GLOBALCAPITAL LIFE INSURANCE LIMITED

Annual Report and Financial Statements

31 December 2017

Company Registration Number: C 29086

Directors' report

The directors present their report and the audited financial statements of GlobalCapital Life Insurance Limited (the "Company") for the year ended 31 December 2017.

Principal activities

The Company is licensed to carry out long term business of insurance under the Insurance Business Act (Cap. 403).

Review of business

GlobalCapital Life Insurance Limited

GlobalCapital Life Insurance Limited registered profit before taxation for the year ended 31 December 2017 of €4,403,645 compared to €3,512,006 in the prior year. The Company's total comprehensive income for the year closing at €4,692,948 compared to €6,856,039 in the prior year. The net assets of the Company increase 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 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 by €1.4m with those of the prior year, a decrease of 15% year on year. The Company 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 earns management fees for investments managed on behalf of policyholders. Throughout 2017, investment conditions remained quite challenging with the persisting low interest rate environment.

The Company 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. GlobalCapital Life Insurance Limited's Solvency II ratio was a healthy one during the year.

The Company's value of in-force business for 2017 registered an increase of €1,261,787, in aggregate amounting to €8,116,866 at end of the current year (2016: €6,855,079) - 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: 2.50%) for the Guaranteed Savings Bond, 3.50% (2016: 3.50%) for Money Plus and 3.1% (2016: 3.00%) for all other interest sensitive products. The Company also announced a bonus rate of 0.75% (2016: 0.75%) for paid up policies. The Company also committed to a terminal bonus for policies maturing during the course of 2017.

Directors' report - continued

Review of business - continued

GlobalCapital Health Insurance Agency Limited

The Company's subsidiary, GlobalCapital Health Insurance Agency Limited, registered a profit before tax of €733k 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 the Company.

Results and dividends

The statement of comprehensive income is set out on pages 4 and 5. The profit for the year after taxation was €3,471,974 (2016: €4,004,906). A net dividend of €650,000 (2016: €3,000,000) was paid during the year under review. The directors do not recommend the payment of a final dividend.

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.

Directors

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

Mr. Reuben Zammit (resigned on 8 January 2018)
Prof. Paolo Catalfamo
Mr. Mario P. Galea
Mr. Joseph C. Schembri
Mr. Guido Mizzi
Mr. Nicholas Hornby Taylor (appointed on 3 July 2017)

In accordance with the Company's articles of association all the directors are to remain in office.

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.

These financial statements were approved for issue by the board and signed on its behalf on 25 April 2018 by:

Prof. Paolo Catalfamo
Director

Joseph C. Schembri
Director

Statement of directors' responsibilities

The directors are required by the Insurance Business Act (Cap. 403) and the Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of each financial year and of the profit or loss for that year.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act (Cap. 403) and the Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, the directors are required to ensure that the Company has, at all times, complied with and observed the various requirements of the Insurance Business Act (Cap. 403).

Statement of comprehensive income
Technical account – long term business of insurance

	Notes	2017 €	2016 €
Earned premiums, net of reinsurance			
Gross premiums written	3	**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	4	**848,584**	710,219
Fair value gains on investments	4	**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**	9,237,602
- reinsurers' share		**(561,183)**	(208,477)
		7,628,945	9,029,125
Change in the provision for claims			
- gross amount		**245,071**	743,637
- reinsurers' share		**23,698**	(463,395)
	14	**268,769**	280,242
Claims incurred, net of reinsurance		**7,897,714**	9,309,367
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)
	14	**(88,302)**	1,555,305
Investment contracts with DPF - gross	14	**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
Net operating expenses	3, 6	**2,917,528**	2,568,661
Other investment charges and expenses	4	**20,219**	29,995
Total technical charges		**14,718,245**	13,932,369
Balance on the long term business of insurance technical account before tax		**(840,622)**	(2,359,902)
Tax credit/(charge) attributable to the long term business	7	**-**	126,675
Balance on the long term business of insurance technical account (page 5)		**(840,622)**	(2,233,227)

Statement of comprehensive income
Non-technical account

	Notes	2017	2016
		€	€
Balance on the long term business of insurance technical account (page 4)		**(840,622)**	(2,233,227)
Investment income	4	**5,390,990**	5,931,990
Investment charges	4	**(47,718)**	(11,837)
Finance charges	5	**(34,004)**	(34,095)
Other charges	6	**(65,001)**	(14,150)
Profit before tax		**4,403,645**	3,638,681
Tax (charge)/credit	7	**(931,671)**	366,225
Profit for the year		**3,471,974**	4,004,906
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Revaluation of property, net of deferred tax		-	1,062,461
Items that may be reclassified subsequently to profit or loss			
Increment in value of in-force business (net of deferred tax)		**1,261,787**	1,834,079
Net loss on available-for-sale financial assets		**(62,790)**	(69,857)
Deferred tax on available-for-sale financial assets		**21,977**	24,450
		1,220,974	1,788,672
Other comprehensive income for the year, net of tax		**1,220,974**	2,851,133
Total comprehensive income for the year		**4,692,948**	6,856,039

Statement of financial position

	Notes	2017 €	2016 €
ASSETS			
Intangible assets	9	**9,884,419**	8,541,986
Property, plant and equipment	10	**2,097,016**	2,037,905
Investment property	11	**14,765,955**	12,614,154
Investment in group undertakings	12	**1,048,218**	1,048,218
Other investments	13	**71,190,173**	57,923,936
Taxation receivable		**52,418**	309,657
Reinsurers' share of technical provisions	14	**9,692,516**	7,653,972
Receivables:			
Other receivables	15	**5,822,285**	6,127,097
Prepayments and accrued income	15	**1,354,833**	1,049,882
Cash at bank and in hand	22	**8,811,485**	12,657,940
Total assets		**124,719,318**	109,964,747
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	**9,969,870**	9,969,870
Other reserves	18	**9,349,567**	8,128,593
Retained earnings		**9,346,433**	6,524,459
Total equity		**28,665,870**	24,622,922
Technical provisions:			
Insurance contracts	14	**56,491,017**	54,517,077
Investment contracts with DPF	14	**21,676,762**	17,564,138
Investment contracts without DPF	14	**9,839,062**	6,913,657
Provision for claims outstanding	14	**1,433,265**	1,188,194
Provision for other risks - deferred tax	19	**2,166,695**	1,792,988
Payables:			
Payables arising out of direct insurance operations	20	**2,256,622**	1,782,193
Payables due to immediate parent undertaking	20	**34,004**	-
Other payables	20	**1,898,868**	1,294,060
Accruals and deferred income	20	**257,153**	289,518
Total liabilities		**96,053,448**	85,341,825
Total equity and liabilities		**124,719,318**	109,964,747

The financial statements on pages 4 to 57 were approved for issue by the board and signed on its behalf on 25 April 2018 by:

Prof. Paolo Catalfamo
Director

Joseph C. Schembri
Director

Statement of changes in equity

	Share capital €	Other reserves €	Profit and loss account €	Total €
Balance at 1 January 2016	9,969,870	5,277,460	5,519,553	20,766,883
Profit for the year	-	-	4,004,906	4,004,906
Other comprehensive income for the year	-	2,851,133	-	2,851,133
Total comprehensive income for the year	-	2,851,133	4,004,906	6,856,039
Dividends paid (note 17)	-	-	(3,000,000)	(3,000,000)
Balance at 1 January 2017	9,969,870	8,128,593	6,524,459	24,622,922
Profit for the year	-	-	3,471,974	3,471,974
Other comprehensive income for the year	-	1,220,974	-	1,220,974
Total comprehensive income for the year	-	1,220,974	3,471,974	4,692,948
Dividends paid (note 17)	-	-	(650,000)	(650,000)
Balance at 31 December 2017	**9,969,870**	**9,349,567**	**9,346,433**	**28,665,870**

Statement of cash flows

	Notes	2017 €	2016 €
Cash flow generated from operations	21	**8,688,110**	2,934,702
Dividends received		**972,881**	507,250
Interest received		**1,768,698**	1,887,015
Net tax credit/(paid)		**71,252**	(421,612)
Net cash flows generated from operating activities		**11,500,941**	4,907,355
Cash flows generated from investing activities			
Purchase of intangible assets	9	**(226,170)**	-
Purchase of property, plant and equipment	10	**(136,421)**	(148,914)
Purchase of investment property	11	**(91,485)**	(157,426)
Purchase of investments at fair value through profit or loss		**(26,051,194)**	(7,391,014)
Purchase of investments at available-for-sale		**(81,096)**	-
Proceeds on maturity of held-to-maturity investments		**785,860**	500,179
Proceeds on disposal of investments at fair value through profit or loss		**5,568,710**	3,944,077
Proceeds on disposal of available-for-sale investments		**766**	29,353
Proceeds on disposal of held-to-maturity investments		**5,505,347**	-
Proceeds on disposal on property held for sale		**-**	7,465,000
Net movement of other investments - loans and receivables		**28,287**	12,444
Net cash flows (used in)/generated from investing activities		**(14,697,396)**	4,253,699
Cash flows used in financing activities			
Dividend paid		**(650,000)**	(1,221,042)
Net cash flows used in financing activities		**(650,000)**	(1,221,042)
Net movement in cash and cash equivalents		**(3,846,455)**	7,940,012
Cash and cash equivalents at the beginning of the year		**12,657,940**	4,717,928
Cash and cash equivalents at the end of the year	22	**8,811,485**	12,657,940

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 financial statements are prepared in accordance with International Financial Reporting Standards as adopted by EU (EU IFRS's), the Insurance Business Act (Cap. 403) and the Companies Act (Cap. 386). 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, 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 Company determines 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 IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed in Note 1 to these financial statements.

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

GlobalCapital Life Insurance Limited's intermediate parent company (Note 26) prepares consolidated financial statements in accordance with the Companies Act (Cap. 386). Accordingly, GlobalCapital Life Insurance Limited is not required to prepare consolidated financial statements for the Company and its subsidiary undertakings.

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 Company'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 Company's accounting periods beginning on or after 1 January 2018. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, and the Company'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 Company'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 Company, 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 deferred its application to be concurrent with the effective date of IFRS 17 'Insurance Contracts', being 1 January 2021.

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

2. Intangible assets

(a) 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 reserves.

(b) 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 developing or maintaining computer software programmes are recognised as an expense as incurred.

3. 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, with the exception of land which is shown at cost. 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to 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 report period.

Gains and losses on disposals of plant and equipment are determined by comparing proceeds with the carrying amount, and are taken into account in determining operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

4. Investment property

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 Company. Investment property is initially measured at cost including related transaction costs. Investment property is subsequently carried at fair value, representing open market value determined annually by external valuers or by virtue of a directors' valuation. It is the Company's policy to engage the services of an external expert valuer every two years at a minimum. 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 Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair value of investment property 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Unrealised gains and losses arising from changes in fair value (net of deferred taxation) are initially recognised in profit or loss.

5. Investment in group undertakings

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. The impairment loss is calculated using the same method used for these financial assets. These processes are disclosed in accounting policy 7(a). On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

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

6. Other financial instruments

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

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

6. Other financial instruments - continued

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 Company classifies its 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 Company'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 Company's key management personnel on a fair value basis in accordance with a documented financial assets strategy or if this designation eliminates an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company 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 the Company intends to sell in the short term or that it has designated as fair value through profit or loss or as available-for-sale financial assets. They include, inter alia, debtors and interest bearing deposits and advances.

6. Other financial instruments - continued

(ii) Investments - continued

(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 Company 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 Company 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 derecognition.

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, 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 the statement of comprehensive income.

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 Company 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.

(iii) Trade payables

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

(iv) Shares issued by the Company

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

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

7. Impairment of assets

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

The Company 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 Company about the following events:

(i) significant financial difficulty of the issuer or debtors;

(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 Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company 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 loss. 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 loans and receivables 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 statement of comprehensive income.

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 and loss account.

7. 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 the asset's fair value less 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.

8. 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 Company 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.

8. Insurance contracts and investment contracts with DPF - continued

(a) *Classification* - continued

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 Company; and
- that are based on realised and/or unrealised investment returns on underlying assets held by the Company.

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 Company 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.

(i) Short term insurance contracts

These contracts are short duration life insurance contracts. They protect the Company'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 insured 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.

(ii) 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.

8. Insurance contracts and investment contracts with DPF - continued

(b) Recognition and measurement - continued

(ii) Long term contracts - continued

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 Company 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 Company's discretion, and included within the respective liability.

(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 Company'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.

8. Insurance contracts and investment contracts with DPF - continued

(b) Recognition and measurement - continued

(ii) Long term contracts - continued

Investment contracts with DPF - continued

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 Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in accounting policy 8(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 Company 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 Company assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The Company 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 7(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 Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss in a similar manner to the process described above for reinsurance contracts held (also see accounting policy 7(a)).

9. Investment contracts without DPF

The Company 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.

10. Property held for development

When the main object of a property project is the development for resale purposes, the asset is classified in the statement of financial position 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.

11. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and time deposits maturing within three months from the end of the reporting period.

12. 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 approved by the Company's shareholders.

13. Provisions

Provisions are recognised when the Company 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.

14. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for 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 Company and these can be measured reliably. Revenue also includes interest, dividend and rental income and is recognised as follows:

(a) Rendering of services

Premium recognition, dealing with insurance contracts and investments contracts with DPF is described in accounting policy 8. Revenue arising from the issue of investment contracts without DPF is recognised in the accounting period in which the services are rendered.

(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 shareholder's 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.

15. Investment return

Investment return 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, 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.

16. Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Company's functional and presentation currency.

16. 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.

17. 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 Company'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.

18. Employee benefits

The Company contributes 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.

19. Taxation

Current tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the current tax is also dealt with in other comprehensive income or in equity, as appropriate.

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.

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in the determination of deferred income tax. 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.

Notes to the financial statements

1. Critical accounting estimates and judgements

The Company 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 IAS1 (revised), unless further described below.

(a) *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 2(b)). Details of key assumptions and sensitivity for this intangible asset are provided in Note 9 to the financial statements.

(b) *Technical provisions*

The Company's technical provisions at year end are determined in accordance with accounting policy 8. Details of key assumptions and sensitivities to the valuation are disclosed in Note 14 to the financial statements.

(c) *Fair valuation of investment property*

The determination of the fair value of investment property at the year-end requires the use of significant management estimates. Details of key assumptions are disclosed in Note 11 to the financial statements.

2. Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company 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.

2. Management of insurance and financial risk - continued

Insurance risk - continued

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 Company 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 Company. 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 Company 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 Company's underwriting procedures with premiums varied to reflect the health condition and lifestyle of the applicants.

The Company has retention limits on any single life assured for term business or risk premium business. The Company 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 Company 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 Company 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 Company'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 Company 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.

2. Management of insurance and financial risk - continued

Insurance risk - continued

(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 Company uses appropriate base tables of standard mortality according to the type of contract being written. The Company 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 Company 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 most important components of financial risk are market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

These risks partly arise from open positions in interest rate, currency, debt and equity products, all of which are exposed to general and specific market movements. The Company 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 Company'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 Company'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 regularly to consider, inter alia, investment prospects, liquidity, the performance of the portfolio and the overall framework of the Company's investment strategy. Solvency considerations as regulated by the relevant Authority are also taken into account as appropriate.

Market risk

(a) Cash flow and fair value interest rate risk

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

2. Management of insurance and financial risk - continued

Market risk - continued

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

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

	2017	2016
	€	€
Assets		
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
Liabilities		
Technical provisions	**78,167,779**	72,081,215

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 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 this 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 Company'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.

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 Company'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 Company 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 Company's interest rate risk arises primarily on fixed-income 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 Company'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 9 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 14 to the financial statements.

2. Management of insurance and financial risk - continued

Market risk - continued

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

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 Company's pre-tax profit would be +/- €4,123,000 in 2017 (2016: +/-€2,816,000).

(b) Price risk

The Company is 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 and as available-for-sale. This risk is mitigated through the adherence to an investment policy geared towards diversification as described earlier.

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

	2017	2016
	€	€
Assets attributable to policy holders	**20,553,113**	16,301,424

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 Company is principally exposed to price risk in respect of equity investments. Approximately 48% of equity securities held at fair value through profit or loss in Note 13 relate to holdings in three local banks (2016: 58%). 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.

The sensitivity analysis measures the change in the fair value of the instruments for a hypothetical change of 10% in the market price. 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 Company's pre-tax profit would be +/- €1,842,000 in 2017 (2016: +/-€1,532,000). This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant and does not consider, for example, the mitigating impact of the DPF element on policyholder liabilities for contracts with a DPF.

2. Management of insurance and financial risk - continued

Market risk - continued

(c) Currency risk

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, the Company's exposure to foreign currency investments (principally comprising a mix of US Dollar and UK pound) represented 2% of the Company's total investments (2016: 5%).

18% (2016: 2%) of the Company's cash and cash equivalents, at 31 December 2017, are denominated in foreign currency (principally comprising a mix of US Dollar and UK pound).

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 Company'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 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 +/- €283,088 in 2017 (2016: +/- €304,763).

Credit risk

The Company has 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 Company to concentrations of credit risk consist principally of:

- other investments;
- reinsurers' share of technical provisions;
- amounts due from insurance policy holders and intermediaries;
- cash and cash equivalents; and
- amounts due from group undertakings.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Limits on the level of credit risk by category are defined within the Company's investment policy as described earlier. This policy also considers regulatory restrictions on asset and counterparty exposures. Further detail on the content of the Company's investment portfolio is provided in Note 13 to these financial statements.

The Company is exposed to credit risk in respect of receivables from group undertakings. Management assesses the respective group undertaking's ability to repay balances due to the Company periodically and makes provisions for balances which it believes may not be recoverable.

2. Management of insurance and financial risk - continued

Credit risk - continued

Credit risk in respect of other receivables is not deemed to be significant after considering the range of underlying receivables, and their creditworthiness. Receivables are stated net of impairment. Further detail in this regard is provided in Note 15 to the financial statements.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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 Company's reinsurer retained its Standard & Poor's rating of AAA to AA- bracket as at 31 December 2017.

The following table illustrates the assets that expose the Company 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.

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 held-to-maturity	-	-	-	-	-	-
Debt securities asset-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	-	-	-	-	361,942	361,942
Amounts due from group undertakings	-	-	-	-	5,460,343	5,460,343
Cash and cash equivalents	-	-	-	8,516,463	295,022	8,811,485
	-	-	-	8,516,463	6,227,904	14,744,367
Reinsurance share of technical provisions	9,692,516	-	-	-	-	9,692,516
Total assets bearing credit risk	**9,705,503**	**-**	**16,133,140**	**27,867,687**	**12,479,613**	**66,185,943**

2. Management of insurance and financial risk - continued

Credit risk - continued

	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	824,340	181,222	6,813,000
	569,301	1,719,037	23,421,076	6,424,244	2,834,641	34,968,299
Loans and receivables						
Loans secured on policies	-	-	-	-	138,884	138,884
Trade and other receivables	-	-	-	-	666,754	666,754
Amounts due from group undertakings	-	-	-	-	5,460,343	5,460,343
Cash and cash equivalents	-	143,560	-	11,865,923	648,457	12,657,940
	-	143,560	-	11,865,923	6,914,438	18,923,921
Reinsurance share of technical provisions	7,653,972	-	-	-	-	7,653,972
Total assets bearing credit risk	**8,223,273**	**1,862,597**	**23,421,076**	**18,290,167**	**9,749,079**	**61,546,192**

2. Management of insurance and financial risk - continued

Credit risk - continued

Unrated financial assets principally comprise locally traded corporate bonds on the Malta Stock Exchange, amounts due from group companies, trade and other receivables, loans secured on policies and certain deposits with local bank institutions for which no international rating is available.

As at 31 December 2017 and 2016 the Company had significant exposure with the Government of Malta through investments in debt securities. In 2017 these were equivalent to 30% (2016: 41%) of the Company'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 Company adopts a prudent liquidity risk management approach by maintaining a sufficient proportion of its assets in cash and marketable securities through the ability to close out market positions. Senior management is updated on a regular basis on the cash position of the Company 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 Company 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 Company. Other financial liabilities which expose the Company to liquidity risk mainly comprise trade and other payables. Liquidity is the risk that cash may not be available to pay obligations when due at a reasonable cost.

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. The expected cash outflows for insurance and investment contracts do not consider the impact of early surrenders. Resilience and closure reserves are not included in the figures below.

	Expected discounted cash outflows				
	Less than five years €	Between five and ten years €	Between ten and twenty years €	Over €	Total €
As at 31 December 2017					
Technical provisions	**23,816,533**	**13,460,491**	**21,372,840**	**29,356,979**	**88,006,842**
As at 31 December 2016					
Technical provisions	19,032,852	12,582,138	22,257,693	25,122,189	78,994,872

3. Segmental analysis

In the opinion of the directors the Company operates in a single business segment being that of long term and linked long term insurance business:

(i) Gross premiums written

Gross premium income is made up of direct insurance business and is further analysed between:

	Periodic premiums		Single premiums	
	2017	2016	**2017**	2016
	€	€	**€**	€
Non - participating	**6,553,132**	6,226,738	**6,007,213**	4,501,590

	2017	2016
	€	€
Comprising:		
Individual business	**11,971,505**	10,304,051
Group contracts	**588,840**	424,277
	12,560,345	10,728,328

Periodic and single premiums credited to liabilities in Note 14 in relation to linked products classified as investment contracts without DPF was as follows:

	Periodic premiums		Single premiums	
	2017	2016	**2017**	2016
	€	€	**€**	€
Investment contracts	**3,651,671**	2,903,936	-	-

All long term contracts of insurance are concluded in or from Malta.

(ii) Reinsurance premiums outwards

The reinsurance premiums which represents the aggregate of all items relating to reinsurance outwards, mainly attributable to insurance contracts, amounted to a charge of €1,318,333 to the long term business technical account for the year ended 31 December 2017 (2016: €1,066,458).

3. Segmental analysis - continued

(iii) Analysis between insurance and investment contracts

	2017	2016
	€	€
Gross premiums written		
Insurance contracts	**6,553,132**	6,226,738
Investment contracts with DPF	**6,007,213**	4,501,590
	12,560,345	10,728,328

	2017	2016
	€	€
Claims incurred, net of reinsurance		
Insurance contracts	**4,666,617**	4,861,310
Investment contracts with DPF	**3,231,097**	4,448,057
	7,897,714	9,309,367

(iv) Net operating expenses

	2017	2016
	€	€
Acquisition costs	**2,488,666**	2,174,936
Administrative expenses	**552,733**	681,539
Reinsurance commissions and profit participation	**(121,246)**	(272,203)
Gain on disposal of fixed assets	**(2,625)**	(15,611)
	2,917,528	2,568,661

Total commissions for direct business accounted for in the financial year amounted to €1,135,290 (2016: €901,578).

(v) Bonuses and rebates, net of reinsurance

Reversionary bonuses declared in the year amounted to €1,783,101 (2016: €1,615,149).

4. Investment return

	2017	2016
	€	€
Investment income		
Rental income from investment property	**560,245**	749,830
Dividends received from:		
- group undertakings	**1,000,000**	3,000,000
- investments at fair value through profit or loss	**300,539**	357,399
- available-for-sale investments	**22,342**	34,617
Interest receivable from:		
- other loans and receivables	**6,190**	5,331
- investments at fair value through profit or loss	**1,738,499**	1,187,151
- held-to-maturity investments	**194,618**	321,740
- available-for-sale investments	**27,236**	-
Net fair value gains on investment property	**2,060,316**	1,484,111
Net gains on financial investments	**1,339,923**	-
Other income	**1,624**	38,308
	7,251,532	7,178,487
Investment charges and expenses		
Investment management charges	**(67,937)**	(25,901)
Amortisation charge	-	(15,931)
Net losses on financial investments	-	(207,061)
	(67,937)	(248,893)
Total investment return	**7,183,595**	6,929,594
Allocated as follows:		
Technical profit and loss account	**1,840,323**	1,009,441
Non-technical profit and loss account	**5,343,272**	5,920,153
	7,183,595	6,929,594

5. Finance costs

	2017 €	2016 €
Interest on preference shares	**34,004**	34,095
Allocated as follows:		
Non-technical account	**34,004**	34,095

6. Expenses by nature

	2017 €	2016 €
Actuarial valuation fees	**74,740**	137,468
Amortisation of computer software (Note 9)	**145,524**	140,993
Commission and direct marketing costs	**1,832,254**	1,069,370
Depreciation of plant and machinery (Note 10)	**77,310**	42,009
Operating lease rentals payable	**4,979**	4,838
Other expenses	**399,579**	839,851
Wages and salaries recharged from group undertaking	**602,631**	460,563
	3,137,017	2,695,092
Allocated as follows:		
Technical account		
- claims incurred	**154,488**	112,281
- net operating expenses	**2,917,528**	2,568,661
Non-technical account	**65,001**	14,150
	3,137,017	2,695,092

Auditor's remuneration for the current financial year amounted to €23,000 (2016: €29,500). Other fees payable to the auditor comprise €18,000 (2016: €2,000) for other assurance services and €1,000 for tax services (2016: €2,100).

7. Tax charge/(credit)

	2017 €	2016 €
Current tax charge	**535,987**	639,469
Deferred tax charge/(credit) (Note 19)	**395,684**	(1,132,369)
Tax charge/(credit)	**931,671**	(492,900)

7. Tax charge/(credit) - continued

Income tax recognised in other comprehensive income is as follows:

	2017	2016
	€	€
Deferred tax		
Revaluation of property	-	159,119
Revaluations of available-for-sale financial assets	**(21,977)**	(24,450)
	(21,977)	134,669

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2017	2016
	€	€
Profit before tax	**4,403,645**	3,512,006
Tax on profit at 35%	**1,541,276**	1,229,202
Tax effect of:		
Income taxed at lower rates	**(598,696)**	(672,039)
Dividends received from the untaxed account and FTA	**(10,909)**	(1,050,063)
Tax charge/(credit)	**931,671**	(492,900)
Allocated as follows:		
Technical account	-	(126,675)
Non-technical account	**931,671**	(366,225)
Tax charge/(credit)	**931,671**	(492,900)

8. Directors' emoluments

All directors' emoluments are recharged by the intermediate parent company.

	2017	2016
	€	€
Fees	**33,000**	28,000

9. Intangible assets

	Value of in-force business €	Computer Software €	Total €
At 1 January 2016			
Cost or valuation	5,021,000	2,237,967	7,258,967
Accumulated amortisation/impairment	-	(410,067)	(410,067)
Net book amount	5,021,000	1,827,900	6,848,900
Year ended 31 December 2016			
Opening net book amount	5,021,000	1,827,900	6,848,900
Increment in value of in-force business (Note 18)	1,834,079	-	1,834,079
Amortisation charge	-	(140,993)	(140,993)
Net book amount	6,855,079	1,686,907	8,541,986
At 31 December 2016			
Cost or valuation	6,855,079	2,237,967	9,093,046
Accumulated amortisation/impairment	-	(551,060)	(551,060)
Net book amount	6,855,079	1,686,907	8,541,986
Year ended 31 December 2017			
Opening net book amount	6,855,079	1,686,907	8,541,986
Increment in value of in-force business (Note 18)	1,261,787	-	1,261,787
Additions	-	226,170	226,170
Amortisation charge	-	(145,524)	(145,524)
Net book amount	8,116,866	1,767,553	9,884,419
At 31 December 2017			
Cost or valuation	8,116,866	2,464,137	10,581,003
Accumulated amortisation/impairment	-	(696,584)	(696,584)
Net book amount	**8,116,866**	**1,767,553**	**9,884,419**

9. Intangible assets - continued

Computer software relates to the company'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. Amortisation charge of €145,524 (2016: €140,993) has been charged and included in the technical account.

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 - 1.50%) 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.

10. Property, plant and equipment

	Land and building €	Office furniture, fittings and equipment €	Total €
At 1 January 2016			
Cost	2,531,817	1,417,520	4,046,436
Accumulated depreciation	(132,791)	(1,397,510)	(1,627,400)
Net book amount	2,399,026	20,010	2,419,036
Year ended 31 December 2016			
Opening net book amount	2,399,026	20,010	2,419,036
Additions	148,914	-	148,914
Disposals	-	1	1
Reclassification to investment property	(488,037)	-	(488,037)
Depreciation charge	(35,233)	(6,776)	(42,009)
Net book amount	2,024,670	13,235	2,037,905
At 31 December 2016			
Cost	2,192,694	1,417,521	3,707,314
Accumulated depreciation	(168,024)	(1,404,286)	(1,669,409)
Net book amount	2,024,670	13,235	2,037,905
Year ended 31 December 2017			
Opening net book amount	2,024,670	13,235	2,037,905
Additions	103,998	32,423	148,914
Depreciation charge	(64,097)	(13,213)	(77,310)
Net book amount	2,064,571	32,445	2,109,508
At 31 December 2017			
Cost	2,296,692	1,449,944	3,746,636
Accumulated depreciation	(232,121)	(1,417,499)	(1,649,620)
Net book amount	**2,064,571**	**32,445**	**2,097,016**

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.

11. Investment property

	€
Year ended 31 December 2016	
Opening net book amount	9,247,002
Additions	157,426
Reclassification to non-current assets held-for-sale	1,709,617
Increase in fair value	1,500,109
Closing net book amount	12,614,154
At 31 December 2016	
Cost	5,983,921
Accumulated fair value gains	6,630,233
Net book amount	12,614,154
Year ended 31 December 2017	
Opening net book amount	12,614,154
Additions	91,485
Increase in fair value	2,060,316
Closing net book amount	14,765,955
At 31 December 2017	
Cost	6,075,406
Accumulated fair value gains	8,690,549
Net book amount	**14,765,955**

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

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 Company'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	-	-	14,765,955	14,765,955
Foreign property	-	-	182,000	182,000
Total	-	-	**14,765,955**	**14,765,955**

11. Investment property - continued

	Fair value measurement at end of the reporting period using:			
	Level 1	Level 2	Level 3	Total
	€	€	€	€
2016				
Investment property:				
Local property	-	-	12,432,154	12,432,154
Foreign property	-	-	182,000	182,000
Total	**-**	**-**	**12,614,154**	**12,614,154**

In estimating the fair value of the properties, the highest and best use of the properties is their current use. In accordance with the Company'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 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 Company's Level 3 fair value measurements for local properties:

	Significant unobservable input EUR	Narrative sensitivity EUR
2017		
Local properties	Rental value per square metre, ranging from €90 to €280 (2016: €90 to €230)	The higher the price per square metre, the higher the fair value
	Rent growth of 2.5% (2016: 2%) per annum	The higher the rent growth, the higher the fair value
	Discount rate of 6.6% (2016: 6.98%)	The higher the discount rate, the lower the fair value
Foreign property	Value per square metre of €3,500	The higher the price per square metre, the higher the fair value

11. Investment property - continued

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

	Local property €	Foreign property €	Total €
Year ended 31 December 2017			
At the beginning of the year	12,432,154	182,000	12,614,154
Additions	91,485	-	91,485
Fair value gains	2,060,316	-	2,060,316
At end of year	**14,765,955**	**182,000**	**14,765,955**
Year ended 31 December 2016			
At the beginning of the year	9,065,002	182,000	9,247,002
Property reclassified from property, plant and equipment	1,709,617	-	1,709,617
Additions	157,426	-	157,426
Fair value gains	1,500,109	-	1,500,109
At end of year	12,432,154	182,000	12,614,154

Operating leases relate to the investment property owned by the Company with lease terms of between 1 to 5 years. The lessee does not have an option to purchase the property at the expiry of the lease period. The rental income earned, under operating leases, amounted to €560,245 (2016: €749,830).

12. Investments in group undertakings

	2017 €	2016 €
Cost		
Year ended 31 December	**1,048,218**	1,048,218

The group undertakings at 31 December 2017 are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2017	2016
GlobalCapital Health Insurance Agency Limited	Testaferrata Street Ta' Xbiex	Ordinary 'A'	**100%**	100%

The principal activity of GlobalCapital Health Insurance Agency Limited is to carry on business of an agent in all classes of health insurance, in terms of the Insurance Intermediaries Act (Cap. 487).

GlobalCapital Health Insurance Agency Limited has also issued non-profit participating 'B' shares to other subscribers. The subscribers of such 'B' shares are not entitled to a share of profits generated by GlobalCapital Health Insurance Agency Limited, and hence the Company is deemed to have 100% of ownership interest. The distribution of dividends by GlobalCapital Health Insurance Agency Limited is restricted by the own funds requirements of the Insurance Intermediaries Act (Cap. 487).

12. Investments in group undertakings - continued

Capital and reserves

	2017	2016
	€	€
GlobalCapital Health Insurance Agency Limited	**912,133**	1,042,352

13. Other investments

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

	2017	2016
	€	€
Fair value through profit or loss	**68,951,015**	49,988,329
Held-to-maturity investments	**-**	6,813,000
Available-for-sale investments	**2,128,561**	983,723
Loans and receivables	**110,597**	138,884
Total investments	**71,190,173**	57,923,936

(a) Investments at fair value through profit or loss

	2017	2016
	€	€
Equity securities and units in unit trusts:		
Listed shares	**17,356,281**	13,684,830
Unlisted shares	**-**	598,647
Collective investment schemes	**1,068,271**	1,034,224
	18,424,552	15,317,701
Assets held to cover linked liabilities:		
Collective investment schemes	**9,299,196**	6,515,329
Debt securities - fixed interest rate:		
Government bonds	**21,135,089**	18,232,925
Listed corporate bonds	**20,092,178**	9,922,374
	41,227,267	28,155,299
Total investments at fair value through profit or loss	**68,951,015**	49,988,329

Technical provisions for linked liabilities amounted to €9,839,062 (2016: €6,913,657) as at 31 December 2017. They are included in the liability for investment contracts without DPF in Note 14.

13. Other investments - continued

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

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

	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

	%	%
Weighted average effective interest rate at the balance sheet date	**5**	4

All other securities classified at fair value through profit or loss are non-current in nature.

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

	2017	2016
	€	€
Year ended 31 December		
Balance at 1 January	**49,988,329**	45,873,607
Additions	**29,048,966**	8,496,822
Disposals	**(8,566,482)**	(4,218,193)
Transfer to available-for-sale assets (Note 13 (c))	**(605,505)**	-
Net fair value loss	**(914,293)**	(163,907)
Balance at 31 December	**68,951,015**	49,988,329
At 31 December		
Cost	**61,383,309**	41,506,330
Accumulated fair value gains	**7,567,706**	8,481,999
Net book amount	**68,951,015**	49,988,329

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

	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

13. 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
Total held-to-maturity investments	-	6,813,000

Maturity of fixed income 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	-	2,172,528
Over 5 years	-	3,156,782
	-	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		
Balance at 1 January	**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)**	-
Balance at 31 December	-	6,813,000
At 31 December		
Cost	-	6,921,224
Accumulated amortisation	-	(108,224)
Net book amount	-	6,813,000

The fair value of investments classified as held-to-maturity at 31 December 2017 was nil (2016: amounted to €8,606,149).

13. Other investments - continued

(c) Available-for-sale investments

	2017	2016
	€	€
Equity securities:		
Listed shares	**2,128,561**	983,723

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

	2017	2016
	€	€
Year ended 31 December		
Balance at 1 January	**983,723**	1,082,933
Transfer from held-to-maturity assets (i)	**521,793**	-
Transfer from fair value through profit or loss assets (Note 13 (a))	**605,505**	-
Additions	**81,096**	
Disposals	**(766)**	(29,353)
Net fair value loss	**(62,790)**	(69,857)
Balance at 31 December	**2,128,561**	983,723
At 31 December		
Cost	**1,866,654**	659,026
Accumulated fair value gains	**261,907**	324,697
Net book amount	**2,128,561**	983,723

(i) During the year, the Company 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

	2017	2016
	€	€
Loans secured on policies	**110,597**	138,884

Loans secured on policies are substantially non-current in nature. They are charged with interest at the rate of 8% (2016: 8%) per annum. The movements of loans and receivables are summarised as follows:

	2017	2016
	€	€
Year ended 31 December		
Balance at 1 January	**138,884**	151,328
Additions	-	-
Disposals	**(28,287)**	(12,444)
Balance at 31 December	**110,597**	138,884

14. 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 gross 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)
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

14. Technical provisions – insurance contracts and investment contracts - continued

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 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
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**

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.

(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 contracts. The table below indicates the level of the respective adjustment that would be required.

14. Technical provisions – insurance contracts and investment contracts - continued

(b) Changes in assumptions - continued

Sensitivity analysis - continued

	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.

15. Receivables, prepayments and accrued income

	2017	2016
	€	€
Receivables arising out of direct insurance operations:		
- due from policyholders	**263,729**	194,771
Other loans and receivables:		
- receivables from group undertakings	**5,460,343**	5,460,343
Other receivables	**98,213**	471,983
	5,822,285	6,127,097

	2017	2016
	€	€
Prepayments and accrued income:		
- prepayments	**633,853**	526,747
- accrued income	**720,980**	523,135
	1,354,833	1,049,882

Amounts due from group undertaking do not bear interest and are payable on demand. They are secured by the shareholding of the respective group undertakings which had properties having a carrying value of €5,500,000 as at the end of the reporting period.

Interest-bearing automatic premium loans are classified as investments in Note 13 to the financial statements.

All of the above amounts are current in nature.

16. Share capital

	2017 and 2016	
	Authorised	**Issued and Called up**
	€	**€**
4,656,560 ordinary shares of €2.329373 each, 3,936,625 of which were issued and called up	**10,846,865**	**9,169,870**
343,440 preference share capital of €2.329373 each, all of which have been issued and called up	**800,000**	**800,000**
	11,646,865	**9,969,870**

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company is authorized by the Malta Financial Services Authority to carry out long term business of insurance and is required to hold regulatory capital to support its long term insurance business in accordance with the Insurance Business (Assets and Liabilities) Regulations.

The above regulations set out the required minimum capital that must be maintained at all times throughout the year. The Company monitors capital at least once a month through detailed reports compiled together with the management accounts. Such reports are circulated to senior management. Any transactions that may potentially affect the Company's regulatory position are immediately reported to the Directors for resolution and the Malta Financial Services Authority is notified accordingly.

The Company's Minimum Capital Requirement Absolute Floor stands at €3,700,000 as per Part B of the Insurance Rules. The Company 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.

17. Dividends paid

In respect of the current year, a net dividend of €650,000 (16.51 cents per ordinary share) was paid to ordinary and preference shareholders. A net dividend of €3,000,000 (76.21 cents per ordinary share) were paid during the previous year.

18. Other reserves

	Value of in-force business €	Other unrealised gains €	Property revaluation reserve €	Total €
Year ended 31 December 2016				
At beginning of year	4,625,938	651,522	-	5,277,460
Increment in value in-force business transferred from retained earnings (Note 9)	1,834,079	-	-	1,834,079
Net gain on available-for-sale financial assets	-	(69,857)	-	(69,857)
Deferred tax movement on available-for-sale financial asset	-	24,450	-	24,450
Gain on revaluation of property	-	-	1,221,580	1,221,580
Transfer of fair value gains on investment property	-	-	(159,119)	(159,119)
At end of year	**6,460,017**	**606,115**	**1,062,461**	**8,128,593**
Year ended 31 December 2017				
At beginning of year	6,460,017	606,115	1,062,461	8,128,593
Increment in value in-force business transferred from retained earnings (Note 9)	1,261,787	-	-	1,261,787
Net gain on available-for-sale financial assets	-	(62,790)	-	(62,790)
Deferred tax movement on available-for-sale financial asset	-	21,977	-	21,977
At end of year	**7,721,804**	**565,302**	**1,062,461**	**9,349,567**

The above reserves are not distributable.

19. Deferred income 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 Company 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 Company 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.

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

	2017	2016
	€	€
Year ended 31 December		
At beginning of year	**1,792,988**	2,790,688
(Credited)/charged to other comprehensive income (Note 7)	**(21,977)**	134,669
Charged/(credited) to profit and loss account (Note 7)	**395,684**	(1,132,369)
At end of year	**2,166,695**	1,792,988

Deferred taxation at the year-end comprises the following temporary differences:

	2017	2016
	€	€
Deferred tax liability		
Fair value gains on investments	**2,364,545**	2,678,541
Property taxable at 8% or 10%	**1,166,716**	994,572
Temporary differences on:		
- property, plant and equipment	**100,147**	(55,277)
- unutilised tax losses	**(1,112,560)**	(1,112,560)
- unutilised capital allowances	**(315,094)**	(675,229)
- others	**(37,059)**	(37,059)
Net deferred income tax liability	**2,166,695**	1,792,988

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

20. Payables, accruals and deferred income

	2017	2016
	€	€
Payables arising out of insurance operations:		
- due to policyholders	-	2,368
- due to reinsurers	**2,256,622**	1,779,825
Amounts due to immediate parent undertaking	**34,004**	-
Other payables	**1,898,868**	1,294,060
	4,189,494	3,076,253
Accruals and deferred income		
- Accruals	**103,158**	211,114
- Deferred income	**153,995**	78,404
	257,153	289,518

Amounts owned to immediate parent undertaking are unsecured and bear no interest. These balances are payable on demand.

Other payables are unsecured, non-interest bearing and fall due within the next twelve months.

Deferred income includes front-end fees received from holder of investment contracts without DPF as a prepayment for asset management and related services and rental income received in advance. These amounts are non-refundable and are released to income as the services are rendered.

21. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2017	2016
	€	€
Cash flows generated from operating activities		
Profit before tax	**4,403,645**	3,512,006
Adjustments for:		
Amortisation on computer software (Note 9)	**145,524**	140,993
Amortisation on held-to-maturity investments (Note 13)	-	15,752
Depreciation (Note 10)	**77,310**	42,009
Interest income	**(1,966,543)**	(1,514,222)
Dividend income	**(1,322,881)**	(3,392,016)
Net fair value movement on FVTPL investments (Note 13)	**914,293**	114,312
Net fair value movement on investment property (Note 11)	**(2,060,316)**	(1,500,109)
Impairment of trade debtors	-	(147,519)
Realised gain on disposal of tangible assets	-	(1)
Increase in net technical provisions	**7,218,496**	4,955,274
Operating gain before working capital movements	**7,409,528**	2,226,479
Movement in trade and other receivables	**197,706**	374,248
Movement in trade and other payables	**1,080,876**	333,975
Cash flows generated from operations	**8,688,110**	2,934,702

22. Cash and cash equivalents

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

	2017	2016
	€	€
Cash at bank and on hand	**8,811,495**	12,657,940

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

23. Fair values of financial assets and financial liabilities

At 31 December 2017 and 2016 the carrying amounts of financial assets, other than investment in group undertakings, and current financial liabilities approximated their fair values, with the exception of the 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 fair values of non-current financial liabilities that are not measured at fair value are not materially different from their carrying amounts.

As at the end of the reporting period, all 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.

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.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.

23. Fair values of financial assets and financial liabilities - continued

	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
- loans to group undertakings	-	5,460,343	-	5,460,343	5,460,343
Held-to-maturity investments	-	-	-	-	-
Total	**-**	**5,570,940**	**-**	**5,570,940**	**5,570,940**
Financial liabilities at amortised cost					
- other payables	-	1,898,869	-	1,898,869	1,898,869
Total	**-**	**1,898,869**	**-**	**1,898,869**	**1,898,869**
2016					
Financial assets					
Loans and receivables					
- loans secured on policies	-	138,884	-	138,884	138,884
- loans to group undertakings	-	5,460,343	-	5,460,343	5,460,343
Held-to-maturity investments	8,606,149	-	-	8,606,149	6,813,000
Total	**8,606,149**	**5,599,227**	**-**	**14,205,376**	**12,412,227**
Financial liabilities at amortised cost					
- other payables	-	1,294,060	-	1,294,060	1,294,060
Total	**-**	**1,294,060**	**-**	**1,294,060**	**1,294,060**

24. Related party transactions

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.

The following transactions were carried out by the Company with related parties:

(a) Revenue:

	2017	2016
	€	€
Net dividends receivable from group undertakings	**650,000**	3,000,000
Rent receivable from group undertakings	-	67,035
	650,000	3,067,035

(b) Expenditure:

	2017	2016
	€	€
Commissions and other fees payable to group undertakings	**13,326**	9,388
Net dividends payable to group undertakings	**650,000**	3,000,000
	663,326	3,009,388

(c) Finance cost:

	2017	2016
	€	€
Interest on preference shares	**34,004**	34,095

Amounts owed by or to group undertakings and other related parties are disclosed in Notes 15 and 20 to these financial statements.

24. Related party transactions - continued

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

	2017	2016
	€	€
Malta Privatisation and Equity Fund	**464,940**	464,940
Melita International Equity Fund	**63,942**	72,751
Global Bond Fund Plus Accumulator	**157,345**	157,345
	686,227	695,036

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

The compensation to directors in 2017 and 2016 is disclosed in Note 8 to the financial statements.

25. Commitments

Operating lease commitment – where the Company is a lessor

Future minimum lease payments due to the Company 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**	335,685
	612,930	665,958

26. Statutory information

GlobalCapital Life Insurance Limited is a limited liability company incorporated in Malta with registration number C29086. The registered address of the company is Testaferrata Street, Ta' Xbiex. The immediate parent company of GlobalCapital Life Insurance Limited is GlobalCapital Holdings Limited, a company registered in Malta, with its registered address at Testaferrata Street, Ta' Xbiex.

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's intermediate parent company, GlobalCapital p.l.c.

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

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of GlobalCapital Life Insurance Limited (the "Company"), set on pages 4 to 57, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"), the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act") and the Insurance Business Act, Cap. 403 of the Laws of Malta (the "Insurance Business 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 Company 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.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - 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 Company's technical provisions on insurance and investment contracts underwritten, as described and disclosed in section 8 of the accounting policies and notes 1 and 14, represent 93% of the total liabilities as of 31 December 2017.

The VOIFB is detailed in section 2 of the accounting policies and notes 1 and 9 to the financial statements, representing 7% 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.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - 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 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 Company'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 Company's valuation of technical provisions and VOIFB presented in notes 14 and 9 to the financial statements respectively.

Valuation of investment property

The Company's investment property, which is being further described in section 4 of the accounting policies and notes 1 and 11 in the financial statements, accounts for 12% 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 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). 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.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - 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 Company'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, 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; and
- Assessing 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.

We have also assessed the relevance of disclosures relating to the Company's valuation of investment property presented in note 11 to the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the 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.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - continued

Report on the audit of the financial statements - continued

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 the Insurance Business 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 Company'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 Company 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.

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.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - continued

Report on the audit of the financial statements - continued

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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; and
- 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.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - 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.

Building a better working world

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital Life Insurance Limited - 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 Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report. 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;
- the financial statements are not in agreement with the accounting records; 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 Company 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 Company, 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 Company, and we remain independent of the Company 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 Company and its controlled undertakings.

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
25 April 2018