GLOBALCAPITAL LIFE INSURANCE LIMITED

Annual Report and Financial Statements

31 December 2019

Company Registration Number: C 29086

Directors' report

The Directors present their annual report and the audited financial statements of GlobalCapital Life Insurance Limited (the "Company") for the year ended 31 December 2019.

Principal activities

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

Review of business

GlobalCapital Life Insurance Limited

GlobalCapital Life Insurance Limited registered profit before taxation for the year ended 31 December 2019 of €1,996,487 compared to a loss before tax €1,450,856 in the prior year. The Company's total comprehensive income for the year closing at €2,302,944 (2018: €246,881). The Company's results were materially impacted by the positive performance of the local and international investment markets. The net assets of the Company have remained on the same lines as that of prior year, amounting to €28.9M.

The Company registered an increase in the interest sensitive single premium and unit linked businesses whilst experienced a slight decline in ordinary business, mainly protection. Gross written premium for the year amounted to €12.03M compared to €12.02M at the end of the comparative period, a slight increase compared to the 5% increase between 2018 and 2017. Benefits and claims incurred net of reinsurance increased by €1.2M over prior year, an increase of 16.9% (2018: a decrease of 9.6%). 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 2019, 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 2020. The enhancements made to our product suite helped facilitate improved competitiveness and marketability, thus generating positive results.

Total assets increased by 11.6% (2018: 7.4%) from €134.6M to €150.2M as at the end of the current reporting period. Technical provisions increased by 13% (2018: 11.6%) from €99.5M to €112.5M. GlobalCapital Life Insurance Limited's Solvency II ratio was a healthy one during the year, which as at 31 December 2019 was 174%.

The Company's value of in-force business for 2019 registered an increase of €888,478 (2018: €1,468,461), in aggregate amounting to €10,473,805 (2018: €9,585,327) at end of the current year - 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 2019 bonus declaration of 3.5% for Money Plus policies (2018: 3.5%) and 3% (2018: 1.5%) for all other interest sensitive products. The Company also announced a bonus rate of 0.5% (2018: 0.5%) for paid up policies. The Company also committed to a terminal bonus for policies maturing during the course of 2020.

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 €290K compared to a prior period profit of €159K. The increase was mainly driven by higher revenues generated during the year.

Net assets increased from €1.0M to €1.5M. During the year no dividend was distributed to the Company (2018: Nil).

Future outlook

The Directors intend to continue to operate in line with the Company's current business plan whilst making reference to the COVID-19 pandemic impact as disclosed in Note 26 to the financial statements.

Principal risks and uncertainties

The Company's principal risks and uncertainties are further disclosed in Note 1 – Critical accounting estimates and judgements, Note 2 – Management of insurance and financial risk, Note 9 – Intangible assets covering details on the Company's goodwill and value of in-force business, Note 12 – Investment property disclosing the significant observable inputs, and Note 15 – Technical provisions which include the valuation assumptions.

Financial risk management

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

Results and dividends

The statement of comprehensive income is set out on pages 5 and 6. After considering the net movement of value-in-force business and available-for-sale investments, the Company's total comprehensive income amounted to €2,302,944 (2018: €246,881). The profit for the year after taxation was €1,503,095 (2018: loss of €1,071,742). No dividend was paid during the year under review (2018: Nil). The directors do not recommend the payment of a final dividend.

Events after the financial reporting date

Following the Company's analysis of the possible impact of the COVID-19 pandemic across all key areas of business, the Directors have determined that the Company's financial position and performance for 2020 should be able to absorb the impact brought about by this pandemic. Such analysis was also extended to analyze the effect on the Solvency Capital Requirements (the "SCR") of the Company by reference to the stressed test scenarios in latest ORSA reports prepared by the entity. Based on such results the Company should be well capitalized to absorb any foreseeable impact and envisages that it will continue to satisfy all regulatory solvency requirements.

Furthermore, the Board is monitoring the situation constantly and will take any necessary actions to minimize the possible impacts of COVID-19.

Directors

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

Prof. Paolo Catalfamo
Mr. Joseph C. Schembri
Mr. Nicolas Hornby Taylor
Ms. Cristina Casingena
Mr. Mario P. Galea – Resigned on 8th August 2019

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

Auditors

The Board of Directors, following the approval of the Audit Committee, will be proposing a change in auditors at the forthcoming Annual General Meeting, which appointment will be subject to confirmation of the shareholders.

The Board of Directors would like to take the opportunity to thank Ernst & Young Malta Limited for their sterling service and professionalism demonstrated in their external audit role over the past three years.

These financial statements were approved for issue by the board and signed on its behalf on 7 May 2020 by:

Prof. Paolo Catalfamo
Director

Joseph C. Schembri
Director

Statement of Directors' responsibilities

The Directors are required by the Insurance Business Act (Cap. 403 of the Laws of Malta) and the Companies Act (Cap. 386 of the Laws of Malta) 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 of the Laws of Malta) and the Companies Act (Cap. 386 of the Laws of Malta). 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 of the Laws of Malta).

Approved by the Board of Directors on 07 May 2020 and signed on its behalf by:

Prof. Paolo Catalfamo	**Joseph C. Schembri**
Director	**Director**

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

For the year ended 31 December	**Notes**	**2019**	2018
		€	€
Earned premiums, net of reinsurance			
Gross premiums written	3	**12,031,619**	12,017,964
Outward reinsurance premiums		**(1,667,042)**	(1,500,493)
Earned premiums, net of reinsurance		**10,364,577**	10,517,471
Net investment income	4	**4,061,506**	845,202
Investment contract fee income		**1,361,498**	933,186
Total technical income		**15,787,581**	12,295,859
Benefits and claims incurred, net of reinsurance			
Benefits and claims paid			
- gross amount		**9,149,946**	7,771,852
- reinsurers' share		**(479,449)**	(783,276)
		8,670,497	6,988,576
Change in the provision for claims			
- gross amount		**(190,174)**	(110,137)
- reinsurers' share		**(134,683)**	260,311
	15	**(324,857)**	150,174
Benefits and claims incurred, net of reinsurance		**8,345,640**	7,138,750
Change in other technical provisions, net of reinsurance			
Insurance contracts			
- gross amount		**5,671,921**	4,199,234
- reinsurers' share		**(4,074,332)**	(3,927,016)
	15	**1,597,589**	272,218
Investment contracts with DPF - gross	15	**1,587,581**	3,012,316
Investment contracts without DPF - gross		**126,602**	91,609
Change in other technical provisions, net of reinsurance		**3,311,772**	3,376,143
Net operating expenses	3, 6	**3,629,986**	3,093,504
Total technical charges		**15,287,398**	13,608,397
Balance on the long-term business of insurance technical account (page 6)		**500,183**	(1,312,538)

The accounting policies and explanatory notes of pages 10 to 68 form an integral part of the financial statements.

Statement of comprehensive income
Non-technical account

For the year ended 31 December	**Notes**	**2019**	2018
		€	€
Balance on the long-term business of insurance technical account (page 5)		**500,183**	(1,312,538)
Net Investment income	4	**1,740,646**	362,230
Finance charges	5	**(34,001)**	(34,001)
Other charges	6	**(122,867)**	(81,273)
Movement in provision for impairment of other receivables	16	**(87,474)**	(385,274)
Profit/ (Loss) before tax		**1,996,487**	(1,450,856)
Tax (charge)/ credit	7	**(493,392)**	379,114
Profit/ (Loss) for the year		**1,503,095**	(1,071,742)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Increment in value of in-force business (net of deferred tax)		**888,478**	1,468,461
Items that will be reclassified subsequently to profit or loss			
Net loss on available-for-sale financial assets		**(136,351)**	(230,519)
Deferred tax on the revaluation of available-for-sale financial assets		**47,722**	80,681
		(88,629)	(149,838)
Other comprehensive income for the year, net of tax		**799,849**	1,318,623
Total comprehensive income for the year		**2,302,944**	246,881

The accounting policies and explanatory notes of pages 10 to 68 form an integral part of the financial statements.

Statement of financial position

As at 31 December	**Notes**	**2019**	2018
		€	€
ASSETS			
Intangible assets	9	**11,896,014**	11,265,787
Right of use asset	10	**19,889**	-
Property, plant and equipment	11	**1,970,908**	2,035,053
Investment property	12	**15,537,750**	15,239,692
Investment in group undertakings	13	**1,048,218**	1,048,218
Other investments	14	**78,625,681**	73,202,406
Taxation receivable		**499,629**	433,849
Reinsurers' share of technical provisions	15	**17,568,236**	13,359,221
Receivables:			
Other receivables	16	**6,303,102**	6,328,107
Prepayments and accrued income	16	**1,226,036**	1,525,972
Cash at bank and in hand	23	**15,335,250**	10,195,013
Asset held-for-sale	12	**200,000**	-
Total assets		**150,230,713**	134,633,318
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	**9,169,870**	9,969,870
Other reserves	19	**11,468,038**	10,668,190
Retained earnings		**8,335,175**	8,274,691
Total equity		**28,973,083**	28,912,751
Technical provisions:			
Insurance contracts	15	**66,362,172**	60,690,251
Investment contracts with DPF	15	**26,276,659**	24,689,078
Investment contracts without DPF	15	**18,762,578**	12,788,505
Provision for claims outstanding	15	**1,132,954**	1,323,128
Lease Liability	10	**20,801**	-
Deferred tax liability	20	**2,544,500**	2,189,899
Payables:			
Payables arising out of direct insurance operations	21	**3,466,217**	3,754,063
Payables due to immediate parent undertaking	21	**868,002**	34,003
Payables due to subsidiary undertaking	21	**220,929**	-
Other payables	21	**140,614**	92,916
Accruals and deferred income	21	**1,462,204**	158,724
Total liabilities		**121,257,630**	105,720,567
Total equity and liabilities		**150,230,713**	134,633,318

The accounting policies and explanatory notes of pages 10 to 68 form an integral part of the financial statements.

The financial statements on pages 5 to 68 were approved for issue by the board and signed on its behalf on 7 May 2020 by:

Prof. Paolo Catalfamo
Director

Joseph C. Schembri
Director

Statement of changes in equity

For the year ended 31 December

	Share capital €	Other reserves €	Retained earnings €	Total €
Balance as at 1 January 2019	9,969,870	10,668,190	8,274,691	28,912,751
Profit for the year	-	-	1,503,095	1,503,095
Other comprehensive income for the year	-	799,849	-	799,849
Total comprehensive income for the year	-	799,849	1,503,095	2,302,944
Notional distribution arising from the interest-free intragroup receivable	-	-	(1,442,611)	(1,442,611)
Maturity of preference shares	(800,000)	-	-	(800,000)
Balance as at 31 December 2019	**9,169,870**	**11,468,039**	**8,335,174**	**28,973,083**
Balance as at 1 January 2018	9,969,870	9,349,567	9,346,433	28,665,870
Loss for the year	-	-	(1,071,742)	(1,071,742)
Other comprehensive income for the year	-	1,318,623	-	1,318,623
Total comprehensive income for the year	-	1,318,623	(1,071,742)	246,881
Balance as at 31 December 2018	**9,969,870**	**10,668,190**	**8,274,691**	**28,912,751**

The accounting policies and explanatory notes of pages 10 to 68 form an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December	**Notes**	**2019**	2018
		€	€
Cash flow generated from operations	22	**6,186,545**	4,539,134
Dividends received		**631,859**	361,994
Interest received		**1,859,101**	2,033,172
Tax refund on tax at source		**-**	190,904
Net cash flows generated from operating activities		**8,677,505**	7,125,204
Cash flows used in investing activities			
Purchase of intangible assets	9	**(54,199)**	(61,089)
Purchase of property, plant and equipment	11	**(21,852)**	(16,464)
Purchase of investments at fair value through profit or loss	14	**(7,034,281)**	(11,850,149)
Purchase of investments at available-for-sale	14	**(725,770)**	(17,140)
Purchase of investments in equity measured at cost	14	**(125,719)**	(1,719,140)
Purchase of term deposits	14	**(3,502,449)**	-
Proceeds on disposal of investments at fair value through profit or loss	14	**7,971,638**	10,600,689
Proceeds on disposal of available-for-sale investments	14	**166,985**	365,621
Net proceeds from other investments - loans and receivables	14	**(211,621)**	(3,010,003)
Net cash flows used in investing activities		**(3,537,268)**	(5,707,675)
Cash flows used in financing activities			
Interest on preference shares paid		**-**	(34,001)
Net cash flows used in financing activities		**-**	(34,001)
Net movement in cash and cash equivalents		**5,140,237**	1,383,528
Cash and cash equivalents as at the beginning of the year		**10,195,013**	8,811,485
Cash and cash equivalents as at the end of the year	23	**15,335,250**	10,195,013

The accounting policies and explanatory notes of pages 10 to 68 form an integral part of the financial statements.

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, except for those adopted for the first time during 2019.

1. Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRS's), the Insurance Business Act (Cap. 403 of the Laws of Malta) 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.

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in existence for the foreseeable future. As explained in Note 26, the Directors do not anticipate a material impact on the going concern assumption of the Company stemming from the COVID-19 pandemic.

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 27) prepares consolidated financial statements in accordance with the Companies Act (Cap. 386 of the Laws of Malta). Accordingly, in line with the provisions of Section 174 of the Companies Act (Cap 386. of the Laws of Malta) GlobalCapital Life Insurance Limited is not required to prepare consolidated financial statements for the Company and its subsidiary undertaking.

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 2019 that whose adoption to the requirements of IFRSs as adopted by the EU, with the exception of the below pronouncements, did not result in substantial changes to the Company's accounting policies and did not impact the financial statements

IFRS 16 – Leases

The Company applied IFRS 16 for the first time. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for items of property. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application.

In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

1. Basis of preparation - continued

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

IFRS 16 – Leases - continued

The Company also applied the available practical expedients where in it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarized below:

Where applicable, the accumulated effect of the initial application of IFRS 16 as an opening balance sheet adjustment under equity was accounted for.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Leases in which the Company is a lessor

The Company leases out part of its investment property. The Company has classified these leases as operating leases.

The Company is not required to make any adjustment on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company does not sub-lease any of its properties.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1. Basis of preparation - continued

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

IFRS 16 – Leases - continued

Impact on financial statements

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarized below.

	Company 1 January 2019
	Property
Right-of-use Assets	**26,009**
Lease Liabilities	**26,009**
Retained Earnings	**-**

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5% for property.

Standards, interpretations and amendments to published standards as endorsed by the EU that were effective before 2019 for which the Company elected for the temporary exemption

IFRS 9 – Financial instruments

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

The new expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 is generally effective for years beginning on or after 1 January 2018. However in September 2016, the IASB issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9. The options permit entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4, a temporary exemption to defer the implementation of IFRS 9.

1. Basis of preparation - continued

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

IFRS 9 – Financial instruments - continued

Entities that apply the optional temporary relief were initially required to adopt IFRS 9 on annual periods beginning on or after 1 January 2021. However on 14 November 2018, the IASB deferred both the effective date of IFRS 17 Insurance Contracts and the expiry date for the optional relief in respect of IFRS 9 by one year. On 17 March 2020, the IASB deferred again both the effective date of IFRS 17 Insurance Contracts and the expiry date for the optional relief in respect of IFRS 9 by a further 1 year. Therefore, entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2023 which aligns with the new effective date of IFRS 17.

The Company evaluated its liabilities at 31 December 2015, the prescribed date of assessment under the optional temporary relief provisions and concluded that all of the liabilities are predominantly connected with insurance. More than 90% of the Company's liabilities at 31 December 2015 are liabilities arising from contracts within the scope of IFRS 4. As at the same date the Company's predominant activities were also established to be insurance related as evidenced through revenues reported in the Annual Report of that year.

Further to the above, the Company has not previously applied any version of IFRS 9. Therefore the Company is an eligible insurer that qualifies for optional relief from the application of IFRS 9. As at 1 January 2018, the Company has elected to apply the optional temporary relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Company will continue to apply IAS 39 until 1 January 2023.

Standards issued but not yet effective and not early adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning on or after 1 January 2020. The Company has not early adopted these revisions to the requirements of IFRSs and the Company's Directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

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 2023.

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 are assumed to 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 other 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 (between five and 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 and office furniture, fittings and equipment 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	2-20
Office furniture, fittings and equipment	20-25

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 off-set 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.

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

6. Other financial instruments - continued

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. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method, less impairment. Amoritsed costs are calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income.

(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

(iii) 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. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss category are recognized in the profit and loss.

Available-for-sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

Loans and receivables are carried at amortised cost using the EIR method, less any provision for impairment.

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, are 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 are measured at cost.

(iii) Trade payables

Trade payables are classified with current liabilities and are stated at their amortised cost using the EIR method.

(iv) Shares issued by the Company

Ordinary 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) its 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.

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.

7. Impairment of assets - continued

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

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.

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.

8. Insurance contracts and investment contracts with DPF - continued

(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.

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.

8. Insurance contracts and investment contracts with DPF - continued

(b) Recognition and measurement - continued

Investment contracts with DPF - continued

(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) Life insurance and investment contracts with DPF liabilities

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 of the Laws of Malta). 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 of the Laws of Malta). 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.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities, net of related DAC, are adequate by using an existing liability adequacy test performed in accordance with IFRS 4 requirements and the Insurance Business Act (Cap. 403 of the Laws of Malta). The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used.

Aggregation levels and the level of prudence applied in the test are consistent with IFRS 4 requirements and the Insurance Business Act (Cap. 403 of the Laws of Malta). To the extent that the test involves discounting of cash flows, the interest rate applied may be prescribed regulations by the Insurance Business Act (Cap. 403 of the Laws of Malta) or may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the statement of profit or loss, initially by impairing DAC and, subsequently, by establishing an additional insurance liability for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing are reversed in future years if the impairment no longer exists.

8. Insurance contracts and investment contracts with DPF - continued

(b) Recognition and measurement - continued

Investment contracts with DPF - continued

(v) Life insurance and investment contracts with DPF liabilities - 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. Assets held for sale

The Company classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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 directors and 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 from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

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.

14. Revenue recognition - continued

(b) Dividend income

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

(c) 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.

(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

The Company initially applied IFRS 16 Leases from 1 January 2019.

The accounting policy applicable before 1 January 2019 in which the Company is a lessee is as follows:

Operating lease payments were recognized as an operating lease expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

As from 1 January 2019 the Company adopted the following accounting policy:

(i) Company as a lessor

Lessor accounting remains similar to treatment under IAS 17 meaning that lessors continue to classify leases as finance or operating leases.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other income’ – Note 4.

(ii) Company as a lessee

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Right-of-use asset

The Company recognises a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset of the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company presents right-of-use asset that do not meet the definition of investment property as ‘Right-of-use assets’.

17. Leases - continued

(ii) Company as a lessee – continued

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including payments which are essentially fixed), minus any incentive to lease to be paid;
- the price for exercising a purchase option which the lessee is reasonably certain to exercise; and
- payments for early cancellation.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense 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 15 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 12 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. 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) Lapse and surrender rates

Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

(c) Policy Maintenance Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for the shareholders.

(d) Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back consistent with the long–term asset allocation strategy. These estimates are based on current as well as expectations about future economic and financial developments. An increase in investment return would lead to an increase in profits for the shareholders.

(e) Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

(f) 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.

2. Management of insurance and financial risk - continued

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.

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

	2019	2018
	€	€
Assets		
Assets at floating interest rates	**15,335,250**	10,195,013
Assets at fixed interest rates	**38,312,041**	40,918,202
	53,647,291	51,113,215
Liabilities		
Technical provisions	**92,638,831**	85,379,429

2. Management of insurance and financial risk - continued

Market risk - continued

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

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 15 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 €3,831,000 (+/- €4,092,000 in 2018).

(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:

	2019	2018
	€	€
Other Investments (Note 14)	**20,848,627**	17,826,733

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 40% (2018: 50%) of equity securities held at fair value through profit or loss in Note 14 relate to holdings in four local banks. The remaining equity securities held at fair value through profit or loss are mainly held in equities in the Telecommunication Services, Property 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 +/- €1,949,000 (2018: +/- €1,715,000*)*. 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 2019, the Company's exposure to foreign currency investments (principally comprising a mix of US Dollar and UK pound) represented 6% (2018: 11%) of the Company's total investments excluding the term deposits.

2.2% (2018: 0.1%) of the Company's cash and cash equivalents and term deposits, at 31 December 2019, 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.

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% (2018: +/-10%), with all other variables held constant, the impact on the Company's pre-tax profit would be +/- €487,000 (2018: +/- €803,000).

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 group of counterparties. 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 14 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 16 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 2019.

The following table illustrates the assets that expose the Company to credit risk as at the end of the reporting period and includes the Standard & Poor's, Moody's and ARC composite rating for debt securities at fair value through profit or loss, when available, and the 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 2019				
	AAA to AA €	**A €**	**BBB to B €**	**Below B to unrated €**	**Total €**
Investments					
Debt securities at fair value through profit or loss	1,973,895	7,851,719	15,023,141	4,805,754	29,654,509
Debt securities asset-for-sale	-	-	126,500	-	126,500
	1,973,895	7,851,719	15,149,641	4,805,754	29,781,009
Loans and receivables					
Loans secured on policies	-	-	-	71,022	71,022
Other loans and receivables	-	3,285,629	-	1,910,000	5,195,629
Trade and other receivables	-	-	-	300,524	300,524
Amounts due from group undertakings	-	-	-	6,002,578	6,002,578
Term Deposits	-	-	-	3,502,449	3,502,449
Cash and cash equivalents	-	-	14,301,111	1,034,139	15,335,250
	-	3,285,629	14,301,111	12,820,712	30,407,452
Reinsurance share of technical provisions	17,568,236	-	-	-	17,568,236
Total assets bearing credit risk	**19,542,131**	**11,137,348**	**29,450,752**	**17,626,466**	**77,756,697**

2. Management of insurance and financial risk - continued

Credit risk - continued

As at 31 December 2018

	AAA to AA €	A €	BBB to B €	Below B to unrated €	Total €
Investments					
Debt securities at fair value through profit or loss	4,468,496	7,209,477	19,004,797	5,097,773	35,780,543
Debt securities asset-for-sale	-	-	127,512	-	127,512
	4,468,496	7,209,477	19,132,309	5,097,773	35,908,055
Loans and receivables					
Loans secured on policies	-	-	-	110,752	110,752
Other loans and receivables	-	3,000,000	-	1,737,853	4,737,853
Trade and other receivables	-	-	-	523,599	523,599
Amounts due from group undertakings	-	-	-	5,804,508	5,804,508
Cash and cash equivalents	-	-	8,391,420	1,803,593	10,195,013
	-	3,000,000	8,391,420	9,980,305	21,371,725
Reinsurance share of technical provisions	13,359,221	-	-	-	13,359,221
Total assets bearing credit risk	**17,827,717**	**10,209,477**	**27,523,729**	**15,078,078**	**70,639,001**

The tables below analyse the Company's financial assets 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 inflows

	Less than one year	Between one and five years €	Between five and ten years €	Between ten and twenty years €	Over 20 years €	Total €
As at 31 December 2019						
Reinsurance share of Technical provisions	**878,412**	**4,040,696**	**2,283,870**	**3,689,329**	**6,675,929**	**17,568,236**
As at 31 December 2018						
Reinsurance share of Technical provisions	667,961	3,072,620	1,870,291	2,805,436	4,942,913	13,359,221

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 2019 and 2018 the Company had an exposure with the Government of Malta through investments in debt securities. In 2019 these were equivalent to 10% (2018: 12%) 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 one year	Between one and five years €	Between five and ten years €	Between ten and twenty years €	Over 20 years €	Total €
As at 31 December 2019						
Technical provisions	**6,219,923**	**25,145,031**	**15,136,077**	**22,335,146**	**43,698,186**	**112,534,363**
As at 31 December 2018						
Technical provisions	5,386,059	23,506,946	14,064,249	21,624,074	34,909,634	99,490,962

3. Particulars of business

The Company writes 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**	
	2019	2018	**2019**	2018
	€	€	**€**	€
Gross Premium Income	**6,776,869**	6,798,454	**5,254,750**	5,219,510

	2019	2018
	€	€
Comprising:		
Individual business	**11,572,055**	11,537,623
Group contracts	**459,564**	480,341
	12,031,619	12,017,964

Periodic and single premiums credited to liabilities in Note 15 in relation to linked products classified as investment contracts without DPF was as follows:

	Periodic premiums		**Single premiums**	
	2019	2018	**2019**	2018
	€	€	**€**	€
Investment contracts	**5,521,013**	4,934,911	**-**	-

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 €1,667,042 (2018: €1,500,493) to the long term business technical account for the year ended 31 December 2019.

3. Particulars of business - continued

(iii) Analysis between insurance and investment contracts

	2019	2018
	€	€
Gross premiums written		
Insurance contracts	**6,776,869**	6,798,454
Investment contracts with DPF	**5,254,750**	5,219,510
	12,031,619	12,017,964

	2019	2018
	€	€
Claims incurred, net of reinsurance		
Insurance contracts	**4,374,807**	4,594,235
Investment contracts with DPF	**3,770,295**	2,362,808
Transfer from administrative expenses (Note 6)	**200,538**	181,707
	8,345,640	7,138,750

(iv) Net operating expenses

	2019	2018
	€	€
Acquisition costs	**2,047,339**	1,935,105
Administrative expenses	**1,916,861**	1,573,324
Reinsurance commissions and profit participation	**(334,199)**	(414,525)
Gain on disposal of fixed assets	**(15)**	(400)
	3,629,986	3,093,504

Total commissions for direct business accounted for in the financial year amounted to €1,316,006 (2018: €1,499,658).

(v) Bonuses and rebates, net of reinsurance

Reversionary bonuses declared in the year amounted to €1,889,337 (2018: €1,189,150).

4. Investment return

	2019	2018
	€	€
Investment income		
Rental income from investment property	**610,961**	579,870
Dividends received from:		
- group undertakings	**-**	-
- investments at fair value through profit or loss	**739,185**	467,089
- available-for-sale investments	**49,523**	19,181
Interest receivable from:		
- other loans and receivables	**591,203**	458,449
- investments at fair value through profit or loss	**1,264,904**	1,563,999
- held-to-maturity investments	**-**	-
- available-for-sale investments	**2,994**	10,724
Other income	**36,704**	1,661
	3,295,474	3,100,973
Investment charges and expenses		
Investment management charges	**(38,015)**	(126,780)
Loans & receivables written off	**(15,675)**	-
Amortisation of premium	**-**	(60,000)
Impairment loss on non-quoted equity	**(1,222,445)**	-
	(1,276,135)	(186,780)
Movement in fair value		
Net fair value gain on investment property	**498,058**	473,737
Net fair value gain/ (loss) on investment – bonds	**1,744,954**	(1,801,330)
Net fair value gain/ (loss) on investment – equity and collective investment schemes	**1,539,801**	(379,168)
	3,782,813	(1,706,761)
Total investment return	**5,802,152**	1,207,432
Allocated as follows:		
Technical profit and loss account	**4,061,506**	845,202
Non-technical profit and loss account	**1,740,646**	362,230
	5,802,152	1,207,432

5. Finance costs

	2019	2018
	€	€
Interest on preference shares	**2,833**	34,001
Interest on amounts due to immediate parent	**31,168**	-
	34,001	34,001
Allocated as follows:		
Non-technical account	**34,001**	34,001

6. Expenses by nature

	2019	2018
	€	€
Professional Fees	**528,113**	339,581
Amortisation of computer software (Note 9)	**209,132**	148,182
IT related expenses	**202,351**	214,869
Commission and direct marketing costs	**1,481,652**	1,431,573
Depreciation of plant and machinery (Note 11)	**85,997**	78,427
Other expenses	**154,175**	160,300
Intangible asset write-off (Note 9)	**103,318**	-
Bank charges	**61,424**	56,616
Licences and insurance	**120,405**	116,246
Office Expense	**78,987**	88,841
Wages and salaries recharged from group undertaking	**920,533**	721,849
Lease expenses (Note 10)	**7,304**	-
	3,953,391	3,356,484
Allocated as follows:		
Technical account		
- benefits and claims incurred	**200,538**	181,707
- net operating expenses	**3,629,986**	3,093,504
Non-technical account	**122,867**	81,273
	3,953,391	3,356,484

Auditor’s remuneration for the current financial year amounted to €40,000 (2018: €23,000). Other fees payable to the auditor comprise €18,000 (2018: €18,000) for other assurance services and €1,000 (2018: €1,000) for tax services.

7. Tax charge/(credit)

	2019	2018
	€	€
Current tax	**91,069**	-
Adjustment relating to prior year taxation	**-**	52,988
Deferred tax charge/ (credit) (Note 20)	**402,323**	(432,102)
Tax charge/ (credit)	**493,392**	(379,114)

7. Tax charge/(credit) - continued

Income tax recognised in other comprehensive income is as follows:

	2019 €	2018 €
Deferred tax		
Revaluations of available-for-sale financial assets	**(47,722)**	(80,681)

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

	2019 €	2018 €
Profit/ (Loss) before tax	**1,996,847**	(1,450,856)
Theoretical tax charge at 35%	**698,896**	(507,800)
Tax effect of:		
Income taxed at lower rates	**(121,694)**	(59,120)
Disallowable expenses for tax purposes	**(70,347)**	160,978
Adjustment relating to prior year taxation	**-**	52,988
Dividends received from the untaxed account and FTA	**(15,848)**	(26,160)
Other	**2,385**	-
Tax charge/ (credit)	**493,392**	(379,114)

8. Directors' emoluments

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

	2019 €	2018 €
Fees	**17,500**	26,500

9. Intangible assets

	Value of in-force business €	Computer Software €	Total €
Year ended 31 December 2019			
Opening net book amount	9,585,327	1,680,460	11,265,787
Increment in value of in-force business (Note 19)	888,478	-	888,478
Additions	-	54,199	54,199
Amortisation charge (Note 6)	-	(209,132)	(209,132)
Write-off (Note 6)	-	(103,318)	(103,318)
Net book amount	10,473,805	1,422,209	11,896,014
At 31 December 2019			
Cost or valuation	10,473,805	2,476,108	12,949,913
Accumulated amortisation/impairment	-	(1,053,899)	(1,053,899)
Net book amount	**10,473,805**	**1,422,209**	**11,896,014**
Year ended 31 December 2018			
Opening net book amount	8,116,866	1,767,553	9,884,419
Increment in value of in-force business (Note 19)	1,468,461	-	1,468,461
Additions	-	61,089	61,089
Amortisation charge (Note 6)	-	(148,182)	(148,182)
Net book amount	9,585,327	1,680,460	11,265,787
At 31 December 2018			
Cost or valuation	9,585,327	2,525,227	12,110,554
Accumulated amortisation/impairment	-	(844,767)	(844,767)
Net book amount	**9,585,327**	**1,680,460**	**11,265,787**

9. Intangible assets - continued

Computer software relates to the company's policy administration system. The carrying amount of the software is €1,422,209 (2018: €1,680,460) will be fully amortised in 10 years. Included in computer software at 31 December 2019 is an amount of €Nil (2018: €193,554) relating to expenditure for software under development. Amortisation charge of €209,132 (2018: €148,182) 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 deferred 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 Company'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 5.25% (2018: 5.25%) and a growth rate of 3.7% to 5% (2018: 3.4% to 5.5%) depending on the type of policy.

The valuation assumes a margin of 0.94% (2018: 0.8%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 0% to 26% (2018: 0% to 24%), 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 €688,000 (2018: €653,000);
- a decrease in the projected investment return by 10% reduces the VOIFB by €1,007,175 (2018: €1,056,000); and
- an increase in the discount factor by 10% reduces the VOIFB by €555,208 (2018: €530,000).

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

10. Leases

(a) Leases as the lessee (IFRS 16)

The Company leases property which generally run for a period of two years with the option to renew. Lease payments are subsequently renegotiated to reflect market rates.

(i) Right-of-use assets

Right-of-use asset related to leased properties that do not meet the definition of investment property are presented as a separate line item on the face of the Statement of Financial Position.

	2019 Property €
Balance on 1 January	**26,009**
Accumulated Depreciation	**(6,120)**
Balance on 31 December	**19,889**

(ii) Amounts recognized in profit or loss

	2019 €
Depreciation of right-of-use asset	**6,120**
Interest expense on lease liabilities	**1,184**

There were no operating lease agreements considered as sh ort term leases.

(iii) Amounts recognized in statement of cash flows

	2019 €
Total cash outflows for leases	**5,208**

(b) Operating lease as the lessee (IAS 17)

	2018 €
Lease expense	4,024

10. Leases – Continued

(c) Leases as the lessor (IFRS 16)

The Company lease out certain property. Note 12 sets out information about investment property. The company has classified these leases as operating leases because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments receivable, showing the undiscounted lease payments to be received after the reporting date.

2019 – Operating leases under IFRS 16

	2019	**2018**
	€	**€**
Less than one year	**677,785**	610,292
One to two years	**650,016**	677,785
Two to three years	**292,227**	650,016
Three to four years	**-**	292,227
	1,620,028	2,230,320

11. Property, plant and equipment

	Land and building €	Office furniture, fittings and equipment €	Total €
Year ended 31 December 2019			
Opening net book amount	2,000,774	34,279	2,035,053
Additions	-	21,852	21,852
Depreciation charge	(65,120)	(20,877)	(85,997)
Net book amount	1,935,654	35,254	1,970,908
At 31 December 2019			
Cost	2,296,691	1,488,260	3,784,951
Accumulated depreciation	(361,037)	(1,453,006)	(1,814,043)
Net book amount	**1,935,654**	**35,254**	**1,970,908**
Year ended 31 December 2018			
Opening net book amount	2,064,571	32,445	2,097,016
Additions	-	16,464	16,464
Depreciation charge	(63,797)	(14,630)	(78,427)
Net book amount	2,000,774	34,279	2,035,053
At 31 December 2018			
Cost	2,296,692	1,466,408	3,763,100
Accumulated depreciation	(295,918)	(1,432,129)	(1,728,047)
Net book amount	**2,000,774**	**34,279**	**2,035,053**

EUR1,468,486 (2018: EUR1,466,191) worth of office furniture, fittings and equiment assets are fully depreciated and is still in use.

12. Investment property and assets held for sale

	€
Year ended 31 December 2019	
Opening net book amount	15,239,692
Additions	-
Property reclassified to assets held-for-sale	(200,000)
Increase in fair value	498,058
Closing net book amount	**15,537,750**
At 31 December 2019	
Cost	5,845,573
Accumulated fair value gains	9,692,177
Net book amount	**15,537,750**
Year ended 31 December 2018	
Opening net book amount	14,765,955
Additions	-
Increase in fair value	473,737
Closing net book amount	15,239,692
At 31 December 2018	
Cost	6,075,406
Accumulated fair value gains	9,164,286
Net book amount	**15,239,692**

The Company has reclassified investment property which has a book value of €200,000 (2018: Nil) to assets held-for-sale in the statement of financial position. This consist of a property in Barcelona which relates to the property segment. This property is expected to be sold within 12 months from the date of classification as assets held-for-sale and

Details about the Company's investment properties, including those classified as assets held-for-sale, and information about the fair value hierarchy at 31 December 2019 and 2018 are as follows:

	Fair value measurement at end of the reporting period using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	€	**€**	**€**	**€**
2019				
Investment property:				
Local property	-	-	15,537,750	15,537,750
Foreign property	-	-	200,000	200,000
Total	**-**	**-**	**15,737,750**	**15,737,750**

12. Investment property and assets held for sale - continued

	Fair value measurement at end of the reporting period using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	€	**€**	**€**	**€**
2018				
Investment property:				
Local property	-	-	15,039,692	15,039,692
Foreign property	-	-	200,000	200,000
Total	**-**	**-**	**15,239,692**	**15,239,692**

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 2019. 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**
2019		
Local properties	Rental value per square metre, ranging from €90 to €280 (2018: €90 to €280)	The higher the price per square metre, the higher the fair value
	Rent growth of 1.6% (2018: 2.5%) per annum	The higher the rent growth, the higher the fair value
	Discount rate of 5.7% (2018: 6.6%)	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

12. Investment property and assets held for sale - continued

Details about the Company's investment properties classified as Level 3 at 31 December 2019 are as follows:

	Local property €	Foreign property €	Total €
Year ended 31 December 2019			
At the beginning of the year	15,039,692	200,000	15,239,692
Additions	-	-	-
Property reclassified to assets held-for-sale	-	(200,000)	(200,000)
Fair value gains	498,058	-	498,058
At end of year	**15,537,750**	**-**	**15,537,750**
Year ended 31 December 2018			
At the beginning of the year	14,583,955	182,000	14,765,955
Additions	-	-	-
Fair value gains	455,737	18,000	473,737
At end of year	**15,039,692**	**200,000**	**15,239,692**

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 €610,961 (2018: €579,870).

13. Investments in group undertakings

	2019 €	2018 €
Cost		
Year ended 31 December	**1,048,218**	1,048,218

The group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2019	2018
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 of the Laws of Malta).

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 of the Laws of Malta).

13. Investments in group undertakings - continued

Capital and reserves

	2019	2018
	€	€
GlobalCapital Health Insurance Agency Limited	**1,465,366**	1,045,866

14. Other investments

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

	2019	2018
	€	€
Fair value through profit or loss	**67,144,191**	65,085,105
Available-for-sale investments	**1,489,946**	1,018,860
Investments in equity measured at cost	**1,222,445**	2,249,841
Loans and receivables	**5,266,651**	4,848,600
Term Deposits	**3,502,448**	-
Total investments	**78,625,681**	**73,202,406**

(a) Investments at fair value through profit or loss

	2019	2018
	€	€
Equity securities and units in unit trusts:		
Listed shares	**18,839,331**	16,207,820
Collective investment schemes	**645,850**	939,712
	19,485,181	17,147,532
Assets held to cover linked liabilities:		
Collective investment schemes	**18,004,501**	12,157,030
Debt securities - fixed interest rate:		
Government bonds	**17,533,484**	19,551,843
Corporate bonds	**12,121,025**	16,228,700
	29,654,509	35,780,543
Total investments at fair value through profit or loss	**67,144,191**	65,085,105

Technical provisions for linked liabilities amounted to €18,762,578 (2018: €12,788,505) as at 31 December 2019. They are included in the liability for investment contracts without DPF in Note 15. Their expected recovery is back to back with the respective technical provision for linked liabilities which maturity table is disclosed in Note 2.

14. 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.

	2019	2018
	€	€
Within 1 year	**2,828,461**	4,254,421
Between 1 and 2 years	**2,440,453**	2,015,376
Between 2 and 5 years	**5,491,678**	8,661,320
Over 5 years	**18,893,917**	20,849,426
	29,654,509	35,780,543
	%	%
Weighted average effective interest rate at the balance sheet date	**6**	5

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:

	2019	2018
	€	€
Year ended 31 December		
Balance at 1 January	**65,085,105**	66,951,015
Additions	**7,034,281**	11,850,149
Disposals	**(7,971,638)**	(10,600,689)
Net fair value and foreign exchange movements	**2,996,443**	(3,115,370)
Balance at 31 December	**67,144,191**	65,085,105
At 31 December		
Cost	**59,695,412**	60,632,769
Accumulated fair value and foreign exchange gains	**7,448,779**	4,452,336
Net book amount	**67,144,191**	65,085,105

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

	2019	2018
	€	€
Banks	**2,259,033**	3,959,567
Energy	**2,635,003**	2,515,629
Government	**17,533,484**	19,551,843
Other	**7,226,989**	9,753,504
	29,654,509	35,780,543

14. Other investments - continued

(b) Available-for-sale investments

	2019 €	2018 €
Equity securities	**1,363,446**	891,349
Listed corporate bonds	**126,500**	127,512
Total investments at available-for-sale	**1,489,946**	1,018,860

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

	2019 €	2018 €
Year ended 31 December		
Balance at 1 January	**1,018,860**	1,550,865
Additions	**725,770**	17,140
Disposals	**(166,985)**	(365,621)
Foreign currency movement	**48,652**	46,995
Net fair value movement	**(136,351)**	(230,519)
Balance at 31 December	**1,489,946**	1,018,860
At 31 December		
Cost	**1,476,958**	987,503
Accumulated fair value and foreign currency movements	**12,988**	31,357
Net book amount	**1,489,946**	1,018,860

(c) Investments in equity measured at cost

	2019 €	2018 €
Equity securities	**1,222,445**	2,249,841

The movements in investments classified as equity measured at cost are summarised as follows:

	2019 €	2018 €
Year ended 31 December		
Balance at 1 January	**2,249,841**	577,696
Additions	**125,719**	1,719,140
Impairment loss	**(1,222,445)**	-
Foreign currency movement	**69,330**	(46,995)
Balance at 31 December	**1,222,445**	2,249,841

14. Other investments - continued

(c) Investments in equity measured at cost - continued

The ultimate shareholder of GlobalCapital Life Insurance Limited is a director of the foreign investments classified as investment in equity measured at cost, with a carrying amount as at year end of €1,222,445 (2018: €2,249,841). This investment is in a start-up fintech company and given the embryonic stage of the company and of the industry itself, the Directors believe that the variability in the range of the reasonable fair value measurement is significant and the probabilities of the various estimates cannot be reasonably assessed. In view of this, the Company has not measured this investment at fair value and is carrying amount is equivalent to price paid at settlement date to acquire this instrument net of any impairment losses.

During the year, the Company noted a decrease in the estimated future cash flows since the initial recognition of the assets. The impairment loss calculated by the entity amounted to €1,222,445.

(d) Loans and receivables	**2019**	2018
	€	€
Loans secured on policies	**71,022**	110,747
Other loans and receivables	**5,195,629**	4,737,853
	5,266,651	4,848,600

Loans secured on policies are substantially non-current in nature. Other 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. They are charged with interest at the rate of 8% (2018: 8%) per annum. The movements of loans and receivables are summarised as follows:

	2019	2018
Year ended 31 December	**€**	€
Balance at 1 January	**4,848,600**	2,110,597
Additions	**3,291,351**	3,060,150
Disposals	**(3,079,730)**	(50,147)
Amortisation of premium	**(5,570)**	(60,000)
Provision for impairment	**-**	(212,000)
Reversal of the provision for impairment	**212,000**	-
Balance at 31 December	**5,266,651**	4,848,600

(e) Term Deposits

Bank term deposits earn average interest of 0.42% per annum. As at year end, their carrying amount approximated to its fair value.

	2019	2018
Year ended 31 December	**€**	€
Balance at 1 January	**-**	-
Additions	**3,502,448**	-
Balance at 31 December	**3,502,448**	-

15. Technical provisions – insurance contracts and investment contracts

	2019 €	2018 €
Insurance contracts	**67,429,889**	61,725,773
Investment contracts with DPF	**26,341,896**	24,976,684
	93,771,785	86,702,457
Investment contracts without DPF	**18,762,578**	12,788,505
Total gross technical provisions	**112,534,363**	99,490,962

Insurance contracts are further analysed as follows:

	2019 €	2018 €
Gross technical provisions - insurance contracts		
Short term insurance contracts		
- claims outstanding	**43,000**	107,786
- other provisions	**123,168**	210,991
Long term insurance contracts		
- claims outstanding	**1,024,717**	927,736
- long term business provision	**66,239,004**	60,479,260
	67,429,889	61,725,773
Reinsurers' share of technical provisions - insurance contracts		
Short term insurance contracts		
- claims outstanding	**(30,100)**	(65,328)
- other provisions	**(86,234)**	(119,715)
Long term insurance contracts		
- claims outstanding	**(371,297)**	(201,386)
- long term business provision	**(17,080,605)**	(12,972,792)
	(17,568,236)	(13,359,221)
Net technical provisions - insurance contracts		
Short term insurance contracts		
claims outstanding	**12,900**	42,458
other provisions	**36,934**	91,276
Long term insurance contracts		
claims outstanding	**653,420**	726,350
long term business provision	**49,158,399**	47,506,468
	49,861,653	48,366,552

15. 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 2019			
At beginning of year	48,366,552	24,976,684	73,343,236
Charged to technical account			
- change in the provision for claims	(102,488)	(222,369)	(324,857)
- change in other technical provisions	1,597,589	1,587,581	3,185,170
At end of year	**49,861,653**	**26,341,896**	**76,203,549**
Year ended 31 December 2018			
At beginning of year	47,736,598	22,171,930	69,908,528
Charged to technical account			
- change in the provision for claims	357,736	(207,562)	150,174
- change in other technical provisions	272,218	3,012,316	3,284,534
At end of year	**48,366,552**	**24,976,684**	**73,343,236**

Claims outstanding are further analysed as follows:

	2019 **€**	2018 €
Claim outstanding		
Short term insurance contracts	**43,000**	107,786
Long term insurance contracts	**1,024,717**	927,736
Investment contracts with DPF	**65,237**	287,606
	1,132,954	1,323,128

Claims outstanding are expected to be settled within 12 months from the balance sheet date and therefore are current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

(a) Assumptions

For long term contracts, estimates are determined by reference to a number of variables, including amongst others the expected future deaths (mortality), investment return, policy maintenance expenses, lapse and discount rate. The assumptions that have the greatest effect on the Statement of Financial Position and Statement of Comprehensive Income are Mortality and investment return.

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, 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.

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

Long term contracts – assumptions, changes in assumptions and sensitivity - continued

(b) Changes in assumptions

During the year, there were no changes in mortality assumptions for interest sensitive or unit linked business; however, there was a slight reduction in mortality rates of permanent term assurances by 10% (2018: 10%) 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.

	Increase in liability	
	2019	2018
	€	€
10% loading applied to mortality assumptions - Gross	**4,596,714**	4,127,031
10% loading applied to mortality assumptions - Net	**597,455**	931,742
Lowering of investment return by 25 basis points	**782,069**	648,829

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.

16. Receivables, prepayments and accrued income

	2019	2018
	€	€
Receivables arising out of direct insurance operations:		
- due from policyholders (Note i)	**224,276**	285,678
Other loans and receivables:		
- receivables from intermediate parent (Note ii)	**1,791,295**	300,001
- receivables from subsidiary (Note iii)	**-**	173,547
- receivables from other related parties (Note iv)	**4,211,283**	5,330,960
Other receivables (Note v)	**76,248**	237,921
	6,303,102	6,328,107

	2019	2018
	€	€
Prepayments and accrued income:		
- prepayments	**546,293**	549,069
- accrued income	**679,743**	976,903
	1,226,036	1,525,972

Note i: Interest-bearing automatic premium loans are classified as investments in Note 14 to the financial statements.

16. Receivables, prepayments and accrued income - continued

Note ii: Amounts due from intermediate parent are unsecured, interest-free and expected to be repaid in three years' time. The carrying amount has been adjustment for the time-value of money and is stated net of provision of €255,891 (2018: €255,891). The movement of € nil (2018: €385,274) is included in the statement of comprehensive income non-technical.

Effective from 1 January 2017, the Authority issued guidelines with respect to intra-group loans and balances. During the current and previous year, the Company was not able to comply with the criteria set out in the Insurance Rules with respect to intra-group loans and balances due to operational reasons.

The Directors are confident that such balances will be recovered within the stipulated time frame above. This is based on the knowledge that the Group, of which the Company forms part of, has appointed a major international consulting firm to assist in the preparation of a holistic strategic plan with the aim of supporting the consolidation and future growth of the business. A draft high-level proposal has since been prepared and is currently being discussed with the Malta Financial Services Authority given the various regulatory approvals that will likely be required in its implementation.

Note iii: Amounts due from subsidiary were unsecured, interest-free and repayable on demand.

Note iv: Amounts due from other related parties are unsecured, interest-free and as at 31 December 2019 the Directors expect to be repaid in five years' time. The carrying amount has been adjustment for the time-value of money and is stated net of provision of €129,383 (2018: €129,383). The movement of € Nil (2018: €129,383) is included in the statement of comprehensive income non-technical. Such balance has been carried forward prior to 1 January 2017.

Note v: Other receivables are unsecured, interest-free and repayable on demand. They are stated net of provision for impairment of €87,474 (2018: €Nil). The movement of €87,474 (2018: €Nil) is included in the statement of comprehensive income non-technical.

Amounts due from intermediate parent and other related parties are non-current in nature, whilst the rest of the amounts are current in nature.

17. Share capital

	2019 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	-	-
	10,846,865	**9,169,870**

	2018 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 preference shares bore interest of 4.25% per annum and were redeemed at par between February 2009 and February 2019. Preference shares in the Company did not grant any voting rights. The total amount of preference share interest for the year amounted to €2,833 (2018: €34,000).

Retained Earnings

As noted in Note 16, amounts due from intermediate parent are unsecured, interest-free and expected to be repaid in three years' time. The carrying amount has been adjustment for the time-value of money and is stated net of provision of €255,891 (2018: €255,891). The movement of € nil (2018: €385,274) is included in the statement of comprehensive income non-technical.

Effective from 1 January 2017, the Authority issued guidelines with respect to intra-group loans and balances. During the current and previous year, the Company was not able to comply with the criteria set out in the Insurance Rules with respect to intra-group loans and balances due to operational reasons.

The Directors are confident that such balances will be recovered within the stipulated time frame above. This is based on the knowledge that the Group, of which the Company forms part of, has appointed a major international consulting firm to assist in the preparation of a holistic strategic plan with the aim of supporting the consolidation and future growth of the business. A draft high-level proposal has since been prepared and is currently being discussed with the Malta Financial Services Authority given the various regulatory approvals that will likely be required in its implementation.

17. Share capital - continued

Capital Management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by the Maltese insurance regulator, the MFSA;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk.

In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders.

As of 1 January 2016, the Solvency II Directive (2009/138/EC) came into force with new regulatory requirements that ascertain the level of capital required on the basis of the risks the Company undertakes. Solvency II also outlines how the Own Funds shall be derived by converting the statement of financial position from an IFRS perspective to one where assets and liabilities are measured in line with their underlying economic value.

The Directors are actively involved in the implementation of the Solvency II rules and these are highly embedded in the Company's operations and regular monitoring of the Solvency Capital Requirement ("SCR") is considered crucial.

The Company is required to hold regulatory capital for its long term insurance business in compliance with the Solvency II Directive. The Solvency II Directive stipulates the Minimum Capital Requirement ("MCR") and the SCR that the Company is required to hold. The MCR and SCR must be maintained at all times throughout the year.

Based on the audited SCR calculations as at 31 December 2019, the Company has complied with the capital and solvency requirements as stipulated in the rules issued by the MFSA. Going forward, the Company is also expected to continue meeting the Solvency II requirements, based on the projected SCR calculations included in the 2019 ORSA report. In the case of any solvency gap, the Directors have put in place a capital plan aimed to ensure that the Company will have adequate 'Own Funds' to meet the required SCR.

18. Dividends paid and declared

No dividend was paid or declared in current year (2018: €Nil) to ordinary shareholders.

19. Other reserves

	Value of in-force business €	Other unrealised gains €	Property revaluation reserve €	Total €
Year ended 31 December 2019				
At beginning of year	9,190,265	415,464	1,062,461	10,668,190
Increment in value in-force business transferred from retained earnings (Note 9)	888,478	-	-	888,478
Net loss on available-for-sale financial assets (Note 14)	-	(136,351)	-	(136,351)
Deferred tax movement on available-for-sale financial asset	-	47,722	-	47,722
At end of year	**10,078,743**	**326,835**	**1,062,461**	**11,468,039**
Year ended 31 December 2018				
At beginning of year	7,721,804	565,302	1,062,461	9,349,567
Increment in value in-force business transferred from retained earnings (Note 9)	1,468,461	-	-	1,468,461
Net loss on available-for-sale financial assets	-	(230,519)	-	(230,519)
Deferred tax movement on available-for-sale financial asset	-	80,681	-	80,681
At end of year	**9,190,265**	**415,464**	**1,062,461**	**10,668,190**

The above reserves are not distributable.

The value of in-force business represents the shareholders' value of the active portfolio of the insurance business as at year-end.

The other unrealised gains represents the difference between the fair value of the investments classified as available-for-sale assets and the amortised cost.

The property revaluation reserve represents the difference between the carrying amount of the property and its fair value at the date when the Directors has reassessed its used from an owner-occupied one to an property held to earn rentals or for capital appreciation.

20. 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% (2018: 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:

	2019	2018
	€	€
Year ended 31 December		
At beginning of year	**2,189,899**	2,702,682
Credited to other comprehensive income (Note 7)	**(47,722)**	(80,681)
Charge/ (credited) to profit and loss account (Note 7)	**402,323**	(432,102)
At end of year	**2,544,500**	2,189,899

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

	2019	2018
	€	€
Deferred tax liability		
Fair value gains on investments	**1,808,486**	1,209,555
Property taxable at 8% or 10%	**1,243,020**	1,203,175
Temporary differences on:		
- property, plant and equipment	**404,616**	257,517
- unutilised tax losses and capital allowances	**(881,006)**	(442,220)
- other	**(30,616)**	(38,128)
Net deferred income tax liability	**2,544,500**	2,189,899

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

21. Payables, accruals and deferred income

	2019	2018
	€	€
Payables arising out of insurance operations:		
- due to policyholders	**-**	3,763
- due to reinsurers	**2,028,121**	2,284,323
- other payables	**1,438,096**	1,465,977
Amounts due to immediate parent undertaking (Note i)	**868,002**	34,003
Amounts due to subsidiary undertaking (Note ii)	**220,929**	-
Other payables (Note iii)	**140,614**	92,916
	4,695,762	3,880,982
Accruals and deferred income		
- Accruals	**1,416,318**	86,647
- Deferred income	**45,886**	72,077
	1,462,204	158,724

(i) Amounts owned to immediate parent is made up of preference shares, amounting to €800,000, that matured during 2019. Such amount has not been paid to the preference shareholder and thus is outstanding. Such liability is unsecured and bears an interest of 4.25%.

(ii) Amounts owned subsidiary undertaking are unsecured and bear no interest. These balances are payable on demand.

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

22. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2019	2018
	€	€
Cash flows generated from operating activities		
Profit/ (Loss) before tax	**1,996,487**	(1,450,856)
Adjustments for:		
Amortisation on computer software (Note 9)	**209,132**	148,182
Intangible asset written off (Note 9)	**103,318**	-
Depreciation (Note 11)	**85,997**	78,427
Depreciation of right of use (Note 10)	**6,120**	-
Lease payments against lease liabilities (Note 10)	**1,184**	-
Interest income	**(1,859,101)**	(2,033,172)
Interest Incurred	**31,168**	-
Dividend income	**(788,708)**	(486,270)
Net fair value & FX movement on FVTPL investments (Note 14)	**(2,996,443)**	3,115,370
Net fair value movement on investment property (Note 12)	**(498,058)**	(473,737)
Impairment on other equity measured at cost (Note 14)	**1,222,445**	-
Provision for impairment on receivables	**87,474**	-
Foreign Exchange movement on AFS (Note 14)	**(48,652)**	(46,995)
Foreign Exchange movement on other equity measured at cost (Note 14)	**(69,330)**	46,995
Amortisation of Premium – Loans and Receivables (Note 14)	**5,570**	60,000
Provision for impairment – Loans and Receivables (Note 14)	**(212,000)**	212,000
Increase in net technical provisions (Note 15)	**8,834,386**	6,384,151
Operating gain before working capital movements	**6,110,989**	5,554,095
Movement in trade and other receivables	**(1,205,144)**	(676,961)
Movement in trade and other payables	**1,280,700**	(338,000)
Cash flows generated from operations	**6,186,545**	4,539,134

23. Cash and cash equivalents

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

	2019	2018
	€	€
Cash at bank and on hand	**15,335,250**	10,195,103

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

24. Fair values of financial assets and financial liabilities

The following table presents the assets measured in the statements of financial position at fair value by level of the following fair value measurement hierarchy at 31 December 2019 and 31 December 2018:

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

	Fair value measurement at end of the reporting period using:		
	Level 1	**Level 2**	**Total**
	€	**€**	**€**
2019			
Assets			
Other Investments:			
Financial assets at fair value through profit or loss	49,139,690	18,004,501	67,144,191
Available-for-sale investments	1,489,946	-	1,489,946
Total	**50,609,636**	**18,004,501**	**68,614,137**
Liabilities			
Unit linked financial instruments	-	**18,762,578**	**18,762,578**
2018			
Assets			
Other Investments:			
Financial assets at fair value through profit or loss	52,928,075	12,157,030	65,085,105
Available-for-sale investments	1,018,860	-	1,018,860
Total	**53,946,935**	**12,157,030**	**66,103,965**
Liabilities			
Unit linked financial instruments	-	**12,788,505**	**12,788,505**

At 31 December 2019 and 2018 the carrying amounts of financial assets and current financial liabilities approximated their fair values except for investment contracts with DPF and certain equity financial instruments classified as available-for-sale which is measured at cost amounting to €1,222,445 (2018: €2,249,841). It is impracticable to determine the fair value of equity investment and the 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.

Fair value measurements classified as Level 1 include listed equities, debt securities, units in unit trusts and collective investments schemes.

The financial liabilities for unit linked contracts were classified as Level 2. The fair value of these contracts is determined using the current unit value that reflect the fair values of the financial assets (classified as Level 2) linked to the financial liability.

25. 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) Finance cost:

	2019	2018
	€	€
Interest on preference shares	**2,833**	34,001
Interest on payables	**31,168**	-

Key management personnel during 2019 and 2018 comprised of the Board of Directors and the Managing Director of the Company. Total remuneration paid by the Company to its key management personnel amounted to €116,186 (2018: €90,114)

Amounts owed by or to group undertakings and other related parties are disclosed in Notes 13, 14, 16 and 21 to these financial statements.

Also, the Company purchased during 2019 €78,724 (2018: €1,230,100) in an investment where the main shareholder of GlobalCapital Life Insurance Limited is a director in such investment.

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

	2019	2018
	€	€
Malta Privatisation and Equity Fund	**195,585**	464,940
Melita International Equity Fund	**51,541**	63,942
Global Bond Fund Plus Accumulator	**138,662**	157,345
	385,788	686,227

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

The compensation to directors in 2019 and 2018 is disclosed in Note 8 to the financial statements.

26. Subsequent events

The measures taken by Malta to curb COVID-19, including social distancing, has had an impact on the distribution channels of the Company. Moreover, the impact of current economic uncertainties on individuals and businesses is also expected to impact the written premium for the financial year ending 31 December 2020. Consequently, it is expected that the gross written premium for 2020 will be lower than that reported for 2019.

Given the constantly evolving situation brought about by this pandemic and the potential ripple economic effects on the Maltese Insurance Market, where the insurance risk is situated, it, it is difficult to assess the financial impact that this may have on the Life Reserve and benefits paid in 2020, including the effects on lapses. However, any potential deterioration in cash outflows with respect to benefits paid in 2020 is expected to be mitigated by the ceded reinsurance programme that the Company has in place.

A comparison between the fair values of the other investment as at mid-April 2020 to the fair value as at year end resulted in an 6% decline. This volatility in the financial markets may have a significant impact on the Company's financial performance for the financial year ending 31 December 2020.

Furthermore, an analysis was carried out on the credit rating of the main counterparties and no significant downgrades were noted since 31 December 2019.

Such analysis was also extended to analyse the effect on the Solvency Capital Requirements (the "SCR") of the Company by reference to stressed scenarios in the latest ORSA report prepared by the Company. Taking into consideration the current laws and regulations and the result from the aforementioned stressed scenarios, the Company does not expect that the effects of COVID-19 will impact its ability to satisfy the regulatory solvency requirement.

27. 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% (2017: 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 5 to 68, which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of 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.

Emphasis of matter

We draw attention to Note 26 to the financial statements, which describes the effect COVID-19 on the Company's business. Our opinion is not modified in respect of this 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

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 15, represent 93% of the total liabilities as of 31 December 2019.

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 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 2019.

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 Company's appointed actuary and is approved by the board of directors.

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of GlobalCapital 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 Company's appointed actuary's competence, capabilities and objectivity, and obtaining an understanding of the work of the appointed actuary;
- Reconciling the balances of technical provisions and VOIFB as calculated by the Company's appointed actuary as at 31 December 2019 to the respective amounts disclosed in the financial statements;
- 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 assumptions applied by the Company's appointed actuary in the calculation of the VOIFB;
- Independently recalculating the technical provisions as at year end with the assistance of our actuarial specialists to assess the reasonableness and adequacy of the balance of the life reserve as at year end.

We have also assessed the relevance and adequacy of disclosures relating to the Company's valuation of technical provisions and VOIFB presented in notes 15 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 12 in the financial statements, accounts for 10% of total assets as at 31 December 2019.

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.

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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 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 and adequacy of disclosures relating to the Company's valuation of investment property presented in note 12 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.

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.

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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 3 years.

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 the same date as this report.

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

07 May 2020