962**	(519,513)	**-**	-
Impairment of balances due from group companies	*4*	**-**	-	**-**	(324,915)
Profit/(loss) before tax		**4,644,195**	2,779,714	**(929,893)**	(1,356,375)
Tax (expense)/credit	*7*	**(1,474,812)**	(926,557)	**-**	275
Profit/(loss) for the financial year attributable to the shareholders of the company		**3,169,383**	1,853,157	**(929,893)**	(1,356,100)
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss					
Revaluation of property, net of deferred tax		**-**	1,062,461	**-**	-
Items that may be reclassified subsequently to profit or loss					
Net (loss)/gain on available-for-sale financial assets financial assets, net of deferred tax		**(40,813)**	(45,407)	**-**	-
Total comprehensive gain/(loss) for the year, net of tax, attributable to the shareholders of the company		**3,128,570**	2,870,211	**(929,893)**	(1,356,100)
Profit per share (cents)	*9*	**10c5**	7c1		

Technical account – long term business of insurance

	Notes	Year ended 31 December Group 2017 €	2016 €
Earned premiums, net of reinsurance			
Gross premiums written		**12,560,345**	10,728,328
Outward reinsurance premiums		**(1,318,333)**	(1,066,458)
Earned premiums, net of reinsurance		**11,242,012**	9,661,870
Investment income	*6*	**848,584**	710,219
Fair value gains on investments	*6*	**1,011,958**	329,217
Investment contract fee income		**775,069**	871,161
Total technical income		**13,877,623**	11,572,467
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**8,190,128**	9,236,812
- reinsurers' share		**(561,183)**	(208,477)
		7,628,945	9,028,335
Change in the provision for claims			
- gross amount		**245,071**	743,637
- reinsurers' share		**23,698**	(463,395)
	17	**268,769**	280,242
Claims incurred, net of reinsurance		**7,897,714**	9,308,577
Change in other technical provisions, net of reinsurance			
Insurance contracts			
- gross amount		**1,973,940**	5,133,532
- reinsurers' share		**(2,062,242)**	(3,578,227)
	17	**(88,302)**	1,555,305
Investment contracts with DPF - gross	*17*	**4,112,624**	534,051
Investment contracts without DPF - gross		**(141,538)**	(65,010)
Change in other technical provisions, net of reinsurance		**3,882,784**	2,024,346
Claims incurred and change in other technical provisions, net of reinsurance		**11,780,498**	11,332,923
Net operating expenses	*4*	**2,917,528**	2,568,661
Other investment charges and expenses	*6*	**20,219**	29,995
Total technical charges		**14,718,245**	13,931,579
Balance on the long term business of insurance technical account before tax (page 13)		**(840,622)**	(2,359,112)

Statements of financial position

		As at 31 December			
		Group		**Company**	
		2017	2016	**2017**	2016
	Notes	**€**	€	**€**	€
ASSETS					
Intangible assets	*11*	**10,197,821**	8,854,111	**-**	588
Property, plant & equipment	*13*	**2,126,712**	2,050,253	**1,828**	4,194
Investment property	*14*	**20,855,955**	18,664,160	**-**	-
Investment in group undertakings	*15*	**-**	-	**6,451,553**	6,451,553
Other investments	*16*	**71,338,406**	58,363,399	**417,314**	281,289
Reinsurers' share of technical provisions	*17*	**9,692,516**	7,653,972	**-**	-
Taxation receivable		**67,348**	86,654	**139**	139
Trade and other receivables	*18*	**2,591,772**	3,160,841	**37,790**	163,432
Cash and cash equivalents	*25*	**10,250,424**	14,309,866	**309,297**	463,106
Total assets		**127,120,954**	113,143,256	**7,217,921**	7,364,301
EQUITY AND LIABILITIES					
Capital and reserves attributable to the company's shareholders					
Share capital	*19*	**8,735,160**	8,735,160	**8,735,160**	8,735,160
Share premium account	*20*	**-**	16,970,641	**-**	16,970,641
Other reserves	*21*	**8,370,075**	7,149,101	**-**	-
Retained earnings/(accumulated losses)		**1,143,127**	(17,735,110)	**(14,376,573)**	(30,417,321)
Total equity/(deficiency)		**18,248,362**	15,119,792	**(5,641,413)**	(4,711,520)
Technical provisions:					
Insurance contracts	*17*	**56,491,017**	54,517,077	**-**	-
Investment contracts with DPF	*17*	**21,676,762**	17,564,138	**-**	-
Investment contracts without DPF	*17*	**9,839,062**	6,913,657	**-**	-
Provision for claims outstanding	*17*	**1,433,265**	1,188,194	**-**	-
Interest bearing borrowings	*22*	**9,779,958**	9,715,830	**9,779,958**	9,715,830
Deferred tax liability	*12*	**2,473,027**	2,099,185	**-**	-
Trade and other payables	*23*	**6,989,658**	5,972,928	**3,079,376**	2,359,991
Current tax liabilities		**189,843**	52,455	**-**	-
Total liabilities		**108,872,592**	98,023,464	**12,859,334**	12,075,821
Total equity and liabilities		**127,120,954**	113,143,256	**7,217,921**	7,364,301

The financial statements on pages 13 to 83 were approved by the Board of Directors, authorised for issue on 26 April 2018 and were signed on its behalf by:

Prof. Paolo Catalfamo
Chairman

Joseph C. Schembri
Director

Statements of changes in equity

Group

	Attributable to the company's shareholders				
	Share capital €	Share premium account €	Other reserves €	(Accumulated losses)/ retained earnings €	Total €
Balance at 1 January 2016	3,845,668	16,970,641	4,297,968	(17,754,188)	7,360,089
Profit for the financial year	-	-	-	1,853,157	1,853,157
Other comprehensive gain for the year	-	-	1,017,054	-	1,017,054
Total comprehensive gain for the year	-	-	1,017,054	1,853,157	2,870,211
Increase in share capital	4,889,492	-	-	-	4,889,492
Increment in value of in-force business, transferred to other reserves	-	-	1,834,079	(1,834,079)	-
	4,889,492	-	1,834,079	(1,834,079)	4,889,492
Balance at 31 December 2016	**8,735,160**	**16,970,641**	**7,149,101**	**(17,735,110)**	**15,119,792**
Balance at 1 January 2017	**8,735,160**	**16,970,641**	**7,149,101**	**(17,735,110)**	**15,119,792**
Profit for the financial year	-	-	-	3,169,383	3,169,383
Other comprehensive loss for the year	-	-	(40,813)	-	(40,813)
Total comprehensive gain for the year	-	-	(40,813)	3,169,383	3,128,570
Increment in value of in-force business, transferred to other reserves	-	-	1,261,787	(1,261,787)	-
Set-off of share premium against accumulated losses	-	(16,970,641)	-	16,970,641	-
	-	(16,970,641)	1,261,787	15,708,854	-
Balance at 31 December 2017	**8,735,160**	**-**	**8,370,075**	**1,143,127**	**18,248,362**

Statements of changes in equity (continued)

Company

	Share capital €	Share premium account €	Accumulated losses €	Total €
Balance at 1 January 2016	3,845,668	16,970,641	(29,061,221)	(8,244,912)
Increase in share capital	4,889,492	-	-	4,889,492
Loss for the financial year/total comprehensive loss for the year	-	-	(1,356,100)	(1,356,100)
Balance at 31 December 2016	**8,735,160**	**16,970,641**	**(30,417,321)**	**(4,711,520)**
Balance at 1 January 2017	8,735,160	16,970,641	(30,417,321)	(4,711,520)
Loss for the financial year/total comprehensive loss for the year	-	-	(929,893)	(929,893)
Set-off of share premium against accumulated losses	-	(16,970,641)	16,970,641	-
Balance at 31 December 2017	**8,735,160**	**-**	**(14,376,573)**	**(5,641,413)**

Statements of cash flows

		Year ended 31 December			
		Group		Company	
	Notes	**2017**	2016	**2017**	2016
		€	€	**€**	€
Cash generated from/(used in) operations	*24*	**9,754,748**	2,670,795	**411,239**	(316,862)
Dividends received		**209,873**	392,016	-	-
Interest received		**1,939,307**	1,902,581	-	564
Interest paid		**(493,151)**	(591,721)	**(493,151)**	(774,099)
Tax paid		**(809,291)**	(1,408,337)	-	13,098
Net cash generated from/(used in) operating activities		**10,601,486**	2,965,334	**(81,912)**	(1,077,299)
Cash flows (used in)/generated from investing activities					
Purchase of intangible assets	*11*	**(227,766)**	-	-	-
Purchase of property, plant and equipment	*13*	**(162,485)**	(148,914)	-	-
Purchase of investment property	*14*	**(91,485)**	(156,846)	-	-
Purchase of financial assets at fair value through profit or loss	*16*	**(26,051,194)**	(8,962,441)	-	-
Purchase of financial assets at available-for-sale	*16*	**(81,096)**	**-**	**-**	**-**
Proceeds on maturity of held-to-maturity investments	*16*	**785,860**	500,179	-	-
Proceeds from disposal of investments at fair value through profit or loss		**5,568,710**	5,470,333	-	24,413
Proceeds from disposal of available-for-sale financial assets		**766**	29,353	-	-
Proceeds from disposal of held-to-maturity investments		**5,505,347**	-	-	-
Proceeds from property classified as non-current assets held for sale		**-**	8,415,000	-	-
Net movement on other investments -loans and receivables	*16*	**28,287**	12,444	**(136,025)**	(465,619)
Net cash (used in)/generated from investing activities		**(14,725,056)**	5,159,108	**(136,025)**	(441,206)
Cash flows generated from financing activities					
Proceeds from issue of shares		-	4,889,492	-	4,889,492
Movement in amounts due to/from group undertakings		**-**	-	-	1,196,651
Redemption of bond		**-**	(13,823,200)	-	(13,823,200)
Net proceeds on bond		**64,128**	9,678,481	**64,128**	9,678,481
Net cash generated from financing activities		**64,128**	744,773	**64,128**	1,941,424
Movement in cash and cash equivalents		**(4,059,442)**	8,869,215	**(153,809)**	422,919
Cash and cash equivalents at the beginning of year		**14,309,866**	5,440,651	**463,106**	40,187
Cash and cash equivalents at the end of year	*25*	**10,250,424**	14,309,866	**309,297**	463,106

Accounting policies

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

1. Basis of preparation

These consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group"). The Group is primarily involved in the carrying on of long term business of insurance under the Insurance Business Act (Cap. 403), acting as an agent for sickness and accident insurance in terms of the Insurance Intermediaries Act (Cap. 487), the provision of investment services and advice in terms of the Investment Services Act (Cap. 370), money broking and trading in foreign exchange in terms of the Financial Institutions Act (Cap. 376), and the provision on behalf of Group undertakings of property management and consultancy services, including property acquisitions, disposals and development projects.

The Directors are satisfied that, having taken into account the Group's current and forecasted statement of financial position, its capital adequacy and cash flows, it is reasonable to assume that the Company and the Group have adequate resources to continue operating for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRSs), and with the Companies Act (Cap. 386). The consolidated financial statements include the financial statements of GlobalCapital p.l.c. and its subsidiary undertakings. They also comply with the requirements of the Insurance Business Act (Cap. 403) in consolidating the results of GlobalCapital Life Insurance Limited, where appropriate. The financial statements are prepared under the historical cost convention, as modified by the fair valuation of investment property, financial assets and financial liabilities at fair value through profit or loss, available for sale investments and the value of in-force business.

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

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

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

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

The preparation of financial statements in conformity with EU IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's and the company's accounting policies. The areas involving a higher degree of judgement and estimates or complexity are disclosed in Note 1 to these financial statements.

The statements of financial position are presented in increasing order of liquidity, with additional disclosures on the current or non-current nature of the assets and liabilities provided within the notes to the financial statements.

1. Basis of preparation (continued)

Standards, interpretations and amendments to published standards as endorsed by the EU that are effective in the current year

Several new standards, amendments and interpretations to existing standards apply for the first time in 2017, whose adoption to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies and did not impact the financial statements.

Standards issued, endorsed by the EU but not yet effective and not early adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorization for issue of these financial statements, but are mandatory for the Group's accounting periods beginning on or after 1 January 2018. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, and the Group's Directors are of the opinion that, with the exception of the below pronouncement, there are no requirements that will have a possible significant on the Group's financial statements in the period of initial application.

IFRS 9 – Financial Instruments

IFRS 9, as adopted by the EU, addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 'Financial Instruments: Recognition and Measurement' with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting company's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9 also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. IFRS 9 is effective for financial years beginning on, or after, 1 January 2018.

The Group, having its activities 'predominantly connected with insurance', has considered the temporary exemption from IFRS 9 for annual reporting periods beginning before 1 January 2021, and deferring its application to be concurrent with the effective date of IFRS 17 'Insurance Contracts', being 1 January 2021.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS, being required for annual periods beginning on or after 1 January 2018.

As per the management's assessment made during 2017, no material impact arising on the adoption of the above IFRS on the financial statements of the Group is expected in the period of initial application.

1. Basis of preparation (continued)

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

IFRS 16 – Leases

IFRS 16, as adopted by the EU, brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains substantially unchanged (except for a requirement to provide enhanced disclosures) and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations. IFRS 16 is effective for periods beginning on or after 1 January 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers.

IFRS 17 – Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021.

The Group's Directors are assessing the potential impact, if any, of the above IFRSs on the financial statements of the Group in the period of initial application.

2. Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are when those rights give the Group the current ability to direct the relevant activities are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are recognised in the profit and loss as incurred, except for costs to issue debt or equity securities.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of:

a. The aggregate of:
    i. the consideration transferred;
    ii. the amount of any non-controlling interest in the acquiree; and
    iii. in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree.
b. The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Any gain on a bargain purchase, after reassessment, is recognised immediately in profit or loss.

2. Consolidation (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. A listing of the Group's principal subsidiaries is set out in Note 15.

3. Intangible assets

(a) Goodwill

Goodwill on acquisition of group undertakings is included in intangible assets. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Value of in-force business

On acquisition of a portfolio of long term contracts, the net present value of the Shareholders' interest in the expected after-tax cash flows of the in-force business is capitalised in the statement of financial position as an asset. The value of in-force business is subsequently determined by the Directors on an annual basis, based on the advice of the approved actuary. The valuation represents the discounted value of projected future transfers to Shareholders from policies in force at the year-end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending on the mix of investments held and expected market conditions. All movements in the in-force business valuation are credited or debited to the profit or loss. They are subsequently transferred out of retained earnings to other reserves.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (thirteen years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

4. Deferred income tax

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates or those that are substantively enacted by the end of the reporting period are used in the determination of deferred income tax.

Deferred income tax related to the fair value re-measurement of investments is allocated between the technical and non-technical account depending on whether the temporary differences are attributed to policyholders or shareholders respectively.

Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

5. Property, plant and equipment

Property, plant and equipment, comprising land and buildings, office furniture, fittings and equipment and motor vehicles, are initially recorded at cost and are subsequently shown at cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

	%
Buildings	2
Office furniture, fittings and equipment	20 - 25
Motor vehicles	20

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

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

6. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. An impairment loss is recognised in profit or loss. Non-current assets are not depreciated (or amortised) while they are classified as held for sale or while they are part of a disposal group classified as held for sale.

7. Investment properties

Freehold and leasehold properties treated as investments principally comprise buildings that are held for long term rental yields or capital appreciation or both, and that are not occupied by the Group. Investment properties are initially measured at cost including related transaction costs. Investment properties are subsequently carried at fair value, representing open market value determined annually by external valuers, or by virtue of a Directors' valuation. 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 recent prices on less active markets or discounted cash flow projections. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only 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. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred. Unrealised gains and losses arising from changes in fair value (net of deferred taxation) are recognised in the profit or loss.

8. Investment in group undertakings

In the Company's financial statements, shares in group undertakings are accounted for by the cost method of accounting, net of impairment loss. The Company gathers objective evidence that an investment is impaired using the same process adopted for financial assets held at amortised cost and available-for-sale assets. These processes include but are not limited to those disclosed in accounting policy 10(a). The impairment loss is measured in accordance with accounting policy 10(b). On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

The dividend income from such investments is included in profit or loss in the accounting year in which the Company's right to receive payment of any dividend is established.

9. Other financial assets

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

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

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

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

(i) Trade receivables

Trade receivables are classified with current assets and are stated at their nominal value.

(ii) Investments

The Group classifies its other financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Directors determine the appropriate classification of the Group's financial assets at initial recognition, and re-evaluate such designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A non-derivative financial asset is classified into this category at inception if acquired principally for the purpose of selling in the near-term, if it forms part of a portfolio of financial assets that are managed together and for which there is evidence of short term profit-taking, if the financial asset is part of a group of financial assets that is managed on a portfolio basis and whose performance is evaluated and reported internally to the Group's key management personnel on a fair value basis in accordance with a documented financial assets strategy or if this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

9. Other financial assets (continued)

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than those that upon initial recognition are designated as at fair value through profit or loss, those that are designated as available-for-sale financial assets and those that meet the definition of loans and receivables are classified as held-to-maturity investments.

(c) 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 are held for trading or that are designated as at fair value through profit or loss or as available for sale or those for which the Group may not recover substantially all of its investment other than because of credit deterioration. They include, inter alia, receivables, interest bearing deposits and advances.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the Group or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

All purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets. All financial assets are initially recognised at fair value, plus in the case of financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where they have been transferred and the transfer qualifies for de-recognition.

Financial assets at fair value through profit or loss are subsequently re-measured at fair value. Held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method unless the effect of discounting is immaterial, less any provision for impairment. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss. Available-for-sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of quoted financial assets is based on quoted market prices at the end of the reporting period. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis. Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, shall not be designated as at fair value through profit or loss. The fair value of investments in equity instruments that do not have a quoted price in an active market for an identical instrument is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that instrument; or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

9. Other financial assets (continued)

(iii) Trade payables

Trade payables are classified with current liabilities and are stated at their nominal value.

10. Impairment of assets

(a) Impairment of financial assets at amortised cost and available-for-sale investments

The Group assesses at the end of each 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.

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

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

In addition to the above loss events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered and/or a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

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

10. Impairment of assets (continued)

(a) Impairment of financial assets at amortised cost and available-for-sale investments (continued)

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative impairment loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment and is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an available-for-sale investment in an equity instrument are not reversed through profit or loss. Impairment losses recognised in profit or loss for an available-for-sale investment in a debt instrument are reversed through profit or loss if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(b) Impairment of other financial assets

At the end of each reporting period, the carrying amount of other financial assets is reviewed to determine whether there is an indication of impairment and if any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is the amount by which the amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less the costs to sell and value in use. Impairment losses and reversals are recognised in profit or loss.

(c) Impairment of non-financial assets

Assets that are subject to amortisation or depreciation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, principally comprise property, plant and equipment and computer software. 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). An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Impairment losses and reversals are recognised in profit or loss.

Goodwill arising on the acquisition of subsidiaries is tested for impairment at least annually. Goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

11. Offsetting financial instruments

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

12. Property held for development

When the main object of a property project is the development for resale purposes, the asset is classified in the financial statements as property held for development. The development property is carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the property together with other costs incurred during its subsequent development including:

(i) The costs incurred on development works, including demolition, site clearance, excavation, construction, etc.

(ii) The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith.

(iii) Any borrowing costs attributable to the development phases of the project.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

13. Insurance contracts and investment contracts with DPF

(a) Classification

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain a DPF (“Discretionary participation feature”). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are based on realised and/or unrealised investment returns on underlying assets held by the Group.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus), and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders, also considering the advice of the approved actuary.

(b) Recognition and measurement

Insurance contracts and investment contracts with DPF are categorised depending on the duration of risk and whether or not the terms and conditions are fixed.

Short term insurance contracts

These contracts are short duration life insurance contracts. They protect the Group’s customers from the consequences of events (such as death or disability) that would affect the ability of the customer or his/her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits under these insurance contracts.

13. Insurance contracts and investment contracts with DPF (continued)

(b) Recognition and measurement (continued)

Long term contracts

Insurance contracts without DPF

These contracts insure events associated with human life (mainly for death) over a long and fixed duration. The guaranteed and fixed element for these contracts relates to the sum assured, i.e. the benefit payable on death.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

Insurance contracts with DPF

In addition to the guaranteed amount payable on death, these products combine a savings element whereby a portion of the premium receivable, and declared returns, are accumulated for the benefit of the policyholder. Annual returns may combine a guaranteed rate of return and a discretionary element.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

Investment contracts with DPF

These long term contracts are substantially savings products since they do not transfer significant insurance risk. Annual returns may combine a guaranteed rate of return and a discretionary element.

The Group does not recognise the guaranteed element separately from the DPF for any of the contracts that it issues. As permitted by IFRS 4, it continues to apply accounting policies existing prior to this standard in respect of such contracts, further summarised as follows:

(i) Premiums are recognised as revenue when they are paid and allocated to the respective policy account value. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

(ii) Maturity claims are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the liability. Death claims and all other claims are accounted for when notified. Claims payable include related internal and external claims handling costs.

(iii) Bonuses charged to the long term business technical account in a given year comprise:

   (a) new reversionary bonuses declared in respect of that year, which are provided within the calculation of the respective liability;

   (b) terminal bonuses paid out to policyholders on maturity and included within claims paid; and

   (c) terminal bonuses accrued at the Group’s discretion, and included within the respective liability.

13. Insurance contracts and investment contracts with DPF (continued)

(b) Recognition and measurement (continued)

Long term contracts (continued)

(iv) A liability for long term contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. This liability is determined by the approved actuary following his annual investigation of the financial condition of the Group's long term business as required under the Insurance Business Act (Cap. 403). It is calculated in accordance with the relevant legislation governing the determination of liabilities for the purposes of statutory solvency. The calculation uses a prospective valuation method, unless a retrospective calculation results in a higher liability, and makes explicit provision for vested reversionary bonuses. Provision is also made, explicitly or implicitly, for future reversionary bonuses. The prospective method is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used. The liability is based on assumptions as to mortality, maintenance expenses and investment income that are established at the time the contract is issued, subject to solvency restrictions set out in the Insurance Business Act (Cap. 403). The retrospective method is based on the insurance premium credited to the policyholder's account, together with explicit provision for vested bonuses accruing as at the end of the reporting period, and adjustment for mortality risk and other benefits.

This long term liability is recalculated at the end of each reporting period. The above method of calculation satisfies the minimum liability adequacy test required by IFRS 4. The liability in respect of short term insurance contracts is based on statistical analysis for the claims incurred but not reported, estimates of the expected ultimate cost of more complex claims that may be effected by external factors (such as court decisions), and further includes the portion of premiums received on in-force contracts that relate to unexpired risks at the end of the reporting period.

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in accounting policy 13(a) are classified as reinsurance contracts held. Contracts that do not meet the classification requirements are classified as financial assets. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurers' share of technical provisions or receivables from reinsurers (unless netted off against amounts payable to reinsurers). These assets consist of short term balances due from reinsurers (classified within receivables), as well as longer term receivables (classified as reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. 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 on an annual basis. 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 the profit or loss. The Group gathers objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 10(a).

(d) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss in a similar manner to the process described above for reinsurance contracts held (also see accounting policy 10(a)).

14. Investments contracts without DPF

The Group issues investment contracts without DPF. Premium arising on these contracts is classified as a financial liability – investment contracts without DPF. Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, and are designated at inception as at fair value through profit or loss. The fair value of a unit linked financial liability is determined using the current unit values that reflect the fair values of the financial assets linked to the financial liability multiplied by the number of units attributed to the contract holder at the end of the reporting period. If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, where applicable. Other benefits payable are also accrued as appropriate.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. For the purposes of the statements of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks and time deposits maturing within three months (unless these are held specifically for investment purposes) and are net of the bank overdraft, which is included with liabilities.

16. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Trade payables are stated at their nominal value unless the effect of discounting is material.

Borrowing costs are capitalised within property held for development in so far as they relate to the specific external financing of assets under development. Such borrowing costs are capitalised during the development phase of the project. Other borrowing costs are recognised as an expense in the year to which they relate.

17. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

18. Dividend distribution

Dividend distribution to the Company’s Shareholders is recognised as a liability in the Company’s financial statements in the period in which the dividends are declared.

19. Fiduciary activities

Client monies are held by the Group as a result of clients’ trades that have not yet been fulfilled. They are not included in the financial statements as these assets are held in a fiduciary capacity.

20. 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 a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

21. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of value added tax and discounts, where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably. Revenue also includes interest, dividend and rental income. The following specific recognition criteria must also be met before revenue is recognised:

(a) Rendering of services

Premium recognition dealing with insurance contracts and investments contracts with DPF is described in accounting policy 13. Revenue arising from the issue of investment contracts without DPF is recognised in the accounting period in which the services are rendered.

Other turnover arising on rendering of services represents commission, consultancy and advisory fees receivable in respect of the Group's activities in providing insurance agency, brokerage or investment services. Performance fees are recognised in the financial statements on the date when the advisor's entitlement to the income is established.

(b) Sale of property held for development

Revenue from the sale of property held for development is recognised when the significant risks and rewards of ownership of property being sold are effectively transferred to the buyer. This is generally considered to occur at the later of the date of contract of sale and the date when all the Company's obligations relating to the property are completed and the possession of the property can be transferred in the manner stipulated by the contract of sale. Amounts received in respect of sales that have not yet been recognised in the financial statements, due to the fact that the significant risks and rewards of ownership still rest with the Company, are treated as deposits on contracts and are included with payables.

(c) Dividend income

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

(d) Interest income

Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method.

22. Foreign currencies

(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 Company's functional and presentation currency.

22. Foreign currencies (continued)

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

23. Investment return

The total investment return in the notes includes dividend income, net fair value movements on financial assets at fair value through profit or loss (including interest income from financial assets classified as fair value through profit or loss), interest income from financial assets not classified as fair value through profit or loss, rental receivable and net fair value movements on investment property and is net of investment expenses, charges and interest.

The investment return is allocated between the insurance technical account and the non-technical account on the basis of the investment return as recommended by the approved actuary.

24. Leases

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor, are recognised as an expense in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Leased assets are presented in the statement of financial position according to their nature and are tested for impairment in accordance with the Group's accounting policy on impairment. Rental income from operating leases, less the aggregate cost of incentives given to the lessee, is recognised as income in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in profit or loss on a straight-line basis over the lease term.

25. Employee benefits

The Company and the Group contribute towards the state pension in accordance with local legislation. The only obligation is to make the required contributions. Costs are expensed in the period in which they are incurred.

26. Current tax

Current tax is charged or credited to profit or loss except when it relates to items recognised in other comprehensive income or directly in equity. The charge/credit for current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items which are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the financial statements

1. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, unless further described below.

(a) Fair valuation of investment properties

The determination of the fair value of investment properties at the end of the reporting period requires the use of significant management estimates.

Fair valuation of Baronial Castle in Italy

The Group's investment property includes a Baronial Castle situated outside of Rome. Given the specialised nature of this property the uncertainties in the estimation of its fair value are inherently more significant than for the remaining portfolio of investment property.

Details of the valuation methodology and key assumptions of investment property classified as Level 3 are disclosed in Note 14 to the financial statements.

(b) Value of in-force business

The value of in-force business is a projection of future Shareholders' profit expected from insurance policies in force at the year-end, appropriately discounted and adjusted for the effect of taxation. This valuation requires the use of assumptions relating to future mortality, persistence, levels of expenses and investment returns over the longer term (see accounting policy 3(b)). Details of key assumptions and sensitivity for this intangible asset are provided in Note 11 to the financial statements.

(c) Technical provisions

The Group's technical provisions at year-end are determined in accordance with accounting policy 13. Details of key assumptions and sensitivities to the valuation are disclosed in Note 17 to the financial statements.

(d) Recognition of deferred tax asset

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available against which these deferred tax assets can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised and unrecognised deferred tax assets is disclosed in Note 12.

2. Management of insurance and financial risk

The Group holds or issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Group manages them. The Group's risk management strategy has remained unchanged from the prior year.

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle, resulting in earlier or more claims than expected.

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

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. Investment contracts with DPF ("Discretionary participation feature") carry negligible insurance risk.

The Group manages these risks through its underwriting strategy and reinsurance agreements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Group's underwriting procedures with premiums varied to reflect the health condition and lifestyle of the applicants.

2. Management of insurance and financial risk (continued)

Insurance risk (continued)

(a) Frequency and severity of claims (continued)

The Group has retention limits on any single life assured for term business or risk premium business. The Group reinsures the excess of the insured benefits over approved retention limits under a treaty reinsurance arrangement. Facultative reinsurance is selectively sought for non-standard risks that are not covered by the treaty reinsurance arrangement where the Group has decided to accept the insurance risk. Short term insurance contracts are also protected through a combination of selective quota share and surplus reinsurance. Further, the Group has a “CAT XL” reinsurance arrangement to cover its exposure in the case of an event affecting more than three lives.

In general, all large sums assured are facultatively reinsured on terms that substantially limit the Group’s maximum net exposure. The Directors consider that all other business is adequately protected through treaty reinsurance with a reasonable spread of benefits payable according to the age of the insured, and the size of the sum assured. The Group is largely exposed to insurance risk in one geographical area, Malta. Single event exposure is capped through the “CAT XL” reinsurance arrangement as referred above.

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and the variability in contract holder behaviour. The Group uses appropriate base tables of standard mortality according to the type of contract being written. The Group does not take credit for future lapses in determining the liability for long term contracts in accordance with the insurance rules regulating its calculation.

Financial risk

The Group is exposed to financial risk through its financial assets and liabilities, reinsurance assets, and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts with DPF. The Group is also exposed to significant liquidity risk in relation to obligations arising on the bonds issued in 2016. The most important components of financial risk are market risk (including currency risk, cash flow, fair value interest rate risk and price risk), credit risk and liquidity risk.

These risks partly arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages these positions through adherence to an investment policy. The policy adopted is modelled to take into account actuarial recommendations, and is developed to achieve long term investment returns in excess of its obligations under insurance and investment contracts with DPF. The principal technique underlying the Group’s framework is to broadly match assets to the liabilities arising from insurance and investment contracts with DPF by reference to the type of benefits payable to contract holders, and the recommended portfolio mix as advised by the approved actuary.

The Group’s investment policy is formally approved by the Board of Directors. Portfolio review processes and investment decisions are generally delegated to a dedicated Sub-Investment Committee or the Chief Executive Officer. Transactions in excess of pre-established parameters are subject to Board approval. The procedures consider, inter alia, a recommended portfolio structure, authorisation parameters, asset and counterparty limits and currency restrictions. Management reports to the Investment Committee on a regular basis. The Committee meets to consider, inter alia, investment prospects, liquidity, and the performance of the portfolio and the overall framework of the Group’s investment strategy. Solvency considerations as regulated by the relevant Authority are also taken into account as appropriate.

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Market risk

(a) Cash flow and fair value interest rate risk

The Group and the Company are exposed to the risk of fluctuating market interest rate. Assets/liabilities with variable rates expose the Group and the Company to cash flow interest risk. Assets/liabilities with fixed rates expose the Group and the Company to fair value interest rate risk to the extent that they are measured at fair value.

The total assets and liabilities subject to interest rate risk are the following:

	Group		**Company**	
	2017	2016	**2017**	2016
	€	€	**€**	€
Assets attributable to policyholders				
Assets at floating interest rates	**8,811,485**	12,657,940	**-**	-
Assets at fixed interest rates	**41,227,267**	28,155,299	**-**	-
	50,038,752	40,813,239	**-**	-
Assets attributable to shareholders				
Assets at floating interest rates	**1,438,939**	1,651,926	**309,297**	463,106
Assets at fixed interest rates	-	-	**-**	-
	1,438,939	1,651,926	**309,297**	463,106
	51,477,691	42,465,165	**309,297**	463,106
Liabilities				
Technical provisions	**78,167,779**	72,081,215	**-**	-

As disclosed in Note 22 the Company issued a bond having a remaining nominal value of €10,000,000 (2016: €10,000,000) as at year end at a fixed rate of interest. This exposure does not give rise to fair value interest rate risk since the bond is carried at amortised cost in the financial statements.

Interest rate risk is monitored by the Board on an ongoing basis. This risk is mitigated through the distribution of fixed interest investments over a range of maturity dates, and the definition of an investment policy as described earlier, which limits the amount of investment in any one interest earning asset or towards any one counterparty. Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by adjusting or restructuring its investment or financing structure and by maintaining an appropriate mix between fixed and floating rate instruments. As at the end of the reporting period, the Directors considered that no hedging arrangements were necessary to address interest rate risk.

Insurance and investment contracts with DPF have benefit payments that are fixed and guaranteed at the inception of the contract (for example, sum assured), or as bonuses are declared. The financial component of these benefits is usually a guaranteed fixed interest rate set at the inception of the contract, or the supplemental benefits payable. The Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Market risk (continued)

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

The supplemental benefits payable to holders of such contracts are based substantially on historic and current rates of return on fixed income securities held as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. Guaranteed benefits increase as supplemental benefits are declared and allocated to contract holders.

All insurance and investment contracts with a DPF feature can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. This surrender value is either lower than or at least equal to the carrying amount of the contract liabilities as a result of the application of surrender penalties set out in the contracts. The Group is not required to, and does not, measure this embedded derivative at fair value.

The sensitivity for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The Group's interest rate risk arises primarily on fixed-income and floating rate financial assets held to cover policyholder liabilities. Interest-bearing assets or liabilities attributable to the shareholders are not significant, or they mainly mature in the short term, and as a result the Group's income and operating cash flows are substantially independent of changes in market interest rates in this regard. An indication of the sensitivity of insurance results to a variation of investment return on policyholders' assets is provided in Note 11 to the financial statements in relation to the value of in-force business. Further sensitivity to investment return variations in relation to technical provisions is provided in Note 17 to the financial statements. Should the carrying amounts of assets at fixed interest rates at the end of the reporting period increase/decrease by 10%, with all other variables held constant, the impact on the Group's pre-tax profit would be +/- €4,123,000 in 2017 (2016: +/- €2,816,000). The Group is not exposed to significant cash flow interest rate risk on assets at floating interest rates as a reasonably possible change would not result in a significant cash flow interest rate risk.

(b) Price risk

The Group and the Company are exposed to market price risk arising from the uncertainty about the future prices of investments held that are classified in the statement of financial position as at fair value through profit or loss or as available for sale. This risk is mitigated through the adherence to an investment policy geared towards diversification as described earlier. The Group is exposed to price risk in respect of listed equity investment. Approximately 48% of equity securities held at fair value through profit or loss in Note 16 relate to holdings in three local banks (2016: 54%). The remaining equity securities held at fair value through profit or loss are mainly held in equities in the Telecommunication Services and Information Technology sectors.

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Market risk (continued)

(b) Price risk (continued)

The total assets subject to equity price risk are the following:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Assets attributable to policyholders	**20,553,113**	16,301,417	**-**	-

The sensitivity analysis for price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether these changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

The sensitivity analysis measures the change in the fair value of the instruments for a hypothetical change of 10% in the market price of financial assets at fair value through profit or loss. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. Should market prices at the end of the reporting period increase/decrease by 10%, with all other variables held constant, the impact on the Group's pre-tax profit would be +/- €1,857,000 in 2017 (2016: +/- €1,576,000). This sensitivity analysis is based on a change in an assumption while holding all assumptions constant and does not consider, for example, the mitigating impact of the DPF element on policyholder liabilities for contracts with a DPF.

(c) Currency risk

The Group's and the Company's exposure to foreign exchange risk arises primarily from investments that are denominated in currencies other than the Euro. As at 31 December 2017, the Group's exposure to foreign currency investments (principally comprising a mix of US Dollar, UK Pound and Swiss Franc) represented 3% of the Group's total investments in Note 16 (2016: 5%). 15% (2016: 2%) of the Group's cash and cash equivalents, at 31 December 2017, are denominated in foreign currency (principally comprising a mix of US Dollar, UK Pound and Swiss Franc).

The risk arising from foreign currency transactions is managed by regular monitoring of the relevant exchange rates and management's reaction to material movements thereto. In addition, currency exposure is regulated by the Regulations underlying the Insurance Business Act (Cap. 403), in so far as life assurance business is concerned.

For financial instruments held or issued, a sensitivity analysis technique that measures the change in the fair value and the cash flows of the Group's financial instruments at the reporting date for hypothetical changes in exchange rates has been used. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

Should GBP and USD exchange rates at the end of the reporting period differ by +/-10%, with all other variables held constant, the impact on the Company's pre-tax profit would be +/-€187,000 in 2017 (2016: +/-€253,000) and +/-€90,000 in 2017 (2016: +/-€51,000) respectively.

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Credit risk

The Group and the Company have exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Financial assets that potentially subject the Group to concentrations of credit risk consist principally of:

- investments (including counterparty risk);
- reinsurers' share of technical provisions;
- trade and other receivables; and
- cash and cash equivalents.

The Company is exposed to credit risk as at the financial year-end in respect of amounts due from subsidiary undertakings and cash at bank balances, which are placed with reliable financial institutions.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Limits on the level of credit risk by category are defined within the Group's investment policy as described earlier. This policy also considers regulatory restrictions on asset and counterparty exposures. Further detail on the content of the Group's investment portfolio is provided in Note 16 to these financial statements.

Credit risk in respect of trade and other receivables is not deemed to be significant after considering the range of underlying debtors, and their creditworthiness. Receivables are stated net of impairment. Further detail in this regard is provided in Note 19 to the financial statements.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis and by reviewing their financial strength prior to finalisation of any contract. The Group's reinsurer retained its Standard and Poor's rating of AA- as at 31 December 2017.

The credit risk in respect of cash at bank is mitigated by placing such balances with reliable financial institutions.

Credit risk in respect of the amounts due from subsidiary undertakings to the Company is closely monitored by the Company and is tested for impairment as disclosed in Note 15.

The following table illustrates the assets that expose the Group to credit risk as at the end of the reporting period and includes the Bloomberg's composite rating for debt securities at fair value through profit or loss, when available, and the Fitch long term issuer default rating for deposits with banks and cash and cash equivalents, when available.

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Credit risk (continued)

Assets bearing credit risk at the end of the reporting period are analysed as follows:

As at 31 December 2017

	AAA to AA- €	A+ to A €	A- €	BBB+ to B- €	Unrated €	Total €
Investments						
Debt securities at fair value through profit or loss	12,987	-	15,957,157	19,005,414	6,251,709	41,227,267
Debt securities available-for-sale	-	-	175,983	345,810	-	521,793
	12,987	-	16,133,140	19,351,224	6,251,709	41,749,060
Loans and receivables						
Loans secured on policies	-	-	-	-	110,597	110,597
Trade and other receivables	-	-	-	-	2,591,772	2,591,772
Cash and cash equivalents	-	-	-	9,137,053	1,113,371	10,250,424
	-	-	-	9,137,053	3,815,740	12,952,793
Reinsurance share of technical provisions	9,692,516	-	-	-	-	9,692,516
Total assets bearing credit risk	**9,705,503**	**-**	**16,133,140**	**28,488,277**	**10,067,449**	**64,394,369**

As at 31 December 2016

	AAA to AA- €	A+ to A €	A- €	BBB+ to B- €	Unrated €	Total €
Investments						
Debt securities at fair value through profit or loss	569,301	1,114,445	18,218,230	5,599,904	2,653,419	28,155,299
Debt securities held-to-maturity	-	604,592	5,202,846	824,341	181,221	6,813,000
	569,301	1,719,037	23,421,076	6,424,245	2,834,640	34,968,299
Loans and receivables						
Loans secured on policies	-	-	-	-	138,884	138,884
Trade and other receivables	-	-	-	-	3,160,841	3,160,841
Cash and cash equivalents	-	655,257	-	13,044,726	609,883	14,309,866
	-	655,257	-	13,044,726	3,909,608	17,609,591
Reinsurance share of technical provisions	7,653,972	-	-	-	-	7,653,972
Total assets bearing credit risk	**8,223,273**	**2,374,294**	**23,421,076**	**19,468,971**	**6,744,248**	**60,231,862**

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Credit risk (continued)

Unrated financial assets principally comprise locally traded bonds on the Malta Stock Exchange, receivables and certain deposits with local bank institutions for which no credit rating is available.

As at 31 December 2017 and 2016 the Group had significant exposure with the Government of Malta through investments in debt securities. In 2017 these were equivalent to 29% (2016: 36%) of the Group's total investments.

Liquidity risk

Liquidity is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group adopts a prudent liquidity risk management approach by maintaining a sufficient proportion of its assets in cash and marketable securities through the availability of an adequate amount of committed credit facilities and the ability to close out market positions. Senior management is updated on a regular basis on the cash position of the Group illustrating, inter alia, actual cash balance net of operational commitments falling due in the short term as well as investment commitments falling due in the medium and long term.

The Group is exposed to daily calls on its available cash resources in order to meet its obligations, including claims arising from contracts in issue by the Group. Other financial liabilities which expose the Group and the Company to liquidity risk mainly comprise the borrowings disclosed in Note 22 and trade and other payables disclosed in Note 23.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period between the end of the reporting period and the maturity date. The expected cash outflows for insurance and investment contracts do not consider the impact of early surrenders. Expected cash outflows on unit linked liabilities have been excluded since they are matched by expected inflows on backing assets.

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Liquidity risk (continued)

Group

As at 31 December 2017

	Contracted undiscounted cash outflows					
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €	Carrying amount €
Borrowings	500,000	500,000	11,000,000	-	12,000,000	9,779,958
Trade and other payables	6,989,658	-	-	-	6,989,658	6,989,658
	7,489,658	**500,000**	**11,000,000**	**-**	**18,989,658**	**16,739,616**

	Expected undiscounted cash outflows					
	Less than five years €	Between five and ten years €	Between ten and twenty years €	Over twenty years €	Total €	Carrying amount €
Technical provisions	**23,816,533**	**13,460,491**	**21,372,840**	**29,356,979**	**88,006,842**	**88,006,842**

As at 31 December 2016

	Contracted undiscounted cash outflows					
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €	Carrying amount €
Borrowings	500,000	500,000	11,500,000	-	12,500,000	9,715,830
Trade and other payables	5,972,928	-	-	-	5,972,928	5,972,928
	6,472,928	**500,000**	**11,500,000**	**-**	**18,472,928**	**15,688,758**

	Expected undiscounted cash outflows					
	Less than five years €	Between five and ten years €	Between ten and twenty years €	Over twenty years €	Total €	Carrying amount €
Technical provisions	**19,032,852**	**12,582,138**	**22,257,693**	**25,122,189**	**78,994,872**	**78,994,872**

2. Management of insurance and financial risk (continued)

Financial risk (continued)

Liquidity risk (continued)

Company

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period between the end of the reporting period and the maturity date.

As at 31 December 2017 **Contracted undiscounted cash outflows**

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €	Carrying amount €
Borrowings	500,000	500,000	11,000,000	-	12,000,000	9,779,958
Trade and other payables	3,079,376	-	-	-	3,079,376	3,079,376
	3,579,376	**500,000**	**11,000,000**	**-**	**15,079,376**	**12,859,334**

As at 31 December 2016 **Contracted undiscounted cash outflows**

	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €	Carrying amount €
Borrowings	500,000	500,000	11,500,000	-	12,500,000	9,715,830
Trade and other payables	2,359,991	-	-	-	2,359,991	2,359,991
	2,859,991	**500,000**	**11,500,000**	**-**	**14,859,991**	**12,075,821**

3. Segmental analysis

The following is an analysis of the Group's revenue and result by reportable segment, assets, liabilities and other information for 2017.

	Investment and advisory services €	Business of insurance €	Agency services €	Property services €	Other €	Eliminations €	Group €
Year ended 31 December 2017							
Segment income							
Earned premiums, net of reinsurance	-	11,242,012	-	-	-	-	11,242,012
Commission and other fees receivable	763,992	-	1,708,504	-	-	-	2,472,496
Investment and other income	88,792	6,567,573	43,572	26	742,777	(3,203,347)	4,239,393
Net gains on investments at fair value through profit and loss	-	1,339,923	-	-	-	-	1,339,923
Net gains on investment property	-	2,060,316	-	40,000	-	1,447,138	3,547,454
Total revenue	**852,784**	**21,209,824**	**1,752,076**	**40,026**	**742,777**	**(1,756,209)**	**22,841,278**
Revenue from external customers	652,458	12,560,345	1,708,504	-	-	-	14,921,307
Intersegment revenues	111,534	1,001,624	-	26	742,777	-	1,855,961
Segment expenses							
Net claims incurred	-	(7,743,229)	-	-	-	-	(7,743,229)
Net change in technical provisions	-	(3,882,784)	-	-	-	-	(3,882,784)
Net operating expenses	(923,551)	(2,982,529)	(1,018,578)	(188,070)	(483,314)	(41,240)	(5,637,282)
Investment expenses	(9,134)	(67,937)	-	-	-	(299,438)	(376,509)
Total expenses	**(932,685)**	**(14,676,479)**	**(1,018,578)**	**(188,070)**	**(483,314)**	**(340,678)**	**(17,639,804)**

3. **Segmental analysis** (continued)

	Investment and advisory services €	Business of insurance €	Agency and brokerage services €	Property services €	Other €	Eliminations €	Group €
Year ended 31 December 2017							
Segment (loss)/profit	**(79,901)**	**6,533,345**	**733,498**	**(148,044)**	**259,463**	**(2,096,887)**	**5,201,474**
Unallocated items							
Finance costs	-	-	-	-	-	-	(557,279)
Total unallocated items	-	-	-	-	-	-	**(557,279)**
Group profit							**4,644,195**
Tax expense							(1,474,812)
Profit after tax							**3,169,383**
Segment assets	1,319,652	124,666,900	1,168,459	6,593,386	17,013,612	(31,234,793)	119,527,216
Unallocated assets							7,593,738
							127,120,954
Segment liabilities	635,634	93,886,753	44,439	7,015,334	3,088,670	(17,213,881)	87,456,949
Unallocated liabilities							21,415,643
							108,872,592
Other segment items							
Capital expenditure	-	227,906	26,064	-	-		
Amortisation	319	145,524	-	-	588		
Depreciation	-	77,310	6,350	-	2,366		

3 Segmental analysis (continued)

The following is an analysis of the Group's revenue and result by reportable segment, assets, liabilities and other information for 2016.

	Investment and advisory services €	Business of insurance €	Agency and brokerage services €	Property services €	Other €	Eliminations €	Group €
Year ended 31 December 2016							
Segment income							
Earned premiums, net of reinsurance	-	9,661,870	-	-	-	-	9,661,870
Commission and other fees receivable	671,230	-	2,032,914	-	-	-	2,704,144
Investment and other income	-	9,607,169	13,749	1,101	3,034,679	(6,101,131)	6,555,567
Net gains on investments at fair value through profit and loss	-	-	29,977	1,685	-	-	31,662
Net gains on investment property	-	1,484,111	-	143,075	-	-	1,627,186
Total revenue	**671,230**	**20,753,150**	**2,076,640**	**145,861**	**3,034,679**	**(6,101,131)**	**20,580,429**
Revenue from external customers	676,416	10,728,328	1,986,342	-	-	-	13,391,086
Intersegment revenues	9,388	3,032,940	5,774	1,101	3,034,095	-	6,083,298
Segment expenses							
Net claims incurred	-	(9,308,577)	-	-	-	-	(9,308,577)
Net change in technical provisions	-	(2,024,346)	-	-	-	-	(2,024,346)
Net operating expenses	(1,270,159)	(2,842,276)	(957,988)	(196,075)	(403,400)	101,131	(5,568,767)
Unrealised losses on investment property	-	(207,061)	-	-	(23,914)	-	(230,975)
Investment expenses	(15,574)	(36,434)	-	(2)	-	-	(52,010)
Total expenses	**(1,285,733)**	**(14,418,694)**	**(957,988)**	**(196,077)**	**(427,314)**	**101,131**	**(17,184,675)**

3. Segmental analysis (continued)

	Investment and advisory services €	Business of insurance €	Agency and brokerage services €	Property services €	Other €	Eliminations €	Group €
Year ended 31 December 2016							
Segment (loss)/profit	**(614,503)**	**6,334,456**	**1,118,652**	**(50,216)**	**2,607,365**	**(6,000,000)**	**3,395,754**
Unallocated items							
Finance costs	-	-	-	-	-	-	(616,040)
Total unallocated items	-	-	-	-	-	-	(616,040)
Group profit							**2,779,714**
Tax expense							(926,557)
Profit after tax							**1,853,157**
Segment assets	1,002,917	104,194,747	1,621,066	6,144,919	15,275,719	(23,819,891)	104,419,477
Unallocated assets							8,723,779
							113,143,256
Segment liabilities	756,582	83,548,837	74,256	145,013	1,333,849	(8,081,759)	77,776,778
Unallocated liabilities							20,246,686
							98,023,464
Other segment items							
Capital expenditure	-	306,340	-	-	-		
Amortisation	-	140,993	-	-	59,458		
Depreciation	551	42,009	109	-	17,389		

3. **Segmental analysis** (continued)

The Group's reportable segments under IFRS 8 are identified as follows:

- Investment and advisory services - the provision of services in terms of the Investment Services Act (Cap. 370);
- Business of insurance - to carry on long term business of insurance under the Insurance Business Act (Cap. 403);
- Agency and brokerage services - provision of agency or brokerage services for health or other general insurance in terms of the Insurance Intermediaries Act (Cap. 487) and money broking and trading in foreign exchange in terms of the Financial Institutions Act (Cap. 387);
- Property services - to handle property acquisitions, disposals and development projects both long and short term; and
- Other.

The other operating segment includes corporate expenses and other activities which are not reportable segments due to their immateriality. Certain expenses, finance costs and taxes are not allocated across the segments.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit or loss represents the results generated by each segment without the allocation of certain finance costs, impairment of goodwill and taxation. This is the measure reported to the Group's chief executive officer for the purpose of resource allocation and assessment of segment performance.

All the Group's turnover is primarily generated in and from Malta. The above turnover includes inter segment revenues amounting to €118,952 (2016: €101,131).

Segment assets consist primarily of investments, receivables, intangible assets, property, plant and equipment and operating cash. Segment liabilities comprise insurance technical provisions and other operating liabilities. Capital expenditure comprises additions to computer software and to property, plant and equipment. Unallocated assets comprise investments that are not allocated to policyholders, taxation and intra group receivables. Unallocated liabilities mainly comprise borrowings, taxation and intra group payables.

All non-current assets (other than financial instruments, deferred tax assets and rights under insurance contracts) are held in Malta with the exception of investment property located in Italy amounting to €5,500,000 (2016: €5,500,000), in Croatia of €590,000 (2016: €550,000) and other countries amounting to €182,000 (2016: €182,000).

4. Expenses by nature

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Staff cost	**1,889,641**	1,501,868	**-**	-
Commission and direct marketing costs	**1,832,254**	1,224,167	**-**	-
Amortisation of computer software	**145,843**	142,698	**588**	1,705
Depreciation of property, plant and machinery	**86,026**	60,016	**2,366**	17,389
Legal and professional fees	**259,707**	458,452	**11,532**	37,832
Operating lease rentals payable	**113,997**	70,906	**-**	-
Other provisions	**(12,962)**	519,513	**-**	-
Impairment of balances due from group companies	**-**	-	**-**	324,915
Other expenses	**1,322,776**	1,591,147	**358,128**	277,577
	5,637,282	5,568,767	**372,614**	659,418

Allocated as follows:				
Long term business technical account				
- claims related expenses	**154,488**	112,281	**-**	-
- staff costs	**569,631**	507,257	**-**	-
- net operating expenses	**2,347,897**	2,061,404	**-**	-
Non-technical account				
- staff costs	**1,320,010**	994,611	**-**	-
- commission and direct marketing costs	**101,447**	154,797	**-**	-
- other provisions	**(12,962)**	519,513	**-**	-
- impairment of intercompany receivables	**-**	-	**-**	324,915
- other administrative expenses	**1,156,771**	1,218,904	**372,614**	334,503
	5,637,282	5,568,767	**372,614**	659,418

Actuarial valuation fees for the current financial year amounted to €74,740 (2016: €137,468) for the Group.

Auditor's remuneration for the current financial year amounted to €97,500 (2016: €116,750) for the Group and €50,000 (2016: €66,500) for the Company. Other fees payable to the auditor comprise €18,000 (2016: €10,500) for other assurance services, €9,000 (2016: €10,675) for tax services and €11,000 (2016: €60,000) for other non-audit services.

Other provisions for the year under review represent the best estimate of the expected outflow of resources to settle a present obligation resulting from outstanding court and arbitration cases against the Group.

5. Staff costs

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Staff costs:				
Wages and salaries	**1,792,383**	1,413,066	**1,792,383**	1,413,066
Social security costs	**97,248**	88,802	**97,248**	88,802
	1,889,641	1,501,868	**1,889,641**	1,501,868
Recharged to group undertakings	**-**	-	**(1,889,641)**	(1,501,868)
	1,889,641	1,501,868	**-**	-

The average number of persons employed by both the Group and the Company during the year are analysed below:

	2017	2016
	Number	Number
Managerial	**11**	13
Sales	**6**	5
Administrative	**44**	39
	61	57

The table above represents salaried staff and does not include self-employed Tied Insurance Intermediaries.

6. Investment return and finance costs

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Investment income				
Rental income from investment property	**560,245**	818,366	**-**	-
Dividends received from investments at fair value through profit or loss	**300,539**	357,399	**-**	-
Dividends received from available-for-sale investments	**22,342**	34,617	**-**	-
Interest receivable from				
- investments at fair value through profit or loss	**1,738,499**	1,202,152	**-**	-
- held-to-maturity investments	**194,618**	321,740	**-**	-
- other loans and receivables	**6,190**	5,896	**-**	564
Net exchange gains	**-**	-	**-**	20
Net gains on investment property and non-current assets held for sale	**2,100,316**	1,629,999	**-**	-
Net gains on financial investments	**1,048,693**	-	**-**	-
Other income	**139,817**	33,204	**-**	500
	6,111,259	4,403,373	**-**	1,084
Investment charges and expenses				
Net losses on financial investments	**-**	52,636	**-**	22,543
Investment management charges	**77,281**	31,715	**-**	-
Net exchange losses	**-**	141,624	**-**	-
Interest payable on:				
- Interest-bearing borrowings	**493,151**	591,721	**493,151**	616,040
Amortisation charge on held-to-maturity investments	**-**	15,931	**-**	-
Amortisation of bond issue costs	**64,128**	59,458	**64,128**	59,458
	634,560	893,085	**557,279**	698,041
Total investment return/(loss)	**5,476,699**	3,510,288	**(557,279)**	(696,957)
Allocated as follows:				
Long term business technical account	**1,840,323**	1,009,441	**-**	-
Statement of comprehensive income	**3,636,376**	2,500,847	**(557,279)**	(696,957)
	5,476,699	3,510,288	**(557,279)**	(696,957)

7. Income tax

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Current tax charge	**399,569**	809,664	**-**	7,487
Deferred tax charge/(credit)	**395,819**	(870,688)	**-**	(7,762)
Tax relating to value of in-force business	**679,424**	987,581	**-**	-
Tax charge/(credit)	**1,474,812**	926,557	**-**	(275)

Income tax recognised in other comprehensive income is as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Deferred tax				
Arising on income and expenses recognised in other comprehensive income:				
Revaluations of property	**-**	159,119	**-**	-
Revaluations of available-for-sale financial assets	**(21,977)**	(24,450)	**-**	-
	(21,977)	134,669	**-**	-

The tax on the Group's and the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Profit/(loss) before tax	**4,644,195**	2,779,714	**(929,893)**	(1,356,375)
Tax on profit/(loss) at 35%	**1,625,468**	972,900	**(325,463)**	(474,731)
Tax effect of:				
Non - deductible expenditure	**401,212**	379,081	**325,463**	474,456
Exempt income and income subject to a reduced rate of tax	**(609,605)**	(546,156)	**-**	-
Deferred tax asset not recognised	**-**	182,008	**-**	-
Other differences	**57,737**	(61,276)	**-**	-
Tax expense/(income)	**1,474,812**	926,557	**-**	(275)

8. Directors' emoluments

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Fees	**249,802**	216,930	**249,802**	216,930
Salaries	**102,683**	105,603	**102,683**	105,603
	352,485	322,533	**352,485**	322,533
Recharged to group undertakings	**-**	-	**(175,683)**	(163,603)
	352,485	322,533	**176,802**	158,930

The executive directors are entitled to participate in a health insurance scheme subsidised by the Group.

The above information for the Company for 2017 and 2016 includes salaries and emoluments amounting to €175,683 (2016: €163,603) that were recharged to group undertakings.

9. Earnings per share

Earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	Group	
	2017	2016
	€	€
Net profit attributable to shareholders	**3,169,383**	1,853,157
Weighted average number of ordinary shares in issue	**30,000,000**	26,203,907
Earnings per share (cents)	**10c5**	7c1

There is no difference between basic and diluted earnings per share as the Company has no potential dilutive ordinary shares.

10. Dividends

The Directors do not recommend the payment of a dividend for 2017 as the Company had no distributable reserves at the end of the reporting period. No dividend was paid in 2016.

11. Intangible assets

Group

	Goodwill €	Value of in-force business €	Computer software €	Total €
At 1 January 2016				
Cost or valuation	311,541	5,021,000	2,396,268	7,728,809
Accumulated amortisation	-	-	(566,079)	(566,079)
Carrying amount	311,541	5,021,000	1,830,189	7,162,730
Year ended 31 December 2016				
Opening carrying amount	311,541	5,021,000	1,830,189	7,162,730
Increment in value in force business	-	1,834,079	-	1,834,079
Amortisation charge	-	-	(142,698)	(142,698)
Closing carrying amount	311,541	6,855,079	1,687,491	8,854,111
At 31 December 2017				
Cost or valuation	311,541	6,855,079	2,396,268	9,562,888
Accumulated amortisation	-	-	(708,777)	(708,777)
Carrying amount	311,541	6,855,079	1,687,491	8,854,111
At 1 January 2017				
Cost or valuation	311,541	6,855,079	2,396,268	9,562,888
Accumulated amortisation	-	-	(708,777)	(708,777)
Carrying amount	311,541	6,855,079	1,687,491	8,854,111
Year ended 31 December 2017				
Opening carrying amount	311,541	6,855,079	1,687,491	8,854,111
Increment in value in force business	-	1,261,787	-	1,261,787
Additions	-	-	227,766	227,766
Amortisation charge	-	-	(145,843)	(145,843)
Closing carrying amount	311,541	8,116,866	1,769,414	10,197,821
At 31 December 2017				
Cost or valuation	311,541	8,116,866	2,624,034	11,052,441
Accumulated amortisation	-	-	(854,620)	(854,620)
Carrying amount	**311,541**	**8,116,866**	**1,769,414**	**10,197,821**

Amortisation of computer software amounting to €145,843 (2016: €142,698) is included in expenses by nature (Note 4).

Computer software relates to the Group's policy administration system. The carrying amount of the software is €1,767,553 (2016: €1,686,907) will be fully amortised in 12 years (2016: 13 years). Included in computer software at 31 December 2017 is an amount of €162,260 (2016: nil) relating to expenditure for software under development.

11. Intangible assets (continued)

Impairment tests for goodwill

The goodwill component at the end of the reporting period relates to the Group's health insurance agency that was acquired as a result of the merger by acquisition of the local operations of BAI Co (Mtius) Ltd in 2004. An impairment assessment was carried out in which the recoverable amount of the goodwill was determined based on its value in use. The value in use was determined by estimating the discounted future cash flows the Group expects to derive from this component over 10 years. Projected cash flows assumed an average growth rate of 3% per annum. A discount rate of 6% and a capitalisation rate of 10% were applied to determine value in use. From such assessment there was no indication of impairment on the remaining goodwill.

Value of in-force business – assumptions, changes in assumptions and sensitivity

The value of in-force business ("VOIFB") represents the net present value of projected future transfers to Shareholders from policies in force at the year end, after making provision for taxation. The value of in-force business is determined by the Directors on an annual basis, based on the advice of the approved actuary.

The assumption parameters of the valuation are based on a combination of the Group's experience and market data. Due to the long-term nature of the underlining business, the cash flow projection period for each policy is set to its maturity date. The valuation is based on a discount rate of 5.50% and a growth rate of 3.40% to 6.50% depending on the type of policy.

The valuation assumes a margin of 0.75% (2016: 1.5%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 1% to 8.5%, and expenses are implicitly inflated.

Sensitivity of the main assumptions underlying the valuation is applied as follows:

- a 10% increase in the assumption for policy maintenance expenses reduces the VOIFB by €690,000 (2016: €448,000);
- a decrease in the projected investment return by 10% reduces the VOIFB by €874,000 (2016: €919,000); and
- an increase in the discount factor by 10% reduces the VOIFB by €667,000 (2016: €401,000).

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant.

11. Intangible assets (continued)

Company	**Computer Software €**
At 1 January 2016	
Cost	16,922
Accumulated amortisation	(14,629)
Carrying amount	2,293
Year ended 31 December 2016	
Opening carrying amount	2,293
Amortisation charge	(1,705)
Closing carrying amount	588
At 31 December 2016	
Cost	16,922
Accumulated amortisation	(16,334)
Carrying amount	588
Year ended 31 December 2017	
Opening carrying amount	588
Amortisation charge	(588)
Closing carrying amount	-
At 31 December 2017	
Cost	16,922
Accumulated amortisation	(16,922)
Carrying amount	-

12. Deferred tax

Deferred taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate ranging between 8% and 35% (2016: 8% and 35%). In particular temporary differences on investment properties situated in Malta that have been owned by the Group since 1 January 2004 are calculated under the liability method using a principal tax rate of 8% of the carrying amount, while investment properties situated in Malta that had been acquired by the Group before 1 January 2004 are calculated under the liability method using a principal tax rate of 10% of the carrying amount. Deferred tax on temporary differences on investment properties situated outside Malta has been calculated based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

12. Deferred tax (continued)

Any deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable income is probable. In making this assessment the Directors have taken into account projected taxable income based on approved budgets as well as the nature of the temporary differences giving rise to the deferred tax asset. As at 31 December 2017, the Group had deductible temporary differences of EUR944,486 (2016: EUR957,448), unabsorbed capital allowances of EUR1,852,549 (2016: EUR1,850,969) and unused tax losses of EUR1,503,263 (2016: EUR1,503,263) for which no deferred tax asset is recognised in the statement of financial position.

The movement on the deferred tax liability account is as follows:

	Group		**Company**	
	2017	2016	**2017**	2016
	€	€	**€**	€
Year ended 31 December				
At beginning of year	**2,099,185**	3,104,542	**-**	7,762
Charged/(credited) to profit and loss account	**395,819**	(1,140,026)	**-**	(7,762)
(Credited)/charged to other comprehensive income	**(21,977)**	134,669	**-**	-
At end of year	**2,473,027**	2,099,185	**-**	-

Deferred taxation at the year-end is in respect of the following temporary differences:

	Group		**Company**	
	2017	2016	**2017**	2016
	€	€	**€**	€
Arising on:				
Fair value adjustments	**3,837,593**	3,979,446	**-**	-
Accelerated tax depreciation	**100,147**	(55,276)	**-**	-
Unutilised tax losses	**(1,112,560)**	(1,112,560)	**-**	-
Unutilised capital allowances	**(315,094)**	(675,229)	**-**	-
Others	**(37,059)**	(37,196)	**-**	-
	2,473,027	2,099,185	**-**	-

The Directors consider that the above temporary differences are substantially non-current in nature.

13. Property, plant and equipment

Group

	Land and buildings €	Office furniture, fittings and equipment €	Motor vehicles €	Total €
Year ended 31 December 2017				
Opening carrying amount	2,009,670	40,583	-	2,050,253
Additions	103,998	58,487	-	162,485
Depreciation charge	(64,097)	(21,929)	-	(86,026)
Closing carrying amount	2,049,571	77,141	-	2,126,712
At 31 December 2017				
Cost	2,491,751	2,272,014	192,856	4,956,621
Accumulated depreciation	(442,180)	(2,194,873)	(192,856)	(2,829,909)
Carrying amount	**2,049,571**	**77,141**	**-**	**2,126,712**
Year ended 31 December 2016				
Opening carrying amount	2,384,026	65,816	-	2,449,842
Additions	148,914	-	-	148,914
Transferred to investment property	(488,037)	-	-	(488,037)
Disposals	-	(6,733)	-	(6,733)
Depreciation charge	(35,233)	(18,500)	-	(53,733)
Closing carrying amount	2,009,670	40,583	-	2,050,253
At 31 December 2016				
Cost	2,387,753	2,213,527	192,856	4,794,136
Accumulated depreciation	(378,083)	(2,172,944)	(192,856)	(2,743,883)
Carrying amount	**2,009,670**	**40,583**	**-**	**2,050,253**

During the year ended 31 December 2016, land and building with a carrying amount of €488,037 was reclassified to investment property. On reclassification, the difference between the carrying amount of the property and its fair value amounted to €1,221,580 which was recognised in other comprehensive income.

13. Property, plant and equipment (continued)

Company

	Office furniture, fittings and equipment €
At 1 January 2016	
Cost	109,693
Accumulated depreciation	(87,659)
Carrying amount	22,034
Year ending 31 December 2016	
Opening carrying amount	22,034
Depreciation for the year	(17,840)
Closing carrying amount	4,194
At 31 December 2016	
Cost	109,693
Accumulated depreciation	(105,499)
Carrying amount	4,194
Year ending 31 December 2017	
Opening carrying amount	4,194
Depreciation for the year	(2,366)
Closing carrying amount	1,828
At 31 December 2017	
Cost	109,693
Accumulated depreciation	(107,865)
Carrying amount	**1,828**

14. Investment property

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Year ended 31 December				
At beginning of year	**18,664,160**	15,237,008	**-**	-
Additions	**91,485**	156,846	**-**	-
Property reclassified from property, plant and equipment	**-**	1,709,617	**-**	-
Net fair value gains	**2,100,310**	1,560,689	**-**	-
At end of year	**20,855,955**	18,664,160	**-**	-
At 31 December				
Cost	**11,502,591**	11,411,106	**-**	-
Accumulated fair value gains	**9,353,364**	7,253,054	**-**	-
Net book amount	**20,855,955**	18,664,160	**-**	-

The additions to investment properties relate to refurbishment costs incurred on properties held by the Group.

During the year ended 31 December 2016, land and building with a carrying amount of €488,037 was reclassified to investment property. On reclassification, the difference between the carrying amount of the property and its fair value amounted to €1,221,580 which was recognised in other comprehensive income.

Details about the Group's investment properties, including those classified as non-current assets held-for-sale, and information about the fair value hierarchy at 31 December 2017 and 2016 are as follows:

	Fair value measurement at end of the reporting period using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	€	**€**	**€**	**€**
2017				
Investment property:				
Local property	-	-	14,583,955	14,583,955
Foreign property	-	-	6,272,000	6,272,000
Total	**-**	**-**	**20,855,955**	**20,855,955**
2016				
Investment property:				
Local property	-	-	12,432,160	12,432,160
Foreign property	-	-	6,232,000	6,232,000
Total	**-**	**-**	**18,664,160**	**18,664,160**

14. Investment property (continued)

In estimating the fair value of the properties, the highest and best use of the properties is their current use. In accordance with the Group's accounting policy, the valuation of investment properties is assessed by the Board of Directors at the end of every reporting period.

Fair value in relation to local properties which are leased out was computed using a discounted cash flow model by reference to rental income earned. No valuation was obtained from an independent professionally qualified valuer.

The fair value of foreign properties was determined by reference to an independent professionally qualified valuer. The basis of valuation adopted by the independent qualified valuer is the 'Open Market Value' which gives an opinion of the best price at which the sale of the property would be completed unconditionally, for cash consideration, by a willing seller, assuming there had been a reasonable period for the proper marketing of the property, and for the agreement of the price and terms for the completion of the sale. The Directors are of the opinion that the fair value of the foreign properties have not altered significantly since December 2016 being the date of the valuation and hence this is an appropriate estimate of the fair value at 31 December 2017. There has been no change to the valuation technique during the year.

The table below includes further information about the Group's Level 3 fair value measurements (excluding the Rome property):

	Significant unobservable input €	**Narrative sensitivity €**
2017		
Local properties	Rental value per square metre, ranging from €90 to €280	The higher the price per square metre, the higher the fair value
	Rent growth of 2.5% per annum	The higher the rent growth, the higher the fair value
	Discount rate of 6.6%	The higher the discount rate, the lower the fair value
Foreign property - Croatia	Value per square metre of €118	The higher the price per square metre, the higher the fair value

	Significant unobservable input €	**Narrative sensitivity €**
2016		
Local properties	Rental value per square metre, ranging from €92 to €230	The higher the price per square metre, the higher the fair value
	Rent growth of 2% per annum	The higher the rent growth, the higher the fair value
	Discount rate of 6.98%	The higher the discount rate, the lower the fair value
Foreign property - Croatia	Value per square metre of €111	The higher the price per square metre, the higher the fair value

14. Investment property (continued)

The Group's investment property portfolio also includes a property of an exceptional nature – a Baronial castle situated outside of Rome, which accounts for 4.3% (2016: 4.9%) of the Group's total assets. The specialised nature of this property makes such an assessment particularly judgemental. A professional valuation of the property was obtained in February 2018 to provide the most probable market value of the asset on an 'as is' basis taking cognisance of the building's physical condition, facilities and components. The valuation is based on an average value per square metre of €2,830 (2016: €2,890), based on a sales comparison approach.

The values proposed by the various valuation experts over the last 8 years varied materiality from each other resulting in a wide range of possible estimates. This highlights the significance of the judgements involved in estimating the fair value of this property as well as the subjectivity of each valuation. The Directors resolved to maintain the carrying value of this property towards the lower end of this range.

Details about the Group's investment properties classified as Level 3 at 31 December 2017 and 2016 are as follows:

	Local property €	**Foreign property €**	**Total €**
Year ended 31 December 2017			
At beginning of year	12,432,160	6,232,000	18,664,160
Additions	91,485	-	91,485
Fair value gains	2,060,310	40,000	2,100,310
At end of year	**14,583,955**	**6,272,000**	**20,855,955**
Year ended 31 December 2016			
At beginning of year	9,065,008	6,172,000	15,237,008
Additions	156,846	-	156,846
Property reclassified from property, plant and equipment	1,709,617	-	1,709,617
Fair value gains	1,500,689	60,000	1,560,689
At end of year	**12,432,160**	**6,232,000**	**18,664,160**

15. Investment in group undertakings

	2017 €	2016 €
Opening cost and net book amount	**6,451,553**	6,451,553
Closing net book amount	**6,451,553**	6,451,553

During the year, the Company carried out a review of the recoverable amount of its investment in group undertakings in view of the losses incurred by group undertakings during the financial year.

The recoverable amount of the relevant asset has been determined by reference to either the fair value less costs to sell or the value in use of the group undertakings.

No impairment loss was recognised in the current and prior year.

15. Investment in group undertakings (continued)

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered Office	Principal place of business	Class of shares held	Percentage of shares held 2017	2016
Brammer Limited (in liquidation)	City of Sofia, Region of Mladost H.E. “Mladost” Bl. 434 Floor 5 App 114 Bulgaria	Bulgaria	Ordinary shares	**100%**	100%
Central Landmark Development Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary shares	**100%**	100%
Global Estates Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary ‘A’ shares	**100%**	100%
Global Properties Limited (Međunarodne Nekretnine d.o.o.)	26/A/3 Gunduliceva, Split Croatia	Croatia	Ordinary shares	**100%**	100%
GlobalCapital Financial * Management Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary shares	**100%**	100%
GlobalCapital Health * Insurance Agency Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary ‘A’ shares	**100%**	100%
GlobalCapital Holdings Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary shares	**100%**	100%
GlobalCapital Insurance * Brokers Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary shares	**merged**	merged
GlobalCapital Life * Insurance Limited	Testaferrata Street, Ta’ Xbiex Malta	Malta	Ordinary shares	**100%**	100%
Quadrant Italia S.R.L.	Via Bruxelles 34 Cap 00100 Rome RM Italy	Italy	Ordinary shares	**100%**	100%

* The distribution of dividends by these subsidiary undertakings may be restricted by the solvency requirements of relevant legislation, mainly the Insurance Business Act (Cap. 403), the Insurance Intermediaries Act (Cap. 487) and the Investment Services Act (Cap. 370).

By virtue of a resolution signed passed on the 6 July 2016, by the Board of Directors of GlobalCapital Holdings Limited and GlobalCapital Insurance Brokers Limited, the latter has been amalgamated into GlobalCapital Holdings Limited.

15. Investment in group undertakings (continued)

	Capital and reserves	
	2017	2016
	€	€
Brammer Limited (in liquidation)	**(66,967)**	(66,967)
Central Landmark Development Limited	**(244,237)**	(235,974)
Global Estates Limited	**(5,002)**	(951)
Global Properties Limited (Međunarodne Nekretnine d.o.o.)	**(778,557)**	(815,799)
GlobalCapital Financial Management Limited	**661,647**	771,565
GlobalCapital Health Insurance Agency Limited	**912,133**	1,042,352
GlobalCapital Holdings Limited	**9,934,961**	9,652,884
GlobalCapital Life Insurance Limited	**28,431,015**	24,622,922
Quadrant Italia S.R.L.	**(440,993)**	(268,019)

	Profit / (loss)	
	2017	2016
	€	€
Brammer Limited (in liquidation)	**-**	35,148
Central Landmark Development Limited	**(8,263)**	(15,683)
Global Estates Limited	**(4,051)**	(3,948)
Global Properties Limited (Međunarodne Nekretnine d.o.o.)	**37,242**	316,688
GlobalCapital Financial Management Limited	**(110,135)**	(614,503)
GlobalCapital Health Insurance Agency Limited	**519,781**	767,162
GlobalCapital Holdings Limited	**282,077**	1,637,302
GlobalCapital Life Insurance Limited	**3,237,119**	4,004,906
Quadrant Italia S.R.L.	**(172,972)**	(170,876)

16. Other investments

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

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Fair value through profit and loss	**69,099,248**	50,427,792	**-**	-
Available-for-sale investments	**2,128,561**	983,723	**-**	-
Held-to-maturity investments	**-**	6,813,000	**-**	-
Loans and receivables	**110,597**	138,884	**417,314**	281,289
Total investments	**71,338,406**	58,363,399	**417,314**	281,289

Included in the Group total investments are €9,839,062 of assets held to cover linked liabilities (2016: €6,515,329). These relate to collective investment schemes which are classified as investments at fair value through profit or loss as described in accounting policy number 13.

(a) Investments at fair value through profit or loss

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Equity securities and collective investments schemes:				
- listed shares	**17,356,281**	13,684,830	**-**	-
- unlisted shares	**-**	598,647	**-**	-
- collective investment schemes	**10,515,700**	7,989,016	**-**	-
	27,871,981	22,272,493	**-**	-
Debt securities				
- listed	**41,227,267**	28,155,299	**-**	-
Total investments at fair value through profit or loss	**69,099,248**	50,427,792	**-**	-

Maturity of debt securities classified as fair value through profit or loss.

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Within 1 year	**1,064,297**	187,232	**-**	-
Between 1 and 2 years	**778,763**	2,386,424	**-**	-
Between 2 and 5 years	**14,951,759**	14,096,992	**-**	-
Over 5 years	**24,432,448**	11,484,651	**-**	-
	41,227,267	28,155,299	**-**	-

16. **Other investments** (continued)

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

	Group		Company	
	2017	2016	**2017**	2016
Weighted average effective interest rate at the balance sheet date	**5%**	4%	**-**	-

There were no Group investments which were pledged in favour of third parties at the financial year-end (2016: none).

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

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Year ended 31 December				
At beginning of year	**50,427,792**	47,017,655	**-**	20,800
Additions	**29,048,966**	8,962,441	**-**	465,619
Disposals (sale and redemption)	**(8,566,482)**	(5,369,733)	**-**	(463,876)
Transfer to AFS assets (Note 16 (c))	**(605,505)**	**-**	**-**	**-**
Net fair value loss	**(1,205,523)**	(182,571)	**-**	(22,543)
At end of year	**69,099,248**	50,427,792	**-**	-
At 31 December				
Cost	**61,298,265**	41,421,286	**-**	-
Accumulated fair value gains	**7,800,983**	9,006,506	**-**	-
Carrying amount	**69,099,248**	50,427,792	**-**	-

The table below analyses debt securities classified at fair value through profit or loss by sector:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Banks	**5,067,769**	3,564,752	**-**	-
Energy	**2,726,396**	3,227,206	**-**	-
Government	**21,135,089**	18,232,925	**-**	-
Other	**12,298,012**	3,130,416	**-**	-
	41,227,267	28,155,299	**-**	-

16. **Other investments** (continued)

(b) Held-to-maturity investments

	2017	2016
	€	€
Debt securities – fixed interest rate		
Government bonds	**-**	5,202,805
Listed corporate bonds	**-**	1,610,195
	-	6,813,000

Maturity of debt securities classified as held-to-maturity.

	2017	2016
	€	€
Within 1 year	**-**	785,855
Between 1 and 2 years	**-**	697,835
Between 2 and 5 years	**-**	2,172,519
Over 5 years	**-**	3,156,791
	-	6,813,000
Weighted average effective interest rate at the balance sheet date	-	5%

The movements in investments classified as held-to-maturity are summarised as follows:

	2017	2016
	€	€
Year ended 31 December		
At beginning of year	**6,813,000**	7,328,931
Maturities	**(785,860)**	(500,179)
Amortised cost	-	(15,752)
Disposal	**(5,505,347)**	-
Transfer to available-for-sale asset	**(521,793)**	-
At end of year	**-**	6,813,000
At 31 December		
Cost	**-**	6,921,224
Accumulated amortisation	**-**	(108,224)
Carrying amount	**-**	6,813,000

(c) Available-for-sale investments

	2017	2016
	€	€
Equity securities and collective investments schemes:		
-listed shares	**2,128,561**	983,723

16. Other investments (continued)

(c) Available-for-sale investments (continued)

The movements in investments classified as available-for-sale are summarised as follows:

	2017 €	2016 €
Year ended 31 December		
At beginning of year	**983,723**	1,082,933
Transfer from held-to-maturity assets (i)	**521,793**	-
Transfer from fair value through profit or loss assets (Note 16 (a))	**605,505**	-
Additions	**81,096**	-
Disposals	**(766)**	(29,353)
Net fair value loss	**(62,790)**	(69,857)
At end of year	**2,128,561**	983,723
At 31 December		
Cost	**1,866,654**	659,026
Accumulated fair value gains	**261,907**	324,697
Carrying amount	**2,128,561**	983,723

(i) During the year, the Group sold a substantial amount of its investments that were classified as held-to-maturity. Such sale was effected in view of the favourable conditions that the market was offering on such investments. Following sale, and in line with the requirements of IAS 39, the remaining financial assets classified as held-to-maturity were subsequently reclassified as available-for-sale investments, measured at fair value and any movement in fair value recognised and presented in other comprehensive income.

(d) Loans and receivables

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Loans to group undertakings	-	-	**417,314**	281,289
Loans secured on policies	**110,597**	138,884	-	-
	110,597	138,884	**417,314**	281,289

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Year ended 31 December				
At beginning of year	**138,884**	151,328	**281,289**	2,108,458
Waiver of balances due from group undertakings	-	-	-	(324,915)
Advances	-	-	**136,025**	-
Repayments	-	-	-	(1,502,254)
Other movements	**(28,287)**	(12,444)	-	-
At end of year	**110,597**	138,884	**417,314**	281,289

16. Other investments (continued)

(d) Loans and receivables (continued)

Group
Loans secured on policies are substantially non-current in nature. They are charged interest at the rate of 8% (2016: 8%) per annum.

Company
Loans to group undertakings are unsecured and do not bear interest. These loans are repayable on demand but are not expected to be realised within twelve months after the end of the reporting period. Furthermore, as disclosed in Note 30, during 2016, amounts owed by group undertakings to the Company amounting to €324,915 were waived. This was determined following an assessment of the ability of the related counterparties to repay the amounts due.

17. Technical provisions – insurance contracts and investment contracts

	2017 €	2016 €
Insurance contracts	**57,429,114**	55,305,586
Investment contracts with DPF	**22,171,930**	17,963,823
	79,601,044	73,269,409
Investment contracts without DPF	**9,839,062**	6,913,657
Total technical provisions	**89,440,106**	80,183,066

Insurance contracts are further analysed as follows:

	2017 €	2016 €
Gross technical provisions - insurance contracts		
Short term insurance contracts		
claims outstanding	**243,944**	173,698
other provisions	**253,384**	215,340
Long term insurance contracts		
claims outstanding	**694,153**	614,811
long term business provision	**56,237,633**	54,301,737
	57,429,114	55,305,586
Reinsurers' share of technical provisions - insurance contracts		
Short term insurance contracts		
claims outstanding	**(170,761)**	(121,589)
other provisions	**(137,776)**	(110,143)
Long term insurance contracts		
claims outstanding	**(356,264)**	(429,134)
long term business provision	**(9,027,715)**	(6,993,106)
	(9,692,516)	(7,653,972)

17. Technical provisions – insurance contracts and investment contracts (continued)

	2017	2016
	€	€
Net technical provisions - insurance contracts		
Short term insurance contracts		
claims outstanding	**73,183**	52,109
other provisions	**115,608**	105,197
Long term insurance contracts		
claims outstanding	**337,889**	185,677
long term business provision	**47,209,918**	47,308,631
	47,736,598	47,651,614

The movements in technical provisions relating to insurance contracts and investment contracts with DPF net of reinsurance are analysed below:

	Insurance contracts	**Investment contracts with DPF**	**Total**
	€	**€**	**€**
Year ended 31 December 2017			
At beginning of year	47,651,614	17,963,823	65,615,437
Charged to technical account			
-change in the provision for claims	173,286	95,483	268,769
-change in other technical provisions	(88,302)	4,112,624	4,024,322
At end of year	**47,736,598**	**22,171,930**	**69,908,528**
Year ended 31 December 2016			
At beginning of year	46,002,705	17,243,134	63,245,839
Charged to technical account			
-change in the provision for claims	93,604	186,638	280,242
-change in other technical provisions	1,555,305	534,051	2,089,356
At end of year	47,651,614	17,963,823	65,615,437

Long term contracts – assumptions, changes in assumptions and sensitivity

(a) Assumptions

For long term contracts, estimates are determined by reference to expected future deaths, investment return and policy maintenance expenses. Mortality estimates are based on standard mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. A weighted average rate of investment return is applied in accordance with the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2007, reflecting current investment yields, adjusted by a margin of contingency. Allowance is made for policy maintenance expenses at a rate determined by reference to the insurance Company's cost base. The calculation assumes the continuation of existing tax legislation and rates.

17. Technical provisions – insurance contracts and investment contracts (continued)

(b) Changes in assumptions

During the year, there were no changes in mortality assumptions for interest sensitive or unit linked business; however there was a slight reduction in mortality rates of permanent term assurances by 5% to be more in line with the reinsurance rates.

Sensitivity analysis

The following table presents the sensitivity of the value of liabilities variable that will trigger an adjustment and the liability disclosed in this note to movements in the assumptions used in the estimation of liabilities for long term contacts. The table below indicates the level of the respective adjustment that would be required.

	Increase in liability	
	2017	2016
	€	€
10% loading applied to mortality assumptions - gross	**3,137,242**	2,781,326
10% loading applied to mortality assumptions - net	**706,677**	667,443
Lowering of investment return by 25 basis points	**447,813**	759,743

The above analysis is 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.

18. Trade and other receivables

	Group		**Company**	
	2017	2016	**2017**	2016
	€	€	**€**	€
Trade receivables - third parties	**840,171**	1,267,581	**-**	-
Other loans and recievables:				
Receivables from other related parties	**21,678**	12,974	**-**	-
Prepayments	**856,433**	729,798	**5,034**	6,329
Accrued investment income	**720,980**	523,135	**-**	-
Other receivables	**152,510**	627,353	**32,756**	157,103
	2,591,772	3,160,841	**37,790**	163,432

Movement in the Group provision for impairment of trade receivables is as follows:

	Group	
	2017	2016
	€	€
Year ended 31 December		
At the beginning of year	**-**	147,519
Decrease in provision	**-**	(147,519)
At end of year	**-**	-

18. Trade and other receivables (continued)

The movement in the provision for impairment of trade receivables is included in 'net operating expenses' in the technical account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The Group holds a bank guarantee of €4,000 as collateral in respect of receivables (2016: €4,000). No trade receivables were written off as bad debts in 2017 and 2016.

As at 31 December 2017, trade receivables amounting to €327,569 (2016: €1,074,962) were fully performing and trade receivables amounting to €512,602 (2016: €192,619) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of default. The ageing analysis of the trade receivables that are past due but not impaired is as follows:

	2017	2016
	€	€
Between 3 to 6 months	**31,493**	33,037
More than 6 months	**481,109**	159,582
	512,602	192,619

There are no other material past due amounts in trade and other receivables.

Amounts owed by related parties are unsecured and interest-free. These balances are payable on demand.

Interest-bearing automatic premium loans are classified as loans and receivables in Note 16 to the financial statements.

All of the above amounts are current in nature.

19. Share capital

	Company	
	2017	2016
	€	€
Authorised		
200,000,000 ordinary shares of €0.291172 each (2016: 85,000,000 ordinary shares of €0.291172 each)	**58,234,400**	24,749,620
Issued and fully paid		
30,000,000 Ordinary shares of €0.291172 each (2016: 30,000,000 ordinary shares of €0.291172 each)	**8,735,160**	8,735,160

During 2016 a rights issue offer was made in which 1,618,396 rights were fully paid and taken up, having the nominal value of €0.291172, amounting to a total value of €471,232. The remaining 15,174,056 rights that were not taken up (i.e. the Lapsed Rights) were subsequently all taken up by eligible shareholders at prices ranging between a high of €0.35 and a low of €0.2915 per share for a total value of €4,424,257. Following the rights issue, the Company's issued share capital increased by 127% to 30,000,000 shares.

19. Share capital (continued)

The Group's objectives when managing capital are to 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. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or additional debt or sell assets to reduce debt.

The Directors consider that capital management is of particular relevance in the areas of the Group that are subject to regulatory supervision. GlobalCapital Life Insurance Limited, which is authorised by the Malta Financial Services Authority to carry out long term business of insurance, is required to hold regulatory capital to support its long term insurance business as determined in accordance with the Insurance Business (Assets and Liabilities) Regulations. The capital of GlobalCapital Financial Management Limited is regulated by rules issued under the Investment Services Act and by the Financial Institutions Act. The capital of GlobalCapital Health Insurance Agency Limited is regulated by rules issued under the Insurance Intermediaries Act.

The above regulations set out the required minimum capital that must be maintained at all times throughout the year. Each company monitors capital on a regular basis through detailed reports compiled with management accounts. Such reports are circulated to senior management. Any transactions that may potentially affect a company's regulatory position are immediately reported to the Directors for resolution prior to notifying the Malta Financial Services Authority.

At both year-ends, GlobalCapital Health Insurance Agency Limited and GlobalCapital Financial Management Limited satisfied minimum prudential capital requirements.

GlobalCapital Life Insurance Limited's Minimum Capital Requirement Absolute Floor stands at €3,700,000 as per Part B of the Insurance Rules. GlobalCapital Life Insurance Limited is sufficiently capitalised and was compliant at all times with the regulatory capital requirements as stipulated by the MFSA which are in line with the Solvency II requirements which became effective 1 January 2017.

Non-regulated entities are financed by items presented within equity in the statement of financial position and long-term borrowings.

During 2016 the Group also raised capital through the issue for subscription to the general public of €10,000,000 unsecured bonds, carrying a rate of interest of 5% per annum (Note 22). Such issue was raised for the purpose of redeeming the previous unsecured bonds which were issued in 2006 and carried a rate of interest of 5.6% per annum (Note 22). The conditions outlined in the offering document to the issue contain restrictions as to the amount of secured borrowing which can be entered into by the Group. Management monitors such requirement on a regular basis, at least once a month, to ensure ongoing compliance with these requirements. As at the date of this report, according to management's best estimates, the Group had surplus net assets over the maximum permitted secured borrowing limit of €23,841,593 (2016: €22,784,000). Management are continuously monitoring this position to ensure that the bond covenant requirements are complied with.

20. Share premium account

During the Company's Extraordinary General Meeting held on 23 June 2017, it was duly resolved and approved by the shareholders that accumulated losses of €16,970,641 from the total accumulated losses of the Company amounting to €30,417,321 as at 31 December 2016 be offset against the amount of €16,970,641 standing to the credit of the Company's share premium account as at the said date, and that accordingly the share premium account of the Company be reduced by the amount of €16,970,641.

21. Other reserves

	Value of in-force business €	Other unrealised gains €	Property revaluation reserve €	Investment compensation scheme €	Total €
Year ended 31 December 2017					
At beginning of year	5,867,425	211,053	1,062,461	8,162	7,149,101
Increase in value in-force business, transferred from profit and loss account	1,261,787	-	-	-	1,261,787
Net loss on available-for-sale financial assets	-	(62,790)	-	-	(62,790)
Deferred tax movement on available-for-sale financial assets	-	21,977	-	-	21,977
Gain on revaluation of property	-	-	-	-	-
Deferred tax movement on revaluation of property	-	-	-	-	-
At end of year	**7,129,212**	**170,240**	**1,062,461**	**8,162**	**8,370,075**
Year ended 31 December 2016					
At beginning of year	4,033,346	256,460	-	8,162	4,297,968
Increase in value in-force business, transferred from profit and loss account	1,834,079	-	-	-	1,834,079
Net loss on available-for-sale financial assets	-	(69,857)	-	-	(69,857)
Deferred tax movement on available-for-sale financial assets	-	24,450	-	-	24,450
Gain on revaluation of property	-	-	1,221,580	-	1,221,580
Deferred tax movement on revaluation of property	-	-	(159,119)	-	(159,119)
At end of year	**5,867,425**	**211,053**	**1,062,461**	**8,162**	**7,149,101**

The above reserves are not distributable.

22. Interest-bearing borrowings

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
5% bonds 2021	**9,779,958**	9,715,830	**9,779,958**	9,715,830
Total borrowings	**9,779,958**	9,715,830	**9,779,958**	9,715,830

By virtue of the offering memorandum dated 10 May 2006, the Company issued for subscription to the general public €17,000,000 bonds. The bonds were effectively issued on 26 May 2006 at the bond offer price of €100 per bond. The bonds were subject to a fixed interest rate of 5.6% per annum payable yearly on 2 June. All remaining bonds were redeemed at par during the year under review within the time frame stipulated by the bond prospectus.

During 2016, by virtue of the offering memorandum dated 12 May 2016, the Company issued for subscription to the general public €10,000,000 bonds. The bonds are unsecured and were effectively issued on 8 June 2016 at the bond offer price of €100 per bond.

The bonds are subject to a fixed interest rate of 5.0% per annum payable yearly on 2 June.

All bonds are redeemable at par and at the latest are due on 2 June 2021.

The bonds were admitted to the official list of the Malta Stock Exchange. The quoted market price of the bonds at 31 December 2017 was €99.40 (2016: €100.00).

The bond is disclosed at the value of the proceeds less the net book amount of the issue costs as follows:

	Group and Company	
	2017	2016
	€	€
Proceeds		
€10,000,000, 5% bonds 2021	**10,000,000**	10,000,000
Less:		
Issue cost	**321,519**	321,519
Accumulated amortisation	**(101,477)**	(37,349)
	220,042	284,170
	9,779,958	9,715,830

Restrictions with regards to the bond issue as to the amount of secured borrowing which can be entered into by the Group are disclosed in Note 19.

23. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Trade payables	**3,061,863**	2,700,755	**805,241**	778,480
Amounts due to group undertakings	**-**	-	**1,673,294**	1,033,566
Accruals and deferred income	**793,547**	995,062	**403,889**	415,493
Other payables	**3,134,248**	2,277,111	**196,952**	132,452
	6,989,658	5,972,928	**3,079,376**	2,359,991

All of the above amounts are payable within one year.

Amounts owed to group undertakings are unsecured and do not bear interest. These balances are payable on demand.

Trade and other payables include outstanding court and arbitration cases against the Company. The provision as at the end of the reporting period amounts to EUR941,680 (2016: EUR954,642), which are shown net of amounts deposited at the Courts amounting to EUR338,997 (2016: EUR338,997).

24. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Cash flows generated from/(used in) operating activities				
Profit/(loss) before tax	**4,644,195**	2,779,714	**(929,893)**	(1,356,375)
Adjustments for:				
Net gain/(loss) on investments	**(894,784)**	(1,480,627)	**-**	22,523
Increment in value in-force business	**(1,261,787)**	(1,834,079)	**-**	-
Amortisation	**145,843**	219,613	**588**	61,163
Depreciation	**86,026**	53,733	**2,366**	17,840
Net movement in technical provisions	**7,218,496**	4,955,274	**-**	-
Impairment of receivables (Note 18)	**-**	(147,519)	**-**	-
Increase in impairment of intercompany receivables	**-**	-	**-**	324,915
Dividend income	**(322,881)**	(392,016)	**-**	-
Interest income	**(1,939,307)**	(1,529,788)	**-**	(564)
Interest expense	**493,151**	591,721	**493,151**	616,040
Operating profit/(loss) before working capital movements	**8,168,949**	3,216,026	**(433,788)**	(314,458)
Movement in trade and other receivables	**569,069**	(1,203,764)	**125,642**	(46,287)
Movement in trade and other payables	**1,016,730**	658,533	**719,385**	43,883
Nat cash flow generated from/(used in) operating activities	**9,754,748**	2,670,795	**411,239**	(316,862)

25. Cash and cash equivalents

For the purposes of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2017	2016	**2017**	2016
	€	€	**€**	€
Cash at bank and in hand	**10,250,424**	14,309,866	**309,297**	463,106

Cash at bank earns interest on current deposits at floating rates.

26. Fair values

As at the end of the reporting period, all the group's and the company's financial instruments that are measured subsequent to initial recognition at fair value through profit or loss and all available-for-sale investments were measured using Level 1 inputs with the exception of collective investment schemes that are measured using Level 2 inputs and the unlisted equities which are measured using Level 2 inputs.

The fair value of the bonds issued by the Company, carried at amortised cost, is disclosed in Note 22.

At 31 December 2017 and 2016, the carrying amounts of financial assets, other than investment in group undertakings, and financial liabilities, other than the 5% unsecured bond in Note 22, approximated their fair values, with the exception of financial liabilities emanating from investment contracts with DPF and certain held-to-maturity investments with interest rates that exceed the current market rates. It is impracticable to determine the fair value of investment contracts with DPF due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

The financial liabilities for investment contracts without DPF are classified as Level 2. The fair value of these contracts is determined using the current unit values that reflect the fair values of the financial assets (classified as Level 2) linked to the financial liability.

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value and other than investments in subsidiaries and investment contracts with DPF, grouped into Levels 1 to 3.

26. Fair values (continued)

Group

	Fair value measurement at end of the reporting period using:				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
	€	**€**	**€**	**€**	**€**
2017					
Financial assets					
Loans and receivables					
- Loans secured on policies	-	110,597	-	110,597	110,597
Held-to-maturity investments	-	-	-	-	-
Total	**-**	**110,597**	**-**	**110,597**	**110,597**
Financial liabilities at amortised cost					
- Other payables	-	2,769,753	-	2,769,753	2,769,753
- 5% bonds 2021	-	10,000,000	-	10,000,000	10,000,000
Total	**-**	**12,769,753**	**-**	**12,769,753**	**12,769,753**

	Fair value measurement at end of the reporting period using:				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
	€	**€**	**€**	**€**	**€**
2016					
Financial assets					
Loans and receivables					
- Loans secured on policies	-	138,884	-	138,884	138,884
Held-to-maturity investments	8,695,277	-	-	8,695,277	6,813,000
Total	**8,695,277**	**138,884**	**-**	**8,834,161**	**6,951,884**
Financial liabilities at amortised cost					
- Other payables	-	2,277,111	-	2,277,111	2,277,111
- 5% bonds 2021	-	10,000,000	-	10,000,000	10,000,000
Total	**-**	**12,277,111**	**-**	**12,277,111**	**12,277,111**

26. Fair values (continued)

Company

	Fair value measurement at end of the reporting period using:				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
	€	**€**	**€**	**€**	**€**
2017					
Financial assets					
Loans and receivables					
- Loans to group undertakings	-	417,314	-	417,314	417,314
Total	**-**	**417,314**	**-**	**417,314**	**417,314**
Financial liabilities at amortised cost					
- Amounts due to group undertakings	-	1,673,294	-	1,673,294	1,673,294
- 5% bonds 2021	-	10,000,000	-	10,000,000	10,000,000
Total	**-**	**11,673,294**	**-**	**11,673,294**	**11,673,294**

Company

	Fair value measurement at end of the reporting period using:				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**
	€	**€**	**€**	**€**	**€**
2016					
Financial assets					
Loans and receivables					
- Loans to group undertakings	-	281,289	-	281,289	281,289
Total	**-**	**281,289**	**-**	**281,289**	**281,289**
Financial liabilities at amortised cost					
- Amounts due to group undertakings	-	1,033,566	-	1,033,566	1,033,566
- 5% bonds 2021	-	10,000,000	-	10,000,000	10,000,000
Total	**-**	**11,033,566**	**-**	**11,033,566**	**11,033,566**

27. Related party transactions

Group

Transactions during the year with other related parties were as follows:

	2017	2016
	€	€
Commission receivable from related parties	**111,343**	9,388
Fees receivable in respect of advice provided to related funds (see note below)	**69,226**	67,035

GlobalCapital Financial Management Limited, a group undertaking, acts as Investment Advisor and Fund Manager to Global Funds SICAV p.l.c. The advisory fees earned by this group undertaking from its activity as Investment Advisor and Fund Manager are included in turnover, and during the year amounted to €69,226 (2016: €67,035). Global Funds SICAV p.l.c. is considered to be a related party by way of key management.

Interest receivable and payable from and to related parties is disclosed in Note 6. Amounts owed by or to related parties are disclosed in Notes 18 and 23 to these financial statements. No impairment loss has been recognised in 2017 and 2016 in respect of receivables from related parties. The terms and conditions of the related party balances do not specify the nature of the consideration to be provided in settlement. No guarantees have been given or received in relation to these balances.

The following financial assets were held by the Group in related entities as at 31 December:

	2017	2016
	€	€
Malta Privatisation & Equity Fund	**464,940**	464,940
Melita International Equity Fund	**63,942**	72,750
Global Bond Fund Plus Accumulator	**157,345**	157,345
	686,227	695,035

As at 31 December, the above investments were represented by the following holdings held by the Group directly in each fund:

	2017	2016
	%	%
Global Bond Fund Plus	**13**	13
Malta Privatisation & Equity Fund	**19**	19
Melita International Equity Fund	**19**	19

The above disclosures do not include investments in related collective investment schemes held to cover linked liabilities.

27. Related party transactions (continued)

In addition the Group held the following holdings in each fund in a nominee capacity:

	2017	2016
	%	%
Global Bond Fund Plus	**21**	21
Malta Privatisation & Equity Fund	**14**	14
Melita International Equity Fund	**22**	22

As at the end of the reporting date, there were no bonds held by other related parties (2016: nil). The compensation to Directors in 2017 and 2016 is disclosed in Note 8 to the financial statements.

Company

All companies forming part of the GlobalCapital Group are considered by the Directors to be related parties as these companies are also ultimately owned by GlobalCapital p.l.c. Related parties that do not form part of the consolidated group include entities related by way of common Directors and ultimate shareholders.

Dividends and interest receivable from group undertakings are disclosed in Note 6. Amounts owed by or to group undertakings and related parties are disclosed in Notes 16, 18 and 23. The terms and conditions of the related party balances do not specify the nature of the consideration to be provided in settlement. No guarantees have been given or received in relation to these balances. Impairment loss in respect of loans to group undertakings is disclosed in Notes 16 and 18. Furthermore, waivers given in respect of amounts owed by group undertakings are disclosed in Note 30. During the prior year, the Company settled in part an amount due a subsidiary, GlobalCapital Holdings Limited, by way of transfer of an investment for a consideration of €439,463.

At year end, the directors considered the ultimate controlling party to be Paolo Catalfamo who owns 99.99% of the issued share capital of Investar p.l.c., which is the single major shareholder of the Company.

28. Commitments

Operating lease commitments - where the Group is a lessee

Future minimum lease payments due by the Group under non-cancellable operating leases are as follows:

	2017	2016
	€	€
Not later than one year	**99,697**	9,697
Later than one year and not later than five years	**279,697**	19,394
	379,394	29,091

Rent is payable on the basis of the contract terms signed between lessor and lessee as disclosed above. The Group has the right of first refusal if it wishes to extend the lease further but terms need to be negotiated with the lessor. The agreement restricts subleasing the said property to a third party.

28. Commitments (continued)

Operating lease commitments - where the Group is a lessor

Future minimum lease payments due to the Group under non-cancellable operating leases are as follows:

	2017	2016
	€	€
Not later than one year	**145,896**	330,273
Later than one year and not later than five years	**467,034**	335,686
	612,930	665,959

Operating leases relate to the investment properties owned by the Group with lease terms of up to 5 years. The lessees do not have an option to purchase the properties at the expiry of the lease period.

29. Contingent liabilities

In addition to the court cases made against subsidiaries of the Group (refer to Note 4), the Board considered other complaints received in respect of past actions by the Group to determine whether there could be a possible obligation. The directors estimate that the cash outflow from the possible obligation which may transpire in due course from such complaints amounts to €59,900 (2016: €130,799).

30. Significant non-cash transactions

During 2016, amounts owed by group undertakings to the Company amounting to €324,915 were waived.

31. Statutory information

GlobalCapital p.l.c. is a limited liability company incorporated in Malta with registration number C19526. The registered address of the company is Testaferrata Street, Ta' Xbiex.

Consolidated financial statements prepared by GlobalCapital p.l.c. may be obtained from the Company's registered office.

Building a better working world

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INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c.

Report on the audit of the financial statements

Opinion

We have audited the Separate and Consolidated financial statements of GlobalCapital p.l.c. (the "Company") and its subsidiaries (the "Group"), set on pages 13 to 83, which comprise the Separate and Consolidated statements of financial position as at 31 December 2017, and the Separate and Consolidated statements of comprehensive income, the Separate and Consolidated statements of changes in equity and the Separate and Consolidated statements of cash flows for the year then ended, and notes to the Separate and Consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Separate and Consolidated financial statements give a true and fair view of the financial position of the Company and its Group as at 31 December 2017, and of the Company's and its Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the Companies Act. Our responsibilities under those standards and under the Companies Act are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. 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 that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of technical provisions and value of in-force business ("VOIFB")

The Group's technical provisions on insurance and investment contracts underwritten, as described and disclosed in section 13 of the accounting policies and notes 1 and 17, represent 76% of the total liabilities as of 31 December 2017.

The VOIFB is detailed in section 3 of the accounting policies and notes 1 and 11 to the financial statements, representing 6% of total assets as at 31 December 2017.

The technical provisions comprise the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used. These technical provisions are mainly based on assumptions with respect to mortality, maintenance expenses and investment income.

The VOIFB represents the projected future shareholders' profits expected from policies in force at the end of the reporting period, after providing for taxation, and is based on assumptions as to mortality, maintenance expenses and investment income.

The valuation of the technical provisions and VOIFB is determined by the appointed actuary and is approved by the board of directors.

The measurement of the technical provisions and VOIFB involves significant judgement, given that the actual key inputs may vary from the assumed ones. Due to the significance of the balances and estimation involved in the assessment thereof, we have considered the valuation of the technical provisions and VOIFB as a key audit matter.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud - continued

Valuation of technical provisions and value of in-force business ("VOIFB") - continued

Our audit procedures over the valuation of technical provisions and VOIFB included amongst others:

- Evaluating the design and implementation of key controls over the Group's valuation of technical provisions and VOIFB by inquiring with the valuation process owners and inspecting the written procedural documents, amongst others including the actuarial function report;
- Assessing the appointed actuary's competence, capabilities and objectivity, and obtaining an understanding of the work of the appointed actuary;
- Performing tests relating to the valuation of technical provisions and VOIFB, focusing on management reviews over the actuarial estimations by inspecting management analysis and minutes of meetings of the board and audit committee where such valuations were tabled;
- Performing test of details to assess the completeness and integrity of the data provided to the appointed actuary for the purpose of determining technical provisions and VOIFB by reconciling to the premiums and claims lists as extracted from the insurance system, and inspecting on a sample basis with underlying policy documentation; and
- Involving our actuarial specialist team to assist with evaluating the appropriateness of the appointed actuary's work on the year end technical provisions and VOIFB, focusing on the relevance and reasonableness of the methodology used and its key assumptions.

We have also assessed the relevance of disclosures relating to the Group's valuation of technical provisions and VOIFB presented in notes 17 and 11 to the financial statements respectively.

Valuation of investment property

The Group's investment property, which is being further described in section 7 of the accounting policies and notes 1 and 14 in the financial statements, accounts for 16% of total assets as at 31 December 2017.

Management is determining fair value of its investment property on an annual basis. The fair value of local properties is based on a discounted cash flow model by applying a discount factor to the future rental cash flows. The fair value of foreign properties is estimated by reference to an open market value arrived at by the respective independent professionally qualified valuers.

The valuation of the investment property at fair value is highly dependent on estimates and assumptions such as rental value and discount rates (discounted cash flow model) and market knowledge and historical transactions (open market value approach). Therefore, due to the significance of the balance and uncertainty involved in the fair valuation of investment property, we have considered the valuation of investment property as a key audit matter.

Building a better working world

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud - continued

Valuation of investment property - continued

Our audit procedures over the valuation of investment property included amongst others:

- Evaluating the design and implementation of key controls over the Group's investment property valuation process by inquiring with the valuation process owners;
- Performing tests relating to the valuation of investment property, focusing on management reviews over the investment property valuations by inspecting management analysis and minutes of meetings of the board and audit committee where such valuations were tabled;
- Where the discounted cash flow model was used (for the local properties), we included a valuation specialist on our team to assist us in evaluating the key assumptions and estimates used in the model by comparing to independent sources and local real estate market data and conditions. We have also assessed the completeness, relevance and accuracy of the rental values underlying the model with the related rental contracts and agreements in place, taking into consideration the current market rental yields.
- Where the open market value approach was used (for the foreign properties), we have obtained an understanding of the scope of work of external valuers by reviewing the current year's valuation report. We have also included a valuation specialist on our team to assist us in evaluating the reasonability and relevance of key assumptions and estimates applied in the market value approach by comparing to the proprietary property databases and market research; and
- Where external valuers were used (for the foreign properties), we have considered the independence and expertise of the external valuers.

We have also assessed the relevance of disclosures relating to the Group's valuation of investment property presented in note 14 to the financial statements.

Other information

The directors are responsible for the other information. The other information comprises (i) the directors' report, the statement of directors' responsibilities, the corporate governance statement of compliance and the remuneration committee report, which we obtained up to to the date of this auditor's report; and (ii) the chairman's statement, the chief executive officer's review, the group financial highlights and other related information which is expected to made available to us after the date of this audit report. However, the other information does not include the Separate and Consolidated financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies Act, 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 Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements - continued

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.

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

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

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Report on other legal and regulatory requirements

Matters on which we are required to report by the Companies Act

Directors' report
We are required to express an opinion as to whether the directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the Group 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. We have nothing to report in this regard.

Other requirements
We also have responsibilities under the Companies Act to report if in our opinion:

- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns; and
- we have not received all the information and explanations we require for our audit.

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

Appointment
We were appointed as the statutory auditor by the General Meeting of Shareholders of the Group on 23 June 2017. The total uninterrupted engagement period as statutory auditor amounts to 1 year.

Consistency with the additional report to the audit committee
Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Group, which was issued on 20 April 2018.

Non-audit services
No prohibited non-audit services referred to in Article 18A(1) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta were provided by us to the Group, and we remain independent of the Group as described in the Basis for opinion section of our report.

No other services besides statutory audit services and services disclosed in the annual report and in the financial statements were provided by us to the Group and its controlled undertakings.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of GlobalCapital p.l.c. - continued

Report on other legal and regulatory requirements - continued

Matters on which we are required to report by the Listing Rules

Corporate governance statement
The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their annual report a statement of compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the statement of compliance prepared by the directors. We are also required to express an opinion as to whether, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have identified material misstatements with respect to the information referred to in Listing Rules 5.97.4 and 5.97.5.

We read the statement of compliance and consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the annual report. Our responsibilities do not extend to considering whether this statement is consistent with the other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the statement of compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's governance procedures or its risk and control procedures.

In our opinion:

- the corporate governance statement set out on pages 6 to 9 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority
- in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit the information referred to in Listing Rules 5.97.4 and 5.97.5 are free from material misstatement

The partner in charge of the audit resulting in this independent auditor's report is Anthony Doublet for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

26 April 2018